CORPORATE SUPER ASSOCIATION

February 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

By e-mail to AFTSretirement@treasury.gov.au

Submission: Australia's Future Tax System: Retirement income consultation paper

Dear Sir/Madam

I refer to the Consultation Paper ("the Paper"), *Australia's Future Tax System: Retirement income Consultation paper*, issued by Treasury in December 2008. The Corporate Superannuation Association welcomes the opportunity to provide comments.

1 Background: the Corporate Superannuation Association

Established in 1997, the Association is the representative body of large corporate superannuation funds and their employer-sponsors. The Association represents a total of 39 funds controlling 50% of the corporate fund sector's total assets. A significant proportion of the funds represented have defined benefit plans. The funds are most of the largest funds in the corporate fund sector. In general, the funds are sponsored by corporate employer sponsors with membership restricted to employees from the same holding company group, but we also include in our membership a few multi-employer funds with similar employer involvement and focus to our stand alone member funds.

The Association provides the following comments in relation to the Paper and the proposals.

2 Comments on the proposals in the Paper

2.1 General comment

The Association recognises the need for a review of the retirement income system to be included in the review of Australia's tax and transfer systems. Our members are, however, keen that stability should be maintained in the tax concessions and structures applying to superannuation entities and to individuals. In particular, any change to the undertakings in relation to the exemption of income supporting current pensions in superannuation funds, and to the tax free status of post age 60 retirement benefits, would have a serious effect on confidence in the retirement income system.

Specific issues

Our comments on the proposals in the Paper generally relate to matters with significant potential impact for employer-sponsors and funds.

Section 2 Policy and coverage issues

Overseas savings

In the context of the breadth and adequacy of the retirement system, the Paper discusses the importing of superannuation savings from overseas (pages 16-17). This affects expatriate Australians returning with their savings to Australia to retire, and immigrants bringing in their super savings. Lump sum transfers are affected by complex rules, and in many cases a high rate of tax applies to the transfers (concessions apply in restricted circumstances to low threshold amounts). Foreign pension income is included in taxable income, unlike Australian pension income derived from a taxed fund. As a consequence, retirees who have worked overseas face significantly higher tax bills. Corporate sponsoring employers with overseas related companies would welcome simplification of the rules applying to lump sum transfers, and some concessions in the taxation of foreign pensions for those employees who have had long-term overseas assignments.

Retirement age

The Association would agree that there are arguments for raising Age Pension age and for aligning tax exemption for occupational pensions with the Age Pension age. However, we have concerns about manual workers whose health may not permit continued involvement in the work force beyond 55-60. Our preference would be for increased incentives to continue in the work force beyond age 65.

We support continued access to occupational pensions after age 55 to assist part-time transition to retirement arrangements. We see benefit in retaining experience in the workforce and in reducing the pressure on both retirement savings and on demand for Social Security assistance through facilitating part-time work arrangements for this group.

Section 3 SG and access to concessions

Question 3.1 Do the settings of the retirement income system, such as the level of SG and access to concessions, adequately consider the needs and preferences of individuals both before and after retirement?

SG support level

The question whether the current SG percentage is appropriate is closely linked to the question of adequacy. Projections are provided in Section 2 of replacement income levels in retirement under a mature SG system. The replacement rates are arguably not unreasonable under the 9% system, and that the real coverage problems arise with the people who are not participating for full working life. These problems will not be solved by raising the rate across the board. As suggested in the Paper, it would be helpful to adopt specific policies in relation to these people including encouraging greater workforce participation and use of safety nets.

Our employers do not currently wish at this stage to see an increase in the required minimum level of SG support. There are arguments that the additional support can be funded from the gradual increases in employees' packages that would have occurred in the normal wage negotiation process. However, the additional support would generally be seen as somewhere between an extra employment cost and an enforced savings requirement for the employee, and would lead to additional wage pressure.

In any case, it appears, as outlined in the paragraph above, the arguments for an increase are not compelling in relation to workers who maintain a steady engagement with the work force.

SG coverage

There is discussion about removal of various exemptions such as that for workers earnings under $450 per month, and part-time workers aged under 18. We have sought information from our membership as to whether additional complexity arises from the potential inclusion or current exemption of these groups. In general, our membership superannuates these groups, both to promote equity and to simplify systems. However, we are aware that employers in the retail and hospitality areas do take advantage of the exemptions for those receiving a wage under $450 per month and for part time workers under 18. These employers would incur significant additional costs both as a result of the provision of superannuation support to these casual employees and also as a result of potential alterations to systems. The effectiveness of promoting the savings of these groups needs to be balanced against the additional cost to the employers and the high level of wastage through lost accounts.

Whilst we accept that, as noted above, there are some employees whose work is temporary and/or casual who are not interested in superannuation, we are nevertheless concerned about the situation of those who are working several casual jobs simultaneously and who miss out on superannuation support as a result of the $450 per month *de minimis* rule applying to each separate employment. We would welcome a solution for this group. We would like to explore whether it is possible to monitor the aggregate earnings and support situation of employees via the TFN and contribution reporting systems and to consider a non-penal levy on the employer(s) of such persons.

We understand that those on maternity leave are now considered by the ATO to be entitled to SG coverage (according to the recently issued draft ruling SGR 2008/D2 on “Ordinary time earnings”). The draft ruling also considers the situation of those on Workcover and provides the view that those in continuing employment who are receiving Workcover compensation for temporary absence should continue to be supported by SG minimum payments. We support the provision of superannuation for these groups (whether or not the technical arguments put forward by the ATO in the draft ruling for including these elements of pay in “OTE” are well-founded).

Question 3.2 Is the current level of superannuation income tax concessions appropriate and sustainable into the future? Are the current concessions properly targeted and, if not, how should they be reformed?

Equity and access to concessions

The following issues of equity have been identified:

Pensioners:

- Exemption of superannuation pensions from a taxed source means that superannuation pensioners with income from a taxed fund are treated differently from pensioners with pensions from untaxed funds. Other income of members of taxed funds is taxed at lower marginal rates than that of members of untaxed funds where the pension is included in taxable income (despite the availability of a rebate for the latter).
- Self-funded retirees who are living on investment income other than superannuation pensions are most inequitably treated, with no concessions on their investment income (and restricted access to Age Pension and related concessions).

Tax concessions for savings:

It is an almost inescapable outcome of a tax system with progressive rates that tax concessions are more valuable for individuals on higher incomes, who also have greater savings capacity.

However, given the need for greater incentives for lower to middle income earners, the co-contribution system provides very substantial concessions, and goes a considerable way to assisting savings in this group.

Section 4 Robust retirement system

The Paper comments on the moving of risk to individuals as the result of the prevalence of accumulation account interests, and the compensating effect of the Age Pension as safety net. We note that the safety net arrangement appears viable at this stage, but that the effectiveness of the safety net could be compromised in the future when the population dependency ratio is forecast to increase. This situation will be exacerbated in times of severe economic downturn. We suggest that a gradual move to a funded Government age pension system may need to be considered.

In privately funded schemes, some compulsion to take at least part of benefits as an income stream seems desirable and the Chilean and UK models appear useful. With the increase in adequacy there is more scope for taking pensions - the situation of a lump sum too small to convert into a practically useful pension is less widespread.

Section 5 Simpler retirement income system

Public education and communication

Given previous decisions to require the public to assume the investment risk for their savings, an intrinsic outcome of building a system based on SG accumulation style savings, continued focus is required on financial education for the public. Focus is also required on fund integrity and good communication by funds. The Association welcomes recent indication that funds should be empowered to provide this good communication without undue regulatory hindrance. The Association maintains that this power is particularly appropriate for funds that can advise their members on simple matters without any conflict of interest arising from fees and commissions payable to related parties. The Association also maintains that investment and insurance choices provided to members should not be overly complex.

<u>Simplification of the retirement savings and transfer systems</u>

Combining the social security and tax system for over 65s should be supported, and a move to align access to Age Pension with access to occupational super would be consistent with this approach.

We understand that there are technical difficulties in relation to full participation in the social security and occupational superannuation systems for persons of Aboriginal and Torres Strait Islander origin. Many of these difficulties arise from the absence of birth registration for these groups, leading to difficulties in proof of identity. For occupational superannuation, this gives rise in the first place to tax penalties in relation to superannuation contributions, followed by further identity proof difficulties on withdrawal of benefits. In the social security arena we understand that further difficulties arise. Whilst we realise that the registration of births of indigenous inhabitants of this country is beyond the scope of the Henry Review, this issue does affect access to the age pension and occupational superannuation systems and gives rise to questions of equity and inclusivity.

Again, whilst recognising the limits of the current review, we would greatly welcome a review that integrates not only retirement income policy and access to Age Pension, but more generally includes consideration of the following:

- health provision to elderly Australians; and
- the interaction of home ownership with the retirement income system.

The latter could encompass the issue of affordability of housing during the middle years (including the interaction of the home savings and retirement income systems) as well as the role of the home in subsidising retirement.

Summary and conclusion

Please contact my office on +61 3 9620 5155 or by e-mail to corsuper@netspace.net.au if you would like to discuss the above.

Yours sincerely

Corporate Superannuation Association