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

FRIDAY, 14 OCTOBER 2005

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Friday, 14 October 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 Bowen, Mr Somlyay and Mr Tanner

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

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TATE, Ms Diane Elizabeth, Director, Corporate and Consumer Policy, Australian Bankers Association 27

Committee met at 8.34 am

COLES, Mr Tony, Manager, Superannuation, Retirement and Savings Division, Department of the Treasury

GALLAGHER, Mr Philip Francis, Manager, Retirement and Income Modelling, Department of the Treasury

LEJINS, Ms Erica Noble, Senior Adviser, Superannuation, Retirement and Savings Division, Department of the Treasury

LONSDALE, Mr John, General Manager, Superannuation, Retirement and Savings Division, Department of the Treasury

LOVE, Mr David, Manager, Corporations and Financial Services Division, Department of the Treasury

RILEY, Mr John, Senior Adviser, Financial Literacy Foundation, Department of the Treasury

CHAIR (Mr Baird)—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 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 48 submissions to date from various parts of Australia. Submissions have been received from individuals, interest groups, governments, policy developers, industry and unions. Copies of these submissions are available on the committee's web site.

The committee's inquiry focuses on the early years of savings for retirement incomes, the incentives in place to save, the disincentives or barriers to saving and increasing the awareness of the importance to save for retirement. Given recent studies of the impacts of an ageing population in Australia it is timely to consider the financial wellbeing of the under-40 age group when they reach retirement age.

Today we will be hearing from representatives of the Australian Treasury, the government's main superannuation policy department, the Real Estate Institute of Australia, the Australian Bankers Association, the Australian Chamber of Commerce and Industry and the Australian Securities and Investment Commission. 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 a contempt of the parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege.

I welcome representatives of the Australian government Department of the Treasury to today's hearing. As you are all aware, although the committee does not require you to give evidence on oath, these hearings are legal proceedings of the parliament and therefore have the same standing as the proceedings of the respective houses. We have received a written submission for this

inquiry from you. Do you wish to present any additional submissions or make an opening statement to the committee?

Mr Lonsdale—I wish to make a very brief opening statement. First of all, I would like to thank the committee for the opportunity to appear here before it this morning. As you have noted, we have provided a submission to the committee and we hope that it is useful to your work. The submission closely reflects the terms of reference of the committee's inquiry. It indicates that there are significant incentives available to contribute to superannuation. The total value of superannuation tax concessions is estimated to be over $13 billion per annum. It is the largest single tax expenditure that we have.

Our submission explains that people under 40 are generally in a good position to build an adequate retirement income, with more than 90 per cent of employees now benefiting from a fully mature superannuation guarantee system. The submission shows a combination of the SG and the age pension is projected to provide a spending replacement rate of 82 per cent for a person aged 25 now who is on median earnings and who works until age 65. The submission also contains some analysis of the trends in superannuation contribution and projections. This analysis shows that younger people are making additional superannuation contributions. While there has been some decline in the level of these contributions from 1999-2000 to 2002-03 as post-tax contributions, our projection shows strong contribution growth over the forward estimates period, reflecting strong take-up of the co-contributions system.

However, we recognise that there are many calls on the income of those under 40. This is the time that many are buying and paying off their homes and starting and raising a family. This is also the time when income is generally lower, as individuals are finalising their education, building their careers or may have broken work patterns because of family commitments. Labour force participation is a key driver of the ability of individuals to save and to make superannuation contributions and is one that particularly affects women.

We also provide information about recent initiatives to improve financial awareness and literacy. The submission notes in particular the establishment of the Financial Literacy Foundation. Improved knowledge should result in greater understanding and engagement in the system and how decisions will affect retirement income and lifestyle.

Finally, our submission observes that developing retirement income policy involves many trade-offs between competing priorities. Careful judgment is required to balance the efficiency, equity and simplicity of the system and, of course, the long-term fiscal sustainability of it. We are happy to take any questions.

CHAIR—We are looking particularly at some of the impediments and disincentives to young people joining and what we could do to provide a greater degree of incentives to them. People appearing before the committee have made a range of suggestions. As a general comment, what do you think we could be doing to provide more incentives, or, on the other hand, to remove some of the impediments? I would then be interested in your views of being able to access superannuation for housing, as has been put forward to us by some witnesses in Sydney.

Mr Lonsdale—The short answer is that we do not have any specific proposals to put to you to reduce the level of disincentives in the system. What I can outline is that we have highlighted

two areas as barriers rather than disincentives to additional contributions for superannuation. One is income levels, which are lower for people generally under 40 than they are for people above the age of 40. Linked to that are participation rates among people. Lower participation rates can lead to lower levels of income and lower levels of contribution towards superannuation.

The evidence that we provide in the submission is that participation rates have been fairly steady, increasing slightly for women. That has been driven by increased part-time participation for that group. But we do highlight that group as a specific group with lower levels of participation in the work force. The submission goes on to talk about a range of disincentives. We have raised complexity in the superannuation system as a particular issue. It is a very difficult issue to grapple with, because it stems from quite a historical basis. Over a series of years measures have been added to the superannuation system which has increased the complexity of it, particularly the tax arrangements.

CHAIR—Do you have any ideas as to how we can circumnavigate the complexity issue, because it is true that for a lot of young people their eyes glaze over when you talk about superannuation? It is a long way away and if it is complex as well then they often leave it.

Mr Lonsdale—What we raise is the proposition that the more people can understand the superannuation system, the higher the level of engagement they are likely to have. In that regard we point to the Financial Literacy Foundation's work and recent measures by the government to increase awareness in the community of superannuation.

I guess the other thing is to understand what has led to a lot of complexity in the system. When we talk about the complexity of the taxation arrangements, quite often that has come about through successive policy changes and trade offs between different priorities—particularly equity. That is a particular point that I would make.

I can give you an example, if you like. In 1983, when the taxation on lump sum benefits was increased, there was a particular component of lump sum contributions that continued to be subject to the previous taxation arrangements that applied. They were labelled 'pre-1983 contributions'. They are now currently taxed as they were around 20 years ago—that is, five per cent of them are taxed at marginal tax rates. When we look at the way we tax end benefits now, we see that we have seven or eight different lump sum components and they are taxed in seven or eight different ways. And that is without looking at how people can access pension arrangements.

The majority of the complexity lies at the back end of the system—at the end benefit stage of taxing superannuation. We point out in our submission that for someone making superannuation contributions it is reasonably straightforward. For many employees, as part of the SG system that money is taken out of their pay and goes into their superannuation fund. Their interaction with the system is quite limited at the front end of the system. However, at the back end it is a very different story.

CHAIR—You have talked about the complexity issue. Can you roll on to the other part?

Mr Lonsdale—Complexity is a key issue. We raised the preservation rules as a particular issue. As you know, superannuation is currently preserved until a person reaches 55 years of age. That will increase gradually from 2015 towards 60 years of age. This is an important feature of the retirement income policy and it is there for a reason. The reason is that we know that people generally exhibit myopic behaviour in how they save for their retirement. The idea is that they will save early and that money will be locked away until they retire and then will be used for their retirement.

There are deduction limits—age based limits in particular—that limit the flow of superannuation into the system. Some people could regard that as a disincentive. But the key reason why those limits are there is to limit the extent of the very large tax concession that is provided—the $13 billion I mentioned before. There is a very close interaction with the means test arrangements for the age pension, which can produce effective marginal tax rates. There is a targeting issue there as well. In a high level sense, they are the key disincentives that we raise in the submission.

Mr SOMLYAY—How do you define an effective marginal tax rate?

Mr Gallagher—An effective marginal tax rate is the loss of benefit or increase in tax for each dollar of private income, so it is one minus the gain in disposable income divided by the change in private income.

There is one point I would like to make. In your opening statement, Mr Baird, you referred to the issue of coverage for younger people. If we look at this survey of employment arrangements and superannuation from the Australian Bureau of Statistics, we do not see that there is a particular coverage problem for young employees. For employees aged 20 to 24, 82 per cent have superannuation coverage; for those aged 25 to 29, the figure is 90 per cent; for those aged 30 to 34, it is 90.5 per cent; for those aged 35 to 39, it is 91 per cent. These are very high coverage rates, given that the average coverage rate for all employees on this survey was 86.1 per cent.

In actual fact, the compulsory superannuation system has worked and has given coverage. The issue, if there is an issue, is about voluntary contributions more than compulsory contributions. There are many competing pressures in terms of voluntary contributions to superannuation. Younger people will have larger commitments for their home. They are perhaps more likely to have consumer loans than older people who have already paid off their house and other things. So, in terms of the initial premise, it is very important to look at the data about where the coverage lies.

Mr SOMLYAY—Does that data include the DIY schemes?

Mr Gallagher—Yes, it will, although because I was talking about employees the do-it-yourself schemes are more likely to be for the self-employed. Overall the coverage of the self-employed is lower because it is not compulsory. When we look at who has got superannuation assets, we see that 67 per cent of the self-employed have superannuation assets. But in any given year we have only got about 42 per cent contributing, and that is because they contribute when their business is good and they have got the spare money to put in. Also the self-employed have the opportunity of saving through their own business.

Mr SOMLYAY—We have not got the breakdown in age profiles. In terms of this inquiry, would it apply to people under 40 years or people over 40?

Mr Gallagher—I will take that question on notice. One of the things I want to do is to get that on the record.

CHAIR—Obviously the area that we should look at is whether that is relatively low compared with others. It would be useful to know how many people are involved. The disincentive is obviously cashflow issues in terms of the business.

Mr Coles—I think that is one of the things that was highlighted in earlier evidence to the committee. The Institute of Chartered Accountants made it quite clear that there are a number of ways other than superannuation to fund for your retirement. There is building for the business, there are shares, there are other savings investments. Superannuation is a vehicle and a concessionally taxed vehicle because of the preservation arrangements, but it may not be the most appropriate vehicle for people at that time.

CHAIR—There is also the question of the difficulty of pulling it out if they need it at some stage whereas if they just put it straight into shares they have got the flexibility of the business. In a difficult period, they could withdraw it to prop up their financial viability.

Mr Lonsdale—The other point we would make when looking at particular groups—and you have raised the self-employed—is what is important to look at is the totality of the concessions or the tax arrangements provided. We raise in the submission that the self-employed can gain a tax deduction of contributions up to a level of $5,000 and then 75 per cent of the deduction thereafter. That is one component of superannuation arrangements. There were also generous capital gains tax arrangements that applied to people who sell their business and invest that money in retirement income. So, looking at the totality, the tax concessions that also apply to, say, contributions that they make in addition are important.

Mr Coles—I guess the other thing tied in there is that the nexus with employment has now been broken. Anyone under the age of 65 can contribute to superannuation and put the money away, then build it and grow it. Up until a couple of years ago you had to be gainfully employed for a number of hours each week to make the contribution.

CHAIR—Part of the difficulty is the incentive to get people who are self-employed in so that they have got ease in withdrawing it—obviously paying appropriate penalties. I do not know whether you think we could look at the feasibility of providing incentives for the self-employed in that area so that exit mechanisms during financially difficult periods of their businesses can be made more easy for them.

Mr Lonsdale—I think it is always difficult to consider early access to retirement incomes, money that has been put away for some time. There is the issue of complexity. Currently we have early release arrangements in place on financial hardship grounds, compassionate grounds. I think there would need to be a careful assessment of how any policy change matched against the current arrangements.

CHAIR—Is there a possibility of two classes of investment, trust fund A and trust fund B, so that you are providing an incentive for people to put funds in? It may well be, when you have a heavy set of criteria for financial difficulties that does not provide for expanding the business, family issues, sending the kids to university or whatever it might be, they could say, 'There is a possibility I might use this. I can get the incentives now, and am prepared to pay the penalty, but without having to go through the strictures of whether you have got stricter financial difficulties per se.'

Mr Lonsdale—Again, I think it is an issue of how you see that type of policy fitting in with the retirement incomes policy for the aged.

CHAIR—I understand.

Mr Lonsdale—The paradigm we are working in, under the existing policy, is that the government provides very large tax concessions to provide people with a retirement income to use in their retirement. So how that policy or proposal fits within that would need careful consideration.

CHAIR—I suppose that is largely on the issue of using it, as we have had suggested before, and being able to draw on super accounts for housing. Mr Gallagher looks as though he has some comments he wants to make.

Mr Gallagher—I think the retirement income modelling unit has looked at this a number of times over the last 13 years. The conclusions that we always come to is that it obviously decreases retirement incomes, because you do not get the money back and particularly because the home equity conversion is not widespread and, once people have housing equity, they are very unwilling to convert it back into retirement incomes; therefore, it decreases retirement incomes significantly. It lowers national financial saving. I think both Labor and coalition governments have ruled out releasing superannuation for housing on a number of occasions.

CHAIR—That does not mean to say that our committee—

Mr Gallagher—No, I am saying that this has been looked at. It has been on the agenda for—

CHAIR—Apart from all that, it is a good idea.

Mr Lonsdale—I think the other thing that we can point to is the work that has been done in the public arena. I recall that the government did issue a discussion paper on this in 1997 or 1998.

Mr BOWEN—It was an election commitment that you guys made.

CHAIR—It obviously was not a core promise.

Mr Lonsdale—It raised a number of issues, including extension into housing. As well as that, we had the Productivity Commission report which identified issues around housing affordability and ways that you could look at handling those. They did not revolve around superannuation issues but more around supply side issues in the housing market.

Mr Coles—There is a whole range of issues as well when you are looking at it from a complexity point of view. How is the fund to determine who to release it to? If you are releasing it to low-income earners, how is the fund going to know that? How is it going to stop people from buying a big house instead of a normal house and improving the house overall? How is it going to be measured? How is it going to be paid back if they do default later? That is just a loss to the income.

CHAIR—I understand. The traditional approach of my parents' generation, or of those just before, and even now, was to put equity into their house and then when they retire to sell it off, get a smaller place and live off the proceeds.

Mr SOMLYAY—Does the Treasury have a view on the effect of reverse mortgages on retirement incomes?

Mr Gallagher—I do not know that we have a—

Mr SOMLYAY—We were talking about converting super into housing. Now we are talking about converting housing into retirement consumption.

Mr Gallagher—We have been looking at this since 1985—20 years—in encouraging it as a policy. The former Labor government actually introduced a subsidy scheme for the Advance Bank, which was subsidised to provide these loans. Very few of these loans were actually provided, despite the existence of a million dollar subsidy—fewer than a hundred loans.

Mr SOMLYAY—Is that subsidy still in place?

Mr Gallagher—No. The bank has gone for a start. There are a number of incentive issues. There has been some resistance in that people have been concerned to pass on the value of their house in their estate. In the past the banks have been very concerned about the potential reaction if most of the value of the parents' house has been lost. They may have children demonstrating against it when they try to sell the house in order to obtain the remainder of the repayment of the loan et cetera. There have been a number of issues in the past. At the moment it looks as if the banks are actively interested again because they are in a situation where equity is rising potentially fast enough for the actual loss in nominal terms from taking a loan not being that great.

Mr SOMLYAY—What effect has it got on pensions?

Mr Gallagher—There has been a tinkering with the rules over the years such that there is some exemption. I am not aware of the exact rules at the moment, and I do not know whether anyone else at the table is aware of the exact rules.

Mr SOMLYAY—Could you take that on notice, please.

Mr Gallagher—It might be a question for Family and Community Services.

Mr Lonsdale—We will come back.

Mr Gallagher—We will come back on the rules for home equity conversion. One of the issues is, with people living longer and people taking life expectancy income streams, what happens if they survive beyond life expectancy? One of the issues may be whether or not they will use their home equity in later life. A number of people dip into their home equity by funding their way into a hostel or a nursing home arrangement. Bond arrangements often involve some sacrifice of home equity in order to gain access. So people are accessing their equity in order to look after themselves in later life.

Mr BOWEN—I have some questions about the co-contribution scheme. Do you have any analysis of how many people who are accessing the scheme come from households with much higher incomes? You might have an individual who is under $27,500 but their partner or somebody else in their family who is funding them would not be on a much higher income. Do you have any figures on that?

Mr Lonsdale—I think we can provide that.

Mr Gallagher—We do. That analysis was provided by Mal Brough, the Minister for Revenue and the Assistant Treasurer, on Monday, 12 September, not only in his press release but also in additional material that was tabled—

Mr BOWEN—I did not see that, so could you give us just a summary?

Mr Gallagher—I think the main thing to look at is the distribution of the ranges of the incomes of spouses, of beneficiaries, which looks very much like the distribution of taxable income. We have got about four per cent of people over $100,000. The table I have has not been converted to percentages and, because I will not divide by 302,946 in my head readily, it might be better to make the document available.

Mr BOWEN—Is that an issue for you? A lot of people in my electorate are on $27,000 and I do not know any of them who have got money to spare to put into extra superannuation. So, if that is happening, is it a concern to Treasury or is it in some way—and I am not arguing this point; I want to get to the bottom of whether it is an issue—not what the scheme was designed for?

Mr Gallagher—If we look at the large numbers of incomes of the spouses of beneficiaries, the big numbers for spouses is between $15,000 and $50,000 of income. In that income range you are looking at in excess of 20,000 spouses in each group, whereas the number of spouses at $100,000 and above was only 12,403. So we do not see that the income distribution of the spouses is particularly biased and I am not sure that we would have a view if it was.

Mr Lonsdale—What we are seeing is consistent with the policy intent, and if the suggestion is to introduce a test based on household income then I think careful consideration would need to be given to the complexity of such a testing arrangement, as one issue.

Mr BOWEN—Sure.

Mr TANNER—I would not think it was so complex.

Mr Lonsdale—We have a policy that is in place now that bases the income test arrangement on the individual.

Mr TANNER—But there are other government benefits that are tested on the basic household income, so why would it be so difficult to test this one on it?

Mr Coles—A lot of the mechanism is hidden from people. People put undeducted contributions into the fund, the fund reports those undeducted contributions and then the Taxation Office makes the payment to the superannuation fund in respect of that. There is no positive reporting requirement as such on the individual—no requirement to provide their spouse's name or tax file number and so forth. To actually start doing that—to actually get them to put in an additional assessment on their return or require information about a spouse or spouses—adds complexity into the system.

Mr TANNER—It would just be an extra page on the family tax benefit forms, wouldn't it?

Mr Lonsdale—What we have highlighted in our submission is that complexity is a key issue for superannuation contributions, and what we are talking about here is a proposal that could offer incremental complexity. It is in that context that we are making our comments.

Mr Gallagher—We could not put it on the family tax benefit form because many of the people making additional contributions do not have children and that would add complexity to have people without children.

Mr TANNER—I would have to have two forms.

Mr Gallagher—And it is very likely that people who want to make additional contributions are in their 50s or 60s and they are unlikely to have qualifying children for family tax benefit purposes.

Mr TANNER—Speak for yourself—I am 49 and I have a 15-month-old daughter.

Mr BOWEN—Could those figures be made available to us, for those of us who are not on the email list?

Mr Gallagher—I could table the document, the press release and the attached material.

Mr TANNER—Do you have a view on the adequacy of the nine per cent compulsory rate? There is a wide range of figures thrown around as to what should be an appropriate rate. Some people say 15, some say 12 and some say nine is adequate. Does Treasury have a view on that debate?

Mr Gallagher—One of the ways we look at this is in terms of replacement rate and the other way we look at it is in terms of the adequate budget standard. For people under 40 we are showing currently—because they will have a full lifetime with the superannuation guarantee if they are employees—that they will be able, with the age pension also, to achieve replacement rates well in excess of 70 per cent and often 80 per cent.

Mr TANNER—Is that with it at nine per cent?

Mr Gallagher—Yes, with it at nine per cent, and that is people with a full lifetime of contributions. Obviously for people who have interrupted careers the replacement rate may be lower. It also means that they have had a lower working life income as well if they have had a heavily interrupted career. So the replacement rate is in the range which I think the Senate select committee identified as being an adequate replacement rate on the so-called 'modest but adequate' budget standard, and it is the adequate standard which is currently equivalent to in excess of $16,000 a year and well above the age pension. People of all income ranges will achieve that. It is with the people who have had very short exposure to the superannuation guarantee, the people who have already retired or will soon retire, where there are more significant risks about the adequacy of the superannuation guarantee.

Mr TANNER—So would it be fair to say that your view is that nine per cent is adequate generally but not necessarily universally?

CHAIR—Just on that question, have you done a review of how adequate the provisions of baby boomers are?

Mr Gallagher—We probably have, but since we are talking about under-40s today I haven't brought it with me.

CHAIR—Is it the mirror image of what you are suggesting, the other side of it?

Mr Gallagher—The baby boomers were born from 1946 through to 1961. The leading edge of the baby boom is turning 60 next year, and then getting on to 65 in five years time. At that point they will have had compulsory superannuation for employees since 1992, so they will have almost 20 years of contributions behind them, which will not be as much as those under 40 will receive but will be substantial. Of course, it has always been the case before the superannuation guarantee was introduced that we had 40 per cent of employees covered by superannuation. Those employees were covered by quite generous superannuation. They were public servants, parliamentarians, workers in the financial services industries, managers, white-collar workers, academics—those people had very generous superannuation arrangements. Those generous superannuation arrangements persist.

Mr Lonsdale—I think the corollary is true: for those people who are not subject to a fully mature SG system such as some of the baby boomer cohort, the replacement rates are lower. We indicate that in appendix D to the submission. We have a table there that shows the different replacement rates for someone aged 35—that is, an under-40 person— compared with someone aged 50 and the replacement rates that would occur from SG-only contributions and then SG plus a little bit more, say three per cent. You can see in that table that those people who are under 40 have higher replacement rates than the older cohort and if you can contribute a little bit more then the replacement rates are even higher.

Mr TANNER—The superannuation industry routinely quotes surveys of people about what incomes they would like to retire on. In my view, those surveys are dodgy because they really ask them to make choices about making sacrifices now in order to attain a particular level of retirement income. Do you have any knowledge of any more rigorous survey data that gives a

genuine picture of what the real desire, on average, for retirement income level is relative to sacrifice required of the individual now in order to attain that level?

Mr Gallagher—One of the issues there is that you get a very different response from the people who are already retired than from the people who are 20 years away from retirement. It is my view that the people who are retired have a better idea of what they need in retirement than the people 20 years away from retirement.

Mr TANNER—So the people who are retired tend to have more modest—

Mr Gallagher—Far more modest expectations. We have been struck by the industry surveys in the past. When we were doing the analysis of the take-up of the co-contribution, the industry ran its surveys. They just said, ‘How much are you going to put in?’ They thought that there would be a very large take-up of the co-contribution. We looked at their data carefully but modified it, and it turned out that our estimates were almost spot-on in terms of the behaviour change where the industry widely exceeded. So we have not found that they accurately estimate retirement behaviour. One of the interesting things about surveys on retirement intentions is that people do not have a good grasp. If you look at the ABS survey of retirement intentions, people routinely say, ‘Yes, I will live off my superannuation; I won’t need the age pension,’ but currently about 80 per cent of people of age pension age have some age pension, either full or part rate, and the majority of retirees in the future will have some pension, although the balance will swing from full rate to part rate progressively from about 2015. The general point is that you can ask someone who is 35 now about their situation in 30 years, but they have not really focused on it and they do not appreciate what the situation will actually be.

Mr TANNER—My other question relates to the tax treatment of superannuation. This morning, as on many previous occasions, you have referred to the concessional treatment, the tax expenditure, which I think from memory totals about $13 billion or thereabouts now. The industry and various other interests are critical of the extent to which superannuation is taxed in Australia, particularly in that we are almost unique in taxing it at each stage. I am interested in your observation on where the equilibrium point is in that perspective, because clearly there is a tax expenditure in a nominal sense there but for legitimate reasons. What should we be seeing as the true picture between those two, I suppose, extreme portrayals of the reality?

Mr Gallagher—The tax expenditure is there; it is real. To take it at a number of levels, the income tax benchmark that we use for assessing the tax concession is appropriate. That is the major form of Commonwealth taxation—personal income tax as a benchmark. It is the major form of taxation in Australia, and it is an appropriate counterfactual. The OECD recognises it as an appropriate counterfactual. The World Bank recognises it as an appropriate counterfactual. Whitehouse from the World Bank did a review some years ago of the Australian system of taxing at three points compared to what is called an expenditure tax system, which either goes ‘exempt’, ‘exempt taxed’ or ‘tax exempt exempt’. Whitehouse’s conclusion was that, although Australia does tax at three points, the taxation is concessional at three points such that overall the taxation is more concessional than the expenditure tax benchmark. Certainly the work that we have done just internally checking that in the Retirement and Income Modelling Unit is concessional.

We have published a number of papers from the Retirement and Income Modelling Unit which some other parties have referred to in evidence, but certainly which I am prepared to table again today. They show that the superannuation is a concessionally taxed investment compared not only to a balanced portfolio invested outside of superannuation but also to alternatives such as a negatively geared share investment, and there is a far less risk than a negatively geared share investment. So on the taxable contribution side, I am quite convinced that there are significant incentives there, and I will table a set of papers which might be of interest, which cover those issues.

Mr LINDSAY—So essentially you are saying that, to the extent there is a concessional taxation arrangement, it is concessional enough, thank you very much.

Mr Gallagher—I think whether it is concessional enough is a matter for government, but I have no doubt that compared to any benchmark, either an income tax benchmark or an expenditure tax benchmark, there is a strong tax concession. In addition to the concession on deducted contributions, the co-contribution concession is absolutely massive. You get the 150 per cent return in one year for a contribution and there is no investment you can make anywhere else with that degree of safety that will return that.

Mr Lonsdale—The concessional tax treatment of superannuation is a very important policy issue. The general context that we have been making in the submission here today is that we think it is very concessional to the tune of a very big number. We are aware of claims, proposals, that have been put to the committee for additional concessional treatment. Our simple point would be that those claims need to be firstly looked at within the context of what has been provided at the moment, and secondly, I guess, be demonstrated to show some public good through increasing adequacy, for example. If there were issues about switching, it would be having the intended consequence, perhaps. Increasing the concessionality of superannuation may move savings from one form to another. That would be an important issue, and the overall effect on national savings as well. They are important issues that would need to be considered.

Mr Gallagher—One of the issues for adequacy is that even if you there is less taxation up front, that benefit may be taxed at the end and also, perhaps more importantly, may be subject to social security means testing at the end, and you need to look at what it actually means in terms of retirement incomes, not just accumulation inside the scheme. I think there would be issues. The industry has two schemes, either exempt, or exempt taxed, so that they take funds out of the taxation system, but that would mean that all superannuation would be taxed in the hands of individuals and then subject to means testing in the hands of individuals. That would move the burden of taxation towards the end where we already have the greatest complexity, whereas for individuals taxation in the funds is very simple.

Mr TANNER—So get into other kinds of issues.

Mr Gallagher—That is it. Also I think you would have some issues in dealing with a rising population, because the proposal is to shift the point of taxation to the expanding element in the population, rather than have it up front.

Mr TANNER—Have you done any kind of modelling work or research on the extent of the deadweight phenomenon should concessional treatment be increased? Obviously the argument

for increased concessionality is essentially that you would get more contributions. You may not be in a position to disclose it, but have you done work or are you able to do work to determine an estimate of roughly to what extent you would simply be switching savings from one category to another rather than changing the balance between savings and consumption?

Mr Gallagher—We have not recently. I did a review of the literature in 1996, where I suggested that the savings offset for superannuation guarantee contributions was of the order of 30 per cent but that the savings offset for voluntary contributions was expected to be considerably higher. The extent to which people would just switch savings is an issue. Last year the Reserve Bank published a paper on the same issue. Their view, on the basis of the econometrics, was that the offset for compulsory contributions was about a third. That is what I thought based on my literature review. They calculated the savings offset on voluntary contributions in excess of 100 per cent. That was a strange finding. The OECD, in its document on the taxation of household savings, concluded that although tax incentives may have increased savings in a particular area which had a tax incentive, in fact it did not increase the total amount of saving. So there are always issues about how effective it is.

Mr TANNER—Does that not effectively put us in a position where if we want to increase national saving we should ban voluntary contributions to superannuation? That seems to be the logical consequence.

Mr Gallagher—We have done some work, which we have published in the papers I have just tabled. If you look at the Bingham and Rothman paper from 2005, we have done an estimate of the savings increase from the co-contribution and from removing the surcharge. The conclusion of the paper which we published is that the two measures will increase private savings by the order of $3.5 billion.

Mr TANNER—Do you have an estimate of the savings offset or dead weight for those?

Mr Gallagher—No.

Mr Lonsdale—They are very difficult issues. I am not aware of any authoritative, empirical data on the deadweight losses associated with the tax concessions. Part of the problem with looking at the issue is a high-level one. When you think of tax concessions and the way the system works, getting an authoritative picture requires an understanding of where the incidence of those tax concessions lie. To my knowledge no authoritative work is being done on the incidence of tax concessions or the tax benefit system in particular, including superannuation. I am aware of some almost experimental work that is being done by the ABS, but there is nothing of what you would call an authoritative, long-running data series that would be able to shed light on the sorts of issues that you are asking about.

Mr TANNER—Is anything in train to try to examine that with respect to the copayment subsidy from the $1,500?

Mr Gallagher—We have nothing to work out where the additional money that people are saving has come from—whether it has come from a reduction in spending or whether it has come from a move in savings.

Mr TANNER—That strikes me as being rather peculiar. When you are dealing with a direct subsidy, the obvious argument about concessional treatment for tax is that it is debatable whether you should categorise money that is saved for superannuation as income because it is not being used as such—it is not being consumed. So I think there is some underlying logic in the idea of concessional treatment within the income tax system. But the matter is of a different degree with respect to a direct subsidy—a direct payment from consolidated revenue. I would have thought that one of the key questions that we need to be examining is 'what is the net benefit that we are getting?' Are we just rewarding people for doing what they otherwise were going to do? Surely that is something that the government needs to examine.

Mr Gallagher—I think they would have saved it in superannuation. The issue is what they otherwise might have done with the money that was put into superannuation. There is no doubt at all that there has been additional saving in superannuation.

Mr TANNER—But the issue is: how much? We are dealing with several hundred million dollars worth of taxpayers' money. If the objective is to increase in net terms the personal savings of lower income earners, surely one of the crucial questions the government need to ask is: how much did we achieve? I am surprised that there appears to be no pursuit of that. I accept that it is difficult. I accept that this is not a question that is going to be easy to find an answer to, but I would have thought that it is a pretty standard thing that you would want to know.

CHAIR—It is almost qualitative research.

Mr TANNER—Potentially it is. I would have thought that you would need to ask that question. In any kind of subsidy that is about behaviour, the deadweight issue that is number 1 on the list is: how much are we altering behaviour in reality and is it worth it? I am putting that to you. I think that is a pretty important issue.

CHAIR—That is a Tanner type question.

Mr BOWEN—Now that I have had an opportunity to read Mr Brough's press release, I would like to ask a few questions. The biggest group of participants in the co-contribution scheme are those aged 51 to 55, which is five minutes to midnight in superannuation terms. They are certainly not going to get as much benefit out of it as people in their 40s putting their money in. There are significant figures in groups under the age of 50, but the biggest single group are those aged 51 to 55. The advertisements show a young person, but what other steps are being taken to encourage more younger people into co-contribution schemes rather than people in the position of, as I said, five minutes to midnight?

Mr Lonsdale—There is no distinction by age in the requirements for the co-contribution. There is no age requirement. It is based on a number of criteria relating to employment and income. But it is something that people with low incomes can take advantage of and have been taking advantage of. We point out in the submission that a significant cohort of that population is people aged under 40.

Mr BOWEN—I accept that there is a significant number.

Mr Gallagher—There is some bias because, in getting the income tests for the co-contribution, which is a withdrawal of the maximum amount between $28,000 and $58,000, there is in fact more representation by younger people and women in those income ranges than full-time working, older men.

Mr BOWEN—My point is that the whole idea is to encourage people to put money into superannuation. The government tops it up and gives even more than them, and then obviously over a period of years that figure grows much more through the investments of the superannuation fund, but that does not happen when you do it much later in life, because those investments have less time to generate the income. So what we are really doing is just giving people extra money without seeing the benefit of the investments over a long period of time. I am not saying that is a bad thing, but I am saying that we are not getting the bang for the buck that we would get if many more people were doing it at the age of 21 to 25 rather than 51 to 55.

Mr Lonsdale—We have a system in place to encourage people to place money into superannuation. You are right to point out that that could happen at the age of 35 or 50. Obviously, the longer the length of time you have your money in a fund, the more your compounding, higher return and higher retirement income will be. I think that line of logic follows, but I am not sure whether your suggestion is that we should somehow limit the co-contribution by age.

Mr BOWEN—I am not suggesting anything in particular. I am just trying to get to the bottom of how you could make it more effective.

Mr TANNER—How do you explain the strange distribution of co-contributions between the states?

Mr BOWEN—That was my next question. Queensland is massively overrepresented.

Mr TANNER—And the number in Victoria is almost as high as in New South Wales, so New South Wales is underrepresented. Is there an explanation for the imbalance between the states?

CHAIR—Is it because of age?

Mr Gallagher—We have not done any quantitative investigation of those issues.

Mr BOWEN—It could be because people retire to Queensland, decide to sell their expensive home in Sydney and buy a cheaper one.

Mr TANNER—Clearly, we do not have enough financial planners in Victoria. I think that is the problem.

CHAIR—It would also be interesting to know whether there are regional differences in the states.

Mr Gallagher—We have not got regional identifiers on the information we have from the Taxation Office, although potentially the Taxation Office could extract something like postcodes; but we do not have that information.

CHAIR—There are obviously age components too. For example, are there more who are over 65 in New South Wales than in other states? There has been some suggestion from the Minister for Ageing that that is the case.

Mr Gallagher—At this point we just have aggregate numbers, because there is a requirement to report to parliament. So basically this is what we have. Because the information is very new, we do not have very detailed information at this point.

CHAIR—Thank you very much for your evidence here today. Mr Gallagher, I think you have taken the lion’s share of what we have asked for, so perhaps you could send that back to us. You will, as you know, be sent a transcript of today’s proceedings.

Mr Lonsdale—We are very conscious that we have taken quite a few questions on notice. We will be seeking the guidance of the Treasurer and the minister on how they would like to handle those questions before the answers come back to the committee. That is our usual process.

CHAIR—All right. Thank you very much.

[9.42 am]

MUNRO, Mr Mathew Carl, Policy Manager, Real Estate Institute of Australia

STEVENS, Mr Bryan, Chief Executive Officer, Real Estate Institute of Australia

CHAIR—I welcome representatives of the Real Estate Institute of Australia to today's hearing. Although the committee does not require you to give evidence under oath you should be aware that proceedings before this committee have the same weight as proceedings before the parliament itself. We have received a written submission from you. Is there anything further that you want to add? Would you like to make an opening statement?

Mr Stevens—It might be useful to make a very brief opening statement. The REIA would firstly like to thank the committee for giving us the opportunity to appear before you today with respect to our submission. We believe the subject of superannuation is very important, particularly in the current circumstances and the circumstances in the future.

CHAIR—Sorry, whereabouts are you headquartered?

Mr Stevens—In Deakin, here in Canberra. There has been extensive public debate, and government inquiries, surrounding superannuation over the last few years. As far as we can see the debate is usually focused on how much is enough and how tax concessions should be applied to contributions and withdrawals. In the debate we believe there is an underlying assumption that is rarely acknowledged in public debate—that is, that superannuation assumes home ownership or the wherewithal to provide for housing when one is in retirement.

I will make some broad points from the framework from our point of view. Both major political parties are committed to self-funded retirement in principle. Self-funded retirement explicitly assumes home ownership—for example, you would need $200,000 at five per cent to give you enough to pay for the rent for housing if you did not own your own home in retirement. Government policy is currently set on three pillars: voluntary savings, mandated savings under superannuation and access to the pension, either part or full.

Home ownership itself confers social stability and community development. There are any number of studies that support that allegation. Unfortunately, studies have shown that home ownership has fallen, particularly among 25- to 34-year-olds, over about the last 10 years by about 10 per cent.

CHAIR—For obvious reasons.

Mr Stevens—For a lot of obvious reasons, not the least of which is home affordability, as you are probably referring to. But there are others, such as people committing later and what have you.

CHAIR—Yes, that is true.

Mr Stevens—Home ownership can be the cornerstone of wealth creation for self-funded retirement. We believe that home ownership is not just the Australian dream. There are four stages to home ownership. Firstly, the first home owner approach, where you get all the social stability and what have you. The second stage is that it provides the cornerstone for wealth creation through other investments through equity. The third stage is that it provides the wherewithal to go into self-funded retirement, so it is the basis of, or an underlying assumption of, self-funded retirement. Finally, it confers advantages in respect of aged care, both for the individual insofar as they can be in their own home for much longer than they would be normally, and from the point of view that it reduces the impost on federal and state government social welfare through health care infrastructure. There are plenty of studies to support that assertion. So home ownership is not just the Australian dream.

There are problems for first home owners and for wealth creation. For example, land tax, stamp duty and iniquitous tax on tax, which we think is appalling and which helps make home affordability much worse. To their great credit, most state governments have made concessions for first home owners. We applaud state governments for doing that. We would like to see more being done in some states to that end.

In summary, home ownership, from our point of view, is inextricably linked to superannuation and self-funded retirement. REIA advocate that there should be a fourth pillar to government policy on superannuation and self-funded retirement, with the objective of helping to educate the younger generation—a bit like the government literacy task force that is currently in place, which we wholeheartedly applaud. The fourth pillar in government policy would cost government nothing but would set an education campaign in train that would be beneficial for both federal and state governments in the future, particularly in the climate of an ageing population and a shrinking tax base. Any consideration for change to superannuation arrangements, we believe, should not be done to the detriment of taxation arrangements that provide wealth creation outside simple savings in a superannuation fund.

CHAIR—Thank you very much. Do you have figures available on the extent to which the population uses negative gearing for retirement purposes?

Mr Stevens—We have no figures that directly relate to why people do it insofar as whether it is done specifically for self-funded retirement. I think that in principle they do it as part of wealth creation for a number of different reasons—for example, self-funded retirement, to provide for education of children down the track, for recreation down the track and what have you or simply as a wealth creation tool. I could not answer that question. I am not aware of any study that we have come across that would be able to answer that question specifically.

Mr BOWEN—In one sense it would be impossible to answer that. Everything that you save or invest is in some way or form for your retirement.

CHAIR—Yes. In relation to exits from rental properties, have you done any surveys on what the principal purpose is? Is it for wealth creation? Is it for retirement et cetera?

Mr Stevens—We have done no surveys on that and, as I say, I am not aware of any studies around it. It would be a very difficult task to undertake. Indeed, I think if you asked individuals,

to a certain extent, a lot of folk in their 20s and 30s might say it is not for retirement but simply to create wealth in order to give them options and financial security for the future.

CHAIR—Clearly, the Australian government provides more generous negative gearing provisions than any other government around the world at this stage. That is my understanding from our discussions with the Reserve Bank.

Mr Stevens—It is quite true. That said, though, there needs to be a bit of context put around that, I think. For example, in France home ownership runs at about 45 per cent, which is quite low, and a lot of European countries are around that. I think England is about 55 per cent. In Australia at the moment it is about 67 per cent, so it has dropped from 69 per cent in about the last decade. America runs at about 70 per cent, and Canada is much the same. So, whilst we do not have the highest home ownership, we are certainly up there. Negative gearing has helped with wealth creation, as opposed to first home owners. For example, there are no deductions if you live in your own home, whereas in America you can do that. In the context of how people operate, France, where it is 45 per cent, have an iniquitous capital gains tax regime in place and there is a disincentive to invest in property. But there is also a very high dependence on the pension scheme in France, in particular, and in a number of other European countries. You may have been reading that those government funded pension schemes are in trouble, because they are facing the same problems of ageing population and a shrinking tax base that all the countries around the world are facing, including ourselves—although not as much as other countries. It was a great credit to the Keating government that it introduced the superannuation surcharge to try to anticipate that, I think. It was a very good move and the REIA applauds that. Recently the government saw fit to put that up from eight per cent to nine per cent, and we applaud that as well, because you need to make provision for self-funded retirement in the future and take the onus off federal government and state governments with a welfare thought.

To answer your question, I think that, yes, you are quite right in what you say, but there is a context of framework, a different philosophy, that Australia has taken from other countries. The result of that is lower home ownership in European countries and a disincentive for investment, which means that they throw themselves on their own pension schemes provided by government.

CHAIR—You mentioned home ownership falling in terms of the under-40s, which is the cohort we are interested in. Do you have figures available today on the extent to which it has fallen?

Mr Stevens—I have not brought those with me. We can provide that for you. A very good study was done in, I think, December 2001 by the Committee for the Economic Development of Australia, CEDA, which you would have heard of. They published it in one of their papers. We can certainly provide that to you; it is a useful one. Other authors like Yates have done a lot of work on this which shows that it has dropped. There are a lot of quite reasonably understandable reasons, including that the 20- and 30-somethings are much more mobile in their jobs. They move around a lot more and like to travel more than the previous generations did. They commit less on a personal basis than the previous generations did, and they settle down later and have families later. They have other priorities. That is part and parcel of it, but a large part of it is home affordability.

CHAIR—What about the concept that has been put to us about using super for housing for the under-40s?

Mr Stevens—Home loan affordability at the moment is running very low. Recent figures for June show that figures for first home owners in the marketplace went up from being the lowest in, I think, 2003 when it was 12.7 per cent, to, just recently, 17.3 per cent. So, historically, it is very low. Historically, the averages run at about 22 per cent.

Mr TANNER—That is as a percentage of total—

Mr Stevens—Yes, for residential. It has gone up, which is great, but it is still well below where the historical averages generally sit. There are a lot of reasons for the way it is, but that is where it sits at the moment.

Mr SOMLYAY—For the same group—that age group—who have lower home ownership now, what has happened to their real incomes over the same period?

Mr Stevens—At the moment, for the average loan of—off the top of my head—about $218,000, 32 per cent of income is provided towards that loan, which is very high and that is why home affordability is so low.

Mr SOMLYAY—Are the incomes of the under-40s growing at the same rate? We used a figure of—

Mr Stevens—Real wages.

Mr SOMLYAY—Yes.

Mr Stevens—You might be able to answer that question better than I can in some ways. That is a problem. Home affordability is a very simple sum. It is basically how much you can pay off your mortgage.

Mr SOMLYAY—Yes, that is why I asked the question.

Mr Stevens—There are only two ways, really, that that can be changed: the house prices fall, and therefore your mortgage falls; or your wages go up.

Mr SOMLYAY—And/or interest rates.

Mr Stevens—That will affect the price of the mortgage but, in basic, simple terms, that is where it sits. One of the difficulties is that you do not want a wage explosion, which then rocks on into the other part of it.

Mr TANNER—If interest rates go down then the prices will just get bid up anyway, so you end up with the same effective price.

Mr Stevens—We think that is a possibility. It might not happen as much as it did before because of the slightly different circumstances in the marketplace. For example, the share market

has been booming in the last 12 months. At the time when the property boom kicked off, the share market was in the doldrums, so the investors in particular were looking for alternatives.

Mr TANNER—Sorry, I was essentially talking about the state of the owner-occupied market, basically, but I accept that there is an overlap between the two that would have an input.

Mr Stevens—It would have an impact, yes.

Mr TANNER—On the question we have just been talking about, some economists assert that, over a lifespan in the modern world we now inhabit, a person would be better off financially to rent than to own, provided that they invested the difference between rental payments and repayments on the same premises in prudent investments. The net outcome economically for that individual is better if they rent rather than own. Does the REIA accept that proposition, leaving aside the fact that there are obvious behavioural issues with questions of financial discipline as to whether you can actually discipline yourself to save that difference? Do you accept those claims that some economists put forward?

Mr Stevens—There is no doubt that there are some prominent economists who put that forward as a way that you should be investing. It depends where you take your snapshot. So, for example, if you are comparing shares with property, bearing in mind that property can be used for equity, until just recently property far exceeded shares. Shares have taken over again. So it depends where you take your snapshot as to—

Mr BOWEN—Sorry, what do you mean by 'shares have taken over'? In what sense?

Mr Stevens—In terms of the return on your investment. So the first thing is: where should you invest your money, the alternative being shares or property? Shares recently have rocketed. Property rocketed a couple of years ago. So, depending where you took your snapshot, it would tell you where your best investment was. With respect to living in your own home, I think you have to bear in mind a couple of things in considering that issue. One is the socioeconomic issues that surround living in your own home. Reports show that, in terms of community spirit, family values, social stability and what have you, renters generally are not in the same bracket as people who own their own homes. Generally speaking, owning your own home confers those very social aspects that everybody aspires to, like family values, stability and what have you. So there is a social issue that the economists do not address.

The other aspect is that, if you are in your own home, you do have equity that you could use as a lever. You will recall that in my opening statement I said there were four stages to this, and the second stage was wealth creation. Only property provides the equity for subsequent investment. For example, if you went and bought BHP shares instead of buying your own home, so you were renting and you had shares in BHP, you could not use those BHP shares as leverage to go and invest anywhere else. So if I were to go to the bank and say, 'I've got 10,000 BHP shares, and I'd like to use that as an offset against buying some property,' they would say, 'Well, that's very interesting. Good luck with your shares.'

CHAIR—That is not quite true—

Mr SOMLYAY—I disagree with you. I think you can do it.

CHAIR—speaking as somebody who took out a loan on the strength of the shares I had.

Mr Stevens—How many shares did you have? We will not get into that—

CHAIR—We won't go into that—but it is still being used. When people go and take out a loan, the lenders want to know what your net assets are, and if they look reasonable—

Mr Stevens—I guess what I am saying—

Mr BOWEN—It is fair to say, though, that housing has a more valued role in that process because housing is a far more certain investment. You can take that loan and then sell half your shares tomorrow, and there is nothing that the loan company can do about it. You can't sell half your house. You can't sell 10 per cent of your bricks. You can sell 10 per cent of your shares. That is why the loan company will be a lot more comfortable with the house.

Mr TANNER—And the likelihood of the shares dropping by 50 per cent is much higher than the likelihood of the value of the house dropping.

Mr Stevens—It is a higher risk, Mr Tanner; that is what I am saying. It is the risk factor. You would also know that with BHP shares the average 20-or 30-something would not have had the wherewithal to be able to accumulate, because you are buying them outright. If you are borrowing to do it—if you are negatively geared on shares—and the market drops and they start to call in the funds, it is a high risk.

Mr TANNER—But we are talking about a comparison here on the outright ownership. We are comparing the equity in your house versus ownership of shares. So the same is true with respect to your average 20- or 30-year-old and the amount of equity they are likely to have in their house. It is likely to be fairly small.

Mr Stevens—The only point I would make there is that banks are more likely to lend against the house, 80 per cent or whatever, as a risk to them, than it is against the shares.

Mr TANNER—My second and final question is on the issue of the drawing down of superannuation for housing purposes. Isn't one of the fundamental problems with that the fact that you are changing the risk profile of your investment? Even though theoretically you are still investing in an asset which should be improving in value over time, you are essentially narrowing your investment to a single, and very substantial, proportion of your total retirement income investment to a single asset, where the risk factor is going to be much higher than an appropriately risk-weighted portfolio that is spread over a diverse range of investments. Isn't that a fundamental problem?

Mr Stevens—Are you talking about an investment property or a home—

Mr TANNER—Whatever. If an individual was permitted to draw on their superannuation prior to the preservation age cutting in, in order to pay for a deposit on a house or whatever, one of the fundamental problems with that is that we are talking about provision for retirement. Maintaining the value of an asset and generating a given return is a crucial part of that and the most obvious component of that is risk weighting. The whole logic of the superannuation system

is to diversify the risk, and maximise return relative to risk. Isn't there a problem, if you allow people to withdraw from their superannuation and invest in purchasing a house, in that you are increasing the risk profile?

CHAIR—They have been saying that you have less risk in housing than you have with shares. That is not true, by the way, if you look at the profile over 10 years.

Mr TANNER—That is right. The difference is in diversity. For example, if somebody had invested in 30 different properties in small amounts then you have an apples with apples situation and you don't have that problem. The difficulty, it seems to me, is that you are implicitly bringing forward consumption. The unique nature of housing is that it is both consumption and investment; there is a consumption element in housing. You are bringing that forward from retirement income.

Mr Stevens—An outcome you wouldn't want is for people, come their retirement, to cash in their superannuation scheme, or a large part thereof, and buy a house to live in. That would not be a useful outcome because, generally speaking, there would not be enough in there for them to be able to sustain self-funded retirement and they would go on the pension or whatever. If you understand that, if you agree with that, you have to say you made a judgment that being in your own home is a useful thing to do, for a number of different reasons—and it is implicit in self-funded retirement anyway. How can we then go about setting an environment that allows them to do that? If the market is so unaffordable then other incentives need to be put in place. With respect to access to superannuation we are saying that consideration should be given to accessing the voluntary part of superannuation savings, not the mandated part of superannuation savings.

CHAIR—I think that is a very good distinction.

Mr Stevens—In other words, we see that superannuation should be preserved at the moment, set at nine per cent, for the purpose for which it was intended.

Mr TANNER—Would you set a time limit on that?

Mr Stevens—We could.

Mr TANNER—If you have a time limit, a minimum amount of time in superannuation, what you will get is people using the tax concession in order to fund their housing.

Mr Stevens—We think there are a number of things there. We have not produced a model on this yet; we are working with another association at the moment. We are in discussions with them. They have a concept which was developed by a well-known research organisation in Australia. In principle it consists of a couple of things: they should have access to voluntary savings only, not mandated savings, and there should be some stringent limitations with respect to that access. For example, the scheme should have been running for a certain period of time, they can only get a certain amount out and they have to either pay it back or make provision to make it up in a certain period.

CHAIR—Or pay a differential in terms of the taxation level. What I was trying to pursue with Treasury, and you were here, is that it is so difficult to get it out. Even if you pay the differential

in terms of taxation it is still difficult. Perhaps what you were saying about the voluntary component, where you have more ease in getting the funds out but you pay the tax penalty in getting it out from the scheme—you may originally go into that voluntary program thinking that you will use the funds for retirement but, as your needs change and you want to put it into housing, you have that option but you pay the tax penalties involved.

Mr Stevens—We have not gone that far, because we have not produced a model; we just have a concept. What we would simply say is that, if government felt that there was a need for people to be in their own homes and it was difficult for them to do it at the time, putting some incentives in place is a useful proposition, provided there are strict limitations. We do not want to affect a property market. We do not want another boom, as we have just had. That might sound odd coming from the REIA.

CHAIR—Why do you say that?

Mr Stevens—We are very much in favour of a stable property market. We are working on models at the moment, which we will put to government in due course, with respect to capital gains tax and negative gearing. We are very keen to see a stable market. It is not in everybody's interests, it is not in anybody's interests, to have a boom-bust cycle in a property market. It does not stack up.

Mr BOWEN—I am not sure whether you were talking with Treasury about this concept, but they were concerned about the phenomenon of people accessing their super to buy a bigger house rather than accessing it to just buy a house—what Mr Tanner would call the deadweight effect. It seems to me that there are a couple of ways in which you can deal with that. In addition to the restrictions you have suggested in paragraph 55, you could have income testing, for example, so that the capacity to access superannuation would be available only for people with a household income below, say, $60,000, to pick a figure, because they would be the people who would be unlikely to be able to afford a house anyway. Whereas somebody on $150,000 might very well access their super just to buy a bigger house for their first home than they otherwise would. Do you have any response to the possibility of income testing?

Mr Stevens—Firstly, I would simply say that it should be access for first home owners only, not for upgrading your house. Secondly, there should be some sort of limitation on the access. We have not got into crunching the numbers on what that would be, if that answers your question. We are simply in favour of limitations, and there are trade-offs in all of that.

CHAIR—You might want to think about some of these suggestions and come back to us, because there is the germ of an idea in that.

Mr Stevens—Yes, we will.

Mr BOWEN—In addition to income testing, what about a limit on just how much you can access? I know you have said it should be voluntary only. But if you say 'deposit only', which you have said, you could also say 'up to'—and again just picking a figure—'10,000'.

Mr Stevens—Yes, we would agree with that.

Mr BOWEN—Have you thought about some sort of trigger mechanism in a regionally based model? For example, most people would not need to access their superannuation to buy a house in Tasmania or rural New South Wales, but in Sydney, the last time I looked at the figures, anybody on average weekly earnings cannot afford a house anywhere in Sydney. The best a person on average weekly earnings could afford is a unit in Penrith, which is an hour and a half from the CBD. If you wanted to buy into an expensive market like Sydney—probably the only expensive market in real terms in Australia—could a trigger mechanism be used to provide an alert when some area is declared an expensive market? And if you are buying into the market, could you then—with all these other restrictions as well—access some of your super?

Mr Stevens—I think that is a useful proposition. We certainly put up a similar proposition, though not the same, in the last couple of years where we said the First Home Owners Scheme should be index linked to the property market around Australia. That is saying that some areas are less affordable than others because it is more expensive—say, Sydney and Melbourne. We certainly think that that is worth looking at, but I think other judgments have to be made by government in terms of regional development and how that might sit.

Mr BOWEN—I am raising it for the point of the argument. I think it is probably going to become too complex to go down that road, but as a concept it is not something we should throw out without even looking at it.

Mr SOMLYAY—I think you would get a lot of pressure from the regions to provide concessions.

CHAIR—You have Sydney prices in your region.

Mr SOMLYAY—They are Sydney prices, but the phenomenon in my region is that you cannot buy a house or a block of land in the rural towns within 100 kilometres of the Sunshine Coast because there has been a secondary movement of people to the cheaper areas. That has happened.

Mr Stevens—Certainly our data would sustain that. That is very true.

Mr BOWEN—I think the income testing is a much more fruitful area, but I raise the other just for the sake of discussion.

CHAIR—That was very interesting, and I think it would encourage you to consider some of those issues we talked about specifically, such as using equity in super schemes, particularly voluntary contributions, to see what is possible. You might ask your economist to do some modelling on that.

Mr SOMLYAY—In recommending incentives, it is also important to recommend the removal of disincentives.

Mr Stevens—Yes. Mr Chair, I am very grateful for the opportunity. If I could leave you with the proposition that you might like to consider the fourth pillar of home ownership in government policy as part of a broader education campaign that will cost government nothing.

CHAIR—Okay, we will certainly take that on board. I think that that is quite interesting. We thank you for coming here today.

Mr Stevens—Thank you.

Proceedings suspended from 10.13 am to 10.24 am

BELL, Mr David Peter, Chief Executive Officer, Australian Bankers Association

TATE, Ms Diane Elizabeth, Director, Corporate and Consumer Policy, Australian Bankers Association

CHAIR—I now welcome representatives from the Australian Bankers Association. Although the committee does not require you to give evidence under oath, it has the same standing as proceedings before the parliament. We have received a written submission from you today but we invite you to make an opening statement before we proceed to questions.

Mr Bell—Thank you for your time. We support this inquiry by the committee. I will make some very brief statements. I certainly will not try to read the 40-odd pages of our inquiry into the record. Diane Tate from the ABA is the author of the report, so she is here to provide in-depth answers to questions that I might be asked. Our first observation about the superannuation system in Australia is that there have been a lot of very positive changes to the system implemented by the government in recent years. The ABA certainly welcomes these changes by the government. We know that just this week the government introduced the super splitting legislation that allows for the voluntary splitting of contributions. That is just another step which has been taken that we support.

We also support the major changes which have occurred. We think they will eventually have some very positive effects on people's savings records. I refer in particular to the extension of the co-contributions. Statistics released recently by Minister Brough show that low- to middle-income owners, and women in particular, are taking up the opportunity to take part in the co-contribution scheme. The other major reform that has taken place, of course, is abolishing the superannuation surcharge. We think this is likely to lift voluntary superannuation contributions. I guess time will tell. It will be interesting to see the data emerge when there has been some time to track the impact.

However, despite these positive changes, like a lot of people who appear before this committee, we believe that Australians are still not planning early enough or saving enough for their retirement. From that point of view, we think that your inquiry is timely and welcome, especially since you are looking at the group of Australians under 40 who have particular needs and aspirations, which we have covered in our submission.

As we have said before in other submissions and on the public record, the ABA believe there are three key policy areas that need to be considered to address the retirement savings gap. These are adequacy, simplicity and literacy. In terms of adequacy, we are looking at incentives to encourage greater superannuation savings. In terms of simplicity, we believe there needs to be a further look at removing unnecessary structural impediments and anomalies within the superannuation system, particularly the complexity of the taxation system. In terms of literacy, we are of course very keen to ensure that people have the information, education and advice that they need to make an informed decision. In this last area, the banking industry—and the ABA in particular—are trying to do their very best. We also commend the government for their particular role in making a significant contribution to the area of improving financial literacy. I did have some other comments to make but they would simply be a summary of what we have said in our

submission to you. So, rather than go through those, I might stop at this point and invite questions from the committee.

CHAIR—You made some comments about adequacy, simplicity, literacy and structural impediments. Would you like to amplify your comments on the issue of structural impediments.

Mr Bell—Certainly. Diane, would you like to start that one off?

Ms Tate—I think the high-level issues in adequacy first of all, before we go into simplicity, are that we need to acknowledge that there is a three-pillar retirement system. When we look at the issue of superannuation adequacy, for some very low- to low-income earners it is actually age pension adequacy that is going to be of more concern to them. So we need to acknowledge that this is a safety net for the community.

For the vast majority of Australians in the low- to medium-income range, superannuation adequacy is going to be an issue. There is going to be a reality of a combination of reliance and self-reliance. Another reality is that consumption rates and expected standards of living are changing, so obviously we need to factor that into what we consider to be superannuation adequacy as well. Another major point is that superannuation is only part of a retirement income. We need to think about boosting other private savings also.

We have looked at three areas in terms of adequacy. The first is ensuring that there is a viable and sustainable age pension that is better integrated into the retirement system. The second point would be greater superannuation contributions. A way to address that is to look at the taxation arrangements around superannuation and also to look at how we can encourage and increase voluntary contributions. The third area is to ensure that we have greater—

CHAIR—Are you talking about adequacy now or simplicity?

Ms Tate—Adequacy and simplicity. They are linked issues, so I will run through those, if you do not mind. The third area is encouraging greater participation in financial services. That is about enhancing private savings. We have some suggestions in our submission about how we may be able to improve people's participation in financial services and also enable them to get the best use of professional financial advice, as well as financial literacy.

In the area of adequacy, I guess we have looked at enhancing the co-contribution scheme further. A couple of suggestions we have made in that area is to peg the contribution level to the 30 per cent income tax rate. Currently, that is at $63,000 and the maximum threshold for co-contributions is $58,000. Going forward, the way that co-contributions are worked out is complex. It will be a certain amount on top of the minimum threshold going forward over the years ahead. It may be easier just to peg it at that income tax band. Co-contributions are a benefit to that income tax band. That will allow people who are in the upper end of that band to take greater opportunities to boost their superannuation savings. The second way to enhance co-contributions is to think about how it phases out. We have suggested perhaps readjusting the phasing out to allow greater access to co-contributions. The third way would be to open it up to those who are self-employed as well.

Moving on to simplicity, one area of structural impediments and anomalies is the area of maximum deductible limits. The age based limits are a structural issue. To take an example of someone—we will call her 'Diane'—Diane is under 35 and she works very hard. She has reached her maximum limit. She is generation X, although sometimes she behaves more like generation Y. There is some good partying going on and some consumption issues there that we need to think about. Obviously, she works hard and she wants to be able to contribute more and there is no incentive to do so at the moment because of that age based limit.

The other things we look at are the reasonable benefit limits. It is important for us to make sure that those reasonable benefit limits maintain their accuracy with regard to expectations in the community about what the lifestyle and the living standards they are seeking in retirement are.

In those sorts of areas, we are looking at taxation treatment as well. Superannuation is taxed at three different intervals. It is complex. People do not understand the impact of taxation on superannuation. If we looked at introducing a lifetime cumulative limit and removing the age based limit and thought about moving taxation to the back end, that would introduce a degree of simplicity and encourage people to better understand and utilise superannuation.

CHAIR—You talk about the self-employed and encouraging them into greater voluntary contributions. How do you plan to provide incentives for that group? I do not know whether you were here, but someone was saying that the percentage of contribution was lower among them than among other demographic sectors. I was wondering if you had some suggestions in that area.

Ms Tate—Sure. The first point to make is one about understanding the savings and spending behaviours of people under 40. Our submission includes some data that we got from the Australian Bureau of Statistics, and we can extrapolate some generalisations from that. We know that generation X and generation Y cohorts are behaving differently to baby boomers. There are work force participation differences, education differences, lifestyle choice differences and lifecycle stage differences. However, we really do not have a good grasp on the superannuation savings of this group. One of the things that we recommend in our submission is for the government, as part of this inquiry, to look into getting a better understanding of spending and saving behaviours, consumption expenditure rates and people's attitudes towards savings messages—those sorts of things.

Some of the data that the government already has—the ATO and Treasury—would be useful in getting a better handle and understanding of how we can target our messages to this age group. It is very easy for us to say that 65 is a long way off and people are not engaged. This is true, but I think we need to understand how to better target the messages to this group.

I think that, in terms of the saving and spending capacities of the self-employed, they have priorities which are different from people who are employed. The self-employed person has a business, and of course building up a business is about wealth accumulation as well. In that sense, it highlights that we need to ensure that, with employment and self-employment, there is flexibility to allow people to accumulate wealth for superannuation and retirement income.

Mr BOWEN—Mr Bell, you referred to the superannuation co-contribution scheme in your opening statement. I am not sure if you have seen figures released by the Assistant Treasurer which show that the biggest single group making the extra contributions is those aged 51 to 55, whereas only 7.3 per cent of those making the extra contributions are 21 to 25. So 51 to 55 is five minutes to midnight in terms of starting to build up your superannuation.

CHAIR—Midnight has not arrived yet.

Mr BOWEN—With no offence to my older colleagues, it is a bit late to start worrying about your super.

Mr SOMLYAY—I would prefer the term 'senior'.

Mr BOWEN—I think I am the only one in the room who has got anything to worry about with super. I wonder if the ABA has a view on ways of encouraging more younger people to take up the scheme as opposed to people who suddenly hit 50 and realise they had better start worrying about it. Clearly you get more bang for your buck—the younger you get into it the more benefit you get. Does the ABA have a view on that?

Mr Bell—Your point is certainly well made, and I guess it is a general point. When you are younger you tend to think less about your retirement years than when you are closer to retirement. So I guess the question is: how can we encourage and educate people who are under 40 to think about those things? There are two things that we could propose here. The first thing is what Diane has already mentioned. That is, I think it would be worth while for some sort of inquiry to look at how people under 40 make those sorts of decisions, what things prompt them to save, what the driving forces are and so on, so that we can target messaging and policy towards that.

The second thing—and it is a responsibility for all of us, in particular the banks, who own a lot of the retail superannuation funds—is financial literacy. Again, that does have some value but it runs into that brick wall we have just talked about, which is that people may not be receptive to hearing that sort of information. Having said that, the ABA and its banks do have a strong financial literacy program. We have produced some information already on superannuation, and we have got an example of a booklet here for you. We are aiming to do more. From our point of view, that is where we see that the effort should go. Diane, do you have any comments to add to that?

Ms Tate—Sure. One of the things we can say is that gen X and gen Y are heterogeneous. It is a big age group that we are talking about. Some of the older members of generation X were in the work force for more than a decade before the superannuation guarantee was introduced. Some of the younger members of gen X were working—

CHAIR—Let's work out a definition. X is 35 and Y is—

Mr SOMLYAY—X is your kids; Y is their kids.

Mr Bell—We say that X is born between 1961 and 1976—I just scrape in—and Y is 1976 to 1991. Diane, you referred to a generation W, which is in between Y and X.

Ms Tate—Generation W is the lost generation. It is between the baby boomers and generation X. I guess the thing that they are looking at—which is an interesting difference—is that this generation is going to live longer, they have parents who are going to live longer, they are likely to need to think about their consumption pre-retirement or think about working longer. They will have demands from children which they had later in life. They could be approaching retirement with elderly parents needing health and aged care, younger or adult children still living at home and their own health and aged care needs. So generation W is actually an interesting one. But we do call them generation X. They are considered generation X in terms of the years. But that demonstrates the point I was making about it being heterogenous and the different demographic, social, economic and financial factors that go into people's attitudes towards spending and saving. Certainly, that obviously drives their attitudes towards how receptive they are to savings messages and needs to be factored in.

One of the other things to understand is that what determines someone's retirement income is based on four factors: when they start saving; the amount and frequency of their contributions; the performance of the system itself obviously; and how long the person lives. Some of those are public policy issues the government can have a look at; some of them are obviously outside the scope of the government. But it does highlight how we need to be aware of making sure that the expectations of the community are based on some reasonable expectations in perhaps setting a benchmark. A consensus view is that 65 per cent of gross pre-retirement income is something people should be thinking about striving towards. Obviously, part of that is acknowledging that there will need to be, as I said before, some sacrifice of pre-retirement consumption for some people.

Mr BOWEN—Does the ABA have a view on the idea of allowing, in very limited circumstances, people to access their superannuation for first home buying?

Mr Bell—We do have a view. We have a general view on people, if you like, tapping into or siphoning off their superannuation funds for things like home buying. You might expect the banks to say, 'Yes, we support people being able to use their super funds for purchasing homes, including first homes,' but our general view is that we do not support that. We believe that when people retire they should have access to a relatively liquid pool of funds and also a diversified fund base. We would not like to see funds able to be siphoned off to purchase homes on the way through. That could be the thin edge of the wedge; what would be next after homes? So our view is no.

Mr SOMLYAY—What is the view of the banks on reverse mortgages?

CHAIR—Have you tested that with your members?

Mr Bell—Yes, we have. There was a range of views amongst our members, and the consensus was that was the case. This is not a new thing. We have been asked it before and we have said it before.

Ms Tate—There are four factors to consider when we think about—

Mr Bell—I am sorry, was there a question about reverse mortgages?

Mr SOMLYAY—Yes, which follows on.

Mr Bell—Yes. Some banks offer reverse mortgage products—the Commonwealth Bank, St George Bank, Bendigo Bank and one other, whose name escapes me—and some other ADIs offer reverse mortgages. Naturally, we support the use of reverse mortgages. There have to be some boundaries and rules around them, which there is. I understand there is a semi-official group of rules amongst those providers of reverse mortgages. We think that in certain circumstances they are appropriate—absolutely—particularly for older people who are asset rich and who may be living in Sydney and having to pay various state government taxes and do not have the cash to support their lifestyle. So, in some cases, carefully put together, and with certain rules around them, we think they are appropriate.

CHAIR—Ms Tate was going to outline some of the aspects of taking equity out of super for housing?

Ms Tate —Yes. The question of home ownership and reverse mortgages in relation to superannuation is a different question to what we think about home ownership and reverse mortgages. There are four points to think about when you look at superannuation. One is that we have a public policy position that superannuation be preserved so that it is there for retirement. In thinking further about whether we opened up superannuation to different investment vehicles and reasons, we would need to ask: if the money goes out does it go back in?

That leads to the second point, which is that we need to know more about the behaviour of people with and without mortgages. Are they actually limited in their saving capacity if they have a mortgage? Are people taking up greater superannuation contributions voluntarily because they do not have a mortgage? They are the sorts of questions we do not have the answers to. So part of the inquiry into thinking about home ownership and the impact on superannuation savings and the spending behaviour we have been talking about is to get a better handle on what the impact of a mortgage is on superannuation and other savings. The third point, obviously, is that we need to acknowledge that there is a retirement savings gap and ask whether non-home ownership or leveraging into home ownership exacerbates that issue.

CHAIR—Run that up my flagpole again?

Ms Tate—Whether not owning a home or leveraging into home ownership from superannuation might actually exacerbate the retirement savings gap that we have already acknowledged we have.

CHAIR—Wouldn’t it do the reverse?

Mr SOMLYAY—What about the reversal of that? Would you be better off not paying off a mortgage—not owning a house—and putting that money into superannuation and renting?

Ms Tate—One of the things that has been tested in thinking about superannuation adequacy by us and a number of other financial services industry associations is that adequacy has been based on the premise that home ownership is there. If we start to factor in rent payments as part of a retirement income necessity, that actually blows out what our statistics are telling us already. So wouldn’t we have a retirement savings gap being exacerbated?

CHAIR—Generation Y folk look at it in terms of, 'What is the benefit of my going into voluntary super contributions?' If they see that there is a possibility they can access that for the deposit gap, wouldn't that be a real incentive? You talked about the disincentive, but wouldn't it work the other way around—encouraging people to contribute? There may be restrictions on how much they can access. Often with people in the baby boomer category—baby boomer plus, in my case—the gap and where they get the gap from is the all-important factor. This could provide a real incentive for people to put it into super funds when they are not really thinking about housing. At some point in time they may get married or have a partner or whatever. Wouldn't that be a real way to encourage contribution, because from what I hear about getting people into housing, particularly in the Sydney market, the overwhelming factor is the deposit gap?

Mr Bell—Yes, it would certainly encourage people and help them buy that first home. I guess the question we have to ask ourselves is: is that the policy objective of superannuation?

CHAIR—It is if it leads at the same time to getting more people into voluntary contributions.

Mr BOWEN—If we find in 20 or 30 years time a large number of people retiring without owning their own homes because home ownership for young people is falling, and if we accept the premise that superannuation is built on already owning your own home—it is assumed by the superannuation system that you do not need to be drawing down your retirement income to pay rent because you already own your own home by then—the issue is, by buying a home in your 20s, whether the increase in the wealth through home ownership over the next 40 years is as beneficial as the increase in superannuation over that time.

Mr Bell—You could argue that, but again I think you are changing the objective of what the superannuation system is designed for. If you wish to change the objectives of the superannuation system to include a lump sum which people can live off in the retirement years plus avail them of a home that they can live in as well, that perhaps should be acknowledged, and that in itself might change the way that superannuation system is structured.

CHAIR—How much are 20- to 30-year-olds putting into bank deposits? Do you have a take on that in this whole question of the deposit gap and how they are achieving the deposit gap? You have the First Home Owners Scheme, which has helped to a limited extent.

Mr Bell—No, I do not have that information to hand. We can get it for the committee.

CHAIR—That would be interesting, just to see to what extent this would be an alternative way of getting them to save.

Mr SOMLYAY—It is a generational mindset thing. My generation used to take a bankbook to school and make deposits in the bankbook. Now kids are given credit cards. It is a totally different mindset. The chair's question is very valid: are people under 40 saving or are they living off credit?

Mr Bell—What you are suggesting, and it is a valid point, is that the objective should be to encourage people to save per se—in other words, to build on their voluntary savings apart from

what they square away with their nine per cent compulsory savings. A way to encourage people is to allow investment in homes.

Ms Tate—One of the things we need to think about when we talk about property investment as part of superannuation is that superannuation has a sole purpose test. What is the sole purpose of home ownership?

CHAIR—Yes, I understand that.

Ms Tate—So we need to think about that.

CHAIR—We are talking about incentives.

Ms Tate—Certainly.

CHAIR—To a certain extent, the banking sector has not capitalised enough on setting up specific home incentives for young people whose sole purpose is to get equity in the housing market. Some of them do, obviously, but there is nothing driving it per se. That is why we have a falling level of home ownership with rising prices as well.

Mr Bell—I am not sure whether you would lay that at the feet of the banks.

CHAIR—No, there are a number of factors.

Mr Bell—In the case of Sydney it is the pricing of the property market.

CHAIR—But what mechanism is addressed to this generation to encourage them to save and prepare?

Mr Bell—I guess it is generational. I think it is a very good question. Unlike this generation, older generations did not have the HECS issue to deal with. So there are other considerations that have to be taken into account.

CHAIR—That is true.

Ms Tate—Certainly, this generation has different spending and saving priorities, getting back to that headline issue. If a person leaves school later because they have undertaken tertiary education, they will come out with a HECS debt and a priority is to remove that. Perhaps they will then think about saving for a mortgage. The banking industry has looked at the issue of people who come out of education with the capacity to earn higher incomes and, therefore, with a greater capacity for cash flow, and some products have been generated to address that rather than having the lump sum. We also need to think about people's other priorities in life—travel and those sorts of things. It gets back to these different demographic and social issues that we need a better understanding of before we can think about targeting the savings messages.

One of the other suggestions in our submission on encouraging private savings is, firstly, to think about those times when people are focused on other things—and we know that is generally the case when they get a job, get married, lose their job, get divorced or there is a death in the

family, those sorts of dramatic life cycle issues—and to think about how you get people interested earlier on, and that is in high schools. The banking industry has some very strong literacy programs in that space.

Also, one thing we have seen is that people who are likely to move into financial stress can show some signs in their ability to pay bills and to have insurance. Perhaps one idea is to address the times when people cannot save because they have other priorities to spend money on—medical bills, for example—and put in place some additional insurance relief. One of our suggestions is that life insurance should also perhaps receive a government rebate to acknowledge the importance of it.

Mr TANNER—You devote a significant part of your submission to the issue of adequacy of retirement incomes and the question of expectations. I am a bit sceptical of some of the surveys that are done asking people what income level they think they will need in retirement, because I think most of those surveys fail to set up the counterfactual and present them with choices about what they need to forgo in consumption now in order to achieve that level of retirement income.

I note that you indicate that the nine per cent level at the moment needs to be increased to at least 12 and possibly higher. What is your view of the reliability of the data that we have to make an assessment of how much people do need in retirement? It was interesting in the early part of the hearing that Treasury indicated that there is a marked difference between what people report as their required level of income when they are pre-retirement and when they are actually in retirement. The level reported in surveys when people are already retired is significantly lower than the expectations that people report in surveys beforehand.

Mr Bell—Just to be clear, you are saying that people overestimate?

Mr TANNER—I am suggesting that they overestimate because they are not actually presented with the hard choices that are implicit in the decision about how much retirement income they want. It is a bit like a ‘What do you want from Father Christmas?’ kind of survey.

Mr Bell—Yes, it is.

Mr TANNER—I am just wondering what your view is of the data. Can you cite data that does not suffer from that deficiency? Obviously it is a difficult thing to survey accurately. I am just interested in your elaborating on that particular aspect.

Mr Bell—I guess the simple answer, as in our submissions, is that now and previously we have relied on the existing surveys, of which there are two or three which have said the same thing. Maybe they have the same in-built flaw that you are talking about. We have literally relied on those surveys. I must admit we do not have any information which disproves it. Presumably our banks themselves would have a feel for that. They have read the submission; they have not disputed those surveys. We could go back and ask our banks to see whether there is a difference between the published surveys and what their customers are telling them. That is all I can say.

Mr TANNER—If you have access to any data which would illuminate that particular question, I think that would be a useful contribution to the debate. I looked at some of the reported survey responses. When you take into account that a very large proportion of people

will be occupying owner-occupied housing that is fully paid off, that they no longer have obligations with respect to children and that they no longer have work related expenses, some of the levels that are reported as desirable income for retirement strike me as being a little bit high. Those sorts of the things might change if you were able to build in effectively an equation that said, 'Here's what you need to forgo now in order to get those levels. Do you still want those levels in retirement?'

Mr Bell—The other thing we could do and will do is ask our banks what the difference of view is between people under 40 and those closer to retirement, because that would be a completely different view.

Mr TANNER—And, indeed, if they have any survey data of people who are already in retirement that indicates whether their view has changed as to the level of income required. I think it would be very useful for the purposes of the inquiry if you have any data that can shed further light on those issues.

Mr Bell—I do not know whether the Financial Planning Association have been to see your committee. They may have some data on that.

CHAIR—We did have some submissions on that.

Mr Bell—Banks own a lot of financial planners, as you are probably aware, so we will ask the Financial Planning Association ourselves.

Ms Tate—In our submission we cite a survey or report that has been done by CPA and NATSEM. There is some very interesting data about the differences in how to get to an adequate income. Another is a survey that ASFA did in conjunction with Westpac, which indicated expectations of levels which were standard lifestyle versus a more comfortable or luxurious lifestyle. I think the difficulty, as you have raised, is in what we think luxurious is and what our expectations around that are. If we can have these things raised and put on the public policy debate and discussed by people so people are aware, they will engage with what they think is adequate.

I think it is really up to the community to determine these important retirement questions such as: how old do you want to be when you retire? We obviously have a retirement age. Some people may or may not retire around that age. Another is: how much income do you want when you are in retirement? Or what do you want to do when you are in retirement? Again, we need to acknowledge that people are likely to be in retirement longer than they used to be, which is a good thing, I think. I am certainly looking forward to it myself.

Mr Bell—She has only been at the ABA for four months!

CHAIR—I think things will move in the other direction as people have to work longer because of the demographics of Australia.

Mr Bell—Getting back to your specific question on surveys, I can dig out another example. A couple of years ago we made a submission to a Senate committee and it cited OECD data, and the figures are roughly the same. There is a strong correlation amongst people living in OECD

countries. I will dig that out as well and get it to the committee. Maybe they are all making the same mistake.

Ms Tate—Another aspect that could be of interest to the committee is data from the HILDA—Household, Income and Labour Dynamics in Australia—survey. I am not sure whether the committee is aware of that. Certainly some of the longitudinal data is quite interesting. The Department of Family and Community Services is involved with the University of Melbourne on that. They are currently putting together modules for wave 6 of that survey and some of the questions will target wealth and superannuation. One of the things we need to keep in mind and acknowledge with this data, while it is very useful—and it probably provides better answers than some of the more anecdotal surveys that the industry is able to do itself, because it obviously involves a larger sample than we are capable of handling—is that the government has some very good data on superannuation. They know what payments are coming in and what voluntary contributions may be above the SG amount.

CHAIR—Could you take us through table 3 of retirement income living standards. What is it meant to display?

Ms Tate—It is a table that we have cited from the CPA and NATSEM report that I just mentioned. Basically, it drills down into considering the best outcome for an individual to be able to leverage greater savings: is a tax deduction going to be the best way to do it, is voluntary savings the best way to do it or is accessing salary sacrifice the best way to do it? Salary sacrifice is a good opportunity, but not everybody has that opportunity, because their employer does not provide it. Another issue that we talk about in our submission is that part of increasing adequacy is to look at the income tax bracket above the 30 per cent that we talked about before—so the 42 per cent bracket. There are incentives for them to use salary sacrifice. One of the reasons why people under 40 may not be using salary sacrifice is that it is not available, so perhaps we need to think about ways of levelling the playing field.

Mr SOMLYAY—I went outside to make a phone call about salary sacrifice. I believe that charities have much more extensive opportunity for their employees to salary sacrifice. I believe that a lot of them do salary sacrifice their super. How could government encourage salary sacrificing into super?

Ms Tate—The question is probably more aptly directed towards the employer groups. It is an issue that comes down to the employer having it available and we know that not all employers do. The question is really: if this is the case—because obviously they need to answer that question themselves—there could be deduction opportunities available from the government to make up that difference, so people who do not have salary sacrifice available to them could take up another opportunity that is made available through the government mechanism.

Mr Bell—There is probably a broader aspect to that which goes to the issue of simplicity and the way the tax system is weighted. If you know that you could afford $1,000 to go into superannuation in a particular year and you know it is going to be taxed at 15 per cent up front, that may be a cause for deterrence. That is one of the things that would have to be looked at as well. I do not know if there is any information or research out there. Again, maybe we could ask our banks whether that particular issue triggers a negative response in people and to what extent it is a real barrier.

CHAIR—Obviously, tax is a key factor.

Ms Tate—Mr Chairman, back to your question about table 3 on page 10 of our submission, that looks at a very complex scenario based on the very complex taxation treatment and says what is going to be the best outcome for the average individual at the end of the day. It is taken across the broad spectrum. It says that, at six per cent, standard employee contributions will give you the best outcome at the end of the day; positive 56 per cent. That actually means contributions after tax. So do people understand that that is actually a better outcome for them? Possibly not. That is another one of our messages that perhaps we can send. So while salary sacrifice will give you another outcome which is in that range there—it is certainly in the double figures there; six per cent will give a positive 22 per cent at the end of the day—we need to think about how we deliver messages around superannuation and its complexity. Do people understand that, if they make after-tax contributions to superannuation, that is also a good outcome for them as well? The flip side of that gets back to Mr Tanner's comments that they need to think about the opportunity cost—that is, giving up some consumption perhaps in pre-retirement.

CHAIR—There being no further comments, we will wind it up there. We may have further interchange with you on some of those aspects and some of the issues we have raised with you, particularly the levels of savings of those under 40. If you have anything that relates also to housing savings for the under-40s, that would be interesting to know. But thank you for coming today.

Mr Bell—A pleasure.

CHAIR—As you know, you will get a copy of the *Hansard* to review.

Proceedings suspended from 11.07 am to 11.19 am

POTTER, Mr Michael James, Director of Economics and Taxation, Australian Chamber of Commerce and Industry

CHAIR—Welcome. As you know, although the committee does not require that you give evidence under oath, it still has the same standing as proceedings before the parliament. I invite you to make an opening statement and at the end of it we will proceed to questions.

Mr Potter—I welcome the opportunity to appear before this committee. I will not take long with my comments, because I will just be supporting what is in the submission. Our submission shows that there is some substantial evidence that the amount of savings by people across all age groups, but also those under the age of 40, could be seen to be inadequate for meeting their retirement income needs. I notice that the numbers on page 4 of our submission are out of date. My understanding is that the Investment and Financial Services Association has updated numbers. I think they may have provided those to you but, if they have not, feel free to contact me or them for some updated numbers there.

In order to address the particular issues that are raised by the lack of adequacy of super savings, there are a whole range of policies that could be examined. Our submission goes into some detail about quite a few of these. You may want to ask me about any other particular ideas that are around. We do not support any proposals to increase the superannuation guarantee. We think that nine per cent is the appropriate trade-off between the need for people's retirement incomes and the costs which the superannuation guarantee imposes on employers and employees.

We also looked at contribution limits. We have raised concerns that there are a number of overlapping and contradictory ways of making sure that tax concessions for super are held in check so they are not overused. Our concern is that the annual contribution limits and the reasonable benefits limits are covering the same ground and could be duplicative. There might be an argument for winding back one or the other. Our suggestion is that it might be better to wind back the annual contribution limits.

Increasing the coverage of the super guarantee is a fairly simple argument. If you have more people employed, you will have a greater coverage of the super guarantee. Increasing the retirement age is probably quite a thorny issue. We particularly want to support measures which enable people to voluntarily increase their retirement age. We understand that there will be quite a lot of concern and problems with forcing people to retire later. The committee needs to take that into account. We have a similar idea for easing the transition to retirement. We want to enable people to delay or postpone their retirement, particularly by enabling them to work part time rather than having a transition from 40 hours per week to zero.

Reducing the taxes on super is obviously a way of increasing the amount of money people have for retirement. We are particularly not looking for any increase in the tax concessions available to super, but we are suggesting a refocusing of them—taking taxes away from the taxation of the contribution and earning stage and moving it to the withdrawal stage. There is also the option of increasing the superannuation co-contribution. On both of the issues of reducing taxes and increasing the co-contribution, you need to take into account the effect that

this will have on the budget. Reducing double dipping is one way of increasing the amount of government money that is available for supporting the super system. It also makes the system more equitable.

We do support super choice, even though it will have some costs imposed on employers. We realise that super choice will provide some distinct benefits for improving the amount of money and the amount of interest that people have in their super. That leads me to another one of our issues which is improving the interest in super. There are a whole range of policies which we are looking at there.

We note that there are things you can invest in other than super that will provide for your retirement. The obvious category is housing. However, we do not support any arguments that there should be early access to superannuation to provide for people’s housing.

Lastly, on national savings, we think there are very good arguments to provide support for superannuation. We are not convinced that increasing national saving is one of them. Trying to tie superannuation into national savings is a fraught issue. We think there are better arguments for supporting superannuation and national savings.

CHAIR—You have outlined a whole number of factors here. You are in the demographic we are talking about, so you should have some idea. What do you see as being the biggest disincentives for people under 40 to contribute to superannuation schemes and what should we be doing about them, in particular?

Mr Potter—From my personal experience, being someone under the age of 40, the biggest issue is lack of interest. People under the age of 40 are, of course, a long distance from retirement and they think it is something they will deal with when they get closer to retirement. So my own personal feeling is that it is due to a lack of interest. I am not aware of any hard data on why people under the age of 40 are not considering their superannuation. Probably someone has done a survey somewhere on why people under the age of 40 are not looking at their retirement savings, but I am not aware of those particular surveys.

We have looked at a number of things in our submission as to what can be done. Directly responding to the issue of a lack of interest, there obviously is the question: why not increase people’s interest? I think there are some useful things that can be done on that front. We have raised a number of them in our submission. Obviously we think that super choice will, to some degree, increase people’s interest in their own superannuation because they will actually have to make a choice about where the super is invested, whereas under the previous system they were perhaps a bit more removed from what was happening with their super funds.

CHAIR—What else would you see as incentives? If you were responsible for government policy in this area, what would you be picking out to provide greater incentive?

Mr Potter—Obviously there are things which the government could do on the budget front. I guess budget and regulation are the two there. We specifically said that with age based contribution limits there seem to be some issues and problems. We are not convinced that you need to have both reasonable benefit limits and age based contribution limits. For example, you might find a sportsperson who earns a very large amount of money when they are young and less

in the rest of their life. The age based contribution limits would restrict their ability to put money in earlier in their life. So that might be a regulatory barrier there.

On the tax front we are arguing that the taxes should be moved from the start to the end. We are not actually arguing for a reduction in the total tax burden on super. We think it should be kept broadly the same, but you move it around. You might ask: what benefit does that have? One of the big benefits it has is that it would make the system a lot more simpler. The tax and regulations applying to super are very complicated and we think that might be one of the reasons why a number of people are not that interested in getting involved in super. They think it is too difficult.

CHAIR—Have you done any costings of what that would mean in revenue terms?

Mr Potter—No. We haven’t done that.

CHAIR—It would be fairly substantial, would it not, once you start shifting it?

Mr Potter—Yes. The idea is that in the long run it is neutral, but in the short run you would have a cost now and it would have a benefit later. You would have to factor that all into the revenue forecasting.

CHAIR—The tax take is, by definition, going to be delayed some considerable number of years compared with if you were to introduce it now, for example. I understand the point, but it would certainly make a big difference to tax revenue. So, Mr Potter, we have two. Are there other incentives?

Mr Potter—You could increase the superannuation co-contribution. We are not particularly calling for an increase in the superannuation co-contribution as to the rate at which it happens. However, we are suggesting a couple of things on that. One is to make it available to more people. My understanding is that it starts shading out at a quite low income level. I do not actually have that in the submission.

Mr BOWEN—At 27 grand it starts to shade out.

Mr Potter—Yes, at $27,000 a year. That is a quite low level, so you could look at increasing the level at which its starts shading out. You could reduce the rate at which it starts shading out so it becomes available to more people. I guess that is another way of looking at it. Of course you have to take into account the overall budgetary impact in the context of what we were saying earlier. Something which is important, and we mention it in this submission, is that if individuals save for retirement that reduces the call on the budget through the pension, so it is important that you take account of that. If you actually increase the super co-contribution or reduce taxes on super, the budget may not actually be any worse off in the long run, depending upon the effect it has on the pension.

Mr TANNER—There is a very big question there, Michael—and this is something that I put to Treasury earlier on and I am amazed that they do not appear to be exploring it—and it concerns the extent of the deadweight effect, the extent to which the co-contribution is actually increasing the net pool of savings. Do you have any view on that as to whether there is any

indication as to what extent we are seeing a phenomenon where people are putting into superannuation money that otherwise would have been used for consumption purposes, as opposed to somebody who is about to put a thousand dollars into a term deposit but then gives it to their spouse and says, 'You're a part-time worker on 25 grand a year; you can put that into super and the government will give us $1,500'? To me, that is a fundamental issue as to the efficacy of this scheme, yet Treasury, to my surprise, indicated that they are not even asking the question as to what the balance is. Do you have a view on that?

Mr Potter—Yes. It is a very important issue. What I would say is that Treasury probably need to model more of these effects. I think there are probably quite a lot of incentives done through the tax system and other systems where a lot of it goes to people who would have done whatever it is anyway. You could take that position with the super co-contribution. As you indicated, I am not aware of any research showing what effect the co-contribution actually has on people's behaviour. If you are just giving money to people who were going to contribute anyway, it probably has less of a beneficial effect than if it actually does increase people's contributions into super. That should be taken into account, and it would be a bit disappointing if that were not taken into account in the decisions that were made to set the parameters for co-contribution in respect of the taxes on super.

We do talk briefly about the national savings front in our submission. We do not think that super policy should be driven by savings. There are better reasons for having superannuation policy than deciding national savings. We do not think that Australia has a national savings crisis. Everything else being equal, we would like people to save more but we do not think that should be driving public policy making. I certainly think that is an important consideration that you need to take into account when you are looking at what you are doing with taxes and the co-contribution.

Mr BOWEN—I note that you are opposed to an increase in the superannuation guarantee levy, which is understandable. It seems to me that that was introduced over a period of years at a time of centralised wage fixing where wage increases were traded off for increases in super. Really, employers were arguably no worse off because you were giving a pay increase through a different mechanism. That is obviously a lot harder now that we have a much less centralised wage fixing system. Have you got a view on whether there is any benefit in coming up with some sort of incentive for employers to do more, maybe an employer contribution scheme through enterprise bargaining or some such mechanism, that could be incorporated into enterprise bargaining or AWA bargaining?

Mr Potter—I guess it would be an option worth exploring. If you were able to replicate the individuals' co-contribution scheme and do it for employers, that might be something worth while exploring. Again, you would have to take into account all the caveats: is it actually going to affect behaviour or is it is just giving money away to people who are going to be saving in super anyway? Of course you need to take all of that into account. Enterprise level negotiations over super—fantastic; that is great. If employers and employees are able to come to decisions about whether more needs to be saved in super, that is great. If there are incentives to do that, we should definitely look at them.

Mr BOWEN—It seems to me that the deadweight effect in a relationship like that would be less. Say we are trading off wage increases for superannuation increases: we are taking money

which may or may not have been saved and putting it into money which has to be saved. Obviously, you would need some sort of incentive system to make that work.

CHAIR—From the employer’s point of view, I am sure that they would be looking at it being revenue neutral in the trade-off.

Mr Potter—You can never be sure on those things. An employer may be willing to pay extra money because they think it is the right thing to do. I would not want to generalise about what all employers would do. But you are completely right in terms of deadweight cost. One of the points in our submission is that a compulsory superannuation guarantee can be seen as a tax from an employer’s perspective, like a payroll tax. I am sure you realise that there are almost zero employers out there who like payroll taxes. It should be hardly surprising that employers do not want an increase in the superannuation guarantee.

CHAIR—But it is one of the issues that could be put on the table. Are you aware of any employers that are providing that as part of AWAs?

Mr Potter—No, I am not. The obvious one is the Public Service. They give extra.

Mr BOWEN—It is 15 per cent, I think, for senior levels.

Mr Potter—I know it is more than the nine per cent, but I am not aware of any individual private sector employers. I think it would be likely that there would be some out there.

CHAIR—It would be interesting to know that. Perhaps you could come back to us on that, particularly as you have this vast membership.

Mr BOWEN—I know some trade unions pay up to 20 per cent.

Mr TANNER—There is a range of employers that do.

Mr Potter—I would not be surprised if there were enterprise bargains that did that.

Mr TANNER—How representative they are is another question. Something that follows on from a question Chris asked is the de facto pay increase or the in lieu of pay increase. One concern I have had for a long time is one of the unintended consequences of what is otherwise an excellent arrangement with respect to compulsory super. In depressed regions like the Latrobe Valley, money that otherwise would have been going back into the local economy as a pay increase and spent predominantly in the local economy goes to AMP in Sydney or AXA or whatever and, in the main, is not reinvested in that local economy because the local conditions are depressed and the investment opportunities are very limited. Therefore, unconsciously, the problems of economic restructuring that have emerged in economies like that have been exacerbated. Do you have any feedback from employers in your constituencies in those kinds of regions that would reflect that? Is this a reasonable concern?

Mr Potter—I think it is very much a reasonable concern. It is actually a good point which perhaps we should have put in our submission. It is a bit difficult to get a handle on the extent to which money comes in and goes out of areas as a result of super. The people who are interested

in this issue probably have quite a legitimate perception that superannuation does move from regions into the cities, but there is not any hard and fast evidence to support that. It is more anecdotal.

Mr BOWEN—It is fair to say there is no guarantee that the money is going to be spent in the region where it is raised, and mostly it would not be.

Mr Potter—Yes.

CHAIR—But still that does not mean to say that the super companies would not reinvest in mining in depressed areas and so on.

Mr Potter—If I can make a couple of other points: to what extent should we be looking at super funds to invest in depressed areas? I think it would be great if they did, but any particular idea, however, to force super funds to invest in a particular asset class or a particular region is fraught with problems.

Mr TANNER—The way you would do it is to tweak the rate of return. You just do something that says, 'We will modify the rate of return should you choose to invest in this particular region. We will give you an extra one per cent in some form or other.' But it would still be your choice as to—

Mr Potter—Of course, if that were done by the government, again you would have to look at it in the overall budgetary context: is that the best way for the government to spend the money? If you are concerned about investment in a region, should it be done through an incentive to super funds or should you just provide an overall investment incentive to anybody, whether a super fund or not? And should you be giving incentives for investment or should you be giving incentives for employment? There are all of those difficult questions.

CHAIR—We need to get back to the main aspect of the inquiry, which is super for people under 40 and incentives and disincentives et cetera—even though that is an interesting point with Tanneromics.

Mr BOWEN—It could be worse, Mr Chair—Malcolm Turnbull could be here.

Mr SOMLYAY—Mr Potter, were you here when the ABA was giving evidence?

Mr Potter—No, I was not.

Mr SOMLYAY—We discussed the reluctance of employers to salary sacrifice into superannuation on behalf of employees. Do you have a view on that?

Mr Potter—Following on from what we said earlier, it would be fantastic if employers and employees negotiated over the mix between cash income and income which comes in other forms, including—you might say—superannuation. If there are barriers to doing that, then of course they should be removed. I do not have any particular thing to say on whether there are or there are not barriers, but if we could see some evidence that something in the system is

restricting that then it should be removed. If there is a philosophical barrier on the part of employers then that would be a concern, but we have not seen evidence of that.

Mr SOMLYAY—I understand—and I am not an expert—that charitable institutions have an incentive to salary sacrifice on behalf of their employees, which is not available to other sectors as a whole.

Mr Potter—I understand that is correct. Of course the incentives that are available to charitable institutions have a budget cost again, so you have to think, 'Is this the way the government wants to be spending its money? Is this the best way?' And that is a debate which you would need to have.

Mr TANNER—I thought you guys had fixed that or were going to fix it.

Mr Potter—My understanding was that in A New Tax System they wound it back but did not get rid of it completely.

CHAIR—What about the idea that has been suggested, with muted response from people this morning, of taking equity in your voluntary super contributions for housing?

Mr Potter—We are not enthusiastic about that.

Mr TANNER—A very sound submission on that point, may I say.

Mr Potter—Thank you. A couple of points: firstly, it seems a bit odd that you compulsorily take money off people and then you give it back to them.

CHAIR—No, we are talking about the voluntary component. There is the compulsory super, but there is also additional voluntary contributions to super requirements.

Mr Potter—Okay, let us say that somebody voluntarily adds onto the nine per cent and then wants to take it back out for housing. Is that what you are suggesting?

CHAIR—Yes.

Mr Potter—That is less of a problem, although it seems a bit odd to me that somebody would be voluntarily putting money into super and then saying, 'Woops, I made a mistake; I really wanted a house.'

CHAIR—It provides a form of saving and they then have the option of whether they want to use it for a later period or at some point they may decide they want to use it as a deposit gap.

Mr BOWEN—So it is like paying off a home loan and then drawing down on the extra repayments you have made.

Mr TANNER—Except the differential tax treatment makes a difference.

Mr Potter—Yes, the big issue is the different tax treatment—the fact that you might have had a co-contribution, you might have had a tax advantage on the contribution into super. You need to compare it to putting money in the bank and then using that to put in the house. Money put in the bank and then used to buy a house is fairly heavily taxed whereas if you voluntarily put money into super it can be quite a tax advantage. And there would be some fairly significant issues there about the budget effects. So we would be reasonably lukewarm about that too.

CHAIR—There may be a caveat on it being taxed at the original rate when you want to withdraw it or part of it and it could be in the form of income level restrictions.

Mr Potter—That seems entirely reasonable. However, we are not enthusiastic about things that make the system more complicated. The super system is already quite complicated, and doing something along those lines could make the system quite a bit more complicated.

CHAIR—It could provide real incentives for young people in particular to invest where deposit gaps are a big problem in a real estate market like Sydney's, for example.

Mr Potter—We are generally of the opinion that perhaps you should be looking at measures that directly make housing more affordable, rather than at measures of doing that indirectly through the super system.

CHAIR—It could be tax neutral, if you wanted to draw back a component and then you were taxed at the differential rate.

Mr Potter—I understand that. Let us say hypothetically that your contribution had no tax on it at all and the money that you put in a bank was taxed at 30 per cent and then when you withdrew it they clawed back that difference.

CHAIR—Yes.

Mr Potter—You could easily figure out a way of doing that. I guess the concerns we have are (a) would it make the system more complex and (b) might there be a better way of doing it?

CHAIR—What is your better way for the housing incentive?

Mr Potter—There are existing measures, of course, such as the first home owners grant.

CHAIR—Which is not enough in a market like Sydney's.

Mr Potter—That is definitely something that you could look at. This is getting out of the scope of this inquiry, but you could reduce the first home owners grant on higher income people and increase it on lower income people so that it is broadly neutral. That is one option that could be worth exploring. One of our members, the Master Builders Association—

Mr TANNER—That is a very sensible suggestion.

Mr Potter—That is not our policy; it is just an option that you could look at. One of our members, the Master Builders Association, have come up with this idea of a HECS type scheme

for housing. While they are one of our members, it is not something any of our non-building and construction members were that enthusiastic about.

Mr BOWEN—How would that work?

Mr Potter—It would be similar to what you do for education: you get your education or your housing—whatever it is—but with no cash outlay up front.

CHAIR—Is this the government doing this?

Mr Potter—Yes.

Mr BOWEN—So the government buys your house for you and you pay them back under a HECS type scheme?

Mr Potter—Yes.

CHAIR—It sounds like a glorious central Moscow planning policy.

Mr TANNER—It is basically a souped-up version of the interest only repayments concept, where you are essentially pushing back your repayment obligations.

Mr Potter—Yes. It could conceivably have a very large revenue cost. It is definitely not ACCI's policy; it is just the policy of one of our members. I will leave it at that, and you can make of it what you will.

Mr TANNER—Fortunately, body language does not go into *Hansard*.

Mr Potter—Of course the PC did an inquiry into home ownership a while ago. There are some useful ideas in that, but I do not want to go into that in any detail.

Mr TANNER—One of the issues that we ventilated with some earlier witnesses is the issue of surveys, asking people what income they feel they will need to live on in their retirement. I am of the view that most of these surveys are dodgy. They do not posit the income forgone now counterfactual, so they do not present people with real-world choices.

Mr Potter—Can I just clarify that. People being surveyed are asked, 'Would you like more money in a few years time?' and they always say yes, but if you ask them, 'Would you like more money in a few years time in return for having less money now,' then they might answer that differently.

Mr TANNER—That is right. Essentially, I am interested in your view as to how much credence you would place on those kinds of surveys. I notice there is a reference to the retirement savings gap et cetera. My instinct tells me that there is a retirement savings gap but that, equally, it is almost impossible to determine how big it is, and I think it is probably exaggerated. I am interested in whether you have a view on that, because the calculations on retirement savings gaps are based on surveys—the ones I have seen—that essentially ask,

'Would you like to live on a real nice income when you are 65?' and of course people say yes. It is a cost-plus kind of survey rather than a real-world choices survey.

Mr Potter—I think that is a very valid concern. When I presented the numbers in our submission I did not make any comment about whether we agree or disagree with the numbers. I just said, 'Here are the numbers from one of our member organisations.' All I can say is that I got these numbers from them and, if you want to ask questions about this, you should talk to them directly. Did IFSA make a submission to this inquiry?

Secretary—They did not make a submission, but they appeared as a witness.

Mr TANNER—We have had them as witnesses.

Mr Potter—These are not our numbers; that is all I can say on that. I am just presenting them as an example of what other people are saying. We have not actually done any modelling ourselves, and we do not have a particular policy which says that people are saving too much, too little or just the right amount.

Mr TANNER—On the issue of super choice and your acknowledgment that that does involve some downsides—administrative costs, complexity and all those kinds of things—do you have a view on the prospect of the Taxation Office being a universal collection agent?

Mr Potter—I am not so enthusiastic about that idea. I do not think we have actually got a policy on it, so I am guessing what our members would say to that. I think the system, as it currently stands, seems to be going okay. It is not perfect. We are certainly looking for a number of improvements to it. For example, we would like to see choice extended to everybody in Australia so that we do not get a situation where some employers have to provide choice to some people and not to others, which is a difficult issue. The current system is not perfect. However, we think that it is going reasonably well. We do not think that there is a particularly strong argument to take it out of their hands and to put it in the hands of the ATO. Conceptually, you could think of some reasons for doing it: for example, it would reduce the costs on the employers because they would pay the cheque to only one organisation, the ATO. But, conversely, you would have a fairly significant ramp-up of budgetary costs, with the ATO being involved et cetera. Again, is that the best use of taxpayer funds or will the private sector or the public sector do it more efficiently? We would have to have that debate.

CHAIR—Thank you, Michael. I appreciate your coming. We will send a copy of the transcript to you.

Mr Potter—It has been a pleasure to be here.

Proceedings suspended from 11.53 am to 12.50 pm

LARBEY, Mr Miles, Senior Policy and Education Officer, Consumer Protection Directorate, Australian Securities and Investments Commission

MARLIN, Ms Clare Rachel, Senior Research Analyst, Consumer Protection Directorate, Australian Securities and Investments Commission

CHAIR—Welcome. We look forward to your input today.

Mr SOMLYAY—Whereabouts are you based?

Ms Marlin—Sydney.

CHAIR—We could have seen you in Sydney.

Mr SOMLYAY—Yes, we could have. That is why I asked.

CHAIR—As you know, the proceedings before this committee have the same standing as proceedings of the parliament. I invite you to make an opening statement. At the end of it we will proceed to questions.

Mr Larbey—Thank you for this opportunity to appear before the committee today. ASIC was very pleased to make a submission to this parliamentary inquiry looking into improving the superannuation savings of people under 40. In my opening statement I will briefly outline ASIC's role and what it is doing in this area. As the national consumer protection regulator for financial services, including superannuation, ASIC is chiefly responsible for administering the Corporations Act and the ASIC Act.

Amongst other things, one of ASIC's aims is to promote the confident and informed participation of investors and consumers in the financial system. We do this in a number of ways, including: enforcing financial services and company laws; checking compliance with those laws through on-site inspections of financial services licensees and desk audits; regulating the industry; keeping a vigilant watch on financial investment markets; working with the financial services industry to raise standards where relevant, including supporting the development of industry codes; taking compliance and enforcement action against any breaches of the law; and providing accurate and impartial consumer education and information to raise standards of financial literacy and help consumers make confident and informed decisions about their finances.

In addressing the inquiry's terms of reference in our written submission, we drew mainly on our experience in providing consumer education about superannuation, as well as our own consumer research into financial services and other publicly available research reports. However, it is important to note that other things, such as our compliance and enforcement role, are central to underpinning the confidence of consumers and investors in the financial system.

Naturally, as the regulator, we do not advocate changes in government policy on superannuation, for example, in relation to taxation or the super guarantee. The Treasury is the

primary policy adviser to government on superannuation matters. Our primary aim in providing consumer education about superannuation is to engage consumers with their super and help them understand their super so they can make superannuation decisions that are best for them. Part of this is about encouraging consumers to think about increasing their superannuation savings, where they judge this is appropriate and affordable and where it fits in with their financial goals. ASIC is therefore supportive of the inquiry's aims to look at ways of improving the superannuation savings of under-40-year-olds. We share the general concern about the need for people to accumulate savings over their working lives to support them in retirement, especially in the context of an ageing population. We are all also well aware of research that has revealed a potential savings gap between what is currently being saved for retirement and the amount of money that people will need when they actually retire.

As part of our education work, we aim to make people aware of the importance of starting to save early, of superannuation as a means of saving for retirement, as well as some of the advantages of using superannuation for these purposes compared to other investments. For example, and as we have noted in our submission, ASIC played a key part in contributing consumer information for the Australian government's recent public information campaign about super choice, which came into effect on 1 July. As committee members may recall, the communication campaign for super choice specifically emphasised the need for consumers to think about superannuation as their investment for the future.

We currently promote awareness and educate consumers about the importance of super through a range of ways and channels. Firstly, our consumer web site FIDO contains a wealth of information for consumers about super. It is well known and widely promoted and has a special section for young adults specifically on superannuation. The web site also contains tools to help people understand and make super decisions. For example, it has a handy comparison worksheet to help consumers compare different super funds and a powerful interactive superannuation calculator.

Our primary hard copy resource for consumers about superannuation is our *Super Choices* booklet. ASIC prepared *Super Choices* based on a previous publication as the main government resource about super choice to support the choice of fund campaign. To date, more than one million copies of *Super Choices* have been distributed through a variety of channels.

Another very popular consumer resource we have produced is *Your Money*. It is all about how consumers can make the most of their money and achieve their financial goals. It covers superannuation, with the key message that making extra contributions now can make a real difference to your retirement savings later. It is written in plain language for working Australians on average incomes, and the examples are roughly based on a couple aged about 35. I trust I have given the committee a helpful summary of ASIC's role and what we are doing in this area.

Turning to our written submission, I would like to emphasise that the under-40-year-olds are not a homogeneous group. Most of the research that has been done in relation to superannuation has focused on the retirement phase rather than on the accumulation phase. We have quoted from a number of research reports into behavioural finance and drawn conclusions from them which we hope were helpful to the committee. Where we have put forward ideas for improving the awareness of the importance of saving early for retirement, beyond what is already being done, these ideas would of course need further consultation and cost-benefit analysis. In conclusion, I

stress that public awareness and education about superannuation is a shared responsibility amongst super funds themselves, industry associations, the major educators and government agencies, including ASIC.

CHAIR—Thank you very much; I appreciate your input and your submission.

Mr SOMLYAY—I think your submission is the first submission we have had that mentions Aboriginal communities. Do you want to say a few words on that?

CHAIR—That would be interesting, yes. It is a good idea.

Mr Larbey—We raised that issue because Indigenous community legal workers have put it to us that Indigenous people working in CDEP programs do not get superannuation as part of their payments. We understand the reasons for that and, of course, there are policy considerations there. However, we felt that, looking at how different parts of the population have different experiences with super, it was important to raise that point with the committee.

CHAIR—I think it was good to include that. In your paper you have recognised that under-40-year-olds are not necessarily a homogeneous group, although you draw out the factors that there are similarities in the indebtedness they have with credit cards, bank loans, HECS debts, car finance, mortgages, preference for spending, desire to pay off a debt and the belief that the returns are inadequate et cetera. We know that is a factor. Mr Somlyay and I remember that age period—and we were pretty similar. The question is: how do we turn that around? Obviously it is going to be a continuum, a given, but the question for us is: from the government's viewpoint and from industry's viewpoint, what can we do in terms of further incentives to encourage people under 40 to participate in super? That is where a lot of our focus is.

Ms Marlin—One of the commonalities in those groups is that they do not really understand the benefits of super, so it may be that super is not even on the radar. So maybe the first step is to put it on the radar.

CHAIR—I notice that you have quite a bit about financial awareness. Let us pursue that. What do you envisage we should be doing in terms of financial awareness so that people are more aware? We have lots of nice glossy brochures. That is one way. What do you think we need to do?

Mr Larbey—We made some suggestions in our written submission. Our point of view is that we should increase educational information activities. As I have explained, ASIC do that in a number of ways and we are always looking at ways that we can improve that.

CHAIR—Who reads these brochures anyway—apart from us?

Ms Marlin—We think that access is probably an issue there. Making this information available in brochures might be one way of doing it but there may be interactive ways of doing it. But finding the right time to give people this information is going to be important.

Mr Larbey—We have been trying to think about it in terms of the fact that people will only seek information or engage with information at a time when it is important or appropriate for

them. That is why in our submission we talked about looking at opportunities when people are new in the work force or at other points of time when people may be more switched on to thinking about their super because of the context of when they receive the information.

CHAIR—So only at the time of entry, you think?

Ms Marlin—Entry is one. Another one could be at a time of pay rises. Or milestones while they are in the workplace could be the moments—

CHAIR—Who would do the education?

Ms Marlin—I guess that goes to the opening statement, which said that education is the responsibility of a whole range of groups.

Mr Larbey—If we were thinking about education being delivered in the work force then there may be a role for employers there, although we are conscious that there are already many demands on employers. But that could be one way of looking at that, especially as there is now a requirement for employers to give all their new employees—and that would not just be young employees—a standard choice form.

CHAIR—It obviously is an area that we need to give attention to, because one of the things is that young people do not focus on it. We should not focus just on providing booklets that nobody reads—and I am not just talking about you; the government does this all the time, and some of it is read and some is not. Cinema advertising, fitness clubs or whatever it might be are alternatives. For this particular demographic, reaching them is going to be a challenge.

Ms Marlin—It is important to stress that it is a large demographic. From 18 to 40, or whatever your brief is, is a huge range. The more we know about how people within that group are different from each other, the more we will have an indication of which are the right channels and which are the right media to develop the messages in.

Mr Larbey—If I could add to that and pick up on what you were saying, there is certainly a role for mass media campaigns—for example, I am thinking of the co-contributions campaign or the super choice campaign—to achieve a broad level of awareness, in addition to individual booklets or whatever.

Ms Marlin—It is good for short messages, and then you give them the detail in the more targeted format.

CHAIR—Okay. What other incentives do you see? We threw around one example, which was the question of whether young people should be provided access to the funds that have been put aside as a result of voluntary contributions to their super scheme to use for housing.

Ms Marlin—That is probably not an area we have looked at or have any expertise in.

Mr Larbey—No, we would not have a view on it.

Mr BOWEN—I would say it would be a policy matter.

Ms Marlin—Yes, I think that would perhaps be out of our area.

CHAIR—Okay. Have you thought of other incentives to get people involved more in super schemes?

Ms Marlin—We think the co-contributions scheme is a positive policy. We do not have any experience of how aware that group is of co-contributions, but perhaps that could be investigated. Perhaps there are opportunities to increase awareness there so that people take that up more.

Mr BOWEN—That is a point I made to other people this morning. The biggest cohort of people taking up the co-contribution scheme is those aged 51 to 55, which is just too late. Sorry, Bruce, I know you hate it when I say that!

CHAIR—That was coming too early there!

Mr BOWEN—Too late in a financial sense. Bruce gets very sensitive about these matters. I think if we are going to get our bang for our buck from the co-contribution scheme we need to find ways of getting people between 20 and 30, really, to put money into it.

Ms Marlin—Particularly people in generation Y, which is the youngest group, who are more likely to be on a lower income or on trainee wages or that sort of thing. That could be a really beneficial program for them.

CHAIR—A lot of them are part-timers as well, which makes for a greater degree of difficulty in accessing them.

Mr SOMLYAY—In most years, the complaint I receive from young people is that their employer takes away part of their wages and pays it into superannuation, then they get an annual statement and they have less in there than they put in. Does ASIC have a statutory role in the prudential supervision of super funds, or what is your role, as an organisation, in superannuation?

Mr Larbey—Our role in regulating superannuation does not extend to the prudential supervision of super funds. That is a role for APRA. We are responsible for consumer protection in super—

Mr SOMLYAY—The behaviour of funds?

Mr Larbey—and the licensing of anyone giving advice about super or dealing in financial products including super. So our remit covers obviously not only the super funds themselves but also financial planners or anyone else who gives advice about superannuation.

Mr TANNER—The level of fees and charges, effectively?

Mr Larbey—We do not regulate the level of fees and charges, although one of the key limbs of the Corporations Act is the single disclosure regime for all financial products and services that

was brought in with the financial services reforms. But we do not regulate the level of fees and charges.

Mr TANNER—So does APRA do that?

Ms Marlin—I am not sure.

Mr Larbey—I do not think so.

Mr SOMLYAY—I think competition does that. If we are trying to get young people to become interested in a product, if it is going to produce results, you cannot afford to have annual statements being received by young people showing that they are losing money.

Mr Larbey—Part of that I think would be—

Mr SOMLYAY—Nonperformance of the funds.

Mr Larbey—a function of the investment markets. In the 12 months that have just gone, there have been very strong returns in superannuation funds.

Mr SOMLYAY—I do not get complaints when the market is strong.

CHAIR—So every person in a super scheme gets a yearly statement?

Mr Larbey—That is right.

Ms Marlin—Our research also shows that if the message is showing that it can have a positive influence on their lives then it is more likely to be well received and followed. So, obviously, if returns are low that message is going to be more difficult than if they are high.

Mr SOMLYAY—How do we convince young people that their superannuation is actually part of their wealth rather than it being treated as a tax?

Mr Larbey—One of the ways we try and do that is by encouraging people to use our superannuation calculator to look at the effect of fees and other things on their superannuation balance. It provides a projection from today's date to when they retire. It brings that projection back into—

Mr SOMLYAY—Could you tell us about the superannuation calculator?

Mr Larbey—Yes. The super calculator is a tool that is on our FIDO consumer web site. Essentially, it allows consumers to plug in data that is personal to them—for example, whether they make any personal contributions to their super and how much they are paying for insurance in their super fund—and it allows consumers to compare the effects of the different decisions they make on the final return from the super fund. Obviously it is all based on assumptions built into the calculator, but, in showing people what their final balance might be in today's dollars, we think it is really helpful, because it is a tangible result. People can relate to that dollar sum rather than an abstract notion of—

Ms Marlin—Something way into the future.

Mr Larbey—something in the future.

Mr SOMLYAY—How many hits do you have on it? Is it large or small?

Mr Larbey—It is in the thousands. We would have to get back to you on the precise number.

Mr SOMLYAY—No, I do not want to know the precise number. It is the same as with other documentation: I like to know whether it is being used, not the fact that we have got it. Is it being accessed?

Mr Larbey—It is being used. We are obviously always looking at ways to promote it and increase its use. That has happened, for example, through the super choice campaign. The Australian government's web site on super choice has a link to our superannuation calculator. As a result of the enhanced fee disclosure regulations that came in on 1 July, all super funds have to have a reference to our super calculator in their product disclosure statements from now on. Hopefully, all of these things will increase usage of the super calculator. I think it is broadly recognised that it is one of the most powerful super calculators, and obviously it is independent—it is from ASIC.

CHAIR—I think the fact of highlighting for people how much their retirement wealth has grown is one of the most powerful incentives for voluntary contribution additions. I know it is in my case.

Ms Marlin—Particularly as other research has shown that people do not necessarily read their statements. It is another way of getting them to focus on what they already have and to have a look at what that may translate to into the future.

CHAIR—Some funds have them quarterly. In terms of the current buoyant sharemarket, a lot of funds have gone up every quarter—which is a big incentive.

Mr Larbey—I think that is absolutely right. Just to go back to the calculator: for example, you can use it to compare between two scenarios, one where you do not make any voluntary contributions yourself and one where you do. It also incorporates the co-contribution if you would be eligible for that. If you show that to someone of 25 or 30 with a long way to go to retirement, the difference in the final balance is huge. Often people do open their eyes and engage with that, we have found. It is a tangible thing that they can relate to. We would be happy to work with the committee in—

CHAIR—Do you provide the guidelines for the format of this reporting? The statements that go out to the contributors to superannuation schemes are provided by the superannuation companies—there is no standardised format for that?

Mr SOMLYAY—Basically it gives you an opening balance, what has happened during the year, fees and charges, and a closing balance.

Mr BOWEN—There is probably information required to be reported, but how they do that is up to them.

Ms Marlin—Yes.

CHAIR—If it gets tucked away in a very bureaucratic-looking document, they are not going to provide the same degree of interest. I am not sure what we can do with that, but it still seems to me that that is a very powerful incentive for young people.

Mr BOWEN—On a separate matter, for people under 40 in particular, how much of a problem is not rolling over their super when they move from job to job and the super getting lost? Do you have figures on that? Is that a particular phenomenon for young people?

Ms Marlin—One of the difficult things I found as a researcher is that often research underreports that figure because people do not know. So they will answer to a multiple choice list of questions, but in reality they do not even look at their super statements, or they do not keep track of their super.

Mr BOWEN—So they do not know that they have not rolled it over.

Ms Marlin—That is right. That is where it comes back to this lack of engagement issue. They do not know what they are supposed to have or what they are supposed to do.

Mr Larbey—One of our key consumer education messages in all of our material is: keep as few super accounts as possible, consolidate your super. We appreciate that it takes a little bit of effort to do that, but it is worth while in the long run.

Mr BOWEN—You would have figures on people who have lost touch with their super fund, for example. Say someone has left their job, left their address, the super fund no longer knows where to find them to give them their money, so presumably that person has forgotten they had the money there in the first place. Have you got any data on that?

Mr Larbey—I think all that data is held by the tax office.

Ms Marlin—I think it is the tax office that holds that information. But that information is available, yes.

CHAIR—We probably should have gone to the tax office—

Mr BOWEN—Perhaps the secretariat could make some inquiries to see if they have got information.

Mr Larbey—The tax office is responsible for administering the lost members register, which contains all those details.

CHAIR—Probably within this age cohort you have the biggest level of changes from job to job. It would be interesting to know the percentage that does not claim it.

Mr BOWEN—I would suggest it would be pretty high with casual workers, part-time workers and people changing jobs. I have to admit that for the first 10 years of my working life I changed jobs and did not roll over. I had to go back and fix it all up later.

Mr Larbey—I believe there is research that exists, I think conducted by ASFA, about the average number of super funds that individuals have.

Mr BOWEN—Do you know off the top of your head what the figure is?

Ms Marlin—I do not, but I think it is three and above.

Mr Larbey—You would be able to find research on that. It is available.

Mr BOWEN—It is a fair bet that most of those people have forgotten they even had the other two.

Mr SOMLYAY—There is an enormous amount of money under super that they cannot identify.

Mr Larbey—That is right. That is administered by the tax office.

Mr SOMLYAY—How does a young person who has been working at McDonald's, KFC and maybe a pub or two going through uni get an aggregated statement of what their superannuation savings are?

Mr Larbey—If they have more than one super account with more than one super fund, I think the only way they could do that at the moment—they would receive a statement from each of the funds in which they had some savings—

Ms Marlin—They would have to contact the fund and add it up.

Mr SOMLYAY—Is there any way of consolidating all of those?

Mr BOWEN—There is a web site: unclaimedsuper.com.

Mr Larbey—Consumers can consolidate their super. It does require some effort, although it is relatively straightforward once you do it. You have to contact the funds and most of them are set up to receive those kinds of inquiries and help people bring their super into one fund. The rules that govern that kind of activity are the portability rules. They are administered by APRA. But there is a system in place for people to do that. Like I said, we encourage people to do that in our education messages.

CHAIR—I am just thinking aloud in terms of these people who are allocated from various social security agencies and the contact people from various departments in individual electorates. Wouldn't it be good if we had a contact person on superannuation so that young people who have an issue with their superannuation and who wanted to find out more could be referred, in your own area, to contact people who can assist them?

Mr SOMLYAY—That is a function that could easily be handled by Centrelink on behalf of the other agencies.

CHAIR—I do not know what you would think of such a program. We see a lot of people in our electorates who have issues with Centrelink and work start and immigration, and there are people allocated specifically to help them. With super I just think that for a lot of young people it is complicated. There could be newsletters that said to young people: 'If you want help with your super, come and see us. This is the number. This is the contact person in your area.'

Mr Larbey—Any initiative that provides a source of help for young people on super would be great. If you wanted to refer people to the ASIC FIDO web site, which has a wealth of information on super, and then links and references to other places that people can get help as well as information about getting financial advice, if that is what someone wants to do—if they want to pay an adviser—I think we would be more than happy to look at doing that.

CHAIR—You could have advisers within your area as well, couldn't you?

Mr SOMLYAY—We all do have but—

CHAIR—I know. At our age you get to know—

Mr SOMLYAY—The banks handle superannuation products and they have got financial advisers. You can go to any bank and get financial advice regarding superannuation. It would be very dangerous, certainly, for a member of parliament to be giving superannuation advice to somebody, because you regulate their ability to give advice.

CHAIR—I am not giving advice on which funds you should enter.

Mr SOMLYAY—That is the sort of information they want.

CHAIR—It is more in terms of them asking: 'Where can I go for advice?'

Mr Larbey—I think it would be a great idea to refer people to the FIDO web site for information and tips about superannuation and some kind of general guidance about making the best decisions for yourself.

CHAIR—Which web site is that?

Mr Larbey—ASIC's consumer web site, FIDO.

Mr SOMLYAY—It is in the submission.

Ms Marlin—We have a separate web site as well as our main web site. It is just for consumers.

Mr Larbey—It is on the back of the *Your Money* brochure.

Ms Marlin—It is consumer education.

Mr Larbey—We are not suggesting that everybody who wants to know about their super necessarily needs to go and see a financial adviser, but for those people who do and for whom it is appropriate to their circumstances the FIDO web site has information about how you go about doing that.

CHAIR—It is the unclaimed stuff, too. We have the web site, and so on. Was that effective or not?

Mr BOWEN—It worked for me.

Mr SOMLYAY—If you have any further thoughts on how we can get people interested in super at a younger age, please let us know.

Mr Larbey—We will.

CHAIR—You are both in the right demographic. What is your advice?

Mr SOMLYAY—You will probably go away and think about your super now.

Ms Marlin—We have thought about it a lot more recently.

CHAIR—All the impediments that you spell out are right. We must focus on the issue and sort out some of the difficulties of the bureaucratic approach. Thank you for coming today and thank you for your input.

Resolved (on motion by **Mr Bowen**):

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 1.22 pm