AUSTRALIAN INDUSTRY
GROUP

12 January, 2004

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The Secretary
Senate Economics Legislation Committee
Room SG.64
Parliament House
CANBERRA ACT 2600

Dear Dr Bachelard

INQUIRY INTO THE SUPERANNUATION SAFETY AMENDMENT BILL 2003

We refer to your letter of 11 December, 2003 inviting written submissions to the Committee in relation to the above Inquiry.

The Australian Industry Group has a significant interest in the safety of superannuation entitlements generally given the diversity of arrangements which apply in the private and public sectors. Within our large national membership there are numerous corporate, industry and commercial funds in operation all of which are vitally important to the interests of our members as sponsoring employers and to their employees as beneficiaries.

In this regard Ai Group previously communicated with the Superannuation Working Group both in writing and through meetings. This included correspondence of 19 December, 2001 to the Chairman of the Superannuation Working Group, Mr Don Mercer. That correspondence, which is enclosed for the information of the Committee, forwarded a policy submission made to the Federal Government earlier that month in response to :-

- the public consultation program on the Issues Paper of 2 October, 2001 "*Options for Improving the Safety of Superannuation*", and
- the subsequent policy statement of the Prime Minister of 5 December, 2001 entitled "*A Better Superannuation System*".

With reference to your Inquiry we would particularly invite your attention to Section 3.5 – Security of Benefits, at pages 9 to 11 of that earlier submission.

At that time, in relation to proposed universal licencing of superannuation funds, the Ai Group favoured a limited arrangement controlled by a sole regulator. Further we believed the most appropriate regulator was the Australian Prudential Regulation Authority (APRA). The Federal Government however, following extensive consultation, decided to proceed with a system of dual regulation, resulting initially in the recent introduction of the Australian Financial Services License under the control of the Australian Securities and Investments Commission (ASIC). Given this policy decision to separate prudential regulation (APRA) from disclosure and consumer protection issues (ASIC) we would simply emphasise the need for the avoidance of duplication, maximum consistency where feasible and clear recognition of the importance of cost effective regulation overall to prevent unnecessary depletion of retirement benefits through excessive regulatory costs.

Similarly it is essential that trustees of existing funds are given sufficient time and assistance to satisfactorily comply with the new requirements. This seems particularly significant in view of the extensive requirements of the proposed amendments to the Superannuation Industry (Supervision) Act 1993 contained in the Bill, viz:-

- Part 2A – Licensing of trustees and groups of individual trustees (Sections 29A to 29JE), and
- Part 2B – Registrable superannuation entities (Sections 29K to 29QB).

In this regard, we understand that the intended compliance date is 1 July, 2006. Therefore resolution and announcement at a reasonably early date of all material requirements of the legislation, (including the regulations and APRA operating standards) is desirable. This includes the approval forms applicable to trustee licensing (Section 29 to 29D), registration of registrable superannuation entities (i.e. funds) should any new obligations apply to existing regulated funds (Section 29L to 29N), the content of risk management strategies (Section 29H) and risk management plans (Section 29P), and capital adequacy requirements (Section 29DA). Conceivably this process will be greatly assisted by the consultative arrangements currently being undertaken by Treasury with submissions due by 29 February, 2004.

Finally as to the capital adequacy requirements for existing trustees, including trustees of public offer funds, we believe that Section 29DA(5) will preserve the current arrangements which have been made with APRA. This is extremely relevant to the need for continuing a competitive superannuation system as emphasised at page 11 of our earlier submission.

We trust the foregoing is of assistance to the Committee and invite you to contact Mr Grahame Willis, Executive Director – Finance, Administration and Superannuation should you seek clarification on the foregoing.

Yours sincerely,

Bob Herbert per G Willis

R N HERBERT
Chief Executive

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19 December 2001

Mr D Mercer
Chair
Superannuation Working Group
c/o The Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Mercer,

PUBLIC CONSULTATION ON ISSUES PAPER : OPTIONS FOR IMPROVING THE SAFETY OF SUPERANNUATION

Further to my letter of 12 December 2001, I enclose a copy of our policy submission on Superannuation and Retirement Incomes. The submission is a combined response to both the above Issues Paper and the policy statement of the Prime Minister of 5 December 2001 entitled *"A Better Superannuation System"*.

In the above circumstances we have also forwarded our submission to the Prime Minister, Treasurer and the Minister for Revenue and Assistant Treasurer.

As previously advised we are available to meet with your Superannuation Working Group if appropriate on the recommendations contained in our submission.

Yours sincerely,

(G R WILLIS)
EXECUTIVE DIRECTOR - FINANCE, ADMINISTRATION & SUPERANNUATION

cc: Ms A Barron

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AUSTRALIAN INDUSTRY

GROUP

SUPERANNUATION AND RETIREMENT INCOMES POLICY

SUBMISSION BY AUSTRALIAN INDUSTRY GROUP

A RESPONSE TO FEDERAL GOVERNMENT PROPOSALS ON:-

- *OPTIONS FOR IMPROVING THE SAFETY OF SUPERANNUATION*
- *A BETTER SUPERANNUATION SYSTEM*

DECEMBER 2001

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SUMMARY OF RECOMMENDATIONS

(1) The Federal Government should maintain a **continuing commitment** to the Three Pillars System as the basis of a long-term superannuation and retirement incomes policy, **subject to implementing further improvements in the benefit adequacy, taxation and security of superannuation.**

(2) Equitable and sustainable policies to be developed by the Government to suitably **address inadequacies in the future level of benefits** including:-

- the introduction, over a reasonable period time, of **compulsory employee contributions** which eventually will reach at least 3% of earnings, and

- strategies to **progressively reduce, if not remove, the taxation of superannuation contributions.**

(3) A public commitment by the Government to the total **avoidance of any retrospectivity** in future changes to the taxation of superannuation.

(4) The Government to undertake further research and **provide detailed proposals** for public comment on the possible introduction of **universal licensing** and **capital adequacy requirements** for the trustees of non-public offer corporate and industry superannuation funds.

(5) The Government to maintain **effective competition** in the provision of superannuation in the private sector for the benefit of superannuation fund members generally.

(6) Regulation of arrangements for annual general meetings and/or special general meetings of members of superannuation funds to be based on flexible and practical guidelines which are cost effective in their operation.

1. INTRODUCTION

The Australian Industry Group (Ai Group) directly represents some 10,000 employers, large and small, in every State and Territory. Our members provide more than $100 billion in output, employ more than 1 million people and produce exports worth some $25 billion. In addition we have affiliated organisations in both South Australia and Western Australia also with significant membership.

Ai Group has had a long standing and influential role in the development of public policy including issues related to superannuation and retirement incomes policy. Our initiatives have included submissions and representations to government, opposition and the Senate Select Committee, advice and assistance to members on the management of their superannuation arrangements and participation in key industry bodies. Our role covers both the operation of corporate superannuation plans and industry superannuation funds in which large numbers of private sector employers and their employees participate.

Ai Group is, therefore, well aware of the fundamental role of occupational superannuation in positively contributing to the retirement aspirations of most Australians, as well as facilitating local investment, employment and economic development.

Our views on the general principles which should apply to the development and maintenance of Australia's retirement income system have been stated previously, including:-

- Submission to the Senate Select Committee on Superannuation of 21 August 1991 - by Metal Trades Industry Association of Australia (now the Australian Industry Group), and

- Submission to the Prime Minister, The Hon J W Howard MP, of 30 October 2000 on *"Framework principles for Australia's retirement incomes system"* - by Ai Group and other organisations.

The core objective of our 1991 policy was:-

> *"To provide a meaningful, equitable, secure and economically sustainable standard of minimum retirement income for Australians generally at a level acceptable to the community with limited reliance on government support".*

> (**Note:** For further details refer extract at **Annexure 1**)

This was reinforced by the 2000 submission that identified, inter-alia, the need for a policy framework which *"Adopts an integrated long term approach to ensuring adequate and sustainable retirement income for all Australians"*, *"Maintains the diversified sources of funding for retirement . . . . ."* and *"Has the broadest possible coverage and participation"*..

Similarly **other important principles** supported by Ai Group have included:-

- that benefits should be self funded and properly secured through government legislation and control,

- the provision and retention of competitive choice in the operation of the superannuation system (a requirement that will intensify as the community becomes better informed and educated in this area),

- the need for mandatory funding from both employers and employees (as well as government support),

- that benefits should primarily be paid as a pension but with some provision to commute part of the occupational superannuation benefit to a lump sum,

- the avoidance of retrospectivity in tax changes.

Whilst this submission is directed primarily towards those specific issues recently identified by the Federal Government in reviewing possible improvements to the superannuation system, **we firmly believe all these principles remain highly relevant.**

2. BACKGROUND

Prior to the December 2001 Federal Election, the Government released the undernoted documents:-

- Issues Paper by The Hon J Hockey MP dated 2 October 2001 and entitled *"Options for Improving the Safety of Superannuation"*.

- Policy paper from the Prime Minister released on 5 November 2001 and entitled *"A Better Superannuation System"*.

The proposals contained in these documents are numerous and far-reaching and warrant representative public review and comment **before** the introduction of any new legislation. This is particularly important in view of the Government's concern with the *"endless changes which have been an often unwelcome feature of the operation of the system over the last 20 years"*.

A structured, comprehensive and objective policy review now is clearly the most suitable method of preventing further ad hoc changes in the future. Moreover such a process should facilitate improved public confidence in long term superannuation and retirement income policy settings.

For the purposes of this submission, Ai Group addresses the proposals under the following headings:-

- System Design : The Three Pillars
- Adequacy of Existing Arrangements
- Funding of Improved Benefits
- Taxation Issues
- Security of Benefits
- National Savings, Investment and Development

3. KEY ISSUES

3.1 System Design : The Three Pillars

3.1.1 Ai Group **endorses** the Government's objectives of a *"safe, easily understood and fair superannuation system producing high yields for its members"* and that *"superannuation and financial self reliance in retirement should be the right of every Australian"*.

These objectives are particularly important given demographic forecasts for Australia's ageing population and current immigration programs. In particular they focus attention on the primary issues of system design, adequacy, funding and security; and their suitability for the future where it has been projected that over the next 30 years the proportion of people in Australia over 65 years will almost double from 12% of the population in 1991 to 20% in 2031. Obviously this development, if not properly provided for, will place an unacceptable strain on our social security and health care resources, leading to a significant deterioration in retirement standards generally. Progressively enhancing our occupational superannuation system is a necessary and appropriate response to this challenge and one we urge the Government to pursue in a considered and realistic manner.

3.1.2 In relation to system design the current arrangements are funded by a **combination** of:-

- A **compulsory minimum** standard of superannuation **contributions** required to be paid by **employers** (for virtually all employees) and the self employed.
- **Voluntary supplementary** contributions presently paid for a **minority** of the workforce (both pre- and post-tax and paid by employers and/or individuals), together with private savings.
- A **universal means tested age pension.**

Jointly these comprise the so-called **Three Pillars System** which has previously been recognised by the World Bank as "International Best Practice" in retirements incomes systems.

3.1.3 Also on system design issues, the **Ai Group policy submission in 1991** stated, inter-alia:-

"(1) That the minimum national retirement income standard would generally be provided through a combination of:-

- *a basic and conditional social security benefit; plus*
- *an occupational superannuation retirement benefit.*

(2) *That government, employers, employees and self employed would* ***all*** *contribute to the retirement income package.*

(3) *That the benefit(s) would, as far as possible, be self funding and properly secured through government legislation and control.*

(4) *That planned contribution levels would be compatible with economic capacity .*

(5) *That the relative contribution of the occupational superannuation component would gradually increase through time with a lessening dependance on the social security benefit which would eventually only operate as a welfare safety net.*

(6) *That benefits would primarily be paid in the form of a pension but with some provision to commute part of the occupational superannuation component to a lump sum".*

3.1.4 **This submission recommends a continuing commitment to the Three Pillars System subject to the need for improvements in the adequacy of benefits** (refer Section 3.2 herein)**, taxation** (Section 3.4) **and security** (Section 3.5)**.** In considering these matters we believe the foregoing principles in 3.1.3 remain broadly applicable.

3.2 Adequacy of Existing Arrangements

3.2.1 **Occupational superannuation** is presently funded by:-

- **compulsory** minimum contributions paid by **employers only** (currently 8% and peaking at 9% from 1 July 2002), and

- additional **voluntary** contributions paid by **some employers and some employees.**

3.2.2 In 1991, after a detailed **independent review** by a consultant, Ai Group proposed that:-

"The ***ultimate*** *target level of the minimum retirement income standard should be equivalent to 50% of average weekly ordinary time earnings to be funded at an average contribution rate of 12% over approximately 36 years".*

Whilst no universally agreed benchmark exists, we understand this target level remains reasonable when compared to latest industry research which suggests possibly even higher levels of funding and benefits. For example, 1999 research indicated that a target of 60% of gross pre-retirement income with at least 12% super guarantee over 30 years could be supported and a later report recommended a savings target of 12-15% of salary.

3.2.3 Clearly the current compulsory contributions regime falls short of that recommended both by Ai Group previously and other industry groups more recently. In these circumstances **we remain concerned that the existing funding arrangements will be insufficient** to provide the desired level of minimum retirement income for the majority of Australians in the future.

We recognise that the Government places considerable reliance on voluntary savings to address this shortfall, including the proposals in Part 1 of the December 2001 policy statement entitled *"Making Superannuation More Attractive"*. However, whilst we are cognisant of the potential significance of these measures, we genuinely **doubt that an incentive strategy to increase voluntary savings will of itself redress the future funding inadequacies**.

By way of example, the current proposal of a Government co-contribution of up to $1,000 per annum for superannuation contributions made by low income earners is, we believe, likely to only have a limited impact.

3.2.4 **Accordingly we request the Government to recognise the remaining inadequacies of current and projected policy settings and develop equitable and sustainable options to address this core issue** (including our proposals in Sections 3.3 and 3.4).

3.3 Funding of Improved Benefits

3.3.1 Critical to setting a preferred contribution target consistent with providing a meaningful retirement income standard as stated in Section 3.2.2, is the related issue of funding. Theoretically this can be derived from:-

- employer contributions (compulsory and voluntary),
- employee contributions (voluntary and possibly compulsory), and
- government (via fiscal policy including taxation incentives).

3.3.2 With **compulsory employer contributions** already scheduled to reach 9% by 1 July 2002 and no minimum employee contributions mandated, **there can be no justification, equitably or economically, for any further increase being imposed on employers.** This position should be publicly confirmed by the Government.

3.3.3 Alternatively, from an equity viewpoint, there are compelling reasons for the introduction of **compulsory employee contributions** over a reasonable period of time. In 1991 Ai Group argued for a minimum employee contribution of 4.5% but this has not eventuated. Whilst we recognise some difficulties in this area, **we recommend that the Government commit, over a reasonable time cycle, to the gradual introduction of compulsory employee contributions. These should reach at least 3% of earnings eventually.** This would considerably enhance the medium to long term contributions of employees towards their own retirement income and relieve the anticipated pressures on social security payments and aged care expenditure generally.

3.4 Taxation Issues

3.4.1 In relation to the taxation of superannuation, Ai Group is concerned with two aspects, viz:-

- the current level of taxation on superannuation savings, and
- the complexity of taxation.

3.4.2 As to these matters, we would urge the Government to undertake a comprehensive, public enquiry into options for both reducing and simplifying the tax burden. In particular, **we recommend the Government examine strategies to progressively reduce, if not remove, the taxation of contributions in order to achieve higher compounding of benefit levels.**

3.4.3 At the same time the **Government** should strengthen public confidence in superannuation and retirement savings by **stating unequivocally that, in the event of any future changes in the taxation of superannuation, there will be no element of retrospectivity.** Only in this way can the members of superannuation funds and their sponsoring employers be assured that accrued benefits will be properly and responsibly protected.

3.5 Security of Benefits

3.5.1 The Government has stated its intention to act to enhance the security of superannuation benefits through measures such as:-

- requiring superannuation contributions to be made quarterly,
- expanding the Australian Prudential Regulation Authority's investigation and enforcement capability, and
- implementing a range of measures, such as universal licensing, capital requirements and annual general meetings for fund members.

3.5.2 Ai Group is **supportive** of the Government's **general objective** to improve security of superannuation, particularly the proposals for quarterly payment of superannuation contributions and increased resources for APRA.

3.5.3 However, at the same time we believe that the present system is broadly operating in a secure and reasonably efficient manner. It is, therefore, important that the relatively few problems of security of benefits experienced to date do **not** result in the imposition of further unnecessary and costly regulation which could act to reduce benefits. The Government's program of community consultation on the issues of universal licensing, capital requirements and annual general meetings is, therefore, to be commended.

As these matters (which were raised in the Issues Paper of 2 October 2001 from the then Minister for Financial Services and Regulation) require a response by 1 February 2002, we comment as follows:-

- **Universal Licensing**

  The Issues Paper acknowledges the "highly diverse" structure of the superannuation industry and states that:-

  "Perhaps more than in any other prudentially regulated sector effective prudential policies need to be closely tailored both to the particular industry segment in question and to the particular type of superannuation product."

  This principle is already recognised in the different regulatory arrangements applying to public offer funds as compared with non-public offer funds.

  The question of whether or not all superannuation funds should be uniformly licensed, and their trustees required to meet certain entry and operating standards (as recommended in the draft report of the Productivity Commission of September 2001) therefore raises complex and possibly conflicting issues.

  Clearly the fundamental nature of the long term savings in superannuation requires effective prudential regulation. That need, however, must be reasonably balanced against a realistic level of costs to avoid unjustified and unintended depletion of these assets. Moreover regulation of superannuation funds operating under the Superannuation Industry (Supervision) Act should ideally be concentrated in a sole regulator to avoid unnecessary duplication, complexity and confusion.

  Similarly, with regard to the possible introduction of mandatory trustee training and/or accreditation, we submit that any statutory program aimed at replacing the current voluntary process **must support the continued sound operation of the equal representation rules,** i.e. such arrangements must be practical in terms of the form of training that might be introduced, its availability and cost, and the transitional arrangements that would apply, including due recognition of the current experience, qualifications and expertise of existing trustees. This is in our view **essential to maintaining competitive choice in the system** and avoiding undue concentration of funds in a relatively small number of large financial service providers where both investment returns and fees charged could act to the detriment of investors.

  As to the specific matters raised in the Issues Paper we briefly comment as follows:-

  - **firstly,** we consider that trustees should only be required to hold an Australian Financial Services licence if they operate a public offer fund and/or provide financial advice to the members of that fund,

- **secondly**, we consider that trustees should only be required to hold an APRA licence if APRA is the sole regulator of superannuation funds operating under the Superannuation Industry (Supervision) Act, and

- **thirdly**, given our belief that the current regulatory arrangements generally operate effectively, we **recommend that following the current consultative program, the Government should not introduce any draft legislation without first circulating a detailed proposal for further public comment by all stakeholder groups.**

- **Capital Adequacy Requirements**
  Ai Group in principle does not object to conferring **prescribed** standards-making power on APRA, **provided** they are both necessary to its statutory responsibilities and supportive of the sound operation and development of the superannuation system.

  Within this framework, we have reservations with the present suggestion that such a power might relate to capital adequacy standards for **all** trustees. These reservations relate to the vagueness of the Issues Paper on this point and the acknowledgement that *"Assessing the appropriate level of capital in the case of corporate or industry funds would be difficult, and would raise a range of conceptual issues (including the appropriate source of capital and the period over which it might be build up) . . . . ."*.

  Accordingly Ai Group is unable to support the introduction of a mandatory capital adequacy requirement for trustees of non-public offer corporate and industry funds unless and until a firm proposal with proper justification is developed and circulated for public comment. Further, should such a proposal be developed, it is **essential** that the Government give **full recognition** to the **substantial contribution** of **corporate and industry funds** to the provision of occupational superannuation for a large number of Australians and the important role which they can and must play in the future. As stated earlier, policy making must avoid any outcome, or even the perception of such a development, that superannuation assets should be concentrated in a relatively small number of large funds (e.g. master trusts or retirement savings accounts) whose ownership structures and control may not be sufficiently aligned with the investors in those products. **The Government must, therefore, ensure the continuance of a competitive system for the provision of superannuation in the private sector.**

- **Annual General Meetings**
  Ai Group unequivocally **supports** the paramount need for suitable communications and consultative mediums between trustees and fund members. **In principle these mechanisms could include provisions for annual general meetings or special general meetings of members.** However, the industry diversity we referred to earlier suggests that significant flexibility would be required in any standards to be introduced to ensure that the arrangements within the funds operate in a meaningful and cost effective manner.

3.5.4 Finally on the security issue, we raise again the need for effective protection against ad hoc, discriminating and/or inequitable tax policy on superannuation including a complete prohibition against any retrospectivity. This principle should be endorsed in a bi-partisan approach by all political parties.

3.6 National Savings, Investment and Development

There are obvious and fundamentally important linkages between superannuation savings and domestic investment, jobs and growth.

In the 1991 submission, Ai Group argued that a principal objective of a national retirements incomes policy should be:-

"To expand Australian investment programs and reduce both government taxes and overseas borrowings thereby improving the efficiency and international competitiveness of industry".

The critical nature of these linkages should be clearly recognised in determining policies for the achievement of a viable and effective superannuation and retirement incomes system, and in refuting unfair and misleading criticism of the alleged "cost" of superannuation tax concessions and other related incentives for savings.

MTIA The national voice of engineering employers

21 August 1991

The Secretary
Senate Select Committee on
Superannuation
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

We enclose for consideration our submission to the Senate Select Committee on Superannuation, including an actuarial report from our consultant, Godwins Australia Pty Ltd.

This submission has been approved by the Association's National Executive Committee. In that regard would you also please note that aspects of the submission relating to MTIA's policy on the framework and implementation of a national retirement incomes system have already been published in various quarters. Further, given the current high profile of the subject and the Association's on-going role in social, economic and industrial relations issues it may be necessary for us to publicly comment on our policy at anytime in the future. We therefore request that our submission and the consultant's report be received by the Committee on this basis.

All enquiries relating to the submission should be referred to our Mr G R Willis.

Yours faithfully

A. C. Evans

(A C EVANS)
CHIEF EXECUTIVE

Encl

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SENATE SELECT COMMITTEE

ON SUPERANNUATION

SUBMISSION TO THE COMMITTEE BY

METAL TRADES INDUSTRY ASSOCIATION OF AUSTRALIA

AUGUST 1991

1. OVERVIEW - TOWARDS A NATIONAL RETIREMENT INCOMES POLICY

1.1 Background

1.1.1 As the representative organisation for Australia's metal and engineering industry the Association is acutely conscious of changing political, social and industrial relations patterns and their related economic implications.

1.1.2 In the context of occupational superannuation we are particularly conscious of the historical role of corporate funds in both the public and private sectors and the more recent growth of industry funds based on arbitrated or agreed award entitlements.

1.1.3 MTIA is also well aware of demographic projections over the next decade and beyond which point to a significant ageing of our population and rapidly increasing demands on existing social security benefits.

For example in 1989-90 some 8% of the population were receiving age pensions at a total cost of $8,182m. or 2.2% of Gross Domestic Product (Annexure A). At that time 11% of the population were over age 65. However, by the year 2031 the proportion over 65 is projected to rise to 20% (and to continue rising further until 2041) whilst the workforce will have decreased from 67% to 63% of the total population (Annexure B).

The adverse impact of such trends on the cost of social security benefits is readily apparent eg. a consultant to the Association has calculated that the costs of the age pension could "soar from 4% of the taxable incomes today to more than 10% by the year 2031". Further should such changes be accompanied by a decline in our economic competitiveness the capacity to sustain our current social security system would be extremely doubtful.

1.1.4 Given these developments, and the already severe financial constraints on public expenditure, it appears essential that Australia formulate a new approach to our traditional reliance on a "non-contributory", flat rate, means tested age pension as the basic source of retirement income.

1.1.5 Significantly Australia remains as one of the few countries without a formal social insurance or national superannuation system.

1.1.6 *Accordingly MTIA believe there is a pressing need to establish a new and universal national retirement incomes policy in a structured, efficient and financially responsible manner*.

1.1.7 Fortunately, the rapid growth of occupational superannuation in the late 1980s (refer Section 2.1.2) has provided a timely opportunity to re-assess the optimum means of funding a new standard of minimum retirement income.

1.1.8 In that regard we also submit that the "CASS" report of August 1989 "Towards a National Retirement Incomes Policy" is extremely relevant to such consideration.

1.1.9 As this process will inevitably be complex and protracted the necessary policy framework and support systems obviously need to be determined at an early date. However, equally importantly, any new initiative also should ideally be endorsed by all major community groups and promoted on a strictly non political basis.

1.1.10 *In addressing this task, some of the relevant issues to consider in achieving a meaningful, equitable, secure and economically sustainable system of future national retirement incomes would include:-*

. The social and economic implications of the projected demographic changes on Australia's population.

. The performance and expected future prospects of the Australian economy, including balance of payments constraints and the essential need to maintain an efficient and internationally competitive Australian industry.

. The desirable relationship between existing government social security benefits and current and potential occupational superannuation entitlements.

. The extent of government regulation, or other national standards, necessary to provide efficient funding for genuine retirement and corresponding protection of benefits, including measures to achieve long term consistency in political approaches.

. The need and potential for federal government assistance in the provision of retirement income, including the use of concessional tax arrangements and direct benefit payments.

. Funding of public sector superannuation.

. The responsibilities of both employers and employees in the provision of occupational superannuation or other forms of retirement income.

. The macro economic implications of private sector superannuation and the consequential role of government in influencing investment patterns for economic development in Australia.

1.1.11 Each of the foregoing have been examined in the retirement incomes policy proposal set out in Section 2 herein.

1.2 <u>Scope of Submission</u>

1.2.1 In presenting this submission we have concentrated on <u>two major aspects</u>, viz:-

(1) an outline of the principal objectives and key characteristics of a recommended framework for a national retirement incomes policy together with comment on certain funding aspects; and

(2) a response where appropriate on each of the specific terms of reference of the Committee.

1.2.2 As requested these matters can be further clarified and/or extended.

2. SUPERANNUATION AND A NATIONAL RETIREMENT INCOMES POLICY

2.1 General

2.1.1 In the overview herein (Section 1) we have outlined the underlying reasons as to why MTIA is of the view that:-

- Australia needs to develop a comprehensive, planned national policy designed to achieve and sustain an effective minimum retirement income standard for retirees generally.
- Such policy should evolve from a consensus involving, inter-alia, governments, opposition, industry and unions.
- Implementation of such a policy is an urgent national priority.

2.1.2 In this context as we understand it the effective basic level of superannuation coverage has risen from around 40% of the workforce in 1983 to over 65% today. This growth has been dramatic, although universal coverage is clearly not yet a fact (refer Annexure C).

Further we believe that traditional superannuation is moving through 50% coverage with significant upgrading of vesting entitlements (ie. existing benefit accrual standards exceeding the 3% award contribution level).

2.1.3 *Accordingly within any new national minimum retirement incomes policy occupational superannuation should inevitably play an important, and ultimately dominant role.*

2.2 Principal Objectives and Conceptual Framework

2.2.1 The principal objectives of such a policy are broadly perceived to be:-

(1) To provide a meaningful, equitable, secure and economically sustainable standard of minimum retirement income for Australians generally at a level acceptable to the community with limited reliance on government support in retirement.

(2) *To positively encourage co-operation between employers and employees in jointly contributing to a planned long term savings program for retirement income.*

(3) To facilitate continued government support for welfare recipients in cases of genuine hardship whilst minimising budget outlays and tax imposts on productive resources.

(4) To expand Australian investment programs and reduce both government taxes and overseas borrowings thereby improving the efficiency and international competitiveness of industry.

2.2.2 It is envisaged that such a policy would be self funding to the maximum extent possible *with approved minimum contribution levels from employers, employees and self-employed* together with appropriate government encouragement and support through the tax system.

2.2.3 Policy design and administration should be as simple as possible, but within an effective system of government regulation based on suitable legislation.

2.2.4 *The new system should evolve from a gradual but developing integration of the existing old age pension and occupational superannuation arrangements,* but with the latter eventually providing the primary, if not sole source of retirement income, after a suitable phasing-in period.

2.3 <u>Key Characteristics</u>

2.3.1 MTIA submits that such a policy should have the following key characteristics, viz:-

(1) That the *minimum national retirement income standard* would generally be *provided through* a *combination of*:-

. a basic and conditional *social security benefit*; plus

. an *occupational superannuation retirement benefit.*

(2) *That government, employers, employees and self-employed would <u>all</u> contribute to the retirement income package.*

(3) That the benefit(s) would as far as possible be self funding and properly secured through government legislation and control.

(4) *That planned contribution levels would be compatible with economic capacity, form part of approved aggregate labour cost increases and not detract from industry competitiveness. This would include the need to ensure that resultant savings in government outlays were reflected in reduced taxes and charges to Australian industry.*

(5) That the relative contribution of the occupational superannuation component would gradually increase through time with a lessening dependence on the social security benefit which should eventually operate only as a welfare safety net.

(6) That benefit(s) would primarily be paid in the form of a pension but with some provision to commute part of the occupational superannuation component to a lump sum.

(7) That development of such a policy would avoid retrospective changes to either funding liabilities of employers and employees, or existing benefits.

(8) That phasing-in arrangements should be based on actuarial advice and occur gradually over a medium to long term period.

(9) That encouragement should continue to be provided to allow actual occupational superannuation retirement benefits above the mandatory minimum.

(10) Greater simplification in the provision and administration of retirement incomes.

2.3.2 Non Contributory Means Tested Age Pension

The social security benefit component should be provided as a conditional, non contributory, means tested age pension.

This would be provided by government and progressively funded, as far as possible, rather than merely paid from consolidated revenue.

It would basically be available at age 65 to all eligible recipients (male and female) subject to both income and assets limits testing. These eligibility requirements would specifically take account of the related level of the occupational superannuation benefit actually received by retirees. However, suitable exemptions such as the principal place of residence would also need to be provided.

Preferably the benefit would be automatically indexed by being set as an appropriate percentage of Average Weekly Earnings.

Benefit payments would be made regularly (eg. weekly, fortnightly or monthly) and desirably via electronic funds transfer to an approved account or a cheque by mail.

2.3.3 Occupational Superannuation Retirement Benefit

To basically be available on normal retirement at age 65 years for males and females but with provision for a discounted benefit to be available at an earlier age in approved circumstances.

The primary benefit to be paid as a pension, also fixed as a percentage of Average Weekly Earnings, but with provision to commute part to a lump sum up to an approved maximum (eg. 50%) subject to taking account of amounts commuted in any means test assessment of the social security component.

Benefits to be paid from regular, tax deductible contributions by employers, employees and self employed to approved funds operating under authorised trustee guidelines including suitable investment, actuarial, reporting and accounting standards. The level of employer contributions should at least equal those of employees up to the minimum standard, with provision for additional voluntary contributions where required.

The actual level of contributions and related benefit standards to be based on actuarial advice including necessary transition arrangements for a gradual and controlled phasing-in period.

All accrued benefits should be completely portable as between approved funds. Future employer contributions up to the prescribed minimum standard shall be fully vested. Other benefits should be subject to vesting scales in accordance with community expectations in anticipation of legislative changes already foreshadowed as from 1 July 1995.

Preservation for contributions receiving concessional tax treatment should occur to at least age 55 in normal circumstances with a possible extension to age 60 within a predetermined period.

2.3.4 Taxation

(1) Non Contributory Means Tested Age Pension

The benefit payment to continue to be subject to income tax above a satisfactory threshold subject to automatic indexation of the pension.

(2) Occupational Superannuation Retirement Benefit

Benefit payments to continue to be subject to income tax but preferably within a more simplified system than at present.

The income tax system should also continue to be used as an incentive to encourage contributions through full deductibility for employers, employees and self employed to an approved level.

In the event that taxes continue to be applied to contributions and investment income these should not be increased above the current 15% level. Further through time they should be reduced and eventually abolished.

2.3.5 Management and Control

As far as possible employers and their employees should exercise freedom of choice in selecting an approved fund (eg. company, industry, pooled, personal).

Such approved funds to be closely regulated by government using at least the existing provisions of the Occupational Superannuation Standards Act as a base. This need also applies to financial institutions providing benefit entitlements during retirement (eg. annuities).

In addition, to further strengthen the security of benefits, consideration to be given to:

(a) a total prohibition on investment by funds in their sponsoring company/organisation phased-in over a suitable period;

(b) all trustee organisations to be approved and possibly guaranteed by the Federal Government, or mandatory qualifications for same to be introduced; and

(c) the new accounting standard to be reviewed to avoid any potential negative effects on long term investment performance.

2.4 Funding Issues

2.4.1 As previously stated the establishment of a realistic and meaningful minimum benefit standard, and the related funding requirements (ie. contribution levels and phasing-in arrangements), must be based on sound actuarial principles and with due regard to economic capacity and the efficiency and international competitiveness of industry.

2.4.2 MTIA has sought independent professional advice in this regard which suggests that:-

(1) The current old age pension for a single person is equivalent (for males and females) to 26.4% of average weekly ordinary time earnings (AWOTE). If paid as a superannuation pension at a rate equivalent to 30% of AWOTE this would require a funding rate of nearly 8% of AWOTE on average over 35 years. On current means test rules such a benefit would still allow access to 45% of the aged social security benefit resulting in a combined benefit of 40% of AWOTE. This would maintain a relatively high level of social security expenditure by government.
(Note: Details of AWOTE earnings rates and pensions are set out in Annexure D).

(2) In order to lower the cost to government revenue of aged pensions it is necessary to either tighten the means test or increase the superannuation pension beyond 30% of AWOTE.

(3) *The preferred method of achieving both an adequate retirement income standard and reduced government pension outlays could be met by the gradual introduction of an ultimate superannuation pension equivalent to 50% of AWOTE.*

2.4.3 *The advice available to the Association also indicates that the average contribution rate necessary to fund such a minimum retirement income standard through superannuation would equate to approximately 12% of AWOTE over 36 years for a single person.*

This analysis clearly reinforces the relatively long term nature of the proposal, the need for sound and consistent planning, the essential requirement for contributions to be paid by employers, employees and the self employed and provision for funds/employers with contribution rates above the minimum prescribed level to absorb future increases up to such levels.

2.4.4 However, such advice also identifies a number of important issues that would require careful analysis including:-

- the relative position as between males and females related to generally differing life cycles, employment experience and earnings rates;
- the position of the lower paid, part time and casual employees;
- the role and application of the Means Test on residual social security benefits;
- the role and availability of existing social security fringe benefits including the health card;
- the position of the permanently unemployed;
- the position of older migrants;
- the position of early retirees; and
- compliance mechanisms.

2.4.5 Given the complexity of the subject it is not possible to address all of these issues in a submission of this kind. However, as previously stated in our policy outline (Sections 2.3.1(5) and 2.3.2) it is apparent that many of these issues would need to be provided for within the remaining social security benefit structure which is envisaged to continue to be provided by government on a welfare safety net basis. In particular careful attention is required to the vital role of the pensioner health card in the current system.

2.4.6 *In these circumstances the Association supports the broad conclusions of the Consultant's analysis and recommends that:-*

(1) The <u>ultimate</u> target level of the minimum retirement income benefit standard should be equivalent to 50% of average weekly ordinary time earnings to be funded at an average contribution rate of 12% over approximately 36 years.

(2) *Implementation of this standard must be achieved in a gradual and controlled manner in which the following principles are essential:*

(a) *there is an immediate need to effectively attain <u>full compliance</u> with the existing minimum contribution standard of 3% by <u>all</u> employers;*

(b) *any <u>future increases</u> above the existing basic 3% contribution provided by employers to be <u>jointly shared</u> between both employers and employees (resulting eventually in a minimum employee contribution of 4.5%);*

(c) *all such <u>increases</u> must be economically sustainable and <u>capable of absorption</u> (subject to suitable vesting and preservation)by employers already contributing at a rate equivalent to or in excess of the prescribed minimum;*

(d) *subject to economic capacity the next general increase in minimum contribution standards should occur within a reasonable period (eg. 2 years) and not exceed 1% respectively by employers and employees; and*

(e) *thereafter the potential for additional improvements in minimum contribution rates should be reviewed periodically consistent with general economic conditions and the overall requirements of this policy. In this context MTIA also believes that the objective should be to achieve significant progress in lifting minimum standards over the next decade.*

(3) *Careful consideration should be given to the associated recommendations of this submission including those issues raised in the report of Godwins Australia Pty ltd as summarised in 2.4.4 and 2.4.5 herein.*

2.4.7 *Further MTIA submits that as community dependence on social security benefits in retirement is reduced, consequential measures should also be taken to aid import replacement and export promotion programs, including the reduction and eventual <u>abolition of payroll tax</u>. As such reductions occur this should also enhance the ability of industry to improve minimum contribution standards- possibly across a shorter time period than that envisaged in 2.4.3 herein.*

NOTES:-

(1) The policy outlined in the foregoing section of this submission was generally adopted in February 1990 and has subsequently been announced publicly.

(2) The independent actuarial advice referred to was obtained from Godwins Australia Pty Limited on a professional consulting basis. Further details of the report can be made available on request.