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Australian Government

The Treasury

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

Dear Secretary

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40 – QUESTIONS TAKEN ON NOTICE AT 10 FEBRUARY 2006 PUBLIC HEARING

Please find enclosed Treasury's responses to five questions taken on notice at the 10 February 2006 public hearing and one question received in writing on 3 March 2006.

Should the Committee require any additional information or assistance please contact Erica Lejins, Senior Policy Adviser, on (02) 6263 2995.

Yours sincerely

John Lonsdale
General Manager
Superannuation, Retirement and Savings Division

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TREASURY

HOUSE OF REPRESENTATIVES INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF UNDER 40S QUESTION

Dr Emerson asked Mr John Lonsdale, General Manager, Superannuation Retirement and Savings Division, the Treasury, on notice, on 10 February 2006:

'What about an age related reduction or removal of contributions tax or alternatively what about an income related reduction or removal of contributions tax, say for everyone earning less than X thousand dollars a year'. Could you come back to the Committee with a report on the complexity issues associated with that and the benefits too?'

Response

The current tax on superannuation contributions was introduced by the former Government in 1988. Prior to this, contributions to a superannuation fund were not subject to tax but were taxed when taken as benefits from the fund.

A targeted reduction in contributions tax raises a number of key policy considerations. Careful consideration would need to be given to complexity issues as well as efficiency and equity implications for the superannuation system and the overall effect on savings and the impact on Government revenue.

The introduction of a further concession would likely add to the overall complexity of the superannuation system. Effectively means testing a reduction in contributions tax would require a reporting, data matching and payment regime involving both superannuation funds and the Australian Taxation Office. An age based reduction would raise both horizontal and vertical equity issues and would advantage those most able to contribute to superannuation. It would also impact on systems and compliance costs for superannuation funds.

TREASURY

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Dr Emerson asked Mr Phil Gallagher, Manager, Retirement Income Modelling Unit, the Treasury, on notice, on 10 February 2006:

'Could you not do, either now or fairly readily, at the very least, the changing proportion of the population whose income will be derived as sole traders, individual contractors and so on?'

Response

The proportion of employees who are self-employed (defined as owner-managers of unincorporated businesses) is projected to increase from about 9.7 per cent in 2005-06 to about 10.3 per cent in 2045-46. The projection is derived from the Retirement Income Modelling Unit's Labour Force Projection Model, LFSMOD. This model forms the basis of the IGR. No other model offers a separate supply side projection of the self-employed.

TREASURY

HOUSE OF REPRESENTATIVES INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF UNDER 40S QUESTION

Dr Emerson asked Mr John Lonsdale, General Manager, Superannuation Retirement and Savings Division, Treasury, on notice, on 10 February 2006:

'Can you clarify that if a business offered paid maternity leave under the superannuation guarantee it would be subject to the nine per cent guarantee, under an award, an agreement or whatever?'

Response

Under the *Superannuation Guarantee (Administration) Act 1992*, superannuation contributions required to be made by an employer are calculated using the employee's 'notional earnings base'. Ordinary time earnings is used as the default earnings base and is defined in the *Superannuation Guarantee (Administration) Act 1992.*

In some cases an employee's notional earnings base may be contained in an industrial award, an existing agreement between the employer and employee, a fund's trust deed, or a law. If these earnings bases include paid maternity leave, then the nine per cent superannuation guarantee contributions would be payable. An award or agreement may also directly require an employer to continue to make superannuation contributions for women on maternity leave.

TREASURY

HOUSE OF REPRESENTATIVES INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF UNDER 40S QUESTION

Dr Emerson asked Mr Phil Gallagher, Manager, Retirement and Income Modelling Unit, the Treasury, on notice, on 10 February 2006:

'Concerning the age pensioners' share of GDP now and in the early 2040s, if super went to 12 per cent, what would the age pension be as a share of GDP in the 2040s?'

Response

Unfortunately no published estimate is available.

TREASURY

HOUSE OF REPRESENTATIVES INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF UNDER 40S QUESTION

Dr Emerson asked Mr John Lonsdale, General Manager, Superannuation Retirement and Savings Division, the Treasury, on notice, on 10 February 2006:

'I would wonder whether that $200 [as a proposed level for the Superannuation Guarantee (SG) exclusion threshold] is still right, and even if it were, would that not be an argument for taking the $450 down towards the $200 if we do accept that there is some level at which fees would wipe out any benefit? I am wondering whether $200 is still the relevant figure, given that in 1992 the superannuation industry was not very mature?'

Response

It is not possible to determine an exact level for the SG exclusion threshold at which fees would remove the benefit of superannuation contributions. This is due to the wide variation in fees and charges between superannuation funds and in people's working patterns. Administration fees and charges may also include the cost of providing death and disability insurance cover.

When the SG legislation was first introduced into Parliament, the proposed exclusion threshold was $250 per month. Following debate in the Senate, and recommendations made by the Senate Select Committee on Superannuation, this original threshold was amended to the current $450 per month. The level of contribution generated from three per cent of $250 was not considered 'cost effective'.

The current $450 per month provides an effective balance between providing low paid workers with superannuation and minimising compliance costs for employers.

TREASURY

HOUSE OF REPRESENTATIVES INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF UNDER 40S QUESTION

The Committee asked Mr John Lonsdale, General Manager, Superannuation Retirement and Savings Division, the Treasury , in writing, on 3 March 2006:

'Could you please provide the Committee with a breakdown of how much of the 82 per cent replacement rate [referred to on pages 14 to 15 of the Treasury submission to the inquiry] is attributable to the superannuation contributions (Super Guarantee amounts and earnings) and how much is attributable to a projected part age pension?'

Response

For this example, the breakdown is about half private pension and half age pension (before tax). For other cases the split may be different.