

Society of Superannuants



**Ms.Sue Morton,
Secretary Senate Superannuation Committee,
Parliament House,
Canberra, ACT, 2600.**

27 August,2002

Dear Sue,

RE: Inquiry into Superannuation Legislation Amendment Bill 2002

In July when SOS spoke to its submission before the Senate Superannuation Committee, the Society requested that the Government give consideration to rescinding surcharge tax on account of irreconcilable inequity. Our submission contended et.al. that the inappropriate surcharge tax collection mechanism used by private sector DB funds can not be satisfactorily resolved. Subsequently SOS also made a brief submission supporting the reduction in surcharge tax.

SOS understands that The Superannuation Legislation Amendment Bill 2002 is considering the Government's stated intention to reduce the amount of surcharge tax levied. The Society requests that the Senate Superannuation Committee consider concurrently with the proposed reduction in surcharge tax, legislative amendment to help resolve surcharge tax collection anomalies.

In support of SOS's representation to the Senate Committee an updated submission is enclosed. The Society is grateful for the opportunity to make known its members concerns and thanks all Senators for their consideration.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ian Woods'. The signature is fluid and cursive, with a large loop at the end.

**Captain Ian Woods,
President.**

**Society of Superannuants
www.sosaustralia.org**

SAVE OUR SUPERANNUATION

SINK OUR SURCHARGE

Level 11, 28 Margaret Street, Sydney NSW 2000. Australia.

Society of Superannuants



Submission of The Society of Superannuants to the The Senate Superannuation Committee.

Introduction.

The Society of Superannuants (SOS) supports the reduction in surcharge tax and requests a concurrent review of existing surcharge tax legislation, as this inequitable impost has unintended consequences that unintentionally burden the member with more than a 15% reduction in their unsurcharged benefit.

The Society supports the proposed reduction in surcharge tax as:

Any reduction in the surcharge tax ameliorates inequities inherent in notional surcharge calculations that are amplified in existing collection mechanism anomalies.

Previous AIPA Submission.

In August 1999, The Australian and International Pilots Association (AIPA) made a submission to The Senate Economics Legislation Committee contending that existing surcharge tax legislation **unintentionally conferred a significant benefit on defined benefit (DB) superannuation funds to the detriment of the members of those funds.** (This submission is attached as Annex A)

The Collection inequity:

Representation to Minister Rod Kemp resulted in reconsideration of the anomaly by The Australian Taxation Office. A former Deputy Commissioner of the ATO has acknowledged that the AIPA identified irregularity has; **“real potential for significant inequity”**. Prominent industry representatives now accept that **the anomaly raised by AIPA is irresolvable.**

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In response to renewed SOS representation, Minister Helen Coonan asked the ATO to cost the budgetary impact of implementing an AIPA identified solution; *A preferred Option to handle the Surcharge in Defined Benefit Funds*. The AIPA solution was developed in consultation with Dr. David Knox of PricewaterhouseCoopers and is attached as Annex B to this submission.

Inequitable Taxation of DB Member Contributions.

It is clearly shown in figure 2 of Annex B that when the 30 year rolling investment returns for a typical hybrid DB fund exceed 9%, (ASFA published 30 year rolling returns for balanced funds attached as Annex C), the member funded undeductable contributions plus investment earnings can approach 80% of the members retirement benefit. That is, the sponsoring company will have contributed around 20% of the member's benefit. In effect, a member's final promised benefit has been achieved primarily through fund investment earnings on the members after tax contributions.

ASIC Opinion regarding surcharge offset accounts.

In that the AIPA submission of 1999 identified and had confirmed by Minister Kemp; **“There is no express provision in the Surcharge or SIS legislation for fully funded defined benefits funds to set up surcharge offset accounts as a mechanism for collecting and paying the surcharge tax”**. The SOS committee requested that Australian Securities and Investment Corporation (ASIC) review the inequitable outcome of this practice. ASIC has undertaken to; **“determine the acceptability of fully funded DB schemes maintaining surcharge offset accounts”** and SOS has been advised that this determination will be issued shortly.

SOS Contends.

- Levying of surcharge tax on employer financed benefits can be inequitable because those private sector **DB funds enjoying a contributions holiday are no longer making company contributions**. The AIPA suggested solution would mean that surcharge tax levied on fully funded DB schemes would be limited to 15% of actual employer deductible contributions. However, in unfunded DB schemes, although it is possible to retrospectively calculate a persons salary inflation rate, it is not possible to accurately determine the notional proportion of employer contributions.
- Existing use of fully funded DB **surcharge offset accounts means real potential to result in significant inequity when credited earnings rate interest is charged**; and
- There is **no express authority in law** for fully funded DB schemes to set up surcharge offset accounts.

The compound effect of the above inequities is to potentially threaten the retirement savings of surchargeable Australians.

SOS Interim Solution.

The Senate Committee should note that the inequitable use of surcharge offset accounts is considered by many to be irresolvable. In order that the Government's stated intention that surcharge tax be limited to 15% of employer contributions (See Annex D Contributions Tax Explanatory Memorandum) can be immediately complied with, SOS suggests the following interim solution:

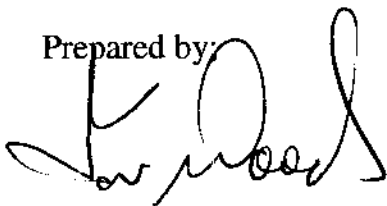
Surcharge tax within fully funded defined benefit schemes should only be payable on actual employer contributions made. In the private sector, this can be calculated by the fund when the member receives their final superannuation benefit.

If collected upon retirement, the AIPA identified solution can limit each individual's surcharge account to 15% of their actual employer contributions. The correct interest rate would be the member's actual rate of salary inflation. An interim proxy rate of interest could be the 10-year bond rate used in the public sector. However, bond rate will always be an approximate rate of interest. SOS maintains that taxes based on assumptions call into question the conceptual validity of the tax. Notwithstanding the limitations on using the 10-year bond rate; **immediate action to cap private sector DB surcharge accounts at 15% of actual employer contributions, indexed at the 10-year bond rate is required.**

The only known complete solution is: Rescind the surcharge tax.

All affiliated industrial associations of SOS would like to thank Australia's Federal Senators for the opportunity to make known their members concerns and trusts that the issues raised will be given due consideration. It is hoped that these long outstanding member concerns will be resolved and anomalies/inequities determined in favour of the many hundreds of thousands of affected Australians whose professional associations founded the Society of Superannuants. For more information on related surcharge tax issues, interested parties are invited to visit: www.sosaustralia.org

Prepared by:



**Captain Ian Woods, BEc,
President,
Society of Superannuants.**

Enclosures:

Annex A – AIPA submission to The Senate Economics Select Committee;

Annex B – AIPA identified solution by Dr. David Knox of PwC;

Annex C - ASFA Published Superannuation Earnings Rates;

**Annex D - Extract from Explanatory Memorandum of the
Superannuation Contributions Tax Bill 1997**

Annex A

SENATE ECONOMICS LEGISLATION COMMITTEE

Dear Senator,

RE: The Effects of Surcharge Offset Debt on Defined Benefits

Thank you for the opportunity to inform you about aspects of the surcharge tax that I believe were not intended by the Federal Government when introducing the legislation. An inequity arises because of the difference in interest rates between a members benefit and their tax liability that arises out of the funds requirement to pay the superannuation surcharge tax, if the fund chooses to implement a surcharge debit offset account. It results because the surcharge tax is borrowed by the super fund, from the super fund in order to pay the Federal Government. The capital and interest on this loan is then charged to an account in the members name and compounds whilst one is a member of the fund. It is then subtracted from the final benefit upon retirement.

I have obtained on behalf of The Australian International Pilots Association (AIPA) professional actuarial advice that the decision by the Trustees of some fully funded defined benefit superannuation funds to use fund earnings rate, instead of salary inflation rate as the interest rate applied to member surcharge offset accounts within defined benefit schemes, appears to be not only unintended in terms of the surcharge tax legislation, but results in significant reductions in the member's final superannuation benefit. For a fund member with around 30 yrs service a three percent gap between credited earnings rate and salary inflation rate results in a reduction of around 13% of final benefit. The primary concern is that this action, to set up surcharge tax offset accounts, as a mechanism for collecting and paying the ATO surcharge tax, was never intended by the Federal Government, as there is no express provision in any of the legislation covering superannuation surcharge tax collection.

Despite the absence of express legislative authority, it is known that surcharge offset accounts are used by some corporate schemes as result of discretion afforded to the Trustees under their funds trust deed. In such cases, actuarial opinion varies widely as to the correct rate of interest. Advice obtained by me consistently confirms that the use of credited earnings rate of interest is always detrimental to fund members, irrespective of years of service, when compared to either the actuarially assumed salary inflation rate or the long term bond rate that is used for public sector unfunded defined benefit schemes.

Advice received from Senator Kemp, via Liberal MP, Dr. Brendan Nelson, states that there is "no need for the Trustees to adopt the practice of establishing debt accounts for affected members". Research carried out confirms that specific authority for Trustees to set up surcharge debt accounts applies only to unfunded defined benefit providers. (Surcharge Collection Act, Section 16) There is no express provision in the legalisation for fully funded defined benefit funds to utilise surcharge debit accounts. (Section 15 of the Surcharge Collection Act is silent).

Annex A

Although Section 13.16 of the SIS Act does permit the Trustees to make a claim on future benefits and to charge interest on the amount of tax paid, it would appear that this provision is intended only for unfunded public sector schemes. Section 5.02A of the SIS Act prohibits erosion of benefits and Section 5.02B of the SIS Act would appear to confirm the Commissioner of Taxation's opinion that Trustees should debit the existing accumulated benefits of fund members.

I contend therefore, that as there are many different types of funds covered by the Surcharge Collection Act, and although it is clear that the government intended that the fund should recoup the tax from the members account, the decision by some Trustees to apply surcharge debit accounts, intended for unfunded schemes, to fully funded schemes, results in widespread, significant inequity for fully funded defined benefit members. Especially when inappropriate interest rates are used.

The effect of the Trustees decision is to burden the member with any loss of investment return that the fund would have otherwise been achieved by the fund in the absence of the surcharge tax, and finally serves to reduce the benefit of any contributions holiday that the principal company would otherwise receive.. The use of surcharge offset accounts appears to be technically contrived in order to pass on to individual fund members investment loss and appears not to be the legislative intent.

It should be noted that although the surcharge tax is intended as a tax on high income earners, the requirement for the funds to collect the tax when a tax file number is not supplied, means that many middle and low income earners are also affected by this inequitable decision to unnecessarily set up surcharge offset accounts.

I request that the Senate review the currently existing surcharge tax legislation with a view to removing or prohibiting what appears to be artificial manipulation of the legislation by large corporate funds in a manner that is considered inequitable to fund members.

Possible solutions include:

1. Legislating against the use of surcharge offset account when member accrued member funds are available to meet the surcharge tax obligation. It should be noted that available member funds would need to come from the members promised defined benefits and not from their accumulation accounts , to do otherwise would create similar inequities.
2. Prescribe a rate of interest to be used by corporate fund trustees who choose without express legislative authority to utilise surcharge debit accounts. It would be reasonable that the interest rate used would be the salary inflation rate as this is the interest rate used by the funds actuaries when calculating the principal companies required contributions to the fund. The alternate is the long-term (10yr.) bond rate used for public sector surcharge debit accounts.

Annex A

I would like to thank all Senators for the opportunity to make known my concerns and trust that issues raised will help resolve what could otherwise be a grave and ongoing inequity for many innocent Australians.

Provided By,

Captain Ian Woods, BEc.

The Surcharge and Defined Benefit funds

Introduction

The fundamental problem is that members of defined benefit superannuation funds can have their employer-financed superannuation benefit reduced by more than 15% due to the introduction of the surcharge in August 1996.

The reason for the possibility of this problem to occur is relatively straightforward.

The member's defined retirement benefit is generally determined by the product of the relevant multiple, the length of service and the member's final (average) salary. Most DB funds have also set up a negative account to offset the surcharge which must be paid during the member's actual membership period. The simplest and most common approach has been to set up a negative accumulation account increased by the fund's investment earning rate and reduce the gross defined benefit by this accumulation amount at retirement.

However, as the defined benefit and surcharge account increase at different rates, due to the different factors that are used to calculate the amount in each case, it is feasible that the 'net' employer-financed retirement benefit will be less than 85% of the 'gross' employer-financed retirement benefit. In effect, a hybrid super scheme has been established where part of the benefit is determined by years of service and the defined benefit scale and part is determined by contributions and the fund earning rate. It is this hybrid nature of the arrangement that causes the problem.

Some basic facts about the surcharge for DB funds

Before proceeding, it is helpful to set out some basic facts about the surcharge for members of defined benefit funds.

1. The surcharge is based on an individual member's entitlement from superannuation in respect of the employer's contribution in a particular year.
2. The level of the employer's contribution is easily defined for an accumulation fund but is problematical for defined benefit funds. This problem was always acknowledged and the Government set up an Actuarial Advisory Committee at the time the surcharge was introduced to consider the issue. It is not a new problem.
3. As with all actuarial calculations for contribution rates to defined benefit funds, certain assumptions are required. To resolve this issue, Regulations have been issued by the ATO prescribing a discount rate of 8% pa and a salary growth rate of 4.5% pa. That is, a gap of 3.5% between these two rates is used. No promotional salary scale is assumed.
4. In broad terms, the major long term issue in these assumptions is the "gap" between the long term investment earning and the long term salary increase rate.

It is noted that the NSCF assumptions use a gap of 3.5% whereas it is not uncommon for actuaries to use a gap for funding purposes, after allowing for salary promotion, of 2 per cent or less over the long term. Hence the 3.5% gap could initially be considered reasonable from the member's perspective.

5. It is recognised that in most circumstances, if the actual 'gap' experienced by the fund is **greater** than the assumed gap, the level of contributions has been too high and the fund moves into surplus. Similarly, in respect of the NSCF, if the gap experienced is greater than 3.5%, the negative accumulation account is likely to be greater than 15% of the employer-financed defined benefit that it relates to.

Hence, it is feasible that if a superannuation fund's investments earn a rate that is say 5% above the long term salary experience, then the negative accumulation account at retirement could be 20-30% or higher of the employer-financed defined retirement benefit. The actual result will also depend on the individual member's salary movements.

An example

This problem can arise in all defined benefit funds. However to highlight the issue, let us take a real example, namely the QANTAS Pilots, who are members of Division 3 of the Qantas Super Plan.

In this case, some basic details are as follows:

- Retirement benefit: 18% of final average salary per year of service
- Retirement age: 60
- Member's contribution: 5% of salary

Based on a report prepared by the Fund's Actuary, Mark Thompson of Towers Perrin, the accumulated net surcharge amounts at retirement, expressed as a percentage of the employer financed benefits, assuming a 3.5% investment return over salary increase and no promotional salary increase (which are the ATO assumptions), is as follows:

Entry age	Surcharge amount as % of employer financed benefit at age 60
30	15.9%
40	15.4%
50	14.9%

However the **actual** result is likely to be very different from these figures due to two factors:

- The actual salary experience received by the member
- The actual gaps experienced between the investment earning rates and general salary increases

The following tables show these percentages under three “salary scenarios”:

1. no salary scale
2. a conservative salary scale averaging 1.8% pa from age 30 to 60 and 0.5% pa from age 40 to 60
3. a more generous salary scale averaging 2.8% pa from age 30 to 60 and 1.3% pa from age 40 to 60

In addition, a 2% pa salary increase is used in all cases.

Surcharge amount as % of employer funded benefit at age 60 - Entry age 30

Fund earning rate	5%	6%	7%	8%	9%	10%
<u>Salary scale</u>						
Nil	13.5%	18.0%	26.0%	44.7%	134.3%	Neg
Conservative	11.4%	14.4%	19.0%	27.3%	46.1% ¹	128.5%
Generous	10.1%	12.3%	15.6%	20.7%	30.1%	52.3%

1 This example is used in the graphs below.

Surcharge amount as % of employer funded benefit at age 60 - Entry age 40

Fund earning rate	5%	6%	7%	8%	9%	10%
<u>Salary scale</u>						
Nil	13.8%	16.2%	19.4%	23.7%	30.0%	40.0%
Conservative	13.4%	15.6%	18.5%	22.4%	28.1%	36.6%
Generous	12.9%	14.9%	17.5%	21.0%	25.9%	33.1%

These tables highlight the following general results:

- The higher fund earning rate, the larger the problem;
- The longer the period (i.e. the earlier entry age), the larger the problem at retirement;
- A higher salary promotion reduces the problem as the “gap” reduces;
- In extreme cases, it is even possible for the accumulated surcharge account to exceed the employer financed benefit.

This last result can arise when there are member contributions. The reason is simple. The member contributions together with high fund earnings contribute a higher proportion of the defined benefit. Hence whilst the surcharge account is growing with

high fund earning rates, the actual employer-financed portion is declining. As a result, the surcharge account can actually exceed the employer-financed defined benefit.

Figures 1 and 2 show the outcome assuming a long term fund earning rate of 9% pa using an entry age of 30 and the conservative salary scale. In this example, the surcharge account represents 46% of the employer financed benefit at age 60.

Figure 1: The accumulation of benefits over 30 years

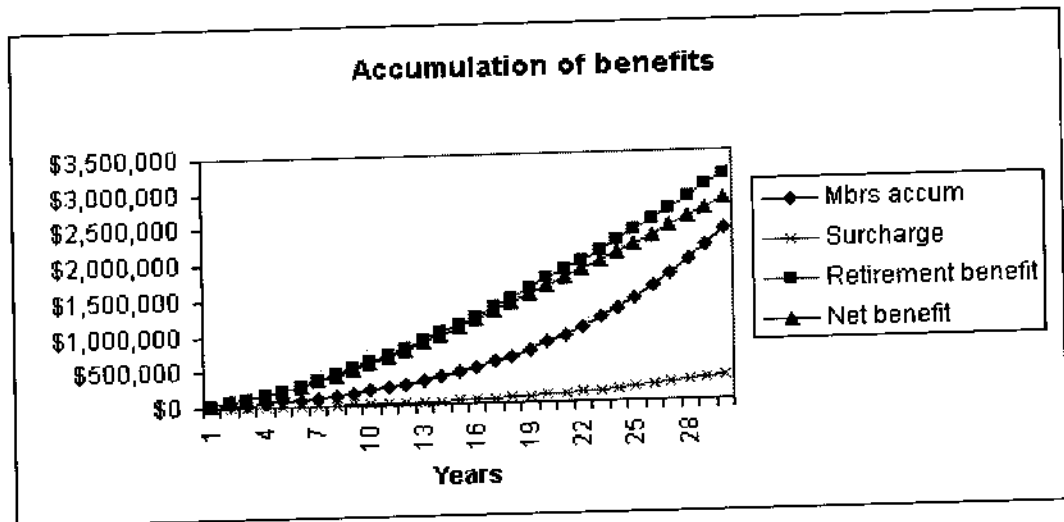
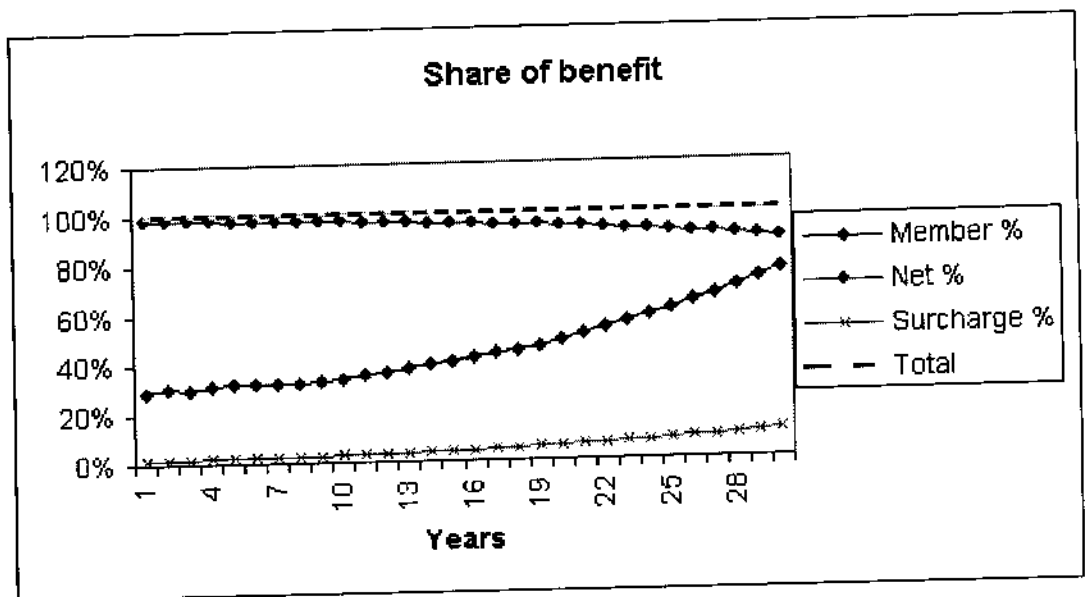


Figure 2: The division of the defined benefit at retirement



Whilst the actual impact will vary between individuals, there is no doubt that under certain economic circumstances, the reduction of the employer financed benefit at retirement due to the surcharge can exceed 15% by a considerable margin.

The underlying cause is that there has been over taxation due to the assumptions used in calculating the Notional Surchargeable Contribution Factors. That is, the assumptions have assumed a 3.5% "gap" between investment earnings and salary increases. The **actual** gap experienced has been higher than assumed so that the NSCFs used have been too high resulting in an excessive surcharge collection.

The suggested solution

Given that the above problem arises over a period of years, it is not suggested that major reform is needed to the surcharge to solve *this particular* problem. Rather, it is suggested that a check be made at the point of benefit payment similar to that used in the public sector and constitutionally protected schemes, such that the surcharge reduction is **capped at 15%** of the employer financed benefit.

Of course, such a check would also need to prescribe the method to accumulate the surcharge accounts in respect of each member. It is recommended that the accumulation rate be defined as the crediting rate used for other surcharge accounts in the fund. Most DB funds would also have defined contribution members who may also have surcharge accounts. If the same accumulating rate is not used, a new anomaly would develop.

Should a member's surcharge account exceed 15% of the employer financed benefit at the point of payment, then there has been an over taxation of the surcharge, caused by the positive economic conditions. In this case, it is suggested that the ATO should refund the superannuation fund, the difference between the surcharge account and the 15% cap of the employer financed benefit.

David Knox
9 October 2001

The Surcharge and Defined Benefit funds

Introduction

The fundamental problem is that members of defined benefit superannuation funds can have their employer-financed superannuation benefit reduced by more than 15% due to the introduction of the surcharge in August 1996.

The reason for the possibility of this problem to occur is relatively straightforward.

The member's defined retirement benefit is generally determined by the product of the relevant multiple, the length of service and the member's final (average) salary. Most DB funds have also set up a negative account to offset the surcharge which must be paid during the member's actual membership period. The simplest and most common approach has been to set up a negative accumulation account increased by the fund's investment earning rate and reduce the gross defined benefit by this accumulation amount at retirement.

However, as the defined benefit and surcharge account increase at different rates, due to the different factors that are used to calculate the amount in each case, it is feasible that the 'net' employer-financed retirement benefit will be less than 85% of the 'gross' employer-financed retirement benefit. In effect, a hybrid super scheme has been established where part of the benefit is determined by years of service and the defined benefit scale and part is determined by contributions and the fund earning rate. It is this hybrid nature of the arrangement that causes the problem.

Some basic facts about the surcharge for DB funds

Before proceeding, it is helpful to set out some basic facts about the surcharge for members of defined benefit funds.

1. The surcharge is based on an individual member's entitlement from superannuation in respect of the employer's contribution in a particular year.
2. The level of the employer's contribution is easily defined for an accumulation fund but is problematical for defined benefit funds. This problem was always acknowledged and the Government set up an Actuarial Advisory Committee at the time the surcharge was introduced to consider the issue. It is not a new problem.
3. As with all actuarial calculations for contribution rates to defined benefit funds, certain assumptions are required. To resolve this issue, Regulations have been issued by the ATO prescribing a discount rate of 8% pa and a salary growth rate of 4.5% pa. That is, a gap of 3.5% between these two rates is used. No promotional salary scale is assumed.
4. In broad terms, the major long term issue in these assumptions is the "gap" between the long term investment earning and the long term salary increase rate.

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This last result can arise when there are member contributions. The reason is simple. The member contributions together with high fund earnings contribute a higher proportion of the defined benefit. Hence whilst the surcharge account is growing with

high fund earning rates, the actual employer-financed portion is declining. As a result, the surcharge account can actually exceed the employer-financed defined benefit.

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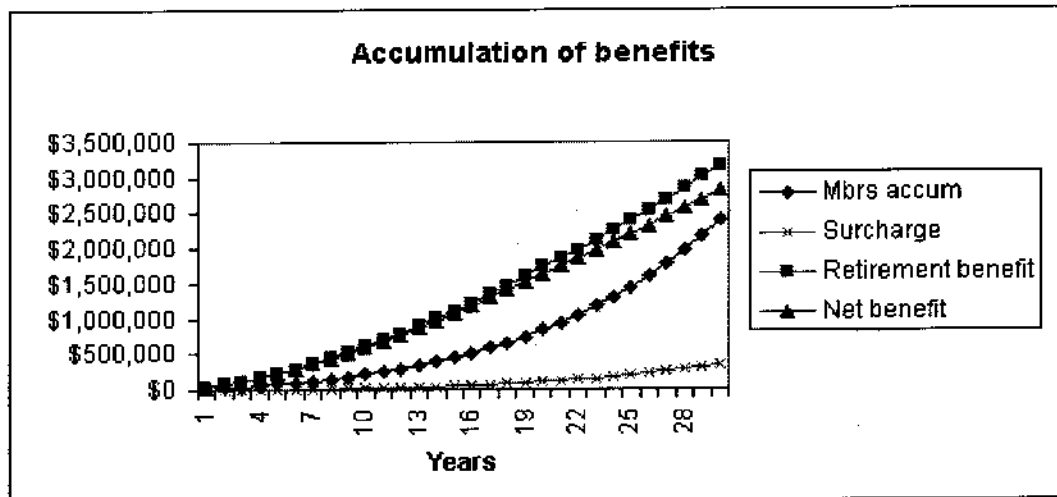
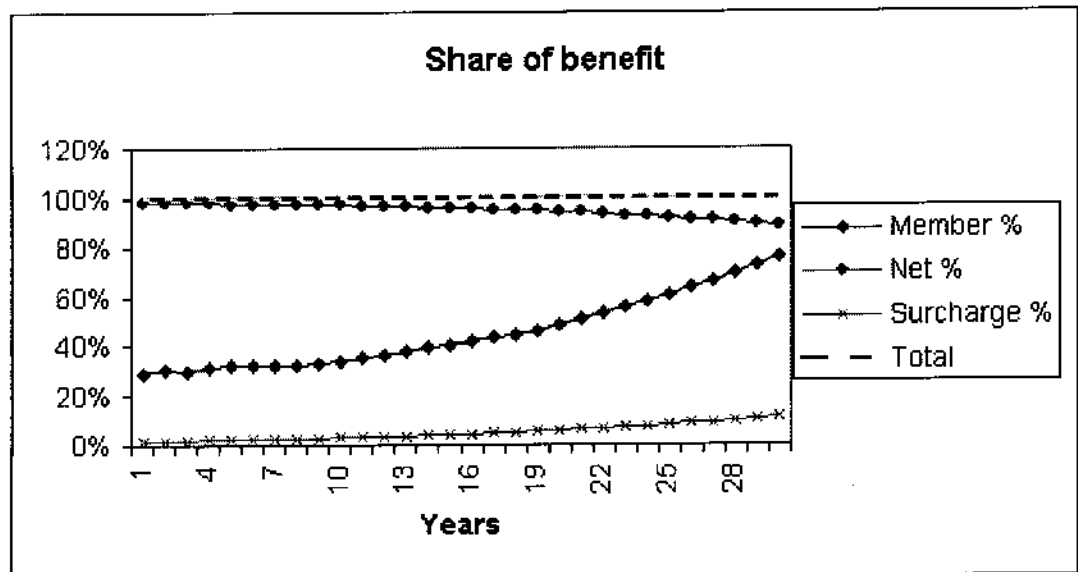


Figure 2: The division of the defined benefit at retirement



Whilst the actual impact will vary between individuals, there is no doubt that under certain economic circumstances, the reduction of the employer financed benefit at retirement due to the surcharge can exceed 15% by a considerable margin.

The underlying cause is that there has been over taxation due to the assumptions used in calculating the Notional Surchargeable Contribution Factors. That is, the assumptions have assumed a 3.5% “gap” between investment earnings and salary increases. The **actual** gap experienced has been higher than assumed so that the NSCFs used have been too high resulting in an excessive surcharge collection.

The suggested solution

Given that the above problem arises over a period of years, it is not suggested that major reform is needed to the surcharge to solve *this particular* problem. Rather, it is suggested that a check be made at the point of benefit payment similar to that used in the public sector and constitutionally protected schemes, such that the surcharge reduction is **capped at 15%** of the employer financed benefit.

Of course, such a check would also need to prescribe the method to accumulate the surcharge accounts in respect of each member. It is recommended that the accumulation rate be defined as the crediting rate used for other surcharge accounts in the fund. Most DB funds would also have defined contribution members who may also have surcharge accounts. If the same accumulating rate is not used, a new anomaly would develop.

Should a member’s surcharge account exceed 15% of the employer financed benefit at the point of payment, then there has been an over taxation of the surcharge, caused by the positive economic conditions. In this case, it is suggested that the ATO should refund the superannuation fund, the difference between the surcharge account and the 15% cap of the employer financed benefit.

Dr. David Knox
9 October 2001

Super over the long haul

For many years, ASFA's NSW Investment Group has been collecting figures on the long term real rates of return achieved by the average Australian superannuation fund.

These figures now stretch back 40 years, giving trustees and funds clear historical information to use when talking to members about their superannuation.

While returns this year are disappointing compared with those of the past decade, return rates over the long term indicate that superannuation remains an excellent vehicle to use for saving for retirement.

Real rates of return (ONE YEAR PERIOD)

Year ending 30/6	Average fund return	Index of cumulat. return	AWE increase	AWE index	CPI increase	Adjusted CPI index
1962		1000		45.3		14.1
1963	11.3	1113	2.6	46.5	0.0	14.1
1964	13.6	1264	5.4	49	0.7	14.2
1965	-8.7	1154	7.3	52.6	4.2	14.8
1966	8.4	1251	4.8	55.1	3.4	15.3
1967	12.0	1401	6.9	58.9	2.6	15.7
1968	41.4	1982	5.8	62.3	3.8	16.3
1969	8.3	2146	7.5	67	2.5	16.7
1970	-1.5	2114	8.4	72.6	3.0	17.2
1971	2.4	2165	11.2	80.7	4.7	18.0
1972	20.6	2611	10.2	88.9	7.2	19.3
1973	0.1	2613	9.0	96.9	5.7	20.4
1974	-14.5	2234	16.2	112.6	13.2	23.1
1975	8.7	2429	25.4	141.2	16.5	26.9
1976	21.3	2946	14.3	161.4	13.0	30.4
1977	7.3	3161	12.5	181.5	13.8	34.6
1978	15.8	3651	9.9	199.4	9.5	37.9
1979	13.9	4159	7.7	214.8	8.2	41.0
1980	37.5	5718	9.5	235.2	10.2	45.2
1981	17.1	6696	13.9	267.8	9.3	49.4

Year ending 30/6	Average fund return	Index of cumulat. return	AWE increase	AWE index	CPI increase	Adjusted CPI index
1982	-2.8	6508	14.6	307	10.5	54.6
1983	26.4	8227	11.4	341.9	11.4	60.8
1984	14.2	9395	7.2	366.5	6.9	65.0
1985	21.5	11415	6.8	391.4	4.3	67.8
1986	32.0	15067	6.4	416.3	8.4	73.5
1987	31.5	19814	6.9	445.1	9.4	80.4
1988	1.0	20012	5.8	470.9	7.3	86.3
1989	10.0	22013	7.3	505.5	7.3	92.6
1990	11.2	24478	7.3	542.3	8.0	100.0
1991	9.4	26779	5.9	574.1	5.3	105.3
1992	10.6	29618	2.8	590.4	1.9	107.3
1993	11.5	33024	2.5	605.2	1.0	108.4
1994	8.8	35930	2.8	622	1.8	110.4
1995	-7.9	38769	3.7	645.1	3.2	113.9
1996	10.5	42839	3.0	664.3	4.2	118.7
1997	18.9	50936	2.7	682.2	1.3	120.3
1998	8.7	55367	3.8	708.3	0.0	120.3
1999	8.6	60129	2.5	726.2	1.2	121.8
2000	13.3	68126	2.5	744.3	2.4	124.7
2001	5.6	71941	4.4	777.3	6.0	132.2

Choosing the best investment manager

- International investments
- Tactical asset allocation
- Currency management
- Boutique equity managers

Rate of Increase (% per annum) In:

years ended at 30th Jun

Year	1977	1978	1979	1980	1981
1977	3.9	15.3	12.4	9.9	-7.6
1978	6.9	16.5	13.2	-7.4	-5.6
1979	13.2	13.6	12.2	-0.5	0.9
1980	18.7	10.7	10.9	7.2	7.0
1981	17.8	10.7	10.2	6.4	6.9
1982	15.5	11.1	8.6	4.0	5.4
1983	17.6	11.4	9.9	5.6	7.0
1984	17.7	11.3	9.7	5.6	7.3
1985	14.8	10.7	8.4	3.7	-5.9
1986	17.8	9.2	8.3	7.7	8.6
1987	24.9	7.7	-6.0	16.0	15.6
1988	19.5	6.6	7.3	12.1	11.8
1989	18.6	6.6	7.3	11.9	10.5
1990	16.5	6.7	8.1	8.2	7.8
1991	12.2	6.6	7.5	5.3	4.4
1992	8.4	5.8	5.9	2.5	2.4
1993	10.5	5.1	4.7	5.1	5.5
1994	10.3	4.2	3.6	5.9	6.5
1995	8.6	3.5	2.6	5.9	6.8
1996	9.9	3.0	2.4	8.7	7.3
1997	11.5	2.9	2.3	8.4	9.0
1998	10.9	3.2	2.1	7.5	8.6
1999	10.8	3.1	2	7.5	8.6
2000	11.9	2.9	1.8	8.7	9.9
2001	10.9	3.2	2.2	7.5	8.5

Year	1977	1978	1979	1980	1981
1977	8.5	11.9	8.2	-3.0	0.3
1978	6.3	12.3	8.8	-5.3	-2.3
1979	6.8	12.4	9.4	-5.0	-2.4
1980	10.5	12.5	10.1	-1.8	0.4
1981	12.0	12.7	10.6	-0.6	1.3
1982	9.6	13.2	11.0	-3.2	-1.3
1983	12.2	13.4	11.5	-1.1	0.6
1984	15.4	12.5	10.9	2.6	4.1
1985	16.7	10.7	9.7	5.4	6.4
1986	17.7	9.9	9.2	7.1	7.8
1987	20.1	9.4	8.8	8.8	10.4
1988	18.5	9.0	8.6	8.7	9.1
1989	18.1	8.6	8.5	8.4	8.8
1990	15.7	8.7	8.3	8.4	6.8
1991	14.9	7.9	7.9	8.6	6.5
1992	18.4	8.8	7.0	9.0	8.8
1993	14.9	5.9	6.0	8.5	8.4
1994	14.4	5.4	6.4	8.5	8.5
1995	23.0	5.1	6.3	7.5	7.3
1996	11.0	4.8	4.9	5.9	5.8
1997	9.9	4.4	4.1	5.3	5.6
1998	10.7	4.2	3.4	6.2	7.1
1999	10.8	3.7	2.8	6.7	7.6
2000	10.8	3.2	2.2	7.4	8.4
2001	10.4	3.1	2.3	7.1	7.9

Year	1982	1983	1984	1985	1986
1982	9.8	10.0	7.0	-0.2	2.6
1983	10.5	10.5	7.6	0.0	2.7
1984	10.5	10.6	7.9	-0.1	2.4
1985	12.1	10.8	7.9	1.4	3.9
1986	13.2	10.8	8.2	2.4	4.6
1987	14.2	10.8	6.5	3.3	5.3
1988	12.3	10.6	6.7	1.5	3.9
1989	12.3	10.6	8.9	1.5	3.2
1990	13.0	10.6	8.2	2.2	3.5
1991	13.4	10.3	9.2	2.8	3.8
1992	12.9	9.9	9.0	2.7	3.6
1993	13.5	9.6	8.7	3.6	4.4
1994	14.9	8.8	8.1	5.5	6.3
1995	14.9	7.9	7.5	6.5	6.9
1996	14.3	7.3	7.0	6.5	6.8
1997	14.9	6.8	6.4	7.6	8
1998	14.6	6.5	5.9	7.6	8.2
1999	14.3	6.3	5.8	7.5	8.2
2000	13.2	5.9	5.2	6.9	7.6
2001	12.6	5.5	5.0	6.7	7.2

Year	1977	1978	1979	1980	1981
1977	8.0	9.7	6.2	-1.5	4.7
1978	8.2	10.2	6.8	-1.8	1.3
1979	8.3	10.4	7.3	-1.9	0.9
1980	11.3	10.5	7.7	0.7	3.3
1981	11.8	11.1	8.1	-0.6	3.4
1982	10.8	11.5	8.7	-0.7	1.9
1983	10.0	12.0	9.2	-1.8	0.7
1984	10.3	12.0	9.5	-1.5	0.7
1985	11.9	11.9	9.8	0.0	2.1
1986	13.8	11.6	9.6	2.0	3.6
1987	14.5	11.3	10.0	2.9	4.1
1988	14.5	11.1	10.1	3.1	4.0
1989	16.5	10.5	9.7	5.4	6.2
1990	10.7	8.4	9.1	6.7	7.0
1991	15.9	8.8	8.6	6.5	6.7
1992	16.1	8.2	7.8	7.3	7.7
1993	15.8	7.7	7.3	7.5	7.9
1994	15.5	7.9	6.8	7.6	8.1
1995	13.6	7.0	6.4	6.2	6.8
1996	13.2	6.2	6.0	6.6	6.8
1997	14.7	5.5	5.4	5.7	6.6
1998	13.8	5.0	4.7	6.2	6.5
1999	13.2	4.7	4.3	6.1	8.5
2000	12.8	4.4	4.1	7.9	8.2
2001	11.0	4.3	4.0	6.4	6.7

Year	1987	1988	1989	1990	1991
1987	12.7	9.6	7.2	2.8	5.1
1988	12.3	9.7	7.5	2.4	4.5
1989	12.1	9.8	7.8	2.1	4
1990	13.0	9.5	7.9	2.9	4.7
1991	13.0	9.8	8.0	2.9	4.6
1992	13.0	9.7	8.0	3.0	4.6
1993	11.9	9.5	7.9	2.2	3.7
1994	11.9	9.3	7.8	2.4	3.7
1995	12.3	9.1	7.9	2.6	4.1
1996	12.7	8.6	7.8	3.8	4.5
1997	12.6	8.5	7.8	3.8	4.6
1998	13.0	8.3	7.4	4.3	5.2
1999	14.1	7.7	6.9	5.9	6.7
2000	14.3	6.9	6.3	6.9	7.5
2001	13.6	6.5	6.1	6.7	7.1

Year	1982	1983	1984	1985	1986
1982	12.0	8.9	7.0	2.8	4.7
1983	12.0	8.9	7.0	2.8	4.7
1984	11.8	8.8	7.1	2.8	4.4
1985	12.4	8.7	7.0	3.4	5.0
1986	12.5	8.7	7.1	3.5	5.0
1987	12.7	8.5	7.0	3.9	5.3
1988	11.7	8.4	6.9	3.0	4.5
1989	11.7	8.3	6.8	3.1	4.8
2000	12.3	8.1	6.8	3.9	5.1
2001	12.4	7.8	6.9	4.3	5.1

Year	1997	1998	1999	2000	2001
1997	11.9	8.1	6.3	3.5	5.9
1998	11.8	8.1	6.3	3.4	6.2
1999	11.7	8.0	6.3	3.4	5.1
2000	12.4	7.9	6.3	4.2	5.7
2001	12.3	7.9	6.4	4.1	5.6

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ANNEX D
THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

**SUPERANNUATION LEGISLATION AMENDMENT (SUPERANNUATION
CONTRIBUTIONS TAX) BILL 1997**

EXPLANATORY MEMORANDUM

(Circulated by the authority of the Minister for Finance the Hon John Fahey, MP)

EXTRACT FROM GENERAL OUTLINE

Quote

This Bill includes amendments to nine Commonwealth Acts as a consequence of the *Superannuation Contributions Tax (Assessment and Collection) Act 1997* -**and associated legislation (the surcharge tax legislation) which provides for a tax on employer superannuation contributions for high-income earners.**

The Bill will amend the legislation providing superannuation arrangements for Federal Parliamentarians, the Governor-General, certain Judges and tribunal members, certain Defence Force personnel and Commonwealth civilian employees, in order to ensure that the surcharge tax legislation applies to high income-earning members of those schemes and to provide for reductions in the benefits payable to members of those schemes when a surcharge debt has been paid in respect of them from the relevant scheme;

General Application of the Surcharge

The general surcharge tax legislation requires a superannuation provider (that is, the trustee or administrator of a superannuation fund) to advise the Australian Taxation Office (ATO) each financial year of the surchargeable contributions paid to the scheme for all members of the scheme. (In defined benefits schemes, surchargeable contributions are the product of the notional employer contribution factor applicable to the member and his or her superannuation salary.) The ATO will then advise the provider of any surcharge amounts that are applicable to individual members. **The superannuation provider must pay that amount from the superannuation fund to the ATO and may reduce the member's superannuation account, held in the Fund, accordingly.**

Application of the surcharge to unfunded defined benefits schemes

Where the superannuation scheme is an unfunded defined benefits superannuation scheme, there is no superannuation fund from which to pay the surcharge liability. The surcharge tax legislation provides for the deferral of the payment of the tax where a high income earner is a member of an 'unfunded or partially funded defined benefits scheme. In such cases the surcharge debt will not become payable until the member's benefits become payable, although scheme members are able to make payments to the provider to reduce their surcharge debt at any time.

The provider is required to maintain a surcharge debt account for each scheme member and the member's account will be debited each year with any surcharge amount advised by the ATO. In order to ensure that no advantage is obtained by the deferral of the payment of the surcharge in unfunded or partially funded schemes, interest on the balance of the account, at the 10 year Treasury bond rate, as defined in the surcharge tax legislation, will be added to the surcharge debt on an annual basis. When a benefit becomes payable, the provider must pay the total amount in the surcharge debt account of the member to the ATO before the benefit is paid.

Application of the surcharge to the schemes provided for by legislation

The legislation to be amended provides superannuation arrangements for Commonwealth employees, both civilian and defence, Federal Parliamentarians, certain Tribunal members and the Governor-General.

These arrangements are either unfunded or partially funded defined benefits schemes.

This Bill proposes to amend the relevant legislation to ensure that the surcharge tax legislation applies to all the schemes and to provide for the reduction of benefits payable to, or in respect of, a scheme member when the provider has paid an amount to the ATO equal to the member's surcharge debt. Where the details of the scheme rules are provided for by Trust Deeds, those deeds will also be amended by the relevant Minister.

It is proposed that benefits should not be reduced by more than 15% of the employer-financed component of a benefit accrued after 20 August 1996. In general, trustees will have discretion to allow reductions to be applied in a fair and equitable manner taking various matters into account. This discretion is necessary in cases where actual benefits are considerably more, or less, than the projected benefit on which the surchargeable contributions (and therefore the surcharge tax) has been based.

Unquote