

Submission

Australia's Future Tax System

Retirement Income System



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Background

As a tertiary student and a member of the public, I am honored to contribute my submission based on the topic of “Retirement Income System” to the Review Panel, which is led by Dr Ken Henry, Secretary to the Treasury.

I welcome and look forward to future improvements on the Retirement Income System made by the Australian Government.

Introduction

Australia’s retirement income system plays a pivotal role on financial security and retirement welfare. Currently, *not* every retired Australian in receipt of Centrelink Age Pension can afford to have the lifestyle they want, *not* every working Australian qualifies for the 9% compulsory employer superannuation and *not* every Australian has sufficient voluntary savings at retirement. If, however, the Government acts **NOW** through the implementation of specific changes to the superannuation rules, then ‘**YES, WE CAN**’ alleviate these issues in the future.

Summary

Our retirement income system faces many issues because it has disadvantaged many groups in society so the Government **MUST ACT NOW** by:

- (1) abolishing \$450 gross monthly threshold (for casual and part-time workers) to be eligible for Superannuation Guarantee (SG) by 2011;
- (2) doubling the SG Charge to penalise employers who fail to pay compulsory superannuation entitlements to their employees by 2011;
- (3) introducing nationwide compulsory hybrid (ie. accumulation and defined benefit) contribution scheme (to alleviate longevity and market risk) by 2011;
- (4) allocating superannuation into three different categories: mortgage, retirement savings and medical expenses by 2011;
- (5) increasing compulsory employer SG contribution from 9% to 15% by 2012;
- (6) including maternity leave, overtime and employer termination payment as part of calculation for superannuation entitlement by 2012;
- (7) establishing gradual and compulsory 15% personal superannuation salary sacrifice contributions (from gross pay taxed at 15%) by 2014; and
- (8) allowing tax deductions for superannuation management fees and insurance deductions that subsequently erode long term retirement savings by 2014.

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1. Abolish SG threshold (gross \$450 per month) by 2011

According to the 2007 Australian Bureau of Statistics (ABS) summary of findings¹ (“S15: Persons with no superannuation coverage” column graph), quite a number of people in my age group (15 to 24 year olds: approximately 40% of male and more than 40% of female) were not covered by superannuation. Furthermore, ABS highlighted that “women were more likely to have NO superannuation coverage compared to male”. Some causes for no superannuation coverage are:

- (1) employees earn less than \$450 per calendar month so they do not qualify for superannuation;
- (2) employers take advantage of naïve and ignorant workers e.g. teenagers who work for more than 30 hours per week, new migrants and young adults who earn more than \$450 per month in SME are less likely to know about their superannuation entitlements and benefits;
- (3) women who sacrifice full-time work for family commitments;
- (4) those with inconsistent work patterns due to health problems or physical disabilities have been excluded from superannuation entitlements.

Concurrently, unethical small-to-medium enterprises (SME) avoid paying superannuation by purposely employing staff to work for less than \$450 per month in order to avoid paying their employees superannuation entitlements. So, even if the Government reduces the threshold to say \$100, I am confident that the employers would make sure that staff are rostered to work for less than \$100 per month so that no superannuation would be paid.

Hence, the Government MUST abolish SG threshold to ensure that every Australian worker regardless of age and amount of wages per month qualify for compulsory employer superannuation. In doing so, when we become old, we will be less reliant on the Australian Government for Aged Pension.

¹ ABS 6361.0- Employment Arrangements , Retirement and Superannuation, Australia updated 10 Nov 2008,

<http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6361.0Main%20Features2Apr%20to%20Jul%202007?opendocument&tabname=Summary&prodno=6361.0&issue=Apr%20to%20Jul%202007&num=&view=>

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2. Double SG Penalty for unpaid superannuation by 2011

Superannuation entitlements are only restricted for those who earn more than \$450 per month (or earnings above \$38,180 per quarter), aged between 18 to 69 years old. Furthermore, for employees under the age of 18, they must work for more than 30 hours per week to be entitled to 9% superannuation. However, a small number of SME owners fail to provide a “Choice of Superannuation Fund” form for those under 18 years old and others have failed to pay superannuation entitlements on time (i.e. every quarter). **Therefore, I desperately urge the Review Panel to double the SGC penalties in order to discourage SME business owners from neglecting superannuation entitlements. **I also highly recommend the Government to ensure that the Choice of Superannuation fund form is attached to the Tax File Form when an employee starts their first day at work. ****

3. Implement compulsory hybrid contribution scheme by 2011

In a bull market, accumulation super funds produce high returns. However, in a bear market such as the recent Global Financial Crisis (GFC), individuals currently face longevity and market risk due to the declining unit value of accumulation super funds. Meanwhile, in a bear market, defined super schemes (such as PSS) whose returns are based on a mathematical formula, will outperform accumulated super funds because they are not exposed to market volatility. Furthermore, defined schemes such as UniSuper (pre-1998) allow employees to opt for indexed pension, a lifetime retirement payout, which ensures that there is no longevity risk. **Thus, I highly recommend the Government to implement a nationwide compulsory hybrid contribution scheme (i.e. a combination of defined and accumulated scheme. After all, defined schemes will not only offset the losses in the accumulated funds but it will also reduce longevity risk, through Indexed Pension.**

4. Allocate superannuation into three components by 2011

Superannuation should not be limited for retirement only, as many Australians cannot manage their finances for mortgage repayments, retirement funding and medical expenditures. In the long run, they will have insufficient funding for retirement and will rely on Age Pension. **Hence, the Government need to improve the retirement income system by adapting a system like the Singaporean Central Provident Fund. This enforces strict rules on retirement spending patterns, releasing personal contribution funds for healthcare and purchasing a house.**

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5. Increase compulsory employer SG to 15% by 2012

Since 1992, the minimum compulsory employer superannuation guarantee is 9%. The two reasons that the Government needs to increase SG to 15% are lost in purchasing power and longevity risk. Firstly, over the last sixteen years, income, residential prices and CPI have increased in explicit or absolute terms, but SG contribution still remains at 9%. In implicit or marginal terms, our SG contribution has effectively lost its purchasing power. Secondly, while SG contribution remained the same, superannuation expenses have escalated, meaning we are more likely to outlive our superannuation savings. Currently, 9% SG is only before-tax, after 15% tax, it is effectively 7.65%. Next, we need to account for (1) management fees; (2) insurance deductions and (3) that every year, these figures will increase due to inflation and our age (as we get older, we are more likely to claim insurance so insurance premiums rise). This effectively erodes our superannuation, meaning that the net employer contribution is far less than 7.65%.

Hence, I encourage the Government to gradually increase employer compulsory SG to 15% (after tax contribution will be 12.75% and net contribution at least 7.65%). Furthermore, the compounding effect would mean that in the long run, retirees have more funds to retire which reduces longevity risk and their reliance on Age Pension.

6. Inclusion of maternity leave, ETP and OT in super by 2012

Women have not only sacrificed many years of full-time employment but they have also forgone superannuation contributions for raising their children and family commitments. Furthermore, women have significantly less superannuation compared to their partners, who have worked longer.

Thus, the inclusion of maternity leave and Employment Termination Payments (ETP) in the rollover to superannuation will not only boost women's superannuation but also allow those who exit the workforce (due to personal reasons and family commitments) to have more superannuation. Meanwhile, inclusion of overtime payments in superannuation is an incentive or award for those who work longer and sacrifice week night/weekend time for work. Thus, I hope the Government can kindly consider the inclusion of these payments as superannuation.

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7. Establish compulsory 15% personal super contributions by 2014

Currently, Australians can voluntarily contribute their before-tax income into superannuation through the super salary sacrifice scheme (taxed at 15%). However, the Government needs to enforce gradual compulsory superannuation savings at 15%, whereby each of the three 5% contributions are allocated into medical expenses, mortgage repayments/house purchase and retirement funding (Point 4).

In different phases of one's life, sufficient funds will be allocated and paid out at a timely manner i.e. every fortnight Government allocates a set amount, \$500 from the taxpayer's own personal retirement savings in an attempt to avoid squandering and relying less on the Government's Age Pension.

In doing so, this will not only achieve a more equitable and sustainable retirement income system, but it would also mean that the Government has less liability to the senior Australians as funds are allocated efficiently.

8. Allow tax deductions for super expenses by 2014

Currently, after-tax employer SG and net voluntary super contributions have devalued due to erosion of management fees and insurance deductions made by the superannuation funds and insurance companies.

Hence, I strongly urge the Government to allow tax deductions on superannuation fees for all Australians because these expenses (at compounding rates) will significantly erode on our future retirement income and will end up with us more reliant on the Government's Age Pension.

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