House of Representatives Standing Committee on Economics, Finance and Public Administration

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AUSTRALIA

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~~Liberal~~ Senator for Western Australia

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Wednesday, 20 July 2005

Mr Bruce Baird MP
Chairman
Standing Committee on Economics Finance and Public Administration
Department of the House of Representatives
Parliament House
Canberra ACT 2600

Dear Mr Baird,

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

Thank you for your letter dated June 6 2005, asking if I would like to make a submission to the Standing Committee on Economics, Finance and Public Administrations Inquiry into improving the superannuation savings of people under age 40.

I am very pleased your committee has decided to hold this inquiry as this is an extremely important area to many West Australians, particularly so as many are now entering the retirement phase of their lives or are preparing to do so.

As a government we should be doing all we can to ensure the current under 40 demographic in our population structure have all available information at their disposal to make intelligent and long term investment decisions that will be of benefit to them in retirement.

Please accept the enclosed as a submission to your inquiry and I will await with interest your findings and the subsequent report.

Yours sincerely

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INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

Introduction

Superannuation is a vital part of our national savings infrastructure and an area to which Australians have paid little notice until quite recently.

I would urge the Government to continue it's current awareness campaign on this extremely important national issue, and to continue on the current path of reforming the superannuation system and seriously consider some of the recommendations put forward in this submission.

In addressing the needs of the committee, we have spoken to a diverse range of people from both rural and remote Western Australia, to garner their views on superannuation in general, and the terms of reference in particular.

The constituents surveyed included shearers and other rural workers and contractors, miners in the Pilbara and Goldfields regions, and financial advisers and accountants who cater to those living and working in rural and remote Western Australia.

Barriers and disincentives to contribute to superannuation

In asking constituents about some of the current disincentives to making extra contributions to superannuation, it has become clear that many in our community do not make a strong connection between their superannuation fund and their own wellbeing in retirement. Many Australians think that superannuation is an extension of the government funded "pension" and in some cases just a "bit of extra money" that they don't own or control. This being the case, many Australians are unaware that it is possible and indeed desirable that they contribute more than the statutory 9% employer contribution to their superannuation scheme.

Allied to this way of thinking is the well established fact that Australians in general are very poor savers, with one of the lowest rate of savings per capita in the OECD. This trend needs to be arrested as soon as possible and thereafter; reversed.

Pleasingly however, there is a growing alternate point of view held by some that the "old age pension" arrangements available to previous generations of Australians will not be available to them, due to the ever increasing tax-payer to welfare recipient ratio. This group is increasingly aware that their level of savings for retirement needs to increase beyond current levels and that the Federal Government should put in place far greater incentives to facilitate increased contributions.

In summary then, the general view of many constituents surveyed on superannuation could be described as "increasing awareness tinged with decreasing apathy".

Disincentives identified:

- One of the serious disincentives to additional savings is that superannuation is taxed. Many in the community feel that if they are to be encouraged in a serious way to make adequate provisions for their retirement, then superannuation contributions should not be taxed at their entry point or upon exit.

- The superannuation surcharge (recently abolished under the 2005/06 Federal Budget provisions) is (was) also a serious disincentive for people in the income bracket that attracts the charge. Anecdotal evidence suggests that in all of Australia's large cities there are a large number of young professionals earning salaries considered to be high by Australian standards. These young professionals should be given every encouragement to commit more of their income to retirement saving while they have the capacity to do so.

- Coupled with the high income many young professionals earn, are the large mortgages that they take on the in the purchase of residential property. Given that sometimes 30% or even 40% of disposable income is taken up by mortgage repayments, many under the age of 40 are unwilling to sacrifice some lifestyle benefits to contribute extra money to superannuation.

- The benefits to saving more than the statutory 9% are very small.

Current Incentives in place and recommendations for consideration

While there is strong community recognition that income taxes have been reduced for most employees, there have been no cuts to the general level of tax for superannuation, which could potentially have a far greater impact on increasing the general level of retirement savings than personal income tax cuts.

Having spoken to a wide variety of constituents around Western Australia it has become clear that the incentives for saving over and above the current 9% level are perceived as minimal. The result is that very few people make the effort to put away extra for their retirement.

As stated above, many people in this age bracket in our community have high mortgage repayments. They tend to view making these payments as far more important than making extra superannuation contributions. Residential property is extremely important to the under 40 demographic and owning property and paying off mortgages early is a stated goal of many.

The reasons for this can vary, but a common theme from those surveyed was that a house is something that is tangible and something over which individuals to a certain extent can have control. Houses can be private property and can be accumulated, owned and sold at individual discretion. By contrast superannuation is mandatory, regulated heavily by government and something over which most individuals don't think they have any control.

Improving Awareness of the importance of saving early for retirement

The government has sensibly decided to highlight to the Australian community the need for adequate savings provisions for retirement, and while the superannuation co-contribution scheme is generally well received, it is generally poorly understood.

It has become clear that due to the amount of social security options historically available to Australians, that many still believe the government will provide them with an adequate retirement income, along with many other social wage benefits such as free health care.

There is also strong anecdotal evidence suggesting that a values-based education campaign highlighting things such as the traditional Australian work ethic and "rugged individualism" in relation to savings and superannuation for example, may help in adjusting the collective mindset away from an over-reliance on government payments to a more self-reliant approach to savings and retirement.

Many Australians do not pay much attention to their superannuation, in part because it is seen as something that is too remote to worry about in the present, and something which will ultimately take care of itself. If superannuation and other financial management issues were addressed at a middle or high school level, it is anticipated that school leavers would graduate with at least a basic level of awareness about savings and retirement income.

Recommendations

It is recommended that the following incentives be examined by the committee as a way of improving superannuation savings for the under 40's.

- Removal of tax on superannuation at entry and exit points.
- Alternatively, income tax deductions should be made available to those contributing above the minimum amount on a $1 for $1 basis. By way of example: for every dollar of personal contributions made over the statutory minimum, a one dollar income tax deduction should be made available up the amount of say $5000.

- SUPERANNUATION TAX HOLIDAY - another alternative would be for an employee to nominate one financial year when all super contributions including the statutory minimum would be tax free both at the contributions stage and during the investment stage. In this way employees could plan ahead and reduce their credit card and other debts, and plan to make substantially larger contributions to their superannuation schemes without affecting their overall disposable income to a great extent.

- For the self-employed the current situation is that the first $5000 is tax deductible and from that point only 75% is deductible, which leads many to only put the minimum $5000 into superannuation. To reverse this situation it is recommended that the entire contribution by the self-employed to their superannuation funds be tax-deductible up to the age based limit.

Summary

In addressing some of the current disincentives for the Under 40's to contribute more to their superannuation schemes, two major points need to be addressed by the government:

1. The current superannuation tax system needs a major re-think to increase incentives for this age group to save more for retirement.

2. Coupled with changes to re-incentivise superannuation, a strong and ongoing education campaign is required. Ideally this campaign would target middle and high school students and would teach basic savings and financial skills and it would also aim to educate and inform Australians about the benefits of self-reliance over reliance on government.