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Dr B. Nelson, MP
Chair, House of Representatives Standing Committee
on Employment, Education and Workplace Relations
Parliament House
CANBERRA ACT 2600

Dear Dr Nelson

I refer to your letter of 14 January 2000 to the Treasurer seeking comments on a number of suggestions for addressing issues specific to workers over 45 years of age. As requested, attached are comments on several specific proposals.

Please note that comments have been restricted to those proposals which directly concern the Treasury portfolio. Proposals which relate to programs that are primarily the responsibility of other portfolios have not been commented upon. I trust this will assist the Committee in its deliberations.

Yours sincerely

Signed

ROD KEMP

INQUIRY INTO ISSUES SPECIFIC TO WORKERS OVER 45 SEEKING EMPLOYMENT OR ESTABLISHING A BUSINESS FOLLOWING UNEMPLOYMENT

Proposal 2: Relax hardship guidelines to allow early release of the preserved component of superannuation savings to enable unemployed people aged 45-55 to continue regular house mortgage payments.

Individuals' superannuation savings are generally required to be preserved until retirement on, or after attaining preservation age, currently age 55. Consistent with this approach and in recognition of the concessional taxation treatment afforded superannuation savings, the Government considers that there should be strict limits on the use of superannuation to smooth lifecycle needs. The Government nevertheless allows early release of superannuation on specified financial hardship and compassionate grounds.

Specifically, under the regulations governing the eay release of superannuation on compassionate grounds, a member may, in any 12 month period, access up to 3 months repayments and 12 months interest on the outstanding balance of a loan in order to make payments to save the family home. This is confined to circumstances where there is a foreclosure of a mortgage on the member's principal place of residence or exercise of an express or statutory power of sale over that residence. There is no pre-requirement that applicants be on Commonwealth income support for 26 weeks. This requirement relates only to early release of superannuation on severe financial hardship grounds.

The Government has already conducted an extensive inquiry into the merits of a broader "superannuation for housing" scheme. In 1998, the Government concluded that the potential costs of allowing access to superannuation to help in the purchase of a home outweigh any potential benefits. Moreover, the issue of home affordability for disadvantaged and low income groups extends to broader concerns relating to the adequacy of the social safety net.

Proposal 3: Allow partial access to superannuation to support phased retirement over 3-5 years without undue effects on final superannuation payouts.

A member's preserved and restricted non-preserved superannuation benefits may be cashed on or after the satisfaction by the member of a condition of release. A member's unrestricted non-preserved superannuation benefits may be cashed at any time.

The conditions of release are specified in Schedule 1 of the Superannuation Industry (Supervision) Regulations 1994 and cover a range of specific events, including 'retirement' before age 65. Effectively, under the current rules, a member may access their superannuation benefits under the 'retirement' condition of release only if they have reached their preservation age (currently age 55) and have ceased gainful employment.

Superannuation receives tax concessions designed to increase the retirement incomes of members while at the same time assisting to restrain the cost of future pension outlays. Consistent with these objectives, the current rules governing the payment of benefits on retirement before age 65 aim to ensure that superannuation savings are available for genuine retirement and not withdrawn from the superannuation system for other reasons.

The proposal to allow partial access to superannuation to facilitate 'phased retirement' over age 60 raises a number of complex issues with respect to the existing rules governing the contribution, preservation and taxation of superannuation savings as well as the interaction between the superannuation and social security systems more generally. The proposal also raises a number of labour market issues.

Moreover, the proposal may have potential fiscal implications for the cost of future Age Pension outlays and could also be expected to add an additional layer of administrative complexity to the existing superannuation arrangements.

Accordingly, in light of this proposal's potential wide-ranging implications for retirement income policy, the Government is of the view that its appropriate consideration is beyond the scope of the current inquiry.

Proposal 4: Allow partial access to superannuation for small business people (formerly retrenched) for emergency purposes only, such as bridging loans.

Superannuation savings at levels over $200 are generally required to be preserved to at least preservation age, currently age 55.

The current superannuation arrangements do, however, allow members access to their superannuation benefits prior to preservation age in certain limited circumstances. Specifically, members may access their preserved benefits before age 55 on termination of employment as long as the benefits are taken in the form of a non-commutable lifetime pension or annuity. Members may also access their restricted non-preserved benefits before age 55 on termination of employment in the form of a lump sum. Members' unrestricted non-preserved benefits may be accessed at any time.

Members may also gain early access to a portion of their superannuation savings before age 55 on compassionate grounds, for example, to prevent foreclosure of a mortgage, or exercise of a power of sale over the member's principal place of residence.

The existing superannuation preservation and early release of benefit arrangements reflect the underlying retirement income policy objective that superannuation savings should be genuinely available for retirement and not withdrawn from the system for other reasons. The Government considers they strike a proper balance between allowing people access to superannuation benefits at an appropriate retirement age and the need to restrain the cost of providing superannuation tax concessions and pension outlays.

Reflecting the broader retirement income policy objectives of superannuation, the Government considers there is little justification for extending the existing opportunities available to (previously retrenched) small business people to gain access to their superannuation benefits prior to age 55.

Proposal 5: Provide incentives for unemployed mature-age people to accept and report casual and part-time work by allowing tax credits and/or easing the withdrawal rates of benefits.

It is important to recognise that programmes designed to address work incentives not be considered in isolation but instead be evaluated within a set of programmes designed to make work pay. Individual proposals designed to address work incentives can have significantly less impact, if not accompanied by complementary policies. For example, work incentive policies would be more effective if pursued in conjunction with appropriately sound macroeconomic settings and a flexible labour market policy.

In this regard, the Government has operated sound macroeconomic policies and introduced structural reforms that have resulted in a strong and fundamentally sound economy. Combined with the new tax system's significant tax cuts and family package, work incentives for low to middle income families have been greatly improved.

Many proposals designed to address work incentives also entail redistributing income. In some cases, this latter effect dominates almost exclusively. It is, therefore, important to identify the primary objective of the policy in order to evaluate its effectiveness.

Another evaluation consideration is the extent to which the proposal will encourage the creation of new jobs or merely result in displacement — where there is no increase in employment because the jobseeker displaces a person currently in a job.