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 UNDER 40S

Please find enclosed responses to two questions taken on notice, by Mr Phillip Gallagher, Manager, Retirement and Income Modelling, Department of the Treasury, at the Committee's hearing on 14 October 2005. We have also enclosed additional information for the Committee's consideration on proposals to relax the preservation rules.

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 QUESTION
(Question No.1)

Mr Somlyay asked Mr Philip Gallagher, Manager, Retirement and Income Modelling, Department of the Treasury, on notice, on 14 October 2005:

What is the superannuation coverage of self employed persons by age?

Response:

Estimated superannuation coverage at June 2000 by age and type of employment

% With superannuation assets				
	Employees	Owner Managers of Incorporated Enterprises	Owner Managers of Unincorporated Enterprises	Total
Age				
15-19	49.1%	0.0%	13.1%	48.6%
20-24	91.2%	66.8%	71.8%	90.0%
25-29	96.5%	94.3%	67.8%	93.5%
30-34	95.8%	90.3%	66.8%	91.3%
35-39	96.2%	87.0%	68.0%	90.4%
40-44	96.5%	89.0%	68.0%	90.8%
45-49	96.2%	86.7%	72.0%	91.0%
50-54	96.7%	88.1%	70.6%	90.3%
55-59	94.5%	88.8%	62.1%	85.7%
60-64	89.8%	81.7%	52.2%	77.1%
65-69	78.7%	64.1%	34.4%	56.4%
All	**91.3%**	**87.3%**	**66.3%**	**87.2%**

Source: Treasury estimates based on unit record data from the June 2000 Australian Bureau of Statistics Survey of Employment Arrangements and Superannuation (Catalogue NO. 6361.0)

Note: self-employed are defined as owner managers of unincorporated enterprises.
Note: this is the most recent survey conducted. The next survey is expected to be conducted in 2006.

Proportions making superannuation contributions in 2000 by age and type of employment

% With Contributions				
	Employees	Owner Managers of Incorporated Enterprises	Owner Managers of Unincorporated Enterprises	Total
Age				
15-19	45.3%	0.0%	1.7%	44.6%
20-24	82.0%	58.2%	34.4%	79.3%
25-29	89.8%	73.1%	34.2%	83.5%
30-34	90.5%	70.9%	37.6%	81.8%
35-39	90.9%	76.0%	39.0%	80.5%
40-44	93.0%	77.8%	44.4%	83.1%
45-49	92.7%	76.3%	50.1%	83.6%
50-54	92.5%	73.8%	49.8%	81.3%
55-59	90.9%	80.7%	43.9%	77.8%
60-64	87.1%	71.6%	33.4%	68.1%
65-69	75.6%	52.2%	26.7%	49.9%
All	**86.1%**	**74.7%**	**41.8%**	**78.5%**

Source: Treasury estimates based on unit record data from the June 2000 Australian Bureau of Statistics Survey of Employment Arrangements and Superannuation (Catalogue NO. 6361.0)

Note: Self-employed are owner managers of unincorporated enterprises.
Note: this is the most recent survey conducted. The next survey is expected to be conducted in 2006.

TREASURY

HOUSE OF REPRESENTATIVES QUESTION
(Question No. 2)

Mr Somlyay asked Mr Philip Gallagher, Manager, Retirement and Income Modelling, Department of the Treasury, on notice, on 14 October 2005:

How is money received through a reverse mortgage payment treated under the age pension means tests?

Response:

The amount of age pension payable to a customer is calculated under both an income test and an assets test. The test that results in the lower rate of pension is the one that is applied to the customer.

A home equity conversion scheme (reverse mortgage) involves borrowing against equity in the home, with the option of deferring repayments so the loan plus interest is repaid from the borrower's estate. People entering home equity conversion arrangements continue to be treated as homeowners by Centrelink, as long as they are living in their home.

The loan amount itself is not income. However, should the loan proceeds be placed in a financial investment, then income from the investment is assessed under the deeming rules applying to all financial investments. If loan proceeds are used to purchase non-financial assets, they may be counted under the assets test from the date of purchase, eg car or boat.

The first $40,000 of an un-spent home equity conversion loan is not counted under the assets test for 90 days. If after 90 days a pensioner has not spent the loan, the full amount is included in the person's assets.

Example1: A person takes out a home equity conversion loan of $70,000 and deposits the proceeds into a bank account.

Therefore:

- $40,000 is exempt from the assets test for 90 days;
- $30,000 is counted as an asset from when the funds are received; and
- the whole $70,000 is subject to the deeming rules under the income test.

Example 2: A person takes out a home equity conversion loan of $70,000 and draws down $10,000 per annum for 7 years. Each time the proceeds are deposited into a bank account.

Therefore:

- $10,000 is exempt from the assets test for 90 days;
- the whole $10,000 is subject to the deeming rules under the income test; and
- each subsequent drawdown is treated in the same manner, regardless of the amount or amounts drawn down previously.