COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

# HOUSE OF REPRESENTATIVES

## STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

**Reference: Improving the superannuation savings of people under 40**

THURSDAY, 28 JULY 2005

SYDNEY

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

## INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **http://www.aph.gov.au/hansard**

To search the parliamentary database, go to:
**http://parlinfoweb.aph.gov.au**

**HOUSE OF REPRESENTATIVES**

**STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION**

**Thursday, 28 July 2005**

**Members:** Mr Baird *(Chair)*, Mr Bowen *(Deputy Chair)*, Mr Ciobo, Mr Fitzgibbon, Ms Grierson, Mr McArthur, Mr Robb, Mr Somlyay, Mr Tanner and Mr Turnbull

**Members in attendance:** Mr Baird, Mr Ciobo, Mr Fitzgibbon, Ms Grierson, Mr Somlyay, Mr Tanner and Mr Turnbull

**Terms of reference for the inquiry:**

To inquire into and report on:

Improving the superannuation savings of people under 40 with particular reference to:

- Barriers and/or disincentives to contribute to superannuation
- Current incentives in place to encourage voluntary superannuation contributions
- Improving their awareness of the importance of saving early for their retirement

**WITNESSES**


**CLARE, Mr Ross William, Principal Researcher, Association of Superannuation Funds of Australia ..... 2**

**DIMESKI, Mr John, Private capacity ..... 75**

**ELVY, Mr Hugh, Manager, Financial Planning and Superannuation, Institute of Chartered Accountants in Australia ..... 44**

**FINCH, Ms Melinda Suzanne, Private capacity ..... 85**

**GILBERT, Mr Richard, Chief Executive Officer, Investment and Financial Services Association ..... 30**

**McDOUGALL, Mr Graeme Robert, Chief Executive Officer, Small Independent Superannuation Funds Association ..... 58**

**McILROY, Mr John Francis, Deputy Chairman, Small Independent Superannuation Funds Association ..... 58**

**OLSBERG, Dr Diana, Director, Research Centre on Ageing and Retirement, University of New South Wales ..... 17**

**PALMER, Mr Bill, General Manager, Standards and Public Affairs, Institute of Chartered Accountants in Australia ..... 44**

**SMITH, Ms Philippa Judith, Chief Executive Officer, Association of Superannuation Funds of Australia ..... 2**

**STANHOPE, Mr Bill, Senior Policy Manager, Investment and Financial Services Association ..... 30**

**Committee met at 9.10 am**

**CHAIR**—I declare open this public hearing of the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into the superannuation savings of people under the age of 40. The inquiry was referred by the Minister for Revenue and Assistant Treasurer, the Hon. Mal Brough MP, on 12 May 2005. The inquiry has received submissions from various parts of Australia, which demonstrates a keen interest by the community in the superannuation issues of the younger age groups. Copies of these submissions will be available from the committee's web site in the week of 13 August.

Superannuation matters have previously focused on the pre-retirement-age cohorts. These age groups have already forgone the early superannuation planning and saving years. The committee's inquiry focuses on the early years of saving for retirement incomes, the incentives in place to save, the disincentives or barriers to saving, and increasing the awareness of the importance of saving for retirement. Today we will be hearing from representatives of the various facets of the superannuation industry, an academic specialist and two individuals under the age of 40.

I remind witnesses that, although the committee does not require you to give evidence under oath, this hearing is a legal proceeding of parliament and warrants the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege.

[9.11 am]

**CLARE, Mr Ross William, Principal Researcher, Association of Superannuation Funds of Australia**

**SMITH, Ms Philippa Judith, Chief Executive Officer, Association of Superannuation Funds of Australia**

**CHAIR**—Welcome. The committee has before it your submission. Are there any corrections or amendments that you would like to make to your submission?

**Ms Smith**—I will just introduce and perhaps highlight a few things.

**CHAIR**—Just before you do, is it the wish of the committee that the submission from the Association of Superannuation Funds of Australia be received as evidence to the inquiry into improving superannuation savings of people under 40 and be authorised for publication? There being no objection, it is so ordered. Do you wish to make a brief opening statement or summarise your submission before I invite members to proceed with questions?

**Ms Smith**—I will start with a few opening comments. You have the submission before you. In introduction, perhaps I could remind the committee that, as outlined on page 16 of the submission, there are a number of long-term planks or priorities that we see as being important in improving the superannuation system in Australia and improving savings overall.

Obviously the overall priority that we see is improving the adequacy of retirement income overall and having incentives in place for greater self-reliance. We see the priority as being particularly for low and middle-income earners. We also see the importance of broadening the coverage of superannuation wherever possible and the importance of the simplification of superannuation. If you talk to people you find that it is the complexity of superannuation which can be the greatest turn-off. Complexity has come in a number of ways but particularly in the tax area, which can hopefully be simplified. Under-riding all this, we obviously want to promote confidence in superannuation as a system and in its security—the integrity of the system, the confidence that it will be retained and the security of the savings there. Those are the planks we are working towards.

Your inquiry is looking particularly at people under 40. We do not support policies that are age based, per se. If you follow a system that says, ‘Something is available for just the under 40s,’ it is likely to add to the complexity of super, create other anomalies and inequities, and certainly reduce the flexibility of people being able to save at an age at which they are capable of saving. But to the extent that your inquiry is about putting super on the radar of people under 40 and getting them to save more at an earlier age, that is obviously going to make it much more likely that they will get to the goal of an adequate retirement income down the track.

Unfortunately, as the committee is probably aware, many people leave it until age 40 or 45 before they start considering their retirement income. Waiting until that point leaves a very short time frame for them to get adequate savings in play. If we can increase savings and put them into

play at an early age, it will make it much easier for people to achieve that, and the magic of compound interest will do much of the work for the individual. Table 6 on page 12 of our report highlights the dilemma that is there for people who delay. The question is: how do we make savings for retirement pertinent or relevant for younger people and how do we raise the level of savings overall?

**Mr TURNBULL**—This is calculated in nominal dollars, is it?

**Ms Smith**—No, we are looking at this in today's dollars. When we look at targets, we always discount it back to today's dollars.

**Mr TURNBULL**—In the middle column, you have someone on an income of $50,000 who wants to retire with an income of $30,000. Is that $30,000 in 35 years hence or in today's money?

**Ms Smith**—That is in today's dollars.

**Mr TURNBULL**—So they are all real numbers.

**Ms Smith**—Yes. That perhaps jumps to something I was going to say later: it is very important that we set clear targets for people. One of the reasons why there is a shortfall in savings at this point is that people really do not understand what target they need to aim for. There is an assumption that nine per cent is going to be adequate and people have not thought through what they need to save. All the research that has been done typically talks about 60 per cent of pre-retirement income as being the real target that people should be going for. For people under average weekly earnings it might be a bit higher. For people over average weekly earnings it may not need to be that great, but for someone in the middle income bracket 60 per cent of pre-retirement income is the way to go. In our report we have done a lot of research on what those adequacy targets should be. We have done straight opinion polling and we have constructed retirement living benchmarks as to what lifestyles would be. A fairly modest target is in the order of 60 per cent or, in real dollar terms, about $35,000 for a single person and $45,000 for a couple. One of our recommendations is that the need to set clear targets is an essential part of creating incentives for people of all ages. We know that from the response we are getting and, clearly, that also counts for younger people. They need to pitch for a tangible target.

Just backtracking, the submission that we put together—I will get Ross to answer questions if you want—details the demographic profile of the under-40s. It is not as if they are particularly dissimilar from any other age group. They probably just have not had the lifetime experiences. It is a bit hard to track: are they really a peculiar group or is it that they are at a different life stage? Regarding the distribution of super for under-40s, already the gender issues have started to emerge as being particular focal issues. There is also the issue of expectations of future lifestyle needs, and those lifestyle targets that I was talking about really are for all generations. At the moment, one can only anticipate that the younger generations will probably end up with higher expectations yet again, because each generation coming through—as we have—has higher expectations than its parents or grandparents. The same could be true for generations coming through, so setting clear targets is important.

We have also looked at what would be good initiatives to take. Apart from setting clear targets, the co-contribution scheme, we believe, has been a very valuable initiative introduced by the government and something that could be extended further. At the moment, the full co-contribution happens for someone under $28,000 and peters out by $58,000, but over half a million people have taken that up. Sixty per cent of those are women and 40 per cent are under 40, from the statistics that are available. We believe, though, that if those parameters could be extended to middle-income people—so that the full co-contribution were made available to people on up to $40,000, still petering out at about the $60,000 mark—that would be an even more powerful instrument. By definition, those are the people who have more discretionary income. But it is proving to be a very valuable tool, and it meets people's mind-set: they think that when it comes to saving for retirement there is a joint responsibility between them and government. It does meet that mind-set.

We see that removing the 15 per cent contributions tax—that is the front-up tax—would also be a very powerful initiative. We understand that there are large amounts of money involved, so it could be done either in one year or over a transition period of five years. If we get back to setting targets, the target for most people needs to be a savings rate of 15 per cent over 30 years rather than the compulsory super of nine per cent that is there at the moment. That can be achieved either compulsorily, voluntarily or with a mix of tax incentives by government. If that 15 per cent contributions tax were removed, that would in effect be equivalent to three per cent—again, because of the power of compound interest. So the target would not be 15 per cent; it would be closer to 12 per cent. That would be a significant way of achieving that adequacy target.

Another issue we have raised is that the $50 per month earnings threshold for the compulsory super should be abolished. We see good reason for that. If you go back in history, that threshold was introduced in about 1992, at the time when the SG was three per cent. There was a concern about multiple small accounts being left around the place and the costs and administrative burden of those. Now we have the SG of nine per cent and we have choice and portability. All those things mean that the amounts and the potential of the savings are more significant, and there is a mechanism which means that we should not end up with multiple accounts around the place.

I would also point to the fact that about 26 per cent of the work force now is in casual employment. Not all of those will be under the SG threshold, but a good number are. A good number of people in the work force are cobbling together multiple casual or contract jobs to provide their total wages. So removing that $450 threshold as a substantive factor in savings for people who are in the casual and contract work force would be significant for the under 40s because of the number of people under 40 who achieve their income through casual and other work.

The other thing we have highlighted is the removal of the age based contribution limits. We see it as not being necessary. It reduces the flexibility to save when they can. The RBL limits would still be there, so that would be the mechanism in terms of putting a cap on the amount of concession or savings, if you put it that way. We see the two things in combination as not being necessary.

The last thing we have highlighted is that super funds should provide benefit projections to individual members on a standardised basis and as part of their annual reporting to members. We see this as a way of providing clearer targets to people. It is something tangible in terms of where they are on their own savings track. It goes back to that earlier point I made. At the moment it is a bit of a mystery for people as to whether they are saving enough and where they are on the savings route. Both Sweden and the UK do this in different ways. The statement, we would say, would provide projections based on what retirement income they would achieve given their current savings and level of contribution. To come back to your point, Malcolm, it would be shown in current dollars—today's dollars—so that you are not getting into Monopoly money sorts of figures. The assumptions about performance would need to be set by the regulator. For example, there might be three scenarios shown—a conservative scenario, a likely scenario and an optimistic scenario. Those assumptions would need to be set by the regulator. I will leave it there and open it up for any questions.

**CHAIR**—Thank you. You have talked about reform without focusing on the disincentives that are there—that is, why you basically think there has been a lack of take-up in terms of superannuation involvement of people under 40 and what those factors are. Certainly you identified the key factors as complexity and confidence in the integrity of the system et cetera. A number of these reforms sound interesting. But obviously, with the long-term projection, when people are young, retirement seems a long way off. We remember that ourselves. What do we need to change the mindset as well as the real technical incentives?

**Ms Smith**—The real problem is that retirement seems so far off and there are other immediate priorities. You do need extra incentives to ask people to lock away money until retirement because you are asking them to commit to that objective over and above any other objective they might have in their life without the flexibility of being able to withdraw it.

So there are good public policy reasons why we want to create that incentive and enough incentive for people to say, 'It's worth my while to lock it away for retirement'. With the wisdom of age, we have realised that retirement comes all too quickly. That is why, when you are looking at superannuation, there is a strong public policy justification for having strong incentives there. It is a win-win situation and the quid pro quo is that you are asking an individual to lock it away. Youth obviously feel that they are immortal and that they will never get to retirement age, so some of those things like the projection help to get over—

**CHAIR**—This is in terms of Sweden and Britain?

**Ms Smith**—Yes.

**CHAIR**—How exactly do they do that? Is it provided by the superannuation providers, with regular updates?

**Ms Smith**—It is issued with the benefit statement—such as funds at the moment on an annual basis. I do not think we are ready to make that compulsory. At the moment, it is not allowed in Australia.

**Mr TANNER**—What stops it, legally?

**Mr Clare**—It is the Corporations Law and the attitudes of ASIC, in terms of providing projections.

**Mr TANNER**—So it is prospectus laws and stuff like that.

**Ms Smith**—Yes.

**Mr Clare**—Yes, it is ASIC concerns about providing projections to individual members.

**Mr TANNER**—Are you referring to specific legislation or just a general fear?

**Mr Clare**—It is most probably more of a general fear. ASIC has certainly made it clear in a number of the policy statements and other materials that it has released that it is very uncomfortable with projections. There has also been a history of life insurance companies not using real projections but future dollars, using high earnings rates. That forms part of the background.

**CHAIR**—How do they overcome some of those issues in Sweden and the UK?

**Ms Smith**—They overcome them by the regulator standardising what the assumptions are about the performance. That is the critical thing. In Australia at the moment, with some of the calculators that we have, there is no standardisation of those assumptions so you can get hugely different outcomes according to the provider and what they have assumed in the figure. The fine print is too fine for people to understand.

**Ms GRIERSON**—You said that you do not support an age based policy, yet in this country we have an age based policy to get people into health insurance to save the public dollar in the long term. So why would you oppose an age based policy to encourage younger people to be in the position, when they are older, to have a retirement income?

**Ms Smith**—It just creates another round of complexity for super about who is eligible for what. It is a bit like the surcharge—it was done on a one-year base. In many cases it is just happenstance as to when people have an opportunity to save. If you look at the figures in here for women, it is precisely between the ages of late 20s to 40s that they will be out of the work force because of family responsibilities. The incentives might be pitched so that that is your chance to save, but for women it might be when they are in their early 40s and going forward that they will re-enter the work force and have an opportunity to save again.

To our mind, yes, we need to get the fundamentals right. There have been other arguments put that it is really the 45-plus group whom we should be giving huge incentives to at the moment because they are the ones who have a real shortfall in savings because superannuation is still new. They are facing the conundrum of retirement and they have to shore up the gap that is there at the moment. It becomes very hard, almost whimsical, to pick one group over another.

**Ms GRIERSON**—Do people in the 40-type age group seek that information and say, ‘How do I now maximise my position?’ Do they actively seek that?

**Ms Smith**—No, they seek it at age 45 and 50, when the reality of retirement becomes clear.

**Ms GRIERSON**—They are optimistic. Youth has a new definition, I am sure.

**Ms Smith**—That is the eternal problem: if only we could get people in their 20s to start to save. As I showed you in that table, the power of compound interest does most of the work for them.

**Ms GRIERSON**—It does eventually. You also had in your submission that 23.4 per cent of generations X and Y are not in the work force. I assume many of them are students. I have a view that probably a lot of them are participating in casual work and not even registering because of mobility and because of the predilection of some industries to work in the black economy. What about those people?

**Mr Clare**—It certainly gets difficult when people are not in the paid work force or only marginally so. As we note in the submission, the children's superannuation accounts did not work. For any group where there is no economic capacity to make contributions or where there is no employer to make contributions on behalf of those individuals, it is very difficult. Certainly for those who do have economic capacity directly or through a partner, incentives do come into play, and there we see the co-contribution as being quite important, particularly in those partnered relationships. But for someone who is single and without paid income, doing something about their economic situation is problematic and often they will have different priorities.

**Ms GRIERSON**—It is a disincentive to do so.

**Mr Clare**—The stages should be getting the first real job and then getting the first real mortgage rather than getting the credit card or a mobile phone debt. There are a few things that they most likely see as priorities before retirement savings, and that is part of the challenge of targeting the group.

**Ms GRIERSON**—Is there a need for a start-up bonus of some kind or a start-up introduction to superannuation?

**Ms Smith**—Looking at the early figures for the co-contributions, a take-up of 40 per cent for people under 40 surprised me. The funds had done a good job with it. They had targeted people whom they saw as being within the likely income parameters and eligibility, and they wrote to those people.

**Ms GRIERSON**—So they did campaign those people and it did work?

**Ms Smith**—It did work. Obviously that in itself was a bonus. There are not many spots where you can get 150 per cent return on your money, and that message has got through.

**Ms GRIERSON**—I heard that many people tried to renegotiate their packages under that. It should have been taken up by the people who needed it most.

**Ms Smith**—Yes, but the target levels at this point for the full amount under $28,000 taper out. At $28,000, unless you have a spouse working, it would be very hard to have the discretionary income. But, that said, some people did scrape by.

**Ms GRIERSON**—That is true.

**Ms Smith**—But that was our recommendation: to increase those parameters, and Ross has done some work on how the tapers would work in that scenario. Obviously, people are responding to it. With a bit more flexibility, the response would be that much higher.

**Ms GRIERSON**—Young people are often in several superannuation funds because of the nature of their working life. They do not do anything about it, because that is their nature. Several have raised with me the fact that they have a death cover component taken out five or six times through their very small different superannuation accounts—yet you cannot die five or six times. You do not really need five or six death cover components. I know they can consolidate these days but I do not think many of them do. I would like some information from you, if I am wrong. Is that a reality? Should it be so? Should you have to have death cover? It usually is a component that is deducted annually by every superannuation fund.

**Ms Smith**—The consolidation of accounts is something that the industry has been working hard at, as has the government. Funds are trying to make it as easy as possible for people. With the debate around choice, I hope one of the positive things is that we will in fact get more of a catalyst for the consolidation happening. Minimum death cover is important as part of the defaulter arrangements, particularly for younger people and lower income people. If you look at the very small accounts, often the most valuable thing they have is in fact the death cover, which is bought at a fairly low cost because of the economies of scale that the fund has attached to it. We have looked at a range of case studies where someone with automatic cover—which the family did not know about—has died. The account might have been $2,000 but they had death cover of $50,000 or whatever. It can be a significant thing.

**Mr Clare**—A counterpoint to your question about the multiplicity of cover is that the Superannuation Complaints Tribunal deals with complaints from the beneficiaries or potential beneficiaries about lapsing insurance cover. If contributions are not going in from an employer, generally that automatic cover lapses within a period of about three months. Also, many funds now have an opt-out provision for that death cover. It comes back to the individuals taking charge.

**Ms GRIERSON**—That is pretty hard.

**Mr Clare**—They do not consolidate and they do not opt out, but they then have complaints, which is fair enough given human behaviour. We need a system where it is easier for people to consolidate. Many funds are using the Australian Taxation Office’s super trace facility. On entry to many funds these days, there is an automatic search by that fund, which is authorised as part of the standard sign up, to look for records of inactive accounts on the ATO’s register. Funds will then undertake to consolidate those. That has been very successful. There have been hundreds of thousands of inquiries and quite a few consolidations of accounts that have happened through that process.

With better identification of individuals when they are signing up and more ownership of accounts by individuals we will have less of a problem in the future. But we acknowledge that it is an ongoing concern and we do field calls about this. There are two sides of it: people do not think they need insurance until something happens. People could equally complain that they

have not had a car smash and so should get the money back for their insurance premiums. We get that a little bit with superannuation and death cover. But equally, people go into a transition. It is not always formal marriage, but there may be a partner and there can be children. The automatic coverage at those young ages when the primary breadwinner is disabled or dies can be very important for those beneficiaries.

**Mr TANNER**—You mentioned briefly the research with respect to people's preferences for what they would like to retire on. Most of the stuff of that nature that I have seen in the past tends to fall into the category of 'What would you like for Christmas?' Has any of the research that you were referring to actually postulated counterfactuals where you say, 'What amount would you like, given that this requires forgoing current consumption?' Do you have research that produces an outcome where people are forced to make a choice where, if they do want to have 45 grand a year in retirement, they are making that choice in the survey explicitly with the knowledge that they are forgoing $50 a week now that they would otherwise have?

**Ms Smith**—Yes. We have done several ranges of research. A lot of the research was through ANOP, which we have now benchmarked over a number of years. It started off with 'What would you like?' and we have consistently got that $30,000—

**Mr TANNER**—I am surprised it is so low.

**Ms Smith**—It was expressed more as 'How much will you need?' It was not 'How much would you like at Christmas?' Initially we found a huge gap between people's expectations and how much they were saving. What has happened over the years is that people now have an awareness that there is a mismatch between what they think they will need in retirement and how much they are saving. There is a growing awareness that they are not saving enough. We then asked a range of questions about what they would prefer in terms of public policy. We asked about trade-offs like tax cuts, reducing the contributions tax and increasing savings in different ways. People were acknowledging the need for greater effort by themselves. I can send you the figures. That sets a picture of expectations and, in a sense, what will be the political will of people going through the system. It is important to know those expectations and to understand that there is such a mismatch, because there are going to be a lot of very unhappy people coming through the system at a later point, which creates its own problems.

The other research we did was with Westpac-ASFA retirement living index, and Ross can speak to this more. We looked at the ABS data as to expenditures of older people, and we constructed actual expenditure patterns of what lifestyle would look like on what we called a very modest income, which was $24,000—so it was more than the age pension but an amount people might be getting close to if the nine per cent were being saved for 30 years—and a more comfortable lifestyle, which came out at $35,000 for a single person and $45,000 for a married couple. We looked at what that buys you. If you look at that, you would have to say that it is very modest when you think of what most baby boomers are expecting.

**Mr TANNER**—This is the point I am trying to challenge: what the expectation is. There is a common theme in Australia that everybody wants something better on the assumption that somebody else is going to pay for it. When you start to probe and say, 'Okay, we can deliver something better but you've got to pay for it,' then suddenly the desire for the something better tends to melt away.

Has there been any research which shows—to use an illustration—that on your current contributions, you will retire on $20,000 a year? How much of your current income are you prepared to forgo—whether it is through taxation or through contributions, it does not matter; ultimately, it is all coming from the same place—in order to push that figure up? Are you prepared to forgo $50 a week in order to push it up to $28,000, or whatever the figure might be? Has any research of that nature been undertaken? I am highly sceptical of these amounts that are paraded around, because I would say $100,000 if someone asked me that question. Unless you actually have cold, hard, here and now choices built into those surveys, where people have to nominate and say, ‘I am prepared to forgo this amount of money now to get that higher amount,’ then I do not think the results mean much.

**Mr Clare**—We have done that already, in effect, with the nine per cent SG—the compulsory superannuation guarantee. We have talked to people and they now understand that, in paying that nine per cent, it comes out of their income. It is not magically coming out of somewhere else or from the employers. They understand that it means that they have less income now, but it will deliver income in the future. We have strong evidence that there is almost universal support for that compulsion in the nine per cent.

**Ms Smith**—And people support it.

**Mr Clare**—It tells us that people are not satisfied with the prospect of the age pension. That is very clear and they are willing to make financial sacrifices now. A lot of our research is pointing out to individuals the tensions in their expectations. If you look at the belief in Father Christmas, you will see that it is stronger amongst the youngsters. A higher percentage of them indicate that they anticipate or will need incomes over $50,000 a year in retirement. When we do our analysis, we say that that sort of percentage is quite unrealistic, because it will not be delivered on the basis of SG and any likely behaviours.

One of our roles is to help people make informed choices and that is why we are talking about enhancing the ability of funds to provide projections, so people can make those decisions and make them at a stage where the compound interest helps. Our surveys identify that there is a realisation that people’s current saving patterns might not be enough to generate the incomes that they would like in retirement. That is recognised by many of them and we explore that in our questioning.

In terms of what they do about it, it is partly a knowledge thing: how much, what they should be aiming for and how can they afford to do it is another important thing. We have talked about potential roles through greater incentives by reducing contributions tax or co-contributions. There are also a number of interesting schemes where people are quite happy to go along with compulsion or strong defaults. We are not putting forward a proposal to increase the superannuation guarantee. There may be scope to have arrangements where individuals can, through a variety of employment related superannuation arrangements, make their own contributions on a regular basis.

**Mr TANNER**—Why aren’t you putting forward a proposal to increase the SG?

**Ms Smith**—Our proposal is that we need to get to 15 per cent and we need to get to it by a combination of increasing the compulsory super, government tax incentives and voluntary

contributions. Going back to the research we have done, our research indicates that most people believe that more needs to be done. They are surprisingly supportive of the compulsory super because they know they need the discipline themselves and the community needs the discipline. They acknowledge that there are some next steps. They see the next steps as being most generally a mix between themselves and government. The employer bit comes down surprisingly low in terms of what people say about being responsible parties. To pick up on what Ross was saying, it would be good if we could get it in play, but it is a bit difficult in a choice environment, where the old style corporate funds really will not be around in the future. In the US, for example, where the corporate fund situation is stronger, what has been very successful is what is called the soft compulsion option, which is automatic enrolment. It is not current wages that you are asking people to forgo; you are asking them to forgo part of their future wages. And, if they sign up for these programs, it then becomes an automatic deduction thing. Extra savings are going into their plan, which they can opt out of. But it is more a matter of soft compulsion arrangement.

**Mr TANNER**—Surely, irrespective of what people say in surveys, they are behaving in an opposite manner. If you look at the savings rate in this country over the past 10 years or so, whatever people say when they are confronted with the one-dimensional question 'How big a pile of loot do you want to live off when you're 70?', the reality is that they behave quite differently. I would still argue that, when presented with genuine rigorous choices which say, 'Yeah, you can vote for this, but remember you get $100 a week less now,' people are going to vote to keep that $100 a week.

**Ms Smith**—We did ask them at one point whether they would prefer a tax cut or the removal of the contributions tax, and 76 per cent said to remove the contributions tax. Admittedly, that was done in a context of a survey about superannuation, but it does show that, with some level of explanation—people are not always rational; it would be nice if people were rational in what they did—people can understand these concepts. But, I have to say, we are focusing on the under-40s and it is harder to get to the under-40s than it is to the 45s.

**Mr TURNBULL**—You advocate removing the tax on contributions in advance—among others, the familiar argument of an intergenerational transfer—but you do not, in that context, as part of that argument, propose that withdrawals be taxed at the usual income rate, which is normally part of the intergenerational argument. That is the first question. The second questions was—

**CHAIR**—Maybe we should get an answer to the first question.

**Ms Smith**—The answer to that is: because we were focusing largely on adequacy. It had to be done on the adequacy scale. You would have to be very mindful of the transition of that, obviously, because of the double tax that might emerge.

**Mr TURNBULL**—It would be very complex, wouldn't it?

**Ms Smith**—Yes. But, yes, it is feasible. Taxing once at the end would be the perfect solution.

**Mr TURNBULL**—Mr Tanner dealt with the question of savings and I note, in that context, that in 1975 Australian households were saving 16 per cent of their after-tax income. They are

now dissaving three per cent. You may want to comment on that. The final question is: could you comment on the tax treatment and attractiveness for Australians, particularly those under 40, as a retirement investment of, firstly, superannuation; secondly, negatively geared investment real estate; and, thirdly, an owner-occupied home?

**Mr Clare**—In terms of relative ranking, it is a rather problematic exercise and I think the equations are changing. The people who were keen on negatively geared real estate and other industry associations—the Real Estate Institute, or whatever—have gone a little bit quiet lately. We have lower tax rates, particularly at the upper end; we have lower inflation; we have lower increases in house prices. The Commonwealth Treasury has published a couple of research papers, and I can forward copies to the committee. Superannuation is relatively tax advantaged. Some of the other investments that you are talking about also receive some tax advantages, and they are fairly well known.

The attractiveness of each does depend on some basic parameters and the equation is changing. So the relative attractiveness of superannuation is increasing not because of negative gearing arrangements, but due to changes in actual and perceived rates of inflation, in housing prices and also the changes to the tax rates. They also have implications for the tax attractiveness of superannuation. Fortunately the surcharge is about to go, once the legislation goes to the Senate again. So we do have a change in the relative attractiveness in concession to the various investments, but certainly owner-occupied housing has some tax advantages. We also argue that it is a very important part of saving for retirement. Our budgets for retirement assume home ownership outright. If you are in private rental during retirement, you have mostly got to add another $10,000 to those budgets.

**Mr TURNBULL**—If, at the same time, you are advocating home ownership, why would it surprise us that under-40s, who are the most indebted Australians—the most indebted Australian householders are between 35 and 45 with kids—are focusing on their saving, and I use that in a non-technical sense, in paying off their mortgage?

**Mr Clare**—It does not surprise us, and it is part of the challenge of designing policies for that group. It is one of the reasons we have said that we should have policies that make contributing to superannuation attractive across all the age groups and, for some people, it will be after that initial hump of achieving home ownership and perhaps there being only one main income earner.

**CHAIR**—Do you disagree with Philippa's comments that you should not have differences with the age groups as a starting point?

**Mr Clare**—Focusing on some groups, there are matters of equity and then there are matters of effectiveness. It comes down to what are the drivers of behaviour. People do have different life courses too. We have a drifting out of age of first marriage and achieving first home purchase and the like. We have a great deal of variation in those ages and a great deal of variation in circumstances, but we think good policies are good policies for people under 40 and for over 40 as well. That is why we have been focusing on some fairly generic measures. Some of them are more likely to be effective for the under-40s. The illustrations might be a useful, educative tool, because the disjoint between knowledge, needs and expectations tends to be greater in that area.

For some of the other measures, they are likely to be less effective for the under-40s because of a lack of economic capacity or competing priorities. But the whole mix of them—as we have already noted, there is a very substantial number of people under 40 gaining the benefit of co-contributions—is a very relevant measure. People in that age group may have other priorities as well, but due to the income test for it and the knowledge of the significant minority there they are making use of it. So I do not think there are any easy answers. If there were more money around, people would be better off: it is the statement of the obvious. We are designing our policies to help facilitate people getting to the stage where they have the capacity, the incentives and the knowledge to contribute to retirement savings and do the other things they have to do in life, but it is a big challenge.

**Mr CIOBO**—It is a very interesting submission. Thank you very much; I have enjoyed having a look at it. I would be interested in your comments about some of the policy challenges that face women, particularly for those who exit the work force for substantial periods of time or who might be engaged in casual labour. Do you have any policies that are more specific than the overview that is provided in the submission? Also, very quickly, recommendation 4 got me thinking. You asked for the abolition of the earnings threshold because it is part of the broader debate about personal responsibility versus having it enforced. At a time when I have had many small businesses talk to me about wanting to have it raised because of the compliance side of it, whether you have comments about the trade-off between taking ownership at an individual level versus saying 'We need to get this money going in there' at a time when it does provide an impost on to a third party—that is, the small business or whatever.

**Ms Smith**—The same impost is there for the SG generally, so what we are trying to do here is just expand the coverage of who can get access to the SG. I was trying to highlight that there are now significant numbers of people in the work force on casual employment who would benefit. A lot of them would be women. If you are looking at measures that would really help women, that would be one of them. The SG has to be paid for everyone else. In the choice environment, we have been putting in play the SWIMEC protocols that we have got, which are automatic electronic transfers of moneys and data. A lot of the office systems now are setting that up. There has been a lot of effort to streamline it. I think it becomes more a matter of who should be entitled and the coverage, and looking at it from that perspective, rather than, 'This is another group of people we do not want to pay SG for.'

**Mr Clare**—On the women in super we have done quite a bit of work on that topic. I can forward a recent paper that we prepared to you.

**CHAIR**—What were your main conclusions out of that?

**Mr Clare**—It is what I call the statement of the bleeding obvious. You can do a lot of research and determine quite conclusively that on average women tend to have less entitlement to superannuation than men—or you can ask your mum. Each will give you the same answer. The diagnosis leads us to some recommendations, and they are not too dissimilar to our general recommendations. They have to do with the earnings threshold, the co-contribution. We are very pleased to see the surcharge go. There is the matter of education, there is the matter of encouraging women to regard superannuation as their asset rather than the family's asset. There are the family law changes, which have also been helpful. So there is a variety of things.

Basically, like many social equity issues, the diagnosis and identification of the problem is a bit easier than the solutions. But we feel that the solutions we are putting forward are good for women and good for men and good for those under 40 and good for those aged over 40. We are quite universalist. We, equally, look at the different segments and look at some of the drivers. But with some things like education, as our colleagues in the superannuation funds tell us, you do not go in for generic marketing. Any person marketing knows that there are different components of the market and different drivers. So I think in those sorts of areas we can learn some lessons and do certain things but otherwise, given the nature of our society and given the diversity of individuals, where people can be in the same circumstances, using one marker of age or gender or whatever does not really make them more deserving than someone else. You have to get down to the fundamentals of how they have got to their situation and where they might go if you do something else.

**Mr CIOBO**—That additional information would be appreciated.

**Mr SOMLYAY**—In my experience with superannuation and young people, one lasting impression is the cynicism of people when they first start work and get their superannuation statement and, after a year or so, they have less money in there than they put in, because of non-performing funds. That creates a certain cynicism. You might like to comment on that.

The other thing I want to mention is that people now expect a change of career four or five times during their working life. Many people go into a different employment situation as time goes on, and they might go into do-it-yourself super schemes. Does your organisation have a view on the role of do-it-yourself super schemes as a supplement to retirement incomes or as a combination of a mix?

**Ms Smith**—Superannuation and, obviously for some people, other investments generally will be part of the mix of what they are doing for their retirement planning. The truth is that for the biggest part of the population their home and their superannuation account, as opposed to other investments, are the only assets they have available to them. In terms of the do-it-yourself schemes, our view is that they are now obviously a part of the superannuation landscape. We see them as being appropriate for a small percentage of the population who have the skills, the expertise and the time—in fact, people who know what they are doing. We have some concerns that there appear to be many more people going into those schemes than we would anticipate as being equipped and knowledgeable enough to do that. That raises broader public policy concerns for me as to what is going to happen to those savings and that retirement income down the track, because, if it does not work out, the community as a whole will have to support it with the social security system or the like. It certainly has a place. I have concerns about whether people really understand what they are getting into. We have some evidence that they do not understand all the compliance things, the costs that are associated with it or the principles of investment and diversification—those sorts of things. I guess it is a matter of ongoing regulatory oversight and education as to that part of the segment. I think confidence in super is the kernel of what you were asking about before and there are two things.

For people with small accounts—we have the protection thing for the very small accounts—certainly there were a couple of years when the funds were going backwards. It was an interesting period, because it was the first experience of that for a lot of people. In fact, it was almost a counterintuitive thing. The funds had been doing so well for so long that people just did

not understand that in investment there is a thing called risk and that you occasionally go backwards. That was a shock for people; they had just never experienced it. They had never thought about it, regardless of the information that had been given to them. For some people, that lives on in their memory, and I think it takes a long time to get over it. The returns are very good at the moment.

**Mr Clare**—We have had two years of double-digit returns. One of the things we pick up when people ring us to discuss superannuation—and a great variety of people do it very regularly—is that when they look at their statement they might see that $1,000 went in but only $850 was credited to the account. We explain to them that it is the contributions tax and not the superannuation fund making off with the money. For many of the low account balance people what they are looking at is not necessarily the balance from year to year—it is static, with no contributions—they are looking at the contributions that went in and the overall amount they have as a total.

When they go through the statement they can realise that, on closer examination, it is not really the fund that is doing it; it is the contributions tax. We do have member protection for the small accounts so that they do not go backwards due to fees. When you have 15 per cent investment returns, the fees are generally much less than that. We have the issue of insurance, particularly the compulsory cover, but there is a much greater tendency for opt-out arrangements and other things. So there are a variety of influences, but the contributions tax is one of the major things that makes small accounts go backwards from the contributions they have received.

**Mr SOMLYAY**—Is there a latest estimate on the amount of money that is sitting in funds from people overseas who have come out here to work? I can remember from an inquiry years that there were billions of dollars sitting in accounts from people like backpackers who went overseas and left their super behind.

**Mr Clare**—It is an area where I have done some work. There are some particularly uncertain estimates that the Treasury put together. They saw a great pot of money coming from the tax on the release on these amounts to certain non-residents who have returned home. There has been a certain shyness from the Treasury officials on saying how much has actually come from this. That is partly because of the way it is reported. I think the first lot of data should be available now, but I am not aware that it has been made available. My own estimates are that, when you have a look at the number of people involved, the types of jobs they are in, the visa restrictions on the work they could do and the compliance of some of the employers of fruit pickers and casual cafe staff—particularly when they were working low hours—and you do the arithmetic, there ain't a big pot of money there. Some visiting overseas executives might have had larger amounts, but they would wait till retirement and take it at concessional tax rates rather than the not-very-concessional rate that the scheme offers. So we have had a look at it. I think the estimates of the revenue to government from that were at the very optimistic end. I could be proved wrong, but I would be surprised to be proved wrong.

**Mr SOMLYAY**—We can ask Treasury.

**CHAIR**—I have heard an estimate of it from the tourism industry, but do not know whether it is reliable. Our secretary made an interesting comment to me when you were talking about the various areas of investment following Mr Turnbull's question. Has the superannuation industry

looked at using equity in super schemes for investment in housing in that hump period of high household expenditure and demands?

**Ms Smith**—We would be concerned by that. Our thinking is that it would be a depletion of savings overall and a diversion from the target of getting retirement income savings where we know there is a gap anyway. We know that the incentive for saving for housing is quite strong in itself and we know that people are not saving enough for retirement. If you allowed a diversion from the retirement savings to housing, overall I think you would be reducing savings.

**CHAIR**—But if they paid it back?

**Mr TANNER**—This is one election promise we broke that you would never attempt to support.

**Ms GRIERSON**—Can I pose a scenario that I think this country has to think about. You are right to say that there are big incentives for home ownership—first homeowner grants and those sorts of things. Negative gearing was always an incentive for savings—people often used it, traditionally, for saving for their retirements. Now, when people do not save, superannuation has become the modern day saving. Housing used to be the modern day saving; now it is more investment and add-on, and the dynamics have changed a great deal. Why would we not see the same sorts of incentives that have been given to housing over time to superannuation, if we no longer have savings? The generation of capital these days comes from superannuation funds more than perhaps from many other things.

**Ms Smith**—Yes, if there could be more incentives for superannuation, that would be good. One of the comments that I was going to make before was that I see individual home ownership as being a very important part of what we need to get to. But, as to the negative gearing of investment, to me it is bizarre that we give so many incentives to that as a form of investment if you are looking at what the outcome is for the economy overall. I think as some of the recent debate has shown, it has really become one of the key elements of dissaving.

**Ms GRIERSON**—Once it used to have a public dividend. It meant that rental properties were available and more affordable. These days that is determined by all sorts of other things rather than negative gearing. It is an interesting point.

**CHAIR**—We should probably cut it off there. We are running behind. Obviously it has been a key part of what has been presented to the committee. We appreciate the input. We will undoubtedly be in touch with you to get further clarification. It may be necessary to have a further session because you are a key player in the area and obviously you have a lot to contribute. Thank you for coming.

[10.30 am]

**OLSBERG, Dr Diana, Director, Research Centre on Ageing and Retirement, University of New South Wales**

**CHAIR**—Welcome. Do you have any comments to make on the capacity in which you appear?

**Dr Olsberg**—As an economic sociologist, my research has for a number of years been concerned with superannuation and retirement savings.

**CHAIR**—The committee has before it your submission, which we received this morning, as I understand. Thank you for that. Is it the wish of the committee that the submission from the Research Centre on Ageing and Retirement be received as evidence to the inquiry into improving superannuation savings of people aged under 40 and be authorised for publication?

**Mr SOMLYAY**—I so move.

**CHAIR**—It is so ordered. Dr Olsberg, do you wish to make an opening statement before we proceed to questions? As we have only just received the paper, perhaps you could take us through it.

**Dr Olsberg**—My concerns and my recommendations relate to the currently disadvantaged position of young people aged under 40 employed in the work force with regard to their access to equitable and adequate possibilities for retirement savings through the superannuation guarantee contributions and additional contributions which they might like to make. The main focus of my own research has been on the disadvantaged position of women in accessing retirement savings as a result of their fragmented work patterns and the preponderance of women in the part-time and casual paid labour force. Yet young people in the work force are similarly disadvantaged on account of their marginal attachment to the paid labour force. As a consequence of this marginal attachment, very many young people under 40 are being denied the opportunity for equitable and adequate access to superannuation benefits enjoyed by other members of the paid labour force.

While there is a generally increasing casualisation of the entire work force, young people are particularly at risk of having fragmented work patterns and of being employed long term in the casual or part-time paid labour force. I want to quickly summarise their particular position of disadvantage as follows. Young people are disproportionately among the unemployed. Additionally, our unemployment rate does not change greatly from one month to the next, but there is a change in the actual people who are unemployed in those two months. Many people change labour force status from one month to the next. I want to argue that young people are disproportionately represented among those people who have constant change in their labour force status.

In 2004, for example, a greater number of young people changed labour force status from one month to the next compared with prime age, mature age working people. Averaging across 2004,

a greater proportion of young men and women—that is, 18 per cent for both females and males—changed their labour force status. This means that almost one in five young people changed labour force status, many of them moving in and out of the work force. There is also a move from full-time to part-time employment. In 2004, many young people—three per cent of men and eight per cent of women—moved from full-time to part-time employment. This rate is substantially higher for young people under 40 than for more mature members of the paid labour force.

My most important point is that young people are disproportionately represented among casual employees. Although young people made up only 21 per cent of all employees in 2003, two-fifths—40 per cent—of casual employees were young people aged 15 to 24. Casual employees do not enjoy the same rights and entitlements as ongoing employees. Apart from low pay and low career opportunities, they are particularly disadvantaged in their access to superannuation, so their retirement savings continue to be severely negatively affected. There is a continuing increase in casual employment and part-time and fragmented employment profiles—in particular, there is casualisation in the lower skilled occupations such as elementary clerical, sales and service workers, labourers and related workers.

Women are particularly at risk among those aged 25 to 39. Women are disproportionately represented in the ranks of part-time, ongoing employees. So we are not talking about people spending just a short term in the casual labour force but about people who are ongoing employees in a part-time or casual role. Women’s working patterns, their lifelong earnings and therefore their capacity to accumulate sufficient retirement savings, are crucially compromised by interruptions to paid employment due to child-bearing, child-rearing and other family responsibilities. Increasingly now they are caring for their older and infirm parents or other relatives. So it is not just that period out of the work force caring for children; increasingly nowadays women are caring for elderly relatives.

Casual employees are more likely to have more than one job. In 2003, eight per cent of employees who were casual in their main job held multiple jobs, compared with four per cent of employees who were ongoing in their main job. Particular industries and sectors are large employers of casual and part-time labour, in particular those where there are seasonal or daily variations in workloads such as cafes and retail stores. These types of jobs attract younger workers as they offer them the opportunity to gain work experience, earn income and combine work with study—and frequently they are the only sorts of jobs that young people can get.

Women are particularly attracted to these jobs as well, since they are probably the only sorts of jobs which offer them part-time work thus offering them an opportunity to combine work and family responsibilities. This is particularly important for women aged between 30 and 40 nowadays, because, since child-bearing occurs now at a later period in women’s lives, women between 30 and 40 are the ones most at risk of being out of the work force. I have just given you some detail about the high rates of casual employment in certain occupational sectors.

What are the outcomes of this marginal position of young people under 40 in the paid labour force? Casual employees are compensated for lack of paid leave entitlements by a casual loading of their hourly rate of pay; but, even so, hourly earnings of casual employees only totalled 77 per cent of ongoing employees’ earnings. Young workers under 40 are particularly disadvantaged in their access to superannuation benefits. This affects not only their long-term retirement

savings—and this is a point which I particularly want to make—but also their immediate access to death and disability benefits. Of note, too, is that younger workers are particularly at risk of occupational health and safety hazards in the sorts of occupations which I was talking about earlier, in which young people are employed.

Also, younger workers have a multiplicity of funds, which are difficult to keep track of over long periods of their working life. Look, for example, at the huge amounts in lost moneys on account of young workers. I do not have the exact details for the full funds being held by the ATO; it is not possible for me to have that. I do know about this in terms of my own fund. I am Deputy Chair of UniSuper, which is the national academics' fund, and in that fund our greatest problem is trying to keep in touch with younger, casual employees who are working in the university sector, not only as academics but as general staff. The greatest number of letters returned from lost addresses come from younger workers. I am sure that pattern must be replicated across the sector.

Compulsory superannuation is only required for employees earning more than $450 per month from one employer. Therefore short-term employment, whether it is casual or part-time, earning less than $450 does not entitle you to the superannuation guarantee charge. As Philippa Smith was explaining to you, work for multiple employers where an employee earns less than $450 for any one employer also does not, of course. In the research that I have done, particularly nurses, when they are in the private sector doing community care and those sorts of things, work for a range of employers, many of them earning substantially more than $450 a month. But of course, because they do not earn $450 from any one employer, they do not get anything. So they are severely disadvantaged. Would you like to ask me questions on that, or would you like me to go ahead with the sorts of proposals that I want to suggest?

**CHAIR**—Why don't you do that.

**Dr Olsberg** —As Philippa Smith was talking about, I think the removal of the $450 entitlement to the superannuation guarantee charge would significantly assist younger workers who have this marginal attachment to the work force to start to accumulate. As the previous witnesses were saying, the compounding of interest, in the data which I think they have given you, demonstrates what a big difference that makes.

I think that the way in which they were talking about it does not actually resolve the huge complexity which that might create for employers, so I want to suggest—and there is a model for this; it is not that I am just reinventing the wheel—the establishment of a single, central, superannuation fund for intermittent and casual employees earning under $450 a month which is similar to the system which operates in Finland, where I have been to study that system in some detail. Finland is probably the only country in the world—and that is why I have been there to look at it—that has a system which is so similar to the Australian system, in that they have a mandated compulsory superannuation contribution from employers into decentralised, privately managed invested funds.

But over and above that system, which we have here, they have a central pension institute into which the money goes for casual employees. Only when an employee moves into longer-term employment do they then go into one of the separate decentralised funds. This has tremendous advantages. You do not have this multiplicity of funds—and largely, I think, a lot of these funds

which young people have end up in the lost moneys register. You were talking earlier about the sort of myopic view that young people have about whether they are ever going to be old. I think that that is one of the reasons that Ms Grierson was talking about: the difficulty of trying to get them to see that they really do have to be concerned about that. They do not transfer the funds into one fund; they think, 'What was it all about?' To set up a central pension fund which takes the contributions for anybody who is earning less than $450 a month from one employer I think would mean that a lot of people under 40 would be accumulating significant retirement savings.

In Finland they have a direct connection. They do not have an Australia card, but they have a number—it is called a pension number, actually—which is given to them at birth. We could do the same, either with the tax file number or the Medicare number. Everybody in this country has a Medicare card. There is no reason that the Medicare number could not be used in that central pension fund. I think that would resolve a lot of the problems which people talk about in terms of how you get people to transfer the money.

Philippa Smith was saying that they have simplified it, but I have tried to talk to some young people when I am giving speeches. I ask them, 'Have you all transferred?' They say, 'You get in touch with the fund and they say I have to get a form from the other fund.' It is too complicated and they do not do it. I think the solution is to set up a central pension fund, not particularly for young people but for anybody earning less than $450 a month. That could, of course, be a government fund or it might be a private fund but I think that that is certainly an issue which could be investigated. Perhaps looking at the finished model is a way of actually looking at that.

I want to particularly argue that the choice of fund presents particular challenges. It is very difficult—this is an issue you were struggling with before—to try to get young people to see that they are going to be 60 one day. Sometimes I feel quite guilty when I am actually giving addresses. When I was 25 nobody ever thought about being 60. Was it Abby Hoffman who said that nobody wants to be over 30? It is very difficult to get young people to think seriously about their retirement savings. I think a lot of the responses to the sorts of research that goes on are people just giving a glib answer. I am very suspicious of a lot of the research which talks about this sort of stuff.

The very important thing that superannuation can and does offer to young people is very low-cost health insurance and death and disability insurance. I am a part-time member of the Commonwealth government's Superannuation Complaints Tribunal. I have been sitting on a case this week of a young man, aged 29, who had been in employment for only one year. He had only a couple of hundred dollars in his superannuation fund. He was unfortunately killed in an accident and his partner got $80,000 as a result of his death benefit.

That is a tremendous advantage for young people who could not afford to separately, or they would not separately, take out death and disability insurance. My concern with the choice of fund is that there will be a lot of marketing of a no-frills type of fund which does not offer death and disability insurance. It is very important for the government to try to regulate this and ensure that all funds offer this death and disability insurance because that is an immediate advantage which a 23-year-old, a 26-year-old or a 37-year-old gets out of a superannuation fund.

I do not consider that it is well promoted. If you ask young people you will find they are really not even aware half the time that they have a disability and death benefit in their fund. But that is

something which they get the day they join the fund. It is not something that we are asking them to think will happen in 40 years time. I think greater promotion of that aspect of superannuation would be a good way to encourage people to actually think seriously about superannuation.

The health benefit funds—MBF and HCF—have spent millions it seems to me when I am watching television telling young people that they could also have an accident. I do not know how effective that has been in terms of dollars into the health funds but certainly it has created, I think, a general awareness among young people that things happen to them. I think that that is an important aspect of superannuation which should be promoted.

The other thing—and I know there is a lot of resistance in the superannuation industry to this—would be if there were the possibility of using the superannuation fund as equity for a house mortgage. That would be a very significant feature for young people. I agree with Philippa Smith that it is perhaps not a good idea to allow them to withdraw money from their superannuation fund. But if there were some way that the government could support the use of superannuation as equity against a home mortgage, that would be a very significant benefit for young people.

My current research is to do with housing, and the housing take-up by younger people is falling dramatically. Not only is it very difficult for young people to afford to buy a house, but a lot of research now says that young people are making lifestyle choices, that they are going out to restaurants and doing other things. I think a lot of those lifestyle choices are not necessarily made because they prefer to do that—although I am sure they give immediate gratification—but because they feel there is just no possibility of ever getting to the point of having enough money to take a house mortgage, particularly in the capital cities. If they could use their accumulated equity in their superannuation fund in some way to support a housing loan then that would be a good thing.

**CHAIR**—Dr Olsberg, you have presented us with quite a refreshing range of ideas. I was speaking to the secretary earlier about the problem of young people simply forgoing their super investment when they move on to another job and how that acts as a real disincentive. I was attracted to what you had to say about Finland. What has been the track record on that?

**Dr Olsberg**—That system has been running in Finland since 1962. When I came back from Finland, I gave several papers to Treasury and to ISC, as it was then, about moving much more towards the Finnish system of having that central pension, but there was no interest. As we realise the continuing importance of private retirement savings for people's access to a sustainable lifestyle in retirement, we must look at some of these possible ways to supplement the existing system.

**Mr CIOBO**—Is it compulsory that everyone joins that central system and would you do something similar in Australia, or is it an opt-in thing?

**Dr Olsberg**—No, it is compulsory. The Finnish system is exactly the same as Australia's: an employer who employs somebody has the compulsory requirement to make a contribution to their retirement savings.

**CHAIR**—You talk about the problem of many 19- to 24-year-olds being in part-time employment. That also relates to full-time students who are supplementing their income in that way, so it is a real way of addressing that issue. With regard to the question of using equity in the super fund, have you had discussions with the university funds? Have you discussed the proposal of having one central scheme with the superannuation companies?

**Dr Olsberg**—No, I have not. I do not know how the banks would see it.

**CHAIR**—The concept of having one central pool for young people under a certain cut-off point for death and disability coverage, which also acts as a real incentive, and taking equity into housing are issues we could explore.

**Mr SOMLYAY**—I want some clarification on one point on death and disability insurance. If a young person is in a job, is a contributor to a fund and dies, their next of kin gets the benefit. What if they move to another fund? What happens to the death benefit in the old fund? Does that lapse because they are no longer contributing?

**Dr Olsberg**—Yes, and that has always been the advantage—

**Ms GRIERSON**—I think it attracts fees, doesn't it, over and over again until it almost disappears.

**Dr Olsberg**—If they do not go into a new job then it does almost disappear because it keeps getting taken out of the fund and then when it runs out their insurance lapses. That has always been the advantage of the industry funds. When somebody is working in the building and construction industry and they go and work for another builder, they are in the same fund. That has been the tremendous advantage that the industry funds have had over the previous corporate funds.

**Mr SOMLYAY**—But what if a person was in three funds at the one time? That can happen if you have three different jobs.

**Dr Olsberg**—And you are paying three different insurances.

**Mr SOMLYAY**—Okay. You will get three different benefits.

**Dr Olsberg**—Young people, of course, have a higher death benefit. It reduces as you get older because that is the way insurance actuarial tables work.

**Mr CIOBO**—From my perspective, one of my biggest concerns about superannuation is that very few people take ownership of it. They take little interest in it. It is considered to be complex and therefore, through a largely paternalistic approach with policy settings, people outsource it all to government and think, 'I'm not going to deal with that.' I do not mean this in a disrespectful way but, whilst the thrust of what you are saying is superficially attractive, are we not just going down a path where, quite frankly, we are doing all of the work for everyone else? What is wrong with saying to people: 'You need to get off your backsides and take some responsibility for your superannuation. If you have 20 accounts, then, sorry, you are going to

have to spend half an hour consolidating that into one fund. You are going to have to take some interest in what is available in the marketplace.'

There are perfectly good retail funds, industry funds and other sources available to people if they would only take some responsibility. My concern—and I would like your response to this—is that, if we continue down this path and say, 'Let's have one big central government fund and make it compulsory for everyone,' we just reinforce this notion that people can sit back, have a haphazard attitude towards their retirement and we will take care of it—they need not worry about it. I am interested in your comments on that.

**Dr Olsberg**—There is a great problem in this country. I think we suffer from a national delusion. I have just done a huge national study on older people. There were 7,000 responses. It is the largest database of older people's intentions that has ever been developed in this country. One-third of people over 50 expect to use government services for any of their health and residential care needs and 20 per cent of them have never considered what they will do if they need these sorts of things in the future. It is a national delusion that we have. We are in a blessed country and we have benefited from a national health system which has served the whole community extraordinarily well. The result of that is this delusion that we will be looked after.

We are just beginning to see people getting to a certain level of anxiety and wondering, 'Will I have to wait for something to be done? Perhaps the pension will be more targeted and I will not earn as much as I do now and still get the aged pension,' and all of those sorts of things. So this is long-term issue. But to address your particular question, if young people have one fund in their name, that fund is going to be accumulating more money than the seven funds which they may have and have completely lost track of. That will encourage them when they then move into the full-time work force and they take that money with them. The money does not stay in the central pension fund. It moves into their full-time employment fund and they then have a substantial amount of money.

I frequently talk to people about superannuation, particularly young people at the university, and most of them are working in part-time jobs. I ask them, 'Do you know where your money is?' Eighty per cent of them have no idea of the name of the fund, whether they have received a statement or how much money is in the fund. As to the view that Ross paints of them all being worried about the contributions tax—they haven't a clue. They do not even know about that issue. Half of them do not even look at the statement. They just quickly look at whether they have any money or not. They do not pore over the statement; they just don't. But if they have one fund in their name, which they can move with them, I think that they will feel more ownership of that one fund than they do of the seven different funds they have all over the countryside.

**Mr TURNBULL**—Would you suggest that the central pension fund that you refer to in your paper is only applicable to intermittent and casual employers?

**Dr Olsberg**—Absolutely. I am not suggesting we set up a national superannuation fund.

**Mr TURNBULL**—No, I understand that. I wanted to clarify that. A lot of employers—and I am thinking of the restaurant and catering industry, in particular, who have a lot of casual employees and, indeed, a lot of foreign, working-holiday employees—complain about the

complexity of managing the superannuation side of their obligations. I am putting to you for your comment what I anticipate they would say if they were here: if a restaurant owner had to distinguish between the pension funds into which payments would be made for casual employees versus permanent employees, that would add another level of complexity for the employer. Could you comment on that?

**Dr Olsberg**—Yes. That has already been created by the choice of fund. That did not exist beforehand, but the choice of fund has already created that complexity for every employer.

**Ms GRIERSON**—The issue of women's superannuation is a very real one. We have seen such trends. I generalise terribly, but I would have thought that when looking at older women you would be looking at a high degree of aged pension reliability. We are also through the era of high divorce rates, and an individual woman without the history and background to support retirement income is now having to be self sufficient. There are future projections that there will be more single women who are financially independent. But for public policy, there are women already in those situations that need to be supported right through.

Are there ways you see that women can be assisted? They come in and out of the work force because of child-bearing. They access their entitlements because of their family role and to support their families. What else can be done to support women? Getting to them early might be a good idea.

**Dr Olsberg**—There are cheap ways of giving them some advantage and there are also very expensive ways. The most significant way, and probably the way that is least of a fiscal burden, would be to provide a superannuation guarantee charge on top of the carers benefit women receive when they are out of the work force—doing what I would argue is shouldering the burden of society by caring for children or caring for the infirm. Women who are out of the paid work force but who are in fact being paid a welfare carers benefit should also be entitled to be accumulating a retirement benefit for their old age. As well as that, there may be a possibility—and this happens in some other countries—of giving them some sort of pension benefit, which they accumulate for a significant period of their caring responsibilities and which adds on to their age pension.

**Ms GRIERSON**—Could you attach that to a baby bonus as well?

**Dr Olsberg**—Absolutely. There are lots of ways that you could do it. It is going to be very difficult to introduce fully paid maternity leave right across the work force. My daughter has just taken 12 months maternity leave from a job which she had for 12 years and did not get paid one week. She went immediately from a two-income family to a one-income family, and that was very different. But it would be possible to require employers to pay the superannuation guarantee charge while a woman is out of the work force on maternity leave. That is not going to be a huge amount of money.

**Ms GRIERSON**—That could be paid for a certain period—while the children are young or whatever.

**Dr Olsberg**—Just while she is on maternity leave. It is a maximum of 12 months. But at least that would provide continuity for 12 months. Many women finish the job and perhaps do not go

back to work. They then have no encouragement to continue their superannuation. If there is that continuity in receiving the superannuation guarantee charge, hopefully they may be able to continue contributing even while they are out caring for their children. I have done some studies. Philippa gave you in her submission ideas about how much people lose when they are out of the work force. With compound interest, it is so important to maintain continuity with even a small amount.

**Ms GRIERSON**—That pick-up fund would be efficient to administer.

**Dr Olsberg**—Yes.

**CHAIR**—I presume the government would provide some of the funding that you would look for in terms of that.

**Dr Olsberg**—Yes. The benefits are long term. Hopefully, you all see that as very important. It is going to be an amount that the government has to support. But the benefits of making that investment will be returned in perhaps greater voluntary contributions that people will make and perhaps less dependence upon the state.

**Ms GRIERSON**—Even population growth, in terms of the ageing demographic, I would think would be an incentive as well.

**Dr Olsberg**—Yes.

**Ms GRIERSON**—To be particularly cheeky, what about the new IR legislation—which we have not seen yet? You have put forward the fact—which we are all aware of—that casual and part-time employment are increasing in the labour market these days. If the IR changes increase that further, do you see that having an impact on superannuation generally, particularly for people who are at lower empowerment levels?

**Dr Olsberg**—Absolutely, and it is not going to only affect younger people. Older people are also going to have to continue working. They will also be at risk of exploitative work conditions if they do not have some sort of protection.

**Ms GRIERSON**—Also, I do not know whether you have done any work on this, but the unemployment rate for young people is 30 per cent in most large regional places in Australia, and in Western Sydney I think it is the same. When we talk about exploitation, are there figures that can be put on that in terms of people who are in a job but are not being shown as being paid or maybe are not even being paid?

**Dr Olsberg**—My area is older people. I have not done work on that area. I see it in terms of my students. Some of them are in a very parlous position, I think. They are working shifts, and the employer tells them, 'I don't need you; go home.' It seems to me that it is very difficult. I do not know what the figures are on any of that.

**Ms GRIERSON**—That is fine, thank you.

**Mr TANNER**—With the casuals fund in Finland, if you are a member of that and then you move into permanent full-time employment, is the amount that you have built up in the casuals fund then rolled over into—

**Dr Olsberg**—Yes.

**Mr TANNER**—So it does not stay there indefinitely.

**Dr Olsberg**—No, it does not stay there. That is what cuts the problem of that loss of money.

**Mr TANNER**—In point 2 in your written submission, you state that many young men and women—three per cent and eight per cent—moved last year from full-time to part-time employment. Is that a net change? Are you talking about a structural shift away from full-time employment, or is it equally the case that a similar percentage has moved from part-time to full-time?

**Dr Olsberg**—I do not know. I have just taken that from the ABS figures. It is difficult to say whether they are the same people and whatever. I have just taken that from the latest ABS social trends.

**Mr TANNER**—My substantive question is about the use of superannuation for equity in housing—a proposition that I am opposed to. You seemed to be a bit equivocal about the proposition in your contribution. How is it possible for money to remain in superannuation, and therefore be invested in a whole range of things, but at the same time be used for equity in housing? It seems to me that it is going to be one or the other; it is either going to be withdrawn and used as the basis on which a vendor of a property is going to be paid, or alternatively it is going to be in the superannuation fund earning returns. There is no magic way that you can have it doing both.

**Dr Olsberg**—I have not done any particular work on how this might happen. It is just my suggestion that perhaps some work could be done. It seems to me that surely there might be some way that there could be government guarantee. The problem is that there is no guarantee on the superannuation. So the bank might say, ‘No, I am not going to use the equity in the superannuation fund, because if you have bad investment returns in the next five years, that superannuation fund may be less, and maybe it will not be enough.’ I do not know what the complete answer might be, but, like you, I am against drawing out the money from the superannuation fund, because that is not going to resolve anything. Everybody is going to take their money out and nobody is going to have any money left for their retirement.

The time preference of people’s expenditure is always short term. Advertisers spend billions of dollars to encourage people to spend, not to save. Time preference is always going to be there. So I agree: I would not want people taking the money out. But there might be some way that the government could guarantee a percentage of their superannuation. The banks are now offering reverse mortgages for older people to get access through equity conversion. But they only provide 40 per cent of the value of the house. Maybe the government could guarantee 40 per cent of people’s accumulated retirement savings.

**Mr TURNBULL**—So the government would take the risk?

**Dr Olsberg**—Yes.

**Mr TURNBULL**—I think the point Mr Tanner is making is that, if some of a super fund asset is made available as equity housing, in whatever form, it means that, if property prices decline or the house is foreclosed on by the bank, that equity will be lost and that value will be lost to the super fund.

**Dr Olsberg**—That is right. That is why the only way is to have some sort of government guarantee for a percentage of the superannuation fund.

**Mr TURNBULL**—That would be potentially very costly, though.

**Mr TANNER**—You are talking about collateral, essentially.

**Dr Olsberg**—Yes, collateral.

**Mr TANNER**—The thing is that, when you are buying a house, the value of the property is the collateral and the banks are supposed to only lend up to 85 per cent of that value, but there is a variety of ways that that is starting to be eroded. It is not necessarily a great outcome for anything else that has an alternative purpose—in this case, being invested in productive assets—to be used to fill that gap, surely.

**Dr Olsberg**—I do not know what the complete answers might be. Maybe it is worth getting somebody to have a look at whether it would be too costly. This is not particularly my area but I am trying to think of how you make superannuation attractive to young people who can never imagine that they are ever going to 60. I do not have all the answers, but perhaps these are things which we might look at in that drive to bring superannuation more onto the agenda of younger people's dispersal of their income.

**Mr FITZGIBBON**—Can we go back to your concept of a central fund. While I note you did acknowledge that there is some potential for the fund to be operated by the private sector rather than the public sector, the private sector is probably a preference for many of us who do not have a lot of confidence in the public sector's ability to get a decent return for those who would be effectively investing. What do you see are the major impediments to the private sector running the fund—at the risk of inviting a fairly obvious answer? And, do we know what proportion of funds under management is held by the government body in Finland?

**Dr Olsberg**—I have not done any work on it of late, so I could not tell you the answer for Finland. But to my mind this would be a highly attractive proposition for a private provider: a compulsory legislated requirement for every employee who is earning less than $450 a month to be putting nine per cent into a central fund. I do not know the numbers of people in the work force who are earning less than $450, but I would think a private supplier would think that was a very highly attractive proposition.

**CHAIR**—Peter Keele was just saying to me that ComSuper last year returned 15 per cent.

**Dr Olsberg**—It is not a bad business opportunity for government—

**Mr FITZGIBBON**—Is he a trustee on the board!

**Ms GRIERSON**—What is the tracking system used in Finland? Is it registration, is it a tax file number, or is it something else?

**Dr Olsberg**—They have a pension number which is given to them at birth.

**Ms GRIERSON**—Sorry, you did say that, didn't you?

**Mr FITZGIBBON**—Anyway, you have answered my question. You do not have any particular preference for who runs the fund.

**Dr Olsberg**—No.

**Mr FITZGIBBON**—I was going to make the point that, assuming the $450 barrier is removed, this is, of course, quite a lucrative market. I cannot understand why the retail funds or the private sector generally could not design a system to achieve the sorts of outcomes that you have talking about through a public system.

**Dr Olsberg**—I think the problem is that it does not resolve the problem of young people or anybody in the casual area having this multiplicity of funds. If you remove the $450 benchmark, I am sure all the other funds would take the money, but it would not resolve that issue of the huge number of multiple funds which are held by young people. Ownership, which Mr Ciobo was asking me about, is another problem. It does not give them ownership of that one fund.

**Mr TURNBULL**—Dr Olsberg, going back to young people and communicating with them, you said that with UniSuper you have a problem staying in touch with a lot of your former casual employees who are younger. As we all know, young people are particularly mobile and they change their addresses, and their email addresses for that matter. Do you think it would be helpful if every person who started receiving superannuation payments—so, who entered employment, in effect—were to be allocated a unique email address, which would be theirs forever, to which all super funds with which they had a relationship would be required to post their statements so that there would at least always be one place where that person would know they could access that material? Of course, that is no guarantee that they would access it, but at least it would be there. What do you think of that? I am just suggesting this to you as a thought.

**Dr Olsberg**—I am not sure whether privacy restrictions would stand in the way of that.

**Mr TURNBULL**—It would only be accessible by the individual.

**Dr Olsberg**—Yes, maybe. I am thinking that, if we had the email addresses of 1,000 casual employees, we would not have the entitlement to give those 1,000 addresses to anybody else.

**Mr TURNBULL**—No, it would be something that belonged to the employee.

**Dr Olsberg**—So who would give that number?

**Mr TURNBULL**—The employee would then be required to provide that address as they went from one fund to another, just as they have to provide a tax file number and so forth. It would be a permanent electronic pigeonhole into which material would be deposited.

**Dr Olsberg**—I think it is something worth thinking about.

**Mr TURNBULL**—Could you give some thought to that, just from a practical point of view. This problem of staying in touch with people is a very big one. It is particularly acute with younger people.

**CHAIR**—They often change their email addresses too.

**Mr TURNBULL**—That is what I mean; if you had one unique address.

**Ms GRIERSON**—To have a national email address means that you have to pay for it all the time.

**Mr TURNBULL**—The suggestion was that there would be a unique email address, or electronic pigeonhole which people would be allocated—presumably it would be administered by the government—and that would be theirs forever. They may change lots of their email addresses that they use in the normal course of events, but this would always be there.

**Ms GRIERSON**—I would think, projecting even further, that one day superannuation will be like online banking, because there will have to be more flexibility—it will be the only savings system people have and we will have to find ways to enhance it. It will have to be electronic, basically.

**Mr TURNBULL**—And the virtue of something like this, particularly for people who go overseas, is that they will be still be able to access it.

**Ms GRIERSON**—Yes, it is worth considering.

**Dr Olsberg**—I will think about that one.

**CHAIR**—Thanks very much, Dr Olsberg. It was very interesting and your contribution was very worth while.

**Proceedings suspended from 11.24 am to 11.37 am**

**GILBERT, Mr Richard, Chief Executive Officer, Investment and Financial Services Association**

**STANHOPE, Mr Bill, Senior Policy Manager, Investment and Financial Services Association**

**CHAIR**—Welcome. The committee understands that IFSA, the Investment and Financial Services Association, will be forwarding their submission to the inquiry shortly. Do you wish to make a brief opening statement? We will then proceed to questions.

**Mr Gilbert**—Yes, we will make an opening statement. Thank you, members of the committee, for having us here today. We think this is a very welcome inquiry. We think getting this inquiry into the public space shows a lot of initiative on the part of the committee. It is fair to say that savings in the under-40 age group are critical. I think the word ‘compounding’ has come up a number of times already this morning. Put simply, a dollar in savings lost today is a whole lot of compounded income foregone tomorrow. Public policy makers should be watching very closely how we can boost savings for those who have the opportunity to save over a long period. If we can do that I think the community will be better off. We think that overall this is a very welcome inquiry. We look forward to participating with the committee and the secretariat.

I will say a bit about IFSA, if I may. IFSA represents 110 members who hold assets—mostly superannuation—of nearly $800 billion. We expect that in the next four years that number will go very close to $1 trillion. I think the industry is in a strong growth pattern right now. We represent wholesale investment managers, retail investment managers and life insurance companies. Actually—surprise, surprise!—we also have, either directly or indirectly, some industry fund members. So IFSA likes to think we are open to anyone who wants to join us. We have actually embraced some industry or not-for-profit type members. We welcome those members, if they want to join us. Often we are portrayed as just representing the retail segment. We have to be very careful to acknowledge that the 70 wholesale members that IFSA has in fact provide most of the investment management services to the industry funds, the government funds and even, hopefully, the Future Fund, when that gets up.

We support the three-pillar approach to retirement income policy. I am sure the committee knows about that. We often meet with the IMF and we are always very impressed with the IMF’s views of our systems. I think we are very fortunate to have a bipartisan approach to the three pillars. That is a consequence of cooperation between our two major parties. We support the idea of targets for retirement income policy. IFSA believes that 65 per cent of gross preretirement income should be a goal. That, of course, was a target reached in a bipartisan manner by the Senate superannuation committee two or three years ago. I think it is something that individuals would focus on and work towards if there were some generally acceptable targets in the community.

Looking at page 2 of my speaking notes, which I have given to the committee, our research shows that in the under-40 age group there are some very significant gaps in savings. If you look at, for example, what young people would need to save in order to reach the target that we have stipulated, it would be nearly three per cent for males, and females would have to contribute an

additional 5.6 per cent. So we are well short of contributions in those younger groups. I have to acknowledge that there have been some very significant policy changes in the last three years, which I think work towards bridging those gaps. In this regard, we applaud the work on co-contributions, we applaud the surcharge abolition, we applaud spouse contributions and we applaud splitting super contributions between partners. Particularly in light of some of the comments that were made in the previous set of evidence about divorce, it is important that each spouse has an independent retirement savings amount. We also support extending the co-contributions if that can be made affordable going forward. Any of those measures would help young people to bridge the retirement savings gap.

We have also provided you with some of the participation figures, which are very encouraging at those lower age group levels. We also put to the committee some of the data which has come out of Minister Brough's office on who is contributing in the voluntary co-contribution scheme. I think that has been tabled in the House. There are some very welcome trends there. You can see that 13 per cent of the money was being contributed from those aged 41 to 45 and 11 per cent from those aged 36 to 40. I think this co-contribution has moved the decision making point down the age spectrum. Our industry used to work on the basis that about age 46 was the time when people started thinking about their contributions. The co-contribution, demonstrably, is changing the 46-year-old age point. Increasingly, people in the lower age groups will be making the decision to contribute more to superannuation, I think.

The other point that I want to make—I have put some material there on page 3 of our speaking notes—is on the surcharge. Again, the mere announcement effect of the surcharge going is changing people's expected savings patterns. Our research shows that it is not just the people in the surcharge range but people under that range who are indicating that they are going to be making more superannuation contributions next year. We are happy to provide that material to the committee. When it comes to what particular measures should be taken, we have a list of those there. Perhaps it might be better if we let the committee ask questions rather than continuing with the opening statement.

**CHAIR**—I suppose you have given a brief overview of how you see it. As you are aware, this inquiry relates to disincentives that currently occur and incentives that we should be providing. If we can go to the core of the matter, what do you see is the principle reason that young people are not getting involved in superannuation, apart from the normal comment that 60 is a long way off? Are there real factors that perhaps we can have some influence on or talk about? What incentives should we be putting in?

**Mr Gilbert**—One of the problems is that they are not engaged with it. I think that is fairly self-evident. Then you ask: why? If you have got 3½ accounts on average with $2,000 or $3,000 in them, none of those things are going to be the tipping point to taking an active role. That is one of the reasons that we supported the choice legislation. We believe that superannuation should become a backpack product that people take from employer to employer. Very quickly, it will become a sizeable amount and one which they are really committed to and interested in. I am a father of three young children—20-plus-year-olds. I have watched their savings pattern and I have watched their interest wax and wane. They had multiple accounts; now they have single accounts they take an interest. One of them just received a co-contribution; they have taken a big interest because of that.

Public policy management is not necessarily related to tax expenditure; it is related to education, commitment and regulation. The government has done some very commendable things. I think the financial literacy task force has been a good development and we think that the choice education campaign has sent a good strong message. There is no silver bullet here. It is the amalgam of a number of changes that need to take place. I listened to the witnesses this morning and some of the suggestions there were very constructive.

**CHAIR**—What do you think about using some of the equity in superannuation for housing, for example?

**Mr Gilbert**—Our policy is that that would not advance retirement incomes policy.

**CHAIR**—Wouldn't it be a real incentive for young people to start contributing?

**Mr Stanhope**—Clearly, there is an issue about the investment horizon for young people in superannuation. As we will suggest in our submission, and it is here in our speaking notes, among the barriers that people have to retirement saving is exactly that horizon. One of the interesting pieces of information that is relevant to that time horizon, which we do not yet know, because the government has not made the data available, is the change in voluntary contributions that came about as a consequence of the preservation of those contributions from 1 July 1999. There has been a change in what are known as undeducted contributions since that time. Prior to 1999, if you were, say, 25 and had some spare money which you put into superannuation and you lost your job, that was a trigger event that turned that money from what is known as restricted non-preserved contributions to unrestricted non-preserved contributions. You could take that money out and go and argue with your bank manager about it. If you had an issue about housing and the worst came to worst, you could go and get the money and at least negotiate a little.

The issue in superannuation seems to be the investment horizon: that is, that the money is there for a long time and you may get a reversal in life. Although you can go through the hardship provisions, one wonders how many people are aware of that. If you are looking to competing calls on superannuation, that is a sightly different issue, and I do not think we know terribly much about that. For instance, it would be very interesting to know who is making contributions amongst people who do not yet have a house and how many people are making co-contributions who have significant mortgages, et cetera. We just do not have those data. One of the points we will be making in our submission is that few people in the under-40 group are interested in superannuation and getting meaningful data requires quite large samples. It certainly is beyond our budget to get those samples. Part of the major problem in answering any question like that is that I am not sure we know. We can intuit but we do not know.

**CHAIR**—There is the question of how many people, et cetera, and then there is the question of how the policy basis of that option sits with you.

**Mr Stanhope**—Firstly, whilst there is a retirement savings gap, any diversion of that money is going to come directly away from retirement savings. Secondly, do we know what the impact on the adequacy of retirement savings will be if the level of home ownership in retirement changes? That is a very significant question and it is probably the deepest policy question implicit in what you are asking us to comment on. What would be the difference in adequacy if people were not

homeowners? Currently, 79 per cent of retirees are homeowners. If that changed, what would be the difference? What would people perceive about that? Until we are at a level of adequacy, IFSA has never supported diversion.

**Ms GRIERSON**—We were discussing this issue during the last break. As funds managers, each super fund has an investment portfolio, some of which is property. What measures could be introduced to make sure that some super funds were being used to target first home owners?

**Mr Gilbert**—We would be very happy to take that idea away and come back to you.

**Ms GRIERSON**—That would be excellent.

**Mr Gilbert**—We are not opposed to investing in property as an asset class.

**Ms GRIERSON**—You do it.

**Mr Gilbert**—That is right. Our members invest in high rise buildings that have apartments in them. Our investors fund, for example, the Macquarie Bank Mortgage Trust, which lends to people at very competitive rates. So we are involved in super for housing. It is a matter of whether super funds should be administering individual loans directly to members. I think some of the super funds would be quite concerned about the administration costs and the risks to other members of going into that particular arrangement. As an investment organisation—IFSA and members—we need to stand above that and ask, 'How can we get a competitively efficient way of doing it?' rather than just handing out dollars. If we were going to be in the business of handing out dollars, we would be better off maintaining the first home buyers grant, stamp duty exemptions and things like that. They would be a much more efficient way of doing it, if they were efficient.

**Mr Stanhope**—One thing data show is that there is a significant incentive effect by size of incentive, which probably goes to first home owners as well. If you have a look at the first charter we posted on co-contributions, that was our 2002 data—this will be in our submission. Interestingly, amongst younger groups you have the highest amount of response based on differing levels of contribution. One of the things we found was that, once you start to give people some money, some more money does not make a lot of difference, but it makes a lot of difference to younger people, which is quite an interesting finding. So if you are talking about those kinds of incentives then there are some clear things that you can do about the size of incentive or the targeting of incentive.

In terms of practical impact on the sort of suggestion you are making, there are some large prudential policy issues involved in that which we would have to talk through. I am not necessarily saying that they would prevent a proposal like that from going ahead, but of course one of the critical things in Australian superannuation is that superannuation cannot be geared. You cannot borrow against it; you cannot put a lien over it.

Secondly, regarding some comments I think we heard during the evidence of the last witness—particularly from Mr Tanner—the sole purpose test is also a critical part of superannuation policy. If you are looking at effective diversion, whether it be through being able to remove money or through risks to accumulation of money—that is, if that portfolio of first

home owners funding were to fall over, as it has; Richard and I both lived through Canberra in the 1990s when an awful lot of investors in residential housing went belly up—it is an asset class that is interesting, but there are a lot of prudential and policy barriers to actually getting from here to there, and those policy rules are there for good reason.

**CHAIR**—Let us open it up for questions.

**Mr FITZGIBBON**—The previous witness raised an issue that has not been on my radar for a while—that is, this $450 threshold for SG. She left me somewhat confused, in a sense. Obviously the original intent of that policy was to ensure that people did not end up with these small amounts of money in accounts all over the place. Hasn't super choice overcome that problem? If the answer to that question is yes, is there now some sense in removing that threshold?

**Mr Stanhope**—The first point to make is that that threshold is moving to quarterly, so it is $1,350 a quarter, which is actually a more flexible number in a way.

**Mr Gilbert**—It moved to a quarter about two years ago.

**Mr Stanhope**—Yes, with the quarterly superannuation guarantee the $450 became $1,350 a quarter.

**Mr Gilbert**—For the reason that you are asking the question, Mr Fitzgibbon.

**Mr Stanhope**—We hypothesise—I am not sure that anybody really knows—that it has probably brought more people into the net. There had been some anecdotes of employers keeping money below the threshold in a given month. Certainly we think that choice will change that. We think the first thing that many employers are going to do as a consequence of choice is that, when I arrive at a workplace, my employer will say to me, 'Do you have a fund and are you happy with it?' If my answer to that is yes and I name the fund and put it in writing, I have actually satisfied the choice of fund requirement, provided that my employer is then able to get money into that fund—and there are obviously let-outs in the legislation if that cannot happen.

There are a whole lot of simple and practical solutions that are going to happen as a consequence of choice of fund that in fact the volume of the legislation belies a little. We just expect that people will arrive with a fund, if they know about it. The employer will ask on first blush, because it obviates them giving a standard choice form and all of those sorts of processes. So we certainly expect to see that, as a consequence of choice, instead of superannuation being something that happens as 'Oh, good Lord, you've gone over the threshold,' on the day you arrive at a job the employer is going to say, 'Are you in a fund and are you happy with it?'

**Mr Gilbert**—I will just add one more thing. Choice will actually amalgamate accounts and cause this backpacker effect I have suggested. Also, we now have in place better mechanisms for employers to pay electronically, to remove some of the paperwork. Some of the big funds right now have got this in place—they put it there on 1 July. So small amounts should cost less to send through the system.

**Mr FITZGIBBON**—Is there still a possible justification for the threshold remaining? Yes or no?

**Mr Gilbert**—I think that is an industrial relations question myself. I cannot really answer that. I think you should ask the employer groups that question. From our point of view, we think money can move reasonably seamlessly through the system now.

**Mr FITZGIBBON**—It would appear to me that if the answer to the question is yes—that is, some threshold should be retained—surely the policy objective then would be the protection of paperwork for employers, rather than the original intention of the threshold? Is that a correct assumption to make?

**Mr Stanhope**—I think you would have to go a long way back to find the justification for the threshold. The original $450 a month sat around the tax threshold. It is a 1992 number; it is not a 2005 number. As a consequence of choice, however, one more thing will change that Richard did not mention. As we get better data through the electronic commerce initiative, one of the things that happens amongst small funds, particularly with young people who are highly casual, is—to take you or I as an example—if somebody misspells our names three different ways, we might wind up with three different accounts in the same fund. A lot of funds now have soft matching to try to put that together, but part of the problem is the way in which data moves around the system. We are starting to do that electronically. We are going to improve the quality of data so that, when two contributions for Bill Stanhope or Joel Fitzgibbon arrive at the fund, they will have the same data attached to them and they will wind up in the same account. So a lot of that account proliferation will close down, not just because I will arrive knowing which fund I want the money to go into but also because the electronic messaging to get it there will mean that it finds my old account and sticks to it. So there is quite a lot of positive—

**Mr TURNBULL**—But it depends on how good your system is, because the problem, as you know, with a lot of electronic data set-ups is that they are terribly unforgiving of the slightest variation. Bill Stanhope will be seen as a different person from William Stanhope or William J Stanhope and/or Bill Stenhope. That is where you need a unique identifier of some kind.

**Mr Gilbert**—And the tax file number should do that.

**Mr TURNBULL**—Exactly. That is right. You need a unique identifier.

**Mr Gilbert**—We support having a more integral tax number and having a more open tax number. One of the unfortunate things in the superannuation industry is that, with the privacy advocacy groups, we are able to stop that tax file number being used more aggressively by the industry to protect people's money. We think the committee should look at that. Another thing I will offer the committee are some site visits. I think it would be good for the committee to go to some of the administration houses and see how they go through some of these procedures, and we would be happy to organise that.

**CHAIR**—We will take that on board.

**Mr TANNER**—Following on from that discussion, my first question is: what is your view on the prospect of the government being a universal collection agent—with appropriate

arrangements regarding interest—so that the employer would pay, with their group tax, the amounts of money for their 20 employees, and three of them would go to AMP and five of them would go elsewhere. That would mean that you could get rid of some of the problems regarding administrative costs that you have with choice. The second question concerns the issue of the co-contribution system effectively providing a subsidy to the spouses of high-income earners who themselves are low-income earners. Is that an issue? How could it be addressed?

**Mr Stanhope**—They are two damn good questions. In relation to the first question, there has to be a proven need for it. We have to give choice the opportunity to flush out the administration problems, and I think it will. If the government is going to do it, how much will it cost and what will the cost be to fund members? I think the industry is in a very scaleable position.

**Mr TURNBULL**—The current figure on the tax system is about half a per cent, from my recollection.

**Mr Gilbert**—In single digit returns, that is a big cut off the return. I would much prefer to say that I will come back and answer that question after I have contemplated all the factors.

**Mr TURNBULL**—After experience has shown how it works?

**Mr Gilbert**—Yes.

**Mr TURNBULL**—That is fair enough.

**Mr Gilbert**—It is best to put it on hold at this point. There is very big downward pressure on fees. I think, overall, there will be lower fees with choice. Some companies might need to raise their fees, but overall the fee levels will be down. There are signs of that in the market right now. I do not think anybody is disputing that. If the government runs down that track, somebody will have to pay for it and it could be a very expensive proposition.

**Mr Stanhope**—On co-contributions and spouses, the simple answer to that question is that we do not know. But $224 million was paid out at the beginning of this year, so there is clearly a good response level to co-contributions. Interestingly, that number pretty much matches the level of matching. As you know, it has gone from dollar-for-dollar matching to $1.50 per dollar matching since that year. Costings that we released in August 2002 were based on Eureka research and some costings were done on top of those by Vince Fitzgerald. They were household income numbers, yet the numbers seem about the same. I do not think the data are yet telling us that there is a significant issue in terms of low-income spouses of otherwise high-income people.

The other point that I think you should bear in mind is that the HILDA survey data—that is, Household, Income and Labour Dynamics in Australia Survey data—is showing that low- to minimum-income spouses are distributed evenly across all household incomes. If you look at the number of low-income people per household in each of the income deciles coming through HILDA, it is roughly the same. There is a little blip in the middle, but it is not even significant. So you do not see a large number of low-income spouses sitting in the top two or three deciles. They are evenly spread all of the way through. So to the extent that you have a low-income spouse, they could be a low-income spouse of another low-income person, a middle-income person just over the $58,000 cut-off or a relatively high-income person. They are well spread.

**Mr TANNER**—The reason for asking is that I find it rather amusing that the same people who will tell us that using the industrial relations system to tackle poverty and disadvantage is very inefficient for precisely that reason—that is, a substantial number of people in relatively low-paid jobs are the spouses of people in high-income employment and therefore using the industrial relations system as a vehicle to diminish poverty and disadvantage is inefficient—will defend the co-contribution even though it is doing precisely the same thing. Obviously it is difficult to get the data on this, but it just seems to me to be pretty logical that, if I were a high-income earner with a low-income spouse, I would say, 'Beauty—I can chip over $1,000 over here and the government is going to give me $1,500.' Keeping in mind that high-income earners are heavily into salary sacrificing and shifting money into superannuation anyway up to the RBL, it strikes me as being such an obvious thing. It seems to me that there is a question there that needs to be examined.

**Mr Gilbert**—The anecdotal evidence shows that in the industry funds. For example, I think HESTA has actually had a 500 per cent increase in co-contributions from nurses and medical type people. I think that sort of evidence is coming out in the low-income type funds. But, ultimately, the people who have this material are the tax office. They know what the balances are, what the co-contributions are and what the salaries are. I think that is a question that would be better asked of them.

**Mr FITZGIBBON**—You can also get an idea by having a look at the contributions by age cohort and comparing it with contributions across the board, couldn't you?

**Mr Stanhope**—That data is probably the richest data source we have for voluntary superannuation response. One of the little sleepers in it is that it actually collects account balance. Notwithstanding defined benefit funds, where you cannot get one, it is the first data set anywhere where we can actually tell how much each of us has in super. No other data set can. All other data sets of that nature are self-reported. Census data, Roy Morgan data and other data are all self-reported. It is reasonably okay. We have some self-reported data on total holdings as well. But again, it is not information; it is self-reported data.

**Mr Gilbert**—If it was one positive thing that superannuation did, it was that it gave the tax office a tremendous amount of data.

**Mr Stanhope**—Those data will start to answer that question. Mr Tanner, the answer to your question is the answer to your question and we do not know the answer to that question. I can speculate on the way the HILDA data works—

**Mr TANNER**—I hope Hansard got that last bit. It was fantastic! That was a Donald Rumsfeld moment—it was like the known unknowns and the unknown knowns!

**Mr Stanhope**—The short answer is that those data will answer the question and it is probably time that they did.

**CHAIR**—Maybe we can talk to the tax office about that.

**Mr CIOBO**—The committee has heard evidence regarding unclaimed super moneys, different accounts et cetera of tens of thousands of Australians. I am interested in your reaction

or response if I were to say to you that, to a certain extent, there has been market failure among those companies providing super, insofar as there is perhaps a lack of thinking outside the square on how to pick up these customers. There does not appear to be anyone following a volume model; everyone seems to be chasing lower volumes, higher yield in this area. Is there a case for a volume-yield relationship? Quite frankly, I wonder what prevents us from saying, ‘If the market were to react and respond better and get more people engaged in super and sign up more people, we would not need to have this inquiry.’

**Mr Gilbert**—There are a whole lot of reasonable observations there. In relation to the volume model, I think industry funds have addressed the issue of volume. The problem has been that people move between industries and I think choice will help that. It is not our expectation that industry funds will have great drains of money out of them because of choice. Even our own data shows that they will probably do better.

**Mr CIOBO**—Just on that point, now that there is super choice do you envisage a significant change in the tempo in the marketplace?

**Mr Gilbert**—The number of accounts is likely to contract because of the backpacker effect—that is, people combining their super. The competition in the marketplace is increasing. There is a lot of competition for money and a lot of competition on price and service. The other issue you raised was scaleable advice. I think that is one of the weaknesses of the system. Advice is expensive. I do not know whether you have seen the industry fund campaigns, but they have implied that people do not need advice. All our surveys showed that people want advice, but they cannot get it at the right price. I think we have to look at scaleable advice. A financial planner cannot sit down with someone who has $5,000 and give them advice and then charge them $300 or $400. It is out of the question. The reason they cannot do that is that the regulation on top of them is very onerous. That is an area of the inquiry that should be looked at, and the key word there is ‘scaleable’ advice.

**Mr CIOBO**—On that point, what you are saying to the committee is that there are regulatory impediments that are preventing the market from effectively operating that would, in essence, correct a lot of these problems?

**Mr Gilbert**—I think there are. One interesting point right now is that, if an adviser has someone walking through the door with five funds, basically the regulations say you have to know each of those five funds. Advisers have to do a whole lot of research to make sure that they are not moving them out of a fund into a worse fund. So advisers are saying, ‘We can’t do it. The regulation is just too onerous. We’re not prepared to do it.’

**Mr CIOBO**—How would you respond if I said I am critical of a lack of marketing by the different institutions that you represent to engage people in the process? I do not believe that I see it. Anecdotally, I do not see it. Even by general observation as well, I fail to see any real engagement by industry to focus people’s minds on this issue.

**Mr Gilbert**—Two years ago, I think that comment would have been valid. IFSA has three main projects and the No. 1 project we have is to win consumer confidence. So we are telling our members to go out there with good information messages and win the confidence of

consumers. That is a challenge. I agree that we have a challenge, but we are delivering on that right now.

**Mr CIOBO**—This issue goes to a central part of what this inquiry is about. That is to say, if, as you say, five years from this point, with some of these shackles removed, we will be mopping up a lot of this to a much greater extent than we are now, for me, as a member of this committee, that would make a very big difference to the recommendation that I am likely to support, whereas if we say, ‘No, it will be more of the same,’ then obviously we would need to look more seriously at it. It is quite an important answer—in relation to what ultimately we decide to do, in my view, anyway—as to where the marketplace is going on this.

**Mr Stanhope**—One of the things you will need to do is to have a careful look at consumer attitudes towards consolidating their super.

**Mr CIOBO**—It is not only about consolidation—consolidation is one part of it—it is also about co-contributions.

**Mr Stanhope**—Absolutely, and all of that is about people being able to take control. The portability regulations have just been eased further, so it is much easier to put your super together if you have a mind to. One of the interesting things that the tax office found when they started to investigate the lost member register was that a number of people with what they viewed as significant holdings—that might be $10,000, $50,000 or $100,000 in accounts; it is pretty much up to them—gave an answer to the tax office that could be loosely translated as: ‘Look, I know where my super is. I can’t get it until I’m 55. I’ll go back and get it then, thank you very much. I’m not so worried about it in the meantime.’

I also got some data—and you might want to talk to Treasury about who holds the data these days—that suggested that people were actually thinking they were diversifying their provider risk. That is, they have four funds because of the risk of one of them falling over. I routinely get questions from people like, ‘Can my super fall over?’ When I point out that it is actually all in a trust and there is not a provider risk, people are quite surprised. So there is a degree of consumer choice about the higher balance theoretically lost accounts. An account becomes lost when you fail to get a response to certain pieces of correspondence or you get a returned piece of correspondence. It is not necessarily lost because the person is totally uncontactable. In fact, we have had this debate with ASIC—that is, the difference between ‘uncontactable’ and ‘lost’. Sometimes the data that you get for ‘lost’ includes people who simply choose not to respond to correspondence.

**CHAIR**—What do you think about the suggestion that you heard of having a pension number allocated to your superannuation number?

**Ms GRIERSON**—A social security number.

**Mr Gilbert**—We think that is a good idea. It is the TFN with integrity or with better integrity, more use and more openness. We have to have that fight with the privacy lobby, I guess, to make sure the TFN is more useful.

**CHAIR**—It may be that fear of the ID card comes through at the same time.

**Mr Stanhope**—One thing we would say, with a slightly wry smile, is that we have a bit of a fear of numbers as a consequence of financial sector reform, financial services licensing, authorised representative numbers, fund numbers, superannuation product identification numbers and now responsible entity numbers and superannuation trustee licensing. Something like four to five to six numbers can start to appear on every page.

**Mr Gilbert**—There is another overlay to regulation of numbers looming. It is called anti money laundering. Our information is that superannuation is considered within the government to be a medium risk. The last thing super needs if it is going to get the confidence of individuals is to get nine million customers through the door to be identified. That horrifies us. We understand that cabinet apparently rejected that proposal and I think that is really good, but there is still an investigation on that issue. That would be the dead hand of regulation once again on this industry. That would never allow us to get out there and give confident messages and have confident consumers.

**Mr CIOBO**—We have had a proposal put forward to enable, on standard parameters, forecasts for super. What would be your reaction to that?

**Mr Gilbert**—Is that forecasts for returns?

**Mr CIOBO**—Yes.

**Mr Gilbert**—Within the industry I think the return forecast is single-digit. We have had two good years—

**Mr CIOBO**—No, I am sorry; I am saying over—

**Mr Gilbert**—Over the long period?

**Mr CIOBO**—Yes.

**Mr Gilbert**—Okay. The rule of thumb on these sorts of investments is that, if you can return people productivity at three or four per cent real, you are building wealth. If you are only delivering three per cent you are not covering inflation, or you are just covering it—it depends on how your Reserve Bank hearings go. Seriously, three or four per cent real I think would be a reasonable number for a growth investment.

**Mr CIOBO**—I have probably not been clear. We had a proposal from Philippa Smith. I missed this, but I think there is a prohibition on providing forecasts. Is that right?

**Mr Gilbert**—I am sorry—projections. We stand convicted there.

**Mr TURNBULL**—ASFA said there was a concern raised by the OECD with respect to Australia. There was a general lack of information about the size of future superannuation entitlements in terms of things like how much I am going to get and how much I need to save. The OECD suggested Australia should consider adopting the policy currently in use in Sweden in which retirement accounts are made to a central government agency. We have had discussion about that. There was an earlier discussion also with Diana Olsberg. But the point that I think Mr

Ciobo is raising concerns their suggestion that there should be an illustration on standardised returns given in effect by the regulator so that you do not get into the invidious situation of funds making their own projections.

**Mr Gilbert**—We do not want to be in a position where we have to make invidious projections which might not be delivered on. The risk is in the investor's hands, because they are deciding which asset class or fund they are with. I think sometimes we have to be careful not to take things from Europe where, for defined benefit pensions, the risk is underwritten by government. We have to be careful about that. The SG system, which was brought in by the Labor government, was about putting the risk in the hands of individuals through accumulation type super. ASIC currently has a web site calculator which will project benefits. There are laws in place and ASIC has rules which allow our members to have web site calculators so that individuals can work out what they are going to get. Where we have problems is putting this in a prospectus. Then it becomes a quasi promise or, indeed, a promise which somebody is going to make you deliver on in 40 years time. We support projections, but individual ones from properly regulated sites which allow people to put in realistic assumptions or data.

**Mr TANNER**—If I am a member of one of the funds and the fund gives me a projection that is based on that ASIC calculator, ASIC is okay with that?

**Mr Gilbert**—What is happening is that funds are not doing that. They have a calculator which allows—

**Mr TANNER**—And you can work it out yourself?

**Mr Gilbert**—You put your data into it.

**Mr TANNER**—The question I am asking goes to the next step. If that is okay, is it okay for the fund to proactively say to me, 'Here is the ASIC approved calculator and this is what it suggests you will get'?

**Mr Gilbert**—ASIC has not gone to the point of telling you what the return is.

**Mr TANNER**—But it strikes me as being a rather artificial distinction.

**Mr Gilbert**—My members are very careful not to make projections which might not be delivered on.

**CHAIR**—I have somebody who does investment for me in a range of shares and so on. They provide regular reviews of the share values in each of the categories. By the time of retirement, that is likely to vary considerably anyway. Is it all that different really?

**Mr Gilbert**—It is different. You are getting that from a licensed financial planner regulated under FSR. You are paying for him to take the risk of giving you that advice. If that advice is wrong, you go before a tribunal called FICS, which is mandatory under FSR. If it goes to the panel of FICS it will cost that financial planner $5,000, whether he or she is right or wrong. So we have a very strong set of regulations about the giving of individual and tailored advice. I think it comes back to this point: can we get something more scaleable for young people? I think

that is an area of inquiry that the committee should look at. We would be happy to assist you on that front.

**Mr TURNBULL**—Can you enlarge on that? What do you mean by 'scaleable advice'?

**Mr Gilbert**—Basically, if someone walks in to a financial planner with $4,000 right now and wants advice, they are probably not going to get advice because, as soon as they walk into that office, it is the obligation of the planner to get it right. The person with $4,000 is not going to be in a position to pay—

**CHAIR**—There are so many forms they give you as a qualification to their advice—

**Mr TURNBULL**—Your point really is that that financial planner cannot charge a fee which is appropriate to the size of the assets in question?

**Mr Gilbert**—That is right, given the regulation. I think overall it is a reasonable balance, but perhaps we should be looking at how we can have more scaleable advice at the other end.

**Mr TURNBULL**—But how would we do that?

**Mr Gilbert**—Can we come back to you on that?

**Mr TURNBULL**—Okay.

**CHAIR**—I think that is very useful in terms of the marketing.

**Ms GRIERSON**—In one of the statements you made, you said, 'If your fund goes under.' What is the trend now in terms of funds going under? What is the risk to people?

**Mr Gilbert**—Do you mean in terms of collapsing?

**Ms GRIERSON**—Yes.

**Mr Gilbert**—Superannuation has had a remarkably good record. The SIS regime, which was put in in 1994, has been very successful. We have only had that happen with a couple of small industry funds and I think Commercial Nominees. But the losses in super are very small.

**Ms GRIERSON**—So it is far better than the financial advice sector?

**Mr Gilbert**—Again, if you look at the number of financial advisers out there and the size of the losses, it is very small. I can tell you now that the tribunal which I am a board member of—that is, FICS, which is registered under the Corporations Law or FSR—currently has 300 complaints regarding financial planners and it is a free system.

**Ms GRIERSON**—You are worth less money if you only have that many clients!

**Mr TANNER**—Wouldn’t it be true to say that the most significant thing is that the Australian economy has been strong since 1994? You would not really claim the credit for the regulatory regime?

**Mr Gilbert**—We had the markets burn off by minus 30 per cent. People lost money but advice stood up there. We did have the ACA-ASIC shadow shopping survey, which was not a good look for the industry; but, since that time, we have had to take all of the disputes out of the minus 30 per cent returns that we had—Mr Baird would know about that if he was in the market—and yet I think the system has been fairly robust and integral.

**CHAIR**—Thank you very much. We will look forward to having further input from you on those issues on which you have promised to get back to us. We may wish to speak to you again as our knowledge base grows.

**Proceedings suspended from 12.21 pm to 1.23 pm**

**ELVY, Mr Hugh, Manager, Financial Planning and Superannuation, Institute of Chartered Accountants in Australia**

**PALMER, Mr Bill, General Manager, Standards and Public Affairs, Institute of Chartered Accountants in Australia**

**CHAIR**—I welcome representatives from Institute of Chartered Accountants in Australia. Is it the wish of the committee that the submission from the Institute of Chartered Accountants in Australia be received as evidence for the inquiry into improving superannuation savings of people aged under 40 and be authorised for publication?

**Mr SOMLYAY**—I so move.

**CHAIR**—There being no objection, it is so ordered. I invite you to make an opening statement and then we will proceed to questions.

**Mr Elvy**—Thank you for the opportunity to appear today. The institute is very keen on the area of superannuation. I would like to run through three key points from our submission. I apologise that our submission was in late. I am not sure whether you have had an opportunity to review it.

**CHAIR**—The submission was received today. If you want to amplify it a bit we have an opportunity to listen to what you have to say.

**Mr Elvy**—The focus of this committee is on superannuation savings—

**CHAIR**—For those under 40.

**Mr Elvy**—Yes. The critical issue we see is an attitudinal one towards retirement funding. The issue is as much retirement funding as anything else. For all the money that is actually going into superannuation at the moment, it is still not particularly popular as an investment preference. The area we really want to look at is retirement funding. From that perspective one of our recommendations would be to look at those who are under the age of 40 and ask what their attitudes and priorities are when it comes to retirement funding. Before going specifically to the area of superannuation, we would look at what barriers there are to retirement funding. Whilst superannuation is critical and it is an area we will address in a moment, we will look firstly at the issues regarding retirement funding.

There have been a number of financial environmental changes for those under the age of 40 which have occurred probably over the last 10 or 20 years. Those include basically changes to their workplaces, their family structures, the level of debt, the type of debt and cost in the housing market. In regard to workplace structures, we have seen a change in casualisation and the increase in part-time work. One of the key issues we have is that when people are looking at their finances they need accessibility and flexibility. They might think, ‘I’m not working 40 hours and week and I don’t have a job for the long term, so any funds I have I need to have access to.’ That obviously is a key issue.

As to the level of debt and types of debt, we have seen increases in personal debt with credit cards. There has been a lot in the media in recent times about how much money is being put onto credit cards. Many of those who are under the age of 40 have been to university and so forth and have the added cost associated with HECS. That in itself is obviously a debt they need to finance in some shape or form. The housing market is also a debt issue, particularly in the Sydney area, where the cost of houses has increased quite substantially. Therefore, their disposable income is particularly allocated to paying off their mortgage. A follow-on from that perspective is that a lot of people are moving out of the central areas of Sydney into regional areas. They have added costs associated with purchasing houses in the outer areas such as train and bus costs and so forth. Those are added costs which they have to allocate funds to. That basically reduces the amount of money they have available for putting towards superannuation or retirement funding.

The other area is the change in the family structure. We have seen an increase in divorce rates and so forth over the last number of years. Therefore, we have a lot more single parent families and blended families. There are obviously child support responsibilities. That once again impacts upon individual disposable income and how much they can allocate to retirement funding. Whilst there is a reduction in how much can be put into superannuation, the bigger picture and premise is whether they have disposable income to fund retirement in the first place, let alone make a decision in terms of superannuation.

In regard to barriers to superannuation savings for those under the age of 40, one of the key issues is that often superannuation is seen as maybe the only option when it comes to retirement planning and retirement funding. What we would say is that superannuation is part of your overall funding proposition. It is not an either/or proposition in that you either use superannuation or do not use it. Our perspective is that superannuation should be part of your overall retirement position.

When it comes to discretionary investment decision making, the most popular are still direct property, cash and, to a certain degree, shares. We have seen over the last 10 years a large number of share floats and, by default, a large amount of the population—including those who are under 40—are investing in shares. Whether they have a full understanding of the implications of the risks and volatility associated with shares is a different matter. The ASX did a survey in 2004 which looked at the proportion of people who had shares, and it found that we are still one of the highest per capita around the world for share ownership.

Direct property is also particularly popular. People who are still living at home—we are talking about the under-40s—and are looking to invest in direct property might buy an investment unit of some kind as part of a wealth creation strategy. Whether that is a wealth creation strategy for retirement funding, we would suggest that is very doubtful, but it is a way that they are looking to create wealth for themselves.

The third area in terms of alternatives is cash. People are still putting a lot of their funds into bank accounts, term deposits and the like. The reason that shares, direct property and cash are still particularly popular is that they are simple, people understand how they operate and there is ease of access. One of the difficulties with respect to superannuation is the competition that exists in terms of individuals' preferences as to where they would like to invest at the moment.

Superannuation savings should not necessarily be seen as an alternative to investment strategies and preferences but should be used to complement or incorporate them. An individual's retirement plan should be built on a combination of superannuation and non-superannuation structures. The advent and popularity of self-managed super funds are an opportunity to incorporate an individual's preference for property shares and cash, thus encouraging support for superannuation savings.

One of the other areas that the institute would like to put forward is the complexity of superannuation. Superannuation is still, despite a lot of the coverage and advertising over the last six to 12 months, generally misunderstood and ignored by individuals, particularly those under the age of 40. Superannuation is viewed as a complex, inaccessible and costly investment from both an employee's and an employer's perspective. The institute believes that while these perceptions and misunderstandings continue to exist, superannuation as a savings vehicle will not be a preferred option. Superannuation is usually seen only in the context of the accumulation phase.

The institute believes that one of the key areas in increasing consumer understanding is to look at superannuation as a tax-effective income stream. Superannuation is perceived at the moment as 'I can put my money into superannuation but I cannot access it when it comes to preservation' as opposed to looking at it as a lifestyle opportunity for retirement.

The institute also believes that the focus on the superannuation benefits should be widened in terms of consumer understanding. One of the key areas for consumers, particularly those under 40, is the area of insurance. We believe that there is a great opportunity to put forward the benefits of superannuation, not just the financial ones in terms of retirement lifestyles but also the opportunity to look at family protection and so forth from insurance within superannuation. It is quite often cheaper to get insurances within superannuation. This would also link up to the debt management issues that we have with a lot of consumers whose major priority is investing in their home and paying off their family home as soon as possible. It is still a priority of the vast majority of people to buy a house or an investment property and want to pay off that mortgage. Therefore, their priority is to pay that off. Insurance is one of those areas that can protect the family home and the ability to pay off the mortgage. We believe that there is a great opportunity there to blend the benefits of insurance as part of superannuation, instead of just looking at the financial benefits of the accumulation phase and the retirement income streams that come off that.

The final point I would like to raise is in regard to some of the current incentives. There are a large number of incentives and tax benefits available from a superannuation perspective. As previously mentioned, the complexity of superannuation makes it very difficult for people to encourage themselves to use it. There are also a certain number of inequities around superannuation which can be improved. One example of that is co-contributions. If you stop work to raise children and so forth, you are precluded from using the co-contribution strategy—you need to be earning an income. Similarly, for those who are earning the most money, especially women up until they have children, up until maybe the age of 40, there are issues around the maximum deductible contributions that they can provide.

In summary, superannuation has a significant role to play in an individual's retirement funding plans, including those of people under the age of 40. Superannuation should be positioned as a

strategy to complement current retirement planning options; it is not an either/or situation. The critical issue is ongoing education and simplification. Thank you very much for the opportunity. I am more than happy to answer any questions that you may have.

**Mr SOMLYAY**—Your members would also be involved in setting up do-it-yourself super schemes in business. Do you want to say a few words about how that blends in?

**Mr Palmer**—We have seen an increase in the incidence of self-managed super funds. Large numbers of people seem to want to have control of their own affairs. One of the things we have been at pains to counsel our members about is the optimum level of assets that one should have in a self-managed super fund so that the costs do not outweigh the benefits. Despite encouraging people along those lines, we find that there is still a solid disposition for people to go into one fairly soon. We are certainly seeing a high incidence of that. The advantage is that they can get that commonality between superannuation savings, but still feel that they are in control of what is happening. Although we made comments earlier about the complications in the system and the way that discourages people, when it comes to the complications that arise from self-managed super they do not seem to be as discouraged. It is difficult to find a logical explanation for this. Perhaps the preference for control of your own destiny overrides other issues.

**CHAIR**—Those people who want to set up their own schemes are undoubtedly more financially savvy too.

**Mr FITZGIBBON**—Have their chance to be an entrepreneur.

**CHAIR**—We will open up the floor in a moment. While reviewing the issues that you see as disincentives—and you outline a number, of which most have been raised with the committee before—I noticed you do not necessarily provide the solutions to them. This is the other side of it; we see what the problems are, such as complexity, competing demands, increased casualisation, change in family structure et cetera.

How do we change it around? How do we make it less complex? How do we provide, within the super schemes, access to equity in housing? Is it possible to provide a central fund for low-income employees so that they do not have constant change and lose the small super funds they have? The risk of that is a general disincentive. I do not know what, if you had the responsibility we will have at the end of this inquiry, you would recommend we can do to make it more attractive to young people and therefore to provide more certainty in terms of their retirement income.

**Mr Elvy**—I can appreciate the committee's objective.

**CHAIR**—We also have to identify impediments, and you have done that very well—so thank you.

**Mr Elvy**—I will talk about some general changes that can be made to the superannuation structures. The key issue is attitudinal. You could split it up into people who are under 30 and those who are between 30 and 40. I think those are the key areas. After they leave school—until they have been through university and got their first jobs—people have absolutely no interest in superannuation. No matter how much education you put forward you will not make any

difference to whether they start funding for their retirement through superannuation or anything else.

**CHAIR**—One of our presenters this morning suggested that for these types of people it could go into just one central government controlled fund, which would mean that they did not have to chase it through and provide access.

**Mr Palmer**—There is a casualisation of the work force, particularly in that area where you have people leaving school who have part-time jobs, are into study, are overseas and all the rest of it. They are in a multiplicity of schemes if they change jobs and then they lose a lot of what they put in them by way of charges and other things. So a central pool would remove a lot of the disadvantage of having a multiplicity of employers.

**CHAIR**—Then there are the over-25s—I think that is what we were up to before I interrupted you.

**Mr Elvy**—Once they get to approximately the age of 25 and have been through, for example, higher education or have a full-time job and are receiving a certain level of income, that is where we believe an education process is required for them to take into consideration the issues which are going to be there 40 years down the track.

**CHAIR**—What type of education process are we talking about?

**Mr Elvy**—Traditionally we have gone through providing an advertising campaign which comes out for a three-month period. To a certain degree, we can tick a box and say, 'We've provided some education.' The government's initiative with regard to the Financial Literacy Foundation is also part of that. It is looking at the core issues of having people understand what the requirements are when it comes to retirement. It would be a combination of national roadshow type seminars and so forth combined with advertising programs and reference material which will obviously have to go out to individuals. That could come via their employers as part of direct communication about their superannuation or something along those lines. That is where I would see it.

It has to be something which occurs on an ongoing basis. It literally would be on a cycle—six months or whatever that cycle happens to be. It must continually be there so that it is not just a once-off. A lot of material, especially when it comes to superannuation, is not exciting. If you speak about superannuation, you can kill a dinner party conversation in five seconds. The critical issue, as we said, is getting their interest in retirement funding. Everyone would like to retire earlier. So the focus has to be on 'how can I retire earlier?'

**CHAIR**—The problem is that the government's objective is that they retire later.

**Mr Elvy**—Absolutely.

**Mr SOMLYAY**—The Prime Minister is leading by example.

**Mr Palmer**—In terms of getting people to sock it away—for want of a better word—the concept of retiring early is, in a funny way, consistent with the context of a government trying to

get them to retire later because the main incentive is to get them prepared to think about retirement funding as opposed to the timing when they might utilise it.

One of the other aspects that we alluded to earlier was to try and make people a little bit more aware of some of the attributes that are attached to superannuation that can also be part of their overall strategy. I am alluding to insurance, for example. A lot of people in that area of 25-plus, in their contemplation of life insurance, health and disability, are conscious of some of those issues. They are also conscious of the premiums and other things associated with them. Superannuation provides them with a vehicle to package some of that, but a lot of people are not conscious of that. That is one of the things that we have noticed.

**CHAIR**—Packaging what aspects?

**Mr Palmer**—For example, their ability to get term life and income protection insurance.

**CHAIR**—That seems to be an important incentive that the others have talked about too.

**Mr Palmer**—It is quite significant.

**Mr Elvy**—With income protection, for example, the majority of superannuation funds only provide a benefit period of two years. When you are trying to simplify someone's financial position and they have their superannuation fund with income protection for two years, you need, as anyone will tell you, a benefit period of longer than two years. Often the only way you can do that is by going outside to another provider. From an individual's perspective, when you are trying to simplify your financial position, you have your superannuation and some insurance in one place, then you have to go outside and get some other insurance somewhere else. Once again it makes it more complicated. From the individual's perspective, nothing is the easiest thing to do, when it is complicated and you do not understand it. By changing some of the insurance issues within superannuation—and the opportunities for the individual—you will have people more interested, particularly in regard to superannuation, and people will be more aware of the benefits of their superannuation policies and funds.

**Mr Palmer**—They will see an additional benefit in their contribution, over and above what they would normally have contemplated, and it saves them having to be involved in a separate transaction as well.

**Mr SOMLYAY**—In your submission you mentioned the increase in the rate of divorce. What effect will there be in the long term of superannuation being part of family law settlements? It is a complicated issue, I know. If you have planned your retirement then something happens to your marriage and you do not have your nest egg because you split it—

**Mr Elvy**—There is no doubt that it is one of the more complicated areas, with that—the superannuation and, for that matter, relating that to estate planning. Superannuation, as we said in the submission, is without a doubt most people's largest investment. When divorces occur, there will no doubt be ongoing discussions about whether those funds should be split between the husband and wife—or whichever is most applicable. That also relates to estate planning issues and actually having wills—that you actually have your superannuation in there. In a lot of cases the trustee actually has the power to decide where those funds should actually go.

Therefore it is important, with blended families and so forth, that your estate planning is also reviewed and that you have an up-to-date will and so forth.

**Mr Palmer**—Were you more concerned, though, with the rising incidence of that and the impact that it might have on super?

**Mr SOMLYAY**—Yes. With people between the ages of 25 and 40 who are having marriage break-ups, you are looking at retirement income 20 or 30 years down the track. Presumably, as an institute, your members would have to work out those settlements after the court orders and advise people on how to rebuild a nest egg?

**Mr Palmer**—Yes, but they are not reporting to us an interrelation between, say, the increasing incidence of matrimonial break-up and the impact on superannuation directly. It is more that people are being a bit reserved themselves about the extent to which they might be making commitments. We are seeing the impact on them and their financial capacity rather than anything else. Would you care to comment, Hugh? I think it is that.

**Mr Elvy**—I guess the key issue is that in terms of anyone's retirement planning—and the point you raise is very valid—in most cases when people are contributing to superannuation it is usually on the basis that they want to retire in X number of years on $50,000 a year or whatever it happens to be. From a planning perspective it is actually quite significant. You could be sitting down as a family unit to realise that when you retire at 65 it will be on whatever it happens to be—$50,000. If you then have the marriage break-up, it will significantly impact in terms of the number of assets that are actually available. From a cost perspective when it comes to retirement, it is often a lot cheaper for a couple to be in retirement than for two single people to be. So, yes, there are some significant ongoing issues there.

**Mr Palmer**—To a greater extent it is the impact it has on their capacity to continue to make significant retirement funding options, as opposed to the incidence per se directly affecting what they have in there at the present time—it is their future capacity to contribute that it has an impact on. Most of them are then seeking to rebuild their assets. In that context, they are older people going back to a priority of a younger person. They are starting from an earlier base.

**Mr SOMLYAY**—The reason I asked the question is that we legislated to enable it to happen—that superannuation become part of the family law settlement. I am wondering a few years down the track whether anything is apparent to your members that could be causing complications.

**Mr Palmer**—Not at this stage.

**Mr TANNER**—I want to follow up that point about the co-contribution and your comments about inequities and your observation that the co-contribution should be available to people who are not in the work force. I have a double-headed question. Firstly, in a general sense, are you happy with the existing means-testing arrangement with respect to the co-contribution for people who are in the work force—in other words, it phases out at $58,000 or thereabouts—or would you extend that further? Secondly, in the case of providing the co-contribution to an individual who is not in the work force, would you impose any kind of means-testing on a partner's income with regard to providing such a co-contribution?

**Mr Elvy**—On your first point, with regard to the increase to $58,000, currently we believe that that is quite equitable and reasonable in terms of a threshold and a cut-off period. We have no particular issue with that. It would be nice from a consumer perspective generally to increase that. From a client's perspective, a consumer's perspective, anything which would allow them tax benefits, extra savings and so forth would be a plus. From our perspective, it is not a key issue. There no doubt should be some sort of means testing. Maybe part of the issue should be that, if you are receiving, for example, family tax benefit B, or something along those lines, which indicates obviously means testing of the husband or wife, there should be some consideration as far as that is concerned. It should not be open slather, basically; there should be some sort of means testing.

**Mr CIOBO**—In your submission, which I have not had a proper chance to go through, but I have appreciated your comments, you asked the question:

Are those under 40 currently funding their retirement goals but not doing so via superannuation strategies?

I am keen to get more comments on that. We touched on it generally, but does the ICAA have a particular point of view in response to that question?

**Mr Elvy**—The key issue, the premise that we are raising, is that they are not involved with superannuation but may be doing their retirement funding elsewhere. We have talked about doing some sort of attitudinal survey to find out their preferences. They say: 'We're conscious of the fact that we want to retire early,' or, 'We want to do this, that and the other. We're using direct property or shares, and therefore we don't like super.' The issue therefore could be addressed. We need to change the perception of superannuation, and that is the key issue there.

**Mr CIOBO**—I absolutely agree with you, but I would just like to delve into that question: do you have a position on that?

**Mr Elvy**—Not specifically at this stage. Anecdotally, we suggest that, for those under 40, retirement funding or superannuation per se is not a priority for them. Their key issues will be debt management and also raising a family.

**Mr Palmer**—Equity in the family home and things of that nature.

**Mr Elvy**—Yes. The cornerstone of any financial planning process always says, 'Reduce your non-taxable debt first up,' and any recommendations that are made say, 'Get rid of your mortgage as soon as possible.' I think you would find that, for the vast majority of people who are under 40, their focus would be putting their money into their mortgage rather than thinking about their retirement plan, as such.

**Mr Palmer**—If that sentiment is what the professional advisers are offering, our membership is reflective of what they are saying.

**Mr CIOBO**—Sure.

**CHAIR**—I do not know to what extent you were able to hear the earlier suggestions in relation to the concept of using equity in the super scheme. What is your conclusion on that factor? We have had a mixed reaction to date on that.

**Mr Elvy**—We have not formed an opinion as far as that is concerned.

**CHAIR**—Would you mind looking at it? It is interesting, although one of the people on their way out the door said, 'We'll fight you on that, if you recommend it.'

**Mr Elvy**—I have always said in respect of superannuation that, whilst there have been a lot of pros and cons about superannuation—and even in the newspaper last week there was a reference to superannuation versus property, when in the debate we should be looking at overall retirement funding, not one over the other—one of the big negatives that people mention about superannuation is accessibility. My view is that not being able to access it is actually a huge plus, because it is actually a forced savings scheme. I think removing temptation is a big plus for the individual. I know, from the experience of doing financial planning and so forth, that one of the big reasons why you actually recommend super is you know that they have not necessarily got the discipline to have an ongoing savings plan. So they have a combination involving nonsuper—so when they need to get money they can actually access it—while at the same time they are actually still funding their retirement by putting money into superannuation.

**CHAIR**—However, others contend that in itself is a disincentive.

**Mr Elvy**—Exactly.

**Mr Palmer**—We have acknowledged that it is a disincentive but we have resisted suggesting that a solution is to take it away.

**CHAIR**—I have listened to my kids and their friends. The big issue is usually the first deposit, with the banks insisting that they will lend up to 85 per cent, although often they will do more, as Lindsay said earlier in this inquiry. How do they get that initial amount, given all the pressures on them from all types of things not to actually put money in the bank? I am sure if you did a profile of young people you would find most of them do not do that at all. If only you were actually able to say to them, 'If you put money in your super scheme not only are you perhaps preparing for an early retirement and living on the beach on the Sunshine Coast like the member for Fairfax but also you have the possibility of accessing some of that equity to get the deposit on your first home.' As we know, that is the biggest hurdle that you face with home ownership.

**Mr Palmer**—One of the problems I foresee with that is whether it will in fact make them contribute more. If you look at the system at the moment, you see the money goes in there but they cannot access it. It would give them the option to access what is in there, as opposed to putting more in. It would not necessarily encourage them to put more in.

**CHAIR**—It might. I take your point that the more it is eroded the more it becomes of less use. The protection of it is significant. But it would be a real incentive for people. What is the other alternative? Do they put it into shares or do they put it in the bank to build capital?

**Mr SOMLYAY**—On that point, you can borrow money and tax-deduct the interest to buy real estate or shares but not superannuation. Is superannuation as a product disadvantaged? You do not really see that 15 per cent tax benefit up front.

**Mr Palmer**—As for the concept of superannuation, the vast majority of people, particularly those under 40, do not even see the benefit of their getting nine per cent that is going into super in the first place. I think it comes down to an overall misunderstanding of superannuation. When you speak to a lot of employers, especially those in small business, if you want to cause a bit of a stir you say, 'How's your superannuation going?' Their backs will be up because it is basically a cost and a burden to their business from which they receive absolutely no benefit.

**CHAIR**—They would probably be right too. That does not mean to say that it is not right either.

**Mr Palmer**—That is right. From the consumers' perspective, in a lot of cases the consumers are not actually seeing anything in their back pocket. This is where part of the difficulty is when you are looking at superannuation: even though the consumer gets a statement, they do not actually see the money. I would love to see as part of this survey how many people actually look at their statements when they come in each 12 months to the end of June. I would suggest that the vast majority will look at this year's statement for the first time in probably five years, only because of all the publicity with regard to superannuation choice and the opportunities they actually have there. The big issue with superannuation is still the complexity of it—the difficulty of it. That in itself will never encourage people to actually put money into it at this stage.

**Mr SOMLYAY**—What will be the impact of the abolition of the surcharge?

**Mr Elvy**—No doubt for those on higher incomes it will be a greater incentive to put money into superannuation.

**Mr FITZGIBBON**—A few moments ago, you said in passing that sometimes as a financial adviser you look at a client and you can see that what they need more than anything is forced savings and that therefore you direct a fair share of their investment into superannuation. One could be forgiven for interpreting that as a suggestion on your part that quite often superannuation is not the best form of savings for these people but that, on balance, because it is forced savings, you take the second best.

**Mr Elvy**—It is not so much taking the second best, but when it comes to the opportunities of superannuation, in a large number of cases it is the most appropriate investment for them. As I mentioned before, it comes down to looking at a strategy and at the retirement planning or savings patterns so you can decide between using super and non-super alternatives. Quite often when you are in front of a client you can see what their savings pattern is like historically and whether they basically cannot help themselves. It is similar to credit cards. One of the biggest problems we have in terms of savings patterns is the availability of credit. People basically cannot help themselves with regard to allocating money for and spending money on their credit card. Similarly, I would never say that superannuation was second best. I have always taken the—

**Mr FITZGIBBON**—I am not suggesting that it would not be correct advice. If a client obviously needs some discipline, it would be correct advice. But one would still be forgiven for interpreting that as a suggestion that the need for forced savings overcomes your inclination to go down a different path which might provide a greater dividend than the first option. Putting the forced savings issue aside, my point is that if even you do not think, on balance, that superannuation is the best course of action for a particular person, it is pretty hard to convince the under-40s.

**Mr Elvy**—I agree. The issue I was trying to raise was that, while access to superannuation is seen as a negative at times, I have used it with clients to say, 'This is a positive for your plans down the track.' It is basically using a negative as a positive as part of an overall recommendation.

**Mr FITZGIBBON**—I understand.

**Mr Palmer**—The other problem in looking at what is the best option for a person is what position they are in at the particular time—we talked earlier about paying off debt in the home and other things. It is invariably a trade-off between circumstances, rather than saying that superannuation per se is not as good an investment as something else. It might be more that under a person's present circumstances this is a better option for them at the present time. I think it is more that than one product as opposed to the other.

**Mr FITZGIBBON**—There is a common theme emerging here—that is, the attitudinal barriers are so high for this age cohort. You could spend $5 billion: $3 billion to get rid of the entry tax and a couple more billion dollars elsewhere—at the other end or wherever—or raise a threshold here or there but you may never turn this ship around.

**Mr Palmer**—That is why, in ours, we were saying that we think a lot of it is to do with education and with more intelligence as to the motivating factor affecting some of these people. Most of us are talking anecdotally—from what we hear or from what our members hear or experience when they are dealing with various people. One of our recommendations was that we thought more research had to be done, particularly in this group.

**CHAIR**—I have just been talking to the secretary about the question of regular reporting to individual members of a superannuation scheme as to how it is performing, the percentage increase in the year before and the anticipated retirement income. I understand from ASIC that the problem is in how you do this. I understand that you can do it through the web. But is it also an area of attitudinal change? I know that in my own case, with my super scheme—with the shares, where I get regular reporting every few months, which outlines how everything is going and what the net increase is—there is a real incentive to put more in. I just think that people need to see it in front of them.

**Mr Elvy**—There are pros and cons to that, and I have debated this over a number of years.

**CHAIR**—The con would be about the estimate.

**Mr Elvy**—I do not think there is a definitive answer. With regard to reporting, generally with superannuation it is on an annual basis. Some would argue that it should be more often so people

have more of an interest. One of the difficulties you do have with increased reporting is that people are looking at it every three months, let us say. If the markets are down and their investment is down, they think, ‘I need to change’. So all of a sudden they are thinking, ‘I need to move my superannuation moneys.’ That happens for any long-term investment. It is important from an educational perspective that consumers and individuals understand that their investments are looking long term. I personally have shares and so forth and look at them obviously on a more regular basis but with your superannuation you are looking 10 or 20 years down the track. I do not know necessarily what benefit you are going to get by reporting more often than every 12 months.

**Ms GRIERSON**—I would have thought the people you represent would give a lot of advice on super choice. How easy or hard is it to make a choice regarding a super fund for people who do come to you and people who do not come to you?

**Mr Palmer**—With Morningstar, we have jointly just put together a report which was about examining returns on superannuation funds in the context of choice with a view to trying to ascertain whether, if someone was quoted a rate X here and a rate Y there, they were apples and apples. The thing we found was that they are not. They are apples and oranges. That was one of the significant things that came out of the study. One of the things we were encouraging was uniformity or a move towards more uniformity so that when you quoted something it was comparable.

**Ms GRIERSON**—So how do you think young people would seek that advice? They are not people who generally go to an accountant. They might go to a tax person to get their tax return done if they are in regular employment but perhaps many of them would never go to an accountant. How would they make that choice?

**Mr Elvy**—From an information perspective, I believe those under-40s and young people would use the internet. You will go to the fund manager or the product provider and so forth.

**Ms GRIERSON**—You would go to Google and put in ‘superannuation’!

**Mr Elvy**—When it comes to superannuation products and so forth, there is a referral system of what they actually do. Therefore, they would look on the internet and so forth in terms of getting their latest return and so on.

**CHAIR**—That is a fairly sophisticated young person who would be doing that.

**Mr Elvy**—I am talking over the next 10, 20, 30 years and so forth. My nine-year-old uses the internet to look up things at the moment. I would hate to know what he will be doing in 10 years time when he is 19 in terms of the internet. From that perspective, they will get the information and they will be able to find the information that they require. The difficulty with superannuation is that traditionally people were not looking to investments. They want the highest returns and the lowest fees. You can have all the bells and whistles you like but the key issues are: ‘How much money am I going to make?’ and ‘I don’t want to pay anything’. They do not necessarily work that way. This is where professional advice is actually required as part of that investment decision. With shares, direct property and so on, people can quite confidently go out, to a certain degree, and make those investments whereas with super choice the communication has been:

'Don't rush. You've got a choice. It is a fantastic opportunity but don't rush into it. You need to get some advice and really think about this hard.' Other alternatives are perceived as being a lot easier.

**Mr Palmer**—In the study we brought out, we concluded with 10 tips as to what you should be looking at. When we looked at reviewing the various things you were comparing, we came to the conclusion that—I have not got the report—you almost needed to go to a financial planner to help you work through the 10 alternatives.

**Ms GRIERSON**—And yet, I think there is a strong possibility that many young people not engaged in a background of investment or financial management would perhaps just ask their employer, 'What do you recommend?'

**Mr Elvy**—Yes, I think that is true.

**Ms GRIERSON**—How much information does an employer have to guide people in making their superannuation choice, except to say, 'It would be lovely if all my employees went to the same one and I could have a simple software program and would not have to worry about anything'?

**Mr Elvy**—The employer, unless they are licensed, cannot make a recommendation. All they can say is: 'We have got a default fund here. You will need to get some professional advice.' From the individual's and the employee's perspective that obviously does not help them at this stage.

**Mr Palmer**—One of the incentives we had in commissioning that report was to help people think about what they needed to evaluate. You want to put them in the position of being an informed shopper, and yet the whole system is quoting rates and other things to them.

**Ms GRIERSON**—I think you are right. The thrust of super choice has very much been: 'You have a choice.' People out there probably are aware that they have a choice and that they can now make a decision, but there has not really been a lot of guidance given to people on how to make that choice. What would it cost to go to a financial planner just to choose your super? What is the standard—$60, $90? What would it cost them?

**Mr Elvy**—It depends on whether they are running on a fee-for-service basis, whether they are a salaried financial planner—or whatever the remuneration is that they have. There are opportunities there, but there are over 2,000 superannuation funds out there. It is difficult. When you have those sorts of difficulties you tend not to do anything, except whatever someone else is doing.

**Ms GRIERSON**—So it is up to the funds to target people and make the people choose them. Have you seen evidence of any super funds particularly targeting young people and trying to engage young people, or are they targeting other parts of the market? Who are they targeting?

**Mr Palmer**—We are not seeing any specific evidence of people trying to target the under-40s.

**Ms GRIERSON**—No, I have not, either.

**Mr Palmer**—Not at all. Certainly, we have seen the current targeting of, if you like, industry funds versus retail funds, but nothing more than that.

**Mr SOMLYAY**—Should they be targeting the under-40s?

**Mr Elvy**—As part of an overall campaign, I think it would be of benefit to have an education program for them about how they can make their decisions. It is difficult, as there are over 2,000 funds out there. There should be an education program that says, ‘These are the steps you need to go through to make your decision.’

**CHAIR**—That is great. Thank you for your contribution and articulation of the key issues we need to address. We may come back to you and ask for further advice or information.

**Proceedings suspended from 2.12 pm to 2.23 pm**

**McDOUGALL, Mr Graeme Robert, Chief Executive Officer, Small Independent Superannuation Funds Association**

**McILROY, Mr John Francis, Deputy Chairman, Small Independent Superannuation Funds Association**

**CHAIR**—Welcome. The committee has before it your submission. Are there any corrections or amendments you wish to make to that submission?

**Mr McDougall**—No.

**CHAIR**—Is it the wish of the committee that the submission from the Small Independent Superannuation Funds Association be received as evidence to the inquiry on improving the superannuation savings for people aged under 40 and be authorised for publication?

**Mr FITZGIBBON**—I so move.

**CHAIR**—There being no objection, it is so ordered. Do you wish to make a brief statement before we proceed to questions?

**Mr McDougall**—Thank you. We would like to make a few opening remarks. For the small independent funds, better known as self-managed superannuation funds, how we talk about self-managed funds for under-40s is probably an area that could be seen as a little difficult, particularly when you listen to the comments of others with regard to the priorities of under-40s in relation to their investments and where they are putting money.

With self-managed funds now being the second biggest sector, in asset terms, of the superannuation market, there are a growing number of younger people getting involved in this sector. At the upper end of that under-40s market, there is some evidence of some of the higher income earners in the professions starting to get involved in it. Our submission says mainly that, if you want to bring under-40s into the superannuation industry, you have to make it attractive, you have to make it interesting, you have to have some incentives and you have to convince them that it is a worthwhile activity. You will notice from our submission that we talk in principle a lot about what is a disincentive in relation to superannuation, not only to under-40s but also to some over 40. But it can certainly be lined up to the under-40s. We have outlined what we have seen as some ways of correcting that. Can I say from the outset: we thank you for the inquiry because this is the first time that the House of Representatives has ever looked at superannuation.

**CHAIR**—Is that right?

**Mr McDougall**—It has always, in the past, been left to the Senate. We welcome your participation. You are the House where the legislation is introduced and we would certainly encourage you, in the future, to do more work in this area and follow-up work—

**Mr SOMLYAY**—Hear, hear!

**Mr McDougall**—because we believe that it has been a long time in coming.

**CHAIR**—Alex is the only member of the committee who was on a previous committee in previous terms. It was your intention previously to do an inquiry into super, wasn't it?

**Mr SOMLYAY**—We tried to get an inquiry up last term into retirement incomes but, because the Senate had a number of inquiries going, the Treasurer did not think it was a good idea.

**Mr McDougall**—I will not pass any further comments in relation to that, although I could.

**Mr TANNER**—No comments about unrepresentative swill or anything like that!

**Mr McDougall**—In principle, a big disincentive for people to go into superannuation, particularly people under 40, is that it is seen as a cash cow for Treasury. It is a fundraiser for Treasury; it is a revenue raiser for Treasury. If you have a look at how many times superannuation is taxed in the system, you have to ask the question: where is the incentive for a younger person to go into superannuation when all he or she can see is himself or herself getting belted around the head three times in relation to revenue raising? You will note in our submission that we make the particular point that we believe that, if you want to create incentive and you want to get people involved in it, you need to take it out of the hands of Treasury and put it into an independent commission so it is not part of the annual budgetary process. That annual budgetary process continues to make sure that it is in the revenue stream. I heard the institute just before us saying that the priorities of people under 40 are in other areas. Their priorities are in other areas; not only establishing their home but also, for those who can afford to—there are people out there who can afford to—investing in property or investing directly in the share market, because they see themselves better off in tax terms.

**CHAIR**—Are they—or are they not? Let us work it through in terms of the—

**Mr McDougall**—I am not here to give you financial advice. I noticed that previous speakers were running a bit close to the wind in relation to giving financial advice. Can I suggest that John answer it because he is a financial planner, he is an accountant, and he also did a survey in his office before he came down today just to see what under-40s were saying about superannuation.

**CHAIR**—I am just going to think of the three times that you are taxed—

**Mr McDougall**—You are taxed on the way in, you are taxed on your earnings and you are taxed on the way out. We are the only Western country in the world that has three taxes on superannuation.

**CHAIR**—What do others have comparatively?

**Mr McDougall**—They will tax on the way in, they will have no tax in the middle and they will maybe have a tax on the way out, but none of them have three. They only have one or two.

**CHAIR**—We have not really looked so far today at taxation implications and we probably should. Please continue.

**Mr McIlroy**—In relation to that tax question and whether someone is better off doing that, it depends. I guess the biggest priority of most people under 40 is to purchase a home. There are no tax issues involved because there is no capital gains tax. There is no tax on mortgage payments and no relief for interest or anything like that, so that is not really a tax issue. It is really a situation of a particular priority for their lifestyle. I think the point that Graeme is making about tax and incentive is that, if you are trying to put superannuation up as a viable investment option for people under 40 and the competition you are working with is investing in their own home, the incentive needs to be very clear. It certainly cannot be a case of it maybe not being a good idea to invest in super. It has to be very clear that it is a good idea. When you have taxes involved at the front end in particular, you put a disincentive in there straight away. That is the sort of situation when you are dealing with someone and their home. If you are looking at it from the point of view of someone making a choice to invest in shares or property, whether geared or not, as distinct from superannuation, my view is that, particularly as their earnings get higher, they are better off using superannuation.

**CHAIR**—But there is stamp duty straight away if you buy an investment property.

**Mr McIlroy**—Yes, there are those issues involved—perhaps not so much in New South Wales now, but we will not mention the extra taxes here. But generally speaking—

**CHAIR**—But you are already paying your taxation on your income and then you are paying your stamp duty as well. That is compared to the 15 per cent.

**Mr SOMLYAY**—Stamp duty is tax-deductible.

**CHAIR**—That is true. I am sorry; I am diverting you.

**Mr McIlroy**—I think if you compare it—and this is particularly for those under 40 that are probably on higher incomes or an above-average wage—on all of the analysis that I have done over the years, they are better off investing in superannuation than using geared properties or geared shares, particularly as most—

**CHAIR**—Is that the case even over the last few years?

**Mr McIlroy**—It depends. Most superannuation funds these days have choices as to where your money gets invested. So you can have your money in super but purely invest it in the share market through your superannuation fund if you want to do that. I do not know that it is an issue about whether you invest it in shares or superannuation generally because people do have those sorts of choices now. They can put their money into a super fund and pick whether they want to be in Australian shares, international shares, property or other options like balanced or capital stable. There are all of those sorts of options.

**CHAIR**—If you did a comparison between putting in, from 2000 to now, $100,000 into negatively geared property in Sydney or shares or a super scheme, what do you reckon would end up giving you the top returns?

**Mr McIlroy**—If you had geared the investment and invested in Sydney eastern suburbs property, you would probably be a fair way in front. But I think the point is that you are comparing two quite different investment strategies.

**CHAIR**—I know, but we are often dealing with perceptions.

**Mr McIlroy**—You are—you are certainly dealing with perceptions. But, on one hand, you are talking about a geared investment. Also, particularly if it was eastern suburbs but also anywhere else, you are talking about carrying a lot of debt. It is a higher risk investment compared to having money in the superannuation fund. They are two completely different risk profiles.

**CHAIR**—Why is it higher risk?

**Mr McIlroy**—Because on one hand I have all this debt. With a superannuation fund I cannot gear it, so I do not have the debt.

**Mr TANNER**—The superannuation fund's portfolio is diversified whereas you have all your money in one investment. That is why it is high risk.

**Mr McIlroy**—Yes.

**CHAIR**—I suppose you mean that over a 20-year cycle you should be better off with a super scheme. Is that what you are saying?

**Mr McIlroy**—You could pick various times. You could ask whether over the last three years you would have been better off in a geared property investment in Sydney or a superannuation fund where you had 50 or 60 per cent allocation towards shares. The super fund would have done better. You have to judge these things over quite long periods.

**Mr TANNER**—You mentioned that the primary barrier is people seeking to buy their own homes, which I am sure is correct. Isn't the problem there that it is not an apples and apples comparison because when you are purchasing your own home you are engaged in something that involves consumption as well as investment, so it is not just an investment decision? You have imputed rent built into that and therefore the person confronting that decision is not actually making a direct comparison with alternatives like superannuation or whatever because they are also using it as a place to live. It is not just an investment exercise.

**Mr McIlroy**—I support what the Institute of Chartered Accountants said about having research done in this area. I think most people would not give any consideration at all to whether, when purchasing a home, they are better off doing that or better off putting money into superannuation. It is not a financial decision; it is a lifestyle decision, Yes, it has lots of financial implications to it but they are making the decision because they want a roof over their heads, not because they think it is better than superannuation. My point is that if you have superannuation competing in that same space for that dollar then you do not want to put any barriers in the way of superannuation because people will just not do it. The 15 per cent tax on the contribution going in, particularly if they make salary sacrifice contributions, is immediately seen as a barrier.

**Mr TANNER**—Even with those taxation barriers I think you will find that you would be financially better off to rent for 30 years and invest the balance in an average superannuation fund. You would be financially better off at the end of 30 years than if you used the money to buy the house.

**Mr McIlroy**—You may well be but you would have an enormous battle trying to convince people of that because they are not making a financial decision.

**Mr TANNER**—People do not see it that way but there is no doubt it is true.

**Mr McIlroy**—With the level of home ownership in Australia being as high as it is that is what most people aspire to if they can afford it.

**Mr McDougall**—I return to another point that I think we are missing in this whole debate, and we have been debating this for years. What we are missing in the whole debate is this: if the government of the day wants people to make provision for their own retirement and to get off the aged pension and the public purse in retirement—and we address that in this paper in several ways—you have to create incentive but you also have to create compulsion. Back in the 1960s when I first went into the corporate world I was fortunate that I went into a company that had superannuation and I could not go into that company unless I made a contribution. There was nothing wrong with that compulsion. If you make it compulsory that the employee or the self-employed make a contribution you are going to make them aware of another part of the structure that is going to be part of their short-, medium- and long-term life. If you give them this hairy option you are going to end up with exactly what we have ended up with now with an ageing population: the general taxpayer having to foot the bill for those who did not save enough.

You have to come back to some basic principles before you even debate what you invest in and how you invest. Let us come back to some basic principles and say to the under-40s that these are the new rules. If you are going to make the rules and if you are going to do something like that you have to get it out of this budgetary process because that is the greatest disincentive that ever was. For years Treasury have thought—and they continue to think—that superannuation is tax avoidance. That is their attitude. You have to get a positive attitude right and then articulate that positive attitude to the people and say, 'This is all part of a plan.' It works in other countries; why doesn't it work here?

**CHAIR**—Did you want to add something about the survey?

**Mr McIlroy**—One of the other hats I wear is as a director of a training company. We run training programs in superannuation, mainly for financial services companies. One of the first parts of the program that we run is about retirement planning and how much you need to save. Everyone has a different figure but probably the most commonly used figure is that you should save about 15 per cent of your earnings every year to get an adequate retirement over a 35-year working period. That is a pretty common sort of conclusion. But, interestingly, if you do this sort of exercise where people have to try to figure out how much they would need to save, one of the common things that comes back is, 'Gee, it is interesting that it is 15 per cent. I always thought it must have been nine per cent because that is what is compulsory.' And they say, 'If the government set the compulsory level at nine per cent then that is probably what it needs to be.' So I think there is an educational thing coming off the back of that because people are trusting

that the government have done their sums to work this out in the first place. As we all know, nine per cent will not do it.

**Mr FITZGIBBON**—Can I just focus on the do-it-yourself schemes for the moment? I think I said earlier that one of the common themes throughout today's hearings has been that the greater barriers for superannuation investment for younger people are attitudinal rather than regulatory. Maybe, because do-it-yourself schemes provide a young gung-ho person with some control over their investment and because that makes them an instant entrepreneur, we could focus on that area to raise interest in superannuation investment. I am sure on the public policy side there are a range of concerns about that—maybe the security of the investment and the risk of investments going bad—but very broadly how does it work and what restrictions are there on the assets which you are allowed to invest in et cetera? How do the schemes basically work in regulatory terms? What can you do and what can't you do?

**Mr McDougall**—There is no very quick answer to that because it is a fairly complex area and it is made more complex by the fact that it changes every year in every budget. I come back to the point: that is one of the great problems. The rules for investment for self-managed funds are different from those for managed funds. If you are going to have a long-term savings sector and that is in superannuation, you should have one act. If you going to have one act you will have one set of rules.

**Mr FITZGIBBON**—But there are good reasons for having two sets of rules, aren't there?

**Mr McDougall**—No.

**Mr FITZGIBBON**—The most obvious being—

**Mr McDougall**—I do not believe there is.

**Mr FITZGIBBON**—the greater risk involved in a young gung-ho 20-year-old—

**Mr McDougall**—Why?

**Mr FITZGIBBON**—making his own decisions about where he gains that tax concession.

**Mr McDougall**—We have gone through umpteen Senate hearings over the years in relation to this question. There is always an argument put up by Treasury or possibly the Government actuary that there is a risk factor in self-managed funds: 'They are risky; they are a problem.' We have never once had them put the proof on the table. It is a perception—and that is because there are certain sectors within the industry that have not liked the growth of self-managed funds, which have taken a bigger market share from other sectors. They are now resenting it and are deciding: 'Let's bash self-managed funds as a means of trying to get our market share back.' That is instead of having the incentive to design products to sell to it and maintaining a market share. I have said repeatedly—and I have never had it proved otherwise—that if we have a problem the proof should be put on the table. And the proof has never been put on the table.

**Mr FITZGIBBON**—I hope you are right that it does not stand up to scrutiny and I think, Chair, it is an avenue that we should pursue with some other experts.

**Mr TANNER**—Could we have the data to make that assessment? Is there any aggregated data?

**Mr McDougall**—The tax office, as the regulator, have it.

**Mr FITZGIBBON**—That is a matter we should put to Tax. I recall that between 1996 and 1998—which was my first time in parliament; that is how I measure these things—the rules were tightened regarding assets classes. They were claiming that some small business people were investing in Maseratis and all sorts of things, going for very poor returns, if not negative returns, but using it as a means of raising their immediate lifestyle. So there must have been some evidence at that point.

**Mr McDougall**—That was fixed and it was fixed because it changed the regulator from APRA to the ATO. Even when APRA was the ISC, it never had—and won't have today and will not have tomorrow—the capacity to regulate high numbers of funds. So they gave it back—and I say 'back', because Tax had it once before when they were excluded funds—to Tax because Tax have the ability to regulate large numbers. Since Tax took it over, they have improved the compliance issues measurably and we have helped them along the way to do that. The small number of misadventures that you raised were certainly got rid of. But, in the process of what they did in 1996-97 and with the changing of those investment rules, that also brought in discrimination of classes of funds. The biggest change they made—and we make reference to it here in the paper—was they took away the ability of a small fund to have a discretionary trust and the ability of a discretionary trust to gear an investment, as long as the trust was totally owned by the super fund. But that was discriminatory. They said that, without proof, a small fund was too risky to gear. The superannuation act states that a super fund cannot borrow, but a managed fund—a retail fund—can borrow through a widely held trust. Aren't they breaking the same law?

**Mr FITZGIBBON**—I am prepared to hear arguments that there may be some discrimination. There may be a lack of evidence, and we will be happy to pursue this elsewhere with others. Going back to the issue of risk, and it does seem fairly obvious—again, I am talking about the young 25-year-old who has a business of some sort, he has his own do-it-yourself fund, he is investing in a very narrow sense, he has most of his money tied up in a residential property development somewhere in Sydney's west—surely the exposure risk is greater in that situation than investing the same amount of money in a fund managed by highly qualified fund mangers who are investing in a diverse range of investments? Surely the risk is greater?

**Mr McIlroy**—In terms of what flexibility there is for people through investing in self-managed funds, one of the reasons they are growing so rapidly is the flexibility that exists. You can invest in managed funds, shares, property trusts, fixed interest securities, term deposits, direct property—pretty much the full gambit of investment is available through self-managed funds. In the context of someone who does have a bit more money in superannuation, they are seen as an attractive option, because you can invest across a broader spectrum. One of the things that comes up from time to time—which goes back to your last question—is that it is the only real vehicle that you can use in a superannuation sense to invest in direct property. There are limitations on that because the fund cannot borrow. You obviously have to have a very substantial amount of money in super before you can invest in direct property. The example that

you used of someone aged under 40 investing in developments is probably very rare, because they just do not have enough money.

**Mr McDougall**—They do not have that sort of money in their fund.

**Mr McIlroy**—The point Graeme was making was that the person in that circumstance who wants to invest in a residential property in the western suburbs of Sydney cannot do it because they do not have enough money.

**Mr TANNER**—Why can't they invest in property trusts?

**Mr McIlroy**—They could. They can invest in a property trust and the property trust can gear.

**Mr FITZGIBBON**—That would be arguably safer?

**Mr McIlroy**—In a sense, yes. They could invest in a property development trust run by a big builder and that trust could have gearing in it but, in their own superannuation fund, they cannot have gearing. I guess that is the sort of anomaly that Graeme is talking about.

**Mr FITZGIBBON**—I am not attacking the DIYs. I was suggesting that maybe do-it-yourself is the vehicle to get younger people more interested in super by giving them control over their destiny and that entrepreneurial spirit. I am trying to develop what the arguments against that are, and that is why I went to the issue of risk.

**Mr McIlroy**—Probably the two biggest reasons why people use a self-managed fund is to have the flexibility and also the control.

**Mr FITZGIBBON**—Surely flexibility is what young people are looking for.

**Mr SOMLYAY**—And the tax advantage.

**Mr McIlroy**—No, I do not think so. The tax situation is largely the same irrespective of whether they are in a public offer fund or an industry fund. There is no great tax advantage for a self-managed fund.

**Mr SOMLYAY**—Over an ordinary investment there is.

**Mr McIlroy**—Oh, sorry, yes.

**Mr FITZGIBBON**—You were talking about two different things.

**Mr McIlroy**—I was talking about two different types of super.

**Mr McDougall**—I think that the biggest issue—John has hit it—is that the main reason for the growth in self-managed funds is control. People want to control the destiny of their own investment. They do not want fund managers controlling it. For three years they make big sums, for the next three years they go down the bottom of the barrel, and as people have said to me

repeatedly, 'I get sick of paying a percentage of my capital in my super fund to the fund manager when he has lost money for me.' That is the biggest issue that comes out for the reason people change. They say, 'If I'm going to lose this money, I may as well lose it myself rather than have to pay someone to lose it for me.'

**Mr FITZGIBBON**—At the risk of labouring the point, if Bruce Baird, as chairman, put out a media release tonight saying that the committee is onto something and the committee reckons we can get younger people more involved in super by pushing the DIY funds then there would be a pretty hefty response from the industry. They would run the risk campaign, wouldn't they?

**Mr McIlroy**—Absolutely, yes. Bruce might be advised to go on holidays for a week.

**Mr FITZGIBBON**—That would be their major argument: the risk profile.

**Mr McIlroy**—Also, to start a self-managed fund you should have a fairly substantial amount of superannuation, which most under-40-year-olds do not have.

**Mr FITZGIBBON**—Where would you set the figure?

**Mr McIlroy**—Everyone has a different figure. I think it depends on what it is going to cost you to have it run. As an adviser, I would put the figure at no less than $200,000. But others put it lower. It depends on the cost structure you are going to have as to how it is going to be run and where it is invested. It would be somewhere around that level. For most people under 40, even though they might get the flexibility and control, it is not really a good option because it can be too expensive. With industry funds, obviously the costs are a lot cheaper than a self-managed fund. Also, with publicly offered funds, inherent in those funds is that people with bigger balances subsidise people with smaller balances. It is not really a good option for most people under 40.

**Mr SOMLYAY**—Are there many people who have both a managed fund and a self-managed fund? If someone is on a salary, they do not have a choice.

**Mr McIlroy**—It would be very rare, certainly for people under 40. If you go to the trouble of setting up a self-managed fund, you are not generally going to have contributions going off to some other fund.

**Mr SOMLYAY**—You are if you are on a salary.

**Mr McIlroy**—Not if your employer has given you choice or now gives you choice. For anyone who now gets a choice, they can direct the money to their self-managed super fund.

**Mr SOMLYAY**—The super guarantee is compulsory.

**Mr McIlroy**—Yes. But it can still go to a self-managed super fund.

**Mr FITZGIBBON**—I know we do not have time to go into it to any great extent today, but I would be interested in the analysis on this stuff. With respect to a young guy of 30 who has a civil contracting business, that business allows him to look at land a lot. He gets a good look at

the market. His first purchase could take his super fund from $50,000 to $200,000 in 12 months. It is not inconceivable to believe that there are many young people out there with the capacity to build a fund that large.

**Mr McIlroy**—Yes. For someone in that sort of circumstance to invest a higher proportion of their superannuation in one particular asset class is not necessarily high risk if they have good expertise in that area.

**Mr FITZGIBBON**—My point is that $200,000 might be the critical mass, for want of a better description, to make it a viable fund, but a very small fund could reach $200,000 very quickly.

**Mr McIlroy**—Yes.

**Mr FITZGIBBON**—So it is not entirely correct to say that you cannot kick off a fund with substantially less than that and make it viable.

**Mr McIlroy**—That is right. It obviously depends on how quickly contributions are going into it and that sort of thing. But that is a sort of common figure that is used.

**Mr McDougall**—A comment about it, though, is that 30 years ago young professionals went into employment and stayed there for life—or maybe they had two jobs. They do not do that anymore. They go in, they may work for five years under contract and then they go on to somebody else. They might do a stint overseas. They change professions. There is a lot more of that. There is an incentive for them. I have heard quite a few of them make comments along the lines of: 'Yes, we start off with a low balance. We know the costs percentage-wise are higher, but we carry our own kit with us. We do not have to go jumping from fund to fund, as you would do in the old days.' Now they are on contract, they negotiate their position and they have their own fund.

If you observe that, you find that it is happening at the higher end of the corporate ladder. It has been for years. Those guys up there have had their self-managed funds for a long time and they still do. There is a growth in the government sector, where the government is employing people under contract who are running their own funds because they were not part of the legislation which prevented them from having a choice. That could well become a growth area. Some of them say, 'Okay. I am under 40; it is going to be a higher cost. By the time I amortise that over that 30-year period I believe I am going to be better off and I am still going to have the control and the flexibility.'

**CHAIR**—We had a couple of suggestions this morning that we should perhaps set up a fund for those casual employees who do not reach a certain income threshold. That would go into a centrally controlled government super fund so that they could be easily tracked, because they are jumping from job to job. Often this is a real disincentive to young people. Therefore, if we keep one government fund, at the end of it, when they take up full-time employment then they move out of the government fund into the private sector. What are your views on that?

**Mr McIlroy**—It is probably a little early to say, because we are not even a month into the choice regime. But I would have thought that if the education was hitting home even a little bit

people would know that they have a choice—even if that is all they realise from the publicity. There are enough options around now for people to know that they should have only one fund and that there are plenty of choices. They can use an industry fund and they can hop between casual employment and other arrangements. Most industry funds are classified as public offer funds, so you do not have to be in a particular industry. You can use one fund for the rest of your life, whether it is an industry fund, a self-managed fund or a public offer fund. Regarding a fund for casual employees, my view would be that I doubt whether there is any great benefit in doing it.

**Mr McDougall**—Think about the lost fund register. That is the way I would look at that question.

**CHAIR**—It is a fact that they lose that money.

**Mr McDougall**—There is a lost fund register around. From memory, the last that I heard was that there is about $7 billion in it. The majority of that would be from casual workers, particularly people in industries like hospitality who flit around from place to place.

**CHAIR**—It would also be from young people from overseas who come here for a year.

**Mr McDougall**—It is my understanding that that is the lesser of the money; the majority of the money belongs to Australians. Why is it there and why haven't they claimed it? I think the answer is a lack of education and that they are not interested. I can quote my own daughter. She is now a permanent resident of Canada. She was in the hospitality industry. She was in four different funds while she was in the hospitality industry. She has been in Canada for three years. All her money is here. It is all in those three or four different funds. Why? Because the Privacy Act prevents people from being able to help her to get it out. I cannot do anything about it for her because they are not allowed to talk to me.

**Mr TANNER**—What about with a written authorisation?

**Mr McDougall**—We have tried that.

**Mr TANNER**—It does not work?

**Mr McDougall**—It does not work.

**CHAIR**—That is something we should look at.

**Ms GRIERSON**—That is an issue, because so many of our young people are working overseas.

**Mr McDougall**—The Privacy Act is causing incredible problems.

**CHAIR**—But you can see the concept of simplification: that for casual workers it just goes into one fund or it is contracted out to a few different funds to manage. They contribute towards super and it disappears, so why should they consider it seriously?

**Mr McDougall**—It disappears because they change their address. That is the big issue.

**Ms GRIERSON**—No-one knows when they move.

**Mr McDougall**—They change their address so often, but they are the ones who have to keep their fund advised. None of the funds have any ability whatsoever to track these people down.

**Mr TANNER**—Can I follow up on that Privacy Act point. It puzzles me and I want to get it clear. Is it the case that if an individual is seeking to establish whether they have any money with a particular superannuation fund, because of the way the privacy legislation operates, the only way that fund can answer the question is directly to the individual? Does it permit the appointment of an agent to raise that question for you?

**Mr McDougall**—I think you should ask the tax office this question. The tax office is the custodian of the lost register. If anyone thinks they have money somewhere, they can go to the tax office and the tax office, through their lost register, can do the search for them. By any stretch, that is the best vehicle to do it.

**Mr TANNER**—But can they, in writing, appoint an agent to approach the tax office?

**Mr McDougall**—Yes, and those agents already exist.

**Mr TANNER**—I do not mean a capital 'a' agent; I mean anybody who is designated to do it.

**Mr McDougall**—There are some agents around and I think you should direct that question to the tax office because they have looked at the question and the fees and charges that those agents charge.

**Mr TANNER**—Let me get the word 'agent' clear—

**Mr McDougall**—You mean that you can give me the right to do it.

**Mr TANNER**—Yes. I can appoint my wife as the agent, or a local member of parliament. We often get people who say, 'We want you to sort out a Centrelink mess for us,' and we have to get a written authorisation from them to get access to their Centrelink information. I am not charging them any fees.

**Mr McDougall**—All I can say is that, from my own personal experience trying to help my daughter, it was absolutely useless. They did not want to talk to me.

**Ms GRIERSON**—This has a new significance. I know that with the London bombings so many of the young people involved did not provide for their families here to have authority to do anything on their behalf—to access any records or any legal documents or to do anything for them. That is probably a normal pattern of behaviour for most young people. There is a greater risk now and young people should provide easy access to their records or have a responsible person to do things for them when they are overseas.

**Mr McIlroy**—I guess that highlights that they should be doing a power of attorney before they leave, in all cases.

**Ms GRIERSON**—Not a lot of people want to give power of attorney over to anybody—no way.

**Mr McDougall**—It is the only way to do it.

**CHAIR**—It is obviously one of the issues we need to look at, because it is where we lose a lot of our incentives. You are probably right: it is this address issue and the follow-up and the casualisation of some of our work force.

**Ms GRIERSON**—And there is the mobility issue.

**CHAIR**—The other one that was recommended to the committee is using equity and super schemes for housing.

**Mr McDougall**—In actual fact that is in our submission.

**CHAIR**—You actually recommend it.

**Mr McDougall**—We have recommended quite a few things in there in relation to how you can create incentives for people to go into superannuation by using superannuation moneys in different investment vehicles to be able to create that incentive. This is where I come back to the start when I talked about the fact that we have never sat down in this country and asked: what are we trying to achieve? We have lurched along. We have done some great things—the introduction of SG has been a great incentive for people to get in—but we have not gone far enough. We have not asked what our goals as a nation are. Do we want people to be dependent upon the social security system or do we want them to be self-dependent with only a safety net? If that is what you want to create then you have to make that decision and design the product around it. That is where we come back to saying that, if you are going to do that, don't make it part of an annual budget process as a revenue raiser. If you want to have a look at a good system that works well, go and have a look at Singapore.

**CHAIR**—Finland was referred to this morning.

**Mr McDougall**—Singapore has one of the best systems going.

**Mr TANNER**—I can see a tour coming on.

**CHAIR**—Our program will be busy!

**Mr McIlroy**—To follow up on Graeme's point, there has been a lot of work done here that has identified some pretty basic things. One is that, over a working life of 35 years—assuming people actually have a working life of 35 years—you need to save about 15 per cent of your income. We save nine per cent, which drops down to a bit under eight because of the tax involved. It is quite clear, for the purposes of what we are talking about here, that you have to be saving up to the age of 40 at a rate of 15 per cent, so there is a gap of six per cent. How do you

encourage people to save that six per cent? One theory is to make it compulsory. Another way is to knock away the disincentives or create incentives. You do have some incentives in place already, with co-contributions, which is good. You could do things to the co-contributions system—you could take away contributions tax for people under 40. There are lots of things you can do to try to create the incentive. You do not have to be a rocket scientist to work out what the problem is, because there is enough work being done on it already.

**CHAIR**—I am working through your figures, because I think that is interesting. Tell us about the Singapore model.

**Mr McDougall**—The Singapore model is a compulsory model.

**Mr McIlroy**—The savings rate is somewhere between 18 to 22 per cent, compulsory.

**Mr SOMLYAY**—Of gross income?

**Mr McIlroy**—Yes.

**Mr McDougall**—It is a very simple system, and it is run by an independent commission. It is worth looking at. I had a good look at it a few years back.

**Mr SOMLYAY**—What is the tax treatment in Singapore compared with ours?

**Mr McDougall**—You are asking me questions that I do not have in the memory bank. I do not know of any changes that have taken place since I last had a look at it, but I would be happy to pass onto the committee what I have on the Singapore system.

**Mr McIlroy**—I think the Senate committee at some stage—I cannot remember exactly when—did an analysis of the taxing arrangements in different countries. Singapore was certainly one, and I think Finland was one of the others. So it has certainly been done before.

**CHAIR**—We will have a look and get some briefings on that.

**Mr McIlroy**—One of the major differences that I think you need to note with Singapore, though, is that the level of home ownership is not anywhere near the extent that it is in Australia; therefore, people who retire need higher incomes because they have to pay rent. It is a different equation that you work on in Singapore. That is why they need 22 per cent savings and we only need 15—it is assumed that we own a house.

**CHAIR**—So what are they retiring on, on average, as a percentage of their salaries in Singapore?

**Mr McIlroy**—They would be working on somewhere around 65 to 70 per cent of their pre-retirement salary.

**CHAIR**—That is good.

**Mr McIlroy**—Here, with a 15 per cent earning rate you only really get to 65 per cent. It depends on your investment performance, but over long periods that is about where you would get to with a 15 per cent saving rate.

**Ms GRIERSON**—We have a submission that suggests that young people in particular should be able to access their super for financial advice and financial planning. How do you feel about that one? They do not have the ready for that sort of professional advice. It is expensive to have proper financial planning. The superannuation fund does not provide that for them. What about some way of helping young people to get on track and set targets?

**Mr McIlroy**—I think you asked a question of the Institute of Chartered Accountants in Australia before about the cost of this sort of thing. If I was giving financial advice to a 30-year-old whose primary question was about their super choice, under the current legislation I have to go through a process because of the licensing and I have to provide them with a statement of advice. I would suggest that, if I was really efficient at doing that, it would probably take me three to four hours to see the person and produce a report.

**Ms GRIERSON**—I would have thought $1,000 would be the ballpark for basic and very ordinary financial advice.

**Mr McIlroy**—I think it is interesting for the purposes of this hearing that, because of the processes that financial advisers have to go through now, which I do not disagree with—

**Ms GRIERSON**—Yes, I understand—it is the regulations.

**Mr McIlroy**—Yes. It is really pushing people who have less than $50,000 to invest, whether it is in superannuation or anything else, outside the realm of being able to get financial advice—

**CHAIR**—Yes, that is true.

**Mr McIlroy**—because the cost is just too high.

**Ms GRIERSON**—Yes, it is, very much. You could see them paying $100 for a tax return, but you cannot see them paying $1,000 for financial advice, can you, in most standard cases.

**CHAIR**—And when they turn around and say, ‘We charge a fee for managing your investment,’ then for 50 grand it is not worth it, so they are not going to touch it.

**Mr McIlroy**—You are going to pay one way or the other. But if someone came to me and asked me to quote an hourly rate or a fixed fee to provide that advice, I would have to say that it is at least $1,000 because, if I did it for any less than that, I would be just losing money.

**Ms GRIERSON**—So what about a one-off incentive for young people to be able to access their super fund to gain some financial advice?

**Mr McIlroy**—I think it would be a very good idea.

**CHAIR**—In what way, Sharon? Were you thinking of the tax—

**Ms GRIERSON**—No, it is in the submission from the next witness. It suggests that they be able to access their super savings to pay for that. But you would not want to do it too often.

**Mr McIlroy**—No, that is true. It comes into that question of whether generally you should be able to access your superannuation for that or other things, either to pay off a HECS debt or to assist a deposit—

**CHAIR**—Yes, that is a very good point—paying off the HECS debt.

**Mr McIlroy**—Basically, if you did have some allowance for accessing the super for financial advice, HECS debts and assisting deposits on properties, you would take away a lot of the barriers or disincentives that are currently there. If you then attach to that some incentive like taking away contribution tax for people under 40, you are then in quite a different situation.

**Ms GRIERSON**—Yes. I have not seen that one put forward before, just in the submission of the next witness group. I have not seen anyone put that up. It comes from a young person, so it is an interesting one.

**Mr McDougall**—The Singapore model has those abilities in it—that is, borrowing for housing and education. There are several of those in their system. So you are looking at something that has been tried and proven over many years.

**Mr SOMLYAY**—You said that in Singapore it is compulsory. Do they have self-managed funds for people who are in business and who are not employees?

**Mr McDougall**—They did not and they were beginning to introduce them about two years ago. They saw that there was a need and demand for them. My understanding is that, while they agreed to have them introduced, what they did was put them on top of the other. They still had to make their contribution to that guaranteed fund.

**Mr SOMLYAY**—How could it be made compulsory for a person who runs a business to contribute to a fund if they do not take a salary—if they take profit?

**Mr McDougall**—It was based on taxable income.

**Mr SOMLYAY**—Okay.

**Mr McDougall**—They could run their own fund, but they still had to contribute to the central thing as well, so they did bring it in.

**CHAIR**—Thanks very much. I appreciate your enthusiasm for the topic and the way you have applied lateral thinking. We are new to this area. We may want to talk to you again as you see it progress. There is a real opportunity for us to have a significant input into the debate, with the bottom line of trying to assist our young people to be self-sufficient in the years ahead, unlike in our era—me being older than you, Graeme—where nothing was done to provide incentive. I have no idea about all the super fund money I paid out early in my life! But, back on the main theme, thanks for coming today.

**Ms GRIERSON**—We had job security then.

**Mr McDougall**—We encourage to you to keep going, because now the Senate committee has closed, so it is important that your committee keeps looking at superannuation issues.

**Ms GRIERSON**—Thank you.

**CHAIR**—We will send you a copy of the transcript. We really appreciate your input today. Thanks a lot.

**Proceedings suspended from 3.16 pm to 3.33 pm**

**DIMESKI, Mr John, Private capacity**

**CHAIR**—Welcome. The committee has before it your submission. Are there any corrections or changes that you want to make to the submission?

**Mr Dimeski**—I did shoot through an amended copy late yesterday as to some minor typos. That was pretty much it.

**CHAIR**—Typos we can cope with no problems at all. Is it the wish of the committee that the submission from Mr John Dimeski be received as evidence to the inquiry on improving the superannuation savings for people aged under 40 and be authorised for publication?

**Mr SOMLYAY**—I so move.

**CHAIR**—There being no objection, it is so ordered. Mr Dimeski, I invite you to make an opening statement before we then proceed to some questions.

**Mr Dimeski**—Thank you everybody for the opportunity. I saw the advertisement in the *Australian Financial Review* and that initially got me thinking. It was interesting why it was advertised only in the *Financial Review*. I did not see it in any of the local mainstream papers. Perhaps it was.

**CHAIR**—It was in the *Australian* too.

**Mr Dimeski**—That is a very tailored market.

**CHAIR**—There were a couple of factors as to that. We thought the people we were dealing with would probably be readers of those two publications.

**Mr Dimeski**—Fair enough; I understand.

**CHAIR**—And cost was a factor. We did have a debate about it. I did an interview with Triple J, too.

**Mr Dimeski**—As I said, initially I saw the inquiry advertised in the paper and thought about it over the ensuing weeks. My submission was submitted about a day late. At the time I had problems finding the email address.

**CHAIR**—Did we not have the email address on the ad?

**Mr Dimeski**—It was on the advert but, as I said, I had misplaced it. With work constraints, you tend to bypass things.

**CHAIR**—We are glad you are here, glad you made a submission and glad you are interested.

**Mr Dimeski**—Effectively, when I saw the title, I said, 'This is basically geared towards me'—not just me but peers in my age group—'and, more importantly, planning for the future is important for the younger generation.' I am pretty focused on that sort of thing, so I thought I would give it a crack.

**CHAIR**—Out of interest, what age are you?

**Mr Dimeski**—I am 32. I have a little two-year-old.

**CHAIR**—You are exactly the type of person we are trying to talk to.

**Mr Dimeski**—A classic example. My wife is looking for a second one at the moment, so if I can get away from work before 8 pm there could be a chance! I am very focused towards planning for the future for our family. As I said, when I saw the opportunity for this age group to provide some feedback, I thought that this would be a reasonable opportunity to voice a view. That is pretty much the background to the reasoning behind it. Eventually I sat down and made some dot points. The first thing you conjure up is: what is superannuation? My background is in superannuation and the stock market. Again, these are personal views coming out here. It is a very complex beast. I have other associates who are in slightly different fields. They are all tertiary qualified but they have next to nix in terms of knowledge on the topic. I firmly believe that the whole process is quite difficult to follow. Once you have entrenched that view, the interest factor starts to wane in the younger generation until it is too late.

I often see a lot of people, who when they are about 50 suddenly put superannuation on their agenda, but our generation do not want to be in that position in 20 years time. I am a firm believer in saving for the future to fund your retirement, not just using the taxpayer funded approach. As I said, it is all about understanding the superannuation process. I put in my paper that it is an abyss; it is actually a black hole. It is a yellow brick road—the yellow path that winds around with obstacles, definitions and legislative amendments. It is really about how we simplify the process and make it a lot clearer for individuals. I have also put in the paper reference to the previous generation's pre-1985 incentives—no CGT—and pre-1983 incentives. Again, by definition, I have put in the paper that we in our age bracket are not going to see those sorts of things. With a lot of that really good stuff that the current generation is benefiting from, how do we move forward and provide those sorts of incentives?

The work environment has changed significantly. The days of starting as a graduate and flowing through until you are 55 and at CEO status, potentially, are gone. You need to get the exposure, the breadth and the depth of experience with multiple employers. That is obviously on a case by case basis, but generally moving around these days is not uncommon. Again, that was potentially a good thing in the current generation versus the up and coming generation. It is fairly competitive in terms of maintaining your role, but that is fair enough. I think that nurtures best practice as well. What is the end goal? You work hard to pay off the mortgage and get the kids into a good school, and then you enjoy the fruits and hopefully—and safely, these days—see some parts of Australia or the world.

The key points I want to address in this inquiry are about simplifying the legislation. That is a big process in itself. It is a bald statement; it is a big statement. There needs to be some thought about how we do that. With regard to the ongoing amendments regarding superannuation, I hear

comments whereby people ask why they should put money into super when the government can turn around tomorrow and say, ‘This is the new rule from tomorrow onwards.’ There is a real cynicism there. I do not take that view. I think there are always good motives. But do not forget that people are not always educated, and they may take the cynical view. If there must be change, how do we communicate that in an English-friendly manner as opposed to budget speak, government speak or legislative speak?

I suppose we are doing a good thing regarding disclosure of fees. I think that is paramount. The industry still has a lot of change to go through, in particular on the quality of advice. I work in the advisory field, providing clients, young folk, with advice. One of the biggest things today is getting quality advice from professionals. You will see a statement of advice setting out fees of $300, $500 or $1,000. You have to question the quality that people get back. When they look at that quality, they will get even more deeply sceptical about the process. I have hinted in my document at the question, ‘How do young people access a couple of thousand dollars to get quality advice upfront?’ To say to a 35-year-old with a couple of kids, ‘You need $6,000 for a good advice document,’ when they are paying off the mortgage and they are on $70,000 or $80,000—that is not going to gel well. So how do we say, ‘There is a percentage of the funds available to seek quality advice’? How do you control that? That is a question that I have not really answered. But, as a first step, how do we get the advice in place? Because, without the plan in place, all of a sudden you are 48 or 58, you have got $70,000 in your super balance and you are back to square one.

All this fee debate is important, but I think super choice has overridden the concept of making choice super—making superannuation the best possible thing for you, apart from your home. I think that has distracted a lot of people. That is why I have titled my submission *ChoiceSuper*. We need to really make this thing work. I think we have one of the best systems in the world. Most developed countries look upon us favourably; they study the Australian system. We have to really entrench that in our society.

As I have said, I have the benefit of being in the game. I spend a lot of time reading about it. It is one of those addictive things—some people watch golf or tennis; I will spend some time reading superannuation changes.

**CHAIR**—You’re our man!

**Mr Dimeski**—It’s a mad, mad world out there—that is what my wife says.

**Mr SOMLYAY**—I prefer golf.

**Mr Dimeski**—We try to balance things. It is important to get the appropriate advice out there. Apart from the fees, it is also about disclosure of performance or balance reporting. When I started with my first couple of employers, you would get your super statement every 12 months and it would go in the dustbin, basically. If we are going to take this seriously: if I were running a business and providing clientele with advice, I would be doing it on a quarterly basis as a minimum.

**CHAIR**—And on the internet, as you were saying before.

**Mr Dimeski**—That is exactly right.

**Ms GRIERSON**—You could go online whenever you felt like it and look it up.

**Mr Dimeski**—That is right. So that has to be pretty much mandatory, in my view.

**CHAIR**—As part of that consideration, do you think the reporting is clear enough? In terms of my own share portfolio, which is in a managed retirement fund, they report quarterly and it is all set out: what the increases are, what the percentage was during that time, what shares have gone up and down. It provides a real incentive to me to put more money into it. Do you feel that the super statements—because I have only seen the one that relates to me—provide sufficient advice or sufficient incentive to people?

**Mr Dimeski**—Well, obviously they do not provide any advice. It is just a capture of a set of numbers regarding your position on the day. I have seen some that represent some ideas regarding undeducted contributions or pre and post—that sort of thing. The explanations are pretty taxing. I think they try to make them simple, but at the end of the day it is really specific in terms of the professional end. A good old mum and dad will not ever understand that in my view. I should not say 'ever'—it is extremely difficult.

**CHAIR**—So the reporting should be more user-friendly?

**Mr Dimeski**—Being user-friendly is very important. In terms of the performance, how we demonstrate that and show that information in quarterly reporting is very important. Take the notion of franking credits. I might say to someone, 'Here is a yield of five per cent'; but at the same time 100 per cent franked dividend yield of five per cent is worth 7.25 per cent. So you have that gross-up of 42 per cent—that is, 30 divided by 70, times 100, plus one equals 1.4218.

**CHAIR**—Are you all with what he is talking about? That is what you do in your spare time while we are golfing.

**Mr Dimeski**—That is exactly right. One dollar of cash dividend is worth $1.42. If people can see that their portfolio is geared toward a franking bias or they have the option to say they prefer franking, they can see that they can extract a larger return by using the tax proceeds that the company has already paid as opposed to going offshore, having exchange fluctuations, uncertainty regarding that political environment and generally no yield and definitely no franking benefit. That is something that people do not know about, especially in my field. I always talk about it and people do not realise the magnitude, the ramifications or the impact over the long term of that sort of strategy that people can set up to generate or enhance their returns.

I suppose the classic example is DIY funds, which are the big thing at the moment. The smart people say, 'Okay, I want a highly franked portfolio.' People in a pension phase will say, 'I need $100,000 cash yield.' That $100,000 will generate roughly $42,000 return when the fund's tax return is basically completed and the ATO returns the cheque. How do we get the message across to young people that if they take control, be it through the employer or through the options available to do so, they can select investments that give them that option to maybe use the tax proceeds to enhance their return? We rely on professionals to do that. As I said, if people know that international does not generate that sort of thing, they may think, 'Oh, that is all too risky.'

We have seen theoretical research that stipulates international is high risk but high reward. Do some real research and you will find that that is not the case. Over the last 38 years—as published in a recent paper—Australian shares actually outperformed every asset class when you take into account franking credits and the Aussie exchange rate. The US market did extremely well between 1987 and 1999 but, unless you were in the market then, the chart looks pretty horrific. We are always fishing at the top at the moment. I question that whole model of asset allocation as well. As I said, with my experience, I can do a lot of things myself, but I feel sorry for the people who are in marketing—I am not singling out a particular profession—or journalism, people who have no idea and no reference regarding the specifics. How do we get that message across? That is a really powerful thing that we can focus on.

**Mr SOMLYAY**—Do you have a self-managed fund?

**Mr Dimeski**—I am in the process of setting one up. It will have a balance below the desirable amount.

**Ms GRIERSON**—What is the desirable amount?

**Mr Dimeski**—I have the benefit of doing a lot myself—I have the background, I can control costs and I will do my own investigation.

**Ms GRIERSON**—It was suggested by the small funds managers that it was $200,000.

**Mr Dimeski**—Yes, generally, as a rule. But obviously if you educate yourself to a level of comfort and you do not rely on a full advisory or full administration service, it is a lot lower than that. That is where young people can effectively get access to that sort of thing. Look, you can get in the game for as little as $80,000 to $100,000—even lower at the end of the day, as long as you know what you are doing. This is where the trade-off is and this is the big dilemma for ASIC and industry funds and so forth. Most people will not know. I really have not looked at the appropriate level of funds. If we follow the employer fund approach or the industry fund approach: how do people see more value in what the manager is doing, what investments are they investing in and can they have more control over the investments, as opposed to them simply saying, ‘I am a growth-oriented person; give me a 30-70 split’? It is really not enough information. It is like saying to someone, ‘Here’s a good property on the Gold Coast. It has two bedrooms, four windows, a bathroom and a kitchen. Go for it.’ ‘But I want three bedrooms.’ ‘You can get the three-bedroom one as well.’ But have they seen it; have they gone there? We have to say to the fund management industry that looks after super: how do we get more empowerment back to the people contributing to the superannuation process? Seldom do I see people simply writing on the dotted line, ‘Okay, I’ll take that apartment up on the North Coast.’ They will probably fly up there, get a friend to look at it or something of that nature. There is a lack of transparency on that basis as well. Once people see what their investments are and have more of a focus on a specific type of investments that are available, the interest level will start to increase. That is something that will happen over time.

**Mr SOMLYAY**—But, with your experience, you would assume you would get a better rate of return from a self-managed fund than if you put your funds into a managed fund?

**Mr Dimeski**—It is difficult to say. You cannot say yes or no to that.

**Mr SOMLYAY**—The reason I ask is that we are looking at ways of trying to interest young people in superannuation. The evidence we have had today from everybody is that people shy off super because of lack of control. When you control your super fund it becomes more attractive, even though the benefit to be derived from it is way out in the future when you are at the age of 60. To someone at the age of 32, 60 is a long way off.

**Mr Dimeski**—Absolutely. Definitely the control aspect is extremely appealing. All of a sudden you can pick investments. The whole notion—

**Mr SOMLYAY**—That is why I am asking. What reason did you have for having a self-managed fund?

**Mr Dimeski**—Because of control and obviously getting access to specific investments that the fund manager may or may not be involved with. They may be involved but, as I said, they are not disclosing the particular investments for whatever reason or it is proprietary information and that is fair enough. But there must be a process where over time they disclose or potentially disclose that they invested in particular stocks, for example, just to give some tangibility to the process and not just say that you have made nine per cent for the half or for the year. If they tell you the stocks, you can say, 'Yes, I know Telstra, the National Australia Bank, Tabcorp and ANZ,' and so forth. There is that sort of disconnect as well. That is where the control factor moves in. You can say, 'Great, I like that company.'

**Mr SOMLYAY**—But why would you invest in that through a super fund when you have a choice to borrow money and invest as a private individual without it being through a super fund?

**Mr Dimeski**—Effectively, I am getting mandated contributions at the moment, so that is building up. So, if I take control of that, I can effectively use that additional cash flow. If you like a sector, you can get double the exposure. If you think you have the right sector in place—for example, resources—and it performs quite strongly, your returns could be much higher.

**Mr SOMLYAY**—But you cannot borrow against your super fund.

**Mr Dimeski**—Yes, I understand that, but you asked why I would not use—

**Mr SOMLYAY**—When you look at investments, superannuation is one investment which has certain tax advantages. Other investments do also. You can borrow the whole lot and make an investment in shares and property, but not if you do it through a super fund. You have to save the money first.

**Mr Dimeski**—Correct.

**Mr SOMLYAY**—Is there an advantage for a young person to do it through super rather than borrow against their house to buy another investment?

**Mr Dimeski**—There may or may not be. The issue here is that you are getting access to another pool of funds to further take control of your position. You may borrow as well. I do the same—I have marginal lending and also protected portfolio loans. It is not my money—it is the

bank's money—but I am using the gearing to enhance the return. Obviously, I use my disposable income there as well or my taxable income. But there is no preference at the moment—

**Mr SOMLYAY**—In other words, how do you make super attractive for someone like you?

**Mr Dimeski**—How do we actually get the balances up quickly enough? In the submission I said that we could remove the contributions tax and quarantine that. Let us call it a post-2006 component. We have the pre-83, the post-83, the invalidity, the '94 component and so forth, so let us say it is a post-2006 component. Anything that goes into that component—the employer contribution is nine per cent, let us say $10,000—must be matched by your salary sacrifice, so that would be $10,000. So $20,000 goes into that post-2006 component tax free. There is a $3,000 incentive to build that base up. The government might say, 'Well, hang on, I'm giving you all of these tax benefits—I don't want you to debt yourself up, have a great lifestyle and then at age 60 take all of that money out and pay off all of the debts that you've built up basically having a great time over the last 25 years.' You quarantine that component and say that anything you have ticked as a contribution into the '06 component will only be used as an income stream. You may not put all of your money into '06—you may need a lump sum at the end of the day—but people may then say, 'That's pretty good—if I put in half of my proceeds and match the contributions of the employer as well, all of these proceeds are going in with no contributions tax and no earnings tax, and the balance is all of a sudden getting a nice kicker.'

I have not done the modelling on that at the moment, but I am sure that the numbers will look pretty favourable. By the time you are 55 or 60 years of age you will have this '06 component that, all of a sudden, can pretty much fund a good part of your income stream. I see that as a real kicker. That is an incentive that I would take absolutely with both hands. I think, 'Hang on. Maybe if I rent for 25 years, since the rent is not too bad, I can really home in on the superannuation and start salary sacrificing 20, 30 or 40 per cent of my salary,' because the incentive is there that, when I retire, the pool will be so large my lifestyle will be wonderful. There has to be something attractive. By doing that, as well, the pressure on the welfare system will be largely dissipated; it will go away. The national savings will be basically exponential in the first decade or two because the tax incentives are so great, people have control of their fund and, at the end of the day, they can see the gains progressing pretty nicely over a reasonably long period.

**Mr SOMLYAY**—They have control.

**Mr Dimeski**—That is right. As I said, at the moment 15 per cent of your nine per cent goes out of the fund, so you are earning 7.6 or 7.7 per cent—whatever the number is—in terms of the employer contributions, so you are short by 1.3 per cent or thereabouts. Remove that impediment, maybe even mandate that you must contribute, salary sacrifice, to get that benefit—whatever you ask for the '06 component, you must contribute an equal amount with your employer. So then, all of a sudden, the onus is not just on the employer and the tax man—the ATO or the tax system—but the individual has to step up and say, 'Okay, I'll definitely start funding my own retirement.' If we get some professional modelling around that, we will make some significant inroads.

There is one other thing in the paper that I have talked about. For the first 21 years, you are basically at school. Your income is zero. You live with your mum and dad. For the next 40 or 44

years, to the age of 65, you basically work. Then, the last 20 years—based on life expectancy tables, to the age of 80 or 85—is all about retirement and sourcing an income stream. So we have 40 years to generate 20 years worth of income. The numbers, by definition, do not stack up. Without any incentives to really kick this process along, I just cannot see how we work for 40 years, pay off our mortgages, pay off the school education for our kids, holidays and so forth and then have 20 years of retirement income. I cannot see it happening.

So how do we change the formula? This nine per cent is not going to go anywhere. That is a valid bit of research that has been done. I think IFSA said 12 to 15 per cent is the minimum that needs to be contributed. I am not sure what the numbers look like at age 60 or 55, but how do we make sure that the pension is completely redundant? We can do it, but it has to be a three-way street. The government has to get on board, the employer has to get on board and so does the individual.

**Mr SOMLYAY**—A criticism we have heard of our super scheme is that it is taxed three times: on the way in, once it is in and on the way out. A lot of countries only tax it twice. So you are recommending that it not be taxed on the way in?

**Mr Dimeski**—Not on the way in, not whilst in the fund—but remember that the restriction is that the ‘06 component cannot ever be taken out as a lump sum, until death, effectively.

**Mr SOMLYAY**—But you do pay income tax on the income stream?

**Mr Dimeski**—Potentially. Although obviously you have to do your numbers and work out what the net loss to the government or the net loss to the individual is, and so forth.

**CHAIR**—So where is the tax? There is no tax, on your model.

**Mr Dimeski**—No, there will be a tax on the income stream, but I have not actually sat down and modelled the various—

**Mr SOMLYAY**—If you do crunch the numbers and model it, will you send us a copy?

**Mr Dimeski**—Yes, I will do my best on that basis. I have started building something, but every day I think of something else I had better put in—inflation and so forth and growth modelling. To make it right, or reasonably right, it will take a few weeks. I have some back-of-the-envelope numbers, but I am not in a position to say that at the moment. The incentives have to be there to grow that balance. If we do not grow that balance, we are going to be talking about this in 20 or 30 years time.

**CHAIR**—I understand.

**Ms GRIERSON**—You put forward an idea of using superannuation funds for house purchase.

**Mr Dimeski**—Yes, I did.

**Ms GRIERSON**—Do you want to go through that? I know you said that you do not have the whole model thought out, but you put forward a suggestion. Do you want to share that with the committee?

**Mr Dimeski**—Legislation drives a lot of things in our economy. Let's go back to 2000. The housing market started coming off, the GST was introduced—the legislative framework again—and we all heard, 'You'd better build your house before June 2000, before the GST gets you.' We had an influx of building and then it stopped all of a sudden. The Sydney Olympics were in September that year. I recall that an associate went out and bought a house during the Olympics. He said there were no buyers out there; everyone was watching the Olympics—plus there was the GST scare. So legislation really drove the demand.

Afterwards we saw $7,000 come on the table for first home buyers. Interest rates were coming off as well, and that is always a positive. That doubled to $14,000, and then we saw the stamp duty concessions as well. So effectively, after about $200,000 or $250,000, you could pick up $20,000 for your first home—a massive inflow—while interest rates were also falling. That is a massive impetus to the economy. We know that Australia is based on building effectively on homes. When you start thinking about legislative change that can impact on this sort of thing, that is one way to make a sector really take off.

That drove a lot of demand. We had interest rates and the cost of funds, and employment was pretty full. Then all of a sudden prices went through the roof. The next generation that are looking to the market, the next four or five years on, are renters. How do we get a young person, in their first or second year out of university, to put $450,000 on the table at the moment? They cannot. They are still enjoying life. That is the first point.

Secondly, another form of legislative change is the baby boom approach: 'Here is $3,000. Go and have a nice time, and hopefully in nine months time we'll talk.' It is $4,000 from 1 July; in two years time it is going to be $5,000. Legislation is driving this critical need for people to go out and have kids. I am 32; we had our first child when I was 30. My parents say that is late. In our era it is normal.

**Mr SOMLYAY**—You missed out.

**Mr Dimeski**—My wife is always saying, 'Three thousand dollars could have bought a cot and so on.' You do not specifically plan around those things all the time, but obviously it is a nice thing to have. But the focus here is legislation and making sure that we drive the next set of legislation around superannuation, and let us couple that with property for the young folk. How do we use that resource to potentially tap into their first home—as opposed to giving out $14,000 and so forth? It is a function of balance, first of all. If you have not got much of a balance, that is not really going to solve your situation, but couple that with an 06 solution or some sort of segregation of assets that can be saved towards the first home—or even a limit. We have RBL limits at the moment. Why not have a first home limit? Let's say your first $100,000 can be drawn towards your home. It must be unoccupied, for example. And maybe you could put on restrictions like saying that you cannot use any equity for other investments; it must be solely for home ownership purposes. I think I would put in the notion: for a $400,000 home, if you have got $200,000 in super, draw the $200,000 and obviously you would borrow the $200,000

just to alleviate the whole cost of financing the total package. That is probably a fairly harsh model.

**CHAIR**—Then should that be repaid?

**Mr Dimeski**—These are the questions you could talk about for hours: do you make it so that, if you sell, any proceeds go back to the fund; or do you repay over time as additional contributions? The debate flourishes, basically. As I said, most people I have talked to in my age bracket would love to get their hands on some super to get their deposit on board, basically.

**CHAIR**—The big issue that we discussed earlier is that deposit gap.

**Mr Dimeski**—That is right.

**CHAIR**—That is all very interesting. Is there anything further?

**Ms GRIERSON**—No, that is fine; thank you.

**CHAIR**—Thanks, John. You have made a great contribution. You fit into the age profile, and you know more about it than any of the committee members. It was very useful. We may talk to you again.

**Mr Dimeski**—I will try to do some modelling and numbers on a spreadsheet.

**CHAIR**—That would be good.

**Mr Dimeski**—People that are tertiary qualified have professional jobs; I think we are fairly fortunate. But we need to think about people who do not have that disposable income—how do we make this a mass-market approach?—as opposed to people who are professionals earning in the top five or 10 per cent of the age bracket. At the end of the day, it is not just about me and my family. Let us get something in place, make this thing work, communicate it—make it fairly simple to understand, controlled and transparent—and get some real tangible benefits, as opposed to waiting until 65 to see the income come out. As I mentioned to Peter, I have a bit of a bias because my dad is pretty crook. He retired and is not going to spend much of his money. My father-in-law is in the same boat. It is not just about working but having money left over that you cannot spend. We cannot miss that message as well.

**CHAIR**—Exactly. Thanks, John, we appreciate the input. We are glad to find somebody whose major interest is superannuation.

[4.06 pm]

**FINCH, Ms Melinda Suzanne, Private capacity**

**CHAIR**—Welcome. Is it the wish of the committee that the submission from Ms Melinda Finch on improving the superannuation savings for people aged under 40 be received as evidence to the inquiry and be authorised for publication? There being no objection, it is ordered. Do you wish to make a statement, and then we can proceed to questions?

**Ms Finch**—As a 30-year-old university graduate, I spent six years in the United Kingdom. I would suggest, from that experience, that there have been two main impediments to my own superannuation savings. The first one is a HECS debt which is still hanging over my head. As a debt, obviously, it is more of a priority to get that paid off before I start saving for the future. The second thing is that I have had an extended period working abroad, which was originally only for two years and then ended up being six. I am not unusual in this circumstance; a lot of Australians go away for a holiday and a good time and end up getting great jobs and staying there, often indefinitely. Now I find myself at 30 thinking I would like to be having children in the next five years and my full-time days of work are probably numbered. I think a lot of it is because I spent so much time away, and a lot of people are in a similar situation.

**CHAIR**—There are many Australians working overseas and a lot of them are your age; that is another issue. That is interesting; we had not thought about the implications of that. What were you doing?

**Ms Finch**—I am a journalist.

**CHAIR**—You are not with the *Herald*, are you?

**Ms Finch**—No; it is all right. I went over on a two-year working holiday visa. Like a lot of Australians, I wanted to travel but also I did not want to end up pulling pints in a pub somewhere, so I got a job working with a magazine company over there because I had a magazine background here. Things went really well; I wanted to stay and they wanted to sponsor me, and that is exactly what happened. Two years turned into six. At no time during that period of employment was I aware of any compulsory contribution that you had to make in the UK. Especially, being an Australian, you slip through the cracks a bit with their requirements. It was not until an editor pulled me aside and said, ‘You’re here now for quite a while, so why don’t you start putting something into the company super scheme?’ I did that and, when I left, the company paid it out and, of course, I spent it. It was pounds and when I got home it was worth twice what it was over there. So all that good work, which was a bit late coming in the first place anyway, was frittered away on job searching or whatever I was doing at the time.

**CHAIR**—That is a real issue and something we have not considered before: people being overseas and not being part of it.

**Mr SOMLYAY**—What happened to the HECS debt while you were overseas?

**Ms Finch**—The HECS debt has just been accruing at the rate of the CPI.

**Mr SOMLYAY**—You did not pay it while you were away?

**Ms Finch**—No, and I am not aware of any obligation to do that. My UK salary, when it was converted into Australian dollars, probably would have put me in the paying category back here, but I did not do that. One of the main things is that Australians go away thinking, 'This is my time; I refuse to have to grow up too quickly,' yet they earn twice what they could earn here—or sometimes even three times. Whatever you save over there and bring back is worth double, but people have other priorities when they get back in terms of buying a house—as the gentleman before was saying. There are lots of conflicting things, but the main thing for me was that I did not have a mindset where I was thinking, 'I need to start doing this right now, from the minute I leave university.' As a result, I now look back and think, 'Why didn't I just do a little bit more and why didn't I maybe link it up with my Australian super fund so that I could make a contribution directly to them?'

**Ms GRIERSON**—How long had you been in an Australian super fund? Had you actually been in one and was it part-time or full-time work that created that?

**Ms Finch**—I worked in the retail sector while I was at university, so I have been in one since I was about 18—actually since I was at school, when I was 16.

**Ms GRIERSON**—Did you have more than one?

**Ms Finch**—I did. I had a REST account, which I closed.

**Ms GRIERSON**—What is that?

**Ms Finch**—The retail employees superannuation trust, which has been one of the best returning industry funds over the last five years. In my first job, as well, I got a company fund, but I changed jobs and had to merge the two super funds together.

**Ms GRIERSON**—You make a very interesting point about the increased income opportunity overseas. It is quite commonly discussed amongst young people that a good way to avoid paying a HECS debt is to go overseas and work. I think it is something that the government should consider more fully. You also feel pressure to pay your HECS debt back. Have you had any financial advice on that?

**Ms Finch**—Ross Gittens.

**Ms GRIERSON**—He is pretty good.

**Ms Finch**—No, not Ross Gittens—I actually take that back. In thinking about it though, there was a timely article by Ross Gittens in the *Herald* last year about paying debt back and, if you are going to pay any debt back, your HECS debt is one of the lowest interest rate loans you will ever get in your lifetime. You really are better off investing in other higher return categories like shares, or what have you. That is pretty much it really.

**Ms GRIERSON**—I would not be feeling too pressured, if I were you. You are advantaged. He is correct. In the long term, you are getting a good interest rate on that HECS debt and it beats credit debt any day. Many young people do feel that pressure. I sympathise because I have a daughter who plans parenthood and all her life around when she is going to pay off her HECS debt, even though I keep saying to her: 'Maybe you should just defer that. Don't worry; just keep doing what you are doing.'

You also suggested that you did not get any information about financial futures as part of the package deal of leaving the country; that you probably did not consider financial advice as part of that visa arrangement. I think that is a pretty good idea because that is a time when you are making a big decision and it is a time when you are probably not worried because you will be back in two years time and you think that nothing is going to change. I like your suggestion that, perhaps as part of that information package for travelling overseas, there should be some information about financial futures.

**Ms Finch**—Also, one of the primary opportunities in London is when there is an election, because obviously Australia House is one of the single biggest polling stations anywhere. There is great camaraderie amongst Australians in London—as anyone who has been there and worked for a time will know—and people talk. You could have someone at Australia House handing out a brochure saying, 'It is time to invest and the first investment you need to make is your own superannuation.' Obviously that would involve reciprocal things with the British government. That would seem to me to be the most obvious one because the pound is so strong.

**Ms GRIERSON**—Portability of some kind?

**Ms Finch**—Yes.

**CHAIR**—We have Australians working all over the world, including in the United States. If they were sending part of their funds back to Australia, we would have an additional level of investment in Australia. It is something that we need to look at.

**Ms GRIERSON**—If your government is going to keep doing individual free trade agreements, it might be an interesting component you could put forward.

**Ms Finch**—The obvious thing about the UK is that we can get there, because there are a lot of economies and countries where you cannot work. So it is an obvious one. Australians of all walks of life and all employment backgrounds can get a two-year working visa, whereas for America it is a lot harder and Canada—

**CHAIR**—Plus you can get the patrial visa if your father or grandfather was born there. In the United States, for example, it was not part of the free trade agreement, but it was subsequently tacked on so that Australians working there have the right to work for a few years, which other people do not, because there is a limit on it. That is part of the reason why we have so many—

**Ms GRIERSON**—That is part of the brain drain.

**CHAIR**—Yes.

**Mr SOMLYAY**—Two or three years ago we also legislated for dual citizenship to allow people to—

**CHAIR**—Yes, so in countries where there is dual citizenship there is a real issue. That is a factor. Several of my kids have worked overseas for extended periods. I am sure it is quite valuable.

**Ms GRIERSON**—When you did contribute to a superannuation fund in the UK, what was it like and was there a similar system, with employer contributions and your contributions, or did you just get the employer contribution? What happened?

**Ms Finch**—It was only my contribution. I am ashamed to say this, but I am a 30-year-old and I am not unusual: I really do not know.

**Ms GRIERSON**—I think that is standard.

**Ms Finch**—I knew I was making a contribution and I knew that I was going to get that back when I left the country permanently, which is what happened, or it would be kept in trust until I retired, if I ended up living the rest of my days in England.

**Ms GRIERSON**—So did you just see it as a form of saving?

**Ms Finch**—Yes, and particularly at that time as well, because I thought that I could get it at the end; I would not have to transfer it straight into my super in Australia. That was definitely an incentive. I do not know whether there are any tax benefits in doing so. I was in a very low income bracket, by comparative standards.

**Ms GRIERSON**—And you spent it before you came back?

**Ms Finch**—No, I spent it here, really. The thing that you will have a problem with is that this is a mental shift that young people are going to have to make, because we feel that, when we have gone through university and are 21 years old, we deserve a good time. We do not want to have to pay our retirement fund yet. That is just so off the radar you cannot even begin to imagine it. I think it is how you dress it up. You can dress it up as: 'This is an investment; this is one of the first steps of learning how to be an investor, it is probably the most important investment you will ever make.'

**Ms GRIERSON**—Besides the school of hard knocks, what else do you do to get young people to consider that?

**Ms Finch**—There is a very good viral marketing effect, I think. You get people talking about it. As I suggested, if you were to have some time around the elections at Australia House—let us take London, because obviously my experience is just of London—people will start talking. I just did a quick canvass of friends who were in the same boat as me, in terms of being away before I came to this hearing, and a lot of people say that originally their motivation is to have fun, to travel and to have a good time. But they all land amazing jobs and then end up staying for longer and making money. Consequently, it is all put in the too-hard basket—saving and putting money away for your Australian fund—when you cannot really see too far down the track or you

do not want to look too far down the track. In terms of encouraging them to save, I think this comes back to the financial literacy board that has just been set up. We are not taught anything about money unless we are taught by our parents or mentors. It should almost become part of the three Rs. Financial education is absolutely critical at all stages of development. Maybe it is a university thing.

**Ms GRIERSON**—You made a good point in terms of opportunities and the elections. An amazing number of web sites are set up just for that event. Obviously they have a huge short-term interest, but the online work that goes into engaging politically with Australians abroad is a huge effort. It is a good opportunity.

**Ms Finch**—Certainly we all log onto the *SMH* web site and the *Australian* so we are aware of what is going on back at home—perhaps more than people who are at home! On one hand I feel resentful that I am having to think about and worry about this now. I think that is not unusual. On the other hand, I also think that it is an obligation that we have not fully fathomed yet, as an age group. My partner is a vet and he has done locum work all over the UK and Europe. He pays into his own self-managed own fund. Now with the choice, and like the gentlemen who previously gave evidence, he really does not know what he is doing with it either. You are damned if you do and you are damned if you don't as to whether it is in a managed fund or your own self-managed fund.

**Ms GRIERSON**—Interestingly for me, you said you plan to perhaps be a parent in the next few years and therefore will no longer be a full-time employed person. That is significant, and we have heard some evidence today in those terms. People are looking at foregoing it, yet there were some suggestions put forward this morning that part of maternity leave should be a continuous contribution to women's super funds, or even that things like baby bonuses and entitlements should have a component that gives women continuous access to super and continuous contributions.

**Ms Finch**—Tying the baby bonus to some sort of super would be a brilliant idea.

**Ms GRIERSON**—It would not be as popular as cash in the hand—

**Ms Finch**—But it would keep it in people's minds. I think it is unreasonable of the government to expect that people are going to get to grips, at age 30, with what is going to be happening to them in 50 years time. You will never get over that hurdle.

**CHAIR**—It is providing more certainty for the mother who may at some stage want their own financial independence if the marriage breaks down or whatever.

**Mr SOMLYAY**—I have learnt a lot from that. I know why my son won't come home from Tanzania.

**CHAIR**—Thank you for coming today. The evidence before the committee will be on the web site. It might be worth following the other evidence we hear if you have a real interest in this topic. Who do you work for?

**Ms Finch**—I work for LexisNexis but I was working for Conde Nast in the UK, which is a magazine—

**CHAIR**—I know it. It keeps giving Australia the No. 1 ranking.

Resolved (on motion by **Mr Somlyay**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 4.22 pm**