COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Reference: Improving the superannuation savings of people under 40

FRIDAY, 3 FEBRUARY 2006

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Friday, 3 February 2006

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

Members in attendance: Mr Baird, Dr Emerson, Ms Grierson, Mr McArthur and Mr Tanner

Terms of reference for the inquiry:

To inquire into and report on:

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

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

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GALBRAITH, Ms Fiona Anne, Senior Legal and Compliance Manager, Australian Administration Services

CHAIR (Mr Baird)—I declare open this public hearing of the House of Representatives Standing Committee on Economics, Finance and Public Administration Committee 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 57 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, incentives in place to save, disincentives or barriers to saving, and the need to increase the awareness of the importance to save for retirement. Given recent studies into the impact of an ageing population in Australia, it is time we considered the financial wellbeing of the under-40 age group when they reach retirement age.

Today we will be hearing from representatives of Australian Administration Services, Taxpayers Australia, Guided Decisions, the Australian Council of Trade Unions, Industry Funds Forum, Mercer Human Resource Consulting and Mr Warren McKeown from RMIT University. I remind witnesses that, although the committee does not require you to give evidence under oath, this hearing is a legal proceeding of parliament and warrants the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege.

Before introducing witnesses, I will 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. I will now turn to our witnesses from the Australian Administration Services. I welcome the representative of that organisation to today's hearing. Although the committee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. We have received a written submission to this inquiry from you. Do you wish to present any additional information or make an opening statement to the committee?

Ms Galbraith—I would appreciate an opportunity to make a brief opening statement.

CHAIR—That is fine.

Ms Galbraith—Firstly, I would like to thank the committee for the opportunity to present today. The written submission is confined to the terms of reference, which is superannuation for the under-40s, but I would like to make an observation about superannuation in general which has been fairly topical in the last few weeks. The single most significant contribution towards superannuation savings would be the abolition, or at least the reduction, of the contributions tax. This has two main benefits, the most fundamental one being the compounding effect on

investments. The higher the capital amount that you start with, the bigger the rate of growth and the larger sum that you accumulate in the end.

The other major benefit is one of timing which is that, given the intergenerational issues and the increasing age dependency ratio and longer life expectancy, there will be more people in retirement in the future and fewer working. Reversing what happened with the contributions tax and moving the tax back to the time when the benefit is paid also has the benefit of increasing government revenue at the time when it is needed, when these people are in retirement.

Even this week the Prime Minister made the observation that the reduction or abolition of the contributions tax may give rise to tax minimisation: people will avoid paying income tax at the time by salary sacrificing into super and thereby it is avoidance—I do not think he used the term evasion. There is already in existence one mechanism that can mitigate that and the government could also consider another one. The one that currently exists is the deduction limits on contributions to super. There are currently three age based limits and, as a matter of policy and in consultation with Treasury from a financial aspect, the government could have regard to what it considers to be a reasonable amount to be contributed to super in any one year. That would then become the deduction limit.

I think that probably needs to be coupled with a raised awareness by employers, because I suspect there are employers who are not aware of the deduction limit and may, in fact, contribute in excess of the limit and claim the deduction. I do not know whether the ATO has mechanisms to pick that up because it is a pooled, aggregated kind of paid amount claimed as a deduction. I do not know if there are compliance regimes to detect whether employers are aware of the limit and do contribute in excess of it. If the government is aware that salary sacrifice may be used to avoid income tax currently, a limit of $70,000 or $80,000 could be set, and that will be a limiting thing in itself.

The other possibility would be a new policy—and it is one of the things that the surcharge was aimed at—to limit, maybe on a proportional basis, the amount that an employer can contribute of an employee's total remuneration. There was probably argument at the time of the surcharge that that would be difficult to legislate, but it is not difficult for an employer to determine the total remuneration to an employee. It has been done for decades as part of management accounting and, currently, they have to do it even more than they used to with tax to be paid and also reportable fringe benefits. The mechanics are already there, so you might want to consider introducing maybe a limit for employers to pay as superannuation no more than 50 per cent, 70 per cent, 80 per cent of total remuneration. This could be in conjunction with or in lieu of a fixed limit. But overall a reduction or elimination of contributions tax will manifestly improve people's super in retirement.

In that context, I was at a meeting with the ATO some years ago, with the then Deputy Commissioner for Superannuation Leo Bator, to discuss the possibility of changing SG: if you missed it by a day you had the SG charge and all the implications, but instead you would just lose deductibility for a certain period of time and then, eventually, if it were not paid then SG would kick in. I was categorically assured at this meeting that it could not be done; it is now of course being done. I suspect that, while there may be resistance to this concept—'It's too difficult to do a portion of total remuneration'—it could be achieved. But, conversely, as I have

said, there is already in place deduction limits and it may be far simpler to have a fixed dollar amount and that is it.

I can see with this that, while there may be potential for abuse at the top end of town, it really is using a sledgehammer to crack a nut. There may be some top end of town individuals who are able to do this, but the entire country is basically being penalised by having the contributions tax in place.

I will stop there on contributions tax and turn to our submission. I put a proposal in our submission which was, given the terms of reference of this committee, targeting under-40s. The first observation I would like to make is about the co-contribution, which is a great mechanism for those who can afford it. I think there are some misunderstandings about the co-contribution. I have seen references in some submissions and other things to the need for a lump sum of $1,000. That is not the case. The literature refers to it, but it is talking about an amount contributed in a particular financial year, so there is nothing to stop individuals currently with the co-contribution contributing the $20 a week. They can contribute it via employer payroll, if the employer is happy to do that; they can contribute directly to their super fund—most super funds will take small amounts. They could even make provision for it in a separate bank account and put it in at year end. It can be done. I think there is a misunderstanding that co-contribution requires the ability to save $1,000 in a lump sum, which is not the case.

The other misapprehension I have seen perpetuated is that it requires paperwork—a member to apply for co-contribution. It does not. It is an automatic mechanism, leveraging off the old surcharge reporting, where super funds report to the ATO the amount of undeducted contribution made and the ATO combines that with the individual's tax return and determines the amount of co-contribution. I just wanted to correct that misunderstanding. The reason I put into the submission an alternate proposal to the co-contribution is that we are talking about under-40s.

Under-40s classically have a lower disposable income for a number of reasons: the younger under-40s are earning less; they are often paying off HECS debts; they are saving for a house and then they have to pay off a mortgage; they are often raising children and that has all sorts of attendant consequences, such as a reduction in income, child care costs, and the costs of children themselves.

Co-contribution is not so much affording the initial $1,000 in a year. That can be done with $20 a week or sacrificing a cup of coffee. It is more that the co-contribution itself goes back into the super system. That, for an under-40, would be a major disincentive because preservation is one of the fundamentals of superannuation. It is a concessionally taxed environment, providing for retirement. I think it is important that preservation stays as a fundamental in superannuation because the money is meant to be there for retirement. However, for under-40s, that is a disincentive.

Just turning briefly to my proposal, it is that, analogous of a co-contribution but instead of a co-contribution, what comes back to the individual at the end of the year is a deduction or a part deduction or a part rebate. Obviously, Treasury would have to cost that and also figure out how it would work with co-contributions. I did that basically because that would provide more incentive for people to maybe make sacrifices along the way. At least they would be in a savings mentality and at least that money would go into super, even if the carrot at the end of the day

came back as cash, which they probably need given their financial circumstances of being under-40.

The other thing I propose, if we are looking at age, is that it reduce each year. Again, that would act as an incentive for people to do something this year and not next year or the year after. Each year that they do not do it, it is a lesser amount that comes back to them. This would get them started and then, once they are started, it would hopefully continue. Obviously, there might be years when they can afford less, or nothing, given financial constraints. For a brief introduction, that was not very brief, I am sorry.

CHAIR—I am sure our Hansard people found that, in your allocated time, you managed with rapid fire to provide a lot of words.

Ms Galbraith—Sorry.

CHAIR—That is all right. You obviously know your topic very well. Can you summarise it for us in terms of, if you were on this committee and you were part of the aged cohort we are looking at, what you would be recommending. Regard yourself as part of this committee. You obviously have constraints in terms of the organisation you are working for, but spell out simply the key recommendations that you would like to see happen.

Ms Galbraith—(1) that preservation is retained, (2) that contributions tax is removed, (3) if there is a need to focus on under-40s, that something like the deduction/rebate scheme is introduced so it is cash back at the end the year and not a co-contribution and (4)—and this is a bit more politically sensitive—that consideration be given to increasing SG by employers, even by one per cent. Everything makes a difference. Whether that is beyond the terms of reference of this committee, I do not know.

CHAIR—Yes. I take your point in terms of the contribution tax and so on. I notice that it has been run as one of the issues that could be addressed. The question that I would have is: can you see that the bottom line is going to affect people under 40 significantly? It would seem to me that one of the big incentives is those people 50 plus earning rather large incomes—merchant bankers et cetera—as a way of funnelling income into their retirement without making any taxation contribution. Isn't there a danger that it would be skewed heavily in terms of that aged cohort rather than assisting those at the bottom? They would still provide their minimum because retirement is a long way away. I think the cost of that runs into billions.

Dr EMERSON—It is between $3 billion and $4 billion.

CHAIR—Yes. So you have spent a lot in terms of that aged cohort, and you would have to question whether they are the group that would get the benefit or is it really the more seriously wealthy up at the top end of the scale that would be more likely to capitalise on it?

Ms Galbraith—That is where the age based deduction limits come in or even this proportion of remuneration matter. It is understandably a concern of the government, and therefore capping it at a fixed dollar amount might be the way to go. In that particular paradigm you are referring to, it might be interesting to reverse the current age based deduction limits, because they go up

as people get older. Maybe there is scope for reversing them and having them go down as people get older.

CHAIR—Do you think there is a need for the limits on the age contributions?

Ms Galbraith—Isn't that what you are concerned about; limiting the benefit of the contributions tax?

CHAIR—No, but should the limits that we have placed on it in terms of age ratios just be removed?

Ms Galbraith—If you are worrying about capping the cost of the contributions tax to government, removing the age deduction limits will only exacerbate the issue, whereas having one in place will keep it under control within the limits of the policy.

CHAIR—How would you see reversing it?

Ms Galbraith—That is a hypothetical proposition, but if your concern is that older people may be exploiting it—I do not know. Personally, maybe it should just be a dollar limit, irrespective of age, but if you were going to go into age, maybe there is an argument for it being the other way around. The current age based limits reflect the fact that both your gross earnings and your actual disposable income after expenses tends to go up with age. That younger people should be capped if they happen to be in a position to contribute more is questionable—the lower amounts for the younger ages—and the upper amount for the higher age group is about $100,000. Consideration could be given to just how reasonable all of these things are.

The other factor which I did not mention is reasonable benefit limits. If the high end of town, as with your merchant banker, goes too berserk with salary sacrifice and other things they are going to run into RBL problems, so there is another limiting factor there as well. I am advocating that Treasury and the government do some modelling to look at various scenarios of the interaction of things like deduction limits and RBLs and decide from a policy perspective what they are comfortable with and, if they are finetuned, leave them to do the work that they were intended to do which is, in the case of the age based deduction limits, to limit the amount contributed in any one year and, in the case of RBLs, via the concessional tax mechanism, to moderate the amount people take at concessional tax rates before they start paying at marginal rates. It has to be borne in mind that those two mechanisms are there. Therefore, the top end of the town can only go so berserk.

Dr EMERSON—We are having an inquiry into the issue of encouraging people under 40 to contribute more to superannuation. It would seem to me that the age based limit for under-40s is therefore a non-binding constraint. If they were all contributing up to the age based limit, we would not be having this inquiry.

Ms Galbraith—You are right. The reality might be that that is not acting as much of a constraint. Having said that, and bearing that in mind as well, it is an annual thing and anything that is chunked down into years sometimes has negative effects in particular years. It would be nice if it were smoothed over a longer period, but that would be impossible because our whole financial system is based on financial years.

You are quite right, and that is why my submission is based on a carrot rather than a stick. I personally philosophically prefer carrots to sticks, and I think a carrot for an under-40 is cash coming back at the end of the year because they will need it.

Dr EMERSON—Can I develop that a little bit with you. Are you saying that the employee or the contributor contributes X dollars per week during the year, gets a tax deduction and at the end of the year gets part or all of his or her contribution back as cash but the government's co-contribution goes into super?

Ms Galbraith—I think this would have to be looked at in the context of co-contribution, and I must admit I did not have time when I wrote the submission to think through how the two would work together. I just made a very helpful passing reference to consideration needing to be given to this. Whether the two would work in tandem or whether you would opt for one or the other, or quite how it would work, I do not know. I was not visualising that they would double-dip in that respect. I was visualising that they would probably have the deduction or the rebate and not the co-contribution. That would all have to be worked out.

Dr EMERSON—How much of it comes back under this formula? Let us make up a number. Someone has put in $5,000 during the year. At the end of the year they are able to claim a deduction for that. What money ends up in superannuation?

Ms Galbraith—They put the $5,000 in and it stays there, and that is part of the benefit. It is locked in through preservation. It is really up to government to decide as a matter of policy how much they would like to—

Dr EMERSON—So effectively the government gives a percentage of that back.

Ms Galbraith—Some proportion of that back, yes.

Dr EMERSON—Even though, as you say, the $5,000 goes in. But they get a tax deduction and therefore get cash relief for that contribution.

Ms Galbraith—The other observation I would like to make is about the ill fated savings rebate. The benefit of something like this is that, by virtue of the preservation, it is actually achieving a double effect: it is money for retirement, which is what the terms of reference of this is about; but also superannuation is probably unique in the financial sector in that it actually distinguishes between new money coming into the superannuation system and money just moving around the superannuation system. Part of the issue with the savings rebate was the churn thing; you really cannot distinguish whether someone is making new savings or just moving existing savings around. This has the benefit, as I noted at the end of my submission, not only of improving superannuation but it does improve savings. This individual has saved $5,000 and it is now locked into a system, so it cannot be—

Dr EMERSON—Accessed?

Ms Galbraith—Yes, it cannot be another $5,000 savings next year, because it is not accessible for them to recontribute or do something like that, so it does have a benefit to overall

net savings which is, given the trend of our society, and younger people in particular, towards consumption—

CHAIR—Which comes from the government in terms of the cash.

Dr EMERSON—It comes from public saving.

CHAIR—Yes.

Dr EMERSON—It goes into private consumption.

Ms Galbraith—That is right. It is only a proportion, I suppose, that is coming back to them, and a sliding scale one; but even at individual level, if we can encourage a mindset and a culture of saving, the fact that they have saved their $20 a week—it will be more than that for $5,000—to make the contribution in the first place hopefully starts them realising that they can actually do it, that they can make savings, even if the carrot is coming back from the government and back into the economy.

Dr EMERSON—In this world, the contributions tax has either been reduced or gone?

Ms Galbraith—I did not refer to that in the submission because I was confining it very narrowly to under-40s. I think in an ideal world, given the intergenerational equity issues that we have and the age dependency ratio increasing at the rate it is forecast to do, I think we need to have the courage to do that now to augment retirement savings in the future and also, as I said, the side benefit to doing that, in moving to the end tax, is that not only is the end tax a much fairer way of taxing an individual, because you do have a snapshot of their life there, but also it gives the government the revenue at that time when they need it for aged care, health care and the aged pension for those who are still on it. In terms of shifting it generationally, it is a kind of win-win.

CHAIR—I am not quite sure of your logic there: that if you get it on the way out you can use those funds for aged care et cetera. Why wouldn't you be able to use the same one when you tax them with the contribution tax up front?

Ms Galbraith—Because you are getting it this year and you will be spending it this year and you will not have it in—

CHAIR—But part of it could be going for aged care, though.

Ms Galbraith—It could be but it is the synchronisation between the age group who will need that expenditure and the tax benefit—

CHAIR—I see what you mean. There is more of a direct relevance rather than—

Dr EMERSON—And, given the demographic trends, it will be more important.

Ms Galbraith—Yes, and the larger the benefits grow the more tax you will be getting at the end, also bigger again because of—

CHAIR—I suppose if you were thinking about, using Mr Tanner's figure of—

Dr EMERSON—About 3.3, I think.

CHAIR—3.3 billion and you want to assist, whether that would be the better way of doing it or whether you would find other means? But it is an interesting point. It is one which the superannuation council has been pushing with me this week as well. I am sure they would like to see that as part of our recommendation, but that is another issue.

Ms Galbraith—Even a reduction would help. Abolition would be ideal but even a reduction will make a significant difference to the income and retirement savings.

Ms GRIERSON—I was very excited by your creative suggestion on how to give incentives to young people, because this inquiry is an important one because we do know that people under 40 are not contributing. If I take the test case of my own office staff in that age bracket, not one of them is making personal contributions. They all have mortgages, but not one is making personal contributions. I see your table there, which is probably generous.

But I thought it was a very creative suggestion, particularly given that the submissions we have had and the evidence and research suggest that young people have a different debt burden. They have credit debt, they have HECS debts, they have less affordable housing so they do delay super so much. It seemed to me a cash incentive is always wonderful but when I think of my own young people with HECS debts, what a way to pay your HECS debt off. It would be quite an attractive thing. It is only a tax-shifting, basically, if a cash incentive is not seen or if it had some limits, such as it has to be used for certain things like that first. You suggest that just like the health incentive, that you must join by 30 or you start paying—do you know if that has worked? I do not know if that has pushed people into private health insurance.

Ms Galbraith—I must admit, I do not. I have changed jobs this year and have not had a lot of time to read other people's submissions or transcripts of previous evidence, but I think I did see something in the little bit of reading I did last night to suggest that people are dropping out—under-40s are dropping out of health insurance because of the same financial constraints. It lacks a control test. We do not know how many of those would not have been there had the disincentive—I guess the stick scheme—been there in the first place.

Ms GRIERSON—It is probably one of the most creative suggestions I have seen that I think would be very attractive to young people because I do not think just doing away with the 15 per cent contribution tax would be enough incentive to get them to change their pattern of spending or saving.

CHAIR—There would be quite a bit of incentive at the top end, I think, wouldn't there?

Ms GRIERSON—Yes, it is very tough at the moment. I think it is one that every person in a superannuation scheme who is making contributions would find very attractive; but as Bruce has pointed out, these things get more attractive to the over-50s rather than the ones who you want to get in there, so you are not looking for ways to keep capturing savings and people.

Ms Galbraith—One of the attractions to a scheme like that is that it is really concrete and tangible as well. I think the take-up of the co-contribution is evidence of that. Even though the co-contribution itself is preserved and probably more attractive to either high net worth individuals or older people who are closer to achieving it. Something that people can see and understand—money actually coming, in the co-contribution case, back into their account, in this case, back in their tax return—has an appeal. As I said, with co-contribution you might have thought that that preservation might have acted as a deterrent for people because it was simply a contribution coming back into the super, but it did not; people have still taken that up. I think this kind of thing is something that someone can understand.

The other observation I wanted to make was that the figures were put in more for illustration, just so you can see the sliding scale visually. I am not sure that those figures themselves are—

Ms GRIERSON—It would be very hard to estimate how many would take it up but certainly if you were genuinely trying to develop policy to encourage young people, something like that would be very attractive. As you say, immediacy is important to them, liquidity is important to them as they are trying to either manage debt or acquire property or savings, so I like that.

One of the other things you were saying was about deduction limits. You suggested that employers have to check for compliance and they do not like that, obviously.

Ms Galbraith—They are the ones claiming the deduction.

Ms GRIERSON—I see, so it is in their interest to do so.

Ms Galbraith—I would suggest so. The Taxation Office would say that. Basically it is a limit on the amount that the employer can claim—or, if the person happens to be self-employed, the individual—as a tax deduction. So it will include the nine per cent SG, obviously, but to the extent that that employee, on top of that, salary sacrifices, that is considered to be an employer contribution as well. So if you have an employee with, say, $50,000. Their SG is $30,000. If they salary sacrifice another $30,000, the employer can only claim a deduction of $50,000 for that contribution, so that acts as a disincentive to salary sacrifice that last $10,000 because the employer and the employee would then have to take account of the fact that the employer cannot claim a deduction for that. So it is a limiting factor on the amount that people will salary sacrifice.

I was making that point in the bigger context of contributions tax but, as I said, it is one mechanism that has already been put in place to limit the amount of contributions to a reasonable amount. The other one of course is at the end: the reasonable benefit limit for the benefit. I am just pointing out that those two are there. There might be some revisiting on the basis of empirical evidence. Maybe the Rim Task Force and Treasury after a decade plus of SG might want to revisit those figures in a modelling context and enable some policy to be reassessed; but they are there.

Ms GRIERSON—In other submissions, not in your submission, a lot of people have suggested that they would like to be able to access their super savings for home purchase. Do you have a view on that?

Ms Galbraith—It does sound attractive, but at the end of the day superannuation is concessionally taxed for one reason and one reason only and that is for retirement income purposes. There is something to be gained for the individual, obviously, by allowing access to money from super to buy their first home, but it achieves nothing for retirement income purposes because that money is now out of superannuation and it will not give them income in retirement.

The other thing, at a more macroeconomic level, is that we had the blip with house prices that came with the First Home Owners Scheme. If consideration were to be given to this, even though I personally would be against it from a retirement income principle, someone would need to have a look at the effect that might have. All it might do is further blip house prices, which is the precise problem that the under-40s are struggling with at the moment: that house prices have gone up so much.

Ms GRIERSON—I think borrowing from yourself as well as borrowing from other people is probably not a good idea.

Ms Galbraith—Obviously, there are other means by which you can save for a deposit, but taking it out of super means it has defeated the retirement income principle.

CHAIR—I think you are right.

Ms GRIERSON—I do, too.

Mr TANNER—I want to clarify something in your proposal: when you are talking about deductions, are you talking about deduction against your total income or are you talking about deduction against your tax liability, the 15 per cent?

Ms Galbraith—No, talking about the person's individual income.

Mr TANNER—In other words, what happens is—let us assume I am under 40 which, tragically, I am not any more—that I decide to make a voluntary contribution. I am still paying the 15 per cent contributions tax but, according to your schedule, I get a deduction against my ordinary income tax.

Ms Galbraith—For a lot of under-40s who are PAYG earners and probably do not have much in the way of other income, it will end up coming back. It probably will be money coming back to them because they will not have other income to offset it against. The other point is that contributions tax is actually paid by the fund and is, in fact, the tax on the fund's income. It is the same tax that they pay on earnings. It is just that taxable contributions which are employer contributions, basically the same ones that they can claim a deduction for, are considered to be taxable income in the hands of the fund.

So even though contributions maybe more accurately should be classified as accretions of capital rather than income, from the fund's perspective they are treated as income, so there is 15 per cent paid on taxable contributions coming in from employers plus—it is not coincidental that it is the same tax rate—15 per cent paid on other income, the genuine investment income from taking that capital and putting it out to the market. So any suggestions, and I think I saw

one in another submission somewhere, about, for example, different rates of contribution tax for people under 40, are just not feasible because it is the one entity paying that tax. It is the fund.

Well, I guess they are feasible, sorry. I take that back. But administratively it would be very difficult because you are going to have to be partitioning income from all your other sources—your investment income and your income from, say, over-40s—and taxing that at 15 per cent, and then quarantining income from under-40s and taxing that at a different rate. It could be done and it is another possible solution within the terms of reference of this committee, but it would put a burden on both the administration entities and also the tax agents. You would probably be best talking to someone with some tax expertise about how much of a headache that would create.

The only other observation is that within particularly industry funds, dates of birth are not always as accurate as they could be and sometimes do not exist, so there are real issues if you suddenly find out that somebody in a particular financial year—that is why it is an issue—in fact was over 40 when your records had them as under 40. You potentially have to go back and change that fund's tax returns for all those years. We are talking about one member; and it may be a 100,000-member fund. So the concept of having to amend past tax returns because people were over 40 when you thought they were under or vice versa is potentially a nightmare. That is part of the problem with the contributions tax.

As I said, I did not submit on it because there is not an under-40, over-40 thing but overall it probably really needs to be reduced wholesale to being a different rate. That would mean there would have to be distinction again between investment income and contribution income; but that is already done, I think, in most funds' accounts. If you tax contribution income at 10 per cent and the genuine investment income at 15 per cent, that would be doable, or five per cent and 15 per cent or preferably zero per cent and 15 per cent; that is an achievable outcome. But my proposal was for the individual: for you in your personal tax return when you did it at the end of the year.

Mr TANNER—We obviously have no way of estimating likely take-up from where we sit here. How easy is it, in your view, to model or estimate, given various possible rates of take-up, effective cost of this to the revenue and then compare that with the net outcome in terms of additional retirement savings? The obvious question you have to ask about a proposal like this is, what is the cost benefit?

Ms Galbraith—How much is it going to cost? Yes. I suspect this is something, for example, the RIM Taskforce, or some other taskforce in Treasury might model. To me it is analogous to co-contributions. There is always an unknown about take-up. I think everyone was pleasantly surprised that the rate of take-up with co-contributions was higher than anticipated. I do not know what basis they do their assumptions on when they are doing that kind of modelling. I guess they could go out and do surveys. I am sure people like ASFA, the industry association and others—IFSA— would probably be happy via the funds to survey members to get indications of interest in take-up if that would help provide some empirical data for a modelling exercise to be done.

Then that and the experience of co-contributions, even though that is a slightly different beast—nevertheless it would do as an indicator—could be put into various models to figure out the most efficient percentages of deductions and rebates.

Mr TANNER—Given that we are all getting extremely agitated about the Tax Act now being 9,000 pages and it is very complex, doesn't this proposal add significantly to the complexities built into the tax system?

Ms Galbraith—I do not know how difficult it would be to legislate to put this in place. The overall trend towards drafting of legislation is that it does seem to be longer and longer. It is just a fact of life. I would not have anticipated this would have taken a huge amount to implement in practice, but it never ceases to surprise me these days how long things become. I am not sure how many pages of the Tax Act co-contributions takes up, but I would have anticipated this might be in the same sort of ballpark.

Mr TANNER—You should not treat the reference to the number of pages too literally. I am just talking about the fact that we already have a tax system that is massively complex because there was an endless array of deductions and special arrangements for particular categories of money and that it is, in a broad sense, undesirable to be adding to that. If anything, we ought to be trying to subtract.

Ms Galbraith—Yes. I put that in my submission as well. Because this is analogous to the co-contribution, this one is quite easy to administer. It does not require a tax agent or financial planner's help, if they were aware of it; but tax agents do not really need to be because I visualise that this would happen automatically behind the scenes at the ATO the same way the co-contribution does. We have the reporting mechanism where the superannuation funds report to the ATO annually about the amount of undeducted contribution, which this would be, and employer contribution that is made in respect of each member of each fund. They were historically matching that up with individual tax returns for surcharge purposes, then for surcharge and co-contributions, in future only for co-contributions.

I visualise this would be done for co-contributions and/or deduction/rebate—and that is where that has to be worked out, whether this would live next to co-contributions; I do not think in lieu of co-contributions. How would it work? I visualise that this would be done by the ATO. You would not even need on your tax return, for example, to put in the amount of undeducted contribution you made. Your super fund would be reporting that anyway, so it would just happen at the ATO. In the same way that a co-contribution is sent to the super fund today, it would be part of the amount that would be adjusted as part of that individual's taxable income and an amount credited or debited at the end of it.

Mr TANNER—Just a couple of questions on your broad observations with respect to contributions tax: any particular reasons, other than that the amounts would be bigger or the notional benefit to the individual would be bigger, as to why you would favour scrapping the contributions tax over the earnings tax?

Ms Galbraith—Over the earnings tax?

Mr TANNER—While the money is in the fund?

Ms Galbraith—It basically is the same tax. As I said, contributions are treated like earnings. They are treated as income. I have not really thought it through but the potential that Mr Baird was referring to, about the top end of town exploiting it, would be even larger if the earnings tax were zero, because the attraction of a zero tax environment to put your money into in terms of tax on earnings, is that there is a bigger incentive because there is a bigger gap then between the zero and whatever your own personal marginal tax rate is.

Mr TANNER—But you are not paying tax on the amount that is being earned other than the 15 per cent, so keep in mind that the comparison with the choice is only exercised by the individual taxpayer at the contribution stage. You do not have the choice of saying, 'I'd now like this money to be out doing something else.' Once it is in there, it is stuck there and there is no capacity to change what happens with it. It is stuck there, it is earning and those earnings currently are being taxed. So it would not change behaviour. It cannot.

Ms Galbraith—No. It is zero, for example, currently if it is supporting a pension. Once someone gets to pension age and is taking a pension, their assets are put into that and the income on that is not taxed. I guess it influences behaviour in terms of if you are sitting there and you are deciding, for example, 'Do I take this as salary from my employer'—and if you are top marginal tax rate, that is 47 per cent—'or do I put it into super?' Hang on, super is a zero tax environment, I'll put it there.' The only observation I am making is that—

Mr TANNER—But aren't you saying that the contribution tax should be zero? That is a much more immediate thing.

Ms Galbraith—Yes, it is. I suppose the observation is that still a lot of money goes into superannuation, because the long-term consequences of the difference between 15 per cent and the marginal tax rate makes it still worth doing, even though it is taxed at 15 per cent on the way in. I must admit I have not thought about the maths of this, because I am not in the financial sector.

Mr TANNER—Neither am I.

Ms Galbraith—I deal with individuals.

Mr TANNER—I just tried to do in my head before, and it is a bit complicated. My gut feeling is that if I were faced with the choice, 'Here's $100. You've got to put it into super. You can either pay 15 per cent tax on that and then have the earnings that it accumulates untaxed or you can have your full $100 but with the earnings being taxed,' it would depend on how long it is in there to some degree, but the arithmetic would end up that it would cost the revenue more to remove the contributions tax. In other words, the individual would end up better off with the full $100, even though the earnings of it are being taxed, rather than the $85 with the earnings untaxed. That would be my gut feeling.

Ms Galbraith—We are talking about quite a long time arising here, if we go right back to, say, $16, $20 through to $65, $70, and I am guessing it is probably a sliding scale. You are right, certainly, from just before retirement. In fact, it would be interesting to know at what point in time it actually, if it did at all—

Mr TANNER—Crossed over.

Ms Galbraith—flicked from one to the other. Most people probably would not be aware of that, but if you were young enough and had a long enough time horizon—

Mr TANNER—I am just looking at this from a sort of opportunity cost to the revenue. If we are going to spend a bucket-load of money on reducing super tax, where is the best place to do it? One final question—

CHAIR—We are out of time now.

Mr TANNER—Are we?

CHAIR—I am sure it is important, but—

Mr TANNER—It is the deadweight issue with contributions tax. If we were to abolish contributions tax, to what extent would we simply be, in effect, providing a tax cut for people who are already doing it and going to do it; to what extent would we simply have savings churning; to what extent would we have genuine new savings, as in we would see a net change to the nation's savings rate?

Ms Galbraith—It is tricky, because it is hard to know, in terms of a cut to the contributions tax, what effect that would have in behaviour. In the paradigm we are in, even if it did not affect behaviour at all, the fact that the nine per cent SG that is going in would actually go in at nine per cent and not effectively whatever the maths is—7.2 per cent or something—would make a huge difference. Even if not a single person out there changed their behaviour, the effect on the SG contributions alone would manifestly improve people's retirement incomes. Of course, one would expect that there would be a change in behaviour as well, at least at the margins. Some people would also voluntarily contribute more, be it by salary sacrifice or undeducted contributions.

But we have to bear in mind that the bulk of the money in the superannuation system is SG. Certainly for most individuals, particularly those under 40, virtually all their super is at nine per cent SG, so the effect of the reduction in the contributions tax on that alone is worth it, even without behavioural changes.

CHAIR—Thank you very much for your contribution. It is a very well thought out contribution, probably the most innovative of the submissions we have had, so well done on that. We would like to see you contribute in other areas too. We might test that out at two levels, and I would ask the secretariat if they could send a copy of the *Hansard* of your submission and your submission to Philippa Smith from the superannuation council, just to see what their response is. We might also see if we can get some advice from Treasury as to what they think of the proposal in terms of costings et cetera. Obviously, because you are dealing with subjective choice, it is not exactly clear what the take-up would be. Nevertheless, I think it has some innovative strength to it. Well done and thank you. We really appreciate you coming.

Ms Galbraith—Thank you.

CHAIR—You will be sent a copy of the *Hansard* in about a week, and if there are any queries get back to us.

[10.24 am]

McKEOWN, Mr Francis Warren, Senior Lecturer, Financial Planning, School of Economics, Finance and Marketing, RMIT University

CHAIR—I now welcome Mr Warren McKeown. Although the committee does not require you to give evidence under oath, you are aware that this has the same status as proceedings before the parliament, and we would appreciate it if you would bear that in mind. We have received a written submission from you in relation to this inquiry. Do you wish to make any additional submission or do you wish to make an opening statement in terms of your views on this issue?

Mr McKeown—Given the modesty of the submission, I will take the opportunity to put it in context and make some introductory remarks.

CHAIR—Yes, please go ahead.

Mr McKeown—The context of this submission was basically in discussions of superannuation with my class at RMIT. I was aware of the inquiry that was going on and I thought—

CHAIR—You lecture in what?

Mr McKeown—Superannuation and financial planning. RMIT has had a financial planning degree program for nearly 10 years. I was the first lecturer appointed and was in charge of the program, so I have had a role in education in relation to superannuation since that time. The subject which I am talking about in this particular class is called superannuation and retirement planning. Although we deal with the technical aspects of superannuation, we also look at superannuation in context with general retirement planning.

If you take a view on the end product of superannuation or other means of developing a capital base for retirement income, you could say that there are a number of ways that a capital base can be acquired, superannuation being one of them. Other means include a family home, investments outside superannuation or building up a business. There are other ways of acquiring a retirement base—through inheritance and so on—but they are probably the four mains ones that people would build up over a period of time.

When we look at those different avenues of building up a capital base, we could say that there is a lot of competition there for the person’s dollar, about where they might invest it. We might also say that, within the context of each of those choices, there is a cultural aspect, there is a marketing aspect, there are rules and regulations which apply and there are taxation consequences. For instance, if we look at the family home, it is embedded in our culture to build or buy a home. Investment properties have been around for a long time and are part of our culture as well. Building a business is another aspect of our general culture. Superannuation is the new kid on the block. It has only been around for a few years.

CHAIR—I notice you did not put shares in there.

Mr McKeown—Property and shares, being the outside superannuation choice.

CHAIR—Yes.

Mr McKeown—If we think of the general marketing aspects, for instance, the encouragement for developing housing has come from government through the first home buyers grant and the tax-free status of family homes. In relation to investment properties, their particular aspects are things like the marketing spiel by property developers, and we have seen the consequence of that.

CHAIR—Negative gearing.

Mr McKeown—Yes, there are tax advantages there, and the rules are much simpler than those for superannuation. You have a negative gearing advantage, which is often promoted by the spruikers, and you also have a lowering of the capital gains tax impact, effectively, since 1999. I think there has been some correlation developed with housing price rises since about that period of time, with the slight change in the capital gains tax impact.

One aspect of the marketing of investment properties has been the almost non-regulation of the marketeers and the promoters of property development compared with the marketeers of superannuation products. You have probably received telephone calls at home from people inviting you to property seminars, even though it might not be said it is a property seminar in the first place. The regulations now prevent financial planners from doing that sort of thing. So there is a restriction, I think, on the marketing aspect of these types of choices people have about where to place their dollars.

In relation to the choice of building up a business, in many cases, depending on someone's entrepreneurial drive and so on, they might prefer to put their dollars into building up their landscaping business, buying a second hair salon, or whatever it might be, or building up the equipment they need to run their own business and what they would like to do.

In all that context, superannuation is seen to have complexity of rules, it has some marketing impediments and it is probably seen as more complex, apart from the fact of the longevity of locking the money away. In all of that, superannuation, from my perspective, is seen as one means by which you are building up the capital base from which you might fund retirement income at some stage in the future.

CHAIR—What should we be doing to make it more attractive? What are the incentives and disincentives that you can see?

Mr McKeown—We have competing avenues for that investment dollar, apart from the expenses involved with schooling and so on. If we focused on the under-40s, we would probably find, by various bits of research, that there may not be many extra dollars around to put into superannuation, so it is a matter of deciding which way to go. If we looked at it closely, we would probably find that there are more disincentives to putting money into superannuation compared with the incentives of putting the money elsewhere. To make superannuation more

attractive, I believe there needs to be a loosening of those disincentives and perhaps some disincentives being placed in other areas.

CHAIR—Which of the disincentives would you like to see removed?

Dr EMERSON—You are heading him down the negative gearing path.

Mr McKeown—There is enough on the negative gearing plate, and I guess this is where it is coming from. The regulatory regime of people promoting negative gearing is one aspect. As a financial planner as well, I am aware of the nature of the compliance we need to go through for any particular matters of advising clients in terms of FSRA and so on, whereas with property development and property spruiking there is much less restriction. I think you might find, especially over the last few years, with people caught up in property deals that the knowledge base, the attractiveness and so on was put over in a way which made it appear much more appealing than locking your money away in super. In fact, it is quite often put across that it is an alternative to superannuation and better than superannuation, so there is that marketing aspect which needs to be addressed.

Ms GRIERSON—But that may be true if people are in and out of jobs or are on low incomes or are very mobile in the work force. That may be seen as something more tangible than super and more attractive to them. How do you balance that out?

Mr McKeown—I think one of the things with more casualisation in the work force—people changing jobs—especially where young women might be working for a while but then look after children for a period of time, is that they need access to some of their savings or cash. I have read some of the submissions and I am a bit attracted to what Mercer might say this afternoon in terms of putting some money into superannuation but with the right to withdraw some of it to use for other things. In a sense, that would counteract some of the longevity of the money being locked away for a long period of time. It would give people some liquidity access to what they might need when they might need it. I think something of that nature—access to some of the super—might be an incentive to put money into superannuation if they know they can pull some out if need be. Within the Singapore regime and the 401k plans in the United States, I know that there are avenues to withdraw some money for purposes like that, for more immediate lifetime needs.

Mr TANNER—Isn't that self-defeating, in the sense that it actually ceases to be superannuation and just becomes, in effect, a concessional savings regime?

Mr McKeown—Yes, I agree. But I think the way the under-40s or anyone might see it is that they have an immediate need to be satisfied. Priorities come into play and they might say, 'Well, this is what I need right at this minute. This is what I need to do here. So I've got access. Where am I going to get the funds for doing this? Okay, that's an avenue I have got,' as opposed to leaving future dollars for the future benefit, yes. I understand the purpose of superannuation and my students that I had understand it, but their attitude still is that they would rather satisfy the immediate need than the longer term.

Mr TANNER—Which ultimately calls into question the core philosophical issue which is underneath all of these debates which is compulsion versus voluntaryism and whether the

society at large should impose compulsorily upon people an obligation to save for their retirement, even if their propensity is to do the opposite. That is ultimately a political value judgment question, but that is underneath your comments. The implication of your comments is let the individual choose.

Mr McKeown—Yes. Sorry, was there a question in that?

Mr TANNER—Yes. I am interested in your response. Aren't you leading to a point where compulsion should be abandoned?

Mr McKeown—Making extra contributions compulsory is something that I think would be rejected by that particular group. If there was an opportunity to voluntarily put some in, there may be periods of time when young people, before they become a family, have an opportunity to put some money aside. They can see the benefit of putting some money aside. I do not know how well the concept of compound growth is really understood. The financial literacy aspect is an area that I am interested in.

Mr TANNER—My gut feeling is not very well.

Mr McKeown—Yes. There are plenty of examples to show the compounding impact over a long period of time of placing more money into superannuation first, but the selection of the asset allocation is a very important aspect, too. That is another part of financial literacy which is not well understood. I think if there is a voluntary aspect to it, being able to access some of it may provide some sort of incentive to use superannuation compared with the negative gearing type approach. One of the things against superannuation, of course, is that whatever money goes into superannuation cannot be used as leverage for any borrowings, so it is locked away for that purpose, whereas if they are involved with a negative gearing project they have an asset in which they build up equity and they can then use that for further borrowings, if they need to.

Dr EMERSON—Without being seen as a defender of debt finance property speculation, isn't negative gearing and investment in properties another form of saving, and isn't the objective to increase savings for retirement? It seems to me that it is not as if the money that goes into investment properties is then all squandered before people reach retirement age.

Ms GRIERSON—And it is part of their retirement plan.

Dr EMERSON—Just like shares. As Bruce said at the outset, people might choose a share portfolio, they might choose a property portfolio. Is it all that bad if there is some investment in investment properties?

Mr TANNER—Is there less risk? It is a single portfolio instead of a diversified portfolio.

Mr McKeown—No. I can see an advantage in having a diversified portfolio, whether it be shares, property or whatever, but you have a whole lot of elements about building up a property portfolio because the marketeers are pushing you to buy another property every three or four years and build on the equity. The danger with that, of course, is if you do not get a constant rate of growth to build that equity—you might find that your property is in an area which has a decline in values for a period of time, or you might not get a tenant, and so on, and that might

come unstuck—rather than a theoretical view of having a property, property, property being built up over, say, a 20-year period. Certainly negative gearing into one or two properties might be managed but then you do not have the huge risk of the interest rate change which might come about with multiple properties.

Dr EMERSON—As Lindsay said, what happens in super is really a diversification of risk.

Mr McKeown—Again, it is a matter of understanding the risk involved and the financial literacy in a much broader sense.

Dr EMERSON—Yes. Australian superannuation assets are over $750 billion now. Could you guess what they would be if there was not a nine per cent compulsory superannuation contribution and we went down your path and said it should be all voluntary?

Mr McKeown—I do not think I have said that the whole thing should be voluntary.

Mr TANNER—No, I do not think you have. I was verballing you just a bit.

Dr EMERSON—I am compounding the verballing!

Mr McKeown—I think the nine per cent contribution is something which is now, in a sense, part of our developing culture. We are accepting that. As a basis, I am not questioning that at all. But in regard to the matter of encouraging under-40s to put money into superannuation, there is little encouragement at the moment. The alternatives that they have are things that they are more attracted to.

Mr TANNER—Sorry to interrupt, Craig. The difficulty with that is that the people we are interested in are those who are not investing in anything.

Dr EMERSON—That is right.

Mr TANNER—We are not really worried about the people who are choosing to get a negatively geared investment property rather than investing in superannuation. There are obvious issues there, but our remit is basically people who are just simply living for today. The core question we have to grapple with is: is there some kind of relatively cost-effective way that we can improve the incentives for that group of people—which is very large—to start making contributions to superannuation? My difficulty with what you are suggesting is that it seems to me to be self-defeating. It is basically a consumption versus savings paradigm and we are trying to shift a bit from consumption to savings. You are essentially saying that, providing they can still consume it, we will give them an incentive by saying, 'You can still consume it.' It seems to me, depending on the magnitude of what you permit, it is a bit self-defeating. It does not really advance us down that path.

Mr McKeown—When we start to look at those that have no option—investment properties out of the scene—you come down to their priorities of their own house. That might well be their own investment compared with superannuation. Then you come into the picture of what extra funds they have available to invest: do they have any?

The group that I was speaking to were looking, more or less, at what their expense accounts were going to be over the time—the costs of running a family; saving for a house; paying child care fees which are quite substantial; then if they choose private education, the costs of private education. So rather than investment in an asset, they can see the needs of meeting their normal living expenses have increased relatively over time compared with what they had before so I do not think they have those extra dollars available. That is something which, if we are looking at this cohort of under-40s who have probably more modest income levels, I think the pressures on the family and the expense of meeting those family costs are things which inhibit them from even thinking about putting more money into super.

Mr TANNER—Most of all that is choice. You do not have to send your kids to a private school.

Mr McKeown—I agree, yes. But then you have some subtle cultural pressures being brought to bear. We could get involved in discussion about private/public school education but I do not think that is where we are going. Certainly I agree that choice is something which people have and they have to make decisions about how they are going to spend their money. When I reflect on the views of the students who I was talking with, even though they understood the superannuation intentions, they could see that they had debt to repay in the first few years.

This is a group who had a HECS debt; many will not. Saving the deposit gap on housing was something which they really felt was going to be an inhibitor for them. For instance, recently there was a report that the average cost of housing in Sydney was something like eight times the annual average income, whereas the long-term average was something like three and a half times the average income, so the deposit gap has got way ahead. If they leave university, for instance—this particular group—they are behind by about $25,000 to $30,000 in HECS, plus car debt, plus credit card debt, and so on, and they have to start making dollars to pay that.

I am really coming to the fact that there really needs to be a bit more investigation into the choices people have about where they are going to spend their money, what they spend their money on, and how many extra dollars they have to do that. If you look at the Australian Unity Wellbeing Index, the age group between 25 and 40 or thereabouts effectively have a lower wellbeing index. I suspect it is because of the pressures of family costs that they are under for that period of time. In my submission there are some simple statements: if people defer having children until they are 30 or so, they will have their children until they are 48. The children will not be even in their teens by the time they are 40 so they have not really hit the expensive period of time yet.

Mr TANNER—I am in precisely that position.

Dr EMERSON—Given that it is ultimately a matter of choice to pay private school fees and so on, isn’t it about changing relative prices to make some choices more attractive?

Mr McKeown—Yes.

Dr EMERSON—That is why we were talking earlier about the contributions tax and other aspects of making superannuation more attractive for young people who we know are confronted more than anyone else with the reality of preservation. That is the unattractive part, but the

essence of superannuation is preservation. We are debating here the changing of relative prices, I think, of these different assets or the relative returns, including the relative prices of consumption and saving. But is it such a bad thing that, given that there is a nine per cent compulsory element already, young people up to an age give priority to home ownership, paying off HECS which they consciously do because they consciously went to university and so on, only kick in the nine and then at age 35 say, 'Right, the preservation time is now shorter for me and I now rationally will get a better discounted rate of return from putting in some money now?' That is the way people are behaving; tending to put more in from, say, 35-plus. Given that there is nine going in at the front end, maybe that is not a bad scheme.

Mr McKeown—I think the capacity to put more in after age 40—45 effectively—is where the larger lumps can come in. If you think of it in another perspective of that age group, they might well have the inheritance starting to flow through—transfer of wealth from parents and so on. Not everyone is going to benefit from that, but there will be a fair proportion of the population that will. That lump of money will either go to pay off a mortgage or into super especially as an undeducted contribution, where it becomes very advantaged at that point. So there is a lifetime of spending patterns and so on, and then the opportunity to put more into superannuation over the age of 40 I think is a very real one.

Dr EMERSON—Maybe we should be thinking not in terms of under-40s because that includes everyone who is 18 or 17, and the price changes that would have to be made would be enormous to try to convince an 18-year-old voluntarily to put more into super. You would have to get rid of the contributions tax in order for them to be remotely interested in it. I know, Chairman, our terms of reference are up to age 40, but there might be a much more responsive cohort within that range up to 40—I am making up a number; say, 35—where the task is to get 35-year-olds or 33-year-olds into it but not bash our heads against a brick wall to try to convince 18-year-olds to go into super beyond the nine per cent.

Mr McKeown—That is the age group of some of my kids and their focus is on their mortgage. They are still pre-kids so they have all of that ahead of them. I think in the early 30s is too early to really say that there is going to be a focus on putting more money into superannuation. One of the things which is a big focus for a lot of people is the family home. It is a focus to acquire a family home and, in many areas, having a family home could be a status thing as well. More dollars go into that because there are tax advantages down the track and people have the view that they will live in this home for a while and then later on when they get to retirement they will downsize. Also, I think we will see more of this as time goes on: access to the capital built up through a reverse mortgage is another way that people will see that their retirement funding is being met.

CHAIR—What did you think of the presentation before you by Fiona Galbraith? The committee were quite attracted to that, so I would be interested in your comments.

Mr McKeown—From what I could hear, there were a lot of technical adjustments, finetuning, to what superannuation is about. Would that be the general gist?

Ms Galbraith—Basically calling for contributions tax to be reduced.

Mr McKeown—Yes, the 15 per cent contributions tax. The issue now with the lowering of the marginal rates is that super has lost its relative attraction. Lower income earners only pay 15 per cent and the contributions tax is 15 per cent. Where is the real advantage? Then you get the income group up to $60,000-odd. They pay marginal tax of 30 per cent. The relative advantage of super has been diminished by the change in the marginal tax rates in the past few years.

CHAIR—I was particularly interested in this cash-back proposal of incentives, which was a novel approach that we have not seen before.

Mr McKeown—I must admit that I did not take all of that in. I was concentrating on what I was going to talk about.

CHAIR—Okay, no problems. We now welcome the Hon. Stewart McArthur MP to our committee. I would like to thank you for your contribution today about the variety of choices. The interesting one is in terms of your approach at the university to look at the various ways of savings. Sometimes you can get myopic about super and people do have these varying competitive areas with different types of tax incentives that apply. That is part of the distortion that occurs.

Mr McKeown—The perception of the taxation on superannuation is often misunderstood. It is often spoken about three levels of tax on superannuation. It is true, in part: you have a contributions tax, yes. If you put money into superannuation as a voluntary matter, no tax. The tax on earnings of 15 per cent is a maximum tax. It can be minimised, depending on imputation credits used within the fund.

Mr TANNER—About seven or eight per cent, I am told, that can be minimised.

Mr McKeown—If you run a self-managed super fund, depending on the level of contributions and your asset weighting, you could have zero. If you had about a 60 per cent weighting for shares and very low contributions coming in, effectively you get a refund of the imputation credits and wipe out tax. When you come to the exit tax, that only applies if it is a withdrawal as a lump sum. If you take it as a pension, you get tax concessions to take the money out. There is a lot of misunderstanding, I think, even from people who should know because of their level of education and so on.

Dr EMERSON—I wonder why the Business Coalition for Tax Reform yesterday put out a document advocating the removal of negative gearing. I was surprised that the media did not talk about that.

CHAIR—All right. I will be interested to find out who that involves. Thanks very much, Mr McKeown, for coming today. It would be interesting to listen to your students—to have brought them as an age cohort of interest. We appreciate you coming. You will be sent a copy of the *Hansard* in about a week. If there are any queries, come back to us. We will now have a short break.

Proceedings suspended from 10.53 am to 11.14 am

PERRY, Mr Michael Alastair, Superannuation Specialist, Taxpayers Australia

CHAIR—I now welcome the representative of Taxpayers Australia to today's hearing. Do you have any comments to make on the capacity in which you appear?

Mr Perry—I represent Taxpayers Australia through Superannuation Australia, which is a subsidiary of Taxpayers Australia. We are a member based organisation that is a nonprofit advocacy group representing the interests of self-managed super funds and taxpayers.

CHAIR—That is all we need for today, in terms of this part of it anyway. I am happy for you to elaborate later. As you are aware, this inquiry has the same standing as proceedings before the parliament. We have a submission from Taxpayers Australia in front of us. If you would now like to proceed to your formal presentation, you can elaborate on your paper and explain how your organisation operates.

Mr Perry—In terms of our organisation, our business is basically to educate and inform members and taxpayers about superannuation and tax. We do this with either electronic or physical publications and we do it through seminars and other products—typically, help lines and that sort of thing. Having said that, we support the measures generally that enhance the attractiveness of superannuation, particularly those aimed at encouraging savings, and we also support those that improve access to benefits for retirees. Essentially, we like to believe—and I think we do—that we represent the interests of self-managed super.

I am not 100 per cent familiar with the studies that came up with the view that the under-40s savings alone were below what they ought to be or what the benchmarking was. Our general perception is that super is below par in terms of savings. Obviously, if there is a shortfall, we need to deal with that. The point we want to make is that the shortfall is primarily due to other needs that are pulling on the taxpayer in the under-40s demographic. They are things that we would all be relatively familiar with—living expenses, housing, mortgage, cars, travel, family rearing, parental responsibilities and those sorts of things. That is one of the issues that needs to be taken on board when you are looking at the aggregate in terms of savings and is one factor that is obviously going to impact on that.

There are other problems that perhaps need to be looked at as well, one of which is that super cannot be viewed simply as a saving because it is deposited and there is just no access. To some extent, that has been eased a little bit in terms of the over-55s, but certainly for the under-40s there is really no access to super. So instead of potentially saving in super, they will set up a separate account and save in that. As to how that is done, there are issues of whether it is undeducted contributions that are accessible or a percentage of the account balance or whatever. The perception that we have is that if people have it at the back of their minds that, 'Yes, if things are difficult, we can have some access,' they will be inclined to put more into super and, chances are, most times they will not access it.

There are other problems in terms of quantification—how people assess whether it is worth putting something into super or not. We are looking at long-term horizons. When you are talking about issues that the average person is having some difficulty with and different pictures are

being painted, perhaps there is a need for some sort of standard so that we are comparing apples with apples rather than apples with oranges.

A number of issues have arisen recently that have improved the ability to contribute to super, and I have covered those in the submission. Essentially, these are the ones that have happened in the last couple of years. The issue of contributions tax has been topical recently. Clearly, if that goes through there will be an improvement right across the board in terms of savings. That is the other issue in terms of what people perceive about superannuation. In the nineties I think Vincent FitzGerald said we needed to have something of the order of 15 per cent super savings. Effectively, if you are talking just SG, it is now about 7.6 per cent. Some people say, ‘Well, we are contributing to super, so that’ll probably be all right.’ others do not know and others say, ‘Look, there will be more time later on because we’re having longer lives in the work force and therefore we’ll have more opportunities to save.’ I will draw the line at that point. If you would like to ask any questions, I will be more than happy to try and answer them.

CHAIR—Given that you represent the taxpayers, I presume that you would be interested in some of the key recommendations we have had regarding the contributions surcharge and so on. What are your views, first of all, on that? I presume that de facto, by virtue of the name of your organisation, you would be in favour of that. Or would you be more interested in redirecting tax reductions in other areas, if you were going to spend the $3 billion plus that is collected from that surcharge?

Mr Perry—Our initial reaction to any reduction in tax is always a tick. We think that that is a good thing. In regard to this particular tax, again there is a perception issue. Sure, at the one level what had previously been 7.6 per cent now, because of the tax, becomes fully nine per cent and so obviously that is a plus. But underlying that is the perception in people’s minds, ‘Look, if I do some salary sacrifice; if I do some discretionary savings into super, heck, it all goes into my account,’ and I think that in itself is a big plus. I am sure that that will actually see people making greater contributions to super.

In terms of your question as to whether it is the best use of the resources, I think that it is a good use of the resources. Whether it is the best, I am hard-pressed to answer clearly because there is a whole swag of things that I could say also need to be attended to. I would still say that it is certainly a positive that we should be going down that track.

CHAIR—Would you like to see the introduction of mandatory personal contribution? Do you have any views on that?

Mr Perry—We currently have mandatory contributions for people associated with super guarantee—that is, for employees. Are you suggesting that there should be something to include the self-employed and the substantially self-employed?

CHAIR—Yes.

Mr Perry—I am a bit reluctant to say that it should be mandatory. It is hard to generalise on this. What we tend to find is that the people who are in a position of being self-employed are inclined to look at ways and means of getting funds into super. Essentially, it is a tax deduction

so people will tend to do that. As to whether it needs to be mandatory, I am not quite sure that I would go down that track. Again, it is hard to generalise.

CHAIR—Because of the nature of your organisation, does it worry you in terms of the discrepancy that occurs with various incentives? One of our previous speakers, Mr McKeown from RMIT, talked about the various ways that people can make savings and the different taxation impact of four major decision areas that you could make in terms of looking for your longer term future and accumulation of wealth. The tax benefit varies. Would you see any possibility of how we could have a more coordinated approach on that?

Mr Perry—The premise I would start from is that wealthier people have, almost by definition, greater aggregate benefit out of any sort of tax elimination or anything like that. We could go down a separate argument on that one as to whether that is equitable or not. But that being the case, obviously if we looked at something like the contributions tax, if you are in a position where you can put a lot more into super, you get a lot more tax benefit. It is really apples and oranges trying to compare an employee on a $30,000 or $40,000 salary versus someone who is self-employed and can make a $100,000 contribution to super and have it tax deductible. Obviously I do not want to go down that track because I will probably get myself tied up in more knots than anything else, but I see where you are coming from: that there is this disparity, this discrepancy, between how the system will view you in terms of where you are on that income scale.

CHAIR—There was also a recommendation made earlier about cash-back proposals for some of our younger people in terms of incentives for contributing personally through taxation mechanisms. The government would provide a cash-back provision. This is the first time that we have seen this proposal.

Mr Perry—In a sense, it is similar but not exactly the same as the co-contribution. It would probably require some type of contribution, with no limits in terms of whether the person was employed or self-employed or—

CHAIR—It really is a government co-contribution increase, I suppose, isn’t it?

Mr Perry—Yes, that is right.

Dr EMERSON—But not exactly, because the cash that comes back as a tax refund or a tax reduction is available for spending right there and then, whereas the co-contribution goes all the way to preservation age.

Mr Perry—Yes. I touched on that earlier on. Let us say that people’s extra savings go into superannuation. If they could reasonably access some of that—most of the time they will not need to but if they know they can—I sense that that in itself will be a help. If they had this additional incentive that you just mentioned—that they could make some contribution and get something back in terms of cash back—I think that would be very good.

Dr EMERSON—In terms of the debate about the contributions tax, I wonder whether there is an argument, given that we are talking about under-40s, to relate it to income. The chairman raised the example of someone who is, say, 50-plus and perhaps approaching preservation age

getting the benefit of the abolition of the 15 per cent contributions tax and then saying, 'You beaut, I'll put in as much as I can,' whereas people who are in their early 20s and on a low income may not. I wonder if it therefore makes sense to say, 'Well, for low-income people, where they are stretched, we'll abolish the contributions tax but for high-income people we just won't give a gift.' Is there any argument for an income related reduction in the contributions tax?

Mr Perry—Simple equity may well support that argument. We have a whole group of people in our system who have not had the benefit of 30 years of superannuation behind them, and so there are all sorts of transitions and issues that need to be dealt with in regard to them.

Dr EMERSON—Yes.

Mr Perry—If you take that on board—that that is a given—going back to the younger ones, it certainly would not be a bad way to start. If the argument is, 'Do we have it or not have it?' you can start off by saying, 'Well, you have it,' and at least have it with some sort of income test and then maybe see how it goes. If it is working well, improve it. Personally or philosophically, I think that is a better step than not having it at all.

Ms GRIERSON—In your submission you talk about the cost of financial planning advice and how it is very difficult for, particularly, young people to get good advice. We had a submission at one stage in which a young person suggested that they should be able to use their super savings to pay for good financial advice. Should there be some sort of tax deduction, at a higher benefit, so that young people can access financial advice? What is your view on improving that access for young people?

Mr Perry—We have a strong view that it is not only young people, but that everyone needs at least some vestige of financial sense. Your proposition is an excellent one. Whether it gets taught in schools and whatnot—wherever it is taught—it is, in my view, a good thing. We like to think that we are doing it, but our membership is primarily an older age group. There are two groups; the advisers and the mums and dads. The mums and dads are primarily those who are seeing retirement just over the horizon, whereas the younger ones are not the ones that we are currently assisting, educating, training or anything like that.

Ms GRIERSON—Do you think the funds would ever come at having to give compulsory financial advice to new subscribers—first-time joiners of superannuation—like young subscribers?

Mr Perry—I am sure that the funds would be more than happy to do that. I do not represent that group, but—

Ms GRIERSON—No, we will have to ask them.

Mr Perry—I think the problem may well be that at the moment—and I am not a diplomat—the financial services industry does not have a very good name. We are almost imbued with the view now that you really do not want to go to them because you want—

Ms GRIERSON—Don't trust anyone!

Mr Perry—to get independent advice, and it is very hard to get it.

Ms GRIERSON—You also talk about personalised statements and having more relevant information on people's annual superannuation statements. Can you elaborate on that for us.

Mr Perry—That was not a submission that we made, but I can certainly make a comment on it.

Ms GRIERSON—I am sorry, I thought it was your submission.

Mr Perry—It has to be something that is meaningful. It is a hand and glove situation, where the industry, I think, would reasonably argue that what they are providing is sensible stuff. Unfortunately there is a disjoint between the man in the street and his knowledge of terms: 'quarterly distributions' may mean one thing to that person and something else to the other. Some simple standards, some simple metrics, which everyone uses, and similar formats, would probably help. I always keep saying 'simple', but that is what we want to do; get the first order of things sorted before we worry about the second order of things.

Ms GRIERSON—Yes, understandable. Thank you.

Mr TANNER—You mentioned a figure of effective 7.6 per cent contribution at the moment. It is not a figure I have heard before. What is the calculation of that?

Mr Perry—It is simply 85 per cent of nine per cent.

Mr TANNER—Right. You are excluding the tax in that.

Mr Perry—It sounds a little more impressive if you then say that if you take the contribution tax away, it is a benefit on 7.6 per cent, so that instead of getting 15 per cent back, you can claim you got 17.6 per cent. It is a little bit of a game with numbers, but essentially that is what it is.

CHAIR—If you were in our role here, in terms of coming up with proposals for under-40s and trying to look at the key disincentives and incentives, what would you be putting forward to the government?

Mr Perry—This is not one that we came up with, but I do like the idea of being able to give some sort of a cash incentive to somebody who has made that contribution. I am trying to answer your question but my gut feeling is pulling me in another direction—that is, there are literally all these other pulls on a person's income, so it gets difficult to see the average person—who is not in the position of suddenly getting a windfall or on a huge salary or something like that—being able to find the extra cash. The suggestion by one of the earlier speakers to make some form of a cash incentive might be a good one.

CHAIR—Fiona Galbraith was the author of that proposal; she is sitting there listening to you.

Mr Perry—Good on you, Fiona. The other one is the contribution tax. If that comes off and people can actually see that every dollar they put in will go into their account, that would be something. If we are really tight for funds—and I am not in a position to know that—it could be

phased in; Dr Emerson suggested possibly some income test or something of that description; anything that will start it off, and people can see that their contribution is going straight into their account.

The other issue is the real dilemma that people have—that is, when you put money into managed funds, you tend to keep losing bits of it as time goes on. Sure, you are making money on your investments, and that is the other dilemma: people think, ‘We’ve got these things in here for 40 years and we’re going to have these ongoing charges along the way.’ I am not suggesting that they should be eliminated or anything, but that is an issue. How you eliminate them is another matter. The trouble is if you eliminate them they are no longer transparent and you do not know what is going on.

CHAIR—Thank you for that. Thank you for coming today. We appreciate your input. You will be sent a copy of the *Hansard* in about a week for you to check through to see if there are any problems.

Mr Perry—Thank you very much.

CHAIR—We will now have a short break.

Proceedings suspended from 11.39 am to 11.45 am

SHUTTLEWORTH, Mr Daniel, Principal, Guided Decisions

STEWART, Mr Anthony Benedict, Principal, Guided Decisions

CHAIR—I now welcome representatives of Guided Decisions to today's hearing. Although the committee does not require you to give evidence under oath, the proceedings today have the same status and standing as the proceedings before the parliament. You have made a submission to us and we would appreciate you now proceeding to outline your submission and the areas in which you think the committee should be addressing in terms of our deliberations on superannuation for the under-40s; the incentives and disincentives we should be looking at and how we can encourage more young people to get into super schemes. Perhaps a little bit of background advice in terms of your organisation, too, might be useful for committee members.

Mr Stewart—Guided Decisions is a company that we have established in the last 18 months. We specialise in developing integrated guidance and advice services for financial services companies. In terms of experience, there are three principal members with actuarial experience, financial planning and funds management. Basically, we have spent the majority of our working life in the financial services industry and we have recently broken away from the larger corporate life to establish our own business in this area.

CHAIR—You come with backgrounds in the major super scheme companies, do you?

Mr Stewart—That is right. I have worked at AXA—which was National Mutual—in particular roles of product management in superannuation, pension and unit trust products. I have also worked in funds management and distribution advice areas, and I have qualifications in financial planning, amongst other things.

CHAIR—Good background for us.

Mr Shuttleworth—My background more recently is with MLC and National Australia Bank. I am a qualified actuary by profession and I have sat on boards of trustees for superannuation companies.

CHAIR—Okay.

Mr Stewart—To give a summary of our paper, the thrust of it is really to try and identify and explain what we perceive as a large education advice gap in the current environment. To explain that, at one end we have the super funds providing information. They hold seminars; provide tools to help people understand their funds, and the various aspects of the superannuation environment. At the other end we have financial advisers, and the perception that they are expensive and difficult to access. We think there is a large gap there and, as a result of that, a need for guidance and advice services.

If you look at the current Australian superannuation environment, it is extremely complex. We have superannuation regulations, interwoven with taxation and social security regulations. The other thing is that there is little involvement from superannuation members, especially in the

under-40s market. There is apathy, there is a lack of active decision making, and we believe this is due to the complexity of the environment and also a lack of relevance to them. They have other financial issues and aspects. You have probably seen the survey studies and research which show that the average Australian is just contributing the mandatory nine per cent and the money that is contributed goes into a default balance portfolio. So there is no decision making, no involvement in it.

We believe that, if there was a little bit of guidance and advice in the early years, it would make a significant difference: guidance in the areas of helping people to set realistic goals and expectations for their retirement savings and retirement; guidance and direction in terms of their funding position now and where they can expect to go in the future; looking at how people contribute in terms of how much and what is the right way, because there are various ways for an individual to contribute; and, lastly, getting the right asset allocation. They are relatively small steps that need a little guidance to set them on the right way. Within our paper we provide several recommendations. The main is personalised projections. We think there can be significant benefit if things are personalised down to the member level, and we believe that can be done relatively easily.

CHAIR—In discussions that I had with Philippa Smith from the superannuation council, she made a recommendation to me during the week that one of the things that they think is a big incentive is, I think, the same as what you are saying: every year each super company should provide a full projection and where they will be at retirement age and how much funds they will have et cetera. Is that what you are talking about?

Mr Stewart—That is right. At the moment, you get an annual statement from your super fund which says, ‘This is the value of your portfolio at the start. This is how much you’ve contributed. This is the growth and this is where you are now.’

CHAIR—Don’t they get that now? I thought they did.

Mr Stewart—That is what they get now. People say, ‘Where’s the relevance to me? Whether it is 10,000 or 50,000, what’s that going to mean for me in 50 years, 40 years?’

Mr Shuttleworth—It is looking backwards and it shows you where you are now. It does not project you forwards to where you are going to be when you retire and state how much income per annum it will provide you with in your retirement.

CHAIR—Yes. That is a very good point and I think we should make note of that. I agree with that and I think a lot of my colleagues do.

Mr Stewart—It is a step beyond just the projection, too—’Okay, I’ve got a million dollars. What does that mean on monthly income for me?’

Mr Shuttleworth—Yes, in real terms in today’s money. There has been evidence from overseas countries, in particular the UK, where providing that personalised relevant projection prompts people to take action. Once they get the stark reality of what is going to happen if they do not take some action, it is an impetus for them to take the next step. We believe that, in the context of the current framework, the real need is to change member behaviour. Research has

shown that a large proportion of people who have retired wish they had started saving earlier, wish they had prepared better, and received financial advice. Research amongst the younger section of the community shows that they are unaware of the position, they are apathetic towards it and unconcerned, or overly optimistic about what the future may hold. As you age, there is an erosion of that optimism towards the reality of your retirement. How do you get the reality back to the under 40-year-olds?

CHAIR—If a young guy of 25 has a projection that, 'When you turn 65, this is going to be your income,' do you think that would change behaviour too much?

Mr Shuttleworth—Maybe not at 25, but he will get it again at 26, at 27; again when he is married; again when he has children. At the moment people do not start thinking about retirement until 45. That is way too late.

CHAIR—My colleague Dr Emerson, the deputy chair, was asking earlier whether perhaps the emphasis should be on this cohort, because most of the decisions are made post-40. People start to get focused and motivated, and should there be a concern—

Mr Shuttleworth—That is almost too late. In the period of 25 to 45, most people are in the default fund, which is a balanced fund. It is not aggressive enough for them to be in over a 40-year time horizon to save for their superannuation. That costs them 15 per cent of their final return, because they have not actually taken a conscious decision. The sooner they start to contribute a bit more will have dramatic impacts on the end result.

CHAIR—All right, we like your first one. Keep moving.

Mr Stewart—Since that submission that we made back in August, ASIC have come out with a class order on online calculators. They have taken some steps to assist in addressing this issue. Prior to that, super funds would not have been able to provide a projection because they did not have a licence that had the ability to give advice, and that was what was required prior to this class order.

CHAIR—That is fixed, is it?

Mr Stewart—Yes.

Mr Shuttleworth—It is starting to be fixed. In one area, that is a really positive step that ASIC have taken to remove some of those barriers.

CHAIR—Perhaps we should also consider that the final aspects should be worked through with ASIC, who are able to provide those forward projections.

Mr Shuttleworth—That is right. There are still matters they will be deliberating on that we think are important as well in the final outcome.

CHAIR—You would need to be careful that you did not develop shonky operators who gave unrealistic—

Mr Shuttleworth—That is certainly a justifiable concern, and it is ASIC's concern that there have been a lot of instances in the past where projections have been used in sales and marketing schemes to dial up big numbers to entice people to do something that they probably should not do. ASIC's concern is how to make those projections available without opening the door for bad sales and marketing practices.

In our submission to yourselves and in a more detailed submission to ASIC, we said that maybe a distinction should be drawn between existing members of schemes and members that are being promoted to. Once you are an existing member of a scheme, they are not trying to sell to you any more; they are trying to get you on the right track.

CHAIR—I think that sounds fine, but if you are going to take on a new one, wouldn't you also want some projections?

Mr Shuttleworth—You would—

CHAIR—That would be fair enough.

Mr Shuttleworth—but they would get them within 12 months of joining.

CHAIR—Yes, but if you are making a decision as to whether or not to invest and you are aiming for a certain income in retirement, it is more a question of prudential oversight rather than advice.

Mr Shuttleworth—You can go and do those projections yourself online currently.

CHAIR—But people would not.

Mr Shuttleworth—No, they do not, but you have to stop the projections becoming a source of competition.

CHAIR—Yes.

Mr Shuttleworth—Provided they are standardised, I think that is fine. The question is: how do you stop it becoming a source of competition?

CHAIR—I see. I think that is a good point. You have sold us on that one.

Mr Stewart—In our paper we talked about risk profilers and the need to assist people with asset allocation. As Danny said, there are a number of issues that ASIC will look at and address. One of them is risk profilers. For the same reason, they said, 'We need to review what we're doing with this,' because they fear that they will be used for marketing purposes. What we have suggested in our submission to ASIC is to at least make those tools available for members, because they are not being promoted to and they need help in asset allocation. Young people of 20, 25, 30 years of age going into balanced portfolios when they could go into growth portfolios and get an additional half a per cent per year compounded is going to make a difference.

At the moment super funds can give assistance and provide questionnaires on asset allocation but they then cannot take the next step to actually tie that to a particular portfolio, because of these rules around licensing and the giving of advice.

CHAIR—Let me get it right: you want to have the ability for young people to consider the risk allocation of their portfolios, which is not happening now. With a greater degree of risk, they are likely to increase their portfolio growth, but the reverse could also apply.

Mr Stewart—It could do, if that was their risk profile. They could go to an adviser, who would try and tailor a portfolio to suit them. There will either be a growth, if it suited them, or potentially they could go to a more conservative portfolio, if that suited them. We believe that there are simple tools that can assist them in doing it themselves and getting into a portfolio that is best suited to their needs.

CHAIR—Please jump in, colleagues, if you want to ask—

Ms GRIERSON—There were years when the risk was high. We will all remember the years when our return was very low. Young people probably do not remember that. How do you view that? There are periods of great economic growth and prosperity but there are also downturns. What do you do for young people to give them the best advice in those circumstances?

Mr Stewart—I suppose one of the cornerstones of financial planning and the giving of advice is taking a long-term view and investing for the long term and not reacting or adjusting your portfolios to short-term hiccups.

Ms GRIERSON—So you think that they have the advantage of long-term prospects and therefore that balances out.

Mr Shuttleworth—If they went to see a financial adviser, the adviser would be saying, ‘Take the long-term perspective and have this degree of growth assets in your portfolio to enable you to optimise your return.’ The other aspect of that is a person’s tolerance for risk. That is a great financial planning theory, but some people might not feel comfortable sleeping at night if they are in high-growth assets. Financial planners would measure that. There are ways you can measure that through other tools as well, and then the individual can look at the two aspects: ‘This is the thing I should be doing over the long term but maybe I do not want to take that degree of risk.’

That can be provided, but in the current environment it is not provided unless you go and see a financial adviser because that is deemed to be giving financial advice. The superannuation funds do not go into that territory. They give some information, but there is a lot of research to show that information and education alone do not change behaviour. In our view, the acid test is: is it changing behaviour in the right way?

CHAIR—That is the same point we would make in terms of producing the forward projections: if the stock market, for example, has had a bad year, that may actually show they have dropped in terms of income levels.

Mr Shuttleworth—It will show. Your future retirement income that you are going to achieve will drop. It would not be as dramatic as you think, because you are looking over the long term. Even if your assets have dropped by a third, you still have a lot of contributions to come into the future and growth back, so that the actual change in your retirement income is a lot smaller than the asset drop. Where it does become more critical is when you are close to retirement and you want to convert those funds into a retirement income stream, and people are still in the balanced fund. Then the reverse happens. You have young people who are in an overly conservative asset mix and, as you get older towards retirement, you have people who are in too aggressive an asset mix. But people stay in the default portfolio throughout and, if you get that economic environment, investment environment, or you get the crash, then that can reduce your retirement income by a third. That is when they really need to focus.

CHAIR—As a lot of our constituents who have been in to see us with various schemes would have told us.

Mr Stewart—Probably the last point we should make is in terms of accessing advice and getting people to use adviser services. In a lot of cases, especially people under 40, they probably do not need it—they probably just need more guidance in certain areas—but for those people who are uncertain and who think that they need advice, one way of improving it, or at least making it feel more accessible, is to make the cost of getting that advice tax deductible.

If I go to a financial planner and get advice on an investment, that is tax deductible against that investment. If I go and get advice on my superannuation fund, that is not tax deductible. It seems ridiculous.

Mr McARTHUR—What has been the reaction of the government to that contradiction?

Mr Stewart—All I have seen is some discussion on it. I have not seen any formal reaction from regulators.

Mr McARTHUR—Have you people argued that case with Treasury or the government?

Mr Stewart—No.

Mr Shuttleworth—I think some submissions have been made, as well as our own, arguing a case for that, but I have not seen any of the dialogue in terms of what the reaction was.

Mr TANNER—Do you mean for compulsory contributions as well or just for voluntary contributions?

Mr Shuttleworth—It is the whole area of superannuation. You are paying your nine per cent but if you want to go and see someone to find out, ‘Is it enough? Am I in the right fund?’ or if you are not comfortable with just looking at the projections and making your own decisions and you want to go and talk to someone about it, the cost of doing that, if it is tax deductible, would be more of an incentive.

Mr TANNER—It is pretty hard to see how you could make an argument for making it deductible to get advice in order to exercise choice of fund with respect to the compulsory

component, though, because the whole notion of deductibility is that it is based around money expended in order to earn income. In this instance, where it is compulsory, you are clearly not expending it really. I am just drawing a distinction.

Mr Shuttleworth—Yes. It is a good point.

Mr TANNER—The parallel is a bit stronger with voluntary contributions than it is with compulsory, I would have thought, although I suppose you could argue that you are seeking to increase the return that you get in the longer term by getting a better fund.

Mr Shuttleworth—The overall return, yes. That is right.

Mr McARTHUR—What is in it for the Treasurer to give you tax deductibility?

Mr Stewart—It is going to encourage retirement savings, I think. It will get people to move from balanced to growth portfolios. It is going to get them to put more money into their super.

CHAIR—A group of constituents came to see me. They went to see the financial adviser who said, 'You're in a fairly conservative fund. Go into these mezzanine investment funds,' and, of course, they have lost the lot. That was just this week.

Mr McARTHUR—From a Treasury perspective, why would the Treasury give you tax deductibility? Why would it be in Treasury's interest?

Mr Shuttleworth—The higher the level of savings, the better position people are in to provide for their own retirement and they are less of a drain on the public purse and the pensions that the Treasury are paying out.

Mr McARTHUR—That is on the presumption that your advice will work out. That is not always the case, is it?

Mr Shuttleworth—That is true of any profession. But you would expect, if the profession is structured correctly and professionally, that you are going to get advice which is correct in a large number of cases.

Ms GRIERSON—What about obliging the funds to provide a one-off individual financial planning session for young people joining superannuation funds or considering making their first voluntary payment, and they bear the cost of it?

Mr Shuttleworth—Free financial advice?

Ms GRIERSON—One session. Would funds bear that cost?

Mr Stewart—Personally, I would encourage it, but I know funds would have difficulty bearing the cost. We have been talking to a number of funds recently and the mere change of being able to do projections, while they acknowledge it is a great thing for members, comes at a cost. There are technology costs and the pressure with the choices put on funds and the whole

fee environment, considering getting an adviser to do a $500 up to a $2,000 plan for somebody is something that I would expect they would have issues with.

Ms GRIERSON—Another suggestion from a young person who did submit to us was that they be able to draw on their super to pay for their financial advice. How would you feel about that? Taking $3,000 out of your super for a financial planning session is a big step but it was his view that that would be of benefit to him.

Mr Stewart—It probably would be of benefit. But to take out $1,000 from a plan for somebody with $20,000 in their savings would mean they have just lost five per cent.

Dr EMERSON—Given that we are talking about young people, or people under the age of 40, increasingly young people do internet banking and in another 10 years time the majority of people will do internet banking. In doing so, they can click on and see exactly what is in their account at that moment. Why couldn't we have in the superannuation industry—and maybe we do—a system where you can click on, check your superannuation account and it will tell you exactly how much is in your account? You do not have to wait for a quarterly or an annual statement. People would realise then that, if they put in X, it has already grown to 1.5 times X. It seems to me that that would be more valuable, or at least as valuable as projections, because if they can see the growth, as you do in a bank account, they can say, 'Gee, how about that. I'm 20 per cent richer.'

Mr Shuttleworth—Yes, it becomes more real.

Dr EMERSON—It is real, it is in front of you, and it occurred to you—'I'll just go and check my account'—and you feel good about it. But waiting around for a year before you get an account and then getting it and it has the undeducted contribution with this, that and the other, you say, 'How much have I got in the account?' It is not easy to find out how much you have in the account.

Mr Shuttleworth—We have founded our business on the provision of those online guidance tools and projections moving forward, because we think that is the future and what is going to happen. With the richness of the internet and the tools you can put on the internet now, you can make a lot of the information more relevant, more real, and start to guide them as to what actions they need to take in a cost-effective manner, whereas a face to face meeting is quite expensive.

Dr EMERSON—If people have money in some other type of savings vehicle, they do not feel the need to know how big that will be in 20 years time. They really want to know how much it has grown already. It seems to me that is more valuable information. I think projections are great—do not get me wrong—but I think you will get more response from people saying, 'Well, this super isn't a bad caper at all because it's grown.' The stock market is the sort of thing I am interested in. We get told on television every day where the stock market is. You think, 'Geez, it's been going up and up and up. I wonder what that's doing to my super nest egg.' You will not know for another quarter or a year.

Mr Shuttleworth—I think that is really good. You need the projections to tell you where you are going to be as well. To just look at it and say, 'I've got this,' and it is several hundred thousand or $80,000 or $90,000,' that is great, but you cannot put it into the context of, 'What

retirement income and what lifestyle in retirement am I going to have?' unless you are looking forward. You need both.

Dr EMERSON—Yes, I accept that.

Mr Stewart—We should point out that a lot of the super funds—whether it be industry, retail and even corporates—in the last 18 months have taken significant inroads to getting at least account balances published on the internet. Members are now getting access to PIN codes and being able to go onto the internet. It is rolling out at a rapid rate, which is good.

Mr Shuttleworth—The more you can personalise it, the more relevant it is and people are more likely to take action, particularly if you can show what the future outcomes are likely to be.

Mr McARTHUR—Do the members fully understand the capital sum and the rate of return 20 and 30 years out? Do they get mesmerised by the 'big figure'—so called—in their fund and think that that will be enough to support their lifestyle?

Mr Shuttleworth—Currently that is pretty much all they see. They see their current balance and they cannot form a view as to whether they have sufficient funds.

CHAIR—Yes. That is what they want to change.

Mr Shuttleworth—There is a lot of research that says there is a lot of unwarranted optimism out there: they just see the figure and, 'She'll be right.'

CHAIR—'I've got a million bucks there. I'll live very well on that.' I would like to ask you about a couple of things that have been said to us in terms of recommendations. I think in a Sydney hearing there was a recommendation from several that it would be a good thing for young people if they could access part of their super savings and use it for housing equity. It is a big challenge in bridging the gap, and obviously it came up in Sydney where the discrepancy is greatest. We have mixed views of that, in terms of the committee. What is your view on that?

Mr Shuttleworth—I can understand where the argument would come from. Does that result in the outcome that you are looking to achieve, or does it make people overreach in terms of the equity investment? Most people have excessive exposure to property assets in their investments. If you continue to encourage that, that could be quite an excessive risk and it is not a diversified portfolio. In a pure financial sense, putting money into super is a better way of achieving a long-term return than putting money into property outside of super. There is quite a bit of projection evidence—

CHAIR—I suppose the question is, if you are struggling to buy your own home or you have just been—

Mr Shuttleworth—I think you would be doing it more for social policy reasons than for long-term return.

CHAIR—I just thought we would test it. The second proposal we had from Fiona Galbraith of Australian Administration Services, who is still with us. The proposal was for a cash-back

grant provided by the government, in terms of voluntary contributions, from young people, the under-40s, which was somewhat unique; would obviously cost the government at the bottom line. It would obviously not be popular with Treasury sources. You were not sitting here when the recommendation was made but you will find it online. It would be interesting to hear what you think of that proposal.

Mr Shuttleworth—I will not pre-empt what Tony is going to say, but I think it is an interesting proposal. There is already the government co-contribution, which is a very attractive opportunity for people on lower incomes to contribute to super. If they put in $1,000, the government puts in $1,500.

Ms GRIERSON—That goes straight into super where it is not accessible.

Mr Shuttleworth—It goes straight into super. That is very attractive. If you looked at how widespread that usage was, you would probably find that it is significant but very much the minority. If you changed that incentive from being into super to being into your own hands, I think that could have quite a significant impact on under-40s. After the tax effect, it might not cost the government any more, other than you would have a higher utilisation of a facility that is there already. You would not want to have it too widespread, but I think that is quite an interesting idea.

CHAIR—Another one was put to me this week by someone senior in the government. He saw part of the problem as being all those young kids with their part-time jobs and small amounts going into a whole range of different funds. If it were consolidated into one fund, easily accessed, this would make a contribution. Speaking to Philippa Smith, she said it would be very difficult because they are all managed separately. Why would it be so difficult? Wouldn’t it make a big difference if it were consolidated in one fund, instead of having a couple of hundred here and a couple of hundred there?

Mr Shuttleworth—I think that the more you can consolidate funds the better, because it is not as expensive for people to administer their superannuation. They are running one account rather than four or five.

Ms GRIERSON—A lot of people lose track of their different accounts.

Mr Shuttleworth—Yes.

Mr Stewart—Super funds have made some inroads on that. A lot of them are now offering services: ‘Give us some details and we’ll go out, chase up and consolidate your super,’ but it is on a sporadic basis. Some are doing it more than others. Most corporates are not.

CHAIR—As Craig was saying, one easy to access consolidated site on the internet where you can also do the projections.

Ms GRIERSON—Linked to your tax file number.

CHAIR—Young people who are working in wine bars: they do a bit of waiting on tables and say, ‘This is something you can see. Hey, I’ve got this—’

Mr Shuttleworth—I think anything you can do to encourage consolidation would be really good.

Dr EMERSON—You drew a distinction in terms of the reliability of those projections. I assume they are based on recent historic growth rates for that particular fund and then they are projected forward.

Mr Shuttleworth—They are not based on recent historical growth rates for the fund; they are based on reasonable assumptions moving forward for the asset class that is in that fund.

Dr EMERSON—How would they make those assumptions? When you get a statement, it says, 'The return on this fund for the last one year and five years,' and the balanced fund and the highly geared fund and so on.

Mr Shuttleworth—ASIC have put the responsibility for the assumptions being reasonable on the provider of the projections, to ensure that those assumptions are reasonable. One example of that is they said, 'If your assumptions are approved by an actuary, they will be deemed to be a reasonable set of assumptions. In some other countries there has been a standardised set of assumptions which has been used throughout the industry, so they cannot be used as a source of competition. It is just, 'This is the benchmark everyone will use.'

Dr EMERSON—That is what I was wondering. The first point I was going to make and seek a view on is that you drew a distinction between the importance of reliability in respect of members and nonmembers and did not want inflated projections used as a way of enticing nonmembers. With super choice now, isn't it also the task of retaining your members and therefore that same consideration applies—that is, that there would be an incentive for super funds to overstate the projections in order to retain their current members? So I am not sure now how useful that distinction is between members and nonmembers, given that you have to seek to retain them every year.

Secondly, I was wondering whether the relevant regulatory authority could say, 'This is the formula that will be applied, and it is based on your fund's last five or 10 years'—I do not care—'performance projected forward.' So you cannot say, 'Look, we've done eight per cent return over the last 10 years, but we're just feeling good about ourselves and think we might do 12 per cent for the next 10 years.' You would have to say, 'Well, you're bound in your projections by your performance, so you're allowed to project forward based on your average return over 10 years.'

Mr Shuttleworth—I have a lot of sympathy with that standardisation of assumptions, because I think it starts to remove some of the potential problems you can have with projections. There has been difficulty over the past three to five years with starting to use averages of investment returns. It can encourage behaviour to get really good investment returns at a high risk so that then you can project at a competitive advantage into the future. You have to be really careful about how you standardise the assumptions.

CHAIR—That is absolutely right. Fixed time: 10 years or whatever. Some of the firms have not emerged that you might be investing in, so it is difficult.

Dr EMERSON—But you could then get, for example, an industry ratio issued by the relevant authority and say, 'You can use this, because this is the average performance in the industry. Yes, that is a bit of a disadvantage to you because you think you can do better than the average, and that is why you have entered the market, but that is better than—'

Mr Shuttleworth—You can still promote your very good investment returns but not within the projections.

Dr EMERSON—That is right.

Mr Shuttleworth—You would promote them separately.

Dr EMERSON—'These are based on industry projections, but in the last two years we have exceeded them by X per cent.'

Mr Shuttleworth—That is right. In the UK that is exactly what happens, and the assumptions are set by the government actuary. The Institute of Actuaries put a submission into ASIC on the online calculators to say that they believed—and I am not speaking for the institute here, but I am a member of the profession so I know the stance they took—there should be a standardised set of assumptions which should be set by a government actuary or authority.

CHAIR—That was very interesting. You have helped consolidate our views in some areas, and it comes from a bit of a different perspective from some of the other people. You might want to cast your eyes over some of the other recommendations, and if you have anything further please send it through to the secretariat. We are in that difficult part that soon we will have to come up with recommendations, which are not entirely clear-cut. We heard some of those issues when you kicked it off, but if you were in our shoes what would you be saying?

Mr Shuttleworth—We have not looked at the specifics of other submissions, so we would have to go back and look at them, but from our perspective, coming back to Tony's opening points, there is a very wide education advice gap. That is partly due to the super complexity and partly due to the legislative framework which has pushed the cost of advice up and inhibited the provision of tools. Anything you can do to remove those barriers—bring the top one down, make advice cheaper, assist guidance in that area—has got to be good. Anything you can do to simplify superannuation, ease the access to advice and give guidance without it being too onerous is good.

Ms GRIERSON—What is your view on mandating voluntary contributions for young people?

Mr Stewart—There has been a lot of discussion around how people can contribute more and around getting rid of the 15 per cent tax on contributions and the like. We have not looked at that as such, and there are different ways of doing it.

Ms GRIERSON—For example, to benefit from the health rebate, you have to join by a certain age. I do not think it has succeeded, but—

Mr Shuttleworth—I think anything like that is worth looking at. The reality is that nine per cent is not enough, even over 40 years, to provide what is defined to be a comfortable retirement lifestyle. Industry studies have shown that over and over again. If you are coming in at 25 and retiring at 65—

Ms GRIERSON—Would you prefer an incentive system?

Mr Shuttleworth—I think it comes down to a philosophical view then, doesn’t it, as to whether you try and encourage or whether you mandate? But the studies show you need 12 per cent and if you are in there for 35 years you need an extra three per cent to five per cent to get you to that comfortable retirement lifestyle.

CHAIR—It depends on what your definition of a comfortable retirement is.

Mr Shuttleworth—There is a Westpac-ASFA survey that defines what a comfortable lifestyle is. It has an income level for a couple of $30,000-odd per annum and defines what you could buy with that on a weekly basis.

Ms GRIERSON—It is always assuming home ownership, though, isn’t it?

Mr Shuttleworth—It is. It is not an easy question to answer and we think that it is one of the areas where the industry has to focus; communicating to people, getting them to decide what sort of retirement lifestyle they want and bringing that to reality in people’s minds.

Mr Stewart—We have looked at many different retirement systems around the globe. They all have different ways of encouraging contributions. The US have an employer match system, where the employer contributes and matches whatever the employee puts in. In terms of government co-contribution here, I think that is a fantastic initiative, but that like other initiatives—

Ms GRIERSON—Do you have any research that shows it is helping young people? The only ones I know are people whose parents are putting it in for them anyway.

Mr Stewart—I met with an industry fund during the week. It is disappointing that, of their membership, only 20 per cent took it up. You will not get a better investment than to put in $1,000 and get $1,500 back.

Dr EMERSON—A guaranteed overnight return.

Mr Stewart—Yes. When you get a take-up rate like that, you have to say, ‘Why is that the case?’ That is why we have looked at the issues of: how do you make it easy? How do you make it relevant to people? You could look at a variety of those schemes, and that is great, but in the end I think you have to address the relevance.

CHAIR—It is education.

Mr Stewart—It has to change behaviour.

CHAIR—How do you get to young people?

Mr Shuttleworth—It is about changing behaviour. There are a lot of psychological barriers there as well. Tony mentioned the employer match in the US. In one fund—a Hewitt study, an HR company—they split the fund into two, where they were in real need of increasing their contributions and were capable of being eligible for the employer match. Into one group they did a real targeted education information campaign, and they knew that 70 per cent of that group could afford to pay some extra money to take advantage of the match. At the end of the day, even after they had done all of that, targeted against the control group, only 28 per cent said they were going to do something and only half of that group actually did something in the next two to three months. So even when you have a really targeted message to the right audience about an incentive that exists and one that they can take advantage of, that they can afford—

Ms GRIERSON—What are the benefits to the employer?

Mr Shuttleworth—No, the employer has to match the employee's contribution into the superannuation environment.

Ms GRIERSON—But what is the incentive for the employer?

Mr Stewart—Corporate benefits we are talking about.

Ms GRIERSON—Salary packaging and all that.

Mr Stewart—Yes.

Mr Shuttleworth—It is within the US legislation.

Mr Stewart—It is encouraged.

Dr EMERSON—It sounds like young people's discount rate is a lot higher than older people's discount rate.

Mr Stewart—That is right, because of that relevance factor.

CHAIR—Yes, that is right.

Dr EMERSON—We can do things at the margins, but they just have a higher discount rate, so something that occurs in 40 years is punished very heavily compared with someone who is older.

CHAIR—As we did when we were at that age. I think you guys have contributed some very worthwhile comments and suggestions. We really appreciate your input. If you have further suggestions, they can come through the secretary, and we will see where we go. We have to make up our minds soon. It is not so with other inquiries that I have been involved in. You can see very clearly very quickly what you should do. This has a lot of grey areas. The committee started off being very enthusiastic about housing equity and then over time we have realised that it is not really quite what we thought. Thank you very much. We appreciate you coming here.

You will get a copy of the *Hansard* in about a week and, if you have any questions, go back to Hansard.

Proceedings suspended from 12.30 pm to 1.39 pm

APPLE, Mr Nixon, Industry and Investment Policy Adviser, Australian Council of Trade Unions

BOWTELL, Ms Catharine, Industrial Officer, Australian Council of Trade Unions

CHAIR—I now welcome representatives of the Australian Council of Trade Unions to today's hearing. As you know, the committee does not require you to give your evidence under oath, but it has the same standing as proceedings before the parliament. I will now invite you to make an opening statement and expand on your written submissions, if you wish. We would like to hear your views on this issue that challenges us in terms of superannuation for the under-40s, particularly what are the incentives and disincentives and what we can do about that.

Mr Apple—By way of introduction, I think it is fair to say that the ACTU's submission is very much in line with the submission that you have had from the Association of Superannuation Funds of Australia, ASFA. It really begins with the core principle that, if you want to improve the retirement income for the under-40s, you start by improving the retirement income system as a whole. We do not think that the existing three-pillar system will give us an adequate retirement income base. We tend towards the view established by the Senate committee in 2002 that we really have to get to 15 per cent contributions. The debate is largely about where that 15 per cent comes from.

Like ASFA, our view is that a good start would be the removal of the 15 per cent tax on contributions. We also believe that there could be some improvements to the co-contribution system. We think the under-40s, because of their labour market position, would benefit from the removal of the earnings threshold of $450 a month or $1,350 a quarter. We would probably add to that, in questions and discussions afterwards, comments that they made about benefit projections. We have done some additional work talking with the funds and focus groups that they have done with their members and whether that makes a difference in terms of the awareness issue, particularly for the under-40s.

Where we have a different focus, I think, from ASFA and others is that, in perusing the transcript of proceedings from this hearing, we have noticed that you have been quite interested in the link between superannuation and housing, and we understand that. The point that we come from is that, if we look at the purchasing power of the pension over the next three to four decades, we think that one of the biggest—if not the biggest—strains on that is going to be the increasing cost of the health care system.

No matter how you cut it—the intergenerational report, reports from the Productivity Commission and OECD—we look like facing an increase in the share of national income going to health and aged-care services of six to eight per cent of GDP. There are only three ways you can deal with that. You can either put that onto the taxes of the current under-40 generation to maintain the system, you can have people pay out of their pockets or you can begin a pre-advance funding of the health care benefits that people might have access to in retirement.

We think that this is a great environment to draw the link between the retirement income system and the health care system. We do not usually get the kind of free kick that we are getting

from the terms of trade right now in terms of government revenue. It is a good opportunity to make that link and we suggest, as an outcome in terms of our submission—again drawing somewhat on the 2002 Senate committee report—that it would be very good to convene a working party of Treasury, the Institute of Actuaries and other interested parties, who would continue doing projections on income adequacy, as well as expected health care costs into the future and how these might be met.

This is one of the few times in the last several decades where, through COAG, we are beginning to see real movement on health care through cooperative federalism and out of those two processes we could be in a position where we begin to take a policy forward of not only setting clear objectives for the retirement income system and the adequacy of 15 per cent contributions but we also might get to the stage where, if it is the case that one of the biggest threats to the purchasing power of the pension going forward is how we handle the health care issue, we can get a policy that could perhaps link health care and retirement income.

We are not putting anything on the agenda or taking anything off the agenda in terms of how that could be done. Dr Vince FitzGerald has done a lot of work in terms of medical savings accounts. There are other ways in which it could be done. In conclusion, I suspect that what we are looking at is some way of getting a link and some way of recognising that governments, employers and employees are going to have to pay more if we want a decent retirement income system and a decent health care system. It is a question of how that is done.

One final concluding remark would be that we think—again, perusing the summary of proceedings so far on barriers—you have probably uncovered a lot of the barriers to the under-40s in relation to what they are faced with in terms of cost of living, saving for housing, paying their private health insurance, school, HECS debts and the like. The awareness issue is an area where you could probably get some good mileage, and we are happy to talk about that issue as well.

CHAIR—In relation to the superannuation contributions tax, is the ACTU worried that the very people that you might best advantage are not necessarily those that your organisation would be concerned about in terms of the older, wealthier person who is facing retirement, who diverts a lot of their salary into a tax-free haven? Do you see that as part of the issue?

Mr Apple—The only really good study that has been done on the distributional consequences of super so far was done by NATSEM, in terms of distribution of wealth, taking each asset class within a household and showing, from 1986 to 1998, where the redistribution occurred and what happened to wealth equality. Of course, super was the greatest equalising force in terms of that, because so few people had it. For many blue collar workers who had it, you had to wait 10 to 20 years before you got your employer's contribution. I think up until this point super has been a major form of wealth redistribution, because those that did not have it do have it.

Going forward, if we just take the 15 per cent, people such as ACOSS, Fred Argy and others have said, 'Look, this is of more benefit to high-income earners.' We would say three things there. Firstly, unless low- and middle-income earners can get up to something approximating 15 per cent, which phasing out the contributions tax does, their expectations in retirement will be seriously diminished. Secondly, if we looked at the issue longer term—the issue of how these people will do in the longer term if we do not meet income adequacy—it is anybody's guess as

to where the additional tax imposts will fall in order to make up for the cost of the health system and so on. Thirdly, if you just took the 15 per cent tax by itself, you could not do it—the point you are making—but if you took that in tandem with improvements to co-contributions and doing something interesting on the health side of things, you could come up with a total package that addressed the distributional issue. Certainly, if we did an incidence analysis just on taking away the 15 per cent up-front tax, it would show that those at the top end of the scale would do better.

CHAIR—Do you have any questions on the contributions tax?

Dr EMERSON—Have you seen any work done on what the impact on adequacy would be of removing that tax? I might have heard you incorrectly, but in my mind you said if you got rid of the 15 per cent contributions tax then you effectively would be able to get up towards 15 per cent.

Mr Apple—Getting rid of the 15 per cent contributions tax probably takes you from the existing nine per cent, which becomes seven-something after tax, and pushes you up two to three per cent. It still leaves a gap of about three per cent and begs the question, 'If you think 15 per cent is the number, where does the other three per cent come from?'

Dr EMERSON—Have you seen that work done?

Mr Apple—We have seen two sets of numbers. We have seen one set of numbers from ASFA about what it means to an individual on average weekly earnings in terms of lump sums. What we have not seen is an aggregate NATSEM type total distribution profile. We have not seen how many people it moves or how much.

Dr EMERSON—Mr Chairman, I wonder if our secretary could liaise. I am new on the inquiry and there might be such figures around, but it would be really useful, I think, if we had a sense of the equivalence of that on adequacy, or the progress.

CHAIR—In terms of the line, because of the tax impact it reduces the overall value of the co-contribution by 1½ per cent, is it? They say you need to go up three per cent. You have improved it by half, haven't you, in terms of the adequacy levels? But it might be interesting to see that. In terms of the thresholds, have you addressed the question of how that should be changed or to what degree, because you are not alone with that approach suggesting that it is artificial and why it should be restricted.

Mr Apple—We would like to see the abolishing, but we understand the concern that there may be with employers in terms of very small account balances, the paperwork and so on. It is possible that, in a choice environment with consolidation of funds, with clearing house facilities that are now being made available to employers, it becomes an easier task of abolishing the threshold. If one was looking for some sort of a phasing arrangement, just as we have phased in the nine per cent contributions gradually, you could phase out the earnings threshold. I think it would be preferable to abolish it and then maybe set a date in the future for preparations for people to do that. It is really a question of one step or two.

CHAIR—What would your preference be—an increase in the co-contribution level or to remove the contribution tax?

Mr Apple—In terms of the whole package, if I could have the existing co-contribution package phased out or abolish immediately the earnings threshold, but also have a bit of a look at whether there might be a way in the future of doing the co-contribution via salary sacrifice. We noticed in transcript that HESTA was mentioned as one of the funds. It is 85 per cent women, many part-time positions, low income. They have had amazing success with the co-contribution scheme. They told us that they identified about 50,000 of their members that they thought would be eligible for it. They did mail-outs to them and they had a response of something like 20,000 people who were able to file some money towards the co-contribution scheme. In talking to various funds they are all of the same opinion, I think: it is very hard to come up with $1,000 at the end of the financial year, particularly post-tax.

Currently, as you would appreciate, the Tax Office's rulings are that you cannot take the co-contribution as salary sacrifice because salary sacrifice does not comply with the arrangements. Therefore, there will obviously be tax implications in moving to something that, even if we did not phase out the contributions tax, is taxed at 15 per cent. I think the current 17 per cent from 1 July cuts in at $21,000 or the $30,000 cuts in there, so there would certainly be a cost impact to the budget. But we would like both.

Dr EMERSON—Again, I doubt that there would have been any work done on this. But the current threshold is $450 a month, isn't it?

Mr Apple—It is 1350—

Dr EMERSON—Are there lots of people earning bits and pieces below that, and who are therefore not getting the compulsory super? I am very sympathetic, because the system is already in place. We have the nine per cent compulsory super, so if we can get people putting in that nine per cent then a lot of problems are solved, theoretically. Is there a lot of money going into people's pockets who are earning less than $450 a month?

Mr Apple—The trend towards part-time casual work and the proliferation of job creation in that area has meant that that is a very large group, but also those from 25 to 40. There is a fairly large labour market segment in that group as well. I am trying to recall one of the submissions that produces some data on the proportion of wage and salary earners that are in that situation.

Ms Bowtell—I think it might have been the Women's Economic Policy Unit at Curtin University that has done some work on that, because it is a particular issue for women. If they have not, then it is one of the other women's economic units that has done work.

Ms GRIERSON—That is per employer, though, isn't it—that $450?

Ms Bowtell—It is per employer, and the incidence of multiple job holding has increased significantly. If you look at the instance of multiple job holding—

Dr EMERSON—So you have three jobs.

Ms GRIERSON—I would have a daughter who would have three or four jobs, three or four employers, in hospitality—

Dr EMERSON—And getting no super.

Ms GRIERSON—That is right—and all are below that threshold.

Ms Bowtell—The ABS data looks at your earnings in your main job but it does not look at your multiple job-holding earnings. Therefore, the earnings in your main job may well pick up your nine per cent but you may have a second and even a third job where you are not getting it—the extra job at the cafe on the weekend; that kind of position. I guess the Welfare to Work changes and other things are going to see more women in those positions.

Dr EMERSON—Perhaps operating in the income-free area of that particular pension or benefit.

Ms Bowtell—There is that, yes.

Dr EMERSON—The reason I ask is that there would be significant administrative costs which you need to then justify as worth imposing, because we are chasing quite a lot of money to add into the superannuation thing. I am thinking how Treasury would counterargue on this. If they argued that, 'Well, it's a lot of extra administration and there's not a lot of dough in it,' then we will not get anywhere with them, but if we can establish that there is a lot of money in it because of all these bits and pieces—and, as you say, second and third jobs—then, absolutely, we should be chasing it.

Ms Bowtell—The argument for it is much stronger in a choice environment because the administration fee on a very low income and member benefit protection costs are sufficient to discount any contribution. But if you can consolidate into one fund with your multiple job holding, then there is a capacity to grow.

CHAIR—You are talking about consolidation?

Dr EMERSON—Yes, effectively, that is right.

Ms GRIERSON—People are earning money, they have three or four jobs but not reaching the threshold and therefore they do not have any prime superannuation but they still have an income—

CHAIR—Yes. A senior person in the government was explaining to me yesterday that his son has a range of jobs, he has a multiple of them across the board, and said there is no incentive and they just leave them there and they get costs charged each year which will take away any residue and so there is no interest.

Ms Bowtell—There are certain industries—the hospitality industry is one—that even in a different setting—the higher education industry—young academics in that area work often casual jobs in three or four institutions, never meeting the threshold for contributions.

Dr EMERSON—Tutoring and that sort of thing.

Ms Bowtell—Yes. They may spend five, six or seven years in that environment during their postgraduate studies. They do not have a particularly high income, so it is not only in the retail and hospitality area that you see that pattern of work.

CHAIR—Yes. With so many students studying until later years, a lot of them have part-time jobs, so it is an issue. Housing is another one that you talked about. Earlier in our submissions, particularly in Sydney, there were quite a number of recommendations to take equity out of the super schemes to use for housing. We have been firming our views on this since that time, but we would be interested to hear what you think about that.

Mr Apple—This was a very topical issue in the union movement in the first half of the 1990s, just as SGC were coming in, and there were many people who made the argument that, if not compulsory contributions, why not voluntary contributions in the future; is there some way that you could get access to them, if only to help meet the deposit gap for first home buyers, and could we put a cap on it?

That was the debate. While we do not have an official policy on it, the argument that is put today is it would be far better to entertain that particular proposition after you had reached adequacy in your retirement income system. There was a bit more flesh and a bit more fat there than is the case today, and I suspect you have probably had some other groups who have said, 'Get the adequacy right first before you get the housing right.'

You put the question to us: do you want thresholds or co-contribution? If it came down now to housing versus health, we think that the attention should more be on the health issue. We are not denying that every time one looks at the projections on adequacy it always has that lovely assumption of, 'We assume you have your own home and that it's paid for,' but they also make some rather large assumptions about how good your health is going to be, what you are going to have access to, and they do not really tell you how that six to eight per cent gap is going to be plugged.

We understand and have sympathy with the argument, 'Focus it on the voluntary contributions; make it for closing the gap on the deposit, first home buyers, and cap it,' but we would prefer to see that done and brought onto the agenda as an issue after the adequacy issue was reached.

Ms GRIERSON—We have had submissions before about having some sort of government or other sponsored superannuation fund for young people, so that you capture all these little income streams.

CHAIR—In April last year I was in the States and I went to Washington. What I found was interesting in terms of the various think tanks over there talking about the challenges of the American economy and the fiscal imbalance that they have, where they project forward, I think, 10 years or so. Their tax take is 15 per cent but their social security projections are 21 or 22 per cent, which includes Medicare, Medicaid and so on. Obviously, something is going to give, either in terms of taxation or in terms of cutting social security. In terms of demographics, we clearly have challenges there as well.

In terms of the linkage of the two, are you saying that we should be addressing the adequacy of retirement income so people have the ability to look after their health requirements or are you saying we should be doing more separately on the health agenda as an issue?

Ms GRIERSON—It is a major drain on government's expenditure, with an ageing population.

CHAIR—It is. I noticed on the news they announced a new cholesterol drug. The name started with a Z. I cannot remember what it is called. I thought, 'This will be the next one that will send up the PBS like a rocket.'

Dr EMERSON—In the health savings account—the Vince FitzGerald idea—it is just a bolt-on to the superannuation scheme. It means that the beneficiaries get the same favourable tax treatment as super and at the end, once you are past preservation age, you can spend that benefit on health and aged care, which is one of the main reasons people save for retirement.

Mr Apple—We are not necessarily recommending the medical savings accounts, although I note that FitzGerald produced quite a lengthy report for Medicines Australia in the middle of last year about how it could work. If individuals began to accumulate a health account within their super fund—like your fund A for housing and your fund B for super retirement, this is your fund C for health—what he saw as one of the benefits in his projections of what your household expenditure looks like as you age in terms of additional health costs was that, rather than it becoming a substitute for private health insurance, it would be the vehicle, for example, that would pay your private health insurance each year. You could have various limitations, as the Singaporeans do, on what sorts of medical treatments it would apply to. You could go down all sorts of avenues with that.

The example we gave in our paper was along the lines of: what if government, with the fiscal situation being what it was, began to move on taking off the contributions tax; what if employers, either through collective bargaining or the SGC, increased the nine per cent; and what if the states and the Commonwealth, after they got some of the wrinkles out of the system on the health care side, were to come back to citizens and say, 'Look, this is what we're doing on retirement incomes to get adequacy but we need help on the health side. We've done all we can in terms of the efficiencies of the system. We need an increase in the Medicare levy.' We are not up in bold headlines saying the ACTU recommends an increase in the Medicare levy. We gave that as the example that we would like to see some focus on a debate and a nexus where everybody is going to actually have to invest more.

CHAIR—What is the A and B part of it? I know what you have said is C.

Mr Apple—I was perusing transcript and looking at the debate about housing and how the housing component could be held. Would you have it as a separate account or would you just identify voluntary contributions?

CHAIR—In relation to the figure that Lindsay Tanner was using this morning in terms of the cost if you removed that 15 per cent tax, it yields about $3.3 billion. I do not know whether you have done any modelling as to who would be the beneficiaries. Wouldn't you rather have income tax cuts, when a significant proportion of the beneficiaries would probably be the age cohort or

the income cohort that you wouldn't necessarily see as deserving? Not the age cohort—they always deserve it at any age—it is more the income group.

Mr Apple—One of the interesting things about the econometric modelling of the phasing out of the contributions tax is that, if you simply take the horizon of the forward estimates of three or four years, I think the answer to your question is, 'Our constituency gets more if you give us a tax cut now.' If you look at it over the longer term and look particularly at what accrues to governments—that is their capacity to either fund health or fund tax cuts in the future—in the short to medium term all it is is the additional tax on fund earnings as they build up with compound interest and the end benefit taxation, which is down the track. But the real bang for buck for government is in terms of the savings you start making on what you would have paid out in the pension as your accumulated sums begin to bite into the age, means and assets testing of the pension.

What Ian Harding's modelling shows is that if you abolish it today, you are right, it will be two decades before you begin to see the graph go like that in terms of the savings for the government on the aged pension side of it. The point that has been made, though, in the modelling is that if you look at when we are going to need it most—that is, when the six per cent to eight per cent builds up on the health side of things—in a sense, by doing this we are making a bit of a down payment on the health problem, because in 20 years time we know that we will begin to get those savings on the aged pension. That, of course, assumes that the aged pension stays in line and we do not lift the standard and other things that could happen.

Dr EMERSON—Or relax the income test.

Mr Apple—Yes. It would really help if you could get some bipartisan support on this, as hard as that might be, about holding the system intact. I think that is going to be necessary to accumulate those savings, because it is really the bang for buck that you get in two decades time to the government's bottom line. Our members would not like to wait two decades for a tax cut.

CHAIR—The Liberals could be back in government by then.

Dr EMERSON—I am a great advocate of preservation and therefore do not like the housing idea at all, in terms of accessing any of this money before preservation age. But if there is an argument for it at all, I think it is in the health area because we know that early detection of chronic diseases saves everyone. It improves the quality of your life and it saves the health system enormously. I am not saying I therefore agree with the health savings accounts which you can access before preservation, but at least conceptually there is an argument that, if you are able to access it for at least qualifying purposes, not cosmetic surgery but for—

CHAIR—Serious cancer for instance.

Dr EMERSON—Yes, and for procedures that prevent the occurrence of chronic diseases, then you do get the benefit in your old age as does the wider community through lower health expenditure.

Mr Apple—One of the reasons at the end when we focus on the outcomes and recommend that we have a retirement incomes modelling group that brings in the actuaries and Treasury—

we have talked to Vince FitzGerald earlier this week about some modelling that he has done on what it looks like in terms of household expenditure on health services and aged care. Looking at that in different scenarios we have never really tried to plug that in to the purchasing power of the pension and the assumptions that you are making about that. Usually what happens after committee hearings such as this is that a couple of your better recommendations get picked up.

CHAIR—We are struggling with our recommendations at the moment.

Mr Apple—We are looking for a way of trying to keep this alive. If we take off our ACTU hat and put on our superannuation trustee hat returns are looking quite good now. Fiscally, with terms of trade, that is looking good for probably another year or two. It is not a bad environment to try to make that linkage between health and the retirement income system and the purchasing power of the pension.

Dr EMERSON—Going back to the contributions tax—and, again, this is not asked by way of advocacy but just to get a view from you—the chairman raised the issue that if you remove the contributions tax, the biggest beneficiaries are going to be people who are on high incomes, because 15 per cent of a large contribution is a larger amount of money than 15 per cent of a small contribution. For people who are close to preservation age, why wouldn't you say, 'You beauty, I'll put everything bar my living expenses into super', subject to the reasonable benefit limits, I guess. Does that argue for an income related reduction or abolition of the contributions tax—that is to say, up to an amount of X thousand dollars a year there will be no contributions tax? We will abolish that but we will keep it above that.

Mr Apple—On the co-contribution side we asked our superannuation administrator, 'If we are going to treat co-contributions as salary sacrifice, are we going to overload the system?' They told us, 'No. Between us, the tax office and the individual citizen, that is not the case.' We did not ask our super administrator, 'If we start trying to get the contributions tax in terms of applying to those over $75,000 but not to those under $75,000, what would that do, given people have different superannuation account balances and so on?' We could take that on board and try to give you an answer, but we have not asked that question of our administrator.

CHAIR—The problem with it is that it is very difficult to forecast because of subjective values in terms of salary sacrifice, isn't it, in terms of how it is going to fall out?

Ms Bowtell—But, also, from an administrative point of view, it is very difficult. The administrator does not know the person's income. It is only the tax office that knows the person's income and often the employer does not identify what component is SG and what component is salary sacrifice. From the fund's point of view and from the administrator's point of view, imposing a cap based on personal or household income is not an easy thing for them to do.

Dr EMERSON—Many people themselves do not know what their income is going to be by year's end.

Ms Bowtell—As with the example of family tax rebates and those things show.

Dr EMERSON—Let us make up a number, say $75,000—I am thinking aloud here. You could say, 'Look, I'm going to come in under $75,000,' and in the last three months of the year you get a big bonus; bang, you are over the $75,000 and you have to pay it.

Ms Bowtell—When we talk about awareness, which we have not talked about, simplicity is obviously an important part of awareness.

Dr EMERSON—That is why I say I am not asking that by way of advocacy, because I think it would fail the test of simplicity and the compliance costs would be enormous in terms of understanding. We do not need any more complexity about people understanding what super is. The separate issue is of compliance costs, which might be enormous. I do not know.

CHAIR—The other thing is whether, in terms of salary sacrifice, people could put their money into super schemes without taxation and whether the level of negative gearing would drop, because suddenly it becomes more attractive than negative gearing as a way to go. Of course, whether those super schemes then invest in negative gearing properties is another matter.

Mr Apple—We will get back to you on the administrative issue and see what our administrator says in terms of whether that is feasible or pie in the sky.

CHAIR—Which part are we talking about?

Mr Apple—Super partners in terms of looking at, from an administrative point of view, if we decided that you were going to somehow means test the contributions tax—

CHAIR—I see.

Mr Apple—whether that is feasible or just administrative pie in the sky.

CHAIR—Yes, in terms of how people can manage and that sort of thing.

Mr Apple—Could I comment on the issue that the committee has raised about awareness for the under-40s.

CHAIR—Yes.

Mr Apple—You will recall that ASFA recommended that the government pursue reforms that would permit super funds to provide benefit projections to individual members on a standardised basis as part of their annual reporting to members. We contacted several of the funds and about two years ago one of them did focus groups with their members, divided into age groups and male and female; some without a benefit statement showing projections and one with a benefit statement.

The results, particularly from the younger people, were quite staggering. The marketing managers were definitely of the view that, first of all, the most widely read document that we provide our members is the member benefit statement; secondly, in the focus groups, the projections really had quite an impact. We asked to see what kind of a form they used and what they showed them. It was quite different from the UK and the Swedish one but quite simple.

They said, 'Mr X is 45 years old. He has a current balance of $50,000. This year X thousand went into your savings account. If on current trends'—and in the fine print later current trends are explained—'you retire at age 60, this is how much your account balance will be. At 65 this will be what it is.'

It then says, 'That might look like a big number, but what is that in today's dollars?' It then takes it into today's dollars. It then shows you, 'But what does that mean to you in each year of retirement in terms of an annuity stream?' All of a sudden they are confronted with the fact that their $200,000 balance is only going to give them $10,000 a year. It then has a very interesting part down the bottom which is, 'What if I increased my individual contributions? What would that do to the overall number?' This was very powerful, and the responses from the 20 to 29 group was that it was very helpful but it was still a challenge to find the spare $20 for the individual contributions that would ratchet them up.

The 30- to 39-year-old group particularly liked it; it was personalised to their individual circumstances. Their only comment was, 'Well, our circumstances can change quite dramatically. How would this pick up our changed circumstances?' But, generally speaking, it was sufficient for the marketing managers to suggest to the CEO that it is not that the current regulations prohibit us from doing it; it just makes it extremely difficult under section 120 not to make it personal advice. It also begs the question about standardisation.

One of the great things that is happening in financial services at the moment is economies of scale. As economies of scale come into play, when you tell your administrator, 'These 15 funds that you administer are all going to be the same standardised projection,' that makes quite a difference. Then if we want the bells and whistles add-ons we can do it.

But there was one other thing that we would like it linked to. It will cost us to do these projections. It will cost the administrator. If one were to combine it with, say, the current hearings before the business regulation taskforce that is looking at the compliance costs of super, you could probably get some kind of a trade-off where it was revenue neutral. I think it is a good idea. All the marketing managers and CEOs that we have talked to thought that it was a benefit and that in terms of the awareness issue and in terms of what people will focus on, given that it is on the member benefits statement, it would be significant.

CHAIR—I think we are all agreed. Those projections in terms of what would happen with increased funding are also something that we had not thought of. That has all been very interesting. Thank you for that. If you have further input for us, we would appreciate it.

Ms GRIERSON—Have you been tracking the impact of the threshold, because I anticipate that more people will have part-time and casual work, and your figures show that the growth in jobs is in very low-income, part-time work. So moving the threshold for people so that they do somehow capture some super would seem important. Will you be tracking that at all?

Ms Bowtell—We will track it as best we can. There are some awards that provide for superannuation at lower than the SG threshold, like the Hospitality Award. That provides for superannuation at $350 a month, not $450 a month. Of course, that will no longer be an enforceable award provision from 2008. To the extent that there are workers in the hospitality industry earning somewhere between $350 a month and $450 a month now who would currently

be eligible for superannuation, they will have to have reached $450 a month when that is no longer part of the award system.

Dr EMERSON—There is anecdotal evidence that employers in the hospitality industry therefore make sure that they have lots of people—

Ms GRIERSON—They have lots and lots of people.

Dr EMERSON—who earn less than $350 a month so that they can save on super.

Ms Bowtell—It is not just in hospitality. I think the SDA will tell you that it is an active program built into some of the rostering arrangements in the large retail industry as well, so that when you are approaching the $450 someone else is rostered to avoid that cost.

Ms GRIERSON—This is a bit outside this field and it is outside your province too, but in relation to independent contractors—people being pushed into being independent contractors—having to take out their own super, is anyone tracking that? I would have thought that they are a very vulnerable group.

Ms Bowtell—In terms of the growth of own account workers and whether they are making provision, I am not sure. We can follow that up. There has been an inquiry into independent contracting generally, which the government has said will result in an Independent Contractors Act later this year. We can track back through some of that work and see if there is anything there.

CHAIR—That whole issue of part-time workers and going below the threshold is a very interesting area because, unless we watch, there is going to be a permanently marginalised group, not only now but in the future. They might have some kids and—

Ms Bowtell—It is particularly a women's issue because of the period of time where women are out of the labour market and contributing at a low rate, whereas for men in that 34- to 45-year-old age group their income is growing and their account balances are growing.

Ms GRIERSON—There would be a lot of women out there earning incomes as house cleaners et cetera, who are probably not getting anything for their futures. They quite possibly are not being captured by taxation either, but in the long run they are going to be far worse off.

Dr EMERSON—It might be the most powerful thing we can do as a committee, because—

CHAIR—That is true. I was just thinking that.

Dr EMERSON—trying to get a 20-year-old to voluntarily increase his or her super contribution, I think, is going to be really hard. Getting 35-year-olds to do it is going to be easier than getting 20-year-olds to do it. But given that there is already a compulsory nine per cent, if you can get more young people—

Ms GRIERSON—Making sure they are captured, yes.

Dr EMERSON—caught in the compulsory system, you are going to get their super up.

Ms GRIERSON—That is true.

Ms Bowtell—The fund then has an attachment to market, if we can get the projections and other things that—

Dr EMERSON—If you get the projections thing, they will say, ‘Gee I didn’t know that. I’ve got 10,000 bucks saved.’

Ms GRIERSON—And the most effective way to remove it is to abolish it completely, otherwise you get into a regulatory nightmare trying to capture it.

CHAIR—That is interesting, thank you. You will be sent a copy of the *Hansard*.

Proceedings suspended from 2.25 pm to 2.32 pm

COCHRANE, Mr Neil, Member, Industry Funds Forum; and Chief Executive Officer, Retail Employees Superannuation Trust

ELIA, Mr David, Member, Industry Funds Forum; and Chief Executive Officer, HOSTPLUS

HEWETT, Ms Helen, Executive Officer, Industry Funds Forum

CHAIR—I now welcome representatives of Industry Funds Forum to today's hearing. Although the committee does not require you to give evidence under oath, you know that it has the same standing as an appearance before the parliament. We have received a written submission from you, but we would encourage you to talk about your submission and possibly you can tell us a little bit about your organisation so that we understand it. I now invite you to make some comments and we will proceed to ask you a few questions.

Ms Hewett—Thank you, Chair. I will open with a few comments about the Industry Funds Forum and then Neil Cochrane is going to talk about more general observations about attitudes and barriers to people contributing to their super. David Elia will then talk about this particular age group—under 40—and some of those barriers that we have identified and some incentives or disincentives that might be there.

The Industry Funds Forum represents the interests of 24 major industry superannuation funds who, between them, have over eight million members. About 5.2 million of those are under the age of 40, so a very significant number of people.

CHAIR—How do you relate to, say, the superannuation council? How does it all jell in? You know all this, that is fine, but this is for our benefit.

Ms Hewett—How do we relate to them?

CHAIR—Yes. Are you members of theirs, or vice versa?

Ms Hewett—The Industry Funds Forum is a body that helps to develop policy on behalf of the industry funds. We are like an industry body for that sector of the superannuation industry to represent their interests and to develop policy on behalf of the funds.

CHAIR—ASFA, I think, is the official name.

Ms Hewett—ASFA is a broader organisation that represents retail funds, corporate funds, industry funds, and other service providers in the sector. We specifically represent industry superannuation funds.

Ms GRIERSON—Where do you feed that policy to?

Ms Hewett—We feed it in through submissions we make to inquiries, through advocating and lobbying on policy.

CHAIR—You are with the fund group?

Ms Hewett—I am with the industry group.

CHAIR—You are with one of the companies that is in the fund?

Mr Cochrane—We are members of the Industry Funds Forum.

CHAIR—Right.

Mr Cochrane—Both of us represent funds within that funds forum.

CHAIR—Your fund is which one?

Mr Cochrane—The Retail Employees Superannuation Trust—REST.

CHAIR—And yours is?

Mr Elia—HOSTPLUS.

CHAIR—Are you members of ASFA as well?

Mr Cochrane—Yes, we are.

CHAIR—They are the broader group and yours is just industry within.

Mr Cochrane—That is right.

CHAIR—We are just trying to sort the relationship out between you so that we know who the players are.

Ms Hewett—It is pretty complex. I appreciate that.

CHAIR—No, we are right. We are sailing well now.

Ms Hewett—The 24 member funds have over eight million members. They have a bit over $67 billion in assets under management as at their last financial year reporting period. They also have over 450,000 employers that participate, making regular contributions to the funds. In most cases those employers make payments quarterly or monthly. The IFF believes that before we can attempt to influence the behaviour of people under the age of 40 with respect to their super, we need to understand the characteristics of this group that tend to illustrate a range of things, including their attitudes towards superannuation. We believe that, once we have this knowledge, we can then understand the barriers and disincentives to contribute to super and try to develop

some effective communication strategies that we can all benefit from and have some sort of concerted effort across the industry.

The under-40s group comprises a large sector of superannuation fund membership. Generally across our funds, as I said before, about 60 to 65 per cent of the membership would be under the age of 40—about 5.2 million members out of a little over eight million members. The two funds that are represented here also today through REST and the hospitality fund HOSTPLUS have an even higher proportion. HOSTPLUS has 77 per cent of members under the age of 40; REST has 83 per cent; interestingly, the transport fund has 86 per cent under the age of 40. There are very significant numbers of people.

CHAIR—These groups—HOSTPLUS and so on—are separate to your body. Is that right?

Ms Hewett—These funds are all members of the association, the Industry Funds Forum.

CHAIR—All right, thank you.

Ms Hewett—We think we need to look at the under-40s age group in two groups. Some research that has been done by HOSTPLUS looked at them in two groups. We think there is the group under the age of 25 and then there is the group 25 to 39. The reason we think that they need to be looked at as two separate groups is because their interests are very different.

CHAIR—I think that is true. We talked about that this morning.

Ms Hewett—Their liabilities and stage of life are very different.

CHAIR—Yes.

Ms Hewett—They have a different level of interest. Some of these people, when they retire in 10 or 20 years time, interestingly enough, will spend something like 25 to 35 years in retirement and, for many of those people, they will only have spent about the equivalent amount of time in the paid work force. For some of those people—for example, women who have broken periods of service or people who work part time—their period in retirement in the not too distant future is likely to be less in the work force than in retirement. this is also important for us to bear in mind.

To understand this group, we have looked at splitting them into two groups. When we look at a breakdown of our funds that are in the forum—the 24 funds—around 20 per cent of their membership is under 25 and around 40 to 45 per cent is in the age group 25 to 39, so we are looking at breaking them into those two groups. Neil is now going to give you a few general observations about attitudes and barriers in relation to super, and then David will follow.

Mr Cochrane—Thank you for the opportunity. Obviously with 83 per cent of our members in this age group, it is part of our business to be able to understand how our membership is feeling. I often find that 83 per cent is difficult to understand, but that is 1.25 million people, the equivalent of 12 MCGs packed full. The research that we have done to try and understand these people has shown us that only two per cent of our members have what they regard as adequate knowledge to make an informed decision on their super.

CHAIR—That does not surprise me.

Mr Cochrane—That is a huge indictment on the industry and probably our biggest challenge, because 71 per cent of those people who we have researched say that they do not expect to rely on Centrelink when they retire. This is the age group that we are talking about. They do not feel that they are adequately informed to make a decision but on the other hand they know that they are not going to be supported when they retire.

Ms GRIERSON—They are ignorant optimists. Is that right?

Mr Cochrane—Yes. It becomes a very real problem for us in terms of communication. We have run two particular campaigns—one on getting people to participate in the co-contribution and the other to rollover their funds, for both of which we won awards. We found that the membership were responding to us by saying that the government campaign for the co-contribution was totally misdirected in that it was directed at older people and not them. They could not relate to it, and they had some pretty derogatory things to say. I think it is really important for us to make sure that we understand where this demographic is thinking and how we can incentivise them to engage.

CHAIR—That sounds like a John Hewson expression—'incentivise'?

Ms GRIERSON—Yes, it is.

Mr Cochrane—Again, looking at our membership, we found that their expectation of going into retirement was that they would have at least $39,000. I guess that is related to this demographic's current earnings or current expectations.

CHAIR—Is that $39,000 a year?

Mr Cochrane—Yes, which means they must have $760,000 in their accounts if they are going to retire at the age of 55. At the moment, I do not believe that they are going to be able to do that, so we need to be able to get people's money into their accounts quicker and more effectively. From the feedback that we are getting in our call centre in particular, members are saying fees and tax are, in their minds, exactly the same thing. We do a great deal to try and reduce our fees, and I think it is an undisputed fact that industry funds' fees are very low. But the disincentive to contribute to super because of the tax on the contribution is perceived by the membership of this demographic as being very negative. We all know the marvels of compounding and the benefit that that would have in moving towards $760,000, if we could encourage people to put money into super earlier.

Another way that would be of great help is if employers were obliged to make a contribution every month instead of at the end of the quarter. That would then get money into the member's account that much earlier so that it is generating an income much earlier. It also protects the members—

Ms GRIERSON—Getting the quarterly was hard enough.

CHAIR—Yes, that is right. You do not have to deal with small business as often as we do to know about the complaints.

Mr Cochrane—Sure.

Ms GRIERSON—But it is true: there is a benefit to the contributor.

Mr Cochrane—I understand the small business reasons, but perhaps the bigger picture is that we have to look after our nation.

CHAIR—I understand that. But we have just had, in terms of the GST, the issues of the paperwork; that is a big disincentive. We hear you, but I think that is one of the more difficult recommendations to implement.

Mr Cochrane—One of the problems we have, though, is that the members do not have any sight through to their contributions until every quarter and then they discover three months later that the contribution has not been paid. So there is a big lag. A number of employers never pay it.

Ms GRIERSON—A lot of them do not know if it has gone in every quarter or not. They do not know from one year to the next.

Mr Cochrane—Yes. There is no member protection. They very often lose out and they do not receive their contribution. There has been a lot of feedback saying that the limitation on contributions is a problem; the threshold payments on the RBL has disencouraged a lot of people to pay into super. Obviously that also relates to the issue of tax; paying tax on a contribution is a major disincentive. Of course, we are not entirely in line with the rest of world, who do not tax people on their contribution payments; rather, they tax them on their exit.

Finally, I have some observations. We have linked to us a financial guidance operation and, in the last 11 months we have advised 5,000-odd people; 44 per cent of it has been for people under 40. What has come through very clearly is that 87 per cent of the people that we speak to feel that they have a lack of financial wellbeing; they do not understand where their savings are; they do not understand how to make decisions; they have a lack of confidence in being able to make a decision. The education program is critical and, until we get people educated to understand the benefits of savings, we will never get them to do it because there are a number of hurdles—tax et cetera—to get over before they do so.

CHAIR—That is interesting.

Mr Elia—Thank you, Mr Chairman and committee members. We are certainly aware of the disengagement that a lot of superannuation funds—not just industry funds—have with the broad based membership, but it is far more challenging for those in the lower age brackets, and obviously the target of this discussion is to talk a little bit about the under-40s. I would like to draw on some of the research that is contained in the submission that we have provided, but I want to try and put that into context. It is important to understand that our research indicates to us that our members do work as a catalyst for life’s choices. If they had the choice, clearly they would prefer to be doing something else. In most cases it is our members’ first job; it is a time of

self-discovery for them; it is their first step, in some respects, in feeling adult. Few really take on jobs in our industry with a view to a long-term career.

CHAIR—Is yours retail?

Mr Elia—Hospitality, tourism, recreation and leisure. It is the fun industry. Certainly most see it more as a necessity.

CHAIR—You are HOSTPLUS?

Mr Elia—Yes. As I indicated, most see it as a means to an end, and it is an opportunity for them to think long term about their future career options. They are attracted to the industry. Apart from the money, they are attracted to it because it is social, it is fun; it is a good source of meeting members. They are a disloyal and fickle mob, with those types of attitudes. You can appreciate, I think, the challenges that we have in trying to engage them and, more importantly, getting them to think about long-term planning.

CHAIR—We used to get quite a lot of people, visiting under the visitor schemes—the working holiday programs—who would just leave their money behind, too, wouldn't they?

Mr Elia—I am continually being lobbied by the associations—whether it is the Hotels Association or the restaurant and catering associations. Their view is that they should not be paying superannuation contributions on behalf of visitors, tourists, who choose to work in Australia. Clearly, the incentive there would be to employ only those individuals. I think it would have an impact on genuine residents of this country and obviously on the employment levels in Australia.

CHAIR—Yes, that is true.

Mr Elia—Their view is, to some extent, not so much to get access to that money in the context of not paying the SG, but rather putting it towards training schemes that would benefit the hospitality and tourism industries.

Ms GRIERSON—We have had submissions from people who have been in the reverse position. They have left post-school or university, worked overseas, accumulated superannuation there but of course then spent it to come back or on the way home. Then they come here and find that they have to start again and they have no superannuation.

Mr Elia—I am certainly conscious of that, but I suspect that they will continue to lobby for change. To make life difficult for us—it already is—our market research tells us that they are the type to seek instant gratification. They want to experience everything at once and they want everything and want it now; hardly a perfect fit with the notion of realising a benefit in a 30- to 40-year time frame, plagued with volatility, uncertainty and the complexity that is superannuation. They perceive themselves as 'bullet proof', the more extreme the better—'Bring it on,' they chant. That is what they keep telling us.

They are not concerned about the future, and generally find themselves in this vicious cycle of having to work hard in order to play hard, and they certainly spend as they earn. So it is quite

difficult to try and sell the proposition of superannuation to them. Anything that involves too much time they generally discard. The message to us is loud and clear: 'Don't distract us. We're too busy having a good time.' A further challenge for us is to try and speak in a language that they understand and resonate with, without disregard for the legal compliance disclosures that we are all aware of.

We are attempting to claw back the need for complex disclosure. That adds to the complexity certainly of the member communication material that we are required to produce. They generally do not find it very informative and, in fact, these days we no longer send out an annual report. We send out a lifestyle magazine that contains things such as the annual report requirements. Clearly the challenge for a lot of the fund CEOs is to try and strike the right balance between compliance and effective communication with the membership at large. It is an ongoing challenge for all funds and in our submission we certainly spend a bit of time talking about the need to improve the level and type of communication. We may be scaling back some of the complexities that are currently inherent in the disclosures that we make.

Their language as you would all appreciate is largely influenced by slang, text messages, various music cultures and abbreviations, trying to encourage them to read a PDS document, product disclosure statement, more often than not and I have had discussions with the regulator. They certainly concede that members at large probably do not read the stuff. It is too thick, it is too complex. It is not something that they are interested in. Given these attitudes, it is certainly no surprise to us in the context of the reaction we get in focus groups when we ask them how they feel about super and its importance. You generally get blank looks, laughter. It is certainly predictable, but at the same time quite alarming. As far as they are concerned, it is money that is theirs that they simply cannot touch for 30, 40, 50 years. These attributes of super certainly make them despondent, disinterested and unconvinced to a large extent that they can rely on a system to benefit them in 30 to 40 years time.

They really cannot understand the true nature or value of super. By and large their attitude was that it was a way for the government to avoid paying them a pension when they retire. Comments we generally heard were, 'I wouldn't have it if I had a choice. It's just not a priority. I need my money today. It's a get out of gaol card for the government. I'll sort this out when I get a real job.' There was certainly a clear lack of trust in the system and as I indicated, it was quite clear to us that those particular views were largely driven by a lack of general understanding of the importance of superannuation today and tomorrow.

Obviously the challenges for funds such as mine and Neil's is to try and engage the membership through innovative ways, different ways. Some of the things we have done, as I have indicated, we no longer send out an annual report. It is a lifestyle magazine.

CHAIR—What is your readership of that?

Mr Elia—It is really difficult to ascertain, but one of the things that we have done is to incorporate a give-away. It could be a holiday or something along those lines where we try and educate the members. We would ask them to enter a competition in which to some extent they are forced to answer a series of questions. The answers to those questions are in the annual report, so they are required to actually read the report in order to answer the questions. In the 2004 mail-out we received 15,000 responses to the competition. That may sound wonderful, but

you have got to appreciate we have a membership of in excess of 600,000 members. We are getting there and certainly that is the ongoing challenge for us.

Some of the other things we have learnt are that you cannot bombard them with multiple messages. They just simply do not have the time. It has got to be a simple message, a clear message, one at a time. Obviously that adds additional costs to us in the context of how we go about communicating with our membership. We certainly understand the importance of education and in the case of HOSTPLUS the board has approved the appointment of an education officer. We will work with employers. Some of the largest employers within the industry, within the hospitality sectors, are employees of HOSTPLUS. We have access to these employees through worksite visits, canteen visits and the focus for us is to try and re-engage and better educate the membership. That is all I have to say, Mr Chairman. We are happy to take questions.

CHAIR—That is a very interesting review and probably more extensive in terms of the survey you have done of the age cohort we are looking at, so that was interesting to have and use. I am sure we will be quoting from some of that in our report, and photos of them at the Big Day Out or whatever. A couple of things that particularly relate to your area. The committee is concerned about the people who predominantly would be in your area, people who work part time, a few days a week max, and often the people who are in there maybe single mothers, low-income people and they come under the threshold. Therefore, their interest in super is reduced. What would be your reaction to the removal of this threshold?

Mr Elia—Lose the $450?

CHAIR—Yes.

Mr Elia—We are very supportive of removing that threshold.

CHAIR—Of removing it, are you?

Mr Elia—Yes, in the context of it being a barrier insofar as employers not contributing for those individuals that earn less than $450, absolutely. In fact, under various awards underpinning the hospitality and tourism sector, that threshold is, in fact, a lot lower. It could be as low as $320 to $350. Employers within the industry, obviously through either enterprise bargaining agreements or through the award structure itself, have those thresholds removed either entirely, in which case, irrespective of the number of hours, the income that you earn, the employer will make a contribution to the superannuation fund. We certainly encourage that. As I have indicated, under the award provisions that threshold is certainly a lot lower.

Ms GRIERSON—What is the projection for your group when awards are gone and enterprise bargaining is diminished? There are benefits that will go.

Mr Elia—Yes.

Ms GRIERSON—Do you see that impacting on your membership?

Mr Elia—The answer is actually no. The brutal truth is that most employers within our sector—and we have about 30,000 of them—do not know what award underpins their particular employment—whether it is hotels, motels, restaurants, catering companies. By and large they turn to their association for advice. The larger employers, such as the casinos and some of the major hotels, do have enterprise bargaining agreements in place. It is certainly our understanding that those employers in some instances will remain committed to those.

Ms GRIERSON—Surely that is one of the reasons why you are recommending removing their threshold, because you have some benefits at the moment on the threshold that will not be there in the future. Your submission does recommend that the threshold be abolished, does it not?

Mr Elia—The question was asked. We certainly know of the disadvantages to low-paid workers, casualised workers in the industry, single mothers. There are some employers out there that will simply employ staff up to the threshold and move away, and avoid the—

CHAIR—Our concern is that there are people who are going to be permanently marginalised if they fall below it. The employers who calculate out so they fall under the threshold are an issue, as well. That is interesting. Have you tested it with restaurant and catering?

Mr Elia—Yes, it would have been John Hart, I suspect—John Hart or Robert Goldman.

CHAIR—Yes. I would be interested to have his feedback, as well.

Mr Elia—Yes.

Mr Cochrane—In the retail industry—

CHAIR—You get quite a lot of casualisation there.

Mr Cochrane—Enormous. We have a very large amount of casuals and part-timers. We too would support the abolition of the $450. Really it is, in terms of the fund, a negative thing because we are then going to have to increase our payments for protection costs which already in our case is $9 million a year, obviously depending on the crediting rate. That cost will actually increase, but we support the abolition of the $450 because simply it is the right thing to do, particularly for women whose employment needs are so variable.

Ms Hewett—It also would contribute to the employment of more full-time people in some sectors, because some funds have reported that there are employers who deliberately, as I think David said, employ up to the threshold and then you get no additional hours that month.

Ms GRIERSON—It is a twofold risk. You could say that they could bite the bullet and employ people properly or they could then just revert back to cash in hand, which would be appalling as well, but that happens. You also recommended the abolition of commission and you say it has significant cost benefits. Do you have any figures on that?

Ms Hewett—I do not have any figures here today but I know that our group has at times looked at some of the associated costs. There are some members who have chosen to roll funds

in and consolidate through financial planners, which assists some of the funds. We are aware that there are huge commissions attached to some of the products that members are in, which significantly reduce their net benefit over a period of time. We believe that on compulsory superannuation contributions, particularly the SG, there should be no commissions. If people want to make additional contributions and, by choice, choose a product that has a commission attached to it, fine.

CHAIR—I think that is a very good point.

Mr Elia—There is a bit of fallacy that it is nine per cent hits members' accounts. It is the contributions tax of 15 per cent, less commission and I think in some instances it varies. It is probably only about 6.7 per cent in real contributions that flow to members' accounts.

CHAIR—Most people are telling us 7.5 per cent.

Mr Elia—It is thereabouts, depending on the commission structure.

Ms GRIERSON—You said in your submission that reducing the tax on contributions would obviously be of great assistance et cetera, for those on low incomes. Then you say:

This, coupled with the magic of compound interest, would make a dramatic difference.

That has been mentioned this morning—a figure of $3.5 billion.

It is proposed that this reduction be by way of providing a tax credit of 15 per cent on employer superannuation contributions for those with taxable incomes.

What is that proposal? This is on the employer contributions.

Ms Hewett—There has been a lot of talk about the possibility of either overtime or all at once removing the contributions tax, and we have suggested that an alternative might be to reduce the contributions tax by 43 per cent but to make sure that that reduction is targeted to people who are on lower incomes and that it work in a similar way to the co-contribution scheme, where there is a rebate.

Ms GRIERSON—So you would like the whole thing but you are putting up a phased-in alternative?

Ms Hewett—Yes.

Ms GRIERSON—Yes, progressive benefits for the people who need it most.

Ms Hewett—And we are saying that you would expect that this would, in particular, assist a lot of those people who are under age 40 because, generally speaking, you would expect that they would earn less.

CHAIR—That is interesting. In relation to the question of consolidation, which affects you guys now—I will tell Sharon in a minute who I was talking to—somebody senior in the government that I spoke to yesterday—

Ms GRIERSON—Good, a bit of goss!

CHAIR—said, 'I've got a son who's a student and he's got about eight different super accounts. Each year it gets reduced by admin fees, so it will be gobbled up'—

Ms GRIERSON—And he is probably paying a life insurance component for every one of those too. You only die once!

CHAIR—Why can't we put it all into one central fund? Obviously, there would need to be a threshold in terms of the super contribution—for example, under $10,000 or some other figure. I just dragged that out of my head, so do not put any store in it. It goes into a centrally administered fund, which is easily accessed in terms of a clearly named one-stop shop. You can go onto the net and check how much it is. If those people then go into full-time employment or into other schemes or they move above the threshold, they have to address that issue. Because of the numbers of young people who are part-time students, working and so on, I wanted to see what your views are. Philippa Smith was saying, 'Well, it's difficult. You have all these different funds, admin fees and all the'—

Ms GRIERSON—If they saw the combined benefit, they might be more intent on putting some money into it.

CHAIR—Yes.

Mr Cochrane—The funds have played a very active role in encouraging people to roll over and consolidate their super. It has been a campaign that we have run for a long time. We have seen it in REST. As a result of choice, there has been a lot of churning and a lot of people are consolidating their superannuation with their current funds. One would encourage that from the point of view of reducing the admin fees, particularly when a fund like ours is paying large amounts in member protection costs.

However, it goes against the principle of allowing people a democratic choice. You are forcing people into a fund that they do not necessarily wish to be in. One has to balance off the financial benefits with the conflict it might have with the principle of choice.

CHAIR—If you are just a student working part time down at the pub, the money is small. Can't the super companies come together and work out something so that everybody wins? But it needs to be a simple system, perhaps under one banner, with parts of it administered by different groups et cetera.

Ms Hewett—I think there are ways to improve on what we have. Another problem about having one consolidated fund is that we are trying very hard to get people to take an interest and feel some sense of ownership. If you do not engage them, I think it is very difficult to achieve that. Choice has, to some extent, engaged a lot of people. The industry funds, interestingly, have benefited greatly from choice. I have not heard of one fund that has suffered as a result of choice

in terms of growth. They have all seen significant growth, but a lot of it has led to much more consolidation, where people have thought, 'Well, maybe I should put all my money in and finally I'll have an account of $5,000 instead of six accounts of $800.'

There are a number of issues. One is that in lots of cases people do not know what superannuation fund their employer is paying into. There are ways they can find out, but they do not, so they do not know. One way would be by putting it on their pay slip. A lot of these things are done electronically and, once it is in the system, I do not see it as a big problem. They have to pay into that fund.

Ms GRIERSON—You would have to register it with the Taxation Office and then it would go on the tax returns or something like that.

Ms Hewett—Yes, some way of reminding them of which fund the contribution is going into. The other thing is the development of transfer protocols, which have been in operation for some time and are voluntary, so that you could not unreasonably hold up people who wanted to transfer their benefit. There was a lot of evidence produced and given to previous inquiries which showed unreasonably long delays, knowing that in lots of cases—

Ms GRIERSON—You would get disinterested.

Ms Hewett—Yes, they give up and stop chasing it if a fund is not cooperating and transferring the benefit easily. I think that there are some improvements that could be made.

Ms GRIERSON—What if the government tendered out an opportunity for a consolidated superannuation fund and said, 'We'll give you guys some incentive, but you tender for it and we'll help you chase all these people up.' Wouldn't that be an attractive product? I would think people would tender for that.

Ms Hewett—For people who are lost, yes.

Ms GRIERSON—'You go out and chase them up and consolidate them into one account and you'll get some sort of benefit or bonus from the government for that.'

Mr Elia—I think industry funds have been doing that. In fact, they have been doing a hell of a lot of work in that area, and I am happy to come back and share some of this information with you.

CHAIR—In all seriousness, it is an issue which I think will be strong. You can rely on it in our recommendations, without canvassing, because I know what the mood of the members is. It is strong within some senior levels of the government, as I have just shared who the person was who made the comment to me. It is coming 'up the pike' at you, to use the American term. Rather than being ambushed, do you guys want to go away and think about it? I will say to people like Philippa Smith, 'This is the view. This has got strong support from the right places within the government.' Obviously we do not want to provide impositions that are difficult, but we see that as one of the key ways to try and provide the right incentives and disincentives, get them engaged, not lose them: a consolidator.

Ms Hewett—We would welcome the opportunity to provide you with some comment on the advantages and disadvantages that we see in consolidating something like that.

CHAIR—We can see some of the disadvantages, but we want to make it work. What are other ways? If it is a disadvantage to you, which clearly it is, then how can we achieve the same objective which is that it is easy for young people to find and they do not lose their 50 bucks in administration of funds. There must be a way of doing that that is a win-win. It is a win for the young people—it is easily understood, consolidated, they go to one place—and you do not lose your funds taken out by some centrally planned government body. You can see the reason and you know, in terms of quoting your own age cohorts and what they think, why they would think that would be a good idea.

Mr Elia—There are a number of initiatives that we have explored in the context of, for instance, the Australian Taxation Office, the ATO and the Lost Members Register. We have conducted a series of matching exercises to reunite members with their lost money. That has been very successful and I am happy to come back through Helen Hewett to provide you with some of that information. It has been successful. We are talking about millions of dollars here. This is a matching exercise between HOSTPLUS and the ATO. We have piloted quite a number of these schemes.

CHAIR—It is one end of the trail, though, the lost super scheme. I know that is important.

Mr Elia—I think it is important for us to demonstrate that there are certain parts of the industry that are conscious of this and the need to reunite members with lost funds.

CHAIR—Yes, I understand that.

Mr Elia—There are a number of other funds, such as the AUSfund, that you may or may not be familiar with. AUSfund is in essence an eligible rollover fund. A number of superannuation funds contribute to the AUSfund—by and large, they are small amounts of superannuation—in order to try and reduce the administration costs. As you correctly alluded to earlier on, we are conscious of the erosion of members' benefits in that regard. That certainly has a lower cost structure and is there and does a lot of work to try and reunite members with their lost money.

CHAIR—It is reuniting them, but maybe you have a students grouping within your sectors and there is an overall band of the students super fund within retail. Where does that come in a central cohort, because they are predominantly going to be in the low area. But let us not try to solve the problem. We have to look seriously at our recommendations sometime in the next few weeks because we have our last hearing in Canberra next week. This is one of the things that concern us and interest us.

Ms Hewett—Chairman, we would be happy to provide you with a very brief paper outlining some of the initiatives and some of the opportunities we see in that area, if you would be interested.

CHAIR—Yes. We have the problem with our committee today where we have lost two of our members who have been promoted, so we are short on numbers and then committee members have got different things on.

Mr McARTHUR—We have strength.

CHAIR—We do have strength. What we lack in numbers we have in strength and they all get the copies of it. I think we have covered some of the others, but we had some recommendations in regard to housing. Some people have recommended that we should have the ability for young people to withdraw for housing equity. I do not know what your views are on that.

Ms Hewett—We have strong views that oppose that. The reason we oppose it is that most people have very low accounts. If they withdraw this money early when they need it to contribute to their deposit, then they lose the impact over time of the compounding interest. Already there is a lot of evidence that shows that nine per cent for most is not going to provide them with a significant and adequate retirement income. That seems to me to be at odds with what we are trying to achieve here, which is trying to get people to contribute more to their super. So it has been our view always that housing is a separate issue and that superannuation cannot really be used to solve the problems of health and housing, which are often put up as issues where people should be able to access their super, until such time as we really have an adequate retirement incomes arrangement in place. We think we are a long way short of that at the moment.

Mr McARTHUR—How would you encourage a young person who has a co-contribution of, say, nine per cent to get it up to 18 per cent, which really makes it start to work in an actuarial sense?

Ms Hewett—I think it is difficult for people, depending upon the age group; but we do recognise that, as we were saying before, if you look at this age group of under 40 in two parts, for people between the ages of 25 and 40 there are opportunities. HOSTPLUS research acknowledges that there are some opportunities to promote to those people the saving of voluntary contributions to top their superannuation up. That is unlikely to happen until people have got their foot in the door and got their first home. For those reasons, we support the continuation of first home owners encouragement incentives to help get people into their home and to help them—and we think those schemes also help them—to develop a savings culture: paying off their mortgage, saving.

We also recommend strongly that people be taught the benefit of making fortnightly mortgage payments. Some mortgage providers tell their customers about the benefits but we know from our own experience that a lot of members do not trust some financial institutions. We think that government or some education campaign would have a better result in teaching people how interest works if you pay off your mortgage contributions on a fortnightly basis.

So we think that this is really important to this age group. Until such time as most people have got their foot in the door there, they are not going to look seriously at contributing more to their super. I think that is a fact of life. But, as they are getting into their 30s, we think the opportunities and the attitudes change quite significantly.

CHAIR—It was also recommended by the ACTU that perhaps a more important adjunct of preparing for future years was preparing for your future medical needs. The aspect they thought more important was that you should be able to have access to your super scheme with life threatening illnesses, for example. How does it work now in terms of your scheme, David or

Neil, where someone finds out they have cancer and the costs are going to be extensive et cetera. Are they able to access their scheme now? What is the story?

Mr Elia—We have this thing called insurance, in essence, so whether it is death cover, whether it is TPD, we have salary continuance; so there are various options available to our members.

Mr Cochrane—We have the same thing.

Mr Elia—In terms of that actual account balance itself, if at the end of the day there is a total determination there is financial hardship, there are other aspects where members can get access to their superannuation needs.

CHAIR—Does that happen much or not?

Mr Elia—Yes, it does.

Mr Cochrane—We look at probably 50 TPD payments a month. We are not seeing enough access to the income protection. I think people do not really understand the advantages of income protection. They wait until there is a financial disaster and they have not received their money from Centrelink and then they look at income protection. It is a very big advantage, particularly when it is a relatively short-term sickness, but we need to make people more aware of that.

Mr Elia—In most instances their insurance entitlement is substantially larger than their actual account balance. We have had situations where we have paid out a TPD claim and the account balance may have been less than $1,000, yet the insurance component was in excess of $70,000.

CHAIR—Yes.

Ms Hewett—One thing I might just point out on that, that you need to be aware of. In some industries the disability benefit is half the death benefit. When a person has got a terminal illness, they can easily qualify, let us say, for the permanent disability benefit, but it will be half their entitlement or the entitlement their beneficiaries will have, their dependents, when they finally die from this terminal illness.

CHAIR—That must cheer them up!

Ms Hewett—So it is a bit of a problem for people and some people are not aware that some funds do counsel members who decide to take the disability benefit in that case. They will counsel them to try and encourage them to look at opportunities to borrow against their death benefit. I think it would be worth exploring what opportunities should be available for those members who have got a terminal illness, but it should be quarantined to people who have got a terminal illness.

CHAIR—We will look at that.

Mr McARTHUR—reverse mortgage-type operation.

Ms Hewett—Yes.

CHAIR—In a way, yes, it is similar.

Ms Hewett—There is one other point I just wanted to make about reverse mortgages. We were talking about some of the research that HOST did where a lot of younger people in the under 25s group, they think they are going to inherit a lot and they do not really need to worry about super because mum and dad have got a terrific house, and it is going to be worth a fortune because it has doubled in the last 10 years. What they do not realise is that in some cases mum and dad are actually eating the house to support themselves in retirement and have some sort of decent quality of life.

Mr McARTHUR—How are they eating the house—through the reverse mortgage?

Ms Hewett—Yes. There was material in the Financial Standard just this week which showed that reverse mortgage products have increased from eight 12 months ago in December 04 to 19 products in December 05. The number of people doubled in that one year that have taken out reverse mortgages. People are eating the house and people are retiring now on average with $22,000 in their retirement income. It is pretty difficult to live on $22,000.

CHAIR—That is why we are doing this study.

Ms Hewett—One of the things we wanted to recommend in that regard was that with these reverse mortgage products, there is a lot of interest from members in getting access to reverse mortgage products. There are a lot of products out there that do not offer a no negative equity facility, so the equity can go negative. It is not compulsory that they must offer that and in some cases members who are taking them do not realise that their equity can go negative. We think this should be legislated and there should be some government policy that requires those providers of reverse mortgages to participate in an ASIC dispute resolution scheme that is overseen by ASIC for external dispute resolutions that arise in relation to reverse mortgages, but importantly that they be protected against the sort of negative capital.

CHAIR—It is probably outside of our study at the moment because that is not really something that happens much with the age group we are looking at, but maybe it is something we can look at in the future.

Mr McARTHUR—What are you finding about the capital sum versus the predicted income? I find a bit of confusion out in the market. They have got $150,000 or $200,000 and they think they are quite wealthy, but their actual rate of return on an annual basis is not that high. What is the perception out there? How much money have they got to accumulate to get a lifestyle income? Some of that perception, I have to say, has been perpetrated by commentators on members' of parliament lump sum payment.

Mr Cochrane—I do not think people have any idea of how much capital they need to accumulate for their income expectations. As said earlier, the average member that we have surveyed expects to have $39,000 income, which is $760,000 capital.

CHAIR—When you said the average was $22,000, was that per individual or per couple?

Ms Hewett—It is per individual, I believe, yes. I think that was in the *Financial Standard* on 31 January.

Mr McARTHUR—Let us go back to those figures. $700,000 gives you $40,000, you are saying. What is that rate of return? About six per cent, is it?

Mr Cochrane—That is at 6.25.

Mr McARTHUR—Let us make it six per cent. Just out there in the marketplace, what do they really think about? They think about that capital sum as being quite wealthy in their view.

Mr Cochrane—Yes.

Mr McARTHUR—They forget that the rate of return in a safe investment is about say five to six per cent. Is that a fair judgment?

Mr Cochrane—I cannot give you fact on that, but my sense is that is a fair judgment, yes.

Mr McARTHUR—That is my impression from talking some of the self-funded retirees going out at 55. They are obsessed with getting the capital sum. They have no understanding of how much that will generate and how their total income will drop by half or two-thirds when they retire, because that capital sum does not generate anywhere near the same income as they were going to receive in full-time employment at 55.

Mr Cochrane—Absolutely.

Mr McARTHUR—We have got a number in the State of Victoria who are leaving at 54 years plus nine months to get the capital sum, because they have accepted it, and they suddenly drop their total income by an astronomical amount and yet they are obsessed with that so-called capital sum because of the arrangements of the superannuation. It just strikes me as a strange sort of attitude of mind.

Mr Cochrane—Yes. There was some research done recently by Putnam in the States, where they found that, I think, something like 60 per cent of first-year retirees said that if only they had received proper financial advice before they had retired they probably would have retired so much later, because they then appreciated how important it was to build up a larger capital sum. The capital sum that they thought was adequate was just not able to meet their needs. It was very interesting research, but it confirms what you are saying. People are not properly prepared and they are not getting good advice before they go into retirement.

Mr McARTHUR—Do they see the sort of golden egg of $300,000 or $400,000 as being a lot of money in their terms?

Mr Cochrane—Yes.

Mr McARTHUR—They do not do the six per cent calculation.

Ms Hewett—They do not know how to do the calculation. They do not know how that will operate and also I think that although there are less people doing this, you still have people who sometimes take their lump sum out of super when they retire and then they go and get advice about what to do with it. As more and more get advice earlier, they become aware (1) how much they really do need if they are going to retire and get an income of $39,000, but also they learn about the tax benefits of keeping their money in and buying an income stream rather than taking it out in a lump sum. I think you are right, to a lot of people $300,000 or $400,000 just sounds like a lot of money and they are going to be sweet for the rest of their lives.

Mr McARTHUR—How do you turn that around? I come across that quite a lot just in electorate activity. There is this sort of perception that, 'If we get that $300,000 or $400,000'—what they really need is $800,000 or $900,000, do they not, to get the sort of lifestyle they are anticipating?

Ms Hewett—I think as people engage with there super—and they are through choice and through investment choice that operates—they become more aware of these things. As they start to seek, as more and more are, financial planning advice, they are becoming aware of this. One of the things that we think is important is there are opportunities for people to get this advice very often through their superannuation fund and they do not take it up. I think superannuation funds should be encouraged to promote to their members the opportunity to get advice on issues relating to super and to have the cost of that advice taken from their superannuation savings.

CHAIR—There is some proposal that it be tax deductible, that advice. In terms of that figure you choose, $39,000, which is the one that they aim to have as income, it is a strange amount. You would think it would be $40,000. How much do you say that they need? Is there a standard figure you say they need? Is it $750,000?

Mr Cochrane—Just working it out on a calculator, assuming an earning of 6.25 and assuming they retire at 55 and stop earning and live up to 85—that is a 30-year period—they need $760,000.

Mr McARTHUR—What is their retirement income the day they retire?

Mr Cochrane—If they retire at 55, their income is $39,000.

Mr McARTHUR—That is their income in work?

Mr Cochrane—No, that is what they are looking for.

CHAIR—That is what their optimistic—

Ms Hewett—That is the income stream from their pension.

Mr McARTHUR—What are they actually receiving in the last day of their job?

Mr Cochrane—We did not look at that. We were just asking, 'What is your expectation when you retire? What do you think you need?' and then we worked out how much capital they needed to meet that income expectation.

Mr McARTHUR—How do they work out the $40,000, though? Say they have been getting $70,000 and they drop to $40,000, how do you make that judgment in anticipation?

Mr Cochrane—That is worked through with their financial planner, as to what they think their expenditure is going to be. It is not necessarily a hard figure; it is people's expectation of what they think they may spend, because they do not believe they will be saving anything. They probably do not need to pay a mortgage any more; their house is paid off.

Mr McARTHUR—But surely the house mortgage is one of the key determinants, isn't it?

Ms Hewett—A lot of financial planners say that in retirement they will need about 60 per cent of their earnings in their final years in paid employment.

Mr McARTHUR—That is the sort of figure I am interested in.

Ms Hewett—A lot of financial planners will say that, but that is a very general figure because it will depend a lot on what you are doing when you retire. There are some men at age 40 who are just starting their second family. There are some men at age 50 who are starting their second family.

CHAIR—Some men at age 60, as I know a few.

Ms Hewett—So it will depend on what they are going to do and what their obligations are. Generally speaking, a lot of planners say that in retirement you will need 60 to 65 per cent of your final income, as a very rough guide.

Mr McARTHUR—That seems to be a much better judgment of what people are really on about, because that is compatible to their sort of lifestyle.

Ms Hewett—Yes, and it depends on how much you earn. If you earn $1 million, you can probably do with a bit less.

CHAIR—We are now running 20 minutes over and we were meant to conclude at four. Thank you very much for a very interesting session. Thank you for your extensive research, suggestions and ideas. We appreciate it and we will certainly be following some of those up. Particularly, we would like you to think through that question of consolidation for low-income students and how we can address that.

[3.37 pm]

KNOX, Dr David Montgomery, Principal, Mercer Human Resource Consulting

CHAIR—I now welcome the representative from Mercer Human Resource Consulting to today's hearing. As you know, although the committee does not require you to give evidence under oath, it still has the same standing as proceedings before the parliament. We have a written submission before us, but I invite you to make comments before we move to questions. Thank you for coming.

Dr Knox—Thank you very much, Mr Chairman. I will give a brief outline of Mercer Human Resource Consulting before I get into our submission. Mercer has a number of arms of operation in the superannuation industry. We are the largest employer of Australian actuaries and look after not only the parliamentary scheme but the CSS and PSS. We look after your superannuation and do the actuarial work for that, as well as the Victorian superannuation scheme for most public sector servants. We also have a major investment consulting arm and run a master trust—the Mercer Super Trust—which has more than $10 billion in it. So we are a very major player in the superannuation industry.

In terms of our submission, I would like to firstly thank you for the opportunity of talking to it. I recognise the importance of this inquiry. As previous presenters have said, we recognise that the attitudes of the under-40s are quite different from the baby boomers and the older members in the work force. What do the under-40s really think of super? You have heard this from a number of people, so I will be brief.

Most under-40-year-olds have been in super most of their working lives, because the super guarantee has been in place since they entered the work force. They recognise it as part of life and, therefore, it is not really surprising that they accept it. They may not engage it but they accept it, for they have known nothing else. However, while a number of the submissions have highlighted their support for it, it is apparent that very few under-40-year-olds make voluntary personal contributions to super, and this is where this inquiry is focused.

CHAIR—Yes.

Dr Knox—The reasons for this lack of action are many, but I would like to highlight three broad areas. One is the current cost of living that these members have. That includes debt, mortgages, HECS and family costs. The second reason is the attractiveness of other investments, whether it be shares, negatively geared property or other investments that they can have access to. The third, and I think the most important, reason that they do not engage is the lack of access to their superannuation. As we have heard, this generation talks in terms of, 'Bring it on now.' They are an immediate, instant generation.

CHAIR—Were we less so, do you think?

Dr Knox—I think we probably were.

CHAIR—Well, you're younger than me!

Dr Knox—I am an iconic baby boomer. I think we were probably a little less so but, nevertheless, there was always a generation gap. McCrindle Research, in one of your submissions, confirmed that this related to their No. 1 frustration with super. They want practical benefits today, not in 20 or 30 years time. The primary focus of generation X and Y, I think it is fair to say, is on their immediate or medium-term financial needs, not something in 30 years time. Is there a way forward?

Looking at the recommendations that you have received, I think they can be grouped into four broad categories: (1) improved awareness and understanding of the need—that is a good idea; improved education; secondly, to simplify or adjust taxation on their superannuation—in other words, to make it clearer that super is attractive; tax is too complicated; thirdly, to extend the co-contribution rates; fourthly, to provide some standardised or personalised benefit projections, which has been talked about earlier today.

Whilst we think that all of these recommendations are worthy of serious consideration, I think it is fair to say that we do not think that many of them will seriously engage generation X or Y in personal contributions, because a primary concern of this generation is that super is not accessible and provides no short- or medium-term benefits to them. It is out there in the 30- to 40-year horizon. There is a clear conflict between the needs and desires of the under-40s and superannuation which, by its very nature, is long term and should be focusing on something many years away. To address that fundamental problem, we have suggested in our submission that half of all personal contributions made by individuals under 35 can be withdrawn at any time for any purpose.

CHAIR—Half of contributions?

Dr Knox—Half of personal contributions.

CHAIR—That is voluntary?

Dr Knox—Voluntary contributions. If I choose to put $1,000 a year in for 10 years while I am under 35—that is $10,000—I can pull out $5,000 at any time for any purpose; no investment earnings. All the investment earnings stay in the fund.

CHAIR—That was very attractive to the committee on our first day. That was recommended to us in Sydney and it had a lot of appeal. Since that time it has been heavily dumped on by the superannuation industry who say, 'Doesn't that rob the whole purpose of establishing a scheme?'

Dr Knox—It is a fair question. We have to recognise that, of course, these voluntary contributions by under 40-year-olds or under 35-year-olds are not being made today.

CHAIR—No. What percentage make them?

Dr Knox—We think it is about two per cent, but it is very difficult to get hard evidence.

CHAIR—Is it? When you started off—seeing this is becoming more like a dialogue than an inquiry—you made four points that you thought needed to be addressed. Could I have a recap of those?

Dr Knox—Yes. The first one was improved awareness and understanding, improved education.

CHAIR—Yes, which is hard.

Dr Knox—Which is hard, and we need to recognise that there are different members, different educational levels et cetera.

CHAIR—Yes.

Dr Knox—The second one was to simplify or adjust the taxation basis. We have advocated there to reduce the tax rate on funds. There has been talk of contributions tax, but we have to recognise that there is a tax on investment income. We are really saying that tax rates, in income tax rate terms, have been coming down.

Super tax rates have not come down, so the relativity has changed. Contrary to our Treasurer, I would argue that, for low- and middle-income earners, super is not taxed concessionally. If you are a low-income earner on the 15 per cent marginal tax rate and the tax rate on the super fund is 15 per cent, where is the concession? It is not there. Even if I am a middle-income earner at 30 per cent and I have 15 per cent on the way in and 15 per cent on the way out, most people perceive that as, '15 plus 15 equals 30. That's what my income is taxed at. Where's the concession?'

CHAIR—Yes. When you say 'reduce the tax', do you mean the levy?

Dr Knox—The super fund as a whole has a tax rate of 15 per cent and that is in respect of contributions and investment earnings.

CHAIR—Yes.

Dr Knox—We would suggest bringing that down to 10 per cent. That is a fairly simple thing to do. When I say 'simple', it will cost dollars, but it does not require any change of legislation. It is just like lowering the income tax rate. The third common suggestion would be to extend the co-contribution to more people. That has merit but I am not sure that it would attract the under 40-year-olds or the under 35-year-olds.

CHAIR—In terms of removing the thresholds, our concern, and the departed members of the committee's concern, was the impact being more on the marginalised and we are going to often keep them marginalised—single mums and so on working a couple of days a week.

Dr Knox—I was really trying to summarise some of the recommendations that you have received. I am not sure that that one really addresses some of the issues.

CHAIR—No, but it does in terms of the lower end. It helps.

Dr Knox—Support. The fourth suggestion was the idea of improved benefit projections to members, which I think the presenters before the last one were talking about. I think that does have merit in annual statements, to say, 'What have you got now? What will it buy you in retirement?' et cetera.

CHAIR—Okay.

Dr Knox—I would like to come back to our submission that, if an under 35-year-old puts in $10,000 of their own money, they should be able to withdraw half of it for any purpose at any time.

CHAIR—This is the radical proposal that was put up while you were out of the room. To recap what David is saying, the biggest factor is that this age cohort do not see any benefit to them now. His estimate is that about two per cent make a voluntary contribution. If we, in fact, changed it so that, up to 35, they could withdraw half their funds at any time for any purpose—

Dr Knox—Half the funds that they contribute voluntarily.

CHAIR—They contribute voluntarily. We are not getting much out of them now.

Dr Knox—That is exactly right. The industry is saying, 'Well, super is there for the long-term preservation and retirement.' We would agree with that wholeheartedly. I have a 20-year-old son who is a full-time student, part-time worker. That age group do not engage with super; it is too far away. If they were putting money inside—and it is a bit of an each-way bet—with the thought that, 'I can access half of it, but the other half stays for my retirement,' then there is some merit; there is an attraction. We have not, obviously, linked it to housing because we think that any specific purpose is very difficult to administer.

CHAIR—I find some of these young people, who are in that age cohort, are earning quite significant dollars.

Dr Knox—Right.

CHAIR—Are you offering a real tax incentive—they can put it in for any time—or are you talking—

Dr Knox—We are talking after-tax money.

CHAIR—Yes, 15 per cent in, 15 per cent out.

Dr Knox—No, because the 15 per cent in is on employer tax deductible contributions.

CHAIR—Right.

Dr Knox—What I am talking about here is personal, voluntary after-tax contributions. Full income tax has already been paid on the dollars. I put $1,000 in for 10 years, I put $10,000 in, the investment earnings might have grown it to $15,000 or $20,000, but I can pull back $5,000 of it when I want to—if I need a new car et cetera.

CHAIR—Yes.

Dr Knox—Our argument is that those dollars are not being put into super at the moment at all. They are being spent. They are being invested in other ways. If we want to engage this generation into super—as we were saying before, they are the immediate generation—we must have a benefit for them. That is our suggestion.

CHAIR—That is interesting. We will take that on board. There have certainly been a lot of people saying, 'No, that's not the way to go. This is not why it was set up,' but if it is voluntary and if it is half, that is interesting—up to 35. I will test it with the other members of the committee. What about the consolidation of funds, which you probably heard us debating?

Dr Knox—I did hear that. Certainly following fund choice, our experience, as the industry funds' experience has been, is that members are consolidating, but we also recognise that there are a lot of members out there with small balances, small accounts, and your suggestion of a centralised fund—I suppose, at least it is centralised.

CHAIR—Yes.

Dr Knox—I think we have to be careful there, because whenever one goes into a centralised fund, one then has to raise the question of, 'Where is it going to be invested while it is small?' for instance. Is it a cash account? Is it going to be invested in equities, and therefore are we really talking about a government-run or centralised fund?

I can see the merit in it to try and sweep up some of these small balances, but I think there are some disadvantages and I make the same offer as the Industry Funds Forum made—and that is, we will take that on board and get back to you on some ideas. There are some concerns. Clearly you want a cap on it at some point, whether it is $5,000 or $10,000. What we are trying to do at the younger generation is to engage people in a super fund. Whether it is HOSTPLUS or Mercer or whoever it might be, we are trying to say, 'I'm now a part-time student in the hospitality industry. My fund is HOSTPLUS,' or Mercer or whoever.

It is a bit like the way I engage with a bank: my salary goes into a bank, my super goes into a fund. I think we have a potential problem if it goes into an amorphous government central fund. We are taking that engagement away.

CHAIR—Yes, I understand.

Dr Knox—It was interesting, the previous evidence suggesting that the co-contribution advertising missed the mark with the younger generation. Certainly my anecdotal evidence was exactly that: that the younger generation just say, 'Why would the government give me something?' The 20-somethings are cynical of the government. There is a level of cynicism there that, to be fair, is probably higher than we had when we were that age. It is always rose-coloured glasses, but I think that if we want people longer term to identify with super, then we want them to have a savings culture and hence our idea of encouraging contributions.

CHAIR—In terms of this ability to raid the piggy bank, would you require they repay it or they do not have to?

Dr Knox—No. Remember, these are their voluntary contributions. It has come out of after tax money. We have an example in our submission where someone putting in $1,000 a year from age 20 to 30 and they withdraw half of it at the age of 30, it increases their final retirement benefit by 1.2 times their final salary. That is a significant increase. The reason for that is the magic of compound investment earnings, because you are getting it in early, half of it is staying there, all the investment earnings are staying there and 30 years down the track it is a much bigger retirement benefit.

One of our problems, and I have said it before, is that our younger people do not engage with savings. We know they do not save primarily. What we need to do is encourage that savings culture. We need to encourage that engagement. That was really one of the things that was behind our recommendation or suggestion: that this thing gives them an opportunity to engage.

CHAIR—That is interesting. I think that that makes quite a bit of sense. We have talked about the contribution threshold.

Mr McARTHUR—Could I just challenge taking out half the super? You are saying that the other accumulated contribution will continue in the superannuation. If you encourage people to take half out, what is the real incentive for them to keep going with superannuation if at any time you can just take it out to buy the house or to do something else; go overseas.

Dr Knox—Let us be clear here. We are only talking about their after tax voluntary contributions. We are not talking about the compulsory bit, so the nine per cent stays.

Mr McARTHUR—Given that we are really trying to get to a situation of nine per cent plus nine per cent in an ideal world, why do you put an attitude of mind that you can take it out when the superannuation funds have resisted fiercely anyone taking it out before the preservation age of 65?

Dr Knox—Previously that was our position but we have to recognise that those in their 20s and early 30s are making no contributions to super voluntarily, or virtually none. So if we want to engage this generation, we have to give them something that they can see a reward from in the next five years. We cannot leave it for 30 years, because 30 years time is too long. The public sector funding in Western Australia found that 60 per cent of the young people said, ‘I prefer to invest directly in shares than in super, because I can access it. It is liquidity.’

CHAIR—That is probably smart.

Mr McARTHUR—So it is a liquidity argument. You are saying it is just liquidity. If they are in the share market they can pull it out?

Dr Knox—Correct.

Mr McARTHUR—In the super fund and then pull it out?

Dr Knox—They can pull out half of what—

Mr McARTHUR—Yes, but they can pull out a bit of money.

Dr Knox—They can pull it out.

CHAIR—But that is not the amount they put in for co-contribution.

Dr Knox—I would argue that the co-contribution, if they were to receive any, stays in the fund. They put the $1,000 in, they might get $300 co-contribution. That stays in the fund, so you have $1,300 going in. You have investment earnings on top of that. All that stays in. All they can pull is half the $1,000.

CHAIR—If they have a government amount based on $1,000, for example, then they pull half of it out in a year's time, it would be a fair degree of rorting of government funding, wouldn't it?

Dr Knox—It could be seen that way. We tried to keep it simple. We would need to recognise that you may well want to say there is a limit: it has to stay in there for two years, or something of that nature, not 40 years. If you wanted to limit its availability next week or next month, I would be open to that idea. In other words, give them, 'It has to stay in there two years before you can pull it out.' But I think the problem with then saying, 'I've put $1,000 in and the co-contribution is only subject on this condition and that condition,' is that it gets administratively very messy.

CHAIR—It is also difficult to justify a government contribution which can then be part of the money put it, half of which can then be pulled out.

Dr Knox—The government contribution is not being pulled out.

CHAIR—No, I understand that.

Mr McARTHUR—The $1,500 has only been put in there because they put the other in, isn't it?

Dr Knox—That is right.

Mr McARTHUR—You would have some trouble politically saying, 'You get the $1,500 for the $1,000 but then you can pull it out.' You would not win that, I do not think, in the public debate.

Dr Knox—I think there are probably ways of introducing it with caps and limits. I think what we wanted to put before you was that there was a need to introduce a benefit to the younger generation that was in the shorter term.

Mr McARTHUR—Just give me a scenario that a person would invest $1,000 in the share market. Surely they have an attitude of mind to accumulate their capital. Are you saying that they want to accumulate their capital and have the capacity to withdraw that at any time?

Dr Knox—Maybe for a home deposit.

Mr McARTHUR—That is on the basis they might have made hopefully a profit on the share market investment.

Dr Knox—Correct. Our research certainly indicated that alternative investments, whether it be through property or share market, were more attractive to them than putting voluntary contributions into super.

Mr McARTHUR—On the basis they could get at it?

Dr Knox—On the basis of access.

Mr McARTHUR—Right, so that is the key.

Dr Knox—That is the key, and that came through a couple of your other submissions.

CHAIR—I think it is very interesting. I have to wind it up because I have to leave myself. Mr McArthur has fires down in his area, so he needs to be on the phone in regard to those. Thanks very much for coming today. We will send you a copy.

Dr Knox—Thank you, and all the best with your recommendations.

CHAIR—Thank you, we have to go to the hard end soon, coming up with the recommendations. But thank you for coming and putting forward your ideas. It was great.

Dr Knox—Thank you very much.

Committee adjourned at 4.00 pm