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

TUESDAY, 18 OCTOBER 2005

SYDNEY

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Tuesday, 18 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 Ciobo, Mr Tanner and Mr Turnbull

Terms of reference for the inquiry:

To inquire into and report on:

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

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

WITNESSES

Committee met at 9.37 am

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 saving 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 Institute of Securities, Finance and Banking, the Trustee Corporations Association of Australia, the Financial Planning Association of Australia, the Australian Consumers' Association, Tower Australia Ltd, McCrindle Research Pty Ltd and an individual, Mr Stephen Woods. 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.

Before introducing the witnesses, I refer members of the media who may be present at this hearing to the need to fairly and accurately report the proceedings of the committee.

[9.39 am]

FOSTER, Ms Kristen, Senior Manager, Policy and Public Affairs, Institute of Securities, Finance and Banking

SALTER, Mr Brian Douglas, Chief Executive Officer, Institute of Securities, Finance and Banking

CHAIR—Welcome. 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. The committee has accepted the submission and authorised it for publication. Do you wish to present any additional submissions or make an opening statement to the committee?

Mr Salter—Thank you. I should start by saying that we do not arrive here with an addition to your potential list of hypothetical solutions to the issue of retirement savings for this age cohort.

CHAIR—We do appreciate your paper, however.

Mr Salter—Thank you. The aims of our submission are very much about identifying in a robust manner what the barriers to retirement savings for this segment of the population is, to do some thorough research and to test the awareness levels and the preparedness of members of this age cohort to participate and to take responsibility for their retirement savings. So at this stage we do not have a list of solutions to put before you. What we do believe is that the ultimate solution to the challenge—and much has been achieved, I hasten to add—but the furthering of what has been achieved will probably be a combination of a number of government measures and private sector services.

The government approach is probably going to need to be one that is in part prescriptive and in part incentivising. The private sector's contribution to that as a follow-through is going to need to be the capacity to develop and deliver products and services that provide for accessibility and provide for the encouragement of this group to participate in their own preparedness and to deliver value to them through that. So it will be a combination of those things. We do not think that the quality of the information that has been brought forward so far gives us an adequate scope of awareness to present solutions of that type to you. Can I start with some further opening remarks and then hand over to Kristen Foster?

CHAIR—Please do.

Mr Salter—Kristen will provide a general overview of the recent research we commissioned by Crosby Textor, which is titled the *Institute of Securities, Finance and Banking's opinion poll—Saving the future: changing under-40's retirement planning behaviour*. The institute certainly welcomes the minister's announcement of this inquiry as we believe there has been a general paucity of information regarding the under-40 age cohort in terms of their attitudes and behaviours towards retirement planning.

CHAIR—In saying 'paucity of information' do you mean in terms of research?

Mr Salter—Quality research, robust research and information that can be relied upon as representative of the population's views on these things. As a professional body and industry educator—and we represent over 20,000 members participating in the financial services profession—

Mr TURNBULL—Are most of those financial planners?

Mr Salter—No, approximately 15 per cent of our total cohort is in financial planning. Our membership is spread across, yes, financial planning, funds management, financial analysis, retail banking, corporate banking—a wide sphere. The beauty of that is that our membership represents—

Mr TURNBULL—You are the Securities Institute?

Mr Salter—Correct.

Mr TURNBULL—Sorry, I am completely foxed, because I heard the 'Institute of Banking and Finance'. Now I understand.

Mr Salter—We are the Securities Institute having recently merged with the Australasian Institute of Banking and Finance and shortly to announce a new name and brand that will not be such a mouthful.

Mr TURNBULL—Why—you have such a good brand?

Mr Salter—We have a wonderful brand and it will be carried forward in the new one.

Mr TURNBULL—I am sorry.

Mr Salter—No, I am glad you asked, because I think it will give you are better sense of context.

Mr TURNBULL—This is a good bit of research you have done—you have a focus group of just one and have discovered that there is a lot of confusion about your brand.

Mr Salter—Yes, it is a good start. The point I would make about that membership is that it represents the broad spectrum of the value chain that delivers what is the subject matter of this discussion. Of course, we have a student body of similar proportion—about 20,000. We see the institute as having a responsibility to foster market development, a capacity for thought leadership and certainly a constructive influence in the challenges being considered by this committee, both through our membership and through our education programs. That is a bit of a statement about where we think we stand in the equation.

As a general comment, when it comes to retirement planning and in particular superannuation savings for the under-40s, we are yet to understood the psychology and behaviours of this generation, which has grown up under a system of compulsory superannuation. There is a lack of information on this, with other professional bodies quoting old studies. There is nothing necessarily wrong with them, but the currency of the information is a bit dated. It is interesting to note that in the Australian Securities and Investments Commission's submission to this inquiry it highlighted that research into behaviours and psychology is needed.

The reason we are providing evidence today is that the institute has taken this first crucial step and has conducted comprehensive qualitative and quantitative research to understand the barriers towards the under-40s saving for retirement. The project has been largely driven by our institute's consumer affairs task force, which is comprised of industry representatives, academics, and regulators and government departments as observers participating in that task force.

Kristen will provide more details on the methodology and results shortly. In short, *Saving the future: changing under-40's retirement planning behaviour* found that 80 per cent of people are convinced of the importance of retirement planning. That said, only 32 per cent consider themselves prepared. Women in the community in this cohort are more likely to consider themselves not prepared.

Comprehensive policy solutions cannot be devised until we understand what is driving the under-40s to save or not to save. Too often commentators have relied on the stereotypes of what has been labelled generations X and Y. However, my initial gut reaction and the institute's view is that this is not a homogenous group. Our research has found that, contrary to wide-held beliefs, the under-40s are not spendthrifts, they do not live for today only and they do not adopt cavalier attitudes towards saving for the future. Indeed, as a general statement, the conundrum is whether Australia's compulsory system has in fact stopped this generation of under-40s from thinking and emotionally engaging on retirement planning issues. As I mentioned earlier, it is a bit like a two-edged sword—success sometimes brings its own new challenges. One thing *Saving the future* indicates is that there has been a possible over-reliance of the under-40s on compulsory superannuation. Has compulsory superannuation lulled them into a false sense of security?

That said, without a doubt recent initiatives and incentive schemes by the federal government, such as the co-contribution scheme and the removal of the super surcharge, have certainly highlighted that incentive schemes and taxation cuts in relation to superannuation are a positive step for all age cohorts. However, our evidence today will focus on the institute's research—*Saving the future: changing under-40's retirement planning behaviour*—as it identifies the key barriers to contributing to overall retirement planning.

Ensuring that all Australians have adequate savings for their retirement is a whole-of-government policy challenge and encompasses a range of portfolios, from superannuation to Family and Community Services to workplace and education. Indeed, *Saving the future* found that, while the under-40s know that they must save more for their retirement, they also lack sufficient incentive, or coercion, to act on that decision.

I will now hand over to Kristen, who probably has the meatier part of our discussion. Kristen will highlight the institute's key top-line findings. I trust the committee appreciates that we will provide a broad-brush perspective. The data is currently being cross-tabulated and analysed by experts—Kristen will talk a little more about that—because we do not intend to stop here with what we have done. Obviously, we would be more than happy to conduct any cross-tabulations of the data that the committee might find useful further down the track.

CHAIR—I am interested in looking at the data you have provided, which I think is very interesting, and not unsurprising in many ways. But you did not go a step further and say what incentives it would take to change priorities or to get people into voluntary contributions. Maybe that is for another study.

Ms Foster—I will get to that once I have referred to the key top-line findings. Having said that, the institute is delighted to present publicly for the first time the top-line findings of its opinion poll, *Saving the future: changing under-40's retirement planning behaviour*. The committee will note that some of the major graphs in relation to the findings are in the appendix to our submission.

The institute's retirement incomes project has three tranches—and perhaps this will answer your question, Mr Chair—namely, qualitative and quantitative research, an independent exposition paper with policy recommendations and a culminating national symposium, which is scheduled for late February 2006.

I will start with the methodology of the study. It was as follows. Qualitative research was conducted. Two focus groups were held in Sydney on 6 July, with eight participants per group: five females and three males, all aged 25 to 44. Quantitative research was conducted from 16 to 19 September by polling 600 people nationwide in that same age 25 to 44 cohort, with an over-sample of 200 women, due to the particular vulnerability of that group.

In terms of policy solutions, the institute has commissioned independent academic analysis of the polling and previous literature, which is to be conducted by Dr Hazel Bateman, an economics professor at the University of New South Wales. We expect her report by early 2006. Obviously, it will be based on economic modelling and, as I mentioned, analysis of the polling and previous literature. That said, we are more than happy to provide it to the committee, at least once we have a draft of it in some form, if the committee thinks that is suitable.

CHAIR—That would be great.

Ms Foster—The key themes in *Saving the future* are sixfold and are as follows. First, preparing for retirement is important for under-40s. There seems to be a high level of retirement literacy and general awareness that compulsory super alone will not provide enough retirement income for this age cohort. More than 80 per cent of people indicated that it was important for them personally to be well-prepared for retirement, and 69 per cent considered that they should be committing more than 10 per cent of their current income to retirement planning. On average, people polled considered that they should be committing 18 per cent—that was the mean score—of their current annual income to provide for a comfortable and adequate retirement lifestyle. That said, 65 per cent of people did not contribute over and above the nine per cent compulsory super contribution. Only 32 per cent of women considered themselves prepared for retirement.

CHAIR—That is people aged up to 40, is it?

Ms Foster—The 25 to 44 age cohort.

CHAIR—Right. It is our group, basically.

Ms Foster—That is right. Over half of women and 39 per cent of men did not believe their current saving plan would be sufficient to reach an adequate level of retirement income. Despite the high appreciation and importance of retirement planning, there are for this age cohort worrying gaps between the expectations and reality.

While there may be a rational appreciation of the importance of retirement planning, of the gravity of the commitment required and even of people's own unpreparedness for retirement, there is still a real lack of emotional engagement. For example, there is not a capacity to fully appreciate how current inadequate savings patterns will inhibit lifestyle in retirement, there is not a recognition of the reality that the under-40s will not simply be okay—that there is no magical pot of gold at the end for most—and there is an unwillingness to confront the pain of analysing realistic retirement savings. A significant hurdle to overcome is that stakeholders are yet to address the challenge of how to engage Australians before it is too late and retirement is staring them in the face.

The second point I would like to make is that forced savings are widely recognised as the primary source of retirement income. Incentive schemes for saving above the nine per cent compulsory threshold are widely supported and there is also wide support for superannuation as a forced savings vehicle. Almost 80 per cent of people polled, for example, agreed with the following statements: 'Superannuation is a good way to make me save,' and 'Compulsory superannuation is forced savings—I barely notice it.' The ease of superannuation may actually prevent the under-40s from fully engaging, as it happens without them paying much attention. Almost 50 per cent of women agreed with the statement: 'Without compulsory superannuation I would not be contributing to my retirement planning.' Only 21 per cent of people polled strongly agreed with the statement: 'Superannuation has limited accessibility; I would rather have current access to my retirement savings in case of emergency.' The difference between retirement literacy and behaviours towards retirement savings is stark—82 per cent were aware they are able to commit a greater percentage salary to superannuation whereas 31 per cent do so, and 61 per cent of men and 69 per cent of women do not contribute extra income to superannuation.

With compulsory superannuation it would seem that a culture of forced savings, which promotes ease of savings, might be preferable for this age cohort. The following statements did not describe most people: 'I live for the moment; I will worry about my retirement planning later'; 'I know I should be taking action but do not know where to start' and 'I do not worry about retirement planning as I expect to receive an inheritance that will adequately cover me'. Three-quarters are aware of the co-contribution scheme but only 15 per cent had made a contribution.

Thirdly, personal responsibility is widely accepted by the under-40 age cohort. The under-40s expect to work longer, with the mean age for retirement being an unprecedented 61.6 years, and 45 per cent expect to be fully self-funded retirees. Qualitatively this is partly driven by a perception that the age pension will be obsolete or non-existent, largely evidenced by the Treasurer's recent push for people to work into their older or greying years. The under-40s also believe that their baby-boomer parents will exhaust all their retirement funds and leave nothing to them. Just five per cent of people expect to rely on inheritance and over a quarter think about retirement planning but are yet to take action. Only 26 per cent think that their existing savings, assets and investments will provide a comfortable retirement.

Fourthly, mortgages, education and the costs of raising a family militate against the best savings intentions of the under-40s. While the under-40s understand that there is a big gap between their expectations for retirement and the funds they currently set aside for that purpose, there is a really big gap. The ABS's August release of its household expenditure survey highlighted the major increases in spending and fiscal pressures. The institute's research certainly backs this up. In *Saving the future: changing under-40's retirement planning behaviour* those aged 25 to 34 are significantly more likely to consider credit card debts and personal loans their most important financial priority or goal. More than half of people cite accommodation costs as their main financial priority or goal, which obviously may act as a barrier to contributing to superannuation.

Fifthly, part-time and casual workers, especially women on home duties, suffer structural difficulties accumulating sufficient retirement savings. On the whole women in the under-40s age group are concerned and realistic about their savings capabilities. Simply put, superannuation creates a rift between those who do not participate in full-time employment and those who do. Obviously compulsory employer contributions favour those in the paid work force. It is well known that women are more likely than men to have a break from their career to raise children. For women, family events have been more important than for men in prompting financial decisions—at 34 per cent compared with 26 per cent for men. In *Saving the future,* 60 per cent of women are either not employed or employed in part-time or casual positions. Only 25 per cent of women earn more than $50,000 per annum compared with men at 55 per cent. Crucially, 40 per cent of women as opposed to 19 per cent of men expect to be not employed for 12 months or more before retirement. Interestingly, of that number 56 per cent do not know how they will contribute to retirement savings during this period, and even more interesting is that only 22 per cent nominate their spouse as a fall-back plan.

Sixthly, the great Australian dream, property, still remains the cornerstone for most savings for the under-40s age cohort. A bricks and mortar culture still exists where people want a roof over their head in retirement. Home ownership remains the key milestone for Australians in the 25 to 44 age cohort ahead of super as a savings vehicle. Forty-nine per cent of people polled considered paying a mortgage for residential property or farm as their most important priority or goal. Twenty-five per cent considered buying a property and were sick of renting—the main event that prompted a major financial decision. Critically, the great Australian dream of owning a home may create a barrier to other financial priorities such as retirement planning. The longer it takes to achieve buying a home, obviously, the longer retirement planning might be actually pushed aside.

Finally, as this is the first significant study completed in recent times into the under-40s attitudes and behaviours towards retirement savings, the institute will continue its project and, as I mentioned previously, provide policy solutions at its national symposium in early 2006. In general, the institute believes incentive schemes will be well received by the under-40s age cohort. The institute looks forward to further dialogue with the committee and we obviously welcome questions on our original research *Saving the future: changing under-40s retirement planning behaviour*.

Mr TURNBULL—That is very interesting research. Would the committee be right in saying that the major point that we should take away is the importance and acceptance of the compulsory element in superannuation to the under-40s?

Mr Salter—That is certainly a major take out. But I would also add to that the reality that this cohort realises that they will be responsible for their retirement, that they intend to be fully or at least partially self-reliant and that they are perplexed right now about how they will achieve that given the other financial priorities that are immediately in their face at this age: the priorities of paying for self-education, for the education of children, for housing and all of those living expenses.

Mr TURNBULL—Have you done any analysis or given any thought to the financial attractiveness of superannuation as a savings mechanism over the full life cycle and saving by investing in a home?

Mr Salter—An alternative investment.

Mr TURNBULL—I do not mean an investment property. I am thinking of the home and then also investment property because of course investing in the home has some significant advantages—it is capital gains tax free and it is not included in the assets test for the pension.

Mr Salter—I might just address that comment about the home. It appears that it is not just the financial implications of home ownership that are attractive to this population but that sense of security that comes with home ownership: the roof over the head and that ability to cater for the needs of family and not be subject to future volatility of landlords, rent prices and on it goes. There seems to be a psychology coming through that says that the Australian culture of home ownership remains very entrenched.

Mr TURNBULL—It is not about the culture of owning a home. Have you given any thought to the comparative merits of investing more in a home either by improvements or buying a more expensive or a larger home versus putting more money into superannuation?

Mr Salter—I understand where you are coming from. So far as quantitative analysis of that goes, no, we have not. We are proceeding to some economic modelling of a variety of options that come out of this research. But there is certainly anecdotal and fairly powerful evidence that home ownership alone, notwithstanding investment in it for capital improvement and whatever, will not adequately support retirement.

Mr TURNBULL—Because you obviously have to liquidate some of it—

Mr Salter—You have to liquidate it, you have to downsize; that is right.

CHAIR—Isn't it also that the differentials in house prices that existed with the previous generation moving up to the coast syndrome no longer apply, as the housing prices have caught up with Sydney prices, especially in the coastal strip. The sea change syndrome—

Mr Salter—Although recent evidence tends to suggest that, as housing prices are starting to fall back, the sea changers are not changing. They are sticking with Sydney property. That exposes, to a degree, the volatility of property values and prices and home ownership. It reinforces the comment I made earlier—and I think it comes through this research—that home ownership is as much about security and a sense of achievement as about the concept of contributions.

Mr TURNBULL—I do not think there is any doubt about that. There is no question about that. Members of this committee would be the last people to criticise people investing in their own homes. Home ownership is—

CHAIR—Sacrosanct.

Mr TURNBULL—a great part of the Australian dream, as you said in your presentation, Kristen. Different types of savings have different taxation treatments. Superannuation has tax benefits and different consequences. Home ownership has tax benefits and consequences. I mentioned the assets test earlier. Obviously it is free of capital gains tax. Investment property, particularly if it is negatively geared, has tax advantages. If none of these forms of investment had differential tax treatment, for example, you could make the very simple argument that traditional portfolio theory would say that Australians were overallocated into residential real estate. Have you done any work—and if you have not, speaking for myself at least, I would encourage you to do so; it would be very helpful to us—on the way in which the differential tax treatment of different asset classes, particularly the ones I have described, are an incentive or disincentive to people to invest in them?

Mr Salter—At this stage, no. Are we progressing in terms of the economic modelling of various options? Yes, and I would be delighted to take on board the particular facet of the sort of modelling you referred to as a key issue—

CHAIR—We have found it thin on the ground in that area. In many ways it is the nub of what we are looking at. When people make their investment decisions as to whether they are going to put money into their own house or negatively geared property or shares or voluntary contributions and super, then that must be a key aspect of it, and it has not been reviewed.

Mr Salter—We would be pleased to take that on board. The work that Dr Bateman has been commissioned to do for us is still being scoped in terms of what we are seeking from her research and her analysis of the survey that has been completed. We would be delighted to take that on board. One element that seems to be reinforced by what we are discovering in some of the conclusions we are drawing about the adequacy of retirement savings currently is the gap—readily acknowledged by the population—between their intent and expectations and their own assessment of their preparedness. That gap is so large—80 per cent say they intend to be fully or partially self-funded in retirement and 32 per cent say, ‘We are not ready for it. What are we going to do?’ So there has to be a combination of approaches to assist them. One of the key elements is the concept of compulsory superannuation, which has already been introduced to them and which they have accepted. That is—call it what you will—a daily, weekly or monthly allocation of some part of income to contribute, sooner rather than later and in a regular pattern, to investment.

The multiplier effect of those early and regular contributions is quite powerful, and people understand that power. I do not have answers about whether those further contributions of discretionary income go into super or into special types of savings accounts that may have particular incentive treatment under tax regimes or whatever, but it seems pretty clear that a component of increased regular commitment to their retirement pool is understood by them to be desirable, and at the moment there is probably an inadequacy of product or compulsion upon them to do that.

CHAIR—Isn't part of it also that the capital gains growth in property in Sydney means that people are very much aware of some of the dramatic increases in property prices, whereas super would not have the same glamour in terms of expectations of a big capital windfall?

Mr Salter—That is quite correct.

CHAIR—Yet, in fact, for many of them intelligent investment could be reflected in substantial gains.

Mr TURNBULL—To add to that, your super fund can have terrific gains depending on what it is invested in, but the difference, of course, is that property is leveraged whereas your super fund is not. So it is not just the gain in residential real estate; it is the fact that most people would have a very high degree of leverage, so if the property value is going up the growth in their equity component can be very substantial indeed.

Mr Salter—Yes, because of that leverage the multiplier is larger.

Mr TURNBULL—This might be a simplistic conclusion, but, when you look for someone under 40 who is focused on acquiring a home—for all of the financial and non-financial reasons that you described earlier, Mr Salter—you almost feel that if you want people to invest to have more super it is unlikely that the incentives are going to be terribly material when you consider the other financial priorities they have. It does not seem to be very fiercely on the agenda at the moment, but in the past a lot of people have advocated that the levy should be higher. Has any work been done on that? Do you have a view on that?

Mr Salter—We know that, alone, it is inadequate. There has been sufficient modelling done to suggest that something north of 13 per cent of today's incomes would be required to reach a reasonable level of security in retirement. Does that imply, however, that the whole of that gap, be it three, four or five per cent, ought to be closed off through further compulsory contribution? I think not, because there does need to be a variety of options available to those who have a willingness and a capability to engineer their own aspiration for full independence in retirement. But is there some scope for increasing the levy? Yes, it is apparent. The political connotations of that are not for me to speculate on, but there is capacity for that and, indeed, there seems to be some fertile response to that out of this survey. Reaching back to the original targets for compulsory super when it was first introduced is probably no longer realistic; rather, let us find the combination of compulsion, incentive, education and encouragement to change the psychology and behaviour. Some of that is very soft, I know, but because it is soft does not mean it is not real.

CHAIR—I think you summarised what we could look at under those different headings.

Mr TANNER—When your survey work was being done and you were asking the question about whether people expect to be fully self-funded, part reliant on pension or fully reliant on pension, were the details of the assets and income test with respect to the pension explained to people before they were asked that question?

Ms Foster—No, they were not. It was based on that age cohort's view of what being a fully self-funded retiree is, what the age pension is and what a combination of both of those is. That said, qualitatively in our focus groups there was a very strong awareness of the fact that the majority of both blue and white collar workers would not actually reach the thresholds needed to obtain the age pension. There seemed to be a very strong awareness and a strong belief that the age pension will be obsolete or non-existent once they reach retirement.

Mr TANNER—It is inconsistent with recent changes where the percentage of people in the relevant age cohort who are either on full or part pensions has been increasing. It has gone up from 62 per cent to 66 per cent.

Ms Foster—The interesting factor about this age cohort is that they accept a form of personal responsibility when it comes to retirement planning.

Mr TANNER—But not when it comes to behaviour.

Ms Foster—When it comes to behaviour, there is a general awareness that they should be doing it. It is a lack of emotional engagement. It picks up on the home versus the superannuation debate, which Mr Turnbull was referring to. There is a lack of emotional engagement. With a home, you are emotionally engaged; superannuation, as has been found in our research, is forced savings and they barely notice it, and that is why they like it. It is that ease of superannuation. Certainly women in this age cohort were of the view that the ease of superannuation is a good thing for them.

Mr Salter—I will add a comment about the uplift in the percentage of current retirees taking advantage of a government co-contribution to their incomes. It is my firm belief that that comes out of a far greater awareness by that group of what is available to them, more than any other driver. I think that is admirable. If the capacity for them to have the advantage of that is there, they ought to be aware of it and they ought to have the opportunity to take advantage of it.

Mr TANNER—That sounds like a plug for the virtues of the members of your organisation, because you have made people aware. Your research tends to bear out a conclusion that I have reached, which is that, when you ask people how much they would like to live on in their retirement, the answer that they typically give will bear little connection with what they are prepared to do in order to ensure that they will be living on that amount in their retirement. There is a crucial question for us in policy terms of whether we should treat seriously polls that say that people want to live on 75 per cent, 80 per cent or whatever the figure is of their preretirement incomes in retirement, unless there is a clear counterfactual in there that implies that, in order to obtain a degree of income in retirement, they have to forgo current income. The interesting thing from what I have seen so far of your research is that there is a vast gulf between what people say they would like and what they are actually doing. Is that a reasonable statement?

Mr Salter—It is partly a reasonable observation about it, but it is not the whole story. Much of the assessment of what percentage of current income people think they might need to comfortably retire on includes an assessment of their commitments, obligations and debt levels today. Over the course of time for this cohort, the 25-year-olds to 40-year-olds, between now and their retirement up to 30 per cent of their current income is being committed to occupancy—through rent, rent plus savings for a home deposit, or mortgage repayments—and a large proportion of their income is committed to repayment of HECS or payment of education for their children. There are a great many financial responsibilities that will be retired over time so that the gap that you refer to—'What is the difference between 100 per cent of my income today and 60 per cent or 70 per cent of that, as my expectation?'—is commitment forgone rather than lifestyle sacrificed.

Ms Foster—I will add to Brian's comment. In terms of the minimum dollars or amount per week necessary to maintain an adequate lifestyle in retirement, what we found interesting was, that of the total polled, some 63 per cent believed it was a total of less than $500 per week, but then 34 per cent believed it was actually a total of more than $500 per week. The disconnect there is that, in the $25,000 to $50,000 per annum wage earner bracket, 29 per cent thought that they would need more than a total of $500 per week in retirement. There is also a disconnect between the reality of what people earn, what they think they will have in retirement and what they will need in retirement, so a bit of work needs to be done on that as well.

Mr TANNER—Isn't the crucial question confronting people one of whether or not they are going to own their own home, because housing costs are such a huge proportion? This is not comment about your poll specifically, because it deals with quite a wide range of issues. But, by and large, I believe that the kinds of polls we have seen about how much money people think they will need to live on in retirement as a basis for determining retirement incomes policies is rubbish, because people will say, 'I'd like Father Christmas to come once a week.' That is basically what they will say. If you leave aside the state provision, the minimum pension entitlements, retirement income ultimately comes out of the same pool from which come education expenses, the mortgage and the kids' clothes and whatever. Unless people make those pretty clear choices, you cannot get a genuine picture of the real position.

Ms Foster—We found that this age cohort does not like having to make the choice. That is why they like the idea of a compulsory nine per cent employer superannuation contribution. Even if we asked them about broad-brush policy proposals, there was 60 per cent in total agreement that compulsory employee contributions of three to five per cent over and above the compulsory nine per cent employer contributions is possibly a good initiative.

Mr Salter—I am not sure that they would say that at the backyard barbecue.

Mr TANNER—Or when the money is being taken out.

Ms Foster—That said, there needs to be economic modelling on that front.

Mr TANNER—What percentage is that?

Ms Foster—There was 60 per cent in total agreement with that, but obviously it is a very broad-brush policy statement, and economic analysis will be needed on that.

Mr TURNBULL—What was the question?

Ms Foster—The question was about agreement with proposals in relation to superannuation—a compulsory employee contribution of three to five per cent over and above the compulsory employer contribution of nine per cent. At the start they asked whether there had been a number of proposals floated with regard to retirement planning and then went on to say, 'As I read out some of the proposals, I would like you to tell me whether you strongly agree, somewhat agree, somewhat disagree or strongly disagree with each.'

Mr TURNBULL—You say that 60 per cent said they would be comfortable with a—

Ms Foster—We are in total agreement.

Mr TURNBULL—compulsory superannuation contribution of, say, 12 to 14 per cent?

Ms Foster—And some of that comprised their own money in their own pocket.

CHAIR—As the secretary has pointed out, the Australian Consumers Association say in their submission that they would vigorously oppose the imposition of greater compulsory superannuation for consumers under the age of 40, which is interesting. When we get to that, I would be interested in finding out what they base their research on.

Ms Foster—It certainly needs very broad-brush policy and questions, and ones which we need to test.

Mr Salter—I do not think we should shy away from this survey.

CHAIR—No, I think it is very interesting. Is that in your summary?

Ms Foster—We did not put it in our summary; we can provide it to the committee.

CHAIR—Your three issues are obviously the basis of our report in terms of whether there should be an increase in forced contributions.

Mr TANNER—Does your organisation have a view on the extent to which fees and charges act as a disincentive or whether they could be improved—exit fees et cetera?

Mr Salter—We have not tested that, and we have not taken it into account.

CHAIR—I would surprised if they would. Do you think they are really thinking about the fees and charges? You think about fees and charges if you are paying a lot of stamp duty for a negatively geared property but I do not think super gets a whole lot of focus in that area.

Mr TANNER—I think one or two horror stories can have an effect, though. People who have switched from fund to fund—

CHAIR—That is true—*A Current Affair* type stories.

Mr TANNER—Anyway, Mr Salter has answered.

Mr CIOBO—I think in many respects this mass delusion that you talk about is anecdotally what the committee was appraised of. You fleshed it out and for that certainly I am grateful and I am sure the other members of the committee are. What I am interested in, though, from my perspective and from a policy point of view, is: how do we go about addressing this? Part of that is whether or not there will be an employee contribution. Have you done any analysis of the drivers of this attitudinal gap that has arisen? Have you done any research into why it is that people have this point of view that says, ‘That’s my expectation. That’s where I’ll be. I’m only actually contributing X amount and that is not even close to what I’m going to require but she’ll be right, mate’? In addition, do you have any views on whether the lack of personal responsibility that is brought about by this paternalistic policy approach that we have, which says, ‘We’ll guarantee that the employer makes a nine per cent and you have to make a three per cent contribution,’ actually drives this mass delusion that exists in the marketplace?

Mr Salter—I will address the second part first about the paternalistic approach to compulsory contribution. I do not think it is viewed in that fashion. I think it is more that it is gratefully accepted as something that was perhaps difficult to swallow when it was first introduced, but this generation we are talking about has known nothing difficult. This is part of the way they are accustomed to their work and budgetary habits. They are grateful for it. I actually do not read into it that it is a disincentive. It creates a platform, a floor, that the population in this cohort appreciates and has an aspiration to improve upon.

That having been said, I turn to the first part of your question—this whimsical aspiration, if you will, but I do not believe it is that. There is not an aspiration; there is a clear intent expressed by this population that their retirement will be covered by their own retirement savings and with the benefit of some contributions—so fully or partly funded. There is an intent rather than just an aspiration to do it. The conundrum about how they get there, given all the barriers to their capacity to quarantine further parts of their income to this now, is just that: a conundrum. That is why I think, as I expressed earlier in the piece, that there will be a range of solutions to this. This cohort of the population wants to have a mandate imposed on them, I believe. Does that mean additions to the compulsory level, or is it some other form of coercive incentivisation? Whatever it is, there is fertile expectation of that. That is where policy needs to be looking.

Mr CIOBO—We are moving through a lot of the material quite quickly. I know this inquiry looks at those up to age 44 but I thought you made some comments about baby boomers’ attitudes.

CHAIR—That was before you arrived.

Mr Salter—The one attitude we did express is that the cohort that we are considering now does not expect that their baby boomer parents will be providing them with inheritance to support their own retirement. They are quite right, I might add.

Mr TURNBULL—That is absolutely right.

Mr TANNER—Baby boomers did not cop much from their parents, either.

CHAIR—That is right.

Mr CIOBO—Is there a change in attitude, though, from those who have not grown up, as you said, with the current approach to superannuation, and is there perhaps a more realistic focus on the need to provide for one’s retirement?

Mr Salter—Yes, there is.

Mr CIOBO—To me, though, that basically underscores the point that I am trying to make. That point is that when governments seek to outsource these decisions that need to be made to make sure that people provide for their retirement and take them away from the individual and take them as social and corporate decisions in actual fact what we are creating is the very gap that you are talking about. All people know is that they are not seeing as much of their salary or wage as they used to. They know the government has this in place to provide for their retirement. When you sit down and you explain it and you highlight that in fact they are not going to come even close to where they need to be, they have not thought about how they are going to deal with that. Whereas for those who have not grown up with that nine per cent compulsory contribution there is actually personal responsibility taken to say that they need to provide for their own retirement.

CHAIR—Or the government should provide it.

Mr CIOBO—Possibly. That is what I would be interested in looking at: the juxtaposition of the attitudes of the two age demographics. The very worst thing this committee could do, in my view, would be to continue trundling down a path that might see a three per cent or five per cent—or whatever figure you want to talk about—further imposition but which in effect continues to erode the personal responsibility that people have for their own retirement. I know that a lot of this conversation is general and probably outside the scope of your research. Just so you know my personal approach and that of the committee more broadly, I think we need to assess some of these questions. I have no doubt that those who are on the teat of government support think the policy that makes them make those contributions is a good thing. But, if we are continuing to see an erosion of individual responsibility, then we have not achieved anything, have we?

Mr Salter—I would suggest that you, if I may, should to take encouragement from the feedback that is coming through this survey. This cohort is accepting responsibility and intends to be self reliant, or largely self reliant, in retirement.

Mr CIOBO—They aspire to be self reliant.

Mr Salter—No, they intend to be. My view is that there is a difference of psychology here. This is not about whimsical statements of, ‘Yeah, I’d like to,’ or, ‘Father Christmas is going to come along,’ or whatever. They understand the mechanics of this. They face a conundrum but they understand the mechanics and they express the intent. That is a very favourable thing for all of us to be able to observe. The challenge then is exactly what you are referring to: how do we encourage and enable that to occur? We do not yet have the answers.

Mr CIOBO—Very quickly, I have a question about whether you have any views on the retail side of superannuation and whether we are seeing a marketplace failure in that there is no effective marketing by the retailers of super to encourage further contributions.

Mr Salter—I do not see any failure. These are times of change. Particularly with the introduction of super choice, there is a continuing adaptation of the market and of means of communication with consumers. That will go on. But all of those things are catalysts for market improvement. That is a very positive set of circumstances, rather than a negative.

CHAIR—This has been valuable. I want to compliment you on the quality of your submission and how you have added to our knowledge in terms of this survey. Now we would like to encourage you to go that one step further in terms of the study that you are undertaking, particularly teasing out this question of compulsion. Is it possible that we could increase the percentage? In terms of incentives, what would it take to get them to contribute more? Rolling back to Malcolm Turnbull's comments about the various levels of incentive that apply to investing in your own home, negative gearing, shares or insurance, what are the relative weights of those? The final part is about education, which you have not mentioned. Do you have a brief comment on what we need to do there?

Mr Salter—It is a fundamental part of our institute's intent, given the nature of what we are: an educator as well as a professional body. I have not addressed the issue, because I guess it would be beating one's own drum. But that is part of what we intend to contribute to the equation.

CHAIR—When will your next study be under way?

Ms Foster—Hopefully, we will have a draft form of the independent academic's paper in early November. We are looking at launching that at the national symposium in February next year.

CHAIR—When can we expect the next survey? I expect that depends on your forum.

Ms Foster—We will have to liaise with our academics on the policy recommendation paper.

CHAIR—I would be interested in receiving some more quantitative and qualitative surveys as an add-on to what you have there.

Ms Foster—We can certainly provide any cross-tabulation.

CHAIR—It would be very helpful to us because of the timing of your study. The other thing regarding the study is looking at the most likely vehicles for promoting education of super. I think part of the problem is these boring government publications on super which nobody reads. How can we get to our market a bit better in terms of X and Y?

Ms Foster—Certainly the final tranche of our project concerns education of the general community. The big question is how we undertake that. We are working through that.

CHAIR—Thank you. That was very interesting. I appreciate your contribution today. It was great.

[10.42 am]

BURGESS, Mr Peter, Technical Superannuation Sales Manager, Australian Executor Trustees Ltd

DAVIS, Mr Stephen John, Head of Dealer Services, Private Clients Division, Perpetual Trustees Australia Ltd

ELLIS, Mr Ross William, Executive Director, Trustee Corporations Association of Australia

HEAP, Mr Benjamin Andrew, Chief Executive Officer, Asset Management, Australian Wealth Management

CHAIR—I welcome representatives of the Trustee Corporations Association of Australia to today's hearing. Although the committee does not require you to give evidence under oath, please be aware that these proceedings have the same weight as normal proceedings before the parliament. We have already received a written submission from your association to this inquiry. Do you want to make an opening statement or add to that submission?

Mr Ellis—We do not really want to add much to it at all. It is a fairly short submission. Our association represents most of the trustee company industry in Australia and my colleagues with me today represent some of our members who are very active in superannuation. They are all able and happy to answer questions.

CHAIR—Would any of you like to make an opening statement to us?

Mr Ellis—I should add that our members look after the great majority of the small APRA funds that fall under APRA's supervision. There are over 7,000 of them.

Mr CIOBO—The issues that we are trying to address are focused around a couple of key areas, one of which is financial literacy, which you have touched upon. I notice that you made reference to improving that through more focus on schooling and having an increased awareness from a relatively young age. In your experience—whether direct or from anecdotal evidence—is there a higher level of self-sufficiency that flows from that increased knowledge, and are there any areas in particular that you think are in urgent need of policy focus in order to increase that level of literacy and cognisance about super savings?

Mr Ellis—It is fairly broad, in the sense that young people coming through schooling could have a better understanding of everyday finance—things like credit cards and basic banking. As you get further into life you start to learn about superannuation. A lot of people just do not focus on it until much later in life. I think a lot of basic financial training could begin in the schools, whatever career someone might be following or intending to follow later.

Mr CIOBO—Why is that? You can look at people's level of awareness—Mr Turnbull focuses on this to some degree—and knowledge of, for example, negative gearing and the benefits of investing in real estate and, in contrast, people's lack of meaningful knowledge of the benefits of compound interest in the longer term and so on. Do you have any thoughts on what drives this knowledge gap and why there is an increased popular focus on housing and property and a broad general ignorance of other financial asset classes that are available to people to provide for their retirement?

Mr Ellis—We have gone through a period of very strong growth in real estate prices. As that gets a lot of media attention, a lot of people get interested and think this might be the way to go. On the other hand, superannuation seems a long way away and clearly it is very complex. People just do not put their minds to it.

Mr Burgess—I would like to add to that. My experience from talking with clients of the younger generation is that access to super is the big issue. That is why it is not on their radar. They can bring in negative gearing and get their tax benefits straight away, but with superannuation obviously they do not get access to it until they retire. It is seen to be a disincentive from that point of view, for obvious reasons.

CHAIR—How do we overcome this aspect of it?

Mr Burgess—By making it more attractive to the younger generation to contribute. This centres around the tax benefits associated with super. At the moment the perception is that the tax benefits are not worth the cost of tying up your money until you retire.

CHAIR—So access is the issue?

Mr Burgess—Yes.

CHAIR—But tax treatment is not necessarily the solution, is it?

Mr Burgess—No, not always. I think access is a big thing, from the point of view that the younger generation want to do things with their money. They want to save and they want to have access to it. Locking it up until they retire is clearly not what they are looking for. That is the biggest problem with superannuation, as I see it. I do not have an answer to that but that is the explanation that is often provided.

CHAIR—I might come back to that.

Mr CIOBO—Do people's attitudes change? For example you can contrast someone who is largely ignorant of the tax benefits ramifications, the effect of compound interest and so on with someone whose eyes have been opened to those things. Anecdotally, have you noticed an attitudinal change in which you might see more of a focus on providing for one's retirement through a super fund?

Mr Davis—I think education has an important part to play in that. I agree that, when people understand the effect that the current tax benefits can have in terms of leveraging their savings, they become aware that it is more attractive. But, going back to your previous point on the fascination with property: they have a bit more of an innate understanding of that because their parents have property. They can see the property and can feel the walls—it is all very real, whereas superannuation and other forms of saving are much less tangible assets or benefits. There is a need for a level of education, to get them to understand that the difference it can make the earlier you start is much greater than for other forms of investment.

Mr CIOBO—We have got large capital gains on the share market—and the debate about whether they exceed gains from property or not could go on for some time—and we have got one of the highest levels of share ownership penetration of the general population in the world. Is there perhaps some failure at a retail level to effectively market to the general population the benefits of other asset classes, of which superannuation is obviously a subset? Is that something that the committee should be delving more deeply into?

Mr Heap—Perhaps I could comment on that. My particular focus is on different asset options and different asset classes. In my experience and in the experience of our organisation, the broadening of asset classes is a relatively recent phenomenon. As recently as 10 years ago, property and perhaps listed equities were really the only asset classes that the vast majority of the population had a strong understanding of, apart from bank savings, obviously. There is very much an increasing spectrum of asset classes. That increasing spectrum is also creating an increasing level of sophistication in the general population around the characteristics of different asset classes.

Mr CIOBO—Do you think that is alienating people or bringing people in?

Mr Heap—I suspect it is probably doing both. I suspect there is a level of complexity that is making it difficult for people, in some instances, to make an effective investment decision on their own behalf.

CHAIR—We have heard that comment about complexity before. What do you think we should be doing about that? If you were the Treasurer, how would you resolve this?

Mr Heap—My feeling is it should not necessarily be the objective to have the average Australian individual understand the level of complexity around different asset classes. My feeling is that the average Australian needs to understand some fairly basic principles which have already been mentioned. Compounding interest is an important principle. The problem with compounding interest is that it is necessarily long term, and that makes it much easier for people to not see the benefits. Risk and return is a basic principle. Using risk and return should give people an ability to understand some basic asset classes. I do not think it is necessary for the average Australian to become an expert on an increasingly broad range of asset classes. I think that is where specialist advice serves a purpose.

Mr CIOBO—In your submission you make reference to superannuation planning being part of the broader context of estate planning. I invite you to expand on your thoughts on that area and discuss how we could broaden that. What are some of the shortfalls you see with estate planning which drive a lack of consideration for superannuation planning?

Mr Heap—I am happy to talk about that. The organisations represented here obviously have a specific area of focus around estate planning. Estate planning is something that we generally feel is a weakness in the general population. It is something that people tend to become a little more aware of later in life. We do not have to hand the numbers, but we suspect that a relatively low—

probably a frighteningly low—percentage of the population under 40 has effectively thought about their estate planning. In estate planning, obviously you are looking at your base of assets and what to do with those assets. A key asset of people will be their superannuation savings. From our perspective, we think it is very important that superannuation be encompassed within an effective estate plan. We think that is not always the case. We think superannuation is not necessarily properly reflected.

Mr TURNBULL—I wish to return to the point that Mr Baird touched on which referred to some remarks I had made to earlier witnesses. Say you look at four obvious asset classes that most Australians are pretty familiar with: superannuation, investing in your own home, investment property, direct shares and other securities. All of those have different tax treatment and concessional tax treatment, at least in the case of the first three. They have different implications for the pension assets and income test. They are treated differently in respect of CGT. There are different implications for liquidity. Typically, real estate is less liquid than securities and obviously the transactional costs of selling your own home and buying another home are extremely high, and are often underestimated, although the development of equity finance—equity withdrawal mechanisms by way of reverse mortgages or shared equity—is enabling people to achieve a higher level of liquidity. Have you given any consideration as to whether—as we all talk about the need for people to invest more in super—given the different tax treatment of all of these different asset classes, we are actually giving them the right advice when we say, ‘Invest more in your super’? Is that actually the right advice when you look at it over the whole life cycle?

Mr Davis—There are a couple of points in that question which I think are quite important—that is, super is not an asset class.

Mr TURNBULL—No, you are absolutely right. I appreciate that.

Mr Davis—It is a tax structure and it is a complicated tax structure. In terms of the right advice in utilisation of super, I think there is no question that it is the most effective way, under the current tax regime in Australia, for people to save for retirement. No matter how you model out the different scenarios, you wind up with superannuation—particularly if you hold the right assets within your superannuation as well, giving them the best outcome at the end of the day.

Mr TURNBULL—Could I interrupt you there. Leaving aside the family home—because there are other issues there—is super a better investment than, say, negatively geared investment in real estate?

Mr Davis—Yes, it is, assuming similar investment returns. You need to look at the underlying return of the investments held within superannuation versus the investments within a negatively geared property—assuming they get the same return and assuming you are able to salary sacrifice or use other arrangements so that you are using pre-tax money to build your savings rather than post-tax money and then picking up the benefits of the tax deduction for gearing. We have run quite a few different scenarios on this.

Mr TURNBULL—Could you give us some of those? I think the chairman and my colleagues would agree that it would be very useful if you could give us some examples of that and make some assumptions about the level of gearing into the investment property and the growth in real estate values—let us assume it is an apartment.

CHAIR—There are such variations across the board in terms of the returns in different markets, even suburb by suburb.

Mr Davis—Absolutely. I think the key point is that to really understand the tax-driven aspects of it, you need to use the same return assumptions across the various asset classes. You need to look at using your savings to salary sacrifice and put in super as opposed to taking the salary and then using that to negatively gear, versus taking your salary and investing elsewhere. And you need to assume the same rate of return—again disregarding franking credits and other things that also impact on those strategies.

Mr TURNBULL—Could you model a typical superannuation portfolio and then an investment in real estate? You could make some assumptions there about growth over a long period. There is plenty of data on that.

Mr Davis—I am happy to do that.

Mr TURNBULL—It would be very interesting.

Mr Davis—How would I go about submitting that?

CHAIR—Through the secretary.

Mr TURNBULL—Could you send it to us in soft copy as well, with the assumptions clearly articulated, so that we could change some of the assumptions.

Mr Davis—Yes. I would be happy to do that.

Mr TURNBULL—That would be very helpful.

Mr Heap—I have one comment on your question. I think one of the benefits with superannuation as an asset class is the enforced savings aspect of it. I think perhaps also a benefit—

Mr TURNBULL—It is not an asset class though; I was wrong. I was being simplistic and you picked me up quite correctly.

Mr Heap—I am happy to stick with the terminology. Equivalently, a benefit for people buying either investment property or residential property is, in effect, enforced savings. It is around the same basic idea, although it is a different principle.

Mr TURNBULL—Because you get locked into a mortgage.

Mr Heap—Yes, the bank is forcing you to pay.

CHAIR—Obviously there is the Sydney talk of how much properties have gone up, so they know the value of their asset class, whereas with super it gets lost in the murky depths of what is going on.

Mr TURNBULL—They get a statement.

Mr Ellis—You get quarterly and annual statements. Between property reports, things can vary quite quickly.

Mr TURNBULL—This is the point. The point that Mr Baird made is absolutely right: the volatility of real estate is very important. We all think that we have an exposure to residential real estate as an asset class, but we actually have an exposure to No. 3 Myrtle Crescent, Smithtown, which is a particular property with all of the attendant volatility. That is the key point.

CHAIR—Statements on my investments come out quarterly, and they certainly encourage you. I am wondering whether the average super investor has got a clear understanding. I have not seen the variety of statements that come out. I would be interested to look at how they are advised. Does it show the real increase in the value? Does the statement show the net increase in the last quarter and the value of their super investment?

Mr Ellis—I think that generally is the case.

Mr Burgess—They need to. There is legislation that dictates what needs to go on the statement. That is one of the pieces that have to appear.

Mr Heap—I think the issue is that the quantums are so very different. For almost anyone, no matter, the property value is always going to be—

CHAIR—It could go up $100,000 in a year.

Mr Heap—And people are not thinking: ‘My property value has gone up 10 per cent and my super has gone up 12 per cent. Gee, I should be in super.’ They are thinking, ‘My property value has gone up $100,000.’

CHAIR—That is right. Peter, you said earlier that when you talk to young people they raise the difficulty of withdrawing the funds. Is there a way that people under 40 could have the ability to withdraw some of their voluntary contributions as deposit gaps? For example, when going into super and then converting into housing, you could pay the tax differential and then have the ability to access it. We have raised that with a few others, with mixed response. I am interested in incentives and, if this is a big disincentive, how do we overcome that? I am sure it must be. If you were 30 and you were locking up an investment for another 35 years and you could not touch it, you would think, ‘Let’s go for some other form.’

Mr Burgess—It is a difficult issue, obviously. I note that there have been various reviews over the years about how people can perhaps access their super before retirement. Once you start doing that, you are getting away from the purpose of what it is there for in the first place. It is certainly a difficult issue. If there is some way that the younger generation can access some of their retirement funds, I am sure that will go a long way to encourage them to contribute more now.

CHAIR—You might want to think about that as a possibility. We have not gone far with that; it has only been raised. Obviously, there would need to be qualifications and maybe even a means test on it, with a limit on the amount. One of the critical things for young people is deposit gaps. On the other side, one of the critical factors in the non-investment in super is difficulty of access. Is there a possibility there or does it, as Malcolm says, take away from the real reasons that you can do it in the first place? You might like to come through on that.

Mr Burgess—Sure.

CHAIR—There is also the education aspect of it. I do not know whether you have thought about what we could do in terms of promoting greater contribution to super.

Mr Burgess—From an education point of view, it is not just about educating people about what super is; it is also about educating people about the different superannuation options available, particularly now with choice on board. Everyone has the choice—well, most people have the choice—as to where they want their super to be contributed, but there is a real lack of understanding of the different types of superannuation options available. We see that every day with small APRA funds. They are very poorly understood by the marketplace, but in our view they are a very effective vehicle. They are a very close substitute for self-managed super funds. So we would like to see education not just about superannuation generally—

CHAIR—So what forms? We have seen that the government produces more bureaucratic books, which probably nobody reads. Have you thought about it? Several of your members are part of this age cohort.

Mr Burgess—There may be comments from my colleagues.

Mr Heap—We had not thought about it but are very happy to. Speaking very personally, from my perspective one of the problems with superannuation is that it is just so very far away. It lacks any real interest. In some ways, rather than having superannuation specifically focused on the age of 55, on retirement, perhaps an approach would be to see if there are ways in which superannuation is about the later stages of life. For someone in their 20s, it may be that the later stages of life would include helping them to buy a home in their mid-30s. Your idea of potentially allowing non-compulsory superannuation, voluntary superannuation, to be freed up under certain circumstances may fit within that category.

Mr TANNER—To what extent do you think complexity is a problem? We all understand that super is complex. The other day, a leading actuary told me that when he retired he had to employ a couple of different consultants to work out the best solution for his superannuation arrangements and how best to manage it. So, if it is complex for people with that degree of training and so forth, it is going to be complex for everybody. Is complexity a problem?

Mr Heap—I think complexity is a very significant problem. For example, the reasonable benefit limits, which kick in above certain levels on superannuation total savings at retirement, cause decisions to be made that should be made by people today, in their 30s and 40s, let us say.

But I am not entirely sure; Peter is our expert in this field. It really does require a very sophisticated level of understanding. There is moving territory as well.

Mr TANNER—Of course, that creates a role for financial planners.

Mr Heap—Yes.

Mr TANNER—I should not complain, because I have an interest in a large financial planning group. I do think simplicity would be a great objective to achieve.

Mr Heap—Rather than dealing with some of these complexities, I suggest that a better role for financial planners is helping people understand asset classes as a principle to understand investing.

Mr TANNER—I am sure most financial planners would agree with that, but it is a bit of wasted effort. Have you given any thought to tax on super? We tax superannuation at three stages. Do you have a view about that?

Mr Burgess—In my view, contributions tax is a real problem. Tax along the way is obviously eroding the end benefits. There has been a lot of research done on that which suggests that removing that tax alone could have a significant impact on final payouts.

Mr TURNBULL—I am not putting this; I am just asking this question. I hasten to add that I am not expressing a personal opinion here. A number of people have argued that super would be more attractive, particularly to younger contributors, if there were no tax at the contribution level and no tax on the way through, but it would then be taxed at marginal rates when it is withdrawn. Of course, that concession would have a very big budgetary impact. You can imagine—

CHAIR—On the other hand—and I would be interested in your reaction—what if there were an age factor, so that those under a certain age and contributing would be tax exempt on the way in and would pay tax on the way out, which partly addresses your issue?

Mr Ellis—I think you have to be careful not to add more complexity.

Mr TURNBULL—The proposition I raised earlier is that you obviously lose government revenue now but you are, in effect, putting it in the bank, because it will be paid when that money is drawn down by superannuants when they retire. So it is the same concept as the Future Fund: you are putting money away for the future. Do you have a view on that? Is that relevant to the under-40s?

Mr Burgess—I made the statement earlier that a lot of the younger generation do not see the tax benefits as being significant enough to give up access now. My view is that access is the No. 1 problem. The younger generation want to have access to their capital, and I am not sure that what you do from a tax point of view to encourage them is going to make a lot of difference.

Mr Heap—Wearing my ‘asset management’ hat, I would suggest having a very simple look at the financial impact of that. I do not think you would have any trouble showing that the compounding effect would be quite significant, and that would then be shared down the track by the government and the individual. I think you could paint a very strong, purely financial argument around a product like that.

Mr TURNBULL—About having—

Mr Heap—About not paying tax on the way through but paying tax at a marginal rate.

Mr TURNBULL—What about tax at the contribution stage?

Mr Ellis—Eliminating that?

Mr Heap—Yes.

Mr Ellis—It would allow a much bigger build-up over time.

Mr TURNBULL—Yes, exactly.

Mr Davis—Particularly, I think, for some of the lower income earners, who are paying 15 per cent tax on the way in but may not be paying 15 per cent tax after they have had various rebates and things. There is almost a greater tax advantage in just getting a salary than in putting money into superannuation. So that would be attractive in trying to level the benefits for lower income Australians. One of the ways to potentially manage the costs of that—and I go back to the day the surcharge was introduced—when the concern is of high-income earners benefiting too much, is the much simpler reduction of the maximum deductible contribution level. That is a way of capping the amount of tax saving people can have, which would partially offset some of the costs of eliminating the contributions tax and again would be fairer from a lower income earner’s perspective. It would potentially help make it more attractive. I think the co-contribution has been very successful in encouraging people to save more in superannuation. That was very much pitched at helping lower income families save more. I think that has been a good initiative. Again, we probably need even more public education.

CHAIR—There was a press release put out by the Assistant Treasurer about a week or so ago on the co-contribution. If you look at the distribution of where the money has gone, a greater percentage has gone to those who are 50 plus. It does not really address the issue of these groups. One of my group—was it you, Steven, or one of the younger people?—said that they were doing it at three minutes to midnight rather than earlier. So that is also an issue, but I think there is a germ of an idea there in terms of limits, tax incentives and removing the tax penalty from lower income earners.

Mr CIOBO—Something out of left field, especially from your perspective, is life insurance—or the lack thereof—and the impact that has on the states. Do you think that would have any material impact? It is broadly tied to super. But on the more general question of whether people are able to go forward with the death of, say, the principal breadwinner or something like that, should we be putting more focus on life insurance, given that it has basically collapsed?

Mr Davis—I personally think that we should. In Australia we do have a massive underinsurance problem. Ultimately, I think the level of minimum cover is totally inadequate within the super choice legislation. Through that lack of cover I think ultimately it is the government that will wind up funding people’s lack of attention to insurance through increased social security payments.

Mr CIOBO—Is that what you are seeing, though, as an industry association or whatever you are?

Mr Davis—I guess I am heavily involved in our private client area within Perpetual, so I tend not to be seeing that because we are dealing with individuals who are very well provided for and who can afford to get advice and take care of those issues. I certainly see it across the broader spectrum of the community and, increasingly, in the number of research statistics coming out on levels of insurance and lack of insurance. I think that will have a fairly significant impact on the potential burden for the government in future years. Super is a good way to fund it, because you usually get a better rate if it is through your superannuation fund and most people do not necessarily have to find the extra $100 a month or whatever it might be—it would not even be that; it would probably be $200 a year.

CHAIR—Thank you very much for your contribution today; it was quite valuable. It would be very helpful if you could come back to Stephen with those items that we have discussed, and he will distribute that to the members. If you have any other inspiration in between time, we would really appreciate it. We have obviously been challenged with this task, and it is not easy, but some of those issues that we have ranged across today have potential.

Mr Davis—Could I perhaps touch on one more issue, which is the disparity in supervision levies paid from all superannuation funds—all public offer ones as well as small APRA funds, as opposed to the self-managed super fund market. Going back to a comment that Peter made earlier about keeping people with access to as many options as possible, there is an enormous disincentive to some of those structures—a small APRA fund’s $500 levy versus $45 for an SMSF. In fact, every member of every superannuation fund out there is paying a component of their return away for supervision, but in the self-managed super fund area it is a microscopic percentage of that. In terms of promoting incentives I think that it is not good to have a disincentive on certain types of funds.

CHAIR—That is a very good point.

[11.31 am]

ANNING, Mr John Melville, Manager, Policy and Government Relations, Financial Planning Association of Australia

BOBBIN, Mr Peter George, Member of Taxation Committee, Financial Planning Association of Australia

ESLER, Ms Anne-Marie Elizabeth, Member of Superannuation Committee, Financial Planning Association of Australia

CHAIR—I welcome representatives of the Financial Planning Association of Australia to today's hearing. Although the committee does not require you to give evidence under oath, this hearing has the same standing as proceedings before the parliament. We have a written submission from you. Would you like to make an opening statement and perhaps expand or comment on some of the aspects of your submission and then we will proceed to questions?

Mr Anning—Yes, I would like to make a brief opening statement if I could, just drawing attention to some of the issues covered in our submission. The Financial Planning Association of Australia appreciates this opportunity to provide evidence to the committee's current inquiry into improving the superannuation savings of people under age 40. The FPA is the peak professional association for the financial planning sector in Australia. With more than 12,000 members organised through a network of 31 chapters across Australia and a state office located in each capital city, the FPA represents qualified financial planning practitioners who manage the financial affairs of over five million Australians with a collective investment value of more than $560 billion.

Appearing for the FPA with me today are Anne-Marie Esler from Centrestone Wealth Advisers, an active member of the FPA's Superannuation Committee, and Peter Bobbin from Argyle Partners, a member of the FPA's Taxation Committee. The FPA's CEO, Kerrie Kelly, sends her apologies that she is unable to attend today's hearing as she has FPA travel commitments.

I would like to begin by explaining briefly the role of a financial planner, because it helps understand the valuable perspective which FPA members can bring to this issue. A financial planner guides and assists their clients to meet their life goals through the proper management of their finances. Life goals can include purchasing a home, paying for child care and children's education, managing debt and planning for retirement. The initial financial planning process involves identifying what the client's current financial position is, identifying financial issues and identifying the client's goals. The planner and client work together to reach those goals and address any challenges along the way. This is a long-term, ongoing process and the earlier it is started the more opportunity exists to achieve the financial goals.

Unfortunately, many financial planners see clients for the first time when the opportunities to reach later-stage goals are already quite limited as clients look towards imminent retirement. Financial planners help their clients understand that a lifestyle compromise may be necessary at the earlier stages of accumulation if they intend to secure a certain standard of living in retirement. Committee members will appreciate, therefore, that the issues raised by this inquiry come before FPA members all the time.

The key goals which the FPA submission recommends that the committee consider are: a simple and stable superannuation regulatory regime; medium-term savings vehicles which are sufficiently attractive to encourage savings and assist in entering retirement debt free; elimination of reasonable benefit limits to remove a disincentive to superannuation investment; employer ETPs treated as unrestricted, non-preserved benefits on rollover into a superannuation fund; improved financial literacy for all age groups; and financial planning advice which is within the reach of ordinary Australians. This latter goal would be facilitated through the elimination of unnecessary compliance costs through effective FSR refinement and making the cost of professional financial planning advice fully tax deductible to the client.

We would be pleased to answer questions on all these issues, but we would particularly like at this stage to draw attention to four of them: possible improvements to existing savings vehicles; the benefits of encouraging people to obtain financial advice; the possibility of eliminating RBLs; and the disadvantages of the current requirements to preserve employer eligible termination payments.

FPA believes that some minor adjustments could lead to significant improvements in savings to fund retirement through current non-superannuation financial products being used as savings vehicles. FPA proposes modifying the taxation treatment of current non-superannuation products to provide individuals with a tax-effective vehicle to save for medium-term goals such as health, home deposit and education. The ultimate aim is to achieve higher living standards in retirement.

The medium-term savings vehicle should offer tax incentives to save and tax incentives to leave the money within the vehicle, with the aim that people will have an incentive to set aside the money with the comfort of knowing they can access it as required. If the incentives are well designed, the tax incentives may be enough to deter use of the money until it is essential. Some examples of current products include insurance or investment bonds that could have the tax rates applying to them lowered. These changes would be in line with the recommendation of the Senate Select Committee on Superannuation in its 2002 report to parliament on *Superannuation and standards of living in retirement* that:

As a means of increasing national savings and reducing the temptation for people to accumulate debt which is repaid with superannuation on retirement, the Government examine the introduction of a tax preferred medium to long-term savings vehicle which could be accessed prior to retirement for purposes such as:

- health;
- savings for a home deposit; and
- education.

Well before retirement, guidance or advice can be of significant benefit by alerting people to things like the co-contribution scheme, setting up a savings plan, consolidating superannuation or appropriately allocating superannuation investments. In July 2003, the Senate Select Committee on Superannuation issued its report, *Planning for retirement*. Recommendation 13 stated that:

The Committee recommends that the Government re-examine the deductibility rules for financial planners fees to remove the inducement to pay for financial planners services through trailing commissions.

Currently fees for the development of an initial financial plan are not tax deductible. This creates an incentive for clients to pay for financial advice on a delayed basis via commissions. FPA strongly advocates that the level and method of remuneration should be freely agreed between the adviser and their client who has been given full disclosure of the fees and commissions which may apply. This flexibility should not be hindered directly by regulation requiring one method of remuneration over another or indirectly as a consequence of tax rules. Consequently, FPA believes that fees for all financial planning advice should be tax deductible, similar to fees for taxation advice.

The RBL system effectively limits the amount of money a person can place in superannuation that will be concessionally treated. However, when encouraging people to work longer and build up retirement benefits, there is a contradiction between wanting people to become self-sufficient and limiting the amount of superannuation that can be received. With most people in the under-40 age group uncertain of their futures and hopeful that their income will increase over the years, there is little incentive to contribute to superannuation early in life if it will simply push you over your RBL so that later in your working life, when you would be better placed to take advantage of the superannuation system, you would receive no benefit. Changes to the RBL system—and possibly its abolition altogether—would encourage people to contribute more to superannuation as they would not be penalised for having ‘excessive’ benefits and would have a greater ability to fund themselves in retirement.

From 1 July 2004, all employer ETPs—for example, golden handshakes, redundancy payments and approved early retirement schemes—that are rolled over into superannuation are automatically preserved and inaccessible until the member meets a condition of release. FPA recommends that employer ETPs should not be automatically preserved when rolled into a superannuation fund, as the loss of flexibility discourages individuals from accumulating retirement savings within superannuation. Preserving employer ETPs paid to a super fund does not allow flexibility for individuals if they have not sought professional financial advice and consequently find they have not acted in their own best long-term interests and subsequently require funds. We would be pleased to answer any questions committee members may have on these issues. Thank you.

CHAIR—That is quite a line-up of recommendations. You have talked about the barriers and the problems. You have turned those into recommendations, which not everyone has done in appearing before this committee. Perhaps we could look at some of those key goals and how they affect us, as you have in the summary of your submission here. I notice that you seem to have pushed the elimination of the reasonable benefit limits and removal of the cap placed on superannuation investment. Would you like to bring us through on how that affects under-40s and on what grounds you see that as a disincentive for people under 40? Do you have some qualitative or quantitative research to back up your statement, or is this something that financial planners think would be a good thing?

Mr Bobbin—It has arisen more from anecdotal responses with the FPA making inquiries of its own members, people in the superannuation committee or even in the tax committee, because RBLs touch upon both areas, and from the nature of those people in the committee representing many other financial planners. It is very much more an anecdotal response, which is to say that superannuation is seen to be complex. That is a given.

CHAIR—Does it have to be a given?

Mr Bobbin—No, it does not. The simplification of many aspects of superannuation is something—

CHAIR—What in particular?

Mr Bobbin—the FPA endorses, and this is an example of a simplification. Removing of rules is a way of achieving a simplification. The anecdotal evidence is that people are disinclined to contribute to super in the younger age frame, not only because of all the other financial demands placed upon their life but also because of a view that superannuation has been touched by so many governments so often and that there is this cap. They say: ‘If I make an investment in my 20s, it will be there for 40 years. If that investment causes me to go over this thing called a reasonable benefit limit, I get taxed at the top rate. It is not effective that I leave it there.’

Indeed, the government has addressed an element of this by reducing the tax rate on the excess benefit. It used to be at the top tax, which actually meant a double taxation. So we were effectively facing a tax rate of over 60 per cent. But that has now been reduced so it is effectively a top rate of tax. The anecdotal evidence from financial planners in the field is that it acts as a discouragement, among others.

Mr TANNER—Where does the 60 per cent come from?

Mr Bobbin—Formally with superannuation, you made a tax deductible contribution through your employer, say, on a salary sacrifice basis. So $100 went in and 15 per cent in tax went, ignoring the surcharge, which, of course, is gone. So then there was $85 sitting there. If that $85 went into the excess benefit, a number of years ago that $85 was then subject to the top marginal rate of tax. So 48½ per cent of $85 then meant you had an effective tax rate in excess of 60 per cent. That excess benefit tax rate has been reduced in the tax rates act to, from memory, 38 or 39 per cent. So the combination of the 15 per cent going in with the $100 leaving you $85 and then 39 per cent of the $85 in fact brings you back to around 48.6 per cent, or thereabouts.

CHAIR—That is a very good point, actually.

Ms Esler—The other thing I would like to bring up is that we believe that the member deductible contribution limits that are there for each age group already limit the amount of deductible contributions that are being contributed into superannuation in the first place. So why have a cap of the amount you can put in as well as a cap on the amount that you withdraw that is concessionally taxed at retirement, say?

Mr TANNER—You are advocating getting it replaced, are you not?

Ms Esler—No, not at all. We are advocating that you do not need two measures of capping the amount of investment that would go into superannuation. We believe that you only need one. So the fact that you have the member deductible limits, which, based on your age, limit the amount that your employer or your salary sacrifice contributions equate to, means that it is unnecessary then to have the reasonable benefit limits as well.

Mr TANNER—It has ‘and’ in your executive summary. It says:

... elimination of Reasonable Benefit Limits and removal of the cap placed on superannuation investment ...

I presume I should treat that as ‘or’.

Ms Esler—No, sorry. The removal of the cap is the elimination of reasonable benefit limits. We have actually changed the wording of that.

Mr Anning—We changed the wording of that in the opening statement. We realised after looking at the wording of the submission that it implied that the cap was something additional. We are actually referring there to the limits.

Mr Bobbin—Let us make the point clear. There are two caps that occur. One is on the—

Mr TANNER—One on the way in and one on the way out.

Ms Esler—That is right.

Mr Bobbin—On the way in and on the way out. This most particularly affects those who draw out at a time of low market returns, and it benefits those who draw out at a time of high market returns. Only one cap is required.

Mr TURNBULL—Could you explain that example you gave a moment ago about how market conditions affect benefit or work to the detriment of—

Mr Bobbin—In a rising market, there is an incentive. If one is able to withdraw one’s super, that is an incentive to take it out early. If I stay there, it is going to put me into an excess benefit situation, whereas I could take you through a tax analysis, division 115 and the 50 per cent discount on capital gains tax, which mean that it is in fact more tax efficient to withdraw if the rules are such as to enable you to do that.

Mr TANNER—What percentage of people are likely to end up in that situation?

CHAIR—That is a very good question. For the average Aussie, the RBL limit is once you have reached $1 million.

Mr Bobbin—It is $1.3 million on a pension basis.

CHAIR—So how many people is that likely to affect? Basically, this inquiry is about dealing with those under 40. It is not meant to look after older silvertails.

Ms Esler—That is true. But people who are under 40 who are thinking about contributing extra money to super may be put off by the fact that they will reach that in 40 years time when they retire and take the money out. We think it is an unnecessary complication to the system. If such a small number of people reach their RBLs, why have it in the first place?

CHAIR—Because you might have a lot more people who would reach it if you took it off.

Ms Esler—But that is the reason we have the member deductible limits. That restricts the amount of money—

Mr TURNBULL—I should disclose that Anne-Marie works for Centrestone, a company in which I am a shareholder and of which my dear wife is the chairman.

Mr TANNER—So we will discount everything she says!

Mr TURNBULL—Yes. What I would be interested to know is this: there are limits on deductible contributions. Is that correct?

Ms Esler—That is right.

Mr TURNBULL—That being the case, what are the factors that will cause somebody to go over their reasonable benefit limit?

Ms Esler—The FPA has done a study that shows that people contributing up to the member deductible limit on a yearly basis will reach their RBL in 12 to 15 years. What we are saying is that that already limits you putting money into superannuation.

Mr TURNBULL—Let me get this clear: what you are saying is that people contributing in line with the deductible limits will breach the RBL. Presumably another factor that would cause people to go over the reasonable benefit limit would be if the value of their portfolio improved because it was invested in assets that went up in value more than others.

Ms Esler—Yes, that is exactly right—and especially over such a long period of time. Most of the people who are under 40 now will have 40 years of an SG at a substantial rate, which means that they will have deductible contributions going in—at least at the minimum 9 per cent SG—over a 40-year period. That means that they are more likely at retirement to be subject to the RBLs.

Mr TURNBULL—So your answer to Bruce Baird’s point about ageing silvertails—although they would have silver hair and silver tails—

Mr TANNER—He was thinking of you, Malcolm.

Mr TURNBULL—Thank you. I was looking at the chairman’s hair, which is blond without a trace of grey, so he clearly is not talking about himself. But your point is that people starting today, because they will be contributing for 40 years, are very likely to breach those RBLs, simply because of the length of time they are contributing.

Ms Esler—They may do, depending on how much they contribute, what the market conditions are and what the rates of AWOTE are, which increases the indexation of the RBL limits, et cetera. There are a number of different factors that go into that. The main reason why the abolition of RBLs is important is that it is a disincentive, it adds complexity and we do not think it is necessary. The amount of paper work that is involved from a financial planners' view in dealing with reasonable benefit limit situations is huge, and it is something that ordinary people do not understand.

CHAIR—The very smart committee secretariat have come up with a figure that you need about $14,600 maximum per annum contribution for the under 35s to reach the RBL limit.

Ms Esler—The maximum deductible contribution limit is $14,000. That is what it is for an under-35-year-old at the moment.

CHAIR—How many is that going to effect, though really, on the way in?

Ms Esler—What we are saying is that because you have that limit of $14,000 already you do not need RBLs as well.

Mr TURNBULL—Does that include the compulsory nine per cent?

CHAIR—Yes. That is a valid point.

Mr Bobbin—The other point to recognise is that for those under 40 the rules are directed towards those persons not being able to take their superannuation in a significant lump sum. Those over 40—born pre 1960; I put my hand up there, unfortunately—have the choice of taking half their super, if they are at the pension reasonable pension limit, as a lump sum and half as a pension. Whereas those under 40 are facing their superannuation coming to them in an income stream form. It is terribly consistent with funding their own retirement.

Mr TANNER—By the sound of what you are saying, your preference in the either/or choice would be for abolishing the RBL position, not the limits on what you put in.

Ms Esler—That is right.

CHAIR—That is a reasonable argument. To do it twice is questionable.

Mr Bobbin—Some of us have discussed the notion—it is not necessarily an FPA position—that, having regard to the fact that women have broken times in the work force, perhaps the under-35 maximum deductible contribution limit may be a bit low.

Mr Anning—We flag that in the submission.

Mr TANNER—Does that mean that one possibility might be to instead of making it an annual figure give somebody an option of an aggregated figure over 10 years?

Mr Bobbin—Certainly, some thinking needs to be done there because there is little doubt that the community has become more financially aware. A woman planning her life and family commitments may very well be inclined in the early days to put more aside, recognising that there will be a time when she is out of the work force. To have such a low limit for someone under the age of 35 is a disincentive. FPA's clear position is the removal of the RBL, not removal of the maximum deductible contribution limits.

Mr TANNER—Presumably, you could do something like give people an ability to move the nominal year in which it is accounted for. You would say that if you want to put in $20,000 this year somewhere along the line you have to be $6,000 below the limit in another year or something like that.

Mr Bobbin—Perhaps, but without trying to introduce a complexity.

Ms Esler—That is right.

Mr TANNER—I am reaching around for a complex way of saying averaging.

Ms Esler—That is right. We have not discussed that sort of proposal to come up with an FPA view. My own personal view is that I would not add to the complexity at all. I would just increase the limit for, say, under-35s. I think everyone is pretty comfortable with the 35 to 49 and the 50-plus limits. If we are looking at savings for under-40s, the limits for the under-35s can be increased. It is, as you say, $14,000 at the moment.

Mr Bobbin—It could be as simple as instead of having three levels, have only two.

Mr TANNER—I apologise for asking you questions on factual matters that I should probably know: are these limits automatically indexed?

Ms Esler—They are.

Mr TANNER—Against CPI or MTAWE?

Ms Esler—I think they are indexed against AWOTE—average weekly ordinary time earnings.

CHAIR—This sounds like the normal argument coming forward from your industry: the elimination of unnecessary compliance costs through effective FSR refinement. I am talking about the paperwork and complexity. The last time I went to see my financial planner he said: 'You don't have to worry about that. Just sign here and here,' and there were mountains of paper.

Mr TANNER—You mean you did not read the 80-page pile of paper that he gave you, Bruce?

Mr TURNBULL—Don't worry. We are all appreciative!

Mr TANNER—I am in favour of reforming. I want to reform the reform!

CHAIR—We have clearly gone a bit OTT with the requirements at this stage. But you are working through that separately. Do you think that is a big disincentive or is it just your hobbyhorse coming forward—and rightfully so?

Mr Anning—It is one of our favourite topics but I do not think it is necessarily a hobbyhorse. The FPA wants ordinary Australians to be able to access financial planning advice. From surveys we have done post the introduction of the Financial Services Reform Act, compliance costs in some cases have gone up 20 per cent. That has to have an impact on the cost of advice.

CHAIR—I can understand that.

Mr Bobbin—From my industry perspective, I am aware of dealer groups that have made active decisions to not provide advice to the lower socioeconomic group, because they cannot afford to.

CHAIR—That is consistent with what I have heard.

Mr Bobbin—As a law firm we do some work on behalf of some of the banks, and I am aware that some of the banks have found it difficult to produce advice in a cost-efficient, timely and—to put it bluntly—presentable and understandable manner. The fear is that there is a section of society that is being abandoned.

CHAIR—We need to pursue that. Steve is also chair of the government's treasury and finance committee. We should pursue that as well because it is a consistent theme coming from all sections of the industry, which is fair enough. The impact on the under-40s is exactly as you say. We should take cognisance of that.

Mr TANNER—Would it be fair to say that we could expect to see serious further reform and reduction of the paperwork burden reflected in financial planners' fees, so that there would be a flow-on to effective fee reductions?

Mr Anning—That is certainly the feedback we have from members. For example, on superannuation choices, Peter has said that a number of financial planning practices are avoiding the lower end of the market just because they do not believe they can provide compliant advice that—

Mr TANNER—When you say they do not, is the net effect that the price they would have to charge is too high? Is that the real problem?

Mr Anning—Absolutely.

Mr TANNER—So the problem is that it puts individual planners in a position where the regulatory burden will push the cost of their services up to a point where nobody in that group is going to buy them?

Mr Anning—Yes. Members have been reporting examples to us, such as in the super switching context of young workers who may have small amounts of super in a number of funds. They seek advice on consolidation but fulfilling the requirements of the regulation at the moment requires you to charge them hundreds of dollars more than the actual value of the super funds.

CHAIR—Before passing on to my other colleagues, there is just one thing I want to test with you. There has been a suggestion that one of the big disincentives is access—that the money is tied up for years. Do you think there is some merit in the concept of access to the voluntary contribution of super? I am talking about deposit gaps for the under-40s, perhaps putting limits on the amount that can be accessed and maybe even means testing. Is there benefit in that?

Ms Esler—Our preference, as outlined in the submission, is for savings for the under-40s to be accessed outside of the superannuation system. The recommendation that we are putting forward is that the superannuation system is not touched but that investment insurance bonds or other products outside of superannuation are used as the means for saving for shorter term goals such as health and education costs and home deposits for under-40s. That is the recommendation. We have looked at medium-term savings vehicles in the past and done some work around that.

CHAIR—But that would require a whole lot more financial literacy than is evident out there in the community to go and access those as well. You have various means of investment through shares or negative gearing or your own house or super. You are then looking at encouraging people to go into a fifth aspect.

Ms Esler—There are already products available in the market for investments—managed investment funds. We believe tax incentives could be provided for those products that would encourage people to save for shorter term needs. We already have investment bonds that have a 10-year rule. After that time they are tax-free, given they have a 30 per cent tax rate going forward. There is another 125 per cent rule that restricts your contributions every year into those products. There is already something in the market place that can be used. If incentives are provided that are similar to superannuation now, they could be the savings vehicles for those people. My personal view is that any extra complexity to the superannuation system further discourages people from saving in there. Adding extra layers all the time is what we, unfortunately, keep doing.

The last couple of years have been really positive. The removal of the surcharge and the changes to the contribution rules have made it easy. Everyone under 65 can now contribute. It is a general rule. Previously it was so complex. Some of the other submissions make suggestions regarding a portion of the voluntary contributions over a certain period, or suggest making the undeducted personal contributions unrestricted. It adds extra layers of complexity every time. Superannuation should be there for retirement. If we want something for our health, or our education or our home deposit, it should be outside of superannuation. That is not the intention of superannuation.

Mr TANNER—Can you explain the reference you just made to tax breaks on 10-year deposits. This is something on which I must confess ignorance. What was that reference to?

Ms Esler—On investment products such as investment bonds you can contribute every year for a 10-year period. They are offered by life companies. The tax rate on them is 30 per cent. The earnings every year are taxed at 30 per cent. The contributions are not taxed on entry. If you withdraw them after 10 years and if you have met the 125 per cent contribution rule, which means you cannot contribute more than 125 per cent of the previous year’s contributions, then it is tax-free on withdrawal.

Mr TANNER—When you say they are not taxed on entry, you mean—

Ms Esler—It is after tax money, obviously. It is your savings money you are contributing. I am just trying to compare it to super, where you have an entry tax. So you are putting your own savings into this investment fund.

Mr TANNER—But the entry tax is concessional with super, whereas obviously not in this instance.

Ms Esler—Well, it is your own savings. So you are putting in your own savings on a regular basis as long as you meet the 125 per cent rule after 10 years. Your earnings are taxed at 30 per cent, which is probably a disincentive compared to super, where it is taxed at 15 per cent, but after 10 years the total withdrawal is tax-free.

Mr TANNER—What is the 125 per cent rule?

Ms Esler—You cannot contribute more than 125 per cent of the previous year’s contributions. They have been around for years and years. The idea is that if I contribute $100 in the first year I can only contribute $125 in the second year. It is so that you regularly increase, but you are not putting in huge lump sums so that after the 10 years they are tax free.

Mr TANNER—I have never heard of this. It is very interesting.

CHAIR—I have not heard of it either.

Mr CIOBO—I invite you to do some navel gazing. The line of questioning I have taken with a number of other witnesses deals with whether or not, at a retail level, financial planners and others are doing their part to compete for Australians’ dollars and to sell the product that you have to sell. I would be interested in your comments about whether or not the industry is doing enough and whether there are barriers that prevent you from doing more, obviously beyond what we have been discussing at this point. Or is the industry largely sheltered and afraid to go out and compete with the Harvey Normans of the world, so to speak, on attracting investments into super products and the like?

Mr Anning—I am sorry. I do not think I quite get the gist of the question.

Mr CIOBO—I am asking whether or not financial planners and others are doing enough to attract consumer demand for their products?

Ms Esler—For our services, do you mean?

Mr CIOBO—Yes, and for the products that you sell.

Mr Bobbin—I think the answer has to be yes when you consider the growth of the industry over the last 20 years and the professionalism that, in my view, has meant that the industry has moved from a point of childhood to adolescence to adulthood where today we can genuinely call it a profession. Within the regulatory framework that exists—and we are not going to go over that old ground—there is continuous debate within the industry about how to best assist clients in achieving their goals. It is very much a one-on-one process, which is what the role of the financial planner is. In that sense, a financial planner does not compete with the Virgin Moneys et cetera of this world because what some of the competition says is, 'Give as your money,' but they offer no assistance, guidance or improvement of the financial literacy of the individual concerned.

I will put it into a very personal context. My father-in-law was a wharfie and, I have to tell you, a very basic wharfie. A spade certainly was not a digging implement at all. For the benefit of *Hansard*, I will not express how he would have put that. I observed his financial literacy and his growth in it. It was extraordinary. I have a very strong superannuation background and over the years, through the benefit of a financial planner, I saw him move from a lump sum, Australian-right mentality to the mentality that, 'It is important to make sure that my income lasts over my lifetime,' and having an interest in deriving a pension. I believe that financial planners play a very important role. Are they competing with the low-cost alternatives? No, they are not, because those low-cost alternatives are not providing the service of helping to improve financial literacy and helping the Australian public to understand their goals and how they can achieve them. I do not know if that answers your question.

Mr CIOBO—It does to some extent because my view is that we need to encourage financial literacy. All the things we have spoken about need to be encouraged and, where possible, I would like that to happen in a market focused policy framework. If we need to look at developing , for example, recommendations that some have put to us of increasing employee contributions and so on then we will. I am just looking for alternatives beyond mandating that and whether or not there is scope for the industry to drive that type of agenda itself. That is really what I was asking about.

Mr Anning—I would like to supplement Peter's comments, which I endorse wholeheartedly. I apologise for my hesitancy at first. It was because we are rather sensitive about the product pushing allegations which are sometimes made against financial planners. As Peter explained, the key focus of financial planning is working on a lifetime strategy with the client. So, in terms of whether financial planners are doing enough to encourage superannuation savings, if not in the product sense of superannuation, we certainly are working with clients for them to achieve their lifetime goals and to ensure that they have a satisfactory retirement income. Certainly, the FPA is involved in initiatives around financial literacy. Our CEO is on the financial literacy task force, the foundation that the government has instituted. We have our own initiatives on financial literacy and hopefully committee members will have noticed the 'Don't ask Dazza,' campaign, which is running at the moment, to promote the value of professional financial advice. We are certainly doing our bit to educate the public on the need to take responsibility for their own financial wellbeing.

Mr TURNBULL—I have one more thing to raise. Firstly, the submission is, as we would expect and are grateful for, very comprehensive and detailed. You have all mentioned complexity. Clearly, we all understand that that imposes a cost on everybody and it is clearly a disincentive to participate in this, as in every other area. If you make something hard or complex to buy, people are less likely to buy it. That is commonsense. But we discussed with some earlier witnesses the fact that different types of savings are advantaged by tax in different ways. Super has its own tax regime, the family residence has a particular tax regime and investment property with negative gearing has another tax regime, as do direct shares or securities—you could go on and on. What would be very interesting, if you were to be able to do a little bit of modelling for us, would be to show us whether and to what extent you believe superannuation is more or less attractive by reason of its tax treatment versus other asset classes. Does it really make more sense for somebody in their 30s to be putting additional money into their super fund as opposed to negatively gearing an investment property?

Ms Esler—Or paying off their home mortgage.

Mr TURNBULL—Exactly. What makes more sense? It would be interesting to look at it over a life cycle, having regard to the way in which different assets are treated at the retirement age in terms of asset and income tests. Is that difficult to do? This must be something that you are doing every day with your clients.

Ms Esler—Definitely.

Mr TURNBULL—It would be interesting to see that, if you are able to do it—or maybe you want to discuss it now.

CHAIR—You would need to make sure that variables are appropriately contained.

Ms Esler—There are so many assumptions in making long-term projections. I could take my own situation as an example of an under-40s person who is tossing up whether to pay off my mortgage or my car loan and whether or not to put extra money into superannuation—which I do—but then there is the saving outside of superannuation. If I were to go to a financial planner and sit down and say, ‘What is the most tax effective option for me at this stage?’ and project that over my lifetime—and obviously it would change as my circumstances changed—it is definitely something that can be done. As a rule of thumb, you would say, ‘Pay off your mortgage.’ That would be the first thing you would do. After the mortgage is paid off—however long that would take— to then sit down and say super versus non-super—

Mr TURNBULL—While we are focused on paying off the mortgage, paying off the mortgage is one thing—and we understand that, because the interest is non-deductible—but what about taking out a bigger mortgage to buy a larger or more valuable property versus putting more money into super?

Ms Esler—A larger mortgage?

Mr TURNBULL—By increasing the level of your investment in your own residential real estate. Because that is another option, too.

Ms Esler—One of the key things that we have said in our recommendation is that many Australians see the home as an investment. I think that is a really false thinking that Australians have: if we keep upgrading our home, by the time we reach retirement, we will have this home worth $X and then we will be able to sell down and that will fund our retirement. In reality that is quite false. Many people need all of the money that they have invested in their home to either continue to live in it for a long period of time or to use that as the accommodation bond or the amount of money that they need to purchase a place in a residential nursing home or in a retirement village estate.

CHAIR—Although the number of people who actually end up in nursing homes is, I understand, about two per cent.

Ms Esler—Yes. I am referring to nursing homes or other residential housing for elderly people. We have found that, in most cases, the money that is invested in the home is equivalent to what would be spent on a subsequent housing facility. So the house itself cannot be seen as a separate investment. It should not been seen as, 'I am going to put money into my house and that is my investment.' I know that this is an FPA position in terms of the house, but from my point of view it would be better to pay off the house and then concentrate on the retirement savings separately.

CHAIR—It would be interesting if you could model it as Malcolm suggested, taking the various streams and the tax benefits—

Mr TURNBULL—Your super is under competition, you know. There are people out there saying, 'Don't put any more money into super. Invest in negatively geared real estate.' There is a whole industry that promotes that.

Mr Bobbin—They say the reasonable benefit limit means it is not worth while putting it in over the longer period of time.

Mr TURNBULL—Correct. It would be very interesting to see some examples demonstrating to what extent which option is better.

Mr TANNER—Isn't there a false comparison there? How many people borrow in order to make super contributions?

Ms Esler—No, they would not do that.

Mr TANNER—They would certainly borrow to buy negatively geared property, so it is a bit of a false comparison, I would have thought.

Ms Esler—Another comparison that could be done as well is: if you had X dollars extra to save, where should you put those extra dollars? Do you put it in the mortgage, inside super or outside super and model those over a 40-year period? What is the most effective thing to do?

Mr TURNBULL—That would be good.

CHAIR—One of the big disincentives, it seems to me, as I go around my electorate, is people being burnt by the significant decline in investments in companies like BT. They are modelling that to their friends and saying, 'I'm much better off with bricks and mortar.' I hear that quite a bit. I have an older age group than most in my electorate.

Mr Bobbin—I wonder how linked to the cycles that may be.

CHAIR—It is true.

Mr Bobbin—With the current drop in the property market, we are now seeing references in the media to property going backwards.

CHAIR—That is true.

Ms Esler—But definitely for a person under 40—and speaking from a personal view—the question is: where do you put the extra dollars of savings? That should be the crux of it. It is what you do with the extra dollars of savings that you have. Maybe a lot of people under 40 do not have extra dollars to put anywhere; but for those people who do, it would be good to model what is the most effective place to put that over a 40-year period.

CHAIR—As we are now out of time, can I say that we really appreciate your coming. Thank you for your contributions.

[12.27 pm]

COATES, Dr Nicholas (Nick), Senior Policy Officer, Australian Consumers Association

CHAIR—Welcome. Although the committee does not require that you take a formal oath before today's proceedings, it does have the same standing as proceedings of the parliament. We appreciate that you have provided input through your submission. If you would like to proceed to an opening statement, we will then move to questions.

Dr Coates—Our submission concentrated on only three areas. This was deliberate. We believe that, while there are a lot of things you could be discussing about superannuation for under-40s, we saw these as the three key areas. I will mention a little bit about the Australian Consumers Association. We are a not-for-profit, non-party-political organisation. We receive no funding from government or subsidies from industry, manufacturers or any other groups. We are funded solely through the sale of *Choice* magazine and *Choice Online*, which are our publications. We have 145,000 distinct subscribers. These publications are successful because we provide independent advice on consumer issues.

CHAIR—Out of interest, have you ever provided advice on super schemes?

Dr Coates—We have. In fact, I can show you our issue on money and rights where we looked at the super shortfall. We commissioned a journalist with expertise on superannuation to do some work on that. I am happy to provide that for the committee.

CHAIR—That would be great.

Dr Coates—We also advocate on a variety of consumer policy issues across a wide range of areas, including health, information technology and communications, transport, food and nutrition and, obviously, financial services.

That was a little about who we are. Going now to the three areas we concentrated on in our submission, we are concerned about the fact that there is still a proliferation of multiple superannuation accounts, and we think that disproportionately affects young people. We also feel that the lack of interest in superannuation, which the committee has received testimony about before, is a broader issue. It is not just about apathy; it is about a lack of confidence in the superannuation system for young people. The last issue that we concentrated on was looking at broadening the issue. We are probably quite similar to the Financial Planning Association in our perspective. We would have liked this to be a broader inquiry—into savings for under-40s rather than just superannuation for under-40s. I use 'savings' in a non-technical sense, so it could include things like housing.

Turning to the issue of multiple accounts, we now have 27 million superannuation accounts out there and only 10 million Australians in the work force. If that increases, we will get to a situation where basically there will be three accounts for every worker. That is three sets of administration fees and three sets of investment fees. While that does not sound like much, it is a fair leakage from the system in terms of people's superannuation.

CHAIR—Mr Turnbull suggested at one stage that we should have one number which is tied to the internet. People could provide that number and it would stay with them.

Mr TURNBULL—Tied to your email address.

CHAIR—Yes. Perhaps it could be tied to that.

Dr Coates—It really is an important issue. Under-40s are disproportionately affected. I just crunched some APRA data from 2004 this morning, and 45 per cent of all accounts belong to under-35-year-olds.

Mr CIOBO—Is that right?

Dr Coates—Yes.

CHAIR—That is interesting.

Dr Coates—I read with interest Richard Gilbert’s testimony before this committee. He hoped that superannuation choice would solve this problem, and likened the super product to a backpack. You put it on your back and wander through the work force and it goes with you. We are not so convinced that it is going to be that successful. We think there are some structural barriers in the system that need to be looked at in terms of the red tape regarding how people port superannuation and consolidate it into one account.

Mr CIOBO—Do you have some specific examples which expand on that?

Dr Coates—I could give you a number, yes. There are numerous examples of consumers not knowing how to fill out the paperwork and the superannuation fund not telling them what is required. You need 100 points of identification and it needs to be signed by a justice of the peace. So they go through the steps but they might turn up and have only 90 points of ID, so they are sent away. They might turn up with 100 points of ID but it is not signed by a justice of the peace, so they are turned away. Rather than being told exactly what is required of them, they often have to, through trial and error, work out what has to be done. I know of examples where eight or nine times someone has tried to consolidate a particular fund.

We know of funds that are aware that a member has two or three accounts within the one fund but have not done anything to encourage them to consolidate. We know that some funds are not accepting contributions from certain sources. The two biggest issues for us are probably the cash-out or exit fees that are being charged. I know of one example where an exit fee of 95 per cent was charged on a $5,000 contribution. I know of another fund charging a 20 per cent cash-out fee.

Mr CIOBO—Ninety-five per cent of the total?

Dr Coates—Yes, 95 per cent of the total. I got that example from our call centre, where we receive about 200 calls a week on consumer problems. So we would like to see the committee have a think about something like Mr Turnbull’s suggestion, or another type of unique identifier, to assist people with consolidating their superannuation automatically. That is basically all I wanted to mention on multiple accounts.

We want to address the issue of what young people’s faith is in the superannuation system. It is not necessarily just about apathy; it needs to be seen that young people are being turned off about the issue of their superannuation in other ways. We think there is a certain amount of cynicism and lack of confidence developing in the super system. While the post-choice environment offers both opportunities and risks for consumers, the decisions have become more complex, and it places much greater emphasis on the type of advice they receive and the information they get about their superannuation. The quality of financial advice consumers receive is crucial to giving them the opportunity of having more of a stake in their superannuation. There are really two aspects to this: where they get their financial advice from and what sorts of publicly available information is out there.

In terms of gaining truly independent financial advice, we see this as a major barrier to young people having an active stake in their superannuation. With all respect to the Financial Planning Association of Australia, which appeared before you before me, we think there are still significant conflicts of interest out there, and they are inherent in the business model of the way financial advisers advise their clients about what sorts of superannuation products they should take out. Often they can be owned by vendors of financial products or, alternatively, they can derive all or most of their income from the sales in volume related commissions and trailing commissions at the pointy end of this problem, where the average is about 0.4 per cent on the investment for the life of the investment. That does not sound like much but, if that person hangs on to that superannuation product for 20 or 30 years and that trailing commission is ongoing, that is a substantial amount of money for not a lot of financial advice.

We accept that some of the disclosure measures that ASIC have been working on have made a good contribution to solving this problem. I also know that the Financial Planning Association has a charter on disclosure that they require their planners to take out. But we think it possibly needs to go beyond disclosure; there needs to be some sort of situation where ASIC has the powers to regulate regarding conflicts of interest.

The other side of this, of course, is what sort of financial advice is available out there publicly. We note with approval the efforts of the federal government with the Financial Literacy Foundation. We think that is a good start. We also note that the National Information Centre on Retirement Investments plays an important role in providing independent information about superannuation for consumers. We note, though, that it was disappointing that the government did not provide it with additional financial resources in the lead-up to the superannuation choice legislation.

Our recommendation here would be that the committee could consider providing greater access to financial advice for people who are on lower incomes or for whom it is uneconomic to get advice from financial planners. Some sort of facility that would give them independent financial advice at a discount would be beneficial.

CHAIR—Do you think there would be a problem in the government getting involved in the provision of financial advice?

Dr Coates—There clearly needs to be some sort of fallback position. IFSA suggested that trail commissions were important to give low-income people access to quality financial advice. We do not necessarily think those people are getting that financial advice and, if they are not getting it from planners because they do not have enough money, they have to get information from somewhere. There needs to be some sort of independent service where they can get that—on a cost recovery basis, if anything.

Mr CIOBO—Doesn't Centrelink provide that now?

Dr Coates—It may do but I am not aware of it. The last point is that we would welcome the committee looking at the broader barriers to savings for the under-40s rather than looking just at superannuation. We feel, from circumstantial evidence we have seen, that this group is under the most financial stress. They have mortgages and they possibly have small children whose future education needs funding; they have competing priorities on their finances. We are a little concerned about proposals to compulsorily increase their commitment to their retirement savings. We feel that the broader issue of where they are stretched needs to be considered when those sorts of proposals are looked at. Ultimately, it is about increasing their net saving; it is not about creating a substitution effect between the ways in which they save and the various investment vehicles they are saving in. When I talk about savings here, I am not talking in the technical sense of savings equalling income minus consumption; I am talking about a broad variety of ways in which they spend.

Mr TANNER—Would you ban entry and exit fees?

Dr Coates—We would certainly like to see exit fees regulated more closely. I do not think we have an official position as to whether or not we would ban them at this stage, but we could certainly look at that in further detail.

Mr TANNER—With regard to the FSR process, based on evidence we heard earlier on but also more broadly, it seems to me that we have managed to create a giant paperwork industry which does not necessarily benefit consumers in the way that it was intended to because, almost by definition, somebody who is presented with 30 or 40 pages of disclosure is not going to read it and, therefore, you do not have disclosure. Does the ACA have a view as to whether there are flaws in the FSR regime that we ought to be seeking to address?

Dr Coates—I am not an expert on the FSR regime, but I would suggest that we are rethinking disclosure as a method of consumer protection. The evidence that we have coming out of the research in the United States on behavioural finance is that you can disclose any conflicts of interest you like or you can disclose as much as you want to a consumer, but it does not necessarily solve the problem. I take on board your example of how much information is there and how they will not actually look at it but, even when it is directly related to some advice that a consumer is receiving from a financial planner—for example, they may disclose that they have a connection to a particular funds manager—what that does is create more consumer loyalty to the financial planner. There are a couple of articles on this in the United States where disclosure leads to a situation where their money is invested in a product that does not suit them but they trust the planner because they have disclosed that conflict of interest.

Mr TANNER—In other words, the smart, dodgy planner would put all their cards on the table.

Dr Coates—Yes.

Mr TANNER—That is very interesting.

Dr Coates—This was done with what I think they call game theory whereby they get a whole lot of people in a room and subject them to a series of tests and test how that interaction occurs.

Mr TANNER—So the best way to sell a used car is to say that the engine is crap, that it has rust and that the wheels are going to fall off.

Dr Coates—And the muffler is going to fall off it, too.

Mr TANNER—That is very interesting.

Mr CIOBO—I am interested in expanding on the issue that you raised about having access to financial planning. We have heard from a number of witnesses and anecdotally about FSR changes basically leading to a situation where the compliance costs are so high that a proportion—and I am not sure whether it is a significant proportion or not—are effectively cut out of that. Is your proposal for there to be a centralised sort of independent financial planner that people can access predicated on a model you have seen work elsewhere that you think could work in Australia?

Dr Coates—There is something like that working in the UK right now, but I do not know many details about it. It just becomes blatantly obvious that, particularly for low-income people, there needs to be something that they can access on a cost-recovery basis. We take your point that FSR is complicated. As part of our rethink of disclosure as a method of consumer protection, we would welcome a simplification of the FSR.

Mr CIOBO—You made a statement before that 45 per cent of super funds were held by those aged 35 and under. Is that what you said?

Dr Coates—Yes, that is correct.

Mr CIOBO—Is there now a trend that with super choice there will be a significant consolidation, notwithstanding the point you made about barriers to consolidation? Is that really what your focus was or was it broader than that?

Dr Coates—We do not necessarily see full consolidation occurring. The ideal goal would be everybody having one superannuation product and that would be it. It would be a compulsory superannuation product. As to what I suspect will happen—and I guess the jury is out and we will wait and see over the next 12 months—it is about whether superannuation choice can slow the growth in the proliferation of accounts. These grew dramatically in the prechoice environment. The question now is to what extent it still grows. My bet is it will keep growing but it will grow at a slower rate.

Mr CIOBO—Isn’t proliferation of accounts largely driven by the compliance aspect of there being multiple employers, each with their own employee fund that they are tipping funds into? That is my interpretation of what is driving this multiplicity of accounts. Is that contrary to your views?

Dr Coates—I see it as a labour market issue to some extent: young people having lots of jobs and moving through the work force.

Mr CIOBO—But it is still a compliance issue in itself?

Dr Coates—To some extent.

Mr CIOBO—It is a by-product?

Dr Coates—Yes.

Mr CIOBO—With super choice, if you facilitate consolidation then you get a situation—and I hope people will take responsibility for this—where they consolidate funds. That would have to be the goal.

Dr Coates—I am not sure it is about them taking responsibility per se. I suspect it is about, firstly, not having enough information to understand how to roll it over. It is about the barriers that are inherent in the system as well.

Mr CIOBO—Is it the case that there is not enough information? I would contend that there is probably plenty of information that people could have but they are probably not that interested in accessing it.

Dr Coates—It is certainly the case that the system is complex but it is about them getting access to quality advice and information at that point in time. That is why we signalled the conflict of interest issue as a major barrier, because getting independent advice will allow them to understand that having three accounts is costing them a lot of money.

Mr CIOBO—Do you think that the mandatory nature of the super guarantee contribution has any impact—positive, negative or neutral—on people’s interest in their own super?

Dr Coates—I would not really be in a position to comment on that. I am not sure. We could certainly survey members and subscribers to work out that sort of information.

Mr CIOBO—This is a personal bugbear of mine so I would be fascinated to know that. The first witnesses we had today were from the Institute of Securities, Finance and Banking. They were talking to us about attitudinal differences between the baby boom generation and generations X and Y. They highlighted, in questioning, that the baby boom generation were more proactive as to their super than generations X and Y. I was asking them about whether or not generations X and Y, because they have grown up with this mandatory super contribution requirement, therefore outsource it to government—‘They’ll take care of it.’ So I would be interested to know whether that whole issue about it being compulsory does have an impact on whether or not people take responsibility for their own super. That would be of great interest to me.

Dr Coates—I can certainly check our own databases and see if there is anything that fits what you are particularly describing.

Mr CIOBO—If Mr Turnbull were here, I have little doubt that he would ask you about the choices people make—as to the need to provide for the education of their kids, to have a home, to pay off their mortgage, to pay their health insurance and so on—versus whether or not they are better off putting those additional dollars into super. You touch on this to some extent in your submission. I would be interested in your expanding on that a little bit as to whether you have looked at some of the choices that people have to make regarding where they put their finite disposable income.

Dr Coates—We have at this stage not done any direct research on it. We are certainly in a position to do so. I would note that, while super is concessionally taxed, how they weigh up the various taxation regimes as to where their money goes is a very complicated area. It is not something which we would probably have the actuarial experience to work out ourselves.

Mr CIOBO—Do the ACA have a point of view, though, with respect to where people should be—

Dr Coates—We as an organisation provide advice through *Choice*, for example—in particular, we provided advice in the edition entitled *Money and rights* that I gave you. In fact, there is an article in there that illustrates the sort of advice that we provide to consumers. It sets out their goals, what their priorities are and the best ways of putting their money to use in terms of those priorities. We do not have an official position as to whether they should be, say, paying off their house first and then concentrating on their superannuation. But what we try to do is help them understand what the costs are of each particular financial product in which they are investing.

Mr CIOBO—You spoke about entry and exit fees. Is there enough transparency of super accounts at present? What sorts of policy changes could we implement? For example, there has been a discussion about credit cards and the introduction of an honesty box system where the real effective interest rate is disclosed and so on. Would you envisage something similar to that?

Dr Coates—I guess we would be interested in anything which could provide consistent advice and which is easily accessible. An honesty box system may work. I certainly look at how the information that is in a superannuation package is disclosed to the consumer. That is also important. When you go through superannuation funds' annual reports, you will see that there are a variety of ways in which their investment is explained to them. Their returns on it are explained, and the entry and exit fees and things are often buried in there as well. Maybe we should look at ways of making this more consistent so that people can easily compare superannuation funds. We have noticed that there are a few organisations starting up web sites which attempt to provide advice on that.

Mr CIOBO—Is there an international model that you think works more effectively than Australia's that you would recommend to us?

Dr Coates—We are not in a position at this stage to recommend anything from overseas because we have not done a full search.

CHAIR—In your submission I note that you refer to a third aspect of savings objectives. You state:

ACA would vigorously oppose the imposition of greater compulsory superannuation upon consumers under the age of 40.

What are you basing that statement on?

Dr Coates—We are aware that there is a general concern that the under-40s group, even though they will be saving for 20 or 30 years, will not have enough money to retire on. We have seen the issue of the superannuation savings gap widely discussed in the public arena. A consequence of that may be a policy suggestion that this group needs to make a higher compulsory contribution. We would oppose that. We think this group is so financially stretched that people will have to do things like borrow money from elsewhere to fund their children's education because they are now overcommitted in the superannuation area.

CHAIR—It is not the basis of an opinion poll but rather your view about the other constraints?

Dr Coates—That is correct.

CHAIR—That situation of course is no different to the situation of other generations that have had similar constraints. I suppose they did not have compulsory contributions?

Dr Coates—They did not, no.

CHAIR—Therefore, the principal way of trying to get them into a system—if you do not do it compulsorily—is by addressing some of these other issues that you have identified?

Dr Coates—Yes.

CHAIR—That is fair enough.

Mr TANNER—I have one question which is sort of related to a question which I have asked a number of other witnesses. We often see surveys undertaken suggesting that on average people want 75 or 80 per cent, which very much forms part of that retirement savings gap equation, of their current income to live on in retirement—or that is what they expect they will need. The data shows that they will get only 40 per cent, or something like that, and this is the retirement savings gap. Every one of the surveys I have seen has a fundamental flaw—that is, it is not asking people to make real-time contemporaneous trade-offs on school fees or whatever the case might be. Therefore, they are a 'What do you want for Christmas?' kind of survey. Would you agree with that critique? Are you aware of any surveys on this issue where people are asked to make real-world choices—for example, they are asked, 'What level of retirement income do you think you would need, based on the forgoing of contemporaneous income?'

Dr Coates—I am not aware of any surveys that take into account the real-time issue that you are talking about. I hate to plug our magazine one more time, but that particular article in there is taking people through that exact decision-making exercise that you are talking about. We have not done any research in that area ourselves. I guess I am aware of a rule of thumb, which is that you need roughly about 60 per cent of your income in retirement to live comfortably, but we do not have an official position on that at this stage.

CHAIR—Thank you very much, Dr Coates. We appreciate you coming today. As you know, you will be sent a copy of the *Hansard* transcript of your evidence.

Dr Coates—Thank you. I appreciate the opportunity to come along today.

Proceedings suspended from 12.56 pm to 1.51 pm

EVANS, Mr Grahame, Chief Executive Officer, Investment Australia, Tower Australia Ltd

GLEN, Mr David Michael, Tax Counsel, Tower Australia Ltd

O'KEEFE, Ms Carly Jane, Manager, Sales Marketing—Superannuation, Tower Australia Ltd

CHAIR—Welcome. Although the committee does not require you to give evidence under oath, this hearing has the same standing as proceedings of the parliament. I understand it is the wish of the committee that the additional submission by Tower Australia Ltd dated 18 October 2005 be accepted as evidence and authorised for publication. There being no objection, it is so ordered. We have received a written submission to this inquiry from you. I invite you to make any additional comments or an opening statement, and we will then proceed to questions.

Mr Evans—Thank you, first of all, for the invitation to appear before you today. The issue at hand is one which we believe is quite simple from the point of view of its outcome, but the road to get there is actually quite complex. We take a very active interest in the awareness of the need to save for retirement, but we believe this under-40 issue is an important one, as you do. With our submission, we are not trying to change the framework; we are trying to work within the existing framework. We believe that aspects of our submission could be implemented by government without a great deal of cost to government, acknowledging the fact that simplification does carry a substantial cost.

The real issue from our perspective is that people who are under age 40 spend a very small part of their week thinking about their superannuation. I would suggest that in some cases they do not think about it at all. We believe that there is an absolute need to link the low priority of superannuation in their minds with some other form of high priority in their minds. In doing so, we have suggested in our paper a number of different areas, but in particular some sort of linkage between that and the very high priority of mortgage payments on owner-occupied premises, which is high in their spending. We also think it is necessary to couple that with the removal of any unnecessary complexity wherever we can, possibly the RBL area, and I will get Carly to talk about that in a moment. The third leg to this situation is our need to educate on a repetitious basis. By that we mean not just a one-off campaign but continually communicating to those people under 40 in a number of different ways on a regular basis.

From our perspective there are a number of barriers that we face—certainly the complexity, as I have mentioned. There is the instability of legislation. Over the many years that I have been involved, but particularly over the last 22-odd years, we have seen the introduction of lump sum tax, the preservation of super and, of course, the reasonable benefit limits, which were put in as a good idea but we believe do not appear to actually be doing what they were put in for.

In summary, the incentives that we believe are needed to encourage the under-40s, in no particular order and with no particular weighting, are: education on a repetitious basis; the introduction of a linkage between a low priority in the minds of the under-40s, that is, superannuation, with something of a higher priority—our suggestion is on the mortgage side for owner occupied category—and simplifying the system. There are other options. There is the possibility of encouraging people to contribute by allowing them to contribute over and above the super guarantee contribution and allowing them to use that on a more medium-term savings basis. There are other areas, such as the removal of the nexus between deriving employment income and being able to make a co-contribution. Each of these areas has little components to the overall bigger picture of trying to simplify issues for the under 40s and linking them to something that is important in their day-to-day lives now. I will ask Carly to talk about a couple of those issues. We are happy to take questions as we go along.

CHAIR—Just in terms of providing access to the superannuation benefits, some people have suggested—and we have also had strong reactions from others—that it should not be touched and that we should be providing incentives to savings in other areas. Your concept involves 20 per cent of the savings above the superannuation guarantee, for a number of things that you noted down. Would that be for a set amount and means tested?

Mr Evans—The concept of encouraging a contribution over and above the superannuation guarantee contribution and making sure that at least 80 per cent stays in the preserved environment, allowing the 20 per cent—if they contribute 80 per cent they get 20 per cent—would have to be linked. It is actually linked in some ways now through the maximum deductible contributions, on an age based situation. So there is a maximum that could be utilised. I am not quite sure whether you would means test it.

CHAIR—Also, would you tax them according to the differential of what they pay in, in relation to the super scheme? This would be a way around paying full taxation on a car, travel or whatever. It would just come through this and money would be released. I presume you would require that the differential between their normal tax rate and the entry on their super scheme should be taxed?

Mr Evans—That would be right. The benefit to them is the accumulation of the contributions and the earnings at a lower tax rate. You would not want it to be just a tax shelter. It would be an encouragement for people to contribute.

CHAIR—With all the various incentives in housing—for example, the First Home Owners Scheme, negative gearing, no capital gains on the primary residence et cetera—would you have a further incentive for people to put their money into housing?

Mr Evans—Considering that we are looking at the owner occupied category, this is not necessarily an incentive; it is more a relief for the people under 40. As it would cut out at age 40, from a dollar terms perspective you would consider that the majority of their mortgage would exist in the years up to age 40. So, from the perspective of whether they would be able to spend more money on a house—certainly if there were some taxation relief along those lines—they possibly would. Whether it would actually encourage more people into housing, because we are talking about the owner occupied category, I would suggest that it probably would not. The intention is basically to encourage that extra contribution.

Ms O'Keefe—As Grahame said, the lack of awareness of the need for super and the need to save for retirement is a big problem that this demographic in particular faces. My friends and I are in this demographic. The common perception for people in my age group is that you do not need to start saving yet; you have plenty of time left and you have better things to think about now, such as getting your first home and starting a family or raising children. Those are the main two considerations that people in this demographic face. At Tower we ran a very informal straw poll, just to see what people thought about superannuation and its use for retirement savings, and—

Mr TURNBULL—Was this for employees of Tower?

Ms O'Keefe—Yes, it was. Here are the main responses that are relevant to what we are talking about: 'I don't know much about superannuation', 'I am not interested in saving at this stage of my life', 'I don't need to start thinking about saving yet', 'I haven't thought about retirement'—and this is in the submission—'I don't have enough money to contribute to super as I have a mortgage and a family', and, lastly, 'I've been thinking about salary sacrifice but haven't done it yet; maybe I will do it in a couple of years as I have other commitments.'

From those comments it is very obvious that—and in my own experience—super is a really low priority for people who are under 40. It is a very low priority, and there are competing priorities for savings, which are, as I said, getting a mortgage and raising a family. The reason we put forward the mortgage relief scheme is that, while the incentives in place at the moment for superannuation do go a bit of the way towards encouraging people to put money into super, super is still a low priority. So linking it to an owner occupied residential mortgage, which is very front-of-mind for everybody in this demographic, gets superannuation front-of-mind. That is how we came up with the concept of the mortgage relief scheme.

How we propose that scheme would work is that if you put in additional contributions above your nine per cent SG, then when you lodge a tax return you get some kind of mortgage interest back. It is only aimed at owner occupied residential mortgages. The good thing about this is that, as I said, we think that it will actively encourage more people to see super as more of a priority and bring it to the front of their minds because it is linked to something that is front-of-mind already.

Mr TURNBULL—Can you give us an understanding of how that would work in practice? Could you give us an example?

Ms O'Keefe—I think it would be relatively simple. You would have your mortgage already—for instance, I am buying my first home and if I put, say, an additional contribution of $1,000 into super—

Mr TURNBULL—Would that be per month or per annum?

Ms O'Keefe—Let's say per annum. In our submission we have not addressed actual amounts; that would have to be explored further. So let's say you put in $1,000; when you lodge your tax return for that year you get back a bit of the mortgage interest that you have paid on your mortgage.

Mr TURNBULL—When you say 'get back', are you suggesting that you would get a deduction for some of the interest?

Mr Glen—That is correct. It would be done in the form of a deduction for the taxpayer.

Mr TURNBULL—And how much of a deduction would that be?

Mr Glen—In that example, there would be a $1,000 deduction—

Mr TURNBULL—Is that in the submission? I could not see it.

Mr Glen—No, I meant in the example given just now.

Ms O'Keefe—We have not actually outlined an amount in terms of a deduction that you get back. We have not set caps. At this stage, it is really just an idea that should be explored further.

Mr Evans—The corresponding benefit, from a government perspective, in giving back the tax deduction for the interest, is twofold: firstly, moving people more towards self-funded retirement and, secondly, that, as they make the contribution, there are taxes associated with that, so there is some compensatory effect from doing so.

It may not necessarily be the mortgage—that is just what we thought was the main priority for these people. The concept of linking super, which is a low priority in their minds, with something which is a high priority is, we believe, the only way that we are actually going to get people to think in this regard. You can be as complex as you like in respect of the issues, such as changing RBLs and reducing tax on contributions; in reality, people do not think that way. They actually think about super a tiny amount in a week—if that. The only way you can actually get them to think about it more is to give them something which is front-of-mind, and that is where our direction actually came from with the mortgage side.

Ms O'Keefe—We have also given you some supplementary material. This shows the effect of saving now rather than later, which I think we would agree is the main intent with this demographic. We want them to save sooner rather than later so that they will have more money for retirement. The example we have put forward shows how this works. We have a person in this case study who is putting $150 into super each month for a period of 10 years. If they did what most people do today and they waited until maybe 10 years out from retirement and started doing it at age 55, they would have an accumulated super benefit—not counting SG but just looking at these contributions—of about $24,000. If on the other hand they started to contribute early because they were encouraged to, then by putting in exactly the same amount they would increase their benefit by about $110,000. In both situations, they have put in exactly the same amount of money—they have put in $18,000. In the second example, they have increased their super savings dramatically. That is the situation we want to get to. The question is: how do we encourage people to get to this point.

Mr Evans—This is particularly important for females going through broken periods of work. Most of their continuous work period, particularly with women having children at later ages these days, is from age 20 to age 35. If we could encourage them to put money in then, that would be good. The compounding effect of interest is what takes over. Having that money for that long period of time is very attractive.

Ms O'Keefe—In addition to the mortgage relief scheme, we looked at the superannuation system as it exists now and we thought that four initiatives were worthy of being considered. The first one was about co-contribution. As Grahame said, we think that should be extended to self-employed people, and also to spouses that are staying at home looking after kids and not working. We thought the spouse contribution rebate should also be increased, because it has lost its value. It has been around for eight years or thereabouts and it has always been the same amount of $540. It has not kept pace.

Thirdly, we have already touched on the 20 per cent accessibility. That is something that is definitely worth while considering. Preservation is a huge deterrent for people putting money in super. Having access to some of that would go quite a long way towards encouraging people to put money into super. One of the main deterrents is that if a person puts money into super they cannot access it. If they need an emergency fund, they cannot access it. We also brought forward the point of a medium-term savings vehicle, which I understand other people have spoken about also.

Mr CIOBO—In particular, the interest that I have in those in their 30s and 40s—and it is something that the committee has dealt with and that you touch upon—is the competing demands that these people have. A proposal that we discussed earlier today at some length was—and this ties into the issue you raised, Mr Evans, about females aged 20 to 35—looking at reducing contributions tax or perhaps even abolishing contributions tax and the tax paid when it is in the super. Would that provide a better outcome in terms of amassing an amount of money? Would that create incentive for people to put money into their super from an earlier age and therefore build up a larger lump sum in a shorter period of time as it benefits from compounding interest? I am interested in your comments as to that. The impact on revenue, which would be substantial, has to be taken into account.

Ms O'Keefe—It would help, but I do not think it would not go the whole way.

Mr Evans—I will just make the comment that it is not the superannuation system per se that is the problem. While we acknowledge the fact that having three points of tax is not necessarily the most attractive way to do things, and we believe there are other ways to simplify the system, it is trying to get them to accept superannuation from the outset as a—

Mr CIOBO—As a concept.

Mr Evans—Yes, as a concept. That is where we are struggling. That is where we are not doing a good enough job, from an industry as well as a government perspective. We need to get them to link that. We looked at the possibility of contributions tax being taken out. If we took it out altogether, we would need to basically virtually double the earnings tax. That would have a substantial impact on the budget surplus if we were to do it.

Mr TURNBULL—And there would be a time lag too, because you would have to grandfather every dollar that was in today.

Mr Evans—Which we have done all the way along.

Ms O'Keefe—Then it gets more complex again.

Mr TURNBULL—That is right.

Mr Evans—So I think the idea has merit. There is one step before that—that is, trying to get them to accept that super is the way to help build their retirement moneys over the longer term. I do not believe that fiddling around the edges—if you will excuse the expression—gets you to the spot where you need to be.

CHAIR—Going through your summary of the various things that you see as being barriers, how do you see the lack of awareness being overcome? What do you propose?

Mr Evans—We propose that an education program be implemented that is not a one-off campaign. If I can take you back to the money trees campaign that we had and, in recent times, the choice campaign, they were fine for the one-off changes or initiatives that were taking place. But, from an education perspective, a campaign needs to be repetitious, it needs to be implemented in different ways and it needs to have regard for the audience that we are looking to approach. That is an important part of the awareness issue.

The system as it stands, from a tax perspective, is still quite attractive. Even though there is complexity it is still very attractive. It is about getting the message across. Referring back to the contributions tax issue, an example is that when many of our customers get their statements they see a dollar go into their super fund and all of a sudden they have lost 15 per cent. They do not understand. They think: ‘What sort of investment is this? I have lost 15 per cent already. I put a dollar in and now I have 85 cents.’ They do not understand the nexus between pre-tax money and post-tax money and the relationship associated with the contributions tax. So it discourages them straightaway.

Mr CIOBO—At the moment in Australia a family does not have a net tax liability until their income is about $42,000, or something like that, because of the operation of family tax benefit and so on. Given the 15 per cent tax that is applied to pre-tax contributions, and given that we are trying to target this at average Australians, I am interested in your thoughts and comments about the interplay between the fact that you could have an income of $44,000, or close to $45,000, before you realise a net tax liability, and yet you would be taxed 15 per cent of contributions.

Mr Evans—That is an important point. Referring to the sheet I have distributed, from the perspective of those people on combined incomes, the figure for average weekly earnings today is not far off the combined figure, so it is more attractive for people to invest directly in other sorts of investment. But could I be so bold as to say that we are probably talking about people who are more likely, at that stage or level, to be recipients of a significant component of their retirement benefits on a taxpayer funded basis. There is also a group of people who will definitely be self-funded retirees. The middle part of the spectrum is the part we need to really concentrate on. The two ends of the spectrum are looked after, but the big part in between, which is above the level that you just mentioned, is the area—

Mr CIOBO—That should be our focus.

Mr Evans—Yes.

Mr TURNBULL—If you were to ask a valuer—and you often see this in a corporate context—to value some securities which have been subject to a lockup for two, three or four years, the illiquidity discount would be very substantial. The point about the preservation factor is a very significant one. It does impact on that amount of savings in super, because it is not accessible. An actuary would discount very significantly its value versus a similar amount of money invested in something that could be readily accessed. So it does have to be given some advantages. One thing which would be useful to us is to get your views on the relative merits of taking into account tax and the whole-of-life cycle. I have asked a number of other witnesses about this—and obviously it is not compulsory to do this; it is just a suggestion. Those views would obviously take into account assets and income tests for pensions later in life and the relative merits of different savings vehicles—say, superannuation versus investing in your own home, paying off your mortgage and, of course, investing in negatively geared investment real estate. Does superannuation appear to be really competitive with those alternative investment opportunities?

Mr Evans—I think the analysis of those different ways of investing is an important one. There are variations on super from deductible contributions to undeducted contributions, as well, and negative gearing versus the residential home. Some work has been done on this but, unfortunately, I do not have it here with me today. The question of comparing negative gearing to superannuation comes up quite regularly in the industry as an issue. We consider negative gearing as more of a medium-term environment rather than a longer term environment. Also, the risk associated with negative gearing could be summed up with the phrase ‘when you gear for profit, you gear for loss’. Whilst we may be in good economic times at the moment, it has real issues. We believe that in the longer term the deductibility side of superannuation provides a better overall result than a geared environment.

Mr TURNBULL—Would you be able to model a few examples of that? We all understand the risk of leverage but, nonetheless, risk is associated with investment in asset class. It is just that, as you say, if you levered into the investment, you have magnified your risk.

Mr Evans—Yes, we could do that for you.

Mr TURNBULL—That would be interesting.

CHAIR—On questions of complexity, have you addressed how we can make it less complex?

Ms O’Keefe—We have.

CHAIR—What are you suggesting?

Ms O’Keefe—One has been done for us, which is abolishing the superannuation surcharge. So that has gone, and that has been quite a bit of help in making it a bit simpler. The other one is abolishing RBLs. RBLs are very complex. With regard to younger people who have had SG or who will have SG for most or all of their working life, if we then want to encourage them to put money into super on top of that, there is a big chance they might exceed their RBL. We argue that RBLs act as a barrier to saving. We also have another limit in place currently—maximum deductible contribution limits—so there is really no need to have two limits.

Mr TURNBULL—The FPA were here before lunch and made exactly that point.

Ms O'Keefe—Further on that point, the number of people who pay excessive benefit tax is very small. In one of the Senate select committee reports on superannuation—I think it was *Superannuation and standards of living in retirement: the adequacy of tax arrangements for superannuation and related policy*—ASFA quoted that there were approximately 650 people each year who paid excessive benefit tax, so it is very small.

CHAIR—We saw that. It is an interesting area, and I think we might take that up.

Mr TURNBULL—Can I just make an observation. If there were someone from the Treasury here—and I made a note of the point you make on page 9 of your submission—they would say, 'Well, the RBLs are the only reason that there are a small number of people who pay excessive tax, and if you were to lift the RBLs then people would contribute right up to the maximum.' So your assertion about 'minimal impact from a budgetary perspective' is fairly optimistic. Again, if someone were looking at it from the Treasury's point of view, I think they would be a bit sceptical about that assertion.

Ms O'Keefe—But I suppose the point is that, if we encourage people to save for retirement, that means they will have money in retirement. It means also that we will not need to pay as much for social security. So we would see some benefit at the end.

Mr TURNBULL—Let me put your point in another way. If people are contributing up to the limit, up to the maximum amount that is allowed, it does seem curious that somebody could be doing that and would then have to make a whole series of calculations and assumptions about whether they are going to breach an RBL at some point in the future. There is clearly going to be a degree of apprehension about that which acts as a disincentive. So it is a good point, but I am sure the Treasury would take a more sceptical view—as they are paid to, of course.

Ms O'Keefe—Maybe the question is: do we want to pay more in taxes now or later?

Mr TURNBULL—This is the argument. We canvassed this earlier. It is not something that any of us is putting, but a lot of people make the proposition that you should not tax at all at the contributions stage and you should just increase the tax at the back end—do not tax it on the way in, do not tax on the way through, but have a tax at marginal rates at the end. But of course that is, in a sense, an intergenerational transfer. So it has that merit, but it obviously will cost a lot of money.

Mr Evans—Also, I think the question of whether it would change people's habits if we removed the RBL is in doubt. The ability for people to have excess benefits in an allocated pension and just pay normal income tax while it accrues, tax exempt, is there today, and people use that environment. I do not think removing that is really going to change people's habits.

Mr TURNBULL—If it is not going to change people's habits, why would we do it?

Mr Evans—I am talking from the point of view of trying to work the system, to put significant amounts of money into the super system to get the larger—

Mr TURNBULL—I see.

Mr Evans—It is more about trying to reduce the complexity for the younger people.

Mr Glen—I would add that the existing RBLs do not represent a substantial cost to the revenue at this stage, because of the numbers quoted—so few benefits are actually paid—so I would submit that the abolition of those RBLs is not going to prejudice the existing tax base. You then have to ask, 'What benefit does this actually provide to the community at large?' and the answer is that it provides very little benefit. All it does is that it provides a disincentive for accumulation. If, at the end of the day, people are exceeding their RBL, that may be a benefit, because we are then getting something into retirement savings which we are not getting at the moment.

Mr TURNBULL—The chairman may have canvassed this with the Treasury when he saw them recently, but, if you could perhaps flesh that out and put some numbers around it, I am sure that the chairman would be happy to give it to the Treasury for their comments.

CHAIR—That would be good, yes. We need to have a further session with the Treasury. I think some of the suggestions that have been made in Sydney today have been very worthwhile, and you might want to go through some of the transcripts, because there is a similarity in them and obviously quite a few of them appeal to us, and we would like to test them with Treasury.

Mr CIOBO—Certainly, yes.

CHAIR—So we would appreciate it if you could flesh it out. Perhaps you could give your input to our inquiry secretary.

Mr Glen—I will mention one other thing on RBLs, just so the committee is aware of it. RBL reporting does represent a substantial burden for the financial services industry in having to report these benefits. There is enormous complexity in that reporting process, and that complexity should only be maintained if it is delivering a benefit to the community.

This is very much in the same category as the superannuation surcharge, which again was an enormous burden and still is and will be, until it is worked through the system. Leaving aside the cost to the community, the RBL is an enormous burden on this industry at the moment.

CHAIR—Point taken. Thank you very much for your input. It has been very useful. If you would not mind providing the information requested by Mr Turnbull, it would be most helpful. Thank you for coming. You will be sent a copy of the *Hansard* transcript. If you have any queries, come back to us about it.

[2.29 pm]

McCRINDLE, Mr Mark William, Social Researcher, McCrindle Research Pty Ltd

CHAIR—Welcome. Although the committee does not require you to give evidence under oath, please remember that these hearings have the same standing as proceedings of the parliament. We have received from you a written submission to this inquiry. Is there anything you wish to add to it before we invite you to make an opening statement?

Mr McCrindle—No.

CHAIR—Would you like to make an opening statement?

Mr McCrindle—Yes, I would like to give you a brief background. I was commissioned by a superannuation administrator to run a qualitative research project into the attitudes of generations Y and X towards superannuation. It forms part of our ongoing studies as we track the minds and moods of consumers across different areas. That was the original background of the report which I submitted. It looked at those who were just entering their economic life—generation Ys in their early 20s, and then generation Xs, who are late-20s and 30-somethings who have had a good 10 years in the workplace—and their attitudes towards, and understanding of, superannuation.

CHAIR—I have never seen that term 'builders' before.

Mr McCrindle—It gives a little insight into the fact that they are the builders of the infrastructure and the like. Some people call them seniors but that that has an age connotation to it, so 'builders' is just another sociological term.

CHAIR—Fine. I will ask Mr Tanner to proceed with the questions while I go and make a quick phone call. Mr Turnbull will be chairing the proceedings.

Mr TANNER—I have just been going through your findings in the summary table. I noticed that when you talk about the motivations of generations X and Y, you list 'own community', 'self-discovery' and 'relational'. I understand 'self-discovery', but can you elaborate on 'own community' and 'relational'.

Mr McCrindle—It is just that community has been redefined for them. This is the generation that has grown up when the traditional nuclear family has either not been the norm or has been in decline. They have not been members, largely speaking, of scout groups and churches. Nor have they known their neighbours as much as has traditionally been the case. So that essential Maslowian need of social connection is still dear to them but they often find it in the workplace, through their education or through their close friends.

Mr TANNER—So 'own community' means that it is almost a self-created thing?

Mr McCrindle—It does. And it is a self-serving thing in many ways. There is not the same etiquette and social contract of other community groups that exist, where there are roles and responsibilities and the like.

Mr TANNER—Looking at some of the individual quotes in your submission reminded me of what I was like when I was 20. To what extent would you say that there are certain things that really do not change, and that when you are 20 the future is next week and that is about it?

Mr McCrindle—That is exactly right. That was one of the key findings of the report—they are very short term focused. One of the quotes that stands out for me is when I got talking to a guy in his early 20s about superannuation and he said, 'Look, retirement for me is two lifetimes away.' If you do the sums, he is exactly right. So it is not on their radar screen. They know they have a couple of superannuation accounts here and there but it is just not a big deal to them. They do not even see it as their own money in some ways. So that is true and has always been true of young people. That is a life stage issue.

The other big factors that define this generation, and differentiate them from people of previous generations when they were their age, are the different conditions in which they have grown up. They have superannuation from day one on the job, compared to previous generations. They are a multiple career, numerous job generation—more than has previously been the case. The massive decline in tenure is down to about two years in a job for them. Then there is the complexity of the financial world and the options they have in their redefined work life where they are not getting a job and sticking to it for ages and then retiring, but rather mixing it up with further study, travel and the like. I guess that is part of being young and it has always been the same, but the conditions, the times and the social markers that have defined them are quite different.

Mr TANNER—Would it be fair to say that the absence of a serious recession in 15 years has conditioned younger people to be not that conscious of financial risk or concerned about the longer term?

Mr McCrindle—That is exactly right. We have run a few studies on the use of credit and attitudes to money generally. The older generation are more financially conservative, generally speaking, because they grew up in those austere years. They did it tough, as you say, compared to the credit dependent generation Ys who are very much into a world of immediate gratification. They have been the most materially endowed generation and so do not have that same focus on saving and sense of personal responsibility when it comes to finances.

Mr TANNER—To what extent do you think complexity in the system is a significant factor in discouraging or disincentivising participation in superannuation? Is there a phenomenon of people being a little interested and then saying, 'Oh, no, that's all too hard'?

Mr McCrindle—That definitely came through strongly. That is one of the key outcomes. In fact, one of the key findings is that its complexity turns them off. Considering the way they learn, we call them post-logical. They do not sit down with a left-brain analytical approach and look at the numbers and do the sums. Look at the shape, size and colours—it comes in five colours—of the credit card that is being marketed. Its relevance is not in its interest rate or the bank behind it; it is a fashion product.

Mr TANNER—Post-logical?

Mr McCrindle—Post-logical, yes.

Mr TANNER—That is a synonym for 'dumb'?

Mr McCrindle—It is just a different logic. It is more a right-brain approach. Look at the marketing and you will see that it is more its creative, engaging and emotive aspects—it is those that connect with them—than the logical analysis associated with it. So it is not so much the specifications that win them over, yet this industry of superannuation is all about the specs, the data, the pie charts and the graphs; it is just too much for them. The way they learn is not by reading a manual but by fiddling with an iPod or a device. The industry's thick brochures just do not speak their language.

Mr TANNER—That is interesting and has given me a bit to think about.

CHAIR—We understand some of the issues regarding why they have trouble involving themselves in additional superannuation cover. What do you see as the solutions? You have heard some solutions from the recommendations of the previous witness, Tower. I do not know what comments you would make about some of its recommendations, but what others would you have?

Mr McCrindle—The point about complexity, which was brought up at the end, is critical. Not only do you make it simple but also that it is perceived as simple. The whole area of communication about it needs to change. Obviously, education about it needs to start a little earlier. I know that superannuation is discussed in year 10 commerce and flows through into economics, but young people do not see it as part of their world in that way and the way it is communicated does not really make sense to them.

Another big issue that relates to this generation is what we call the 'safety net syndrome'—that they say, 'Who cares anyway because, if things go badly, there'll be a government allowance or some benefit, I can move back home or there will be something in my parents' will or whatever.' They do not have the same level of personal responsibility had by their grandparents or even had by their baby boomer parents.

We worked with a financial planner helping young people to work through this so they could make decisions about their future. We sat down with them and sketched a trajectory of their life, financially speaking, in the event they chose A or B. When they saw their future self—the house they would live in, how they would look and what they would have to retire on in so many years—it made a difference. That is what they do in drug education programs. They get someone who took the wrong choices, who will say, 'I sat in that chair, I went to this school, I was like you and this is how it turned out.' In the same way, when the picture of their future is made into a reality for them, it makes a difference. That is one of the communication areas.

Accessibility is a key issue and I know that has come forward in some of the submissions. Young people felt that what was locked away was not their money. They are very pragmatic. If they could make some use of the money or even if the superannuation companies provided some education—say, their being sent to a seminar because their money was with that company—or if they just received some immediate or shorter term benefit, that would work for them also.

CHAIR—In terms of accessibility, you probably heard the suggestion of using 20 per cent of the equity in super schemes for under-40s in housing, cars, travel et cetera.

Mr McCrindle—Yes.

CHAIR—What is your view on that?

Mr McCrindle—That is what they were asking for. I do not know about the wisdom of allowing them to spend it on depreciable assets or travel. But certainly, if they could use it to get a leg into the housing market or use it to invest in some other way, then it was real to them. It was not just this pie in the sky money that apparently they will get one day in a few decades time. That also empowers them, which is critical with this generation. They then have this money that they have to make some choices over. There might be some constraints around the options they have; however, it then becomes their money—indeed, it is real, and they have some flexibility with it and some empowerment over it.

CHAIR—And the RBL?

Mr McCrindle—I am not too up with the whole technical side of reasonable benefit limits. What specifically?

CHAIR—In terms of these limits providing disincentives.

Mr TURNBULL—The opportunity was not canvassed in your research though?

Mr McCrindle—No, it was more just the attitudes and values rather than the technicalities.

Mr CIOBO—Your paragraph 3.2 touches on something that I have thought about for some time. You outline that in this nanny state, effectively, they take the view that the state will provide for them and the super guarantee will ensure that they will be looked after—

Mr TANNER—An army of young socialists is coming to get you, Steve.

Mr CIOBO—There is no real connection. Anecdotally we have heard some evidence on this. The baby boomer generation has quite a different outlook on it. I mentioned your comments to a couple of witnesses today as to whether people would be better off or worse off in providing for their retirement. Are we, in effect, by legislating mandatory superannuation and even possibly looking at extending it beyond the nine per cent it is at now, really doing ourselves and the people of Australia a disservice by encouraging complacency and a lack of responsibility for their long-term futures? Attitudinally, it would appear from your research that that is the case. Is that your experience?

Mr McCrindle—No. When they are starting their working life, they are thinking of the short term and they are happy to spend their money. They have the highest disposable income as a percentage of income spent of any generation. So to give them total freedom I do not think is the answer. In that paragraph I was discussing the fact that they have known nothing but their safety net and helmets and harnesses and all of that in this protective society. That was coming out in the research with them saying, 'If superannuation falls over or if I do not contribute anything extra, who cares, because there will be a pension for me.' So I think actually helping them see—

Mr CIOBO—You say more than that though, don't you? You say:

They know their weakness of living too much for the now, and so they like the imposed support that superannuation is. However they rely on it and expect that in its current form it will look after them ...

Mr McCrindle—Yes, true.

Mr CIOBO—That is a subtle difference to saying, 'We will fall back on the pension.'

Mr McCrindle—Yes, true.

Mr CIOBO—So which one?

Mr McCrindle—I guess my point earlier was that, if we can show them that it is real and that they need to take charge or they have some empowerment over it or some flexibility to use it for even some medium-term purposes, then they will take more charge of their financial future.

Mr CIOBO—But is that what has been happening?

Mr McCrindle—No, it is not, because they see it as something locked away. As you read there, whether it be a pension or superannuation, it will come to them one day. But they do not see it to be something that is very real to them.

Mr CIOBO—So the compulsory nature of super—am I correct in interpreting your comments—is not having an impact on people's attitude as to whether or not they are providing for their retirement?

Mr McCrindle—Yes, and particularly all of the constraints and controls that go with that compulsory nature of it. So whether it is compulsory or not is, I guess, another debate. Certainly some of the regulation around it perhaps could be released so that they do then have some level of ownership—that they see it as their own retirement future, their financial future, and therefore they take a bit of charge of that.

CHAIR—I think your survey, which ties into the other work which was done, is quite interesting. How many people took part in your survey?

Mr McCrindle—We started off two years ago with I think originally six focus groups. We run about four or five focus groups a month and this comes up in about half of them. It has been going on for about 18 months since then, with some different thoughts. I think the original research comprised about six to eight focus groups.

CHAIR—I was also looking at the difference between the various generations. It is fairly arbitrary.

Mr McCrindle—Fitting it in a table like that, it is just some broad points. Even to talk about a 40-year-old gen X and a 21-year-old gen Y in the same sentence is very broad. So obviously further segmentation is required. In terms of putting out this paper, it was just looking at some of the broader attitudes that exist and some of the values that they hold.

CHAIR—If you were the Treasurer, what three key things would you do to make super more attractive to the under-40s?

Mr McCrindle—First would be education. The communication of how it works would perhaps start earlier but would be communicated in a way that makes more sense to them.

CHAIR—What kind of education?

Mr McCrindle—Providing seminars for them. Maybe their superannuation trustee or organisation can provide seminars where they can go along and get some financial education. There are big gaps in their financial life skills. So not specifically around the technicalities of superannuation at all—those seminars, I am sure, are on offer—but just some general principles about finances as they start their working lives. The second would be understanding the redefined work life. They do not, as I said, start a job and stay in the job for 15 years, as was the case—I read one study—in the late 1950s with average tenure. It is two years and multiple jobs and multiple careers and they may well take several years out of their working life as they go here and there. Maybe we should offer some flexibility, so that it is not all just in their final retirement one day. Maybe they should have some access to it and certainly some use of it throughout their life for other purposes—further study and the like. That is the redefined work life. The third would be to help them see the trajectory of their financial future and so give them a bit of control over it.

CHAIR—How would you do that?

Mr McCrindle—Firstly, by letting them have some use of the money for, perhaps, constrained purposes—like I said, to maybe get into the home market or something else that is regulated. It just gives them a bit of ownership. Then they are suddenly taking charge of their future.

CHAIR—That ties with some of the other recommendations today. They are interesting comments. Some of their comments are in line with what we have seen before. So thank you for that, and thank you for the research. Who was it for? You did this for a range of super companies—

Mr McCrindle—Australian Administration Services was the original commissioner of the research, but then I work a lot across different industries and so we have been adding to it over the last 18 months.

CHAIR—Great. Thanks very much.

[2.48 pm]

WOODS, Mr Stephen, Private capacity

CHAIR—I now welcome Mr Stephen Woods to today’s hearing. Although the inquiry does not require you to give evidence under oath, we would ask you to respect the fact that these are proceedings of the parliament. We have received a written submission from you today. Is there anything further you would like to add, or would you like to make a general comment to the committee?

Mr Woods—I would be happy to expand on the submission. As you are no doubt well aware, superannuation in broad terms is a mechanism by which to provide adequate income to those in retirement. Mandatory superannuation systems, such as those that operate in Australia, are primarily designed to put some of the onus back on individuals in order to provide for that income stream in retirement. One of the barriers to voluntary saving in Australia that I have identified through my submission is that of the age based tax deductible limits for employer contributions. This becomes important because voluntary salary sacrifice superannuation contributions are deemed to be employer contributions, and typically employers will limit voluntary contributions up to that age based tax deductible limit. Obviously, this is counterproductive in any mechanism by which individuals are expected to save for their future retirement.

The present model is such that it caters basically for a typical average lifetime of some 40 years and it does not take into account unusual working patterns which include those taking breaks from work, which would include those people who choose to retire early, those people who have a sea change, possibly going from a high-income profession to a low-income profession, and perhaps women who want to cease work temporarily to raise a family. For those reasons, I have identified that particular issue as one which I believe is important from a personal perspective. I have therefore extrapolated that as being important to other young Australians.

CHAIR—So to what extent has it been a disincentive to you to contribute to your own super scheme through salary sacrifice?

Mr Woods—Because that limit is legislated and, typically, employers will not allow additional, voluntary, pretax salary sacrifice super contributions beyond that limit, the scope for me to personally make superannuation contributions is limited.

Mr TURNBULL—Mr Woods, I think yours is one of the shortest submissions we have received and also one of the most pertinent, because we get shown all these graphs which show interest compounding and extol the merits of people putting money into super when they are young—

CHAIR—But it has limits on it.

Mr TURNBULL—Yes, it is super which has limits on it. Mr Woods, I want to get a couple of things clear. Leaving aside the rule that you have just mentioned—the limit on an employer getting a tax deduction for super contributions, so ignoring that—if it is a salary sacrifice the employer should really be indifferent as to where the salary is applied, whether it is paid to the employee or goes into a fund, because it just part of your salary package and it is part of the employer's cost of running the business. Is that correct?

Mr Woods—Yes.

Mr TURNBULL—So the only loss to the revenue—I am thinking of what Treasury's objection to this would be—is that if you, for example, were to salary sacrifice another $25,000, the revenue would lose the difference between the contribution tax and whatever your marginal tax rate was?

Mr Woods—That is correct.

Mr TURNBULL—Conceivably, that could be anything, depending on what your MTR is, from 15 per cent—30 per cent minus 15 per cent—to 33½ per cent, or48½ per cent minus 15 per cent. Is that right?

Mr Woods—That is correct.

Mr TURNBULL—Okay, so that is the issue.

Mr Woods—There is a further issue for employers. Contributions above that limit may not be tax deductible to the particular employer, so they may be paying—

Mr TURNBULL—Well, that is the rule. But I am saying the reason for that rule is in order to limit you to salary sacrificing enough, because that would be a cost to the revenue of the difference between the contribution tax and your marginal tax rate.

Mr Woods—That is exactly right.

CHAIR—Mr Woods, are you on the top rate of tax in terms of your own contributions, so this is why you would find it most attractive?

Mr Woods—I would certainly be close to the top marginal tax rate, therefore it would be attractive to me to make salary sacrifice contributions. But I am relatively close to the limit as it is, and there is no real incentive for me to make an after-tax contribution to superannuation—

CHAIR—So are you one of those people who think they might have a sea change at some stage and so you want to prepare for that time, if you do take time out, so you are covering yourself in terms of the future?

Mr Woods—Absolutely; that is always a possibility. I want to be prepared if in the future at some stage I do decide that I want to retire early or to go to a lower paying job. I would like to have the comfort that I do have adequate funds with which to fund myself in retirement.

Mr TURNBULL—The point you make about women in particular who are contemplating taking time out to have a family, I think, is a very powerful point. Your employer and your email address have been blocked out so we do not know where you work—and I assume that is for confidentiality reasons—but I wonder whether you are an economist or whether you work in a quantitative area.

Mr Woods—I am a qualified actuary, so I am familiar with superannuation and the broader financial systems.

Mr TURNBULL—That is good. If we go back to Treasury with this, they will say, 'Great idea, but it will cost many millions of dollars.' Have you given some thought as to what this might cost the revenue? Would you be able to throw a few assumptions around that proposal? I do not know whether there is enough information in the tax statistics to enable you to do that. The objection to this is going to be one of expense. Your counterargument, of course, would be to say, 'The existence of the reasonable benefit limits mean there is a limit to the extent to which somebody could take advantage of that.'

Mr Woods—Exactly right.

Mr TURNBULL—Your proposition would be that someone in your position might throw a lot of money into super for a few years while they are young and working hard, but they are not going to throw in an unlimited amount because of the RBLs. On the other hand, virtually everyone else who has come before the committee has said the RBLs should be abolished. I suppose if you did both then there would be no limit. Could you turn your mind to what the costs might be?

Mr Woods—It is difficult to do so on the spot, obviously. I would have to look at it.

Mr TURNBULL—Of course. If you could, it might just give us something to go back to Treasury with because this is an issue that we will certainly raise with them.

Mr Woods—I certainly think that the cost at the younger ages would be minimal. Anecdotal evidence is that people very close to retirement would be the ones typically who would start throwing huge amounts of money into superannuation. I cannot see your average under-40-year-old throwing contributions into superannuation that would be significant in terms of the revenue loss to Treasury.

Mr TURNBULL—Treasury is quite good at costing this stuff.

CHAIR—That is right.

Mr TURNBULL—It is always important to have something to measure them against.

Mr Woods—With a bit more time I could look into that, if necessary.

CHAIR—That would be good. That is very interesting, and I think you make a very valid point and one which we will certainly take up. Thank you for that.

Mr Woods—Thank you for your time.

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

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 2.58 pm