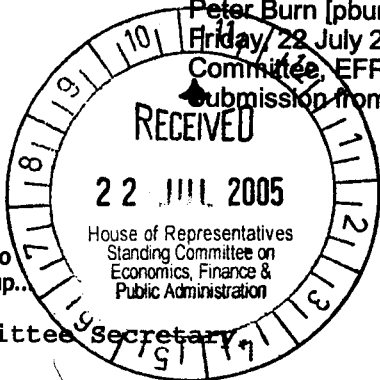


**Bryant, Sharon (REPS)**

**From:** Peter Burn [pburn@aigroup.asn.au]  
**Sent:** Friday, 22 July 2005 4:45 PM  
**To:** Committee, EFPA (REPS)  
**Subject:** Submission from Ai Group

**SUBMISSION 15**



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

Submission No: 15

Date Received: 22/7/05

Secretary: SB



Submission to  
Inquiry into Sup...

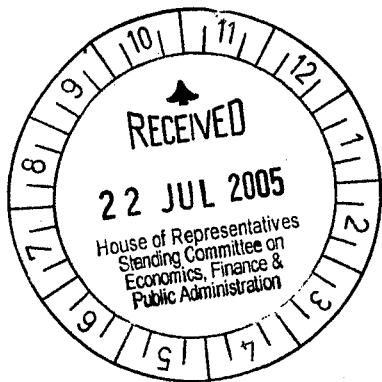
Dear Committee Secretary

Please find as an attachment Ai Group's submission to Inquiry into Under 40s Super.  
This may be more manageable than the previous e-mail sent.

Peter Burn

Associate Director  
Public Policy

Australian Industry Group  
Telephone 02 9466 5503  
Facsimile 02 9955 0907  
Mobile 0418 104 030



**SUBMISSION 15**

House of representatives Standing Committee on  
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Secretary: ..... *hs* .....



**AUSTRALIAN INDUSTRY  
GROUP**

Committee Secretary  
Standing Committee on Economics, Finance and Public Administration  
House of Representatives  
Parliament House  
CANBERRA ACT 2600  
AUSTRALIA

E-mail: [efpa.reps@aph.gov.au](mailto:efpa.reps@aph.gov.au)

### **Inquiry into Improving the Superannuation Savings of People Under 40**

Dear Committee Secretary,

I am writing to express the views of the Australian Industry Group on improving the superannuation savings of people under 40. This is an area we regard as highly important both for the well being of individuals and for the health and vibrancy of the broader economy and society.

The Australian Industry Group is a leading representative business organisation with over 10,000 members with concentrations in the manufacturing, construction, ICT and related service industries. We have a firm tradition of support for superannuation and we are closely involved in the leading industry funds the Superannuation Trust of Australia (STA) and the Australian Retirement Fund (ARF).

#### **General**

Ai Group applauds the focus of the Committee on improving the superannuation savings of people under forty. This is a farsighted review and one of great importance in the context of fundamental demographic trends; the associated budgetary pressures and the challenges these present to future economic performance.

#### **Barriers and/or disincentives to contribute to superannuation**

The capacity of individuals to contribute to superannuation depends, firstly and most fundamentally on their incomes. In this regard the health of the general economy and

its capacity to create jobs and to generate high rates of productivity growth - and therefore pay high wages, is of primary significance.

While this is not the place to elaborate on the ingredients of a healthy economy, we urge that, in formulating its recommendations, the Committee pay close attention to the importance of adding to, rather than detracting from the health of the Australian economy with particular regard to its job-generating potential.

#### *The Superannuation Guarantee Charge*

An area of particular relevance in relation to the job creating ability of the economy is the question of further increases in compulsory employer contributions by raising the rate of the Superannuation Guarantee Charge (SGC).

Ai Group submits that any such calls should be strongly resisted by the Committee. An increase in the SGC would have the same impact as a rise in the rate of payroll tax. It would raise the costs of employment and detract from the ability of employers to create jobs and pay higher wages.

If the Committee assesses that there are strong arguments in favour of increasing compulsory contributions further, Ai Group submits that these should be made from employee remuneration.

This would address the calls for higher compulsory contributions without adding to employers' costs. It would also perform the important role of giving employees more "ownership" of their compulsory superannuation contributions. This latter issue is discussed further below in relation to improved awareness.

#### *Taxation on contributions*

Taxation is a leading area within the reach of policymakers. The longstanding trend of a steady rise in the proportion of taxation to GDP is a direct challenge to increased private saving. While compulsion offsets this to some extent in relation to superannuation, taxes on the compulsory contributions made by employers detract directly from net saving and therefore also from net benefits received.

In a longer-term sense, taxing superannuation "on the way in" subtracts from future tax revenue (on higher income streams) and adds to the future age pension bill. Neither of these outcomes is desirable in view of the emerging intergenerational pressures on Australian budgets.

Ai Group urges the Committee to recommend a reduction in, and eventual elimination of taxation on contributions to superannuation.

In relation to the argument that is often advanced that superannuation already receives the benefit of generous tax expenditures, we note the following.

- Tax expenditures are defined as departures from a benchmark tax system. The benchmark used in assessing the tax expenditures applying to superannuation is a comprehensive income tax.

- This is an arbitrary selection of benchmark in the sense that there is no inherent virtue attached to this particular benchmark.
- It is, however, a benchmark that itself distorts decision-making in favour of consumption and against saving.
- If the current tax treatment of superannuation were assessed against a benchmark that was neutral in relation, its tax treatment would be found to be punitive rather than concessionary.

Ai Group submits that the argument based on the generosity of the current tax expenditures is ill founded and that the comprehensive income tax benchmark is an inappropriate benchmark against which to assess the tax treatment of superannuation.

### **Current incentives to encourage voluntary superannuation contributions**

Ai Group is a keen supporter of the Superannuation Co-contribution Scheme. In the 2004-05 Budget the Government significantly expanded this scheme. This scheme is a very generous and well-targeted form of encouragement to saving.

Ai Group does not see a need to further add to the generosity of this scheme although its appeal could be broadened though greater awareness of its benefits. Particular attention to the under-forty market would be particularly valuable.

Ai Group submits that the Committee should recommend that the Government develop and execute strategies aimed at improving the awareness and take-up of the Superannuation Co-contribution Scheme among people under forty.

### **Improving their awareness of the importance of saving early for their retirement**

A leading issue when looking at improving the awareness of saving for retirement is the intense competition superannuation faces from the wide array of increasingly attractive and well-marketed alternatives to saving. Particularly for those under forty, consumption has a significant attraction relative to the comparatively remote question of saving for retirement.

While the industry itself clearly has a role to play in generating greater involvement in superannuation, there is also a case for public sector marketing of superannuation in a generic sense.

Such involvement is desirable partly as a correction to the intense marketing efforts devoted to entice the discretionary dollar towards consumption and partly in order to address the tendency of younger people to discount the importance of their apparently remote futures.

### *Informing of advantages and responsibilities for self-provision of retirement income*

An important part of generating such greater awareness is in providing people – particularly for those under forty – with basic information about the advantages, responsibilities and costs of self-provision of retirement income. For people under

forty, the clear advantages of making contributions earlier in life could figure prominently.

Although Australia's age pension system is generous, there is a strong case for giving greater attention to the relative advantages of the self-provision of a higher level of retirement income.

An element of this is to address the attitude that the age pension is in some sense an entitlement earned over a lifetime of paying taxes. If this attitude was less prevalent, taxes could be lower.

As indicated above, Ai Group recommends that any further increases in compulsory superannuation contributions be made from employees' remuneration rather than by raising employer contributions.

This recommendation stems partly from the view that the present arrangements, which Ai Group supports, nevertheless have a flavour of paternalism rather than one of encouraging responsibility for the self-provision of retirement income. A greater direct contribution from employees to their superannuation accounts would align with the creation of a greater sense of self-responsibility for the self-provision of retirement income.

*Information and financial advice*

In the face of regulatory changes in relation to the provision of financial advice, a degree of hesitation may now inhibit the provision by the private sector of information about the advantages of saving through superannuation.

Ai Group submits that the Committee should investigate whether current regulations do inhibit the provision of information about the advantages of saving for retirement and whether there is a case either to relax the extent of regulation or, alternatively, for clarification of what information may be provided without it being regarded as financial advice.

Thank you for the opportunity to provide our comments to the Inquiry. Should you require further information please do not hesitate to contact my office or Peter Burn on 02 9466 5566.

Yours sincerely



HEATHER RIDOUT  
Chief Executive