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PARLIAMENT OF AUSTRALIA - THE SENATE

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Senator for Tasmania

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

Hon Bruce Baird MP
Committee Chairman
Standing Committee on Economics, Finance and Public Administration
House of Representatives
Parliament House
Canberra ACT 2600

1 August 2005

Dear Bruce

Thank you for the opportunity of responding to your invitation to provide a submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration on Improving the Superannuation Savings of People Under Age 40.

In my previous capacity as Chair of the Senate Select Committee on Superannuation I have been deeply concerned that in the past most people have not taken seriously the need to save over a lifetime for their retirement. Generally at approximately age 50 folk begin to seriously consider the need for an adequate income in retirement.

Retirement planning should recognise the risks associated with longevity, inflation, investment returns and health.

A second disturbing study showed that many young executives under 27 tended to be ultra conservative in their investment choice allocations for savings with listed fund managers. Whereas such a policy may appear prudent for those approaching retirement, younger folk should be investing in growth orientated investments.

Savings should be commenced early in one's working life to enable the full benefit of compounding over a 30-40 year earning cycle.

The Government's initiative in providing initially a $1 for $1 investment, recently increased to $1.50, in superannuation fund up to $1,000 per annum under the co-contribution scheme was a great initiative for young and low income folk, with some large industry funds focusing their

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attention to ensure eligible members take advantage of the Government's generous budget measures.

Research submitted to an IFSA conference several years ago in Queensland showed that a government co-contribution of as low as 50 cents in the dollar lodgement in a member's superannuation fund would still be attractive. I enclose a copy of the Government Co-contribution to Superannuation Market Research report. In a tight budgetary situation there is therefore room for some scaling back if need so arises.

Another measure, which follows on from recent discussions about the new Industrial Relations legislation, would be rather than just allowing people to cash in two weeks of their annual leave, offering them the choice to transfer that amount to their superannuation fund if they so wish.

Around the world people are becoming increasingly cynical of the ability of government to ensure their retirees in future will have a secure retirement. Many defined benefit government funds are ailing leading to public protest and unrest, for example France. While the majority clamour for more government support, most taxpayers are reluctant to take control of their own financial destiny.

Australia, according to the World Bank has a sound retirement framework with the 3 pillar approach – age pension, concessional tax and compulsory employer support through 9% Superannuation Guarantee regime.

However, the Australian system does suffer from high taxation and inadequate support for a pension or income stream compared with the taking of lump sums. Tax unlike most other countries in Australia is levied on entry through the 15% contributions tax, on earnings at 15% less credits for dividend imputation. Together with a significant concession on capital gains, tax is also levied on exit, the amount depending on the manner in which the payment is made, the position within the reasonable benefits schedule and the taxpayer's income.

Most other countries tax retirement monies at only two levels while others exempt income during the accumulation phase.

The introduction of an allocated pension was a good start being a half way house type solution.

In Australia, higher "reasonable benefit limits" also favour the taking of annuities.

Younger people should be encouraged to seek total retirement solutions from one provider. The Choice legislation provides the means to save from multiple fees and charges. Also there are advantages in a single point of contact together with a consolidated view of the level and adequacy of funds set aside for retirement.

People are increasingly becoming concerned about outliving their retirement savings. Education programs should focus on helping people take greater control of their financial future. However, obtaining advice by those with middle to low incomes, the cost of that advice is becoming prohibitively high because of the FSR regime applying a complete status report when buying even regular products.

A widening of the definition of education advisor is required for regular products so that the larger funds are encouraged to help folk adjust their strategies through life.

Monies must be set aside not only for normal retirement expenditure but for a nest egg to cover escalating health costs.

Much of the recent advertising in Australia has focussed on fees and charges and the impact these will have on the final retirement package. Equally important but neglected is the need for a fund to have consistently high returns, quality administration, good government reporting, governance compliance, and state of the art technology capable of delivering timely communications and education.

Young people especially those with family commitments must not apply all their savings to retirement. Portion of their after tax income should be diverted to disability income insurance as well as maintaining an adequate life insurance policy as a precaution in the event of severe accident or premature death.

Both Canada and the USA provide tax deductibility for payments to approved retirement funds. In the USA the most popular vehicle is the 401(k) plan.

Investment in a Canadian Registered Retirement Savings Plan (RRSP) generally provides a growth far more substantial than the initial savings realised through the tax deduction. Successive governments in Canada believe that contributing as early as possible even if it is not the maximum allowable amount is a very powerful retirement strategy.

I suggest that the availability of a tax deduction for individuals in Australia should be relative to the aged based deductibility now currently applying to payments from an employer in making contributions to an employee's super fund.

Age of employee (years)	Deduction limit 2005-06
under 35	**$14 603**
35 to 49	**$40 506**
50 and over	**$100 587**

Source: Australian Taxation Office: TD 2005/21

I therefore strongly urge the Committee to recommend for a greater empowerment of individuals towards their retirement plans by providing tax deductibility as outlined to individual taxpayers.

Yours sincerely

John Watson.

JOHN WATSON
Senator for Tasmania

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