



**Australia's Future Tax System Review
Supplementary Submission**

**Australian Institute of Superannuation Trustees
November 2009**

Overview

Upon review of the interim Henry report, we believe the primary objective of ensuring mandatory superannuation reduces pension expenditure over time, and reducing the number of retirees receiving a full age pension, has been abandoned. We note, current policy settings, under a fully matured system, will still leave around 80 per cent of retirees wholly or partially reliant on the age pension. To counter this, we advocate for age pension policy to be primarily directed towards achieving the pension systems safety net function, and we believe increasing the superannuation guarantee is the most effective way of achieving this.

The recent OECD *Pensions at a Glance* report has ranked Australia as having the fourth highest percentage of old-age income poverty rates by the mid-2000s, from a population of 30 countries. Whilst Australia's retirement income architecture is world-leading, clearly, adequacy settings are not and are detracting from the system's capacity to deliver the desired outcomes.

We are concerned that much of the research supporting continuation of the current policy settings surrounding adequacy, were undertaken before the onset of the GFC, and feature asset values and projected rates of return which have proven to be unsustainable. In particular, we believe the next intergenerational report will illustrate just how severely the adequacy of the retirement incomes system has been affected.

We acknowledge the superannuation industry itself has a major role to play in improving adequacy, increasing efficiency and improving net returns. As such, these issues form the basis of our submission to the Superannuation System Review, which is currently in progress.

Adequacy

In our original submission, we noted that "The term 'adequate' means sufficient or appropriate for a task or purpose. The question then becomes 'what is the task?'". Of course the question of how one wants to live in retirement is inherently subjective, so the 'task' to some extent has no universal definition, as it depends on each individual's preferences and objectives.

However, the Government's involvement in each of the three pillars underscores a public commitment to a paternalistic system which strives to achieve collectively focused outcomes as opposed to pursuing individual objectives. Therefore, while defining the 'task' has elements of subjectivity, we must also recognise that it incorporates the objectives of an enormous Government policy area.

We continue to support the recognition of an absolute measure for those with low incomes in working life, at a level above the age pension, to afford some recognition of the superannuation guarantee. This approach is consistent with the fact that those earning low incomes have less voluntary savings capacity, and their pre-retirement expenditures include a greater proportion of fixed outgoings, and less discretionary spending. In our view, these factors suggest an 'adequate' replacement rate for low income groups is close to 100%, and that modelling which yields projected replacement rates of 60-70% for low income people in fact demonstrates that the provision is inadequate for them.

We point out that a number of policy measures currently in place indicate informal acceptance of a structure for the interaction of the three pillars, which may prove useful in defining adequacy. Firstly, the Age Pension provides a 'floor'; the Superannuation Guarantee provides additional resources for those who are unlikely to be able to save voluntarily, and the tax concessions provide encouragement to save for those who can afford to. Interestingly, and as we will take up later, the system of concessional caps indicates that there is a community limit to the extent to which an individual can utilise those tax concessions.

To achieve better 'adequacy' outcomes, this submission recommends the following:

- Increasing SG to 12%, which we believe will improve the efficiency of the voluntary pillar, by ensuring greater numbers of retirees are above the assets test. In addition, increasing SG will reduce the number of retirees partially reliant on the Age Pension and allow the Government to focus pension policy on those fully reliant on it;
- Introduction of a system of transitional concessional caps, to allow those currently in their 50s and early 60s to 'catch up' with a community standard retirement accumulation, whilst limiting access for those who have already accumulated substantial capital;
- Improving the longevity assurance within the mandatory and voluntary pillars to:
 - provide safeguards against imprudent dissipation of accumulated capital by retirees,
 - reduce Age Pension outlays, and;
 - 'unhitch' volatility in pension outlays to financial market performance.
- Improving the universality of the mandatory pillar to ensure the benefits of these integration measures flow to a broader group of retirees.

Extending compulsory superannuation arrangements to the self-employed to ensure this segment of the workforce has some form of forced savings and to streamline the 'rules' applying to the national superannuation system.

The Superannuation Guarantee

Offset rates

In our original submission, we linked the question of increases in mandatory contributions to the issue of offset rates. The offset rate is the rate at which an increase in mandatory savings offsets existing voluntary savings – that is the lower the offset rate, the greater a contribution to overall adequacy an increase to the Superannuation Guarantee rate would make, as a greater share of existing voluntary contributions continue to flow into the system.

We noted that existing research in Australia had indicated offset rates of between 10% and 38% on average across the population, but also that this average was likely to hide significant differences between different income groups. While the existing research tends to come from a theoretical economics perspective, we think a simpler examination of employment practice can illuminate this question of distributional effects.

The Superannuation Guarantee is applied quite differently between different income groups. For workers on awards or widespread industry agreements, wages tend to be specified as the 'headline' pay, with superannuation added as a mandatory on-cost of employment. Where such employees elect to pay additional contributions, these are usually as after tax contributions. Were the Superannuation Guarantee rate increased, the employer would absorb the additional cost and the employee would continue to make their additional contributions, and may even be unaware of the increase in the mandatory component. In this case the offset rate would be zero, since the SG increase flows straight through with no impact on the voluntary savings. The following example illustrates this point:

	9% SG	12% SG
Award wage	\$45,000	\$45,000
After-tax voluntary contribution	\$3,000	\$3,000
Superannuation Guarantee	\$4,050	\$5,400
Total superannuation	\$7,050	\$8,400

Higher income workers are more likely to be hired on specific individual contracts, and due to the attractiveness of salary sacrifice contributions for higher income earners, these contracts will typically allow for a total package value, a part of which can be nominated as superannuation, provided that portion at least meets the employer's Superannuation Guarantee obligations. Because salary sacrifice is attractive for tax reasons to higher income earners, a high proportion of these workers will be nominating salary sacrifice contributions in excess of the formal SG obligation. Where the rate of SG is increased, the proportion of the nominated amount which meets the employer's obligation simply increases and the notionally 'voluntary' component decreases by the same amount, that is the offset rate is effectively 100%.

	9% SG	12% SG
Executive remuneration package	\$150,000	\$150,000
Total superannuation nominated	\$30,000	\$30,000
Employer's SG obligation	\$12,385	\$16,071
Notionally 'voluntary' savings	\$17,615	\$13,929
Total superannuation	\$30,000	\$30,000

These examples indicate that the skew of the offset rate within the income distribution is likely to be toward higher income earners.

The modelling discussed in our original submission assumes that lower income households, adjust their voluntary savings levels to a greater degree than higher income households. We believe that this view, while theoretically elegant, assumes perfect access to information and perfectly rational behaviour among lower income groups. This does not reflect the way changes in superannuation are perceived implemented in different ways for different groups of employees, and consequently we believe the distributional effect of an increased SG is more favour of lower income groups than the modelling indicates.

The means test and voluntary savings

In 2006, the Government announced that the taper rate for the assets test would be halved, from \$3.00 per \$1,000 of assets over the full pension threshold, to \$1.50 per \$1,000 over the full pension threshold. The income test was similarly relaxed.

Taking into account the increased pension announced in the 2009-10 Budget, the part pension phase out point for the assets test is \$928,000. Had the taper rate not been halved, the part pension phase out point would be around \$590,000. This broadening of the phase-out range means that many more future retirees will retire

with assets in the range, and hence marginal savings while they are working will reduce their pension entitlement. This is clearly a potential disincentive for savings.

However, to increase the taper rate now, while moving more future retirees above the phase out point, and hence increasing incentives for them to save, would increase the pensions currently payable to many retirees. Hence, we argue below that increasing mandatory savings can be an important element in restoring the attractiveness of additional savings, and restoring the character of the Age Pension.

Our original submission makes the point that Effective Marginal Tax Rates (EMTRs) on savings for middle income earners are very high, mainly because of the means test on the Age Pension. By contributing more to their superannuation, workers suffer not only the taxes they pay on the income earned to make that contribution (or deducted from salary sacrifice contributions), the tax on investment earnings, and on benefits, but also, the reduced pension entitlements resulting from the assessment of those assets in the means test.

However, assessing the impact of high EMTRs on savings behaviour is difficult, given the potentially long period between the savings decision and the incidence of the tax. However, on a theoretical basis, where consumers are perfectly aware of the impact on their retirement savings, and perfectly rational, very high EMTRs can be expected to have a negative impact on voluntary savings.

Presently, and for some years, the negative effect on overall contributions will be muted, for two reasons. Firstly, because such a small number of individuals have significant superannuation, even with additional savings, their assets will be below the point at which their pension will reduce.

Secondly, as is now well documented, while their savings are below a certain point, individuals tend to take less of an interest, and are less prepared to invest in advice and information to maximise their retirement income. Where a decision to make additional contributions is made, it is more likely to be in response to a desire to reduce tax, or to be provoked by a combination of available income, and a nebulous anxiety that the individual has insufficient retirement savings.

We believe this negative effect on savings behaviour will be a serious impediment to efficient functioning of the voluntary pillar in years to come, and will drag the overall performance of the system.

The following illustration models retirement incomes for two couples. Both couples have one partner working continuously for 40 years, and one partner working for 10 years, then with 10 years out of the workforce, returning for 20 years. Couple 1 each earn half of Average Weekly Earnings for each year they work, and Couple 2 each earn Average Weekly Earnings for each year they work. We suggest these

hypothetical couples are indicative of families at the 25th percentile and the 75th percentile for wages and salaries respectively.

The couples each make SG contributions only, and there are two scenarios, one for SG at 9%, and one for SG at 12%. The final benefit values are in terms of today's AWE.

The terminal accumulations are:

At 9% SG

	Couple 1	Couple 2
Partner 1	\$176,795	\$353,590
Partner 2	\$128,248	\$256,495
Total	\$305,043	\$610,086

The assets test thresholds for a homeowning couple are currently:

- Couple full pension assets Less than \$252,500
- Couple part pension assets Less than \$928,000

A marginal dollar of additional assets for Couple 1 will incur a reduced pension, as their SG savings only are already above the full pension threshold. However, for Couple 1, their SG savings only are well below the part pension threshold, so any additional savings they make will also reduce their pension. In fact, they would have to increase their anticipated assets by around 50% before they reached the phase out point for a part pension.

Moreover, individuals at the 25th percentile for incomes have far lower savings capacity, while those at the 75th percentile can be expected to have a stronger potential for additional savings. In fact, the likely outcomes for their mandatory savings deliver a significant savings disincentive to the couple who are best placed to increase their contribution.

At 12% SG the outcomes for Couple 1 and Couple 2 are improved:

	Couple 1	Couple 2
Partner 1	\$235,727	\$471,454
Partner 2	\$170,997	\$341,994
Total	\$406,724	\$813,447

We can see that under a full working life under a 12% SG, couple 2 are moving much closer to the phase out point for the assets test, and hence there is a greater chance that at some stage their additional savings will not further reduce their pension. However, more importantly, it means that a staged increase in the taper

rate (and resulting gradual fall in the phase-out point) will gradually increase the number of workers partly dependent on the Age Pension, and provide clearer incentives for those at or close to the phase out point.

Removing or reducing indexation on the upper threshold, along with an increase in the SG will push the projected accumulation for Couple 2 over the threshold in a relatively short time. Given that the SG system is still immature, that adjustment will occur well before younger people now in Couple 2's income cohort enter their later working life when their focus can be expected to shift to savings.

This strategy of using the mandatory pillar to move middle income workers through and out of the upper part of the taper range will also draw lower income workers into the lower part of the taper range. However, lower income groups are far less likely to be significant savers, and hence the voluntary contributions to the system 'at risk' from perceived high EMTRs are not so great.

While the savings at risk from high EMTRs will not occur for some years, the increase in the SG will need to occur soon, to increase accumulated capital progressively and lay the groundwork for more attractive voluntary savings in years to come.

Comparing efficiency between voluntary and compulsory savings

We believe a key advantage of the Superannuation Guarantee system is that, because of its mandatory nature, it forces people at young ages to save, and evidence now clearly indicates that it is much more difficult to encourage young people to save voluntarily.

Assuming retirement at age 65, and a real return of 4% net per annum over inflation, an additional dollar contributed at age 25 yields \$4.80 inflation adjusted at retirement, but a one dollar contribution at age 50 only yields \$1.80 at retirement. This means that catching up contributions later in working life is a relatively inefficient way of saving, despite the fact that it fits modern lifestyles as well as household income and expenditure patterns.

As an example, take two individuals who spent 40 years in the workforce, on Average Weekly Earnings each year, where AWE increased by 4% per annum, and the fund earned 7% net per annum. Individual 1 contributed under a 12% SG regime for the whole of his working life, while individual 2 contributed under a 9% SG regime, and decided to catch up in the last 15 years of his 40 year working life.

The following table illustrates the difficulty the 9% worker will have in attaining the same outcome as his 12% hypothetical workmate, and the greater efficiency resulting from mandated contributions made earlier in working life.

	9% SG worker	12% SG worker
SG contributions (net)	\$97,506.67	\$130,008.90
Additional contribution rate required	11.30%	0%
Additional contributions (net)	\$80,096.60	\$0
Final benefit	\$512,000	\$512,000
Total contributions/final benefit	35%	25%

Recommendation

Increasing the SG then improves system efficiency, by improving the incentives for voluntary savings, and by improving the proportion of total benefits contributed by investment earnings rather than by employers and members. However, increasing SG also allows the Government more flexibility to refocus the Age Pension on its function as a safety net, and to more effectively control expenditures in the longer term.

We advocate for an increase in the Superannuation Guarantee to 12% over the next few years, with a cessation of indexation of the phase out point for the Age Pension. This latter recommendation would have the effect of gradually increasing the taper rate for the assets test. Periodic review of the income test taper rate to ensure it remains commensurate with the assets test would also be required.

Pillar integration and flexibility

Personal exertion income

We have favoured an incentive approach to deferring retirement, in preference to the mandatory approach adopted by the Government in the Budget. A major part of that incentive approach is to provide meaningful exemptions to the income test where people work beyond Age Pension age. While we continue to support continuation of the age 65 eligibility for the Age Pension, incentives for continued working past Age Pension age would be equally important under an age 67 eligibility regime.

The choice to continue to work beyond Age Pension age is most likely to be motivated by a combination of two factors:

- Inadequate savings, principally in superannuation; and
- Capability to continue working (including health and employability)

There may be others who choose to continue for reasons of social interaction and personal interest, but these are more likely to be in the minority.

Where inadequate savings is the primary motivating factor, continuation for a short period, in a full-time capacity is likely to be preferred, and the additional income this generates is likely to be directed to superannuation contributions.

Such an individual is likely to be hit twice by the means test. Firstly, pension that would otherwise be payable will be knocked out because of the income test and the income earned on employment, which is directed to superannuation. However, to the extent that contributions increase assets assessable against the assets test, it will reduce Age Pension entitlements further.

This is a serious disincentive to savings on behalf of those most in need of rapid improvements – ie those presently approaching retirement with inadequate superannuation.

While the personal exertion exemption announced with the Budget may be attractive to those who earn modest amounts for work undertaken for life satisfaction reasons rather than specifically for income, it is unlikely to be of much assistance to a person who continues their existing job to earn income and accumulate assets.

We believe to make working past retirement truly attractive, one of the following measures is required:

- a more generous exemption for personal exertion income so that older workers on median to average incomes can still draw some pension; or
- re-introduction of a better pension deferral scheme.

Pension deferral scheme

The current, and soon to be discontinued, Pension Bonus Scheme provides a maximum once off payment of \$29,364 for each partner in a couple, if they defer their pension for 5 years. Given the total pension payable to a couple at the full rate is \$26,338 pa, this implies a discount rate of approximately 35%. Clearly the Pension Bonus Scheme is not intended as a commutation of an income stream on commercial terms, and given that elsewhere in this submission we argue that the character of the Age Pension should be continued as a “safety net”, purely commercial terms may not be appropriate.

However, we believe that more could be done to encourage workers to continue in work where possible, and a more attractive pension deferral scheme would be an appropriate way of achieving this. We identify longevity risk and investment risk as two factors which need to be better controlled as retirees reach very old age, and a

deferral scheme where the pension is increased in value, rather than an increase being commuted to a lump sum would contribute toward these objectives.

Where pensions were increased in value on deferral, means tests thresholds and other factors may need to be adjusted to preserve the increase, but we do not see this as a major impediment to the policy.

Risks to income and the SG

In our original submission, we illustrated that the Age Pension provides basic protection for individuals against the impacts of longevity and investment risk¹. Increasing the Superannuation Guarantee, if accomplished with no change to the present rules around the form of investment and income production in retirement would dilute this positive effect as the overall mix of retirement income was drawn more from superannuation, and less from the Age Pension.

However, were increases to the SG required to be taken in the form of an annuity or similar lifetime product, the effect would be enhanced as the overall lift to adequacy resulting from the increase was devoted to an annuity stream. We believe there is a community expectation that the current SG and voluntary contributions are accessible as a lump sum, and while we would be prepared to consider incentives to take some of the existing SG as an annuity, we would not support mandating that outcome, but would consider an SG increase where all or part of the increase was mandated as a lifetime annuity.

Mandating an increase in SG as a lifetime annuity would also mean that in very old age, even where other assets had been dissipated, the "safety net" function of the Age Pension would be augmented by a continuing, indexed income stream. As an indication, for a worker on average weekly earnings for 40 years, this augmentation might be an additional 30% of the Age Pension full single rate². This approach would provide a level of dignity for the very old which the current system cannot guarantee.

Annuity pricing and Government provision

In our original submission, we argued for the Government to be able to "sell" annuities to pensioners, payable on the same basis as the Age Pension. We continue to believe that proposal has merit, but we believe a healthy complementary private market for annuities is also important. We note that one of the major detractors from competitive pricing of life office annuities is an inbuilt commission component. Were commissions outlawed, private market annuity pricing would improve immediately

¹ Original submission, p7

² 3%pa contribution less contributions tax, accumulating at 3% real over 40 years, paid as an CPI indexed annuity with a 2% real return over 30 years.

as a result. We understand that there are also economies of scale related to the pool of lives insured, and mandating annuities as part of a program to increase the SG would increase the pool, and improve pricing.

Recommendation

The Government consider a more generous personal exertion income exemption for the income test.

The Government introduce a pension bonus, as an increased pension, and on terms more in line with commercial practice than is the case in the pension bonus scheme rescinded in the 2009 Budget.

The Government examine the benefits of mandating any increase in mandatory contributions as an income stream, recognising that the present SG has been accepted as a lump sum scheme.

Preservation age

We do not support the announced increase in the Age Pension eligibility age. However, we even more strongly reject the proposal in the interim report to increase the preservation age in line with the Age Pension eligibility age.

Superannuation has been popular, at least in part because it is seen as an opportunity to fund an early retirement. While we are concerned that some retirees may be dissipating their assets too quickly, including through early retirement, we believe the negative impacts on confidence in the system resulting from an increase in preservation age are a far greater risk.

Put simply, increasing the preservation age, taken together with an increasing awareness of the impact of EMTRs would drive home to consumers that the superannuation system is a complement to the Age Pension and akin to a tax. Maintaining the current preservation age allows retirees scope to plan their retirement more flexibly and should be a top priority of the panel.

Concessional caps

The access to concessional taxation available to higher income earners through superannuation has been an issue of long standing concern. Historically, there have been three major policy approaches to capping access to unlimited tax concessions:

- Reasonable Benefit Limits (RBLs)
- Member Deductible Contribution Limits (MDCLs)
- Superannuation Surcharge

Each of these measures has had its own shortcomings, and we believe the system of contribution caps introduced as part of the Better Super reforms provides the best framework to regulate excessive taxation benefits to higher income earners.

The Budget announced reductions to the Concessional Contributions Caps, as follows:

- For those under 50 years, an immediate halving of the concessional cap to \$25,000 (indexed)
- For those 50 or over, an immediate halving of the concessional cap to \$50,000, with a further alignment with the rate for under 50s from 2012.

While we agree with the concessional caps framework, and the reduction to \$25,000 for under 50s, we believe the reduction from 2012 will discriminate unfairly against those with relatively poor superannuation savings approaching retirement.

The RBL framework, which was repealed with the Better Super reforms was a complex system which affected very high income earners only, but aimed to limit the access to taxation concessions for superannuation over an individual's lifetime. This approach meant that individuals had flexibility to make additional "catch up" contributions while providing that benefits over a certain level were taxed at marginal tax rates, rather than the concessional rates for superannuation benefits. The RBL system's complexity arose mainly because of this focus on benefits.

While the concessional caps framework is comparatively simple to apply and administer, because it focuses on the contribution stage, it is not sensitive to lifetime concessions. Under the reduced caps, an individual will only be able to make concessional contributions of up to \$25,000 per annum, regardless of whether their present superannuation is inadequate, appropriate, or excessive.

As we point out earlier in this paper, the concessional caps system implies that there is a community expectation of an upper limit on the amount of tax concessions an individual can access. However, because the caps are not sensitive to individuals' current savings, and time to retirement, it does not imply a particular figure for a "maximum concessional benefit". This raises the question of what that figure should be.

We believe that the Government should determine a figure, to inform policy debate, and engender consumer confidence in the system. We do not have a strong view on what that figure should be, but to suggest a range of possible figures, we make the following observations:

- ASFA has calculated that a single retiree needs \$460,000 lump sum is required to fund their 'comfortable' lifestyle in retirement, assuming they receive a part Age Pension as well³;
- The RBLs, were they still in force, and had been indexed in accordance with the regulations governing them, would today be approximately \$800,000 for lump sum-based benefits, and \$1.6 million for pension-based benefits;
- The phase out point of the assets test for the Age Pension for a couple who own their home is \$928,000 (combined);
- A worker on AWE for 40 years, with a 9% SG and 5% after tax contribution would retire with approximately \$585,000 in today's dollars. This would increase to \$702,000 under a 12% SG regime.

Were an individual to contribute \$25,000 (indexed) as a salary sacrifice contribution per annum over a working lifetime, the resulting accumulation would be approximately \$1.6 million⁴ in today's dollars. However, for a 50 year old with only \$70,000 currently in super, commencing contributions at \$25,000 (indexed) would yield a retirement benefit of \$507,000 at age 65⁵, in today's dollars.

We support the \$25,000 threshold for those currently under 50 years old. As the above example shows, even 50 year olds with only modest current superannuation can accumulate \$500,000 in current dollar terms if they contribute consistently at the threshold until age 65. However, for those over 50 with low balances, higher contributions are required.

The table below shows how much is required (as an indexed, annual, pre-tax contribution) to reach \$500,000 at age 65, in today's dollars terms, given various current balances.

	45	50	55	60
\$10,000	\$21,101	\$30,642	\$49,933	\$108,228
\$20,000	\$20,310	\$29,656	\$48,554	\$105,659
\$30,000	\$19,519	\$28,671	\$47,175	\$103,090
\$40,000	\$18,729	\$27,685	\$45,795	\$100,521
\$50,000	\$17,938	\$26,700	\$44,416	\$97,952

³ Ross Clare, Presentation to ASFA Hobart Lunch, 22 October 2008

⁴ Net return 7%, Contribution indexation 4%, 40 year work life

⁵ Net return 7%, income equal to AWE, indexation of income 4%, retirement at 65

\$60,000	\$17,147	\$25,714	\$43,037	\$95,384
\$70,000	\$16,356	\$24,729	\$41,658	\$92,815
\$80,000	\$15,565	\$23,743	\$40,279	\$90,246
\$90,000	\$14,775	\$22,758	\$38,899	\$87,677
\$100,000	\$13,984	\$21,773	\$37,520	\$85,108
\$110,000	\$13,193	\$20,787	\$36,141	\$82,539
\$120,000	\$12,402	\$19,802	\$34,762	\$79,970
\$130,000	\$11,612	\$18,816	\$33,383	\$77,401
\$140,000	\$10,821	\$17,831	\$32,004	\$74,833
\$150,000	\$10,030	\$16,845	\$30,624	\$72,264
\$160,000	\$9,239	\$15,860	\$29,245	\$69,695
\$170,000	\$8,448	\$14,874	\$27,866	\$67,126

We believe the panel should recommend that the government introduce a system of “transitional concessional caps” whereby an individual can apply for an increased concessional cap, on the basis that their current savings are inadequate. A table similar to the one above could be used to translate the taxpayer’s age and current accumulated assets into a required contribution amount, which would remain in place until the individual reached age 65. The taxpayer’s transitional cap could not be less than \$25,000, and not greater than \$50,000, and would be indexed for the remainder of the taxpayer’s working life. The transitional cap would remain unchanged, regardless of whether the tax payer made contributions at that level, or whether the assumptions underlying the calculations were borne out.

Our analysis above is based on a target benefit of \$500,000, which is at the lower end of the range of suggested indicators for the maximum concessional benefit. While theoretically, saving at the cap level over a working life would produce benefits dramatically greater than this, it is not realistic that significant numbers would be able to save at the cap level until their 50s. On this basis, we do not believe that the \$25,000 cap should be further reduced until benefits for younger members build under a mature SG system.

Other issues

Preservation age

We do not support the announced increase in the Age Pension eligibility age nor do we support the interim report proposal to increase preservation age in line with Age Pension eligibility age.

Our concerns are predominantly centred on the various groups that would be impacted by an increase in the preservation age, mainly:

- Carers, whom often leave work earlier than planned in order to provide full time care for a family member.
- Those suffering from illness or injuries, and subsequently, forced into early retirement.
- Individuals experiencing age discrimination towards the end of their career, and as a result, finding it difficult to gain employment, and;
- Workers in labour intensive industries who are unable to continue with their physically demanding job later in life.

In addition, whilst we are concerned that some retirees may be dissipating their assets too quickly, including through early retirement, we believe the negative impacts on confidence in the system resulting from an increase in preservation age are a far greater risk.

Put simply, increasing the preservation age would promote the superannuation system as a complement to the Age Pension and akin to a tax. Maintaining the current preservation age allows retirees to plan their retirement more flexibly and should be a top priority of the panel.

\$450 threshold

In our original submission we argued that the \$450 per month earnings threshold for the Superannuation Guarantee should be removed. We also believe that removal of the threshold is a precondition for removal of member benefit protection. The panel's Interim Report rejects that recommendation.

The \$450 threshold cannot be considered in isolation from two important issues:

- The implication in the mandatory system of universal coverage; and
- The need for improved administrative efficiency in the superannuation system, which is being addressed under the Cooper Review.

The first point is often tacitly acknowledged in the assertion that because the threshold is not indexed, it will progressively exempt fewer and fewer earnings from

SG compliance. A further justificatory argument related to the second point is that the need to pay superannuation on small earnings will increase the administrative burden on employers, and increase the lost member account problem.

We believe the administrative burden on employers of paying superannuation contributions needs to be addressed, and this reasoning has played a role in forming our position on the Government Clearing House proposal, and the Cooper Review. Our submissions to the Cooper Review in particular will argue for a standard protocol for exchange of information, and for SG contributions to be remitted monthly by employers. We believe these measures will significantly reduce the burden on employers, and importantly, will encourage automation of contributions processing, which will eliminate the additional work associated with making payments of small amounts.

Our original submission also makes the point that most people who currently miss out on contributions through the operation of the threshold will meet the threshold in some months, but not in others, simply because for many workers, wages are paid fortnightly, and in most years, there will be two months with three fortnightly pays, and ten months with two fortnightly pays. This means that such workers' funds will have to establish and maintain an account for them at any rate, and for this reason we believe the impact of abolition of the threshold on funds' administrative costs and the lost member problem is overstated.

Recommendation

The Government maintain the current preservation age rules.

The Government abolish the \$450 threshold, in conjunction with the introduction of a clearing house or contributions payment protocol, and an abolition of the Member Benefit Protection rules.