
Preface

On 14 March 2002 the Committee commenced its inquiry 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.

The inquiry had its genesis in responding to community interest in how adequate superannuation would be under the present taxation regime.

The inquiry attracted considerable interest in the community, with the Committee receiving over 150 submissions. The Committee conducted eight public hearings in connection with the inquiry, the last of which was held in the form of a roundtable hearing on 8 October 2002.

One of the main issues arising during the inquiry was the identification of appropriate modelling assumptions to be used when projecting retirement incomes. The Committee was confronted with conflicting modelling advice on what projected retirement incomes could be expected by retirees who have had a full working life with superannuation contributions at the current maximum of nine per cent of wages. The Committee commissioned the Institute of Actuaries of Australia (IAA) to assist with resolving the different modelling outcomes.

A key feature of the IAA report was the identification of replacement rates of pre-retirement income as the most appropriate focus for assessing the adequacy of retirement incomes. Replacement rates are more robust and less subject to distortion by differences in modelling approaches than a dollar level.

The other issues which arose related to:

- The adequacy of superannuation, including:
 - the amount of income that would be needed in retirement;
 - the expenses likely to be incurred in retirement for health and aged care;
 - the levels of superannuation contributions and other measures that could cover expected expenses in retirement;
- The equity of the tax arrangements for superannuation, especially the overall fairness of the taxation regime for superannuation;
- The integration of superannuation with the social security system, including improving the coordination of superannuation with other social security measures; and
- The simplification of the superannuation system, including streamlining the operation of the system and improving member understanding.

The Committee found that:

- The available evidence demonstrates that the current arrangements for superannuation may not provide an adequate income in retirement for most people and that strategies need to be identified to address the shortfall;
- The current taxation treatment of superannuation produces some inequities which need to be addressed;
- The relationship between superannuation and the age pension and other social security measures could be better integrated;
- The superannuation system in Australia is very complex, not easily understood and requires simplification.

The Committee has made a number of recommendations for reform to the superannuation system and related areas. If implemented, the Committee considers that they will assist in improving standards of living in retirement, reduce budget outlays in the longer term, and instil greater confidence in superannuation as a retirement savings vehicle. However, as some of the matters raised in the report have the potential for significant impacts on the budget, the recommendations would have to be viewed in the light of the budget position at the time.

The Committee has also included a number of appendixes in this report which contain useful information about a variety of matters alluded to in the report. This information should be read as part of the report.

The Committee was appreciative of the many people and organisations which took the time to make submissions to the inquiry or to give evidence at the public hearings. In particular, the Committee records its appreciation to those who participated in the roundtable hearing held in Canberra on 8 October 2002.

I commend the report to the Senate.

Senator John Watson
Committee Chair