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Senate Standing Committees on Economics
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Parliament House
Canberra ACT 2600

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Dear Sir/Madam

COMMENT ON THE MINERAL RESOURCE RENT TAX REPEAL AND OTHER MEASURES BILL 2013 [PROVISIONS]

The Association of Superannuation Funds of Australia (ASFA) is a non-profit, non-politically aligned national organisation. We are the peak policy and research body for the superannuation sector. Our mandate is to develop and advocate policy in the best long-term interest of fund members. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

ASFA would like to provide this submission in relation to the *Mineral Resource Rent Tax Repeal and Other Measures Bill 2013*.

Our comments relate to the provisions relating to certain of the "Other Measures", specifically Schedules 6 and 7 – the 're-phasing' or pausing of the increase in the rate of the Superannuation Guarantee (SG) and the abolition of the low income earners superannuation contribution (LISC) in regard to contributions made in the 2013-14 tax year and beyond.

ASFA is concerned that the pause in the SG increase will impact on the quality of retirement for a large proportion of Australians and would like to see the SG increases occur as currently scheduled. However, ASFA is particularly concerned that the removal of the LISC will have an even more significant impact of the quality of retirement for many low income Australians, particularly women. We provide a detailed analysis of the likely consequences below.

The re-phasing of the increase in the SG rate – Schedule 6

The increases in the rate of the SG were scheduled on the basis of the improvements in retirement outcomes that they will deliver.

The increases in the SG rate to 12 per cent unequivocally will assist future retirement incomes while having only a relatively minor impact on take home pay. The increase in the SG to 12 per cent benefits around 8 million employees who previously received no more than 9% contributions from their employer (around 25 per cent of employees currently benefit from standard employer contributions in excess of 9.25 per cent).

In terms of the quantitative impact on individuals, for a person on $70,000 a year, around average full-time earnings, the proposed pause leads to projected retirement savings after 35 years being around $10,000 lower (2.5 per cent), from $396,000 to $385,000 (all figures are in today's dollars).

However, a pause has a much smaller impact on eventual retirement savings than not increasing at all – around $10,000 detriment to retirement savings after 35 years compared to nearly $100,000 detriment if the SG did not go to 12 per cent.

Currently individuals with superannuation and who earn around average full-time earnings, $70,000, have, according to the latest ABS figures for 2011-12 (that were specially prepared for ASFA), across all their accounts around $98,000 in superannuation. The average amount for this income group aged 60 to 64, around the age most individuals retire, is $253,000. For those aged 40 to 44, the average amount for those on $70,000 a year is only $69,000. These average figures will substantially increase with an increase in the Superannuation Guarantee.

The ABS figures also show disparities in average superannuation balances between men and women. While the average woman and man on $70,000 a year has around the same amount of superannuation, women on incomes higher or lower than $70,000 tend to have less superannuation than men. There also are many more men than women who have an income around $70,000 a year.

For those with superannuation and who are aged 60 to 64 and on an income of around $70,000 a year, women have an average balance of $170,000 compared to around $260,000 for men. All these figures are well below what will be delivered for the person on average earnings after 35 years of contributions at 12 per cent of wages.

The increase in the SG particularly benefits those on average and lower than average incomes given that they are the ones most likely to receive contributions no greater than the compulsory rate. Women in particular are likely to receive contributions no more than the SG. As a result, those groups on average and below average incomes generally have lower superannuation savings than are needed to support a comfortable standard of living in retirement or even to support living with dignity in retirement.

Increasing the rate of compulsory contributions as originally proposed is, we believe, also important to maintain the confidence of Australians in the certainty of future superannuation arrangements. In this context, survey evidence indicates that both superannuation and the prospective adequacy of retirement incomes have become "top of mind" topics for most Australians. A recent survey of around 1,000 adult Australians conducted for ASFA indicates that 78 per cent of the adult population support the increase in the rate of SG. Just over 50 per cent of respondents opposed to some degree any delay in increasing the rate of the SG.

Accordingly, ASFA supports the current scheduled increases in the SG rate and does not support the proposed two year pause.

The abolition of the LISC – Schedule 7 of the Bill

In considering tax concessions for superannuation two issues must be weighed –

1. the importance of encouraging private provision so that future retirees can substantively achieve their goals of income in retirement and also contribute towards the country's future economic prosperity; and
2. recognition that in a country which supports a progressive income tax system, appropriate levels of support should be provided for individuals across the income range.

The LISC assists in meeting both these goals.

A number of commentators have observed that the tax arrangements that previously applied for individuals with taxable income less than $37,000 a year, prior to the introduction of the LISC, did not provide any real incentive for such individuals to make contributions. For those on the zero marginal tax rate there was an actual disadvantage. For those in the second tax bracket, which currently has a marginal rate of 19 cents in the dollar, there is only a very small tax difference between the tax payable if all taken as salary and that payable on a combination of salary and SG superannuation contributions. A member on $37,000 will only pay $214 less tax on salary and SG contributions compared to salary alone.

The means test arrangements for the Age Pension mean that those with low superannuation account balances receive more Age Pension than those with relatively high account balances. As a result, on one view therefore, the amount of government assistance for retirement incomes is broadly equal across the income scales. Those with relatively high superannuation account balances receive more tax concessions but not much in the way of Age Pension entitlement.

However, as noted above there is an issue of the fairness of tax treatment for those on incomes of less than $37,000 given that a flat rate of tax applies to superannuation contributions. At the very least individuals on a zero marginal tax rate should not be required to pay tax at a higher rate on their concessional superannuation contributions.

Every single dollar of concessional contributions is taxed at 15% in the fund from the first dollar, as opposed to zero tax payable on incomes up to $18,200 and then 19% on only that income which is in excess of $18,200 up to $37,000 (which is where the LISC cuts out).

The LISC currently benefits 3.6 million Australians on low and modest incomes, including 2.1 million women. It benefits around 30 per cent of workers, who in 2009-10 only received around 1.2 per cent of total superannuation concessions. The introduction of the LISC nearly doubled the amount of tax assistance for persons earning less than $37,000 a year.

For a person earning just $37,000 a year, aged 30 and retiring aged 65, if the LISC applied over their working life it would boost their superannuation balance, in today's dollars, **by around 20 per cent,** from $200,000 to $240,000.

According to the recent ABS figures for 2011-12, the average person on $30,000 a year has only around $138,000 in superannuation at the age band of 60 to 64. For those aged 40 to 44 on $30,000 a year the average superannuation balance is only $36,000.

Again, there are differences in the average balances for men and women, particularly for younger women in age groups where they may have recently spent time out of the paid labour force due to family responsibilities. Women are far more likely to have incomes around the $30,000 a year level than men. The average woman on $30,000 a year has around $33,000 in superannuation in the age group 40 to 44. For men, the figure is higher, at $44,000.

ASFA requests the Committee consider the importance of sound long term public policy in relation to superannuation and retirement incomes, especially given the financial implications of the aging population. We are very willing to have a discussion with Treasury and the Government about ways in which the LISC may be funded. We ask the Committee to urge these parties to take up our offer to meet to discuss this.

If you have any queries or comments regarding the contents of our submission, please contact myself or Ross Clare.

Yours sincerely

Pauline Vamos
Chief Executive Officer