FPA

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Ms Bev Forbes
Committee Secretary
Standing Committee on Economics, Finance and Public Administration
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

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Dear Ms Forbes

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

The Financial Planning Association of Australia Limited[1] (FPA) is pleased to make a submission in response to the Inquiry into Improving the Superannuation Savings of People Under the Age 40 by the House of Representatives Standing Committee on Economics, Finance and Public Administration. The FPA believes it is well placed to comment on this Inquiry due to the face to face contact FPA members have with the Australian public, dealing with the issues on which the Committee seeks views.

In our submission we have discussed the various barriers and disincentives that currently exist to contribute to superannuation, the current incentives that exist to invest in superannuation and a discussion of ways to improve awareness of superannuation for this group of Australians. The FPA has also suggested some ways to improve the current superannuation environment as well as identifying the critical issue of insurance for young Australians.

In responding to the terms of reference of the Inquiry, the FPA believes it is important to recognise the financial obligations, and in many cases the financial strain, that many of those in the under 40 age group experience. The key goals which the FPA recommends the Committee consider are:

- a simple and stable superannuation regulatory regime;
- medium term savings vehicles which are sufficiently attractive to encourage savings and assist in entering retirement debt free;
- elimination of Reasonable Benefit Limits and removal of the cap placed on superannuation investment;
- improved financial literacy for all age groups; and
- financial planning advice which is within the reach of ordinary Australians. This would be facilitated through:
  - the elimination of unnecessary compliance costs through effective FSR refinement, and
  - making the cost of professional financial planning advice fully tax deductible to the client.

[1] (Refer attachment for further information on the FPA)

FPA SUBMISSION
TO
the House of Representatives Standing Committee on Economics, Finance and Public Administration.

Inquiry into Improving the Superannuation Savings of People Under the Age 40

23 AUGUST 2005

Prepared by:
Financial Planning Association of Australia Limited

Executive Summary

The FPA submission discusses the various barriers and disincentives that currently exist to increased contributions to superannuation, the current incentives that do exist to invest in superannuation and a discussion of ways to improve awareness of superannuation for this group of Australians. The FPA suggests some ways to improve the current superannuation environment as well as identifying the critical issue of insurance for young Australians.

The FPA recognises the positive features of Australia's superannuation system but is conscious that, with an ageing population, it is critical to further encourage and engage people to actively participate in the superannuation system. The reach of the Australian superannuation system extends to the taxation system and the welfare system so it is important to work to achieve an appropriate balance and the right incentives.

In responding to the terms of reference of the Inquiry, the FPA believes it is important to recognise the financial obligations, and in many cases the financial strain, that many of those in the under 40 age group experience. The key goals which the FPA recommends the Committee consider are:

- **a simple and stable superannuation regulatory regime;**
- **medium term savings vehicles which are sufficiently attractive to encourage savings and assist in entering retirement debt free;**
- **elimination of Reasonable Benefit Limits and removal of the cap placed on superannuation investment;**
- **improved financial literacy for all age groups; and**
- **financial planning advice which is within the reach of ordinary Australians. This would be facilitated through:**
  - **the elimination of unnecessary compliance costs through effective FSR refinement, and**
  - **making the cost of professional financial planning advice fully tax deductible to the client.**

Introduction

The role of a financial planner is to guide and assist their clients to meet their life goals through the proper management of their finances. Life goals can include purchasing a home, paying for childcare and children's education, managing debt and planning for retirement. The initial financial planning process involves identifying what the client's current financial position is, identifying financial issues and identifying the client's goals.

As part of the financial planning process, the planner and client work together to reach those goals and address any challenges along the way. Financial planning is a long term ongoing process and the earlier the process is started, the more opportunity exists to achieve the financial goals. Unfortunately, many financial planners see clients for the first time when the opportunities to reach later stage goals are already quite limited as clients look towards imminent retirement. Clients need to understand that a lifestyle compromise may be necessary at the earlier stages of accumulation if they intend to secure a certain standard of living in retirement.

Barriers and/or disincentives to contribute to superannuation

Understanding of Superannuation:

Superannuation has evolved into an extremely complex and formidable system whose very nature dissuades people from actively considering and engaging in it. With so many different rules, limitations, thresholds, obligations and a constantly changing and developing landscape of regulations, it has become difficult to confidently develop an effective strategy within superannuation. A lack of understanding creates an environment of fear surrounding superannuation issues and therefore people avoid confronting these issues and potentially taking advantage of what the system can offer.

In addition, our members have identified a level of suspicion in the Australian community about future negative changes to superannuation and in particular, a possible future limit on the lump sum amount of superannuation that can be withdrawn at retirement. This suspicion is fuelled by the number of changes that have been made to the superannuation system over the years and unfortunately people feel that there is no absolute sense of certainty. These suspicions strongly discourage 'locking into' superannuation, particularly for younger people for whom access to super savings is still a long way off.

There are many factors that combine in the superannuation environment including taxation considerations, investment, income and time. It is very difficult for people to grasp the rules and concepts within the superannuation system and this unfortunately leads to people accepting the status quo or taking the path of least resistance in the hope that over the long term "things will take care of themselves".

High Levels of Debt:

Many Australians in the under 40 age group have high levels of debt. This is primarily due to the expenses associated with the purchase of housing. For many Australians, the cost of obtaining housing is their largest expenditure in the form of mortgage or rental payments. The Australian Bureau of Statistics (ABS) has found, as would be expected, that outright home ownership by households increases as the age of the reference person increases. Young single people are the most likely to be renting privately (62%). Those who are younger persons in a couple relationship are more likely to move into home ownership, with 54% owning a home with or without a mortgage, and this increases again when the couple has children: 68% when the eldest child is under 5; and 81% where the eldest child is 5 - 14. Many of those in home ownership are in fact servicing a mortgage and this would be a significant burden on their ability and priority to save, and their ability to be diversified in their investments, and not concentrated in one asset or asset class.

The ABS found that between 1995 - 2001, the average annual growth in household debt was 16.2% and that mortgage borrowing was the main contributor to growth in borrowings. This was facilitated by supply-side innovations in debt such as securitisation and redraw facilities on mortgages. In April 2004, the ABS found that the average mortgage taken out was over $210,000.

The high levels of debt in Australia are well documented. Whilst mortgage debt makes up a large proportion of debt in Australia, many people have other kinds of debt that include personal loans and credit card debt that need to be serviced. Between 1995 - 2001, the ABS found a worsening debt servicing ability and an increase in household demand for debt. Although the ABS noted that caution needed to be used with the statistic, in the 2005 March quarter, the household saving ratio was negative which implies that household consumption was greater than household disposable income. There has been a downward trend since 1991 in the household savings ratio.

Trying to eliminate debt is not necessarily an incorrect priority, but it definitely limits contributions to superannuation. An increasing need or appetite for debt is certainly a factor limiting voluntary contributions to superannuation.

Financial Commitments:

In addition to the costs associated with servicing debt, those in the under 40 age group have other financial commitments that may discourage additional superannuation savings. Apart from expenses such as rent or mortgage, these costs can include expenses associated with children such as childcare and education expenses and the need to upgrade vehicles and accommodation to satisfy family requirements. Children may also mean that a parent has to leave the workforce temporarily and if returning, they may be returning on a part-time basis.

Other Priorities:

It may be people are placing other priorities that provide immediate gratification ahead of superannuation. Consumer goods and vehicles have in particular enjoyed significant growth in the Australian market, and with rising levels of debt, people continue to fund a higher standard of living most probably at the expense of their future lifestyle. People have been renovating, upgrading homes, buying cars, taking holidays and enjoying other luxury items. Superannuation often means a loss of control of their assets, and people may prefer to invest externally to superannuation to retain access. Between 1995 - 2001, the ABS found that annual growth in household assets that were Australian equities was over 26%. This was due to the privatisation of large government businesses that floated on the stock exchange and the demutualisation of a significant number of insurance cooperatives into corporate structures. The ABS also recognised the more active participation in the share market generally. Direct control over an investment gives people the option of accessing the money as well as a great sense of ownership over the investment.

Long Term Horizon of Superannuation:

For people who fall into the under 40 age group, superannuation is a very long term proposition. The funds are potentially locked away for 20 - 40 years. People may prefer to save in other investment vehicles where the money is available should it be needed or they may simply prefer to spend their savings on goods and services. Very few people have a well defined path that their life will follow through to retirement and they are unsure what circumstances will apply to them for their financial good or detriment and so, they choose to hold or use the money outside superannuation. There may also be a perception in the community that, for those who are in the compulsory superannuation environment from the beginning of their working life, the superannuation guarantee contributions will suffice as a way of accumulating superannuation for retirement.

Housing for Retirement:

It is clear that housing remains a priority for people and Australia generally has a high proportion of home ownership. No further incentives need to be given for an investment in one's own home as it is already appropriately privileged. The FPA believes that there is a need to recognise that housing is a legitimate factor in retirement planning. The home should

not be viewed as an investment vehicle but as a mechanism to provide housing in retirement. Naturally, paying for the purchase of housing is a barrier to investing additional funds in superannuation but it should be recognised that housing is a legitimate requirement for retirement. Considering partly funding retirement through downsizing to release capital could be a risky strategy that puts too much hope in the condition of the property market at retirement.

Limited Tax Advantages:

Although superannuation offers varying tax advantages, apart from being complicated in nature, these may not offer enough of an incentive to place the money in superannuation and lose access to it. Although concessionally treated, superannuation is still taxed on entry, investment earnings are taxed and it may be taxed when it is eventually withdrawn. The concessional tax rate of 15% on earnings may seem appealing but it may not be attractive enough to lose all access to the money, particularly for those employees on low marginal tax rates. Whenever considering the merits of superannuation, a cost must be factored in for the loss of access to the funds.

Another disincentive that has received criticism is the **Reasonable Benefits Limit** (RBL) system that, it has been argued, acts as a disincentive to investing in superannuation. The rules governing the tax treatment of superannuation are designed to limit the amount of superannuation that can be received by an individual over their lifetime which is taxed at concessional tax rates. Any amounts accumulated above the relevant RBL as determined by the Taxation Commissioner are considered excessive and are taxed at either 48.5% or 39.5% (the "pre" or "post" components respectively) including Medicare.

The original intention of the RBL system was to encourage retirees to commence an income stream rather than withdrawing their superannuation benefit as a lump sum. This method uses an incentive approach to income streams but a more direct and less ambiguous approach may be more suitable to ensure superannuation benefits are used for the purpose of maintaining retirees' standard of living.

The RBL system effectively limits the amount of money a person can place in superannuation that will be concessionally treated. When encouraging people to work longer and build up retirement benefits, there is a contradiction between wanting people to become self sufficient and limiting the amount of superannuation that can be received. Changes to the RBL system (and possibly its abolition altogether) would encourage people to contribute more to superannuation, as they would not be penalised for having "excessive" benefits and would have a greater ability to fund themselves in retirement.

The application of the RBL rules impede Choice and can also lead to strange, and presumably unintended, consequences. This is particularly the case in relation to the movement of superannuation in income-mode from one pension to another. When this occurs, the benefit is re-tested for reasonableness (with a complicated methodology). Thus, an allocated pension which was deemed "reasonable" could, on rollover to a new allocated pension provider, become partly excessive. The FPA believes that, if the first move from accumulation to income is assessed for RBLs, no subsequent moves need be.

The ATO is required to keep a lifetime register of superannuation benefits received per person. Errors frequently arise however in relation to reporting of benefits, so there can be little confidence in the accuracy of ATO data. Moreover, when errors are discovered, it can be a lengthy and complicated process to rectify the information.

When the ATO issue a determination to alert a person that they have received an "excessive" benefit, most people do not understand the implications. The taxation system has developed over time as a result of changing legislation, grandfathering effects and successive governments adjusting the system. Because of this, the current legislative position is extremely complex.

With most people in the under 40 age group uncertain of their futures and hopeful that their income will increase over the years, there is little incentive to contribute to superannuation early in life if it will simply push you over your RBL so that later in your working life, when you would be better placed to take advantage of the superannuation system, you would receive no benefit. The RBL system is complicated and creates uncertainty and acts as a major disincentive for people to save for their retirement. The RBL system is also a significant administrative burden to the community as a whole.

FPA recommends that serious consideration be given to either the elimination of RBLs or their non-application to most people as a means of encouraging superannuation contributions by all age groups especially as the Maximum Deductible Contributions (MDCs) can limit tax concessions instead of using RBLs. The MDCs could be increased for those under 35 to encourage superannuation savings.

Current incentives in place to encourage voluntary superannuation contributions

The Co-contribution Scheme:

The Co-contribution scheme has clearly been a successful initiative amongst low to middle income earners. Apart from encouraging people to contribute to their superannuation, it also engages people with their superannuation. This engagement creates a familiarity and sense of ownership that may not have otherwise existed and this can only be beneficial.

Fear of insufficient funds for retirement:

A driving factor for saving for retirement is the fear of not having sufficient savings or needing to work longer because one cannot afford to retire. Those in the under 40 age group recognise the increasing life expectancy and therefore the need to be able to fund retirement for a significant period of time. Nevertheless, they often do not realise the extent of savings needed, so superannuation continues to be a low priority for the under 40 age group and further education initiatives are required.

Tax Advantages:

Although it is argued that the tax advantages of superannuation may not go far enough and the system may have limitations that act as a disincentive, it is nevertheless important to recognise the tax advantages that superannuation offers. It is likely that the people who most take advantage of the tax advantages when increasing their superannuation savings are those nearing retirement age or high income earners under age 40. For the latter group however, the RBL system may become an issue and would act as a deterrent.

Contribution Splitting and Spouse Offset:

These two mechanisms act (or will act) as an incentive for a family to place money within the superannuation system by contributing on a temporary or a more permanent basis. It may also assist those who are on low incomes due to family or other reasons to accumulate some superannuation savings.

Sheltered Earnings:

The earnings within a superannuation vehicle are sheltered for tax purposes and attract a concessional rate of tax. In addition, earnings within the superannuation system are excluded for the calculation of family tax benefits and unemployment benefits.

Transition to Retirement:

The new Transition to Retirement policy was recently introduced as part of the Government initiative to create "a more flexible and adaptable retirement incomes system". Whilst this initiative creates added flexibility in the superannuation system and allows people to continue to contribute to superannuation whilst phasing into retirement, it is not an incentive that is immediately relevant to the under 40 age group.

Elimination of the Superannuation Surcharge:

The FPA believes that this was an excellent initiative to encourage superannuation savings in the community.

Ability to Salary Sacrifice:

This is an excellent incentive for people to contribute to superannuation by providing the appropriate mechanism to forego current income. Employers need to be encouraged to offer employees the opportunity to salary sacrifice as, currently, not all employers offer this opportunity.

Although not a current incentive, the FPA believe that some minor adjustments could lead to significant improvements in savings through current non superannuation financial products being used as savings vehicles.

Savings Vehicle:

ABS data indicates that many people use their superannuation to pay off debts rather than to fund their retirement. Such debts are typically incurred prior to retirement in relation to major lifestyle expenses. The FPA proposes modifying the taxation treatment of current non superannuation products to provide individuals with a tax-effective vehicle to save for medium term goals such as health, home deposit and education. The ultimate aim is to achieve higher living standards in retirement. The medium term savings vehicle should offer tax incentives to save and tax incentives to leave the money within the vehicle, with the aim that people will have an incentive to set aside the money, with the comfort of knowing they can access it as required. If the incentives are well designed, the tax incentives may be enough to deter use of the money unless it is essential. Some examples of current products include insurance or investment bonds, that could have the tax rates applying to them lowered.

Research commissioned by the FPA provided an exploratory analysis of the impacts of developing a vehicle that received concessional taxation treatment. The analysis compared the actual living standards expected to be experienced by a middle-income and high-income family at different life stages. The general outcome showed that the reduction in living standards in pre-retirement years (due to increased voluntary savings) was in almost all cases outweighed by a greater increase in living standards in retirement – resulting in an overall increase in lifetime living standards.

The modelling also indicated that concessional tax treatment could actually result in higher net revenue to the Government over a lifetime. Under most savings strategies, total tax revenue itself increases (due to tax on earnings within the savings vehicle) while the level of income support in retirement reduces as the individual has a greater amount of retirement assets. The benefit to the Government would be delayed until those in the under 40 age group using the medium term savings vehicle entered the retirement phase of their lives.

In its 2002 report to Parliament on *Superannuation and standards of living in retirement*, the Senate Select Committee on Superannuation recommended that:

> *as means of increasing national savings and reducing the temptation for people to accumulate debt which is repaid with superannuation on retirement, the Government examine the introduction of a tax preferred medium to long-term savings vehicle which could be accessed prior to retirement for purposes such as:*
> - *health;*
> - *savings for a home deposit; and*
> - *education*

The Committee view was that the Government should consider a vehicle that would encourage savings for medium term goals and reduce the temptation to accumulate debt.

The overarching goal of any concessionally taxed vehicle is to provide an appropriate incentive that leads to an increase in savings, encouraging people to enter retirement debt free. The FPA believes that there are currently non-superannuation products in the market that could be used as a savings vehicle if their taxation treatment was altered to provide a greater incentive to save for medium term goals. This would represent new savings for new purposes.

Improving awareness of the importance of saving early for retirement

The challenge with the superannuation savings of people under age 40 is to recognise the financial strain that many people are under and to contend with the fact that retirement is generally viewed as something in the distant future with no clear path or certainty as to what opportunities and circumstances will present themselves on the way to retirement.

Other barriers to savings include a limited sense of ownership and connection with superannuation. This is caused by varying factors that include complexity, the time frame and other needs and wants that people have. There is also a general consensus that people are better off investing their money in reducing their mortgage which is particularly relevant to this age group in Australia.

Having the ability to save is vastly dependent in some circumstances on lifestyle and financial decisions. Often people are in financially vulnerable positions due to poor decisions based on a lack of understanding or a rushed choice. The FPA would like to acknowledge the continuing work of the Government's Financial Literacy Taskforce and the importance of this work.

The continuing efforts in this area by Government and industry participants is important for people to have an improved awareness of the implications of their lifestyle and financial decisions and the opportunities that exist to save for the future. As part of financial literacy, it is of critical importance to not simply target messages at school students. The FPA believes that other groups, such as the under 40's, can benefit from messages of financial literacy and fiscal prudence. Retirement should a consideration for this group and any messages that can be given to help prepare for retirement would be beneficial.

Simpler Superannuation System:

There is little doubt that many Australians are intimidated by the complexity of the superannuation system and this is probably accentuated in the under 40 age group due to lower levels of concern and interest with superannuation. A system that has and promotes simpler methods of saving for retirement (such as the elimination of RBLs and clearer and more streamlined methods of contributing to your superannuation account) that are consistent and have fewer variables and restrictions would be likely to increase superannuation savings.

Encourage Financial Advice:

People require guidance and information to be able to take advantage of the concessions available in the superannuation system. They also need to be made aware of the long term benefits of compounding as a way of saving for retirement, particularly if started before child related expenses become significant. Normally, those who seek assistance are nearing retirement whilst younger Australians often avoid getting advice. Well before retirement, guidance or advice can be of significant benefit such as by alerting people to things like the co-contribution scheme, setting up a savings plan, consolidating superannuation or appropriately allocating superannuation investments. Services exist in the community that young Australians need to be made aware of as offering value and that it would be prudent to regularly follow up on one's financial position and "financial health" and see if any opportunities for improvement exist.

The FPA lodged a submission to the Senate Select Committee Inquiry on Superannuation Planning for Retirement in March 2003. In July 2003, the Senate Select Committee on Superannuation issued a report. Recommendation 13 of the report stated that:
"The Committee recommends that the Government re-examine the deductibility rules for financial planners fees to remove the inducement to pay for financial planners services through trailing commissions."

The Committee noted the inequality that the current tax system creates between different methods of remuneration and that currently there is an inducement to pay for particular types of financial services in a particular way. The FPA strongly advocates that the level and method of remuneration should be freely agreed between the adviser and their client who has been given full disclosure of the fees and commissions which may apply. This flexibility should not be hindered directly by regulation requiring one method of remuneration over another or indirectly as a consequence of tax rules.

In April 2005, the FPA released its draft Principles for Managing Conflicts of Interest Principles for consultation amongst the membership base. One of the key elements of this initiative is the clear recognition of financial advice as having a value in its own right. To achieve this, the cost of the financial advice needs to be separated out from the cost of the financial product. This separation is becoming increasingly common and would facilitate the tax deductibility of financial planning advice fees. Such a concession would be a real incentive for many ordinary Australians to seek professional financial advice.

Environmental changes in recent years have seen a significant shift in the dynamic of the workforce with a growing number of part-time and casual employees. Young employees have also tended to shift employment more regularly. This has caused young Australians to often have multiple superannuation accounts and they are therefore paying multiple fees. Hopefully, with the introduction of Superannuation Choice, this will become less common in future, but there is little doubt that many people have multiple accounts. Although there has been a clear message on the advantages of consolidating superannuation accounts, small balances and multiple payment of fees are still an ongoing concern. Simple advice given in this area can make significant long term differences and it is important that this advice is affordable.

Expectations relating to job security, lifestyle and standard of living in retirement have also been transformed and people need to prepare and adjust if they hope to maintain a particular way of life. Seeking financial advice helps limit forgone savings because of such things as multiple accounts and assists people to create a realistic path to follow towards retirement. The successful conclusion of the Financial Services Reform (FSR) refinements process is important to ensuring advice is available to all Australians.

Prepare Australians for what they may face:

Young Australians need to be made aware of the challenges they could face in retirement. Unfortunately, there are many variables till that time and people may take for granted particular eventualities such as increasing incomes, permanent employment, sufficient savings from superannuation guarantee contributions and the existence of the age pension.

It is currently difficult to create models for people and very few people who are currently nearing retirement have enjoyed what the current under age 40 will, that is, superannuation for their entire working life. People, however, need to be prepared for the challenges that may lie ahead and be encouraged to explore the possibilities for their superannuation.

Additional Comments

Insurance:

Although not part of the terms of reference for this inquiry, the FPA believes insurance needs to be recognised as a crucial component of financial wellbeing for the under 40 age group. It is generally accepted that, at the early stages of accumulation of superannuation, insurance carries significant importance. This was recently recognised when the guidelines for Choice of Superannuation default fund were established. It is also generally accepted that Australians are grossly underinsured, including in the under 40 age group. Insurance, including death, temporary and permanent disability and income protection, is particularly important for young Australians, many of whom have high levels of debt and dependants.

In its media release of 3 August 2005, the Investment and Financial Services Association released research commissioned from Rice Walker Actuaries. It demonstrated the significant gap that exists between current insurance levels and what would be deemed appropriate. It was found that 5.4 million families were exposed to a risk of financial hardship if one parent dies, and that only 4% of full time workers in their mid thirties with dependents have appropriate levels of cover. In fact, 60% of those with dependent children were found to have insufficient insurance to look after their families for more than one year. Essentially, many young parents are severely underinsured. The default level of insurance in most employer default superannuation funds is insufficient but is at least something.

Insurance plays a critical part in the financial affairs of Australians and, whilst saving for retirement is of utmost importance, the necessity of insurance at the early accumulation stages of superannuation should not be ignored. A lack of insurance is also a barrier to savings as it prevents the insured from continuing their savings pattern when financial trauma occurs.

Conclusion

Not surprisingly, the ABS has found that wealth increases as people have more time to accumulate it, but an earlier and more effective start to wealth accumulation would clearly have significant benefits for individuals and the community as a whole. Whilst, as outlined above, the FPA has indicated that there are various ways superannuation can be encouraged and improved, there needs to be an acknowledgement of the financial stress and demands borne by many of the people in the under age 40 category. Without doubt many people have other immediate wants and priorities but there is also some genuine need for the funds immediately. There is also a general consensus that it is more beneficial to place funds in the mortgage in an effort to accelerate its repayment, and new features allowing access to the mortgage prepayment acts as further incentive as the money is not locked away.

In particular, the FPA thinks it is critical for people to be aware of the gross under-insurance problem noted above. People in the under 40 age group are particularly vulnerable to the insurance gap problem and this should be considered alongside superannuation savings.

In considering ways to improve the superannuation savings of people under age 40, the Committee must recognise that many Australians are under financial strain. The high levels of debt, housing expenses, standards of living people strive to achieve and those expenses associated with having children need to be acknowledged as significant barriers to savings in Australia. Superannuation can be a tax effective way to save, but, for the under 40 age group, their primary motivation is funding their current lifestyle and maintaining control and access to their investments.

To encourage savings, the Government needs to create the appropriate incentives and have a sufficiently flexible system that encourages people to invest for their future and understand the advantages and long term benefits. The prospect of entering retirement with debt is a significant challenge the under 40 age group needs to overcome. Of critical importance is the simplification of the superannuation system and the need to make it a more attractive investment.

The FPA also believes it is important to encourage savings through tax effective medium term savings vehicles that would complement traditional superannuation and, if not drawn upon for other uses, can contribute to retirement. The FPA believes that the current superannuation system should not be made even more complicated by establishing within it a new medium term savings vehicle. However, improvements to existing products would be a viable alternative to promote new savings.