DINO
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RETIREMENT INCOME SYSTEM SUBMISSION PAPER – AUSTRALIA'S FUTURE TAX SYSTEM

Retirement Income System
Submission Paper
5th February 2009 |
Submission By: Dino Cesta

Personal Background

Thank you for this opportunity in contributing to the future of Australia's retirement income system.

My interest and passion on this subject stems from my career experience in the Banking and Financial Services industry of over 14 years as well as the desire to contribute to public policy debate in this key area.

Within the Banking and Financial Services industry, I have experienced diverse roles in a Call Centre environment, in product management in superannuation and retirement income streams, as well as leading projects and programs of work in the product and systems rationalisation of superannuation, investment and insurance products.

My professional experience is also complemented by graduate and post graduate studies, including a Bachelor of Economics, Master in Politics and Public Policy, Diploma in Financial Services (Financial Planning), Certificate in Superannuation Management, and Diploma in Project Management.

As a result of these accumulated personal experiences, I trust this submission paper offers insightful, constructive and positive ideas in contributing to substantive policy discussion and reform with respect to Australia's superannuation and retirement income system.

Financial evaluation of the policy reform proposals presented in this paper has not been undertaken. Rather, the paper's focus is to present a foundation of principles for a future Australian retirement income system, and a collection of, however not exhaustive, policy reform options for government appraisal.

Furthermore, the policy reform options in this paper are not necessarily presented as an interdependent package of proposals but may be considered as discrete policy choices.

I wish you all the best in delivering outcomes for the ongoing prosperity of Australia.

Kind Regards,

Dino Cesta

5th February 2009

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Executive Summary

There is overwhelming community and public policy acceptance that the ageing of Australia's population in the coming decades will place increasing pressure on the demand of Federal government budgetary expenditure, particularly in the areas of pensions, health care and community aged care.

Impending changes to Australia's economic, social and demographic environment provides an impetus in creating a comprehensive and sustainable policy adjustment that specifically facilitates the long term viability of Australia's retirement income system, as well as the broader long term sustainability of Australia's political, economic, social and cultural prosperity.

Currently, Australia's retirement income system three pillar model comprise:

i. a means tested age pension safety net for the most vulnerable, financed from Commonwealth government revenue;

ii. an employment linked, government mandated Superannuation Guarantee (SG) employer contributions with associated tax concessions; and

iii. voluntary superannuation with tax incentives to encourage personal savings.

Dynamic policy reforms will be an imperative in shifting the sources of retirement income financing from pillars one to two and three, in the need to increase the overall level of private and national savings, and ultimately an individual's and couple's ability in being financial self-sufficient throughout their retirement years.

Principles of a future Australian retirement income system

A future Australian retirement income policy framework need to encompass interconnected key principles. The seven key principles which I consider central to creating a world class retirement income system are:

1.Broad-based; **2.**Embracing; **3.**Flexibility & Accessibility; **4.**Simplicity & Efficiency; **5.**Equity; **6.**Financial Security; **7.**Regulatory Stability.

Some of the policy reforms recommended in this submission paper in fulfilling these principles may be deemed politically unpalatable. However, if we desire a world class, state of the art retirement income system which achieves the aspirations of an economically, socially and culturally prosperous nation, we need to commit to fundamentally deconstructing and overhauling aspects of our system.

Reform of Australia's retirement income system will require an evolutionary if not revolutionary shift in Australia's political and public policy consciousness to ensure we create an economic, social, culture and political prosperity and stability for today's and future generations of Australians.

A summary of the seven key principles for a future based Australian retirement income system follows:

Principle 1:

'Broad-based' – Regardless of employment status, ability to work, sex, health, or age, every Australian has the right to an integrated 'cradle to grave' lifetime savings vehicle.

Principle 2:

'Embracing' – A future retirement income system is embraced by all Australians, and considered pivotal in establishing financial security throughout Australians' pre-working, working, and post-working life.

Principle 3:

'Flexibility' & 'Accessibility' – The retirement income system is readily adaptable to Australians' evolving personal and family's financial lifecycle needs.

Principle 4:

'Simplicity' & 'Efficiency'- The complexity of superannuation and retirement incomes legislation and regulation is minimised; ensuring easier consumer understanding; creating increased transparency and cost efficiency.

Principle 5:

'Equity' – Ensure all Australians are treated with equity in their ability to contribute to retirement savings regardless such factors as their employment status, sex, health and/or age; and when it comes to taxation concessions, and accessibility to benefits.

Principle 6:

'Financial Security' – Establish a solid and sustainable foundation of increasing national savings and an acceptable retirement income level for all Australians via the three pillars system.

Principle 7:

'Regulatory Stability' – Ensure continued integrity and stability by strengthening the regulation of institutions managing, administering and advising within the retirement income system.

Summary of Recommendations

A summary of policy reforms recommended are specifically categorised under the seven key principles follows:

Principle 1: Broad-Based

Recommendation 1.1 – *Childhood Phase - Lifetime Retirement Savings Plan* [Page 23]

- The Government to legislate for a Lifetime Retirement Savings Plan to be established from day one of one's birth.
- The Government to contribute a fixed 'undeducted' amount per annum for the first 10 years of every Australian citizen child into the Plan.
- Allow 'child' co-contributions that enable the government to make a co-contribution payment of a pre-determined percentage of the contribution made into the child's savings plan.
- Allow family members to make annual personal non-deductible contributions to a child's lifetime savings plan up to a pre-determined maximum limit.

Recommendation 1.2 - *Women* [Page 24]

- Women to receive a higher flat or tiered SG contribution level than the currently mandated level.

Recommendation 1.3 - *Stay at home spouses* [Page 25]

- Stay-at-home spouses to receive a SG style contribution. Calculation basis options include basing the SG rate on average male weekly earnings, or the salary earnings of the working spouse (where applicable).
- The targeted contribution level could be set at between 1 to 3%, with the contribution funded by either the working spouse's employer (where applicable), funded by the government, or shared equally between the government and employer.

Recommendation 1.4 - *Family Friendly Policies*

[Page 26]

- Support women to extend time spent in the workforce;

- More closely align women's earnings to men's earnings;

- Better access to a career path despite fragmented work patterns;

- For women on maternity leave, SG contributions should continue to be paid for a specified period of time, enabling women to continue to save while out of the paid workforce.

Recommendation 1.5 - *Home Carers*
[Page 26]

- Stay-at-home carers receiving a government funded SG style contribution, either at the current SG rate or an alternative basis, for example, based on average male weekly earnings.

Recommendation 1.6 - *The Unemployed*
[Page 27]

- Those unemployed for a specified time period to be provided with a SG style contribution. The government funded SG style contribution could be based on the current SG rate of 9% or an alternative percentage, calculated on the basis of, for example, the Newstart allowance or average male weekly earnings.

- Where employees are laid off or made redundant, employers are required to fund a specified period's worth of SG contributions. The time period for determining the amount to be paid could be based on the basis of the average time period an individual is expected to remain unemployed resulting from redundancy. The average time period could be based, for instance, on a per industry basis or based on a national average as to the time period people who are retrenched remain unemployed.

Recommendation 1.6 - *Part-time / Casual Workers*
[Page 27]

- Remove the minimum requirement of salary earnings per month before being entitled to receive SG contributions.

- Evaluate providing a SG contribution level above the current level based on their salary/wages; or the SG level based on a specified formula, such as the average male weekly earnings, or a fixed minimum gross salary base if the individual's annualised gross salary is below the fixed minimum or average male weekly earnings.

Recommendation 1.7 - *Self-Employed Workers*
[Page 28]

- Increase superannuation coverage for the self-employed via an active marketing campaign to the self-employed emphasising the taxation and savings benefits of superannuation

- Increase superannuation coverage by having self-employed people included as part of the SG requirement.

Recommendation 1.8 - Minimum Life Insurance cover
[Page 29]

- Deal with the current insurance gap through such avenues as educational material and advertising;

- Create product offerings that better correlate to an individual's life stages and which encourages individuals to re-evaluate their insurance cover;

- Initiate a campaign encouraging Australians to take out insurance cover, particularly spouses with household responsibilities such as raising children;

- The Government to mandate for a minimum level of life insurance by investors.

Principle 2: Embracing

Recommendation 2.1 - Provision of Financial Advice
[Page 30]

- To ensure greater preparation for retirement, consider making it mandatory for all Australians to obtain financial advice on retirement planning.

- Every individual be attached to a designated financial life-coach to support and plan for their financial planning over the various stages of their lifecycle. An incentive to drive this behaviour is that paid financial advice be tax deductible.

- Enhance confidence in the quality of financial advice being provided. Further boost the educational and professional standards within the financial planning sector.

Recommendation 2.2 – *Education*
[Page 31]

- Establish education programs that promote and demystifies the retirement income system in schools, universities and workplaces.

- Publications distributed to Australian households, and increased awareness and understanding of superannuation and retirement income via national television advertising campaigns and other medium channels.

- Establish a government committed information centre, which offers consumers support in relation to such informational matters including regarding their superannuation, what do consider when selecting a superannuation fund, fees considerations, legislation, their consumer rights, taxation, on retirement income adequacy, and investment considerations.

Principle 3: Flexibility & Accessibility

Recommendation 3.1 - *Working post retirement age*
[Page 32]

- ***Deferred Pension Bonus Scheme***
  - boost the bonus entitlement from 9.4% of their basic pension entitlement for each full year past pension qualifying age to a higher entitlement percentage (for example, 15%).
  - increase the maximum deferral period from the present 5 years to, for example, 10 years;
  - greater targeted marketing and advertising promotion of the scheme and its benefits to those nearing or at retirement within the workplace.
- ***Employer Encouragement in Maintaining Experienced Employment***
  - Provide exemption from the calculation of payroll tax for individuals aged 60 years and over;
  - Offer greater tax deductibility on SG contributions made to individuals aged 60 years and over;
  - Promote greater flexible work arrangements to suit mature age employees;
  - Create employment skills development related programs that enable mature age workers to remain within the workforce;
  - Formalise mentoring ‘buddy’ programs to transfer the intellectual property of older workers to the younger generation of workers;
  - Educational initiatives by government to promote what mature aged workers bring to the workforce and overcoming negative attitudes associated with ageing.

Recommendation 3.2 - *Preservation Age*
[Page 35]

- Raise the preservation age for accessing superannuation to age 65, in line with the Aged pension eligibility criteria.

Recommendation 3.3 - *Housing Deposit*
[Page 35]

- To minimise the number of varied accounts that an individual has, contributions relating to an individual's first home (via the First Home Saver account) should be able to be made into their existing superannuation fund, with the administration fund creating an identifiable classification for these types of funds.

- Apart from the maximum $75,000 lifetime maximum relating to the First Home Saver account, first home buyers should also be able to access an additional deposit from their superannuation fund. A policy option for consideration is the lesser of a pre-determined percentage of accumulated savings at the point of purchasing your first home or a pre-determined fixed dollar amount (for example $25,000).

Recommendation 3.4 - *Education Expenses*
[Page 36]

- Allow first time graduates of tertiary education to access the lesser of a pre-determined percentage of accumulated superannuation savings or a pre-determined fixed dollar amount (for example $20,000) as a means to reduce or eliminate tertiary education expenses.

Recommendation 3.5 - *Income streams over Lump Sum payments*
[Page 37]

- establish minimum retirement income investment benchmarks to ensure a significant proportion of accumulated savings is utilised for retirement income purposes, for example, at least 70% of retirement savings to be used to fund a person's retirement income stream.

- Increase tax on lump sum payments to make income streams more attractive.

Recommendation 3.6 - *Reverse Mortgages*
[Page 38]

- Review regulations to ensure that these instruments are used wisely, and that all other alternative options have been considered for those taking up this option in retirement.

Principle 4: Simplicity & Efficiency

Recommendation 4.1 - *Efficiency through Product Rationalisation*
[Page 41]

- Develop regulatory requirements and guiding principles associated with product and systems rationalisation (such as successor fund transfers) that ensures greater ease in implementation and minimising costs resulting from rationalisation.

In determining the key guiding principles test for product rationalisation, one guiding principle would be, for example, the requirement that consumers be no worse off from a pre and post transfer perspective when comparing financial as well as non-financial aspects (such as those specified in 'terms and conditions') over the short and medium term. Importantly, members would need to be compensated where any financial disadvantage arises.

Recommendation 4.2 - *Abolish the Contribution Tax*
[Page 42]

- Remove the 15% contributions tax on employer mandated superannuation guarantee contributions.

Recommendation 4.3 - Tax on Investment Earnings
[Page 43]

- Increase the tax on investment earnings above the current 15% level. The increase will also assist in funding ongoing concessions as well as partially support the recommendations considered in this paper.

- Tax on investment earnings applied to accumulation plans should also be applied to pension plans.

Recommendation 4.4 - *Surcharge on contributions*
[Page 44]

- To simplify the administration and costs associated with collection, reporting and payment of the surcharge, abolish the surcharge in totality.

Recommendation 4.5 - *Abolish fees on contributions and withdrawals*
[Page 44]

- To maximise the investment return potential on retirement savings, contribution and withdrawal fees should be abolished.

Recommendation 4.6 - *The work test*
[Page 45]

- In dealing more effectively with the ageing population challenge, with increasing life expectancies, and the age dependency ratio increasing, the work test restrictions need to be abolished.

Principle 5: Equity

Apart from recommendation 5.1, the policy ideas noted under the principle of 'Equity' have already been elaborated under other principles in the paper, and a summary of those policy ideas follows.

Recommendation 5.1 – *Salary Sacrificing*
[Page 47]

- Enable individuals earning a salary / wage less than a pre-determined amount (for example, under $70,000) be allowed to salary sacrifice up to a pre-determined percentage of their salary/wage (for example, 50%) into superannuation and paying 0% tax on that sacrificed component.

Recommendation 5.2 – *Women*
[Page 47]

- Establish workplace 'family-friendly' policy reforms. These reforms include supporting women to remain longer in the workforce; ensure women's paid are aligned more closely to men's earnings; and enable better access to a career path despite broken patterns of paid work.

- For women on maternity leave, Superannuation Guarantee contributions should continue to be paid, which will enable women to continue to save while out of the workforce.

Recommendation 5.2 – *Carers*
[Page 47]

- As noted under the principle of 'Broad-based', suggested policy options includes stay-at-home carers to receive a government funded SG style contribution.

Recommendation 5.3 *- The Unemployed*
[Page 47]

- As noted under the principle of 'Broad-based', a policy option for government contemplation should be given to those unemployed for an extended period of time (for example, beyond 12 months) to be provided with a SG style contribution.

Recommendation 5.4 *- Part-time / Casual Workers*
[Page 47]

- As noted under the principle of 'Broad-based', consideration should be given in removing the minimum requirement of salary earnings per month before being entitled to receive SG contributions. Further, the Federal Government should evaluate providing a higher SG contribution level to part-time and casual workers.

Recommendation 5.5 *- Working post retirement age*
[Page 48]

- Policy reforms should be initiated to encourage employment flexibility for those nearing or having reached the currently defined retirement age. As previously stated, possible policy options for consideration include providing exemption from the calculation of payroll tax for individuals aged 60 years and over; offering greater tax deductibility on SG contributions made to individuals aged 60 years and over; and promote greater flexible work arrangements to suit mature age employees.

Recommendation 5.6 - *Abolish the Contribution Tax*
[Page 48]

- The removal of this tax will have a positive effect on generating an increase in national and private savings, creating greater funds accessibility for investment within the economy, and resulting in more funds available in a person's retirement**.**

Recommendation 5.7 - *The work test*
[Page 48]

- In dealing more effectively with the ageing population challenge, with increasing life expectancies, and the age dependency ratio increasing, the work test restrictions need to be abolished. We need to encourage those aged over 65 to continue working as well as enable them the flexibility to contribute to superannuation without restrictions.

Principle 6: Financial Security

Recommendation 6.1 - *Determining an 'Adequate' Level of Income for Retirement*
[Page 50]

- In determining an adequate and community accepted post retirement income, implement a bottom-up approach by determining a basket of goods and services (including both essential and luxury items) across the Australian community. This calculation to be based on various scenarios – a single homeowner, a couple homeowners, a single non-homeowner, and a couple non-homeowners. This standard to be the minimum community accepted retirement income standard.

- Other potential standard of living scenarios should be established for comparative purposes. This would include the 'minimum' community accepted retirement income standard, a 'moderate' retirement income level standard as well as an 'affluent' retirement income level standard. Community accepted definitions for 'minimum', 'modest' and 'affluent' would need to be agreed in establishing these income levels in retirement.

- The current Age Pension for a single person is set at 25% of AWOTE and 42% for a couple. For the next couple of decades until such time as the retirement income system matures, government evaluation should be undertaken in setting a higher percentage of AWOTE for the Age Pension for both individuals and couples. Additionally, government evaluation should also consider whether this percentage be reduced overtime as the retirement income system reaches maturity.

Recommendation 6.2 - *Employer Funded Contributions*
[Page 52]

- **Increase the SG rate:** Raise the level of SG contribution rate of 9% currently being applied.

- **SG rate based on age:** A second approach for SG reform is a movement away from the current flat SG level. To ensure a retirement savings kick-start early in one's career, SG level contribution levels could be based on tiered age approach, rather than a flat SG rate being applied to all regardless of age.

- **SG rate based on salary:** A third approach is to have the SG level based on an individual's salary.

Recommendation 6.3 - *Personal Contributions*
[Page 53]

- **Mandated Personal Contributions:** One option is to implement a flat mandated personal contribution percentage level, for example, within the range of 1-3%.

- **Soft Compulsion:** A second approach is via soft compulsion which can taken varied approaches, such as employers automatically deducting a percentage (for example, between 1-3%) of employees' salary and invested together with their SG contributions into their superannuation plan unless otherwise specified by the employee; individuals being proactive in contributing personal contributions into their superannuation fund; or individuals setting aside a percentage of any wage increases (for example, 50%) into their superannuation fund.

- **Personal Contributions based on Age:** A third approach is to mandate a contribution level based on tiered age approach.

- **Personal Contributions based on Salary:** A fourth option is to have mandated personal contributions based on an individual's salary.

Recommendation 6.4 – *Co-Contributions*
[Page 54]

- Increase the current total annual income level ($30,342 for the current year) which enables more individuals to receive the full government matching contribution benefit;

- Increase the matching government level from $1.50 to, for example, between $1.75-$2.00 for each $1.00 of personal contributions up to a maximum of $2,000.

Recommendation 6.5 - *Age Pension Age and income levels*
[Page 55]

- For the next couple of decades until such time as the retirement income system matures, government evaluation should be undertaken in setting a higher percentage of AWOTE for the Age Pension for both individuals and couples.

- Looking forward, the Government should also evaluate whether these percentages should be reduced overtime as the retirement income system reaches maturity. This would also entail evaluating the impact of reducing the assets test and income tests (means test) thresholds. By lowering the assets and income tests thresholds overtime, it should in the long term incentivise people to save for their retirement.

- Appraise increasing the current age pension eligibility to somewhere in the age range 66 to 70 years, implemented over an extended period of time.

Principle 7: Regulatory Stability

Recommendation 7.1 - *Recommendations forming part of the Parliamentary Joint Committee on Corporations and Financial Services "The structure and operation of the superannuation industry" (August 2007)* [Page 56]

- The government provide a progress update on recommendations formulated as part of the Parliamentary Joint Committee on Corporations and Financial Services "The structure and operation of the superannuation industry".

Recommendation 7.2 - *Review of legislation and regulations* [Page 57]

- The government pursue an all encompassing review of the SIS legislation and regulations, and other legislative acts linked to the system such as the Tax Act governing superannuation to further identify how they may be rationalised, simplified, made less unambiguous, and easy to understand.

1. Introduction

a) Challenges in the coming decades

There is overwhelming community and public policy acceptance that the ageing of Australia's population in the coming decades will place increasing pressure on the demand on Federal government budgetary expenditure, particularly in the areas of pensions, health care and community aged care.

Concerted efforts have been made by successive Australian governments across political persuasions since the early 1980s to reduce Australians' dependence on the Aged Pension system. Notwithstanding, unless further policy reforms are initiated and implemented in promoting greater financial self-reliance in retirement, there is universal acceptance that Australia will be confronted by an overburdened and unsustainable taxation system in the coming decades.

Impending changes to Australia's economic, social and demographic environment provides an impetus in reforming Australia's existing retirement incomes system. Key specific features of this environment include an ageing population, changes in labour force participation dynamics, and adequacy of future retiree's retirement savings.

i) Ageing Population

Australia's demographic change is projected to have significant implications on the size and composition of the Australian population in the coming decades. Australia's population composition has altered, originally emanating from a reduction in fertility rates since the 1960s. With this drop in fertility rates, and increasing life expectancy resulting from technological and medical advances, Australia's population will age.

The 2007 Intergenerational Report (IGR) noted that over the next 40 years, the expectation is that Australia's population will grow and age, with the greatest growth rate for those aged 65 and over. With mortality rates falling, and life expectancy increasing, the IGR projects that by the year 2047, approximately 25% of the population will be aged over 65. For those aged 85 and over, the IGR notes that the proportion relative to the total population is anticipated to quadruple from 1.7% in 2007 to 5.6% in 2047.[1]

The IGR also projects that the proportion of those in the traditional working age bracket (15-64 years) is anticipated to increase by over 20% by 2047, however will decline in proportion to the total population by about 8% to 60%.[2] With life expectancy expected to increase for males from the current 77 years to around 84 years, and for females from the current 82 years to around 87 years by 2051, this demographic adjustment will place increasing pressure and demand on

[1] Australian Treasury, Intergenerational Report 2007, April 2007, page 16
[2] Ibid, page x-xi

government expenditure, particularly in the areas of pensions, health care and community aged care in the decades to come.[3]

This demographic adjustment will contribute in creating a significant burden on government finances in the coming decades. Assuming the status quo on current policy positions, the IGR anticipates that Australian government expenditure to increase by about 4.75% of GDP by 2046-47, with a projected fiscal gap of approximately 3.5% of GDP to arise.[4] The ageing population will also contribute to a slowing in economic growth, with the IGR expecting real GDP per person projected to slow, with 1.6% average growth over the next 40 years compared with 2.1% in the preceding 40 years.[5]

Policy reform is therefore critical in the areas of aged care, aged pensions and health care to ensure that in the longer term, government expenditure is targeted to those most in need, with those being more financially resilient requiring to become less reliant on government support relative to today's support needs.

Reforms in the retirement income system will therefore play a critical role in this transformation, and in ensuring the long term sustainability of the Australian Government fiscal revenue for services including pensions and health.

ii) Labour Force Participation

A situation currently in motion is where the ratio of those working age to those not of working age is falling – otherwise known as the 'age dependency ratio'. Australia's ageing population is expected to result in total participation rates declining over the proceeding 40 years. The IGR highlights that Australia's total labour force participation rate for people aged 15 and over is projected to decline gradually from 64.5% in 2005-06, to 57.1% by 2046-47.[6] There are presently 5.2 people in the potential workforce for every person aged 65 years or over (that is, an aged dependency ratio of 19%). By 2044–45, this will have declined to under 2.4 people (a ratio of 41%).[7]

Over the period 1973-2001, the Committee for Economic Development of Australia (CEDA) noted in its policy statement "Australia's Ageing Population: Meeting the Challenge", that the male workforce participation declined 16% for those aged 55–59 and 29% for those aged 60–64.[8] Factors CEDA highlighted contributing to this long term decline included a decline in demand for unskilled workers and tradesmen relative to greater demand for skilled workers; earlier than planned retirements by males resulting from structural changes precipitated by microeconomic and particularly industry reform as a means to enhance Australia's economic competitiveness in

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3 Committee for Economic Development of Australia, "Australia's Ageing Population: Meeting the Challenge", CEDA Policy Statement, February 2004, page 2
4 Australian Treasury, Intergenerational Report 2007, April 2007, page xii
5 Ibid, page vii
6 Ibid, page 20
7 Nielson, Leslie, "Superannuation, social security, and retirement income, Research Brief, Department of Parliamentary Services, 17 November 2005, No.7, 2005-06, page 7
8 Committee for Economic Development of Australia, "Australia's Ageing Population: Meeting the Challenge", CEDA Policy Statement, February 2004, page 2

an increasingly intertwined globalised economy; and the inability of males to easily adjust to this restructuring by gaining new skills for future jobs.[9]

The ongoing structural ageing of the Australian workforce will place increasing pressure on the government's future taxation revenue base and ultimately on the sustainability of the government funded age pension and aged cared system.

To reverse this long term trend of decline of labour force growth, and to improve the long term aged-dependency ratio, policy reform needs to be initiated to increase the demand for labour and raise labour force participation for those aged over 55. Policy reform opportunities targeted for those aged over 55 include further encouraging flexible work arrangements; promote increased and ongoing training and development to ensure skills set enhancements and continued relevancy; remove legislative deterrents to extending time in employment; as well as altering the attitudinal mindset concerning older people and their contribution to the workforce.

iii) Adequacy of Retirement Savings

Superannuation is Australia's key mechanism enabling those in retirement to maintain a higher standard of living than presently available through the government aged pension system alone. While there have been considerable policy developments in superannuation and retirement income since the 1980s, the system is still relatively immature, and it will take several decades before the system reaches full maturity.

Research by National Centre for Social and Economic Modelling (NATSEM) revealed that in 2004 around 50% of those aged 50-64 have accumulated little wealth to fund their retirement years. In 2004, around 50% of retirees between 55 and 59 years had under $10,000 per annum in income, with almost 50% of retired couples with a joint income under $20,000 per annum. As high as 40% had no superannuation, while 25% had less than $25,000 in savings. Only 25% of retirees aged 55-59 had in excess of $100,000 in superannuation savings.[10]

The major factor contributing to this level of inadequate superannuation savings predominantly relates to compulsory superannuation not being introduced until 1992. Before the introduction of award superannuation in 1986, only around 39% of those in employment received superannuation contributions. Today, compulsory superannuation covers about 95% of full-time employees and approximately 78% of part time employees.[11]

For the majority of current retirees, or those nearing retirement, superannuation and retirement income policy initiatives over the past couple of decades will be insufficient in making a considerable difference to their retirement incomes. Many retirees departed the employment market prior to compulsory superannuation being implemented or did not have an adequate timeframe to accumulate enough savings to be self-sufficient in their retirement.

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9 Ibid, page 2
10 The Senate, "A decent quality of life. Inquiry into the cost of living pressures on older Australians", Standing Committee on Community Affairs, March 2008, page 17-18
11 Ibid, page 18

The expectation was that the 9% superannuation guarantee rate would be sufficient to provide an income stream of around 40% of final salary on retirement following 40 years in full-time employment.[12] The reality however is that present retirees have not had the ability to contribute for this significant period of time for their retirement.

This is demonstrated by Australian Bureau of Statistics data that revealed that corresponding with the compulsory superannuation guarantee's introduction in 1992, 87% of people aged 25–54 years had superannuation coverage compared to 50% for those aged 55 years and over. When we compare males to females aged 55 years and over, only 41% of women were covered by superannuation compared to 60% of men.[13]

For those currently nearing retirement or plan to retire in the coming decades, they will be confronted with similar challenges, particularly for those in and out of full-time employment market, those predominantly in part-time or casual employment such as women, those entrenched in long term unemployment, and individuals absence from the workforce for extended periods because of such factors as caring responsibilities.

b) Policy reform in the coming decades

The imperative now exists to create a comprehensive and sustainable policy adjustment that specifically facilitates the long term viability of Australia's retirement income system, as well as the broader long term sustainability of Australia's economic, social and political prosperity.

Currently, Australia's retirement income system three pillar model comprise:

i. a means tested age pension deemed a minimum retirement income safety net for the most vulnerable and financed from Commonwealth government revenue;

ii. an employment linked, government mandated Superannuation Guarantee employer contributions with associated tax concessions; and

iii. voluntary superannuation with tax incentives to encourage personal savings.

The World Bank has historically acknowledged in its 1994 report 'Averting the Old Age Crisis'[14] that Australia's three pillars structure offers the best opportunity in fiscally sustaining its future aged pension liabilities in an ageing population environment of increasing life expectancy, of increasing future national savings, in ensuring intergenerational equity, and increased opportunity for greater income potential in an individual's retirement years.

Dynamic policy reforms will be an imperative in shifting the sources of retirement income financing from pillars one (that is, minimise the considerable reliance on intergenerational public

[12] Ibid, page 18-19
[13] Australian Bureau of Statistics, Employment Arrangements, Retirement and Superannuation, Australia, 6361.0 • April to July 2007, Released 7 November 2008, page 19
[14] The World Bank, "Averting the Old Age Crisis. Policies to protect the old and promote growth", Policy Research Report, 1994

funding) to two and three, in the need to increase the overall level of private and national savings, and ultimately an individual's and couple's ability in being financial self-sufficient throughout their retirement years.

The submission paper offers policy reform actions on many of the consultation questions in accordance to what I consider the seven key principles of a sustainable future retirement income model.

The seven key principles central to creating a world class retirement income system are **1.** Broad-based; **2.** Encompassing; **3.** Flexibility & Accessibility; **4.** Simplicity & Efficiency; **5.** Equity; **6.** Financial Security; **7.** Regulatory Stability.

Essentially, reform of Australia's retirement income system will require an evolutionary if not revolutionary shift in Australia's political and public policy consciousness to ensure we create an economic, social, culture and political prosperity and stability for today's and future generations of Australians.

Specifically, the paper promotes the delivery on these seven principles through such policy actions as, for example, the inclusion of all individuals within the system regardless of employment status; the provision of greater incentives (including taxation), and initiating mandatory requirements in promoting and encouraging savings for retirement.

Policy ideas are also offered in further simplifying Australia's retirement income system; and strengthening the regulatory requirements of the system – in effect, the system striving to become a world class model the envy of countries.

2. Key Principles – Framework for Australia's Future Retirement Income System

Since the 1980s, Australia has established a sound foundation for ensuring the long term financial prosperity of most Australians via means of its retirement incomes policy. Over the past three decades, the system has evolved to incrementally solidify the three pillar system of the Age Pension, Compulsory Superannuation, and Voluntary Superannuation.

In light of the changing demographics of an ageing population, and budgetary challenges confronting future Australian governments, it is critical that Australia's public policy reformers build upon the reforms delivered to date to further enhance our retirement income system.

Fundamental to this reform is the objective of enabling Australians to take greater financial ownership for their future retirement income needs, including a strengthened safety net for those most in need.

Australians need to revolutionise their way of thinking on saving for their future, and must take a greater 'cradle to grave' approach, where the first dollar of retirement savings commences on a person's first day of life.

As we move forward into the 21st century, Australia's retirement income policy framework need to encompass interconnected key principles. Some of the policy reforms recommended within this submission paper in fulfilling these principles may be considered politically unpalatable.

However, if we desire a world class, state of the art retirement income system which achieves the aspirations of a politically, economically, socially and culturally prosperous nation, we need to commit to fundamentally deconstructing and overhauling aspects of our system.

Summary of 7 Key Principles for Australia's Future Retirement Income System

Principle 1:

'Broad-based' – Regardless of employment status, ability to work, sex, health, or age, every Australian has the right to an integrated 'cradle to grave' lifetime savings vehicle.

Principle 2:

'Encompassing' – A future retirement income system is embraced by all Australians, and considered a pivotal means in establishing financial security throughout Australians' pre-working, working, and post-working life.

Principle 3:

'Flexibility' & 'Accessibility' – The retirement income system is readily adaptable to Australians' evolving personal and family's financial lifecycle needs.

Principle 4:

'Simplicity' & 'Efficiency'- The complexity of superannuation and retirement incomes legislation and regulation is minimised; ensuring easier consumer understanding; creating increased transparency and cost efficiency.

Principle 5:

'Equity' – Ensure all Australians are treated equally in their ability to contribute to retirement savings regardless such factors as their employment status, sex, health and/or age; and when it comes to taxation concessions, and accessibility to benefits.

Principle 6:

'Financial Security' – Establish a solid and sustainable foundation of increasing national savings and an acceptable retirement income level for all Australians via the three pillars system.

Principle 7:

'Regulatory Stability' – Ensure continued integrity and stability by strengthening the regulation of institutions managing, administering and advising within the retirement income system.

Principle One - Broad-based

Principle 1: 'Broad-based'

Regardless of employment status, ability to work, sex, health, or age, every Australian has the right to an integrated 'cradle to grave' lifetime savings vehicle.

A future Australian retirement income system needs to ensure that it is broad-based, ensuring a universal 'cradle to grave' lifetime retirement savings vehicle for all Australians, regardless of employment status, ability to work, sex, health, or age.

A shift is required away from the concept of superannuation based solely on an individual's employment status to one based on an individual's ability to contribute and save for their retirement, as well as government support to those less able to contribute to their future retirement savings.

While the system presently caters predominantly to those in employment, in recent years measures have been implemented to increasingly cater for such individuals as non-working spouses. Nevertheless, we need to further broaden the policy reform focus to ensure that from day one of year one in one's life, every Australian citizen establishes a lifetime savings plan.

In 2007, Australian Bureau Statistics (ABS) data revealed that for those aged 15 years and over, approximately 66% of people had superannuation accumulation accounts, approximately 29% had no superannuation coverage, and with about 76% of men with superannuation coverage compared to only 66% for women.[15]

ABS data also revealed that 58% of the unemployed had some superannuation coverage with the median superannuation balance being $3,500. This compared to a coverage level of 91% for the employed, with a median total superannuation balance of $25,000. While the mean accumulation phase superannuation balance was $71,000 for people aged 15 years plus, the median superannuation balance was considerably lower at $24,000, revealing a considerable number of individuals with low superannuation balances.[16]

A commitment to this principle ensures that those not in paid employment, such as stay-at-home spouses, children, the unemployed, carers, and the self-employed are able to participate in accumulating retirement savings for their long term financial security, and minimise detrimental factors such as illness or broken work patterns.

The ultimate objective is to have 100% of Australian citizens establish a lifetime retirement savings plan, providing the opportunity in accumulating regularly throughout their pre-working, working, and post-working life in order to achieve financial independence in retirement.

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[15] Australian Bureau of Statistics, Employment Arrangements, Retirement and Superannuation, Australia, 6361.0 • April to July 2007, Released 7 November 2008, page 19
[16] Ibid, page 19-20

In the long term, this principle will firmly establish a savings culture, encourage increased savings potential for all Australians, and alleviate the level of government financial aged pension support required in funding an individual's income in their retirement years.

a) Policy Ideas – P1 – Broad-based

i) *Childhood Phase - Lifetime Retirement Savings Plan*

From day 1 of year 1, we need to plan not only for our children's present daily needs, but also re-adjust our mindset to have greater emphasis in planning for children's future financial needs. The 'Childhood' phase should be seen as the launching pad for commencing the lifetime goal of financial prosperity.

The childhood savings phase is a first instalment in revolutionising the way Australians think about saving for their retirement. This policy reform idea is a government supported stepping-stone in the promotion of a savings culture in the early years of life, for every Australian child to get a head-start for their financial future, particularly in retirement.

The basic concept of the Plan is for the Government to contribute into a superannuation accumulation vehicle a fixed 'undeducted' amount per annum for the first number of years of an Australian citizen child's life - for example, $300 per year for the first 10 years of a person's life. The fixed amount per annum is indexed in line with the Consumer Price Index, and paid on an individual's birthday.

With an estimated total population of children aged between 0 and 10 years at 30 June 2008 of 2,990,950[17], the cost of the initiative based on a $300 annual contribution would be in the vicinity of $1 billion. While on the surface the cost appears significant, however, there will also be positive current and future government revenue generated from this initiative, for example, via increased receipt of taxation revenue on investment earnings of the superannuation funds, as well as cost savings on future outgoings associated with the aged pension.

Other policy reform options for consideration include:

- allow family members to make annual personal non-deductible contributions to a child's lifetime savings plan up to a pre-determined maximum limit (for example, $3,000pa) for each child up to a specified age (for example, age 16);

- allow the 'child' contribution to be a form of co-contribution that enables the government to make a co-contribution payment of 10% of the contribution made into the child's savings plan.

[17] Australian Bureau of Statistics – Population By Age and Sex, Australian States and Territories, June 2008 (3201DO001), Released 15 December 2008, Table 8

Consideration could be given by policy-makers in means-testing the government funded 'childhood' contributions based on the children's parents' income or assets for that financial year. However, this diminishes the idea of universality of the retirement income system and promoting a long term savings culture for all children from day one.

The recommended policy ideas can be partially funded by such offsetting cost actions as the removal or reduction in the baby bonus, and/or an increase in the tax on investment earnings (currently 15%) which will be further discussed in the 'Simplicity & Efficiency' section of the submission.

ii) *Women*

Australians' ability to be financially independent in retirement is presently firmly linked to their lifetime earnings potential. There is evidence that because of women's interrupted and inconsistent work patterns throughout their working life, fewer years in workforce participation, and women's average lifetime earnings being lower than men's, women have lower superannuation account balances and subsequently retirement incomes. The result is women are currently more reliant on the government funded Age Pension in retirement.

Demonstrating the gender wage discrepancy, as at August 2008 full-time ordinary time earnings (FTOTE) for males was $1,220.60, compared to females $1,017.20, a differential of 20%. FTOTE increased by 4.9% for males and 4.4% for females.[18] The main factors contributing to this gender wage differential and resultant lower accumulated retirement savings relative to men are that women are more likely to be in:[19]

- lower paid occupations;
- part time / casual positions because of greater family responsibilities;
- a fragmented career path, resulting in a disadvantaged and stunted career progression as well as being financially disadvantaged; and
- more defensive oriented asset investment classes (such as cash and fixed interest), rather than more aggressive style assets (like property and equities), which over the long run aggressive type assets tends to deliver greater investment performance and supports in building an individual's retirement nest egg.

When we compare the median and mean balances in accumulation accounts for both men and women across all age brackets in 2007, ABS data reveals that males have higher balances on both accounts. Men had a median balance of $23,000 compared to $13,716 for women, and men had a mean balance of $72,220 compared to $47,215 for women.[20] For those who had

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[18] Australian Bureau of Statistics, "Average Weekly Earnings", (6301.0), August 2008, Released 13 November 2008, page 4
[19] Dann, Susan, Drew, Michael, Drew, Jacqueline "Women, Work and Retirement", International Federation on Ageing Conference, Copenhagen, 2006, page 3
[20] Australian Bureau of Statistics, Employment Arrangements, Retirement and Superannuation, Australia, 6361.0 • April to July 2007, Released 7 November 2008, page 80-81

superannuation balances greater than $100,000 in the accumulation phase, only 33.9% comprised women, whereas for superannuation balances in the range $50,000-99,999, only 42.1% comprised women. A greater percentage of women had account balances at the lower account balance ranges up to $25,000 compared to men.[21]

Assuming a continuation of this gender wage differential, and assuming superannuation contributions continue to be linked to employment earnings, these financial inequities will continue to broaden in the long run unless policy reform action is delivered to alleviate these inequities.

The present generation of older women in Australia have lower superannuation coverage relative to males as indicated earlier (66% Vs 76%); have a propensity to retire sooner; have a greater life expectancy relative to males; have greater reliance on the age pension; accumulated less superannuation savings compared to males; and are more likely to have lower financial security resulting from divorce. However, this financial disparity associated with divorce has been partially addressed via legislative reforms of superannuation splitting upon divorce.[22]

To further enhance women's financial security and accumulate superannuation savings for retirement, policy options for government consideration include:

a) Higher Superannuation Guarantee (SG) Level

An evaluation should be undertaken to determine the viability of women receiving a higher SG contribution level, for example, 2% greater than the currently mandated level. That is, rather than receiving the current 9% SG rate, women would receive 2% more, at 11%.

An alternative option for evaluation is in the application of an age-based or salary based tiered approach (refer Principle 6 'Financial Security', 'Employer Funded Contributions' and 'Personal Contributions' pages 52-53), in which women receive a higher SG contribution level, for example, 2% greater than shown for the tiered approach.

b) Stay at home spouses

Families who make a decision for one spouse to remain at home for such reasons as child-rearing should not be disadvantaged from a future retirement savings perspective.

A policy reform consideration is for stay-at-home spouses to receive a SG style contribution. The calculation basis for this option is for the SG contribution to be based on average male

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21 Ibid, page 79
22 Ibid, page 2-3

weekly earnings, or the spouse's partner's salary (where employed). The targeted contribution level could be set (for example, at between 1 to 3%), with the contribution funded by the government, by the employer, or shared equally between the government and employer.

This policy option acknowledges the value of work of spouses in the family household, particularly in the raising of children, and demonstrates a spouse's (and more likely women's) productive contribution in both paid and unpaid roles.

c) Family Friendly Policies

One avenue to improve women's current employment situation and thereby greater retirement savings potential is through workplace 'family-friendly' policy reforms. Policy reform options include: [23]

- supporting women to extend time spent in the workforce;
- make a greater concerted effort in more closely aligning women's earnings to men's earnings;
- enable better access to a career path despite fragmented work patterns;

A further reform option for consideration is that for women on maternity leave, SG contributions should continue to be paid for a specified period of time, enabling women to continue to save while out of the paid workforce.

These policy initiatives will assist in increasing the female workforce participation rate, and support women in accumulating greater levels of superannuation savings than would otherwise be the case.

iii) Home Carers

Carers also deserve greater recognition for the crucial work they undertake. In recent times, this has been recognised by the Rudd Government who is now exploring options in providing a superannuation type contribution to carers. It is acknowledged that carers need to be provided with greater financial support for future retirement income purposes, as well as committing in ensuring carers remain healthy.

Research undertaken by the National Centre for Social and Economic Modelling (NATSEM) shows carers have lower household incomes and retirement savings due to their lower workforce participation rates. The NATSEM report showed that, for example, a 30-year-old woman with two or more children, are looking after their child with a disability, and who achieved only secondary-school education, expects to earn less than $100,000 over her working life. However, another woman with the same family environment with post secondary level education but without caring responsibilities potentially earns four times that amount.[24]

[23] Olsberg, Dr Diana, "Women and Retirement Savings - Ways Forward?, Lessons from overseas initiatives and proposed Australian Strategies, University of New South Wales Research Centre on Ageing & Retirement, page 1

[24] NATSEM, "Carers Rewarded with less wages and poorer health", Issue 31, December 2008, page 2

A policy reform option for consideration includes stay-at-home carers to receive a government funded SG style contribution, either at the current SG rate or an alternative basis, for example, based on average male weekly earnings. For instance, Carers Australia has requested that Government consideration be given in contributing 9% of the minimum wage into superannuation for those on the carer's pension.

iv) The Unemployed

As at December 2008, Australia's unemployment rate stood at 4.5%, with a total of approximately 495,000 classified as being unemployed, and looking for work.[25] This figure is projected to increase as a result of the present financial and economic crisis enveloping our world.

During times of unemployment, individuals' ability to save is reduced considerably. Whilst unemployed, one of their main priorities of individuals and particularly those with families is to ensure they have sufficient finances to feed their families, and to finance their commitments including mortgage and car payments, credit card debts and bills.

A policy option for government contemplation is that for those unemployed for an extended period of time (for example, beyond 12 months) they be provided with a SG style contribution. The government funded SG style contribution could be based on the current SG rate of 9% or an alternative percentage, calculated on the basis of, for example, the Newstart allowance or on average male weekly earnings.

This ensures that those unemployed for a defined extended period are able to receive regular SG styled contributions as a means to continue to fund for their future retirement.

A further policy reform proposal for consideration is in the situation where employees are laid off or made redundant, employers are required to fund an additional, for example, 6-12 months worth of SG contributions. The time period for determining the amount to be paid could be based on the average time period an individual is expected to remain unemployed resulting from redundancy. The average time period could be based, for instance, on a per industry basis or based on a national average as to the time period people who are retrenched remain unemployed.

v) Part-time / Casual Workers

[25] Australian Bureau of Statistics, Labour Force, November 2008, No:6202.0, Released 11 December 2008

Those who work predominantly in part-time and casual positions will over the longer term have lower savings for retirement purposes. Women are the predominant feature of the part-time and casual employment market due to their greater commitment to household responsibilities relative to men.

Consideration should be given in removing the minimum requirement of salary earnings per month or specified age requirements before being entitled to receive SG contributions. These exemptions, in which an employer is not liable to pay the SGC include where an employee receives less than $450 per month in salary/wages; or where the employee is under 18 years and in part time employment; or where a person who is over 70 years of age.

As part of the review, the Federal Government should evaluate providing a higher SG contribution level for part-time and casual workers, for example:

- between the range of 1-2% above the current SG level based on their salary/wages; or
- the current SG rate based on a specified formula, such as the average male weekly earnings, or a fixed minimum gross salary base if the individual's annualised gross salary is below the fixed minimum or average male weekly earnings.

In 2002 the Senate Select Committee on Superannuation recommended the removal of the $450 earnings threshold for superannuation contributions. However, the then Government rejected that recommendation as it considered the costs to business of abolishing the threshold outweighing potential benefits.[26] This option should however be re-evaluated in light of the overarching taxation review currently taking place.

vi) *Self-Employed Workers*

The self employed comprised around 12% of the Australian labour force, and are less likely to have superannuation than employees, and comprise only 8.1% of total superannuation account balances. In 2007 approximately 75.9% of self-employed males have superannuation coverage compared to 68.4% for females. This is much lower when we compare superannuation coverage to salary and wage earners, where 94.3% of males have coverage whereas 93.5% of women have coverage.[27]

Figures released by the Australian Taxation Office (ATO) indicate that less than 25% of the self employed make tax deductible superannuation contributions in a given year. Additionally, ATO figures reveal that a large component of tax deductible contributions are made by only a small proportion of industry groups, namely self employed farmers, real estate agents, financial planners, doctors and dentists.[28]

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[26] Nielson, Leslie, "Superannuation 2008-09", Parliament of Australia, Research Paper, Economics Section, 22 August 2008 No.6, Department of Parliamentary Services, page 117
[27] Australian Bureau of Statistics, Employment Arrangements, Retirement and Superannuation, Australia, 6361.0 • April to July 2007, Released 7 November 2008, page 55-79
[28] Clare, Ross, "The self-employed and saving for retirement", ASFA Research and Resource Centre, June 2008, page 13

Policy options recommended for increasing superannuation coverage for the self-employed across varied industries include:

- an active marketing campaign to the self-employed emphasising the taxation and savings benefits of superannuation in less active 'self-employment' type industries as identified, for instance, as highlighted by ASFA, such as those in construction, retail trade, property and business services, transport, health and personal services;[29]

- increase the coverage of superannuation contributions by having self-employed people included as part of the SG requirement.

[29] Ibid, page 13

vii) *Minimum Life Insurance cover*

In addition to the importance of accumulating sufficient savings for retirement, to ensure protection against any unforseen and unfortunate events, it is important that Australians protect their assets and liabilities. It is generally acknowledged that the majority of Australians have less insurance than required to protect their families and income from such unforseen events.

As the focus to date has been in raising awareness on the importance of accumulating superannuation savings for retirement, there has however been less focus concerning the importance of risk insurance in offering greater financial security. Research conducted by Sweeny Research on behalf of The Australian Institute of Superannuation Trustees (AIST) and Industry Funds Forum (IFF) revealed a considerable discrepancy between perceptions and reality of superannuation members, including a lack of proper knowledge of their insurance.

The report revealed that 50% of respondents who were superannuation fund members were under-insured by $100,000 or more while many overestimated their level of personal insurance. Additionally, while 28% required death cover of $500,000 or more, only 9% actually had this protection level. Similarly for Total and Permanent Disability (TPD), 74% were underinsured by $100,000 or more. In relation to Income Protection (IP) cover, 45% were underinsured by $1,000 or more a month. Research also revealed that 50% of members had considerably less death cover than required and 75% of members had considerably less TPD cover.[30]

The Sweeny research further revealed that approximately 50% of people did not have a sound grasping of insurance terms and obtaining unbiased information. Additionally, around 33% individuals were not aware that their superannuation fund offered insurance. Interestingly, men, higher income earners and families with dependent children appeared to obtain an appropriate insurance cover compared to women and low-income earners.[31]

Opportunities exist for the industry and government to:

- deal with the current insurance gap through such avenues as increased emphasis on government and industry related educational material and advertising;
- create product offerings that better correlate to an individual's life stages and which encourages individuals to re-evaluate their insurance cover;
- make a more concerted effort in ensuring more Australians take out insurance cover, particularly spouses with household responsibilities such as raising children. It is particularly critical that household spouses and their families have an acceptable level of insurance coverage as a protection against unforeseen and unfortunate events;
- consider making mandatory a minimum level of insurance linked to a person's superannuation plan.

[30] Australian Institute of Superannuation Trustees (AIST), "Under-insured and most don't know it: Super fund survey", AIST Media Release, 3 June 2008, page 1
[31] Ibid, page 1

Principle 2 - Embracing

Principle 2: 'Embracing'

A future retirement income system is embraced by all Australians, and considered pivotal in establishing financial security throughout Australians' pre-working, working, and post-working life.

There is general community acceptance of the importance in planning and saving for retirement.

Central in encouraging Australians to embrace the need to build and commit to a secure financial future is through the provision of education and advice. Education and advice will assist Australians understanding the importance of the need in becoming increasingly financially self-sufficient and secure in their retirement years.

Some positive actions have already been initiated on the education front. One such initiative by the Australian Government is the 'Financial Literacy Foundation', which supports people in preparing and managing their financial matters.

The provision of financial advice is also crucial in enabling Australians to make appropriate investment decisions, and by fulfilling their future financial prosperity by establishing short, medium and long term financial goals based on their personal risk profile needs. This is particular important in the case of retirement, where potentially hundreds and thousands, if not millions of dollars of accumulated lifetime savings are at stake. Making the wrong investment choices can have a devastating effect on the financial and personal well-being of individuals and families.

In this day and age, making sound investment decisions is particularly important considering increasing life expectancies. The future challenge is to ensure that accumulated savings lasts until the end of our ever extending lifetime.

a) Policy Ideas – P2 – Embracing

i) Provision of Financial Advice

Considering the complexity of superannuation and retirement income legislation, it is critical that informed decisions be made by investors with the support of quality financial advice.

Policy reform options for consideration include:

- To ensure greater preparation for retirement, government policy reform makers should consider making it mandatory for all Australians to obtain financial advice on retirement planning.

  The issue of and consequences of underinsurance by Australians as highlighted under Principle 1 ((vii) Minimum Insurance Cover"), including consumers not fully comprehending insurance, inadequate insurance cover levels, or inappropriate selling of insurances by advisers can also be alleviated by the mandatory provision of financial advice.

- Every individual be attached to a designated financial life-coach to support and plan for their financial planning over the various stages of their lifecycle. An incentive to drive this behaviour is that paid financial advice be tax deductible.

- Enhance confidence in the quality of financial advice being provided. Greater emphasis is required to ensure financial planners redirect their focus from a commission-related product-push mentality, thereby eliminating intentional churn of clients' investments as a means to generate additional commissions. Therefore, further action is required in continuing to boost the educational and professional standards within the financial planning sector.

ii) Education

It is accepted that not many Australians fully understand their superannuation and the importance of saving for their retirement. Enhancing the financial literacy of Australians through education is critical in increasing their understanding and confidence in investing for their future.

This would be particularly important for certain groups of individuals, who may not have strengths in such areas as in good budgeting and savings management skills, understanding financial language, and determining how much is enough for their retirement

As previously noted, the 'Financial Literacy Foundation' is a positive initiative to enhance Australians' understanding, preparing and managing their financial matters. To broaden Australians' scope and knowledge of retirement planning, policy opportunities for consideration include:

- education programs are established that promote and demystifies the superannuation and retirement income system in schools, universities and workplaces.

- marketing publications distributed to Australian households, and increased awareness and understanding of superannuation and retirement income via national television advertising campaigns and other medium channels.

- establish a government committed information centre, which offers consumers support in relation to such informational and technical matters including regarding superannuation and retirement income, what do consider when selecting a superannuation fund, fees considerations, legislation, their consumer rights, taxation, on retirement income adequacy, and investment considerations.

These initiatives will provide Australians with a greater appreciation and enhanced understanding of their superannuation arrangements and to assist in making better investment and retirement income choices decisions.

Principle 3 - Flexibility & Accessibility

Principle 3: 'Flexibility' & 'Accessibility'

The retirement income system is readily adaptable to Australians' evolving personal and family's financial lifecycle needs.

Australia's superannuation and retirement income system needs to ensure that an individual's lifetime savings vehicle is adaptable to their financial lifecycle needs. Individuals and families have different needs dependent on where in their lifecycle they are at, and the superannuation and retirement income system must reflect these diverse and changing needs.

Our system needs to be reconstructed in such a manner to cater for these transitional phases and financial needs applicable to individual and families needs throughout their lifecycle. Lifecycle 'accessibility' needs include such aspects as funding educational needs such as tertiary expenses, the purchase of your first home, or funding medical needs.

Flexibility should also be in the form of when individuals can contribute into their lifetime savings vehicle. For example, presently there are restrictions when individuals can and cannot invest in superannuation, or when funds can be accessed from the system. Policy reform is required in these areas.

With an increasing ageing population, increasing life expectancy, and impending skills shortages, incentives must also be created to encourage flexibility when it comes to ongoing employment or partial retirement in post retirement age.

Through evolutionary policy reforms, the opportunity exists in creating greater flexibility regarding our superannuation and retirement income system without necessarily jeopardising the 'sole purpose test' objectives, or alternatively adjusting its objectives to create greater flexibility of Australia's retirement income system.

a) Policy Ideas – P3 – Flexibility & Accessibility

Flexibility Options - Working Post Retirement

i) Working post retirement age

The concept of retirement has been traditionally understood as a distinct phase of life that commenced when an individual ceased full-time work and commenced living on a public or private pension. However, this perception has shifted in definition in recent times, where there has been a blurring of the lines between working and not working.

Australians are increasingly rejecting the traditional notion of retirement, preferring partial income earning opportunities in retirement following departure from full-time employment, with increased emphasis on lifestyle and consumption instead of inactivity in retirement.

Statistics reveal that in the 2007-08 year, approximately 27% of men between 65 to 69 years, and 6% of men aged 70 years plus have remained in employment. In relation to women, 11% aged 65 to 69 years and 2% of women aged 70 years plus remain in employment.[32]

ABS figures reveal that the average retirement age for people aged 45 years and over was 52 years (with men aged 58 and women at aged 47). In 2007, of the 1.9 million who retired and had worked in the past 20 years, the main common reasons for retiring was personal health or physical abilities (32%). More men retired due to this factor compared to women (38% Vs 25%). The other main factors that men retired included retrenchment / redundancy (10%) and attaining the eligibility age for an age (or service) pension (8%). Other major factors that women retired included caring responsibilities (15%) and increase personal time with family/retirement of partner (13%).[33]

AXA released results in January 2006 from its '*Retirement, a new life after work'* research initiative. The report identified that 60% of the working population proposed to work in some paid capacity into retirement, compared to around 10% of those already retired held paid jobs. This statistic indicates a cultural shift in the perceptions of retirement, as well as increasing expectations of employment income required in the retirement years.[34]

Evidence suggests many high-income earners prefer post retirement age jobs offering 'fulfilment', 'self-direction' and 'flexibility' into their seventies, and consider working post traditional retirement age as an opportunity to remain engaged and active throughout their retirement years.[35]

However in the case of lower-income earners, a contrary view arises in which retirement is welcomed. Many expect to work beyond the official retirement age for financial than lifestyle reasons, and are expected to be more reliant on a part or full pension, and in comparison to high-income boomers, are less satisfied in having to work post retirement age.[36]

Policy reform suggestions to encourage employment flexibility for those nearing or having reached the currently defined retirement age include the following:

a) Deferred Pension Bonus Scheme

The scheme was introduced in 1998 encouraging and rewarding individuals to remain in the workforce by partially funding their retirement by continuing to work. It offered an accumulative tax exempt tax exempt bonus entitlement of 9.4% of their basic pension entitlement for each full year beyond pension qualifying age.

Melbourne Institute of Applied Economic and Social Research statistics revealed little take up of the scheme, with less than 10% take up in 2004. Possible reasons for the low take up

[32] Australian Treasury, "Australia's Future System. Retirement Income Consultation Paper", December 2008, page 37
[33] Australian Bureau of Statistics, Employment Arrangements, Retirement and Superannuation, Australia, 6361.0 • April to July 2007, Released 7 November 2008, page 13-14
[34] Hamilton, Myra & Hamilton, Clive, "Rich Boomer, Poor Boomer. Retirement prospects for the not-so-lucky generation", The Australia Institute, August 2006, page 2
[35] Ibid, page 23
[36] Ibid, page 23

include the lack of publicity for the scheme, the modest benefit level (approximately 10% of pension income foregone if retirement is postponed for one year, up to 40% of pension income foregone if retirement is delayed for five years), and the complexity of registering and proving eligibility for the period of entitlement.[37]

Policy reforms for government evaluation in encouraging an increased take up of the scheme include:

- boosting the bonus entitlement from 9.4% of their basic pension entitlement for each full year past pension qualifying age to a higher entitlement percentage (for example, 15%).

- increasing the maximum deferral period from the present 5 years to, for example, 10 years.

- greater targeted marketing and advertising promotion of the scheme and its benefits to those nearing or at retirement within the workplace.

b) *Employer Encouragement in Maintaining Experienced Employment*

It is accepted that mature aged employees bring a considerable wealth of knowledge and experience in the workplace. Incentives should be provided to employers in retaining these valued and experienced employees, ensuring ongoing contribution in the workplace as well as increasing their retirement savings potential.

Policy reforms for evaluation include:

- Provide exemption from the calculation of payroll tax for individuals aged 60 years and over;

- Offer greater tax deductibility on SG contributions made to individuals aged 60 years and over;

- Promote greater flexible work arrangements to suit mature age employees;

- Create employment skills development related programs that enable mature age workers to remain within the workforce particularly when retrenchment / redundancy has occurred;

- Formalise mentoring ‘buddy’ programs to transfer the intellectual property of older workers to the younger generation of workers;

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[37] Warren, Diana, “Australia’s Retirement Income System: Historical Development and Effects of Recent Reforms”, Melbourne Institute of Applied Economic and Social Research, Working Paper Series, Working Paper No. 23/08, The University of Melbourne, November 2008, page 23

- Educational initiatives by government to promote what mature aged workers bring to the workforce and overcoming negative attitudes associated with ageing.

ii) Preservation Age

Superannuation reforms implemented in the past decade have encouraged older people to remain longer in the workforce. Legislation introduced in 1999 gradually increased the preservation age from 55, so that by 2025 all individuals will only be able to access their ‘preserved’ superannuation when they reach 60.

As a result of medical technological advances and improvement in health, Australians are now increasingly physically capable of continuing to work beyond age 65. It is important for older Australians to be socially active which may also mean maintaining a presence in the workforce by remaining employed post age 65.

Policy reform consideration should be given in further increasing the preservation age for accessing superannuation for both men and women to age 65, in line with the Aged pension eligibility criteria.

Accessibility Options - Lifecycle Phase Financial Needs

iii) Housing Deposit

Home ownership is still considered a major aspiration of Australians. The Australian retirement income system should have a dual role with respect to saving and investing for retirement as well as saving and investing for other life cycle needs, including saving for your first home.

The Rudd Government has taken a positive first step in the creation of a First Home Saver account designed to help Australians boost their savings for a deposit on their first home. The initiative enables superannuation funds and banks to offer a superannuation style investment account aimed at maximising savings through concessional tax benefits and Government contributions.

To assist individuals in building a deposit base for purchasing their first home, individuals should have the ability to have additional limited access to their savings accumulated in their lifetime savings plan. This option assists in encouraging younger people to enter the property market at an earlier age.

However, the drawbacks in relation to accessing superannuation for the purposes of purchasing a home include:[38]

- people experiencing a reduction in the value of retirement benefits over the long term, as savings withdrawn are denied potential investment earnings on the withdrawn amount;

[38] Australian Treasury, “Allowing access to superannuation for housing. A discussion paper”, May 1997, page 8-15

- increase in government aged pension expenditure overtime, with increased number of people in receipt of an aged pension, whether full or partial;

- potentially lower taxation revenue collected from accumulated superannuation savings;

- reduction in the standard of living during a person's retirement years. However, an alternative perspective is that home ownership will enhance the living standards of individuals and family in both their working life and in retirement as there will be no need to pay rent;

- negative impact on the investment performance of superannuation funds, as superannuation funds may need to hold a greater proportion in liquid assets, or sell assets, resulting in lower investment returns and a further reduction in an individual's potential future private retirement income stream.

Policy reform options for consideration are:

- To minimise the number of varied accounts that an individual has, contributions relating to the first home should be able to be made into their existing superannuation fund, with the administration fund creating an identifiable classification for these types of funds, rather than via a separate First Home Saver Account. .

- Apart from the maximum $75,000 lifetime maximum relating to the First Home Saver account, first home buyers should also be able to access an additional deposit from their superannuation fund, such as the lesser of a pre-determined percentage (for example, 20%) of accumulated savings at the point of purchasing your first home or a predetermined fixed dollar amount (for example, $25,000).

As a present and future government cost saving / revenue offset, consideration should also be given in:

- reducing the first home buyers' grant;

- evaluating the current economic and political viability of implementing a minimal capital gains tax on the sale of the home, for example, at a rate of 5% of the growth on the value of the home.

iv) Education Expenses

Education is critical in enhancing the productivity and competitiveness of Australian industry and the economy in general. Living in an ever-increasing globalised economy, it is critical that education be considered one of the central components in delivering economic, social and cultural prosperity for Australia.

The cost of tertiary related education has risen dramatically over the past couple of decades. To support individuals in paying off their accumulated education debt, individuals should be able to have access to a portion of their lifetime savings plan to draw down their particular debt during their working life.

A policy reform option for consideration is:

- That the lesser of a predetermined percentage (for example, 10%) of accumulated savings or a fixed dollar amount (for example, $20,000) be accessed from an individual's superannuation plan to reduce or eliminate tertiary education expenses.

v) Income streams over Lump Sum payments

Australians have a choice in whether to take the retirement monies they have accumulated over their working life as either a lump sum or as an income stream. While it is important to allow investors the freedom of choice in how to manage their accumulated monies, to ensure that the retirees do not excessively waste away their investment and impact their standard of living, a legislative requirement should be considered which restricts the amount of accumulated monies withdrawn as a lump sum.

Presently, preserved superannuation can generally be taken once a person reaches preservation age, generally from the age of 55 onwards, with funds able to be accessed tax free at age 60, which is considerably earlier than Age Pension age.

There is currently little incentive for a person to commence an income stream instead of a lump sum payment. The risk exists where people 'double dip' – where superannuation funds accumulated over a person's working life is effectively drawn down prior to age pension age, and then allow individuals to access the social security system to fund the remainder of their retirement years.

Greater incentives must be offered to retirees to take out an income stream or alternatively create disincentives for individuals who wish to take out a lump sum. We should not be encouraging individuals to withdraw 100% of their retirement savings as a lump sum and then allow individuals to be rescued via access to the social security and taxation system. Retirees should nevertheless be allowed to access a portion of their retirement savings to pay off debt, especially mortgage debt.

Recently, the former Coalition Government's 'Simpler Super' changes effective 1 July 2007 resulted in superannuation benefits paid as a lump sum from a taxed source for those aged 60 or over became tax free. Below is a summary of the current tax treatment of superannuation benefits for both taxed and un-taxed sources:

Age	**Superannuation lump sum – taxed source***	**Superannuation lump sum – untaxed source***

Aged 60 and above	Tax Free	15% on first **$1m** per superannuation plan. Top marginal rate in excess of this amount
Preservation age to 59	0% up to **$145,000**, 15% on amount in excess of this amount	15% on first **$145,000**, 30% on amounts between this figure and **$1.045m** and top marginal rate on amounts above **$1.045m**
Below preservation age	20%	30% on amounts up to **$1.045m**, top marginal rate thereafter
*Rates for 2007-08 Year		

The 'Simpler Super' change effectively encourages individuals to prefer a lump sum payment over an income stream.

Alternative policy reforms that should be evaluated are:

- establish minimum retirement income investment benchmarks to ensure a significant proportion of accumulated savings is utilised for retirement income purposes, for example, at least 70% of retirement savings to be used to fund a person's retirement income stream. Establishing a minimum benchmark ensures individuals invest a specified minimum level of capital to ensure greater certainty in receiving an income stream at least to their life expectancy. Any amount withdrawn above the minimum benchmark (for example, greater than 30% withdrawn as a lump sum, then a tax (for example, 25%) is applied to the amount withdrawn above this threshold. This will encourage individuals in using a significant proportion of their accumulated lifetime savings to fund their retirement income;

- introduce a lump sum tax on those aged 60 as well as applying a lower dollar threshold for those under age 60 in the situation where a lump sum payment is preferred over an income stream.

An example of a revised tax treatment on 'taxed source' superannuation lump sums follows:

Age	**Superannuation benefits taken as an income stream or lump sum – taxed source**
Aged 60 and above	**0%** up to **$150,000**, **15%** on amount in excess of this amount
Preservation age to 59	**0%** up to **$75,000**, **20%** on amount in excess of this amount
Below preservation age	**25%** up to **$75,000**, **35%** on amount in excess of this amount

vi) Reverse Mortgages

For many Australians, the home is their major asset, and a major life achievement. Because of the considerable commitment of Australians in purchasing a home, when retirement is reached, there is a view that many are asset risk but income poor.

Consequently, there is today an increasing likelihood that individuals may resort to accessing capital equity in their home to support their retirement needs, or as a result of an unforeseen event such as health related factor.

In recent years, there has been an increase use of reverse mortgages by older people, enabling retirees to leverage their home equity and are not required to make loan repayments until such time as the owner sells the home, enters aged care, or dies. As at August 2007, it was estimated that approximately 30,000 reverse mortgages were established worth about $2 billion, with the average reverse mortgage at around $50,000.[39]

Some reasons for the growth in reverse mortgages is to assist older Australians meet cost of living pressures, including health expenses, dental care, local government rates and taxes, credit card debt, house repairs, as well as to fund their lifestyle.

However, a drawback of a reverse mortgage is that because of the impact of compounding interest, the possibility exists in the mortgage eating away or exceeding the value of the home.

To minimum the risk of long term debt and foreclosure being incurred, policy options for consideration include:

- The Federal Government should further evaluate the features of such products and the risks associated with older people taking up this form of asset drawdown, to ensure it does not result in detrimental outcomes for the retiree's home, including the risk of foreclosure.

- While certain lenders do have restrictions on the maximum level of home equity that can be accessed, to ensure that debt is not excessive, regulators need to ensure that these instruments are used wisely, and that all other alternative options have been considered for the consumer.

[39] The Senate, "A decent quality of life. Inquiry into the cost of living pressures on older Australians", Standing Committee on Community Affairs, March 2008, page 15

Principle 4 - Simplicity & Efficiency

Principle 4: 'Simplicity' & 'Efficiency'

The complexity of superannuation and retirement incomes legislation and regulation is minimised; ensuring easier consumer understanding; creating increased transparency and cost efficiency.

One of the unattractiveness of the superannuation system to investors is its perceived complexity of varied taxation regulations, including convoluted taxation concessions, contributions restrictions, and accessibility restrictions on retirement savings. An opportunity exists to further simplify the superannuation and retirement income system, to enable it to be more efficient and create increased incentives to encourage self-provision in one's retirement years.

Presently, Australia taxes superannuation at three points - at the contributions, investments earnings, and payment of benefits points. Many countries tend to tax at the benefits point only. There has been much debate on the most appropriate stage in the transaction cycle in which taxes should be applied.

Support exists for Australia's current three transaction point superannuation and retirement income taxation system to be modified to reflect a system that exempts contributions while taxing fund income and benefits.

One advantage of such an approach is that it disincentivises those who make lump sum withdrawals and benefits those who decide to take out an income stream. This approach transfers the collection of tax into the future when the government expenditure is expected to increase as the ageing population increases.

The imperative also exists for the management and administration of retirement savings funds to be transparent, efficient and cost effective. From an efficiency perspective, the system needs to ensure that it minimises the costs associated with:

- administering investment funds and members accounts;
- administering and modifying systems to cater for ongoing compliance changes in superannuation legislation and regulations.

Over the years, the costs in managing changes to superannuation regulation have been unfriendly to financial organisations and ultimately to the consumer. Government must continue to focus on minimising costs associated with legislative changes, including avoiding excessive charges on contributors' funds, as well as promoting better technology to reduce imposts on employers.

To entice more people into contributing to superannuation, it needs to be more customer friendly, more understandable, more simple. One opportunity for the government to simplify and maintain the integrity of the superannuation system is by avoiding the 'grandfathering' of rules and regulations when legislative changes are made.

In summary, we need to continue to pursue the path of a simpler retirement income system which is easy to understand by both financial organisations and the consumer, and easy to implement by organisations.

a) Policy Ideas - P4 – Simplicity and Efficiency

i) Efficiency through Product Rationalisation

In the past decade, there has been considerable product and system rationalisation resulting from a number of merger and acquisitions within the banking and financial services industry. The benefits associated with such rationalisations include releasing future expenditure in offering more modern and flexible product offerings to investors on go-forward platforms, greater focus on innovative and technological advances, and significant reduction of costs in maintaining outdated platforms.

Many older style and complex endowment and superannuation style products of a by-gone era operate on antiquated computer systems with deficient technology and design features. This is compounded when legislation is consistently changed through the years, which further impacts the capability of the system to function efficiently, and becomes increasingly costly to maintain these systems.

This potentially impacts the end consumer, including:

- an inferior customer service and financial adviser experience with the organisation lacking historical product, administration and IT knowledge on how these products and platforms operate due to loss of intellectual property;

- deficient operational (including manual) practices, which contribute to deficient reporting mechanisms, unit pricing errors resulting in member compensation, increased operational risk, and regulatory penalties with resultant reputational damage;

- greater proportion of business costs associated in maintaining these antiquated products and platforms, rather than expenditure on product development.

The administration of legacy style products is also a challenge to governments, where additional resourcing for supervision and regulation oversight by ASIC and APRA is required. One significant example in this regard is in relation to breaches, particularly unit pricing errors.

Based on a survey of six industry participants, industry estimates of the potential annual total cost savings associated with the introduction of a product rationalisation mechanism is in the vicinity of a conservative $120 million to an optimistic $350 million. The estimated costs savings relate to such activities as a reduction in compliance, risk management, complaint resolution related activities; a reduction in maintenance costs relating to IT systems; less unit pricing errors and projects initiated to compensate members.[40]

The costs and regulatory requirements associated with product and system rationalisation can also be onerous, and greater regulatory flexibility is needed to minimise these costs and ensure a win-win outcome for the consumer, regulator and financial institution.

To encourage and support further product and system rationalisation, government should:

- Develop regulatory requirements and guiding principles associated with product and systems rationalisation (such as successor fund transfers) that ensures greater ease in implementation and minimising costs resulting from rationalisation.

  In determining the key guiding principles test for product rationalisation, one guiding principle would be, for example, the requirement that consumers be no worse off from a pre and post transfer perspective when comparing financial as well as non-financial aspects (such as those specified in 'terms and conditions') over the short and medium term. Importantly, members would need to be compensated where any financial disadvantage arises.

Simplifying Taxation

Following are some policy reform opportunities to streamline the way taxation is applied to Australia's superannuation and retirement income streams.

i) Abolish the Contribution Tax

An opportunity in simplifying as well as alleviating the administrative burdens of superannuation is by removing the 15% contributions tax on employer mandated superannuation guarantee contributions.

The removal of this tax will have a positive effect on generating an increase in national and private savings, creating greater funds accessibility for investment within the economy, and resulting in more funds available over the long term for a person's retirement**.** The abolition of the tax enables greater compound investment earnings growth potential over the investment's life, with ASFA analysis undertaken in 2006 estimated to increase private savings by a minimum $2billion. Comparatively, in their analysis ASFA also estimated that private savings would increase by only $430m if an equivalent personal income tax cut was implemented.[41]

A calculation scenario presented by ASFA determined that for someone on $50,000 per annum, the impact of eliminating the 15% contributions tax would increase retirement savings by approximately $27,500 (in 2006 dollar terms) over a 30 year period. This would deliver an increase in retirement income of almost $1,650 per annum (indexed to CPI). Similarly, for someone on $30,000 per annum, the impact over 30 years would be an increase of $19,000 in

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[40] Australian Treasury, "Product Rationalisation. Issues paper", 2007, page 10
[41] Clare, Ross, "The benefits, revenue cost, and implications for individuals and the economy of abolishing the contributions tax", ASFA, Research Centre, March 2006, page 5

retirement savings (in 2006 dollar terms), amounting to an annual increase in retirement income of almost $1,050 (indexed to CPI).[42]

Additionally, ASFA also suggests that the removal of the contributions tax would reduce the percentage of salary required to attain the retirement savings target of 60% of pre-retirement income by between 2 or 3%. That is, rather than the need to save 15% of wages over 30 years to adequately fund one's retirement of around 60% of pre-retirement income, only between 12% to 13% of savings would be required over a 30 year period.[43]

Abolishing the contribution tax benefits all individuals. In regards to foregone government taxation revenue, the impact should be somewhat offset by increased savings and investment and thereby be subject to a greater tax revenue base on future investment earnings and potentially at the benefits phase, subject to how future governments wish to treat taxation of benefit payments.

ii) Tax on Investment Earnings

The assessable income of a superannuation fund, comprising both contributions received and investment earnings, are taxed at a rate of 15%.

However, tax payable by a superannuation fund on its assessable income can be reduced via imputation credits and other deductions such as those related to property investment. Further, the capital gains tax discount for superannuation funds is one third of the capital gains included in a fund's assessable income.

The current estimated cost of the concessional tax rate applied to superannuation-fund earnings is estimated to be about $18.9 billion in 2008–09.[44] Consideration should be given to actually increasing the tax on investment earnings above the current 15% level, for example, in the vicinity of 16 to 20%.

The rationale for this proposed increase is that funds generally pay considerably less than the 15% tax on earnings. Taxation Statistics suggest that the average superannuation-fund income tax in the 2002-03 year was about 9.9%. In the situation where a superannuation fund holds sufficient dividend-imputation shares, and receives sufficient deductions from income from property investments, their tax rates can potentially be reduced to zero.[45]

While paying zero tax may be considered an ultimate goal, we also need to consider the societal as well as personal benefits associated with paying tax. These include funding infrastructure spending, expenditure on health, education and transportation, supporting those in financial need, as well as assist in funding ongoing concessions, and including partially funding policy reform recommendations considered in this paper.

[42] Ibid, page 19
[43] Ibid, page 20
[44] Nielson, Leslie, "An adequate superannuation based retirement income", Parliament of Australia, Research Brief No 12 2005-06, Economics, Commerce and Industrial Relations Section, 16 March 2006 No.12, Department of Parliamentary Services, page 19
[45] Ibid, page 19

Another policy reform for evaluation concerns taxing investment earnings on pension funds. Presently, generally there is zero tax on investment earnings on funds invested in pension funds. The tax on investment earnings applied to accumulation plans should also be applied to pension plans.

iii) *Surcharge on contributions*

The Superannuation Surcharge was introduced as a mechanism to reduce the taxation benefits of superannuation for high income earners. Effective 20 August 1996, a 15% surcharge was applied to superannuation contributions for those whose annual income (including deductible superannuation contributions) exceeded $85,000. This surcharge kicked in on a phased basis for those on annual incomes in excess of $70,000, and indexed annually.

While the superannuation contributions surcharge ceased to apply on tax deductible contributions made after 30 June 2005, it still applied to:[46]

- those who had surchargeable contributions between 1996–97 and 2004–05 and their superannuation fund has not yet paid the relevant surcharge;
- un-funded defined benefit fund members liable to pay the surcharge between 1996–97 and 2004–05, when they take their benefit; and
- a funded defined benefit scheme that received surchargeable contributions must pay the surcharge if they have not already done so.

To simplify the administration and costs associated with collection, reporting and payment of the surcharge, it should be abolished in its entirety.

Fees and Charges

iv) Abolish fees on contributions and withdrawals

As fund charges exercise a significant impact on adequacy of retirement income, and reduces the investment return potential on retirement savings, contribution and withdrawal fees charged by financial institutions should be legislatively abolished.

As superannuation is a mandatory requirement by Government, Australians effectively do not have a choice about contributing to superannuation, and they should not be penalised for doing so.

[46] Nielson, Leslie, "Superannuation 2008-09", Parliament of Australia, Research Paper, Economics Section, 22 August 2008 No.6, Department of Parliamentary Services, page 4

Contributions

v) The work test

Since 1 July 2007, for those aged above aged 65, restrictions are imposed on making non-deductible contributions to a superannuation fund.

Between the ages of 65 and 75, an individual can only make a contribution to a superannuation fund where:[47]

- aged above 65 and has not reached age 70, an individual is gainfully employed at a minimum on a part time basis in the financial year contributions are made. This applies to both personal and spouse contributions. For those who fail to meet the above work test, mandated employer SG contributions can still be made, payable up to age 70;

- where aged above 70 and has not reached age 75 – an individual is gainfully employed at a minimum on a part time basis in the financial year contributions are made. However, only personal contributions can be made, and no spouse contributions. For those aged 75 and over, only mandated employer contributions can be accepted.

‘Gainfully employed’ in the context of ‘on a part time basis’ requires an individual to work at least 40 hours over a period not exceeding 30 consecutive days in a particular financial year.

In dealing more effectively with the ageing population challenge, with increasing life expectancies, with the age dependency ratio increasing, and to provide greater incentives for those aged over 65 to continue working and contribute to superannuation, a policy reform for examination is for the work test restrictions to be abolished.

[47] Nielson, Leslie, “Superannuation 2008-09”, Parliament of Australia, Research Paper, Economics Section, 22 August 2008 No.6, Department of Parliamentary Services, page 8-9

Principle 5 – Equity

Principle 5: 'Equity'

Where practicable, ensure all Australians are treated equity in their ability to contribute to retirement savings regardless such factors as their employment status, sex, health and/or age; and when it comes to taxation concessions, and accessibility to benefits.

Equity is one of those principles that have been subject to considerable debate across the political, economic, social and cultural spectrums. It is with the best of intentions that policy factors in equity – that there is the best of endeavours to ensure all individuals are treated with fairness when it comes to such considerations including contributions, taxation and accessibility to benefits, regardless of such factors as your sex, age, earning capacity, or employment status.

In the taxation domain for instance, much has been discussed concerning vertical equity (that is, the redistribution of income between the wealthy and poor) and horizontal equity (that is, the same taxation treatment of persons in similar income groups), as well as the inter-generational equity between those in the workforce and those who have retired.[48]

On the subject of within-generation equity, some have argued that the taxing of superannuation such as the SG contravenes horizontal and vertical equity criteria because of the differential tax treatment concerning contributions (that is, employer vs employee; self-employed vs employed; employed vs those not working), or that vertical equity is compromised due to high-income earners receiving greater tax support relative to lower-income earners.[49]

On the debate between women and men, equity issues have also been raised, particularly women are less advantaged due to their low-incomes, interrupted work patterns and longer life expectancies relative to men.

It is critical that greater policy emphasis continue to be placed on those groups within society who currently do not have the same opportunities or benefits (including taxation) in contributing to their future retirement savings relative to others. These groups include, as already mentioned in this paper, low income earners, carers, women, the unemployed, and part time and casual workers.

The policy ideas noted in this paper hopefully alleviates some of the vertical and horizontal taxation inequities and other general inequities for less advantaged groups. A summary of those policy ideas, and which have been highlighted in other sections of this submission follows.

[48] Horne, Jocelyn, "Taxation of Superannuation in Australia: An Assessment of reform Proposals", Submission Senate Select Committee on Superannuation – Superannuation and standards of living in retirement, 2002, page 10

[49] Ibid, page 10

a) Policy Ideas – P5 – Equity

i) Salary Sacrificing

Salary sacrificing is a tax effective strategy which enables individuals to contribute into their superannuation using pre-tax dollars by foregoing a part of their future salary / wages. Salary sacrificing allows individuals to reduce their assessable income, increase their superannuation savings, minimise income tax payable, and increase overall take-home pay. Superannuation contributions via salary sacrifice are taxed at a concessional rate of 15%.

Presently, those on marginal tax rates above 30% are likely to benefit from salary sacrifice. This still leaves a number of individuals who pay less than 30 cents in the dollar in which salary sacrificing is not likely to be beneficial.

A policy option for evaluation is enabling individuals earning a salary / wage less than a pre-determined amount (for example, under $70,000) being able to salary sacrifice up to a pre-determined percentage of their salary/wage (for example, 50%) into superannuation and paying 0% tax on that sacrificed component.

While many younger individuals earning wages / salaries of, for example, under $70,000 may find it difficult to salary sacrifice into superannuation due to other financial commitments such as car and mortgage payments and cost of living expenses, it will assist those who have paid off significant debts such as their mortgages. This would be particularly beneficial to those perhaps aged in their late 40s and over, or two income families, and who wish to accelerate their superannuation savings for retirement purposes once their home has been paid off.

ii) Previously noted policy reform options

Many of the policy reform proposals suggested in this submission will assist in alleviating some of the equity issues that currently exist within the superannuation and retirement income system.

Briefly, the policy reforms previously highlighted included:

- **Women -** greater workplace ‘family-friendly’ policy reforms.
- **Carers -** stay-at-home carers to receive a government funded SG style contribution.
- ***Unemployed -*** those unemployed for an extended period of time (for example, beyond 12 months) to be provided with a SG style contribution.
- ***Part-time / Casual Workers -*** remove the minimum requirement of salary earnings per month before being entitled to receive SG contributions. Further, the Federal Government should evaluate providing a higher SG contribution level to part-time and casual workers.

- ***Working post retirement age -*** encourage employment flexibility for those nearing or having reached the currently defined retirement age; provide exemption from the calculation of payroll tax for individuals aged 60 years and over; offer greater tax deductibility on SG contributions made to individuals aged 60 years and over; and promote greater flexible work arrangements to suit mature age employees.

- ***Contribution Tax –*** by abolishing the tax, it will have a positive effect on generating an increase in national and private savings, creating greater funds accessibility for investment within the economy, and resulting in more funds available in a person's retirement**.**

- **The work test -** for those aged above aged 65, remove the restrictions currently imposed on making non-deductible contributions to a superannuation fund which took effect from 1 July 2007. This will help in dealing more effectively with the ageing population challenge, with increasing life expectancies, and the age dependency ratio increasing, the work test restrictions need to be abolished.

Principle 6 – Financial Security

Principle 6: 'Financial Security'

Establish a solid and sustainable foundation of increasing national savings and an acceptable retirement income level for all Australians via the three pillars system.

Australia's retirement income system needs to strengthen its foundation of increasing the national savings for all Australians. It is of fundamental importance that the three pillars system operates effectively in tandem with one another to produce an adequate and community accepted financial secure level of income in retirement. This will ensure a more secure and a more prosperous nation economically, socially and culturally.

Positive steps have been taken in recent years to increase Australians' ability to enhance their retirement savings. Such positive steps have included the introduction and extension of the co-contributions scheme, the partial abolition of the superannuation surcharge, and the introduction of choice of fund for many Australians.

The accumulation of superannuation balances depends on a person's capacity to save. For those who have been unable to accumulate sufficient savings in becoming financially independent, it is an imperative that where an individual is solely dependent on the Aged Pension, that a revised government guaranteed means tested minimum level of retirement income is revisited and established.

The superannuation guarantee system has only been in existence since 1992, with the SG rate of 9% only taking effect from 1 July 2002. Many now turning 60 have only had about 17 years to seriously accumulate superannuation savings. The SG system will not deliver its full benefits until 2037 at best, so at present an adequate retirement income based on an individual's own resources is unrealistic from a system still considered relatively immature.

The reality is that many of the baby boomers will continue to remain highly dependent on the government pension. Based on Treasury estimates in 2004, approximately 54% of people of age pension age received the full pension, 28% the part pension, and only 18% no pension. However, by 2050, it is estimated that approximately 35% of people of age pension age will receive the full pension, 40% the part pension, and only 25% no pension. Therefore, 75% of retirees will still draw some level of age pension, a drop of around 7% compared to 2004 figures, even when by 2050 all employees who had retired would have received the current 9% SG contributions over their working life.[50]

Options considered in improving the adequacy levels for retirement income have included improving savings incentives by taxing only at the benefit stage, via co-contribution style matching saving programs targeted at low income groups; introducing compulsory employee contributions; and increasing the SG level.

[50] Australian Government, "A more flexible and adaptable retirement income system", 2004, page 2 (http://demographics.treasury.gov.au)

It is generally accepted that no single contribution rate will provide a satisfactory level of retirement savings for everyone. Multiple variables will influence the level of retirement savings individuals will be required to save. For example, certain individuals may be satisfied with a retirement income of 80% of their recent working after tax income, while others may be satisfied with a considerably lower level.

Some individuals may choose to retire earlier than retirement age, others live longer than their life expectancy, certain individuals may wish to remain active by pursuing partial employment post retirement age, and investment returns are likely to determine the level of retirement savings and ultimately retirement income to be received.

Nevertheless, consensus will need to be reached as to what an acceptable replacement income rate benchmark needs to be. The following provides some policy ideas on approaches in determining an adequate level of retirement income as well as options in increasing the level of retirement savings not previously mentioned in this submission.

a) Policy Ideas – P6 – Financial Security

i) Determining an 'Adequate' Level of Income for Retirement

This question of adequacy has been one of considerable debate by governments and participants within the superannuation industry. The concept of adequacy can be considered subjective, and dependent on a multitude of factors such as an individual's or couple's financial needs, lifestyle expectations, life expectancy, and investment risk tolerance.

It is an imperative that at the time of retirement, an individual will have an income level which will enable them to have an adequate and publicly acceptable standard of living. However, the question arises as to what is an adequate and publicly acceptable standard of living?

Two definitional approaches in determining an adequate retirement income are the 'Replacement rate' and 'Budgetary standard'.

Replacement Rate

The 'Replacement rate' approach expresses an individual's post-retirement income as a percentage of a person's pre-retirement income, and which directly correlates to a retiree's standard of living to their pre-retirement income.

Currently, the Age Pension is set at 25% of male total gross average weekly earnings or indexed in line with the Consumer Price index (whichever is greater), and intended as a minimum floor for income replacement. However, there is no real rationale that has set the Age Pension at this 25% level.

It is generally accepted that a replacement rate under 100% is appropriate since retirees are not generally confronted with the major expenses experienced in earlier years, such as mortgage repayments, education expenses, child care fees and work-related costs.

In 2002, the Senate Committee on Superannuation noted that there was a strong consensus amongst superannuation industry representatives that an adequate replacement rate retirement income was between 60-65% of pre-retirement gross income.[51]

Budgetary Standard

This approach measures the adequacy of a person's post-retirement income based on the retiree's real costs of living, and factors the different lifestyles to which a retiree may aspire to achieve a particular standard of living.

The 'budget standards' approach requires creating extensive personalised household budgets that detail specific household items required to obtain a particular standard of living. Consequently, subjective assessments influence this approach outcome. Additionally, the budgetary standard would need to be updated to reflect changes in consumption patterns as well as adjustments in living standards perceptions.

Items included in determining an appropriate benchmark for this approach includes food, clothing, specific household goods, health, transport needs including any vehicle maintenance costs, leisure, personal care, rent, home maintenance costs, private health and risk insurance needs, and domestic and overseas travel. The exercise would be undertaken for various scenarios, including a couple and single home-owner, a couple and single non-home-owner.

In the 1970s, Professor Ronald Henderson developed a basic living standard measure known as the Henderson Poverty Line. The measure attempted to establish how much a person required to cover vital living costs and to live with 'dignity'. In September 2005, the calculation for a single person over age 65 was $13,698 a year (or 26% of full-time AWOTE) and $19,457 a year for a couple (or 37% of AWOTE).[52] In comparison, the current Age Pension for a single person is set at 25% of AWOTE and 42% for a couple.

A policy approach for evaluation in determining an adequate and community accepted post retirement income level, is to take a bottom-up approach which determines a basket of goods and services (including both essential and luxury items) across the Australian community. This calculation should be based on various scenarios – for example, a single homeowner, a couple homeowners, a single non-homeowner, and a couple non-homeowners. This standard would be the minimum community accepted retirement income standard for each determined category of individual / couple.

Additionally, other potential standard of living scenarios should be established for comparative purposes. This would include the 'minimum' community accepted retirement income standard, a 'moderate' retirement income level standard as well as an 'affluent' retirement income level standard. Having different income standards would enable individuals and couples to aspire to above these minimum community accepted retirement income standards. Again, community

[51] Nielson, Leslie, "An adequate superannuation based retirement income", Parliament of Australia, Research Brief No 12 2005-06, Economics, Commerce and Industrial Relations Section, 16 March 2006 No.12, Department of Parliamentary Services, page 9
[52] Watson Wyatt, "The Superannuation Guarantee – Is It Enough", December 2006 (www.watsonwyatt.com.au), page 2

accepted definitions for ‘minimum’, ‘modest’ and ‘affluent’ would need to be agreed in establishing these income levels in retirement.

ii) Employer Funded Contributions

It is widely considered that the current Superannuation Guarantee (SG) level of 9% is insufficient to fund a level of income for retirement purposes.

There are a variety of options that can be considered in partially funding an individual’s retirement by means of employer funded contributions.

- **Increase the SG rate:** One much discussed option is to raise the level of SG contribution rate of 9% currently being applied. Government and industry debate has centred on what an appropriate increase in the SG rate should be. Recommendations have been in the vicinity of 10% to 15%.

- **SG rate based on age:** A second approach for SG reform is a movement away from the current flat SG level. To ensure a retirement savings kick-start early in one’s career, SG level contribution levels could be based on tiered age approach, rather than a flat SG rate being applied to all regardless of age. An example of an age based tiered approach is:

Age Range	Superannuation Guarantee Level
Up to 30	15%
30 to 40	12%
40 to 50	9%
50+	6%

  By having a higher SG rate early on in an individual’s employment cycle, there is a greater potential for long term exponential investment earnings growth and greater savings accumulated once retirement is reached.

- **SG rate based on salary:** A third approach is to have the SG level based on an individual’s salary. An example of a salary based tiered approach is:

Salary Range	Superannuation Guarantee Level
$0-$50,000	15%
$50,000 - $100,000	12%

$100,000 - $150,000	9%
$150,000 +	6%

This approach ensures that those on lower incomes have a greater opportunity in funding an adequate retirement income as those on higher incomes. However, a drawback of this approach is for those hovering close to the salary range tier, where someone on, say $49,000, could be better off remaining at this salary level rather than receiving a salary increase above $50,000. An individual's overall net income position could therefore be more advantageous at the upper range of the lower salary tier.

Regardless of the approach taken, concerns raised in increasing the SG contribution rate is that, regardless of the approach taken, it has the potential to reduce business profits as well as potentially causing a drop in employment as a result of higher labour costs.

Nevertheless, options to minimise or offset business costs by employers funding a higher SG level include a reduction in other business related taxes, such as the company tax rate and payroll tax. These options could be considered as part of the broader tax reform agenda.

iii) *Personal Contributions*

It is generally accepted that individuals do not save well early on in their working life to fund their retirement. This is particularly the case as a key investment focus for a considerable period of a person's working life is in purchasing and paying off their home.

Policy reform needs to consider mandating personal contributions. Similar to the SG, options available for consideration for personal contributions include the following.

- **Mandated Personal Contributions:** The first option is to implement a flat mandated personal contribution percentage level, for example, within the range of 1-3%.

- **Soft Compulsion:** There has been recent discussion on introducing a form of 'soft compulsion'. Soft compulsion can taken varied approaches, such as employers automatically deducting a percentage (for example, between 1-3%) of employees' salary and invested together with their SG contributions into their superannuation plan unless otherwise specified by the employee; individuals being proactive in contributing personal contributions into their superannuation fund; or individuals setting aside a percentage of any wage increases (for example, 50%) into their superannuation fund.

- **Personal Contributions based on Age:** A third approach is to mandate a contribution level based on tiered age approach. An example of an age based tiered approach is:

Age Range	Superannuation Guarantee

	Level
Up to 30	1%
30 to 40	2%
40 to 50	3%
50+	4%

This approach ensures that while the early years in one's employment is predominantly focused on accumulating savings for purchasing a home, this approach allows an individual to have a multi-dimensional approach to investing.

- **Personal Contributions based on Salary:** A fourth option is to have mandated personal contributions based on an individual's salary. An example of a salary based tiered approach is:

Salary Range	Superannuation Guarantee Level
$0-$50,000	1%
$50,000 - $100,000	2%
$100,000 - $150,000	3%
$150,000 +	4%

While employer SG contributions will assist in producing a certain level of income at retirement, contributing personal contributions is essential in ensuring individuals achieve a higher quality standard of living.

At present, the most politically palatable option appears to be the 'soft compulsion' option. As a minimum, it is critical that the government implements policy measures that actually increase the overall superannuation contribution levels of Australians, whether by, for instance, increasing the SG rate, by mandating, the 'soft compulsion' of personal contributions, or a combination of some or all.

iv) *Co-Contributions Scheme*

Since 1 July 2004, a co-contribution was introduced in an attempt to encourage low income earners to contribution to superannuation. The government provided $1.50 for each $1.00 of personal contributions up to a maximum of $1,500.

To receive the full benefit of the matching government contribution, in the 2008–09 year, an employee would need to have earned a total annual income of under $30,342. The maximum eligible personal contribution that an employee could make to receive the full government matching contribution benefit of $1,500 is $1,000. Additionally, the Better Super reforms of 1 July 2007 extended the superannuation co-contribution to the self-employed, allowing them to claim a 100% deduction for contributions.

Between $30,342 - $60,342, the maximum government co-contribution amount reduced by five cents for each dollar above $30,342. Above $60,342, there would be no government co-contribution entitlement. These dollar thresholds are indexed annually in line with full-time adult average weekly ordinary time earnings.

In the 2005-06 year, approximately 62% of government co-contributions were paid to women, with a median government co-contribution of $872 for women and $648 for men. For men and women aged 65-71, they experienced the greatest median government co-contribution, of $1,010 and $1,169 respectively.[53]

To further increase the level of retirement savings for lower income earners, policy options for consideration include:

- increase the current total annual income level ($30,342 for the current year) which enables more individuals to receive the full government matching contribution benefit;
- increase the matching government level from $1.50 to for example, between $1.75-$2.00 for each $1.00 of personal contributions up to a maximum of $2,000.

v) Age Pension Age and income levels

As previously noted, the current Age Pension for a single person is set at 25% of AWOTE and 42% for a couple. For the next couple of decades until such time as the retirement income system matures, government evaluation should be undertaken in setting a higher percentage of AWOTE for the Age Pension for both individuals and couples.

However, looking forward the Government should also evaluate whether these percentages should be reduced overtime as the retirement income system reaches maturity. This would also entail evaluating the impact of reducing the assets test and income tests (means test) thresholds.

Income and assets tests aim to target pension payments to those most in need, making sure of the long term affordability of the pension system. The means test also ensures that individuals and couples maximise use of their personal financial resources in the first instance prior to seeking government support.

By lowering the assets and income tests thresholds overtime, it should over a long term period incentivise people to save for their retirement.

Another policy consideration for appraisal is in increasing the current age pension eligibility in the age range 66 to 70 years, implemented over an extended period of time. This would provide certain advantages including alleviating the long term pressures on the aged pension system, improve the age dependency ratios, and allow a longer time to accumulate greater savings once retirement.

[53] Rothman, Dr George & Tellis, David, “Projecting the distributions of superannuation flows and assets”, Australian Government Treasury, 4 July 2008, page 12

Principle 7 - Regulatory Stability

Principle 7: 'Regulatory Stability'

Ensure continued integrity and stability by strengthening the regulation of institutions managing, administering and advising within the retirement income system.

Further strengthening the regulation of financial institutions managing and administering superannuation type savings is critical in ensuring the long term sustainability of the retirement income system. It ensures consumers are able to invest and maximise their retirement savings with confidence in a safe and secure environment.

Regulatory strengthening particularly in such areas as the provision of financial advice, product disclosure, fund governance, trustee responsibilities, and risk management should be considered as part of the review of Australia's retirement income system. Importantly, while regulation is fundamental in maintaining confidence, it is crucial that it does not increase bureaucratic red tape.

There is a concern that legislation and regulations governing the superannuation and retirement income system have become too complex, onerous, and ambiguous. With regular legislative changes seen over the past couple of decades, superannuation and retirement income has been difficult to master or at least fully appreciate by such groups as financial advisers, organisations and ultimately consumers.

It is critical that a strong and secure regulatory environment exists that enables consumers to have sufficient information for sound decision-making, are treated with fairness, and have acceptable remedy options. Without a satisfactory level of consumer confidence in the financial system, the risk exists that consumers may desire not to contribute in the system, resulting in a decline in level of savings within that system and increased dependence on government for their future financial needs.

With the changing demographics of an ageing population, and with expectant increased pressure on future government fiscal finances, an incoherent and weak regulatory environment is not an outcome that is desired by both consumers, the industry in general, and government in the long term.

a) Policy Ideas – P7 – Regulatory Stability

i) Recommendations forming part of the Parliamentary Joint Committee on Corporations and Financial Services "The structure and operation of the superannuation industry" (August 2007)

The government should provide a progress update on recommendations formulated as part of the Parliamentary Joint Committee on Corporations and Financial Services "The structure and operation of the superannuation industry".

ii) Review of legislation and regulations

It is recommended that the government pursue an all encompassing review of the SIS legislation and regulations, and other legislative acts linked to the system such as the Tax Act governing superannuation to further identify how they may be rationalised, simplified, made less unambiguous, and easy to understand.

3. Concluding Statement

There is a great opportunity for the current Australian Government to deliver the long term viability of Australia's retirement income system, and broader long term sustainability of Australia's economic, social and political prosperity.

Australia already has developed a firm foundation via its three pillars structure. However, the opportunity now presents itself to produce policy reforms in shifting the sources of retirement income financing from pillars one to two and three, in the need to further increase the overall level of private and national savings, and ultimately an individual's and couple's financial independence in retirement.

The submission paper offered policy reform ideas on many of the consultation questions in accordance to what I considered the seven key principles of a successful and sustainable future retirement income model, and the policy actions to deliver on these principles.

Specifically, the paper promoted the delivery of these seven principles through such policy actions as the inclusion of all individuals within the system regardless of employment status; the provision of greater incentives (including taxation), and initiating mandatory requirements in promoting and encouraging savings for retirement. Policy ideas are also offered in further simplifying Australia's retirement income system; and strengthening the regulatory requirements of the system.

In the current climate of international and domestic financial and economic volatility, there may be hesitancy in initiating and implementing long term and potentially groundbreaking policy reforms for the long term prosperity of Australia. The world will come through this crisis, and the crisis such as the one we are in the mist of, presents itself with great opportunities and in being more creative in public policy making.

I end by stating *only by reaching for the stars can we truly contemplate achieving something remotely close to our aspirations.* I wish you all the best in delivering outcomes for the ongoing prosperity of Australia.

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