Chapter 3

Schedule 2: change to superannuation co-contributions

Description of the measure

3.1 Schedule 2 amends the *Superannuation (Government Co-contribution for Lower Income Earners) Act 2003* to reduce the matching rate and maximum co-contribution for eligible personal superannuation contributions made in the 2009-10 to 2013-14 income years.

3.2 The co-contribution is a superannuation contribution that the government makes for eligible persons on low to middle incomes. Since 1 July 2004, the matching rate and maximum co-contributions have been 150 per cent and $1,500, reducing by 5 cents for each dollar by which the individual's total income for the income year exceeds the lower co-contribution income threshold in the relevant year. The lower income threshold is $31,920 for 2009-10.

3.3 Under the bill -

- in the 2009-10, 2010-11 and 2011-12 income years, the matching rate will reduce to 100 per with a maximum co-contribution of $1,000, reducing by 3.333 cents for each dollar by which the person's total income exceeds the lower income threshold ($31,920 in 2009-10);
- in the 2012-13 and 2013-14 income years, the matching rate will be 125 per cent with a maximum co-contribution of $1,250, reducing by 4.167 cents for each dollar by which the person's total income exceeds the lower income threshold;
- in 2014-15 the scheme will revert to the current matching rate of 150 per cent and maximum co-contribution of $1,500.

3.4 The income thresholds will continue to be indexed.

3.5 The Government argues that '…the temporary reduction in the co-contribution will generate necessary budget savings in the current economic climate thus supporting Government initiatives such as pension reform, whilst maintaining a significant and generous incentive for eligible persons to contribute to superannuation.' The Government estimates that the change will affect around 1.5 million people in 2009-10.[1]

1 Treasury, *Submission 21*, p.7.

Issues raised in submissions

3.6 Submissions supported the existing arrangements and argued that the change will reduce the incentive to save. They supported the Government's intention that the change is temporary. The Association of Superannuation Funds of Australia argued that the co-contribution should be increased. The Financial Planning Association argued that the co-contribution should not be reduced; in any event, the reduction should be in place for no more than a year, and when reinstated should be increased by 50 per cent. [2]

3.7 Treasury argued that the temporary reduction is not expected to have a significant impact on the level of superannuation contributions as the scheme remains very generous.[3]

Committee comment

3.8 The committee accepts the need for the measure to generate budget savings in the current economic climate to support Government initiatives such as pension reform.

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2 Investment and Financial Services Association, *Submission 14*, p.1. Financial Planning Association, *Submission 15*, p.2. Association of Superannuation Funds of Australia, *Submission 22*, p.1.

3 Treasury, *Submission 21*, p.7.