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17 June 2004

The Secretary
Senate Economics Legislation Committee
Room SG.64
Parliament House
CANBERRA ACT 2600
Email: economics.sen@aph.gov.au

Dear Secretary,

The Association of Superannuation Funds of Australia Limited (ASFA) would like to make this submission to the Senate Economics Legislation Committee on the *Superannuation Laws Amendment (2004 Measure No. 1) Bill 2004* ("Measures No. 1"), *Superannuation Laws Amendment (2004 Measure No. 2) Bill 2004* ("Measures No. 2"), and *Superannuation Budget Measures Bill 2004* ("Budget Measures").

Budget Measures Bill

ASFA welcomed the Budget night announcement by the Government to enhance the co-contributions scheme and to further reduce the superannuation surcharge.

Co-contribution enhancement

We believe that the co-contribution enhancement will deliver a further boost to Australia's savings and retirement future particularly the inclusion of middle-income earners in the scheme. Our research on the inadequacy of current arrangements for people to have a comfortable retirement is available.

The extension of the co-contribution arrangements to middle income earners was one of the measures recommended by ASFA in its pre-Budget submission. We have also recommended another measure, which is to remove up-front taxation on superannuation contributions. Both measures are needed to assist people to have the necessary income for a comfortable retirement. These actions were also endorsed recently by the 15 organizations who joined together in a 'Call for Super Action'.

Our pre-budget submission (which called for extension of the co-contribution to persons earning up to \$60,000 per annum, while the Government has extended the upper limit to \$58,000) found, on the basis of 1999-2000 taxation return information,



that such an extension would allow a further 1.5 million employees to potentially access the co-contribution.

Further the extension of the matching from a “dollar for dollar” basis to a \$1.50 for dollar basis creates even greater incentive for persons to make voluntary contributions to superannuation.

Surcharge reduction

ASFA welcomes the further reduction of the super surcharge to 7.5% by 2006/07.

The surcharge remains a terrible tax - poorly designed and costly for funds to administer and the wrong tax if the Government’s desire is an equity measure. We hope this further reduction is part of the process to its eventual elimination and indeed the removal of all up-front taxation on superannuation.

Need for Swift Passage

ASFA would support the rapid passage of the Budget Measures Bill by the Senate. 30 June is rapidly approaching. Superannuation funds are in a difficult situation in terms of informing their members whether the co-contribution will improve on 1 July 2004 or not. Individual members are uncertain as to whether they should make a personal contribution before 30 June or whether to wait until next year.

Measures No. 1 Bill

The main initiative in the Measures No. 1 Bill is to extend co-contribution eligibility to low-income earners (notably those not eligible for superannuation guarantee due to earning less than \$540 a month). The previous ineligibility was an unfortunate design flaw in the original co-contribution and we support its correction.

Measures No. 2 Bill

ASFA supports the initiatives in the Measures No. 2 Bill. Most seek to rectify existing anomalies in superannuation law.

The one substantial policy provision is the abolition of the notional earnings base for calculating superannuation guarantee contributions by 2010, originally announced in February 2004.

As this is an equity measure and affects to the adequacy of retirement savings for certain groups of workers, then there is the argument that this phasing-in is too long.

Federal Secretariat

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Many employers have been able to make contributions since 1992 under the notional earnings base. Eighteen years is a long time (possibly between one-third and one-half of a person's working life) for superannuation guarantee contributions to have been made at a lower effective rate.

If you have any further questions, please feel to contact me or Dr Brad Pragnell, Principal Policy Adviser, on 02 9264 9300.

Yours sincerely,

Dr Michaela Anderson
Director, Policy and Research

Federal Secretariat

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