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Standing Committee on
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Australian Government

ComSuper

SUBMISSION 10

House of representatives Standing Committee on Economics, Finance and Public Administration

Submission No: 10

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Secretary:

Ms Bev Forbes
Committee Secretary
Standing Committee on Economics
Finance and Public Administration
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Ms Forbes

Inquiry into improving the superannuation savings of people under age 40

Thank you for the invitation to make a submission to the Committee. I appreciate the opportunity to provide input into the debate.

At the outset, I should explain that the views expressed in this document are my views and those of some staff at ComSuper. They are not the views of the Trustees of the various schemes that ComSuper administers nor are they those of the Minister for Finance and Administration or staff of the Minister's Department.

I also acknowledge that the Department of Finance and Administration (Finance) is presently considering issues and possible options for changes to the superannuation arrangements for Australian Government employees that were not addressed prior to the implementation of the Public Sector Superannuation Accumulation Plan (PSSAP)[1]. I have attempted to avoid mentioning issues that Finance has already provided commentary on or that Finance is suggesting might be changed as part of its current review process.

General

By way of background, I should explain that ComSuper is the business name of the Commonwealth Superannuation Administration. I am the Commissioner of Superannuation, Chief Executive Officer of ComSuper and ex-officio Chair of the Defence Force Retirement and Death Benefits Authority.

ComSuper is the Australian Government agency providing superannuation administration services to the Trustees responsible for the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation Scheme (PSS), PSSAP, Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits (DFRDB) Scheme.

[1] See Finance December 2004 Discussion Paper 'Possible Changes To Superannuation Arrangements For Australian Government Employees'

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These are amongst the largest occupational superannuation schemes in Australia. They have a combined membership of over half a million contributors, pensioners, and preserved benefit members. Presently, there are some 240 000 contributing members, 62% of whom are under 44 years of age.

The PSSAP commenced on 1 July 2005 following the closure of the PSS to new Government employees from 30 June 2005. The PSSAP is a fully funded accumulation scheme; all the other schemes for which ComSuper has administrative responsibility are effectively unfunded defined benefit schemes which require compulsory contributions from members and generally provide for some form of pension to members on retirement.

Even though members of the defined benefit schemes are required to make personal contributions, the pensions provided under the defined benefit arrangements average in the vicinity of $18 000 - $20 000. This means that potentially and irrespective of the compulsory nature of personal contributions, the Government is called upon to provide some form of supplementation to these members in the form of a full or partial age pension.

PSSAP members are not required to make personal contributions, but may do so if they wish. If they don't, they may not have enough in retirement, resulting in the Government being called on to provide some form of supplementation. In light of this, the issue of improving the superannuation savings of people under age 40 becomes more important, particularly as the average age of new entrants to the APS is 32 years[2].

Having said that, it is important to recognise that making contributions to superannuation is only one way of saving for retirement. Other savings mechanisms may be just as relevant and may supplement superannuation savings to provide for a better life in retirement.

Submission

I have provided views in the form of dot points for this submission under the following headings:

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

I have also provided some suggestions for incentives that might be attractive for people to encourage savings through contributions to superannuation.

Barriers and/or disincentives to contribute to superannuation

- Generally, younger people do not contemplate retirement and their needs for retirement. It is only when people reach an age where retirement is on the horizon that they start contemplating what sort of lifestyle they may wish to have in their latter years. This is an individual decision notwithstanding statements from various organisations suggesting levels of income that are appropriate which have been promulgated in recent times.

[2] See State of the Service Report for 2003-04 prepared by the Public Service Commissioner

- Other forms of savings are easier to understand and more readily available and accessible (for example, superannuation is seen to be only available through employment notwithstanding that anyone under the age of 65 can contribute to superannuation; one cannot just go to a superannuation fund and make deposits and withdrawals, even if one could find the offices of a superannuation fund). The lack of knowledge about superannuation in the workplace and/or the restrictions on what information an employer can provide to employees about superannuation adds to the 'mystery' of superannuation.

- The complexities of the rules and regulations tend to frighten people away from superannuation (for example, reasonable benefit limits system, surcharge, taxation of superannuation at three points, accessing benefits, eligible termination payments and components). Current communication methods and the disclaimers provided under financial services regulations that continually stress the importance of seeking advice from licensed professionals such as financial planners and the like add to the perception of the complexity of superannuation.

- People effectively lose control of their superannuation money, generally until age 65. Some might see this as an impact on their ability to be able to cope with life events such as paying a mortgage, rent, credit cards, HECS, childcare, health, schooling for children, recreational activities and other necessities of life.

- Fees and charges applying to superannuation accounts.

- There is also no immediate advantage for contributing to superannuation (for example, there is no tax deduction and as superannuation cannot be assigned, it cannot be used as a security for borrowing to meet other needs). In particular, self-employed people cannot get a tax deduction for 100% of personal contributions.

- While there have been some changes to enable superannuation to be split where there is a breakdown in a marriage, these arrangements are not helpful for people who are not married but reside together or who may be in an interdependency relationship, when those relationships breakdown.

- The rules applying for reversionary pensions do not generally apply to people in interdependency relationships. Also pensions do not form part of a person's estate – the pension is lost if there is no reversionary beneficiary.

- There have been a number of changes to superannuation laws/rules etc in recent years and there are claims that this has led to uncertainty, confusion and a lack of confidence in superannuation. Further significant changes could exacerbate these perceptions.

Current incentives in place to encourage voluntary superannuation contributions

- The proposal to abolish the surcharge should remove any disincentive to salary sacrifice amounts into superannuation where that option is available. Salary sacrifice arrangements that are available makes it attractive to contribute from pre-tax income.

- The tax concessions available for superannuation, particularly the concessional tax rates that apply.

- Compulsory employer contributions have established a 'base' amount of superannuation savings for all employees who might otherwise not have had any superannuation savings for their retirement.

- The long term nature of superannuation with the compounding effect of interest helps to build on savings.

- Co-contributions are an incentive to contribute (although given the current restrictions, recipients of a co-contribution may still be dependent on Government assistance in retirement), but the limits surrounding the co-contribution regime might mean a number of people under 40 may not get the benefit.

- Amounts paid into superannuation as a result of salary sacrifice arrangements are not subject to FBT even though the amounts are treated as employer contributions.

- Portability gives people a lot more flexibility in consolidating superannuation savings, but could have an adverse effect if people 'chase' investment returns.

- Superannuation is generally safe from being attached in bankruptcy proceedings. It is also not readily accessible until a condition of release is satisfied (for example, unemployed people would need to demonstrate financial hardship before they could access some of their superannuation).

- The new transition to retirement arrangements provide much more flexibility for people who have reached their preservation age but who might wish to continue to work.

- Generally, members of superannuation funds are provided with cheaper life and income protection insurance cover. In fact, without superannuation, many people would not have insurance cover.

- There are tax concessions available when superannuation benefits are accessed (for example, invalidity; when taking benefit at preservation age).

- Some funds provide for spouse accounts that allow members or the spouses of members to contribute towards the spouse's retirement.

- The ability of anyone under the age of 65 to contribute to superannuation without having to satisfy a work test provides an incentive to save for retirement.

- Generally, in the Government schemes, the employer contributes more if the member contributes more (generally after a period of time).

- The financial and disclosure regulatory regime provides confidence for fund members that their superannuation savings are being managed appropriately.

- Choice of fund enables fund members to become actively involved in decisions about where they want their superannuation contributions to be paid and adds to a sense of ownership of superannuation.

- Splitting of superannuation enables couples to plan for retirement together and to take advantage of two reasonable benefit limits and two low rate tax thresholds.

Improving awareness of the importance of saving early for retirement

- Demonstrate on annual statements the implications of having contributed more (for example, "If you had contributed 8% of your salary to the fund, your balance at 30 June could have been $xxx")

- Push the point that over the longer term, the return on investments in superannuation is generally better than that provided by other savings vehicles.

- Improving knowledge of financial matters and superannuation in the workplace.

- Start education about the benefits of contributing to superannuation early by incorporating into school curricula as part of lifestyle education.

Some suggestions for incentives that might be attractive for people to encourage savings through contributions to superannuation

- Remove the complexity surrounding superannuation (for example, the grandfathering provisions of superannuation legislation impose significant complexity – these could be removed and those adversely affected by the removal could be compensated by way of some form of Government offset/contribution).

- Allow for a redraw type facility where members can redraw half of the amount that they have voluntarily contributed from after tax income, subject to a minimum amount limitation like that imposed for accessing benefits on grounds of hardship.

- Make it compulsory for people to make personal contributions. A phased approach could be adopted where compulsory personal contributions of say 0.5% of salary over a period of twelve years until the compulsory contribution reaches 6% of salary.

- Expand the co-contribution arrangements to encourage younger people on higher incomes to contribute to their superannuation.

- Any additional contributions during the accumulation phase to be used as an offset against health charges in retirement, effectively, the pensioner is provided with free medical in retirement (for example, instead of a pension of say $30 000, a pension of $28 000 and the balance goes towards meeting the health costs of the person – if not utilised, some part might be paid to the pensioner as a bonus after the end of the financial year).

Yours sincerely

Leo Bator

Leo Bator
Commissioner for Superannuation

20 July 2005