Investment & Financial Services Association Ltd
ACN 080 744 163

17 June 2004

Dr Sarah Bachelard
Secretary
Senate Economics Committee
Parliament House
CANBERRA ACT 2600

Dear Dr Bachelard

Reference:

Superannuation Budget Measures Bill 2004

The Investment and Financial Services Association represents Australia's leading investment managers and life insurance companies who are responsible for investing approximately $685 billion on behalf of over 9 million Australians.

IFSA strongly supports the measures contained in this Bill. We particularly note that three quarters of the benefits of the Bill would flow to low and middle income earners. This 75:25 balance in favour of lower incomes represents a fair package, especially when the account balances of those people who pay the surcharge are considered.

We are also pleased to note that these changes will have low administrative impact on superannuation fund administration because they do not require more data to be provided by superannuation funds. Consequently, they will have minimal, if any, impact on costs borne by superannuation fund members.

Extension to superannuation co-contributions

IFSA recommended an extension to the superannuation co-contributions scheme in its Retirement Incomes and Long Term Savings policy, launched in August 2003. We were very pleased to see the expanded scheme in October 2003, and have welcomed the further expansion contained in the Superannuation Budget Measures Bill 2004.

These measures would see government in an even stronger partnership with Australians saving for their retirement. They represent a very important strengthening of the third pillar of Australia's three-pillar retirement incomes policy, voluntary saving for retirement.

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IFSA research, undertaken by Eureka! Strategic Research, confirms that significant numbers of Australians in the target group would respond positively to co-contributions.

- Our initial research, conducted in 2002, suggests that around 40% of eligible people would take advantage of a co-contribution that paid $1.50 for each $1.00 of personal contributions (ie 3 for 2 matching). This analysis is at Attachment 1.
- We have recently confirmed this number, with approximately 37% of people surveyed indicating they would participate in a program on the basis of 3 for 2 matching. This report is at Attachment 2

Co-contributions also have significant potential to improve retirement savings. This will be particularly relevant for people whose labour market experience would otherwise results in lower superannuation, such as broken employment patterns because of parenting.

The following case studies were prepared for IFSA in 2002, and are provide as examples of the effectiveness of a co-contributions scheme. These are based on dollar for dollar matching, or 50 cents for $1. The new scheme, at 3 for 2 matching, would have an even greater impact tin each case. Unfortunately, the tight dealine for this submission has not allowed a fresh calculation.

Angela, 38

Angela is single, 38 years old and earns 100% of the national weekly average wage. Her employer is putting 11% of her salary into her superannuation, she is making additional contributions of 4% and doesn't envisage taking a career break. She has already saved $27,300 but, despite taking her contributions up to 15% of her salary, Angela faces an RSG of $172, 900 (after the Age Pension).

	Age	Retirement Age	Income as % of average weekly earnings	Super Contributions (% of Wages)		Career Break	RSG	RSG (after Age Pension)
				Employer	Personal			
Angela	38	65	100%	11%	4%	None	$420,700	$172,900

Nguyen, 45

Nguyen is 45 years old and earns 80% of the national weekly average wage. He is adding a personal contribution of 5% to his employer's statutory 9% contribution. He doesn't plan to take a career break and has already saved $29,500. He faces an RSG of $17,700 (after the Age Pension). Nguyen's lower savings gap can be attributed to his additional personal contributions.

	Age	Retirement Age	Income as % of average weekly earnings	Super Contributions (% of Wages)		Career Break	RSG	RSG (after Age Pension)
				Employer	Personal			
Nguyen	45	65	80%	9%	5%	None	$235,900	$17,700

Max, 48 and Sophia, 45

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Max, 48 and Sofia, 45 are both married, earn more than the national weekly average wage and work for companies that contribute the statutory minimum to their superannuation. Max adds a 2% personal contribution and Sofia adds 5% - she also plans to take a career break before she retires. Despite having accrued $250,000, which is higher than average retirement savings, they face an RSG of $364, 000, which is almost one and a half times their savings.

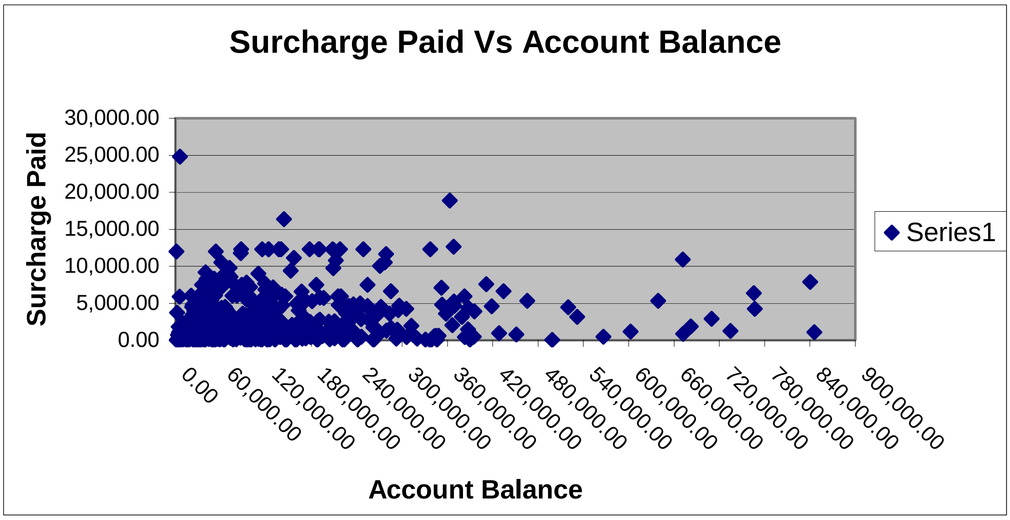
	Age	Retirement Age	Income as % of average weekly earnings	Super Contributions (% of Wages)		Career Break	RSG	RSG (after Age Pension)
				Employer	Personal			
Max & Sofia	48 45	65 62	130% 110%	9% 9%	2% 5%	None 4 Years	$709,900	$364,400

Surcharge reduction

The superannuation contributions surcharge is having a direct and negative impact on the adequacy of superannuation. Data from superannuation funds offered by IFSA member companies confirms IFSA evidence, given to the Senate Select Committee on Superannuation and Financial Services in 2002, that surcharge is impacting on older workers who have low superannuation balances. These data speak for themselves – they show that the surcharge is reducing the superannuation savings of those who do not have enough saved for an adequate retirement income, and who have least time to make up a deficit.

Superannuation Fund 1 - surcharged accounts

Figure 1



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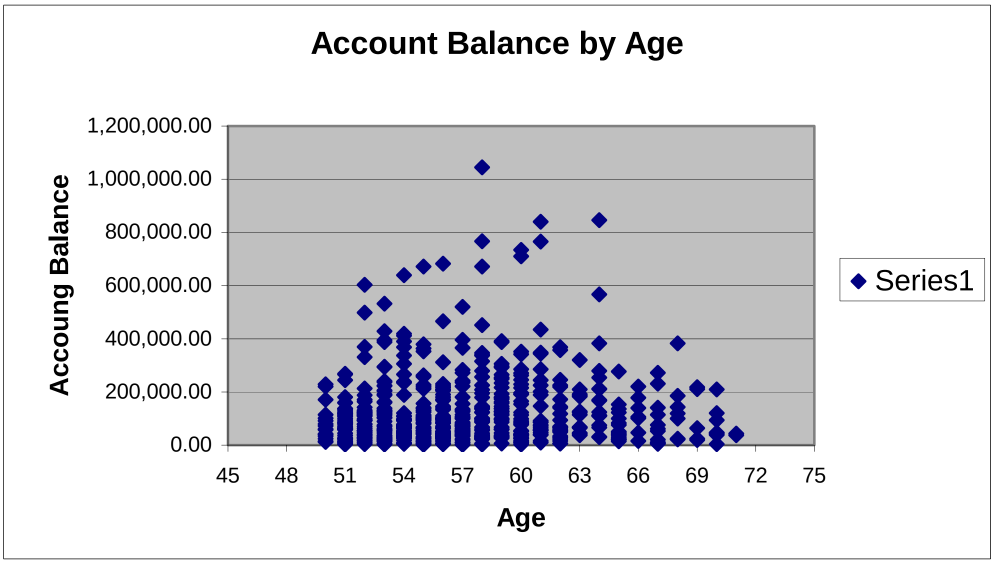
Superannuation Fund 1 – surcharged accounts
Figure 2



Superannuation Fund 1 – summary information on surcharged accounts
Age:

- Median age: 56
- Average age: 57

Account Balance

- Median Account Balance: $83,273
- Average Account Balance: $125,106

Surcharge

- Median Surcharge: $1500
- Average Surcharge: $2671

Interesting points -

- 48.5% of the accounts hit by surcharge have a balance under $50,000
- Another 26.5% of them have a balance over $50,000 but under $100,000
- 75% of the accounts hit by surcharge have a balance under $100,000
- 38% of surcharge payers are in their 40's, paying an average of about $1,700, with an account balance of $60,000 to $70,000
- 10% of surcharge payers are in their 60's, paying an average of about $3,200 with an account balance of $95,000 to $155,000

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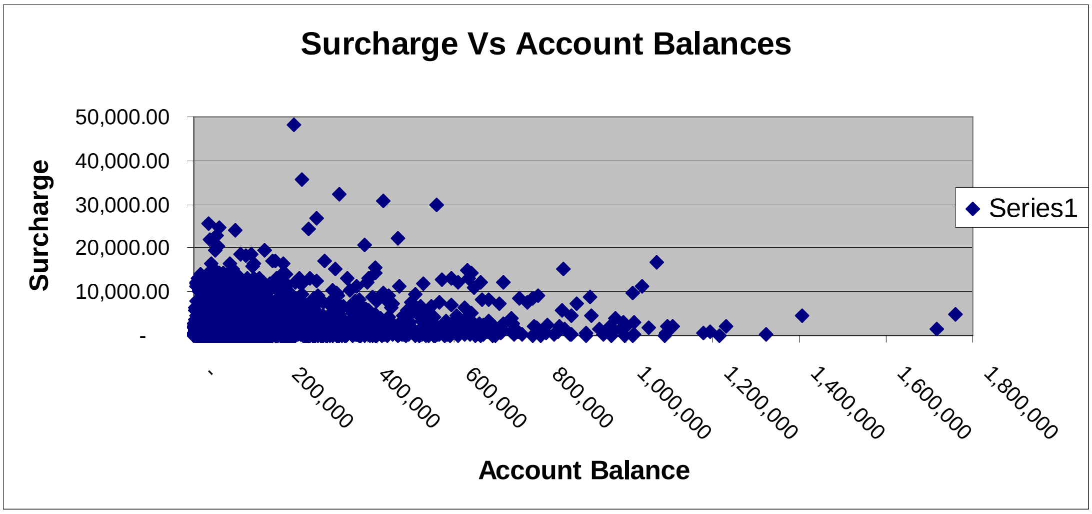
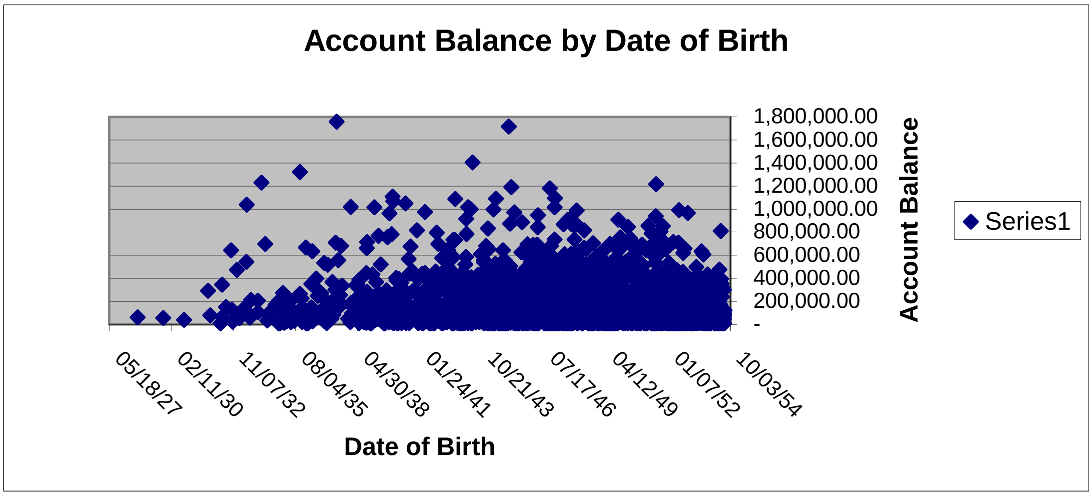
Superannuation Fund 2 - surcharged accounts
Figure 3



Superannuation Fund 2 - surcharged accounts
Figure 4



Superannuation Fund 2 – summary information on surcharged accounts

Age:

- Median age: 56
- Average age: 57

Account Balance

- Median Account Balance: $91,034
- Average Account Balance: $156,790

Surcharge

- Median Surcharge: $1,028
- Average Surcharge: $2,418

Reducing the surcharge rate also reduces the negative impact the surcharge can have on retirement incomes equity outcomes. These data show that the surcharge is having quite a strong negative impact on retirement income adequacy, to the extent that the equity impact of the surcharge can also be questioned. IFSA's longstanding position

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is that equity in retirement incomes policy should be assessed on a lifetime rather than an annual basis, and that annual measures such as the surcharge are inappropriate. As has been canvassed in many places, women trying to make up a retirement savings shortfall can be particularly affected by surcharge.

Thank you for the opportunity to make these brief remarks, which are all we have been able to do in the short timeframe.

Yours sincerely

Bill Stanhope
Senior Policy Manager

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Table 1

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