
Chapter 1

Introduction

Terms of reference for the inquiry

1.1 On 14 March 2002 the Senate agreed to establish the Select Committee on Superannuation. At the same time, the Senate referred the following matter to the Committee for inquiry and report by the last sitting day in September:

The adequacy of the tax arrangements for superannuation and related policy to address the retirement income and aged and health care needs of Australians.

1.2 Because of the breadth and complexity of this inquiry, which required more public hearings than originally envisioned, and the pressures of other concurrent inquiries, including inquiries into five superannuation bills, the Committee sought, and received a number of extensions to its original reporting date.

Background to the inquiry

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

1.4 Superannuation savings are currently taxed at three stages:

- on entry to the particular fund, where a contributions tax of 15 per cent applies on employer contributions and employee pre-tax contributions (commonly known as ‘salary sacrifice’);¹
- on accumulation while in the fund, where a tax of 15 per cent applies to earnings at an effective rate of eight per cent due to the impact of dividend imputation and capital gains tax concessions; and
- on exit from the fund, where a benefits tax applies to lump sums at varying rates, depending upon the amount of the benefit, with a tax-free threshold of \$112,405 (indexed).

1.5 With these taxation measures in place, the Committee sought to establish whether current levels of superannuation would be adequate to provide a reasonable standard of living in retirement for a growing number of years as people live longer.

1 In addition an extra contributions tax, or surcharge, of up 15 per cent applies to those on adjusted taxable incomes over \$90,527.

Conduct of the inquiry

1.6 The inquiry was advertised in the national press - the *Australian Financial Review* on 5 April 2002 and the *Weekend Australian* on 6 April 2002, inviting interested organisations and individuals to lodge submissions. The Committee also wrote to a wide range of interested bodies and prominent individuals advising them of the inquiry and inviting submissions.

1.7 In the advertisement for the inquiry, the Committee indicated that the inquiry would focus on people's standards of living in retirement and the factors which contribute to that – including retirement incomes, contribution levels, and taxation arrangements for superannuation, and meeting the aged and health care needs of Australians.

1.8 The inquiry attracted considerable interest in the community, with the Committee receiving over 150 submissions, many of them supplementary submissions as people and groups provided responses to questions taken on notice at hearings. A list of the submissions received is at **Appendix 1**.

1.9 The Committee held eight public hearings in connection with the inquiry, the last of which was held on the form of a roundtable hearing on 8 October 2002. A list of the public hearings and witnesses who appeared is at **Appendix 2**.

1.10 A list of the documents tabled at the hearings or received as exhibits is at **Appendix 3**.

1.11 During the inquiry, the Committee did not seek to confine itself to examining government policy. Instead, because of the breadth and complexity of the inquiry, it sought to 'look outside the square' to identify issues and possible solutions. In doing this, the Committee drew on a number of resources. These included not only the evidence received during the inquiry, in the form of written submissions, oral evidence, tabled documents and exhibits, but also a variety of research papers, including those presented at the annual colloquium of superannuation researchers held at the University of New South Wales.

Main issues arising in the inquiry

1.12 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 the outcomes that will be provided to 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. The report from the IAA is at **Appendix 4**.

1.13 The other issues which arose related to:

- The adequacy of superannuation, including:

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- 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.

1.14 In Parts II to V, the report addresses each of these issues in turn, together with, in Part VI, some additional issues raised during the inquiry.

1.15 It should be noted that during the inquiry, the Committee also completed inquiries into five superannuation bills, and that a number of the issues which arose in this inquiry were also addressed in the inquiries into the bills. The five bills related to the Government's proposals to:

- introduce quarterly Superannuation Guarantee (SG) contributions by employers;
- reduce the superannuation surcharge rates;
- allow superannuation contributions to be made on behalf of children;
- increase the deduction limit for personal superannuation contributions made by the self-employed;
- increase from 70 to 75 the age up to which working members of superannuation funds can make personal superannuation contributions;
- provide for co-contributions to be made by the Government towards the superannuation of low income earners;
- provide employees with a choice as to which complying fund or account receives the SG contributions made on their behalf by the employer.²

1.16 It should also be noted that this report is one of many Senate Committee and Government initiated inquiries, reports and announcements into various aspects of superannuation. These inquiries, reports and announcements have addressed a wide

2 The five bills were addressed in the following reports: Senate Select Committee on Superannuation, *Report on Taxation Laws Amendment (Superannuation) Bill (No 2) 2002 and Superannuation Guarantee Charge Amendment Bill 2002*, June 2002; Senate Select Committee on Superannuation, *Provisions of the Superannuation (Government Co-contribution for Low Income Earners) Bill 2002 and provisions of the Superannuation Legislation Amendment Bill 2002*, September 2002; Senate Select Committee on Superannuation, *Provisions of the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002*, November 2002.

range of issues. A chronology of superannuation policies, events and inquiries is at **Appendix 15**. A list of the 61 reports and papers presented by the various Senate Select Committees on Superannuation, and Superannuation and Financial Services, from 1991 – 2002, is at **Appendix 16**.

Acknowledgments

1.17 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.