AIST submission

2012-2013 Commonwealth Budget

Submission to the Treasurer

January 2012

Australian Institute of Superannuation Trustees

Background

AIST has prepared this submission in response to the Treasurer's request for public submissions regarding structure and content of the 2012-2013 Commonwealth Budget.

This submission is intended to provide a current snapshot of our major policy objectives that require budgetary consideration. AIST recognises the economic challenges currently facing the Government and the long-term implications of an ageing society. We intend to continue our extensive research, policy and advocacy programs to ensure working Australians have access to a sound and equitable retirement income system.

We look forward to working further with the Treasurer, the Assistant Treasurer and the Minister for Superannuation and Financial Services.

AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's $450 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and has recently expanded its education program to encompass the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

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1 Executive summary

As the leading association in the not-for-profit superannuation sector, AIST is focused on outcomes that improve financial retirement adequacy and security for all Australians.

AIST acknowledges that the Federal Government's response to the Henry and Cooper Reviews provides the basis for major superannuation reform, notably increasing the Superannuation Guarantee from 9 to 12 per cent and significant improvements in the operation, transparency and efficiency of the superannuation system.

AIST is committed to working with the Government as it moves to design and implement these measures during its current term of government. We recognise that legislation and associated funding for most of the reforms has yet to be approved.

While the Government's superannuation reform agenda is detailed and far-reaching, there are a range of other policies that are in the public interest, and that AIST advocates in this submission. These proposals are affordable and provide far-reaching economic benefits.

1.1 Support for Government initiatives

AIST strongly supports the policy intent of the following measures currently before Parliament and the associated timetables announced. AIST has made separate detailed submissions on all these proposed reforms.

- Phased increase in the Superannuation Guarantee from 9 per cent to12 per cent between 2013 and 2019[1];
- Low income rebate so that workers earning less than $37,000 pay no contributions tax from 2012-13;
- SuperStream – the bundle of measures designed to improve the efficiency of the back office of super;
- MySuper[2] – the low-cost default, no-commission super funds designed for disengaged fund members;
- Increase in concessional caps allowing workers over 50 years old with less than $500,000 in super to make $50,000 p.a. super contributions (from 1 July 2012);
- Abolition of the SG age limit; and
- Introduction of the Refund of Excess Contributions.

[1] Several submissions have been made on this topic. AIST has published two items of research on the topic, including O'Connor, D, 2010. *The benefits of an SG rate of 12 per cent.* AIST briefing paper, [Online]. Available at: http://tinyurl.com/8y5xayn [Accessed 24 January 2012] and Australian Centre for Financial Studies, (ACFS), 2011. *12 Percent: What's it Worth?*. AIST Submission, [Online]. Available at: http://tinyurl.com/89y7fnl [Accessed 24 January 2012].

[2] Two tranches of MySuper have been released for comment with the expectation that a further Tranche will be released in April 2012.

1.2 AIST recommendations

- Legislate to provide all workers with the ability to make pre-tax-salary sacrifice contributions to their super fund;
- Phased introduction of mandatory Superannuation Guarantee (SG) contributions by the self-employed;
- Abolition of the $450 monthly earnings threshold for payments of SG contributions;
- Introduction of a superannuation component to parental leave payments, and/or a superannuation component to the 'baby bonus';
- To encourage workplace participation, a $2,000 super payment to older workers returning to work and women who have had a family break;
- Introduce the 'bring forward rule' for concessional contributions;
- Allow capped tax deductibility for financial advice costs;
- No increase in superannuation preservation age above 60 years of age;
- Removal of impediments for development of post retirement products; and

2 Commentary and recommendations

2.1 Improving adequacy

AIST strongly supports Australia's three pillar retirement income system, which is based on shared responsibility between individuals, employers and the Government. To ensure that all Australians have enough saved for an adequate retirement, we believe the system requires refinement and reform to ensure ongoing growth in retirement savings. Our focus in this submission is on low- to middle-income households, as well as the special needs of women, to ensure that the benefits from reform are concentrated on those of greatest need.

We recognise that the Government must take current financial conditions into account when implementing reform, but would remind them that strategic vision is vital to ensure that Australia is well-placed to deal with the challenge of a rapidly-ageing population and to deliver a dignified retirement to all Australians.

According to the latest intergenerational report[3], current policy settings will leave approximately 80 per cent of retirees wholly or partially reliant on the age pension – even under a fully matured system. We believe this is unacceptable long-term policy and highlights the fact that accumulated retirement savings are generally insufficient to meet the needs of retirees. To provide an adequate and ideally comfortable retirement, increased levels of self-provision are required. A lift in superannuation savings is necessary to achieve this.

For this reason, we support the Government's decision to provide an additional contribution of three per cent of salary, effectively increasing the compulsory rate of superannuation contributions from nine per cent to 12 per cent. To minimise the initial impact of this measure, AIST believes that the increase should be incrementally phased in over time. This timetable will allow employers and employees a period of time to prepare for SG increases in company budgets and wage negotiations.

Furthermore, we support the Government's introduction of the Low Income Earners Government Superannuation contribution which effectively returns the tax payable on superannuation guarantee contributions or the equivalent of other deductible contributions made by or for low income individuals. In the same Bill, currently before Parliament, is the abolition of the SG age limit which seeks to remove an ageist policy and will help to promote workplace productivity by encouraging older Australian's back to work.

2.2 Salary sacrifice

Salary sacrifice arrangements are not available to Australian workers on an equitable basis. Ability to salary sacrifice is provided either through agreement through industrial parties or by direct agreement between an employee and their employer. In many cases, information about this arrangement is only available to employees when they proactively seek the information from the employer. A significant number of Australian workers do not have access to salary sacrifice arrangements.

Despite the tax advantages of these arrangements, they are taken advantage of by relatively few Australians. Salary sacrificing into superannuation is a sensible means for employees to supplement their provision for retirement.

[3] Treasury, The, 2010. *Australia to 2050: Future challenges*. The 2010 intergenerational report, [Online]. Available at: http://www.treasury.gov.au/igr/igr2010/ [Accessed 24 January 2012].

AIST recommends that the Government legislate to provide all workers with the ability to make pre-tax salary sacrifice contributions to their superannuation fund. Greater access to salary sacrifice should increase the effectiveness of superannuation as a long-term investment vehicle.

Additionally, the Government should legislate that should an employee partake in a salary sacrifice arrangement, then the employer cannot base their SG obligations on the reduced 'take-home' salary amount.

2.3 Self-employed

An adequacy gap exists due to the exemption from compulsory contributions to superannuation for the estimated 1.3 million self-employed. AIST believes there is a risk of 'under-saving' among the self-employed who rely on reinvestment in one's own business.

Therefore, we recommend the lift in compulsory superannuation contributions should be coupled with a phased introduction of compulsory contributions for self-employed individuals.

2.4 Women and super

AIST has long recognised that the cumulative impact of gender pay inequity, less time in the paid workforce and higher life expectancy rates result in women having a reduced standard of living in retirement relative to men.

Nearly two-thirds of retired women rely solely on the Age Pension and an OECD report on member countries points to Australian women as being among the worst off in retirement. Currently, the average Australian woman retires with almost half the superannuation of her male counterpart. The average Australian woman at age 65 retires with $112,600, compared to $198,000 for men[4]. Further, the majority of women retire with significantly less than this 'average' figure and about one-third of women retire with no super at all.

It appears inequitable that women who take time out of the workforce to have children have lower retirement incomes. Moreover, the prospect of diminished capacity to accumulate retirement savings could act as disincentive for couples having children.

AIST believes a range of reforms are urgently required to bridge the superannuation gender gap and address the aspects of our current system that adversely and disproportionately affect women.

2.4.1 Removal of $450 monthly income threshold

The high concentration of females working part-time is also a contributing factor to their relatively low superannuation balances. Women comprise over 67 per cent of the part-time workforce and have almost the same number of full time and part-time workers[5]. (Men have over twice as many full time workers as compared to part time). AIST has long argued that abolishing the exemption on compulsory superannuation contributions for those earning less than $450 per month would benefit many women – as well as males – on low incomes, working on a casual or part-time basis. In female-dominated industries where working for several employers is common (such as

[4] ABS, 2010, cited in Clare, R, 2011. *Developments in the level and distribution of retirement savings*. ASFA briefing paper, September2011, Association of Superannuation Funds of Australia, Sydney.

[5] ABS, *Employee Earnings and Hours*, Australia, May 2010 (6306.0)- [Accessed 27 January 2012]

retail, hospitality and nursing), many employees are excluded from the SG system because the $450 threshold applies only to a single employer, and not on a combined income level.

While Access Economics modelling[6] shows that the aggregate impact of removing the $450 monthly threshold would be small, industry experience suggests it is likely to be quite concentrated, resulting in significant improvements for those individual workers who are most disadvantaged by the current exemption. Access Economics has estimated that the cost to Government of removing the exemption would be minimal (0.003 per cent of GDP in 2041).

The improvements in back office administration and payments systems scheduled for introduction with the SuperStream initiatives will reduce the current constraints felt by employers when dealing with casual employees regarding SG payments.

2.4.2 Super component to paid parental leave

In our submission to the Productivity Commission, AIST strongly argued that a Government-funded parental leave scheme should incorporate a superannuation component, linked to the payment of superannuation guarantee contributions required on average weekly earnings. Whilst we were pleased that as a result of the consultation process the Commission recommended a scheme which included a superannuation component, albeit at the lower rate of minimum wage, we were disappointed that the Government did not implement the recommended scheme.

The implementation of a paid parental leave scheme with a superannuation component, would allow parents to continue building their superannuation whilst on parental leave. In the absence of a paid parental scheme with a superannuation component, we recommend a maternity-linked Government contribution, similar to the co-contribution, as a way of increasing equality within the system and enabling women to further grow their superannuation while on maternity leave. Specifically, as proposed in our submission to the Henry Review, we recommend the introduction of a 'baby bonus' of up to $1,500 to be paid into new mothers' superannuation accounts. This targeted initiative would ensure the Australian retirement system is designed to address the ageing population issue, rather than compounding the problem by discouraging couples from having children.

2.4.3 Return-to-work super bonus

Another key factor affecting the retirement outcomes for Australian women is the relatively low workforce participation rate compared to men, particularly between the ages of 20 - 45[7] which is no doubt linked to mothers taking time off work to raise children. Amongst OECD countries, Australia ranks 23rd in workforce participation rates for females aged between 25 and 44.

Given that a person must earn an income to qualify for superannuation contributions, any policy initiative that lifts female workforce participation will also lift the retirement savings of Australian women.

As such, we believe the Government should consider a one-off $2,000 'return-to-work' super bonus for qualifying parents who have spent time out of the paid workforce to raise children. Such an initiative would have the benefit of topping up the superannuation balances of older workers, whilst also providing a strong incentive for women to

[6] Access Economics, cited in Australian Institute of Superannuation Trustees, (AIST), 2011. *2011-2012 Commonwealth Budget Submission to the Treasurer*. AIST Submission, [Online]. Available at: http://tinyurl.com/3rhwcmz [Accessed 24 January 2012].

[7] ABS, Labour Force, Australia (cat. no. 6202.0); *Labour Force Historical Timeseries*, Australia (cat. no. 6204.0.55.001) sourced 11/1/2012

re-enter the paid workforce – sooner rather than later. A 'return-to-work' super bonus could also help women engage with their superannuation at a critical point in their working lives where many would benefit from making voluntary contributions. This policy could include thresholds for age and time spent out of the workforce.

2.5 Co-contribution scheme

In recent years, AIST has supported the continuation of the Government Co-contribution scheme to remain on a dollar-for-dollar basis with a phase-out range of $35,000 to $75,000, in order to increase the number of eligible middle-income earners. AIST recommended indexation of the phase-out range to ensure that low- and middle-income earners do not become ineligible through bracket creep.

The Government announced in the 2011-12 Mid Year Economic and Fiscal Outlook in November 2011 that they will better target superannuation concessions for low income earners by reducing the superannuation co-contribution from 1 July 2012, when the new low income superannuation contribution commences. This measure is estimated to save $1.023 billion over three years to 2014-15 and the savings will be redirected to support other Government priorities.

The new matching rate will be reduced to 50% with a maximum co-contribution of $500 for people with incomes up to $31,920 in 2012-13 (with the amount available phasing down for incomes up to $46,920).

AIST strongly supports the new Low Income Earners Government Superannuation Contribution and understands the consequential changes to the superannuation co-contribution scheme under the current fiscal constraints.

2.6 Concessional cap levels

AIST supports attempts to address inequities in the superannuation system, particularly in relation to overly-generous tax concessions for high-income earners. We have supported the reduction in the concessional contribution cap from $100,000 to $50,000 for those over 50, and from $50,000 to $25,000 for those under 50.

We believe the majority of superannuation tax incentives should be targeted at middle- to low-income earners, catering for those who have not had compulsory superannuation contributions for long and should be based on accrued benefits as opposed to age.

AIST is pleased that the Government supported our recommendation[8] for a permanent increase in the concessional contributions cap to $50,000 for those at least 50 years old with a super balance below $500,000. This would extend tax benefits to those in later working life and accommodate 'catch-up' contributions, especially for women who already have low balances resulting from broken periods of workforce participation due to family commitments.

Reverting those over 50 years of age to the lower concessional cap from 30 June 2012 would have created additional difficulties for those saving for their retirement, particularly given that they have only had the benefit of compulsory superannuation since 2002.

Many within this group are already making additional contributions through salary sacrifice arrangements and, if they are paying over the concessional cap, would have been hit with an additional tax. Therefore, the system

[8] Australian Institute of Superannuation Trustees, (AIST), 2011a. *Response to Treasury: Concessional Superannuation Contribution Caps for Individuals Aged 50 and over*. AIST Submission, [Online]. Available at: http://tinyurl.com/7cyo6dl [Accessed 24 January 2012].

would have punished the people attempting to 'do the right thing' to accumulate adequate retirement savings after benefiting from compulsory superannuation contributions for the least amount of time.

With regard to the Consultation paper on *Concessional Superannuation Contributions Caps for Individuals aged 50 and over*[9], AIST supported Option 3.2 from the paper which '*extends eligibility to those who have commenced withdrawals, but do not add withdrawals to the account balance*', as it will allow for a person's entire superannuation balance to be counted towards the total (accumulation and pension), whilst not disadvantaging those employing Transition to Retirement (TtR) strategies.

The non-inclusion of withdrawal amounts allows for greater simplicity and accuracy in the calculation, as well as lower overall costs as funds will not have to make significant changes to their administration and reporting systems.

AIST also supports the intent of the recently released Exposure Draft: *Refund of Excess Contributions*[10] which will give eligible individuals the option to have excess concessional contributions of up to $10,000 taken out of their superannuation fund and assessed at their marginal income tax rate rather than incurring the excess contributions tax. AIST recommends that this measure be made available on an on-going basis as there are many circumstances beyond the control of the individual taxpayer that may cause them to break the limit.

Finally, AIST again puts forward the proposition of introducing a 'bring forward' rule on concessional contributions. AIST continues to support such a measure as the most elegant solution to this problem. This equates to people under the age of 65 being able to bring forward two (2) years worth of entitlements of concessional contributions allowing them to contribute a greater amount in a given financial year (i.e. $150,000 for a person aged between 50 and 65). The benefit of applying this rule is that it will dramatically reduce the number of Australians breaching the caps and being charged excess contributions tax.

This rule would provide greater flexibility around the concessional contribution limits and mean that those who breach their caps (inadvertently or otherwise) would avoid being penalised, assuming they limit their contributions to the maximum amount over the next two (2) years and may exclude them from any indexed increases in the cap during this time. This means that once a person has triggered the bring-forward in a year, any indexation of the concessional contributions cap for the subsequent two years does not apply. This rule would effectively give qualifying people more time (an additional two years) to adjust their contributions before any penalties for breaching concessional caps would apply.

2.7 Post retirement products

Australia's superannuation system celebrated 20 years of the superannuation guarantee in 2011, a year which also marked the first year that the baby boomer generation reached preservation age. The latter necessarily means that the industry participant's focus should include development of post-retirement products.

Post retirement matters featured prominently at the Tax Forum in October 2011 with the development of an annuity market being discussed at length. This continues on from Recommendations 21 and 22 made in the Henry Review in May 2010 which proposes the development of a longevity insurance market within the private sector and

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[9] Treasury, The, 2011. *Concessional superannuation contributions caps for individuals aged 50 and over.* Consultation Paper, [Online]. Available at: http://tinyurl.com/6rg2khs [Accessed 24 January 2012].

[10] Treasury, The, 2011a. *Refund of Excess Concessional Contributions*. Exposure Draft, [Online]. Available at: http://tinyurl.com/7frhstp [Accessed 24 January 2012].

the government should consider offering an immediate annuity and deferred annuity product that would allow a person to purchase a lifetime income.

In order for such markets to be developed and products created to fill the void, the following tax and regulatory issues need to be reviewed:

- Review the *Superannuation Industry (Supervision) Regulations 1994* rules relating to income streams that restrict product innovation.
- With respect the deferral period of a deferred lifetime annuity, review the rules around minimum surrender values, minimum drawdown rules, social security and aged care tests to ensure that the products can be developed and exist on an equal playing field with existing products.