



Institute of Actuaries of Australia

17 October 2003

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

Dear Dr Bachelard

Inquiry into the Taxation Laws Amendment (Superannuation Contributions Splitting) Bill 2003

Thank you for inviting the Institute of Actuaries of Australia to make a submission to the above Inquiry.

The Institute strongly supports the concept of allowing couples to split their superannuation but is concerned that the mechanism for achieving this:

- should be as efficient as possible in order to minimise fund costs and allow economical access to splitting by lower and middle income earners; and
- should be extended to members of defined benefit funds.

Efficiency of Split Model

The Institute believes that the costs of implementing and administering the proposed 'annual split' model will be significant. This will have two consequences.

- Superannuation funds will be forced to apply higher charges to members in order to recover the additional administration costs. These extra costs have the potential to adversely impact the value of members' benefits, thereby further reducing the attractiveness of superannuation as a long term savings vehicle. These outcomes run counter to the Government's long term retirement incomes objectives. They are also likely to result in adverse reactions to superannuation funds, the superannuation industry and the Government's changes.

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- Funds would be likely to apply a fee for each split, probably based on their usual benefit payment fee which may be of the order of \$50 - \$100. Given that the yearly contribution split to a non-member spouse may be of the order of \$1,000* for a lower-middle income earner and that the non-member spouse account in the receiving fund will also be subject to ongoing fees, splitting is likely to be unattractive to many lower and middle income families. Again, this outcome would run counter to the policy objective of assisting families to maximise their benefits.

**Assumes a split of 40% of a year's SG contributions of 9% times \$30,000 income. Splitting rules are yet to be determined.*

We remain of the view that the benefit splitting option would be a far more economical and practical model which would facilitate cost-effective access to splitting by lower and middle income families. We appreciate that there is some level of concern with the potential revenue implications of such an option, but we believe a benefit splitting model can be designed to overcome these concerns. The Institute would be pleased to assist in this design.

We accept that the benefit splitting option does not provide the spouse with their own super in the accumulation phase, but we have considerable doubt about the extent to which the contribution splitting model will result in a significant extension of superannuation coverage. This is because spouses of higher income households are already likely to be taking advantage of existing spouse contribution facilities and, as noted above, the costs of splitting under the proposed model are likely to act as a major disincentive to participation by lower and middle income families.

Extension To Defined Benefit Funds

The Explanatory Memorandum implies that splitting will be restricted to members of accumulation funds.

We note that this restriction would be unnecessary with a benefit splitting model.

However, even under the model proposed in the Bill, we see no reason why splitting should not be allowed for:

- accumulation members of defined benefit funds; and
- for defined benefit members in respect of contributions to additional accumulation accounts.

Please note that this submission does not include consideration of the draft regulations released on 13 October 2003. The Institute will be considering these with a view to making comments by the requested date of 31 October 2003.

We would be happy to discuss this submission and, as noted above, to assist in a full consideration of the benefit splitting approach. Should you wish to discuss this further, please contact Vicki Mullen, IAAust Manager, Policy & Public Affairs on tel no. (02) 9239-6111 or email: vicki.mullen@actuaries.asn.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Lewis', with a stylized flourish at the end.

Chris Lewis
President