



**ATTACHMENT 3**

**SUPERANNUATION AND  
STANDARDS OF LIVING IN RETIREMENT**

**SUBMISSION TO  
SENATE SELECT COMMITTEE ON SUPERANNUATION**

**MAY 2002**

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## SUMMARY OF RECOMMENDATIONS

- (1) Governments should maintain a **continuing commitment** to the Three Pillars System as the basis of a long-term superannuation and retirement incomes policy, **subject to implementing further improvements in the benefit adequacy, taxation and security of superannuation** (Section 3.1).
- (2) The **primary** supporting mechanisms for the generation of future retirement benefits to be based on **mandatory** funding of contributions with more limited support from **voluntary** savings through various concessionally taxed products (Section 3.2).
- (3) **Equitable and sustainable policies** need to be developed by government to suitably **address future inadequacies in the level of benefits** including:-
  - S the introduction, over a reasonable period of time, of **compulsory employee contributions** which eventually will reach at least 3% of earnings (Section 3.3), and
  - S strategies to **progressively reduce, if not remove, the taxation of superannuation contributions** (Section 3.4).
- (4) A public commitment by all political parties to the total **avoidance of any retrospectivity** in future changes to the taxation of superannuation (Section 3.4).
- (5) Government to maintain **effective competition** in the provision of superannuation in the private sector for the benefit of superannuation fund members generally (Section 1.5).

## 1. BACKGROUND

- 1.1 The Australian Industry Group (Ai Group) directly represents some 10,000 employers, large and small, in every State and Territory. Our members provide more than \$100 billion in output, employ more than 1 million people and produce exports worth some \$25 billion. In addition we have affiliated organisations in both South Australia and Western Australia also with significant membership.
- 1.2 Ai Group has had a long standing and influential role in the development of public policy including issues related to superannuation and retirement incomes policy. Our initiatives have included submissions and representations to government, opposition and the Senate Select Committee, advice and assistance to members on the management of their superannuation arrangements and participation in key superannuation industry bodies. Our role covers both the operation of corporate superannuation plans and industry superannuation funds in which large numbers of private sector employers and their employees participate.

Ai Group is, therefore, well aware of the **fundamental** role of occupational superannuation in positively contributing to the retirement aspirations of most Australians, as well as facilitating local investment, employment and economic development.

- 1.3 Our views on the general principles which should apply to the development and maintenance of Australia's retirement income system have been stated previously, including a **submission to the Senate Select Committee on Superannuation of 21 August 1991** - by Metal Trades Industry Association of Australia (now the Australian Industry Group) - refer **Annexure 1**.

The core **objective** of our 1991 policy was:-

*“To provide a meaningful, equitable, secure and economically sustainable standard of minimum retirement income for Australians generally at a level acceptable to the community with limited reliance on government support”.*

- 1.4 This was reinforced by a submission to the Prime Minister, the Hon J W Howard MP, on 30 October 2000 in conjunction with a number of other organisations and entitled *“Framework principles for Australia's retirement incomes system”*. This submission identified, inter-alia, the need for a policy framework which *“Adopts an integrated long term approach to ensuring adequate and sustainable retirement income for all Australians”, “Maintains the diversified sources of funding for retirement . . . .”* and *“Has the broadest possible coverage and participation”*..
- 1.5 Similarly **other important principles** previously supported by Ai Group and now restated have included:-

§ that benefits should be self funded and properly secured through government legislation and control,

§ the need for competitive choice in the provision of superannuation products and services (a requirement that will intensify as the community becomes better informed and educated in this area),

§ the need for **mandatory** funding from both employers **and** employees (as well as government support),

§ that benefits should primarily be paid as a pension but with some provision to commute part of the occupational superannuation benefit to a lump sum, and

§ the avoidance of any retrospectivity in tax changes.

1.6 **We firmly believe all these principles remain highly relevant** and, accordingly, Ai Group renewed some of these proposals in our most recent submission to the Federal Government in December 2001 in response to the Prime Minister's policy paper of November 2001 entitled "*A Better Superannuation System*".

1.7 In all these circumstances we welcome this timely initiative by the Senate Select Committee into "the adequacy of the tax arrangements for superannuation and related policy, to address the retirement income and aged and health care needs of Australians".

## 2. INTRODUCTION

The foregoing submissions are in our view particularly relevant to the important issues covered by the current inquiry of the Senate Select Committee on Superannuation into "*Superannuation and Standards of Living in Retirement*".

In particular we would emphasise the need for a structured, comprehensive and objective policy review into benefit adequacy and taxation to prevent future ad hoc changes and to facilitate improved public confidence in long term superannuation and retirement income policy settings. Relative simplicity and transparent security are also critical criteria in this context.

For the purposes of this submission, Ai Group addresses the proposals under the following headings:-

§ System Design : The Three Pillars  
§ Improving the Adequacy of Existing Arrangements  
§ Funding of Improved Benefits  
§ Taxation Issues  
§ National Savings, Investment and Development

## 3. KEY ISSUES

### 3.1 System Design : The Three Pillars

3.1.1 Ai Group maintains its support for a meaningful, equitable, secure and economically sustainable standard of **minimum** retirement income for Australians generally. **This is essential to retirement living standards overall including accessing quality health care.**

These objectives are particularly important given demographic forecasts for Australia's ageing population and current immigration

programs. In particular they focus attention on the primary issues of system design, adequacy, funding and security; and their suitability for the future where it has been projected that over the next 30 years the proportion of people in Australia over 65 years will almost double from 12% of the population in 1991 to 20% in 2031.

Obviously this development, if not properly planned and provided for, will place an unacceptable strain on our social security and health care resources, leading to a significant deterioration in retirement standards specifically and possibly community living standards generally. **Progressively enhancing our occupational superannuation system is a necessary and appropriate response to this challenge and ideally should be achieved in an essentially bi-partisan political environment.**

3.1.2 In relation to system design the **current arrangements** are funded by a **combination** of:-

§ A **compulsory minimum** standard of superannuation **contributions** required to be paid by **employers** (for virtually all employees) and the self employed.

§ **Voluntary supplementary** contributions presently paid for a **minority** of the workforce (both pre- and post-tax and paid by employers and/or individuals), together with private savings.

§ A **universal means tested age pension**.

**Jointly** these comprise the so-called **Three Pillars System** which has previously been recognised by the World Bank as “International Best Practice” in retirements incomes systems.

3.1.3 Also on system design issues, the **Ai Group policy submission in 1991** stated, inter-alia:-

“(1) *That the minimum national retirement income standard would generally be provided through a combination of:-  
a basic and conditional social security benefit; plus  
an occupational superannuation retirement benefit.*

§  
§

(2) *That government, employers, employees and self employed would **all** contribute to the retirement income package.*

(3) *That the benefit(s) would, as far as possible, be self funding and properly secured through government legislation and control.*

(4) *That planned contribution levels would be compatible with economic capacity .*

(5) *That the relative contribution of the occupational superannuation component would gradually increase through time with a lessening dependance on the social security benefit which would eventually only operate as a welfare safety net.*

(6) *That benefits would primarily be paid in the form of a pension but with some provision to commute part of the occupational superannuation component to a lump sum”.*

3.1.4 **This submission recommends a continuing commitment to the Three Pillars System subject to the need for improvements in the adequacy of benefits** (refer Section 3.2 herein), **taxation** (Section 3.4) **and security**. In considering these matters we believe **the foregoing principles in 3.1.3 also remain broadly applicable**.

## 3.2 Improving the Adequacy of Existing Arrangements

3.2.1 **Occupational superannuation** is presently funded by:-

§ **compulsory** minimum contributions paid by **employers only** (currently 8% and peaking at 9% from 1 July 2002), and

§ additional **voluntary** contributions paid by **some employers and some employees**.

3.2.2 In 1991, after a detailed **independent review** by a consultant, Ai Group proposed that:-

*“The **ultimate** target level of the minimum retirement income standard should be equivalent to 50% of average weekly ordinary time earnings to be funded at an average contribution rate of 12% over approximately 36 years”.*

Whilst no universally agreed benchmark exists, we understand **this target level remains reasonable** when compared to latest industry research which suggests possibly even higher levels of funding and benefits. For example, 1999 research indicated that a target of 60% of gross pre-retirement income with at least 12% super guarantee over 30 years could be supported and a later report recommended a savings target of 12-15% of salary.

Another recent survey also “has shown that almost 60% of Australians believe they are uncertain about their financial preparations for retirement”.

3.2.3 Clearly the current compulsory contributions regime falls short of that recommended both by Ai Group previously and other industry and community groups more recently. In these circumstances **we remain concerned that the existing funding arrangements will be insufficient** to provide the desired level of minimum retirement income for the **majority** of Australians in the future.

We recognise that various initiatives of the current Federal Government have placed considerable reliance on **voluntary savings** to address this shortfall, including the proposals in Part 1 of the December 2001 pre-election policy statement entitled “*A Better Superannuation System*”. However, whilst we are cognisant of the potential significance of these measures, we genuinely **doubt that an incentive strategy to increase**

**voluntary savings will of itself redress the future funding inadequacies.**

By way of example, the current proposal of a Government co-contribution of up to \$1,000 per annum for superannuation contributions made by low income earners is, we believe, likely to only have a limited impact.

3.2.4 **Accordingly we request the policymakers to recognise the continuing inadequacies of current and projected policy settings and develop equitable and sustainable options to address this core issue** (including our proposals in Sections 3.3 and 3.4).

### 3.3 Funding of Improved Benefits

3.3.1 Critical to setting a preferred contribution target consistent with providing a meaningful retirement income standard as stated in Section 3.2.2, is the related issue of funding. Theoretically this can be derived from:-

§ employer contributions (compulsory and voluntary),  
§ employee contributions (voluntary and possibly compulsory), and  
§ government (via fiscal policy including taxation incentives).

3.3.2 With **compulsory employer contributions** already scheduled to reach 9% by 1 July 2002 and no minimum employee contributions presently mandated, **there can be no justification, equitably or economically, for any further increase being imposed on employers.** This position should be publicly confirmed by all political parties.

3.3.3 Alternatively, from an equity viewpoint, there are **compelling reasons** for the introduction of **compulsory employee contributions** over a **reasonable** period of time. In 1991 Ai Group argued for a minimum employee contribution of 4.5% but this has not yet eventuated. Whilst we recognise some difficulties in this area, **we recommend that government should commit, over a reasonable time cycle, to the gradual introduction of compulsory employee contributions. These should reach at least 3% of earnings eventually.** This would considerably enhance the medium to long term contributions of employees towards their own retirement income and **relieve the anticipated pressures on social security payments and aged care expenditure generally.**

### 3.4 Taxation Issues

3.4.1 In relation to the taxation of superannuation, Ai Group is concerned with **two** aspects, viz:-

§ the current level of taxation on superannuation savings, and  
§ the complexity of the various taxation arrangements.

3.4.2 As to these matters, we support the need for a comprehensive, public enquiry into options for both reducing and simplifying the tax burden. In particular, **we recommend examination of strategies to progressively reduce, if not remove, the taxation of contributions in order to achieve higher compounding of benefit levels.**

3.4.3 At the same time all political parties should strengthen public confidence in

superannuation and retirement savings by **stating unequivocally that, in the event of any future changes in the taxation of superannuation, there will be no element of retrospectivity.** Only in this way can the **members** of superannuation funds and their **sponsoring employers** be **assured** that **accrued benefits** will be properly and responsibly **protected**.

### 3.5 National Savings, Investment and Development

There are obvious and fundamentally important linkages between superannuation savings and domestic investment, jobs and growth.

In the 1991 submission, Ai Group argued that a principal objective of a national retirements incomes policy should be:-

*“To expand Australian investment programs and reduce both government taxes and overseas borrowings thereby improving the efficiency and international competitiveness of industry”.*

The critical nature of these linkages should be clearly recognised in determining policies for the achievement of a viable and effective superannuation and retirement incomes system, and in refuting unfair and misleading criticism of the alleged “cost” of superannuation tax concessions and other related incentives for savings.

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