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Senator Annette Hurley
Chair
Senate Standing Committee on Economics—Legislation
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Hurley

Tax Laws Amendment (2009 Budget Measures No. 1) Bill 2009

The Financial Planning Association of Australia (FPA)[1] welcomes the opportunity to provide a submission in response to the Committee's Inquiry into the Tax Laws Amendment (2009 Budget Measures No. 1) Bill 2009.

Financial Planners play a significant role in assisting Australians to prepare for retirement, offering advice and education on the various complexities of the tax and pension systems to their clients. There are two measures in the Bill that are of concern to FPA members. One relates to the co-contribution for lower income earners, and the other relates to the reduction in the concessional cap for superannuation contributions for people approaching retirement.

This Bill will discourage a savings culture and remove incentives for key groups of Australians to be independent in their retirement. This is a retrograde step and one that will have far bigger budgetary implications in the future. While the FPA understands the Government's need to fund the budget deficit, it should only be done in a way that continues to work in the long term national interest and minimises the negative implications for consumers. In this regard, we encourage the Committee to recommend some important amendments to the Bill.

Saving for retirement should be encouraged

Life expectancy rates continue to increase and, combined with the rising cost of living, retirement incomes need to sustain people for longer periods, thus requiring higher levels of savings. When considering existing levels of saving for retirement, it is clear that current levels are inadequate for a significant proportion of the population.

The issue of what may be considered an 'adequate' retirement income has been a topic of much discussion. Using the ASFA/Westpac Retirement Standard, a couple retiring today require $50,414 per annum to live a 'comfortable' lifestyle.[2] However, the average superannuation balance for those in the 60-64 age bracket is only $202,600.[3] A couple with only this level of savings will be highly dependant on the age pension and will need to exist on a level of income significantly lower than the $50,414 identified by

[1] The FPA is the peak professional organisation for the financial planning sector in Australia. With approximately 12,000 members organised through a network of 31 Chapters across Australia, the FPA represents qualified financial planners who manage the financial affairs of over five million Australians with a collective investment value of more than $630 billion.
[2] ASFA / Westpac Retirement Standard, December 2008
[3] Rice Warner's Superannuation Market Projections

ASFA/Westpac. For example, it is likely that this level of savings, combined with the age pension, will provide an income of only $30,000 until the couple reach their early eighties.[4]

The FPA believes that it is important to encourage a savings culture in Australia and thus seeks to underpin our retirement system by being a proponent of measures that offer incentives to save where there are areas of deficiency. As a matter of policy, incentives to save were specifically targeted at key groups that should be encouraged to save more, and the FPA is concerned that this bill will severely reduce these incentives.

While the focus of this submission is on the individual problems related to a lack of savings, the broader impact should also be considered. The trend in overall national savings has, in recent years, been downward, due to negative household saving during much of the last decade. In the current economic environment, Government surpluses cannot be relied upon to mitigate the reduction.

Co-contribution for lower income earners

The measure to reduce the superannuation co-contribution significantly reduces the incentive to save, for lower income earners. Indeed, many of the people with reduced superannuation savings are from lower income brackets and, as a result, find it difficult to save for retirement and consequently depend heavily on the age pension. As many already have a low level of savings, measures that reduce incentives are likely to further reduce their saving patterns. Key to improving the retirement outcomes for lower income earners is encouraging and supporting savings to provide for their retirement.

The number of people affected by this change is not insignificant. For example the total number of beneficiaries of super co-contribution entitlements made during the financial year 2007/08 was 1,417,126 who received a total of $1,287,987,000, which equates to an average of over $900 per beneficiary[5].

The FPA requests that co-contribution not be reduced. However, if it must be reduced, in an attempt to consider the long term national interests, the reduction should be in place for no more than one year and then reinstated. Such a change would serve to mitigate much of the harm to consumers.

Concessional cap reduction

Given the immaturity of the Superannuation Guarantee system, there are many people who have not had the benefit of a lifetime of savings and seek to address this deficiency in later life by making additional contributions. A key method of doing so is to make additional contributions through salary sacrificed income. The changes introduced in this Bill will reduce the capacity for such people to accumulate wealth in their superannuation funds and thereby reduce their potential to provide for a self-funded retirement.

The Government has suggested that the impact is limited to only the top two percent of earners. However, this is not the case. Indeed, people making these contributions come from across the income range including many who have experienced broken work patterns, such as women and those experiencing unemployment, who then struggle to make up the shortfalls of their superannuation by sacrificing their personal spending.

Generally, those under age 35 are forgoing superannuation to accumulate deposits to purchase homes, while those in the 30-50 year old age bracket have mortgage repayments as a high priority, along with their children's education, all in lieu of accumulating superannuation. For those in the 50 plus age group,

[4] Calculated using ASIC FIDO's retirement planner calculator, assuming an 8.5per cent per annum return.
[5] Super co-contributions annual report 1 July 2007 to 30 June 2008.

once mortgages are either under control or finished, along with children now earning their own income, there is a new focus on retirement planning, with superannuation as a major priority.

The lead up to retirement (such as the last 10 years of full-time work) is a critical period for retirement preparedness, employing sound transition-to-retirement strategies, and growing one's retirement savings. For many Australians, it is these final years of full-time work when they are more likely to be able to afford to make additional voluntary contributions to superannuation.

The current contribution cap includes personal deductible contributions, superannuation guarantee contributions and voluntary employer contributions, including salary sacrifice. The penalties for breaching the caps are applied at the member level, but the control of contributions can be outside the control of the fund member, creating administrative complexity. A reduction in the cap increases this risk.

Thus, retirement preparation is very complex. Even so, it is clear that a reduction in concessional caps clearly results in reduced preparation for retirement and undermines the 3 pillar system. For this reason, the FPA requests that the committee not reduce concessional caps. However, if the concessional cap must be reduced, some measures are recommended to mitigate its harm to consumers. These include indexing the concessional cap to the national consumer price index, carrying forward unused concessional cap space from the past ten years, and excluding the Superannuation Guarantee from the calculation of whether one has met the cap. Additionally, the higher concessional cap, for those age 50 or over, should be made permanent. These four measures would work together to reduce the harm to consumers, helping them to provide for their own retirement.

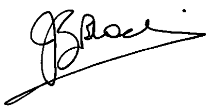
Timing

The proposed Bill would introduce these changes by 1 July 2009, which would require people to significantly alter their strategies for retirement planning in a very short timeframe. People currently making total concessional contributions of more than $25,000 each year (or $50,000 if aged 50 or over) will need to reduce salary sacrifice (or personal deductible contributions) from 1 July 2009 to ensure that they do not inadvertently breach the reduced concessional contributions cap.

Of particular concern to financial planners and their clients are the changes to the concessional contributions cap without a phasing in period, which leaves financial planners only a few weeks to reshape strategies for a large portion of their client base. This is particularly a concern for clients with only a few years to retirement, who may have been using their current strategies for some time.

If you would like further information on the issues raised in this submission, please contact Gerard Fitzpatrick, General Manager, Policy and Government Relations (02 9220 4505; gerard.fitzpatrick@fpa.asn.au).

Yours sincerely,



Jo-Anne Bloch
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