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House of Representatives
Standing Committee on
Economics, Finance &
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SUBMISSION 55

Standing Committee on Economics, Finance and Public Administration.

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40.

PREAMBLE:

Every person is confused and disappointed with superannuation, especially those under the age of 40. The Tax regime surrounding superannuation is a maze which seems to continually change. This complexity feeds the Financial Advisory Industry which skims off exorbitant fees while preying upon people under 40 who are ignorant of the superannuation issues.

The Australian dream for under 40's of owing their own home is alive and well. The single biggest asset that any person is likely to own is their own home.

Investment in superannuation is seen as a waste of money; many people have seen their super accounts actually diminish over the past few years. Meanwhile the "Managers" of these assets still skim their fees, even if their advice and management is defective.

PROBLEM:

People under 40 see the compulsory payment into super as a hindrance to their ability to buy and pay off their own house. While the interest component on a home loan is non tax deductible, it is the biggest obstacle to asset growth and wealth creation.

The second biggest obstacle is compulsory payments of 9% of annual salary into underperforming or negative growth super funds.

SOLUTION:

The solution is to combine the two issues i.e. use compulsory super contributions to reduce the home mortgage.

All the major insurance companies offer mortgages and insurance products including super.

Therefore they already have the necessary products e.g.

- Lender/Super Manager lends money to consumer to purchase principal place of residence.
- Security is a first registered mortgage over the house. The loan structure is an offset style of account.
- Normal loan payments are made into the loan account.
- Compulsory and voluntary contributions are also paid into the loan account.
- The reducing mortgage debt is offset against a notional balance the contra offset super account.
- *Once the loan is paid out, (in considerably less time resulting in a saving in non* deductible interest), the super contributions switch to the contra offset super account.
- Should the house be sold before the loan is paid put, the actual payout figure would include the extra amount required to top up the super account to the level it would have otherwise been. The mortgage is the security which ensures this will happen.
- Funds saved that would otherwise been used to pay loan interest can be freed up for any other style of investment.

ACTION:

A Legislative change is required to legalise this structure. The Insurance/Super companies already possess the lending products.

The appeal for people under 40 would be to get home ownership earlier than ever before.

Also there would be no loss to their super fund balance should the house be sold.

The result is that under 40s can acquire their major asset sooner and become self funds retirees.

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