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Tax Forum
Treasury
Langton Crescent
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**RE: Statements of Reform Priorities**

**Participant name and position**
Fiona Reynolds, CEO, Australian Institute of Superannuation Trustees

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

**Statement of Priorities**

**1. What are your priority reform directions for the tax and transfer system**

**Increase of SG rate to 12%**
AIST strongly supports Australia's current multi-pillar retirement income system which is based on shared responsibility between individual and Government. However, we believe the system does need reform, most pressingly on issues concerning the adequacy of retirement savings of Australian workers and the ability of future governments to meet the costs of our ageing population.

AIST has long-argued that the current Superannuation Guarantee Rate (SG) of 9% will not deliver sufficient retirement income for most Australians to retire with dignity. For this reason, we strongly support the Government's proposal to raise the Superannuation Guarantee (SG) rate from 9% to 12% between 2013 and 2019. We also support the introduction of the low-income super rebate recognising that this is an important equity measure in regards to the taxation of superannuation. Raising the SG will benefit all Australians but is particularly critical for low income and part-time workers, including many women whose super balances fall well short of their male counterparts.

An extra 3% SG over a working lifetime will allow millions more Australians to enjoy their retirement, rather than simply 'get by'. The Government estimates that the average 30 year old earning average full-time wages will have an additional $108,000 in retirement savings.[1] Further, the attached paper by The Australian Centre of Financial Studies shows the rise of 12% will significantly lift the retirement income replacement rate across a number of different scenarios.

The SG increase will also help alleviate longevity risk associated with insufficient superannuation savings and the pressure likely to be imposed on the Age Pension through our rapidly ageing population. The number of Australians aged over age 65 is projected to grow from 3 million to 8.1 million by 2050. Over the next 40 years, the ratio of working age Australians to those aged over 65 – currently five workers to every one person aged over 65 - will halve. Superannuation also plays a valuable role in building national savings and providing capital for much-needed infrastructure investment. It is now well-documented that the $1.3 trillion super savings pool helped Australian avoid the worse of the GFC as cashed-up super funds met demands for capital from many of our companies.

Importantly, the gradual timetable for the implementation of the SG increases – involving a seven year period of small incremental rises until workers receive the full 12% SG in 2019/2020 - will give businesses plenty of time to adjust. The first 0.25 per cent rise – which isn't scheduled to take effect until 2013 - is equivalent to less than $3 a week.

It is therefore hard to argue that such a rise will be a huge impost on either wage costs or take-home pay, particularly when real wages are forecast to increase by more than six per cent by 2013-14. The Henry review considered whether to increase the SG rate to 12%, however the report stated that 9% was sufficient only if the package was accepted in its entirety. Moreover, our modeling indicates that a majority of taxpayers would have less super and experience a significant drop in take home pay under the Henry review recommendations, compared with the Government's super reform package and the Low Income Earners' Superannuation Contribution.

**Retirement Income Streams**

Greater attention needs to be focused on the area of retirement income streams as our superannuation system matures and participants are transferring into the de-accumulation phase. We propose a review of both the SIS Act and Tax Act to ensure that

1. Superannuation — Increasing the Superannuation Guarantee Rate to 12 Per Cent (www.futuretax.gov.au), August 2011

retirement income product development is encouraged, but so no product is subject to advantage or disadvantage. Further, creating a default requirement of an income stream upon transition from accumulation would increase competition in this area, with the proviso that retirees still had access to lump sum withdrawals when required. Also of importance is a review of the Centrelink means tests, both in terms of simplification and also as a means of promoting incomes streams through means test concessions.

**Concessional Contributions**

AIST recommends that the current Bring Forward Rule for non-concessional contributions be similarly applied to concessional contributions. This equates to people under the age of 65 being able to bring forward two (2) years worth of entitlements of concessional contributions allowing them to contribute a greater amount in a given financial year (ie $150,000 for a person aged between 50 and 65). The benefit of applying this rule is that it will dramatically reduce the number of Australians breaching the caps and being charged excess contributions tax.

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

Other important areas of reform for superannuation, taxation and adequacy proposed by AIST are:

- Legislate to provide all workers with the ability to make pre-tax-salary sacrifice contributions to their super fund.
- Abolition of the $450 monthly earnings threshold for payments of Superannuation Guarantee contributions, which we believe discriminates against casual and part-time workers
- Introduction of a superannuation component to parental leave payments, and a superannuation component to the 'baby bonus'
- To encourage workplace participation, a $2,000 super payment to older workers returning to work and women who have had a family break.
- Retain the existing co-contribution scheme on a dollar-for-dollar basis for low- and middle-income earners
- Open the existing co-contribution scheme to stay at home mothers.

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- Allow capped tax deductibility for financial advice costs.
- No increase in superannuation preservation age above 60 years of age.
- Open-ended extension of the current temporary reduction in minimum pension drawdown relief.

**2. How are your proposals financed over the short and longer term?**

With respect to the increase in SG from 9 to 12% , based on figures in the 2011 Budget Papers[2], tax expenditures resulting from concessional tax treatment of employer superannuation contributions were $14.3 billion in 2010-11 (out of total superannuation related tax expenditures of $28 billion – with most of the remainder reflecting concessional tax treatment of super fund earnings). An estimate of the budgetary consequences of increasing the SG rate from 9 to 12 per cent could be in the order of an increase of 33 per cent or $4.8 billion. We understand that the SG increase, as well as the Low Income Earners Superannuation Contribution, is already in the Forward Estimates.

With regards to the other areas of reform suggested, a number of them will have minimal budgetary consequences and are more aimed at maintaining current concessions or ensuring that the concession is better targeted to those who need it most. They are also aimed at removing discriminatory concessions, particularly against part time and casual workers, and are broad suggestions to increase worker participation and consequently national productivity.

It is acknowledged however, that a number of the proposals (ie $2,000 super back-to-work payment, capped financial advice deductions) will have a budgetary consequence and therefore if adopted would necessarily require the removal of other concessions under the current fiscal environment.

Kind Regards

Fiona Reynolds

Fiona Reynolds
Chief Executive Officer

[2] http://www.budget.gov.au/2011-12/content/bp1/html/bp1_bst5-12.htm