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Mr Michael Willcock
Treasury Building
Langton Crescent
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Dear Michael

Concessional contribution cap for over 50s – Joint Industry Submission

There is universal industry agreement that the introduction of the proposed $500,000 balance threshold for individuals over age 50 would create complexity, will impose unnecessary costs and is contrary to recent Government initiatives to remove complexities and inefficiencies in the superannuation industry. The proposed regime will also discriminate against those individuals who make large non-concessional contributions and some individuals may mistake the threshold figure of $500,000 for some concept of adequacy.

Some of the proposals being considered may require the recording of every person's superannuation account balance (approximately 30 million accounts in total). Furthermore, should it be considered necessary, it will be extremely difficult for many funds to report previously received benefits which in some cases may date back 30 or more years. A similar approach was adopted when the RBL system was first introduced and many funds simply failed to report previously received benefits which resulted in inaccurate benefit positions being reported and maintained thereafter by the ATO.

There is also universal industry agreement that the current excessively low concessional contribution cap base together with the absence of adequate indexation will deny many thousands of Australians, who typically have a greater financial capacity to save for retirement later in life, the opportunity to do so. Similarly, individuals with broken work patterns and individuals close to retirement with inadequate retirement savings are denied the opportunity of making reasonable catch-up contributions. For many, the cold hard reality of superannuation does not impact until they are in their 50s and coupled with the an excessively low contribution cap means many individuals (including the current generation of baby boomers) will retire with inadequate levels of retirement savings.

The decision to reduce the concessional contribution caps in 2009 has had a far greater impact then expected. Contrary to initial Government projections, the reduced concessional contribution cap which has applied since the commencement of the 2009/10 financial year, has had a major impact on the level of concessional contributions across all income ranges and not just on high income earners. It is apparent that contributions levels are not always linked or dependant on the level of income but rather are impacted by lifestyle changes later in life. This observation is supported by research recently conducted by SPAA.

Alternative measure

As an alternative to the proposed $500,000 threshold regime, we propose increasing the concessional contribution cap for all individuals over the age of 50 to $35,000. This measure would apply from 1 July 2012, following the completion of the current transitional arrangements for individuals over age 50.

While mindful of the Government's commitment to its fiscal strategy, this $35,000 cap would be coupled with a Government commitment to restore the concessional contribution cap for all individuals over 50 to $50,000 at the first possible fiscal opportunity. This could be achieved by increasing the concessional contribution cap for individuals over age 50 to $50,000 in incremental amounts over time.

Advantages of above recommendations compared to the proposed $500,000 threshold regime

Complexity – Increasing the concessional cap initially to $35,000 and then in incremental amounts to $50,000 over a period of time is a simple measure which avoids the many complexities associated with the proposed $500,000 threshold regime. Complexity is one of the main reasons why so many members are disengaged with their superannuation. This proposal aims to avoid additional complexities which would otherwise apply if the Government's proposed $500,000 threshold regime was introduced. The extensive administrative shortcomings of the Government's proposal were outlined in detail in our response to the Treasury paper.

Government revenue – The cost to revenue of increasing the cap to $35,000 would be partially offset by the cost savings associated with not increasing the cap to $50,000 for all individuals over age 50 with a balance less than $500,000. Future incremental increases in the cap would be subject to the Government's fiscal position at that time.

Fairness – A flat dollar cap which is accessible to all individuals over age 50 irrespective of their account balance is a much fairer system compared to a system which ultimately penalises individuals for contributing and maximising the value of their retirement savings. A system (such as the one currently proposed) which imposes a balance threshold as the criteria for accessing a higher cap ignores variations in work and savings patterns of different individuals and the tax treatment of contributions made. Further, if such a system were to disregard withdrawals, it would be open to obvious abuse which will ultimately compromise the integrity of the proposed measure. On the other hand, if withdrawals are included in the balance threshold, the proposed measure will discriminate against those individuals who have already partially commenced to draw on their retirement savings. A more detailed description of the inequity of the current proposal was included in our response to the Treasury paper.

Disadvantages of above recommendations compared to the proposed $500,000 threshold regime

Individuals over age 50 with an account balance below $500,000 will be disadvantaged by our proposal to only increase the cap to $35,000 in the first instance. These individuals would otherwise be entitled to a $50,000 cap under the proposed $500,000 threshold regime.

However, we would expect that, where these individuals would be able to afford to have contributions in excess of $35,000 made for them in a particular year, typically they will be able to manage their finances so that the excess will be able to be contributed in a subsequent year. We note in any case that their capacity to make further concessional contributions would have otherwise been limited by the proposed un-indexed $500,000 threshold, so in many cases a $35,000 cap would not reduce the amount of additional concessional contributions that they would make in future years. It must be also noted that a significant percentage of members over 50 with balances less than $500,000 will not be able to utilise the full extent of the cap on a regular basis, if at all, for saving for their retirement.

The revenue cost of increasing the concessional cap to $35,000 is unlikely to be fully offset by the increased revenue associated with not increasing the cap to $50,000 for all individuals over age 50 with an account balance below $500,000. However, the aim of our proposal is to avoid the extensive administrative and fairness shortcomings of the current proposal on a relatively revenue-neutral basis. Although we are not is a position to assess the revenue “breakeven” point, we would suggest that in any case the Government should give consideration to a slight increase in revenue cost acknowledging the strong appeal of the alternative measure and longer term administrative / communications efficiency gains it would produce.

We would be pleased to provide you with any further information in support of our submission.

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Yours sincerely

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