UnitingCare Wesley

Friday, October 13, 2006

Mr D Sullivan
Committee Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
Email: corporations.joint@aph.gov.au

Dear Mr Sullivan,

Responses to the structure and operation of the superannuation industry

These comments are based on the premise that the Superannuation Guarantee has been introduced to steer society into becoming more self sufficient in retirement, to reduce the projected taxpayer burden due to the ageing population and to improve the quality of life of retired citizens.

One of Uniting Care Wesley's goals is to advocate for justice and fairness in our society. In this context we provide the following suggestions relating to some of the points raised in the May 2006 report 'Improving the superannuation savings of people under 40' by the House of Representatives Standing Committee on Economics, Finance and Public Administration. The point of these comments is to increase fairness in the Australian superannuation system and to reduce the risk of poverty for older Australians in the future.

These comments can be regarded as responding under the following term of reference for the inquiry: **15. Any other relevant matters**.

1. Abolish the $450 per month earning threshold
The Superannuation Guarantee (SG) specifically marginalizes low-income earners, part time and casual employees with the $450 per month earning threshold, excluding them from 'mainstream' access to superannuation. The abolition of the threshold also may put a stop to disreputable employment practices such as offering workers less hours and intermittent shifts to keep their earnings under the $450 per month threshold. Under this summation, lowering the threshold may further marginalise workers whereby they may have to seek extra work or hours elsewhere to eke out a living. Unlike the report, UCW calls for the concept of a threshold to be abolished.

2. Increase the threshold of protection for small superannuation accounts
Currently the Australian Taxation Office (ATO 2006) suggests individual accounts with less than $1,000 are protected against administration costs such as entry and exit fees, regular charges and asset management fees but are affected by tax charges, insurance premiums, and negative investment returns. UCW calls for the combining of individual's small balance accounts from Superannuation Guarantee

into one managed or regulated superannuation account, perhaps by a single superannuation fund appointed by tender from the ATO. UCW also recommends raising the exemption threshold of ALL fees and charges to $5,000.

This equates to a 'capital guaranteed' amount and may provide an incentive for the young and disadvantaged groups to begin to engage in providing financially for their future retirement. This incentive should not detract but be the starting point and run in tandem with the co-contribution incentive already in existence for middle and low-income earners.

3. Offer existing co-contribution incentive to those not in 'eligible employment'
The House of Representatives Report (2006 pp. 139 -140) suggests the maximum superannuation co-contribution is $1,500 for a person earning less than $28,000 a year. However, it is not offered to people who are not earning 10% of their income from 'eligible employment'. Therefore, those who are 'unincorporated self-employed, stay at home parents and people who rely solely on government benefits - students and the unemployed' as well as full time carers, are marginalized by not being offered the incentive. The UCW supports the report that calls for the removal of the 10% work eligibility rule.

4. Include all employees in the Superannuation Guarantee
Currently part time employees under 18 years of age, defined as working less than 30 hours per week, are excluded from SG. All workers, regardless of their age or hours worked, should be entitled to receive the same SG entitlements as mainstream workers. UCW calls for ALL workers to benefit from SG, particularly in a labour market where short term and ad hoc employment is encouraged.

5. Inclusion of independent contractors
Independent contractors are currently excluded from SG entitlements if they are not employees. The definition of 'independent contractor' requires definition as many workers may be defined loosely as 'independent contractors' but may not be self-employed or consultants attached to another enterprise. UCW calls for the tightening of the definition of independent contractor.

In line with point 4, we also believe that independent contractors should benefit from SG through the hiring business if an independent contractor's main source of income is not through self-employment or by another contracting business.

6. Transparency of SG contribution as being part of remuneration/salary packages
The current SG contribution of nine percent of employees' wages is thought to be a burden to employers, when the contributions are, as pointed out in the aforementioned House of Representatives report, made up as part of the employees' remuneration. UCW calls for transparency that SG is part of employees' remuneration.

7. Promote superannuation benefits, fees and charges in plain English
The aforementioned House of Representatives report recognises that financial literacy is 'lowest among those groups who are most likely to have a low level of retirement savings; women and low income earners' (p. 83). Therefore, care should be taken by all stakeholders in the superannuation industry when preparing above and below the line promotional material to keep it simple to engage all audiences. UCW calls for transparency and simplicity in the superannuation industry's promotional and regulatory material of which the general public could and need to encounter.

8. Transparency of fees and charges

The World Bank (2000, p. 5) suggests that all pension fund providers should be regulated to provide a fee structure whereby consumers can 'compare a single 'price'...and a single proportional charge' not varying with earnings or contributions. The Commonwealth Government is to be congratulated on the inroads that have been made outlined by the Corporations Amendment Regulations 2005 regarding disclosure of transactions and fees and charges.

Nevertheless, material promoting the performance of superannuation products should also have corresponding product fees and charges clearly outlined. UCW calls for clear standard and transparent disclosure criteria for fees and charges to make comparisons easier for consumers when selecting a fund.

9. Recipients of Commonwealth and State benefits to receive SG

Recipients of some Commonwealth and State benefits, for example the unemployed, adult students, carers or those with disabilities or receiving WorkCover, should benefit from SG through the governments and authorities making a 9% contribution to SG over and above their benefit. This would enable recipients to not lose ground, or at the very least hold some ground in the superannuation market during the period of receiving benefits.

We look forward to reading the deliberations of the inquiry, particularly as they impact on low-income people.

Yours sincerely,

Gwen Moore
Acting Chief Executive Officer

References:

Australian Taxation Office (ATO) 2006, *Protection of small superannuation accounts*, viewed 4 October, 2006, <http://www.ato.gov.au>.

House of Representatives Standing Committee on Economics, Finance and Public Administration 2006, *Improving the superannuation savings of people under 40*, viewed 3 October, 2006, <http://www.aph.gov.au/house/committee/efpa/super/report.htm>.

World Bank 2000, *Administrative charges: options and arguments for controlling fees for funded pensions*, World Bank Pension Reform Primer, viewed 4 October, 2006, <http://www.worldbank.org>.