

## **Align the restricted superannuation contribution age with the age pension age.**

### **Context**

Under the recently-introduced superannuation reform package, the primary objective of the superannuation system is to provide income in retirement to substitute or supplement the age pension (section 4, subsection 5(1) of the *Superannuation (Objective) Bill 2016*).

Age pension age, once 60 for women and 65 for men, has increased over the years. A person's age pension age is currently between 65 and 67 years of age, depending on their date of birth:

<b>Date of birth</b>	<b>Age pension age</b>
before 1 July 1952	65
1 July 1952 – 31 December 1956	65 1/2 to 66 1/2
on or after 1 January 1957	67

The unrestricted contribution age for superannuation is less than 65. Individuals aged 65 – 74 (restricted contribution age) must pass a work test in order to make voluntary contributions to superannuation. The work test requires a person aged 65 or over to work 40 hours in a 30-day period in an income year.

Thus there is a gap of up to 1 1/2 years between the restricted contribution age for superannuation and age pension age for people currently aged less than 64, and a gap of two years for people currently aged less than 60. Individuals who find themselves unemployed as they approach age pension age yet have some capacity to contribute to their superannuation are unable to do so.

People aged in their early 60s (or less) stop working for a number of reasons, including ill-health, reduced mobility, unable to continue working in their usual occupation due to declining physical skills and strength (particularly manual workers), business closures or simply losing their job.

### **Proposal**

As the primary objective of the superannuation system is now linked to the age pension, it is only fair that the restricted contribution age for superannuation be aligned with age pension age.

This alignment can easily be achieved by increasing the restricted contribution age in line with the increase in age pension age. The requirement for an unemployed person aged 65 or more to pass the work test would be extended beyond age 65 up to age pension age. The amendment can be made to sub-regulation 7.04(1) of the *Superannuation Industry (Supervision) Regulations 1994*.

In other words, an individual's restricted contribution age for superannuation would be the same as that individual's age pension age. The work test for voluntary superannuation contributions would continue to be imposed on individuals after they have reached age pension age.

### **Benefits**

This proposal provides more opportunities for unemployed individuals to make voluntary contributions to their superannuation up to their age pension age, without the need to pass the work test, thus increasing their retirement savings and reducing their reliance on the age pension when they do reach pension age.

The amendment would also align superannuation legislation with age pension legislation, consistent with the primary objective of the superannuation system.

The proposal would allow the superannuation system to work better for all Australians, particularly those who find themselves unemployed as they approach age pension age, and provide flexibility to align with the changing work-life patterns of Australia.

In summary, this amendment to the superannuation legislation would contribute to a fair and sustainable superannuation system, provide flexibility for fund members as they approach age pension age while at the same time protecting the integrity of the system by maintaining the work test after age pension age.