Chapter 13

Simplicity

Introduction

13.1 This chapter examines issues raised during the inquiry in relation to the real and perceived complexity of superannuation in Australia, and avenues for making it simpler and easier to understand. The following issues are considered:

- the legislative and regulatory framework;
- 'grandfathering' arrangements;
- the work test for making voluntary contributions;
- account consolidation; and
- education.

The legislative and regulatory framework

13.2 In its written submission, ASFA argued that it is widely accepted that superannuation and retirement income arrangements need simplification. In particular, ASFA suggested that simplification of tax arrangements relating to superannuation has widespread support in the community, the industry and even amongst elements within the government. In addition, ASFA suggested that there is community unease when most individuals with even modest assets or private retirement income need to consult professional financial advisers. ASFA continued:

> Over the last decade arrangements at the fund level have tended to become more complex rather than less. Each year there have been scores if not hundreds of changes in tax and prudential provisions relating to superannuation. Some of these changes have been relatively minor or technical, but many have been substantive and have been perceived as such by superannuation funds and, when they have been aware of the changes, by the members of funds. …[1]

13.3 ASFA subsequently nominated a number of areas of complexity within the superannuation system. They include:

- the processing of transitional arrangements for older workers;
- changes to the preservation arrangements governing the age at which benefits can be accessed;
- changes to the type of investments a self managed fund can make;

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1 *Submission* 73, ASFA, p. 49.

- the tax and social security consequences of either cashing out, rolling over or purchasing a retirement income product with the benefit; and
- The layering of superannuation taxes, with two levels of taxation at the contributions level, taxes on fund earnings, and multiple rates applying to benefits depending on the age and other circumstances of the member. [2]

13.4 Dr Anderson from ASFA reiterated these concerns in relation to the continuing changing of superannuation legislation at the Canberra roundtable discussion on 8 October 2002:

> One of the things we suffer from all of the time is having a policy land on us, one that is usually rather piecemeal, and then having to look at how we can implement it. We can all think of several examples where the implementation has not been what the industry would have suggested and where, with more and earlier consultation about what the objective was, we probably could have got to a better outcome. I am worried that, with all the talk about simplifying, we will just continue to put little patches over the system—and that means patches over our systems—which are very costly. Putting it mildly, I am dismayed at the kinds of figures that funds give for implementation costs. So, yes, we need to get to simplicity, but government have to actually come to the party and tell us about the initiatives that they want to put in so we can suggest lower cost applications.[3]

13.5 The Committee notes that these views in relation to the real and perceived complexity of the legislative and regulatory superannuation arrangements were reiterated by IFSA in its written submission. IFSA noted:

> The overwhelming complexity, and persistent uncertainty, of the tax treatment of superannuation has significant impacts on confidence and behaviour. IFSA research, released at our 2001 Conference, found that legislative change was a major turn-off to discretionary superannuation. "The government keeps changing the superannuation rules, and will therefore probably continue to do so".[4]

13.6 The Committee also notes the evidence of the Australian Institute of Company Directors (AICD) that the complexity of the system engenders high compliance costs and reduced contributions:

> This complexity has reached the stage that relatively few practitioners are fully cognisant of the whole system's rules and regulations. This complexity acts as a disincentive for people to contribute beyond the required minimum levels.

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2 *Submission* 73, ASFA, pp. 49-50.

3 *Committee Hansard*, 8 October 2002, pp. 727-728.

4 *Submission* 70, IFSA, p. 13.

> A complex system leads to high compliance costs. The compliance costs - other than those relating to prudential regulation and the protection of members' funds - should be minimal.[5]

Committee view – the legislative and regulatory framework

13.7 The Committee discusses elsewhere in this report the complexity of the three-tier superannuation tax regime, and the desirability of rationalising and simplifying the taxation arrangements. Clearly, as highlighted by the parties above, ongoing legislative amendments over the years, especially the increasing tax take out of superannuation, have contributed to reduce public confidence in the current superannuation arrangements.

13.8 The Committee accepts that this lack of confidence in the superannuation taxation arrangements, and expectations of further changes in the future, actively work to discourage individuals from contributing to superannuation beyond the required minimum levels.

13.9 The Committee made significant recommendations for change in the tax treatment of superannuation contributions and benefits in Part III – Equity. If implemented, these recommendations will produce a considerable simplification of the superannuation system.

'Grandfathering' arrangements

13.10 One of the principle causes of complexity in the current superannuation system is the grandfathering of the taxation provisions for superannuation when calculating superannuation entitlements.

13.11 Grandfathering refers to the continued application of superannuation taxation provisions from an earlier time period when calculating current superannuation entitlements, even though those provisions have since been superseded by changes to the legislative or regulatory superannuation framework. The objective is to ensure that no-one is disadvantaged retrospectively by a change to the legislative or regulatory superannuation framework.

13.12 In response to a request from the Committee for information on the 'grandfathering' arrangements for superannuation, the Committee received a supplementary written submission from the ATO in which it described in detail the grandfathered/sunset provisions relating to the taxation of eligible termination payment (ETPs). The ATO noted three important periods in the treatment of ETPs:

a) Pre-1 July 1983: only five per cent of certain lump sum benefits, including superannuation, were included in the recipient's assessable income and taxed at marginal rates.

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5 *Submission* 67, AICD, p. 5.

b) Post-30 June 1983: five per cent of the pre-July 1983 ETPs continued to be assessable at the taxpayer's marginal rate, and the post June 1983 component became fully assessable. The rate of tax payable on the fully assessable amount ranged from 30 per cent, depending on the source of the payment, the eligible service period, and the age of the recipient.

c) Post-30 June 1988: a tax on the earnings of superannuation funds was introduced. This tax meant that superannuation funds, Approved Deposit Funds and life organisations which had previously been virtually free from tax, would be taxed on their earnings. The rate was 15 per cent for funds which complied with the relevant legislation.[6]

13.13 Successive reasonable benefit limit (RBL) and preservation arrangements, which have also been 'grandfathered', add significantly to the complexity of superannuation.

13.14 The ATO's supplementary submission which contains additional details of the grandfathered/sunset provisions relating to the taxation of ETPs and provisions relating to the taxation treatment of RBLs, annuities and pensions is reproduced in **Appendix 13.**

13.15 In its written submission, ASFA noted that a significant source of complexity in the superannuation system is the different tax treatment of superannuation entitlements according to the time period for which the entitlement is attributable. ASFA cited the following examples:

> … under current arrangements benefits attributable to pre-1983 service will need to be separately identified by superannuation funds and employers until the last person with pre-1983 employment has retired or otherwise taken all their superannuation benefit. This may not occur until the year 2030 or even later. Similarly, superannuation funds need to identify for preservation purposes entitlements prior to certain dates so as to draw a distinction between preserved and non-preserved benefits. Again, while Treasury has estimated that the proportion of non-preserved benefits will fall to around 10 per cent of total superannuation assets by 2007 compared to around 65 per cent in 1995 (Rothman, 1997) it will be some decades before funds will be able to do away with this distinction.[7]

13.16 Given the complexity arising from grandfathering of different tax treatments of superannuation, ASFA suggested in its written submission a number of alternatives which would make a break with the past and be conducive to greater simplicity:

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6 *Submission* 148, ATO, Attachment C.

7 *Submission* 73, ASFA, p. 51.

a) A **sunset clause** provides a time limit for the further operation of a concession. This can allow orderly planning and fair treatment of persons close to retirement. The downside for individuals is that if they retire outside the time limit allowed then no concession at all is available. For instance, if a period of five or ten years starting in 2003 were set for access to superannuation benefits under the five per cent assessable arrangements, then those near retirement would not have their retirement arrangements unduly disturbed. Those losing the benefit of the concession would have little objective cause for concern given that it related to employment some 25 or more years earlier. Arguably, the current treatment of superannuation and other benefits even vaguely linked to pre-1983 employment goes beyond what equity strictly requires. Similarly, a sunset clause could apply to non-preserved superannuation benefits, with all benefits becoming preserved in, say, five year's time.

b) **Transition based on age or years until retirement** could work in a similar way. For those aged under 45 or 50, retirement is sufficiently far off that loss of the ability to access previously unpreserved benefits could not be seen as being an undue imposition. Similarly, for such individuals the loss of any pre-1983 employment related concessions in most cases will not involve any substantial amount. If the amount is more substantial then the overall superannuation benefit being received almost certainly will be substantial, with the individual having the capacity to pay a larger amount in benefit tax.

c) Another approach is to **calculate a value of tax benefits at the transition date** and for this to be carried forward in the personal records of the taxpayer, or perhaps recorded in the database used for assessing compliance with the RBLs. While maintaining the value of the concession in nominal terms (or indexed to inflation or average earnings if preferred), this would negate the need for funds to maintain separate records of pre-1983 service and would provide a more transparent valuation of the concession for the individuals concerned. It also would stop the concession flowing to benefits attributable to employment after the transition date, as is often the case to some extent at the moment.

d) **Payment of the accrued tax liability associated with any previously grandfathered concession** as at the transition date also would simplify future record keeping while capping the value of the concession provided. It also would have the advantage, at least from the point of the view of the government, of bringing forward the collection of tax revenues. This might be particularly important if other changes made by the government led to lower tax collections in the immediate future.

e) **Paying a bonus or providing a tax benefit** is an option that may need to be considered if there were a shift from the current system where there is tax on contributions and fund earnings to one where tax was paid only when benefits were received. If grandfathering were to be avoided, allowance would need to be made when benefits were paid under the new arrangements for tax paid on contributions and fund earnings in the period 1988 to the date of implementation of the new arrangements.[8]

13.17 Similar to ASFA, the Australian Bankers' Association (ABA) also proposed in its written submission a number of measures to end grandfathering in conjunction with a shift in taxation of superannuation to the benefit stage. These included:

a) **Sunsetting** — setting a date after which the concessions involved can no longer be claimed. If this were set liberally e.g. five to seven years from announcement, any 'rough justice' would generally be minor and could be ignored or dealt with by exception; and

b) **An age–related cutoff** — removing these concessions for those below a certain age (e.g. 50 years), chosen to be a reasonable number of years of age ahead of the typical retirement age (now around 58 for males).[9]

13.18 However, the ABA argued that these two options do not appear to be suitable for avoiding new grandfathering if taxation of super were to be moved to the 'back end' of the system, as advocated by the ABA. The ABA argued that it would be punitive to apply normal income tax to benefits derived from contributions on which tax had already been paid at the 'front-end' (as well as on earnings along the way), so some transitional provisions would be necessary. Accordingly, the ABA favoured 'crystallising' benefits and crediting them to those concerned, so that grandfathering does not otherwise have to be carried forward in the system. The ABA proposed the following methods to do this:

a) determining for every fund member the value of **tax concession/adjustment entitlements as at a certain date**, and carrying these amounts forward to be applied to their assessment when benefits are ultimately drawn; or

b) determining the member's **tax liability at a certain date**, taking account of grandfathered concessions (i.e. as if their accumulated benefit were drawn at that date) *and paying that liability to government* — possibly in instalments over a (somewhat) extended

8 *Submission* 73, ASFA, pp. 51-52.

9 *Submission* 51, ABA, p. 25.

> period. The new tax system would then apply cleanly to benefits accumulating from contributions after the set date.[10]

13.19 Subsequently, the ABA argued in its written submission that these options to 'crystalise' benefits and credit them to those concerned would lead to tax liabilities for those affected of at least several billion dollars. The ABA suggested that these crystallised amounts could be paid to the Government by superannuation funds over (say) 3–5 years, considerably easing the short–term Budget impacts. The ABA continued:

> ABA is not in a position to provide detailed modelling of the short– and long–term Budget (and other) impacts of such proposals, but estimates of the impacts of specific alternatives could readily be undertaken by the Retirement Income Modelling Unit. Sufficient work has already been done by other experts, however, to demonstrate that substantial simplification by crystallising and ending grandfathering is not 'too hard'; and the short–term Budget impacts can be effectively managed.[11]

13.20 In addition to this evidence from the ABA and ASFA on grandfathering, the Committee notes that IFSA also argued in its written submission for reform of the current grandfathering provisions within the superannuation system:

> There is considerable merit in the idea to remove the daunting complexity, which persists in superannuation because of the grandfathering provisions on earlier concessional treatments. This is an idea that would require much further work, but one worth exploring. For instance, the previous concessional treatment available to an individual could be calculated at a point in time, appropriately indexed to retirement, and retained via a central system such as the RBL system maintained by the ATO. As superannuation funds have at best partial information, it is not sensible or cost-effective to manage this information via funds' member records.[12]

13.21 Mr Stanhope from IFSA reiterated this position at the Canberra roundtable discussion on 8 October 2002:

> I do not know whether you want to take it further but I think there is considerable merit in talking about the possibility of rolling up some of the taxation arrangements and some of the grandfathering. Even if we were not talking about a change in where the tax occurs, if we were to roll up the concessional amounts, fix them and carry them forward in some way, we would simplify the system quite dramatically.[13]

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10 *Submission* 51, ABA, p. 25.

11 *Submission* 51, ABA, pp. 25-26.

12 *Submission* 70, IFSA, p. 13.

13 *Committee Hansard*, 8 October 2002, pp. 725-726.

13.22 The Committee also notes the evidence of Dr FitzGerald during the Canberra roundtable discussion on 8 October 2002 in relation to a transition date for determining the member's tax liability at a certain date, taking account of grandfathered concessions (i.e. as if their accumulated benefit were drawn at that date):

> The proposal that I think holds most promise is … having the assessed tax or part of the assessed tax that would be payable to consolidated revenue as of a certain date, if you were notionally to take all of your benefits out under the old rules at that date, paid in instalments to the budget over the transition period or over a reasonable period of time. This would if not entirely then at least substantially ameliorate the effect on the budget deficit as currently viewed—this is rather a narrow view anyway, since it does not really take a long enough view of the consequences of tax changes of this sort.[14]

13.23 The Committee subsequently raised the difficulty of drawing a so-called 'line in the sand', especially as relates to retrenchment benefits, retirement benefits and so on. In response, Mr Stanhope from IFSA noted that for accumulation funds, it would not be a particularly difficult thing, and that difficulties would only arise in relation to non-accumulation funds. Similarly, Dr FitzGerald commented:

> … doing the calculations is tricky, but that is essentially only for defined benefit funds. Since they are a threatened species outside the public sector, if not already extinct in many parts of the economy, you would think that with cooperation among the governments—who mainly have the schemes where these sorts of complexities arise—you could find solutions in that area and marginalise the remaining areas of problems to a fairly small margin.[15]

Committee view – grandfathering arrangements

13.24 The Committee notes that there are many different 'grandfathered' and sunset provisions applying to ETPs, RBLs, and preservation and that a variety of taxation arrangements apply to annuities and pensions. The Committee accepts that the current 'grandfathering' of different tax treatments of superannuation when calculating benefit entitlements has made the superannuation system significantly more complex for older workers. At present, as an example, the benefits available to fund members with superannuation funds predating the legislative changes of 1983 need to be recalculated on a daily basis to take into account the changing proportion of their superannuation predating 1983.

13.25 The Committee considers that the desire to ensure that changes have no detrimental impact on individuals through the introduction of open-ended 'grandfathering' arrangements has been extensive in Australia in the past, and that this has added to the complexity of superannuation. However, all tax systems must

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14 *Committee Hansard*, 8 October 2002, pp. 695.

15 *Committee Hansard*, 8 October 2002, p. 726.

balance the competing goals of simplicity and equity, and it would undermine the confidence that Australians have in the superannuation system if retrospective changes were made to the detriment of fund members.

13.26 The Committee notes the suggestion made by Dr FizGerald, together with ASFA and the ABA, to determine a superannuation fund member's tax liability at a certain date, taking account of grandfathering concessions (i.e. as if their accumulated benefits were drawn at that date) and paying that liability to the Government – possibly in instalment over a (somewhat) extended period. Under this suggestion, the new tax system would then apply cleanly to benefits accumulating from contributions after the set date - this 'crystallising' of benefits and crediting them to those concerned at a particular date could address the problems created by the large number of 'grandfathered' provisions.

13.27 The Committee notes that under this suggestion, the Government could, as an example, select 30 June 2005 as the transition date for accumulation funds. At that date, the balance of superannuation funds by an individual could be calculated similar to the calculation of the benefit available to a retiree, with subsequent taxation arrangements going forward simply applied to the balance of the fund at 30 June 2005. The Committee notes the evidence of Dr FitzGerald that different arrangements would need to be considered for those in defined benefit schemes.

The work test for making voluntary contributions

13.28 An additional complexity in the superannuation system drawn to the attention of the Committee during the inquiry is the complex arrangements governing who can make a contribution to a superannuation fund. In its written submission, ASFA noted that currently, superannuation contributions are restricted to:

- those who are in the paid labour force;
- those who were in the paid labour force in the last two years;
- those who have been on maternity leave but were employed in the last seven years;
- those with a spouse of the opposite sex who can make contributions on their behalf or whose superannuation entitlement is transferred in part at the time of divorce or separation; and
- some individuals who have reached aged 65 but are still in employment and wish to have contributions made, with amendments to the SIS Regulations and consequential changes to tax legislation to extend this to individuals aged over 70.[16]

13.29 In addition, ASFA noted that the government is also proposing to extend the ability to establish a superannuation account and make contributions to:

16 *Submission* 73, ASFA, pp. 52-53.

- relatives and friends of children making contributions into accounts established by a parent of guardian for a child; and
- single mothers and those in same sex relationships (presumably recipients of artificial insemination) who do not have a link to the paid labour force but have received the Baby Bonus in the previous twelve months (spouse contributions would be available if there were an opposite sex spouse present).[17]

13.30 However, ASFA argued in its written submission that the work test for making voluntary contributions should be removed in the interests of simplicity:

> While a link with employment has traditionally been part of superannuation, the introduction of spouse contributions and the more recent provisions relating to children and recipients of the Baby Bonus have placed greater emphasis on retirement income provision rather than employment. As well, the introduction of compulsory splitting in certain circumstances of superannuation account balances or benefits as proposed by recently introduced amendments to the Family Law Act and the Superannuation Industry Supervision Act further breaks the link between employment and the ability to have contributions made.
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> It could be argued that the occupational link for superannuation is in such disarray that the pretence of maintaining it should be abandoned. Allowing any individual who is in receipt of taxable income to participate in the accumulation phase of superannuation, subject to the age limits and appropriate reasonable benefit limits that apply to other contributors, would both reduce the complexity of current arrangements and improve adequacy. The revenue costs would be very minor because only a relative few with the capacity to contribute now fall outside the current convoluted criteria. Requirements related to involvement in the labour force are confusing and difficult for both members and funds, and increasingly are becoming less relevant in a public policy context.[18]

13.31 The Committee notes that this issue was raised by a number of other parties in their written submissions, including the ABA,[19] the CPA Australia and IFSA. For example, CPA observed in its written submission:

> The employment link with superannuation should be reviewed in order to assess its continued relevance and appropriateness in a society that has seen far reaching changes to demographic and working patterns. The employment nexus of superannuation is gradually being removed with the introduction of spouse contributions, the splitting of superannuation benefits under the Family Law Act reforms and the proposals relating to splitting of contributions and child superannuation.

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17 *Submission* 73, ASFA, pp. 52-53.

18 *Submission* 73, ASFA, p. 53.

19 *Submission* 51, ABA, p. 26.

> CPA Australia considers that the rules that apply to contributions made to superannuation for under 65s should be removed. In this regard there would be no barriers to making contributions to superannuation. There should no longer be a requirement for an employment nexus for the receipt of superannuation contributions by a superannuation fund where the member is under 65.[20]

13.32 Similarly, in its written submission, IFSA noted:

> It seems very few people are now unable to make personal contributions to superannuation, though among these there may be significant groups excluded more by omission than conscious policy. Further expansion of the categories of people able to make contributions in the 2002 Budget heightens the issue.
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> Rather than stating who may not contribute, superannuation regulations contain multiple categories of people who can. This seems to result in complicated systems and costly administrative processes, all of which come at cost to fund members saving for their retirement. All can be traced to the original employment nature of superannuation – the employment nexus.
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> The obvious and simple solution – to remove the employment nexus from personal superannuation contributions – warrants exploration. It would not be difficult to assess who would benefit, who (if anyone) might lose, and to scope the costs and benefits to superannuation fund members, superannuation funds, and retirees. Assessing Commonwealth fiscal cost and benefit might be more involved, but it would allow reasoned consideration of the issue.[21]

13.33 The Committee also notes that this issue was raised at the Canberra roundtable discussion on 8 October 2002. For example, Mr Stanhope from IFSA stated:

> Other suggestions made in our submission were to remove the vast number of categories of people who are not in employment who can contribute. That would leave us with deductible contributions from the employer, deductible contributions from the self-employed and voluntary contributions. A world in which there are only three categories of superannuation contribution would be simpler than the one that we have.[22]

13.34 Similarly, Ms Doyle from AMP stated at the Canberra roundtable discussion on 8 October 2002:

> From the trustee's perspective, if we could remove the work test for voluntary contributions, that would add to simplicity. We were talking today about adequacy, and we touched on the third pillar as being very important, particularly for baby boomers going forward. So we are looking at personal

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20 *Submission* 43, CPA, pp. 7-8.

21 *Submission* 70, IFSA, p. 14.

22 *Committee Hansard*, 8 October 2002, p. 726.

> contributions there. At the moment we have a work related test in order to make those voluntary contributions. If we could remove that test and make it such that anyone can make a superannuation contribution voluntarily, that would help not only from the individual's point of view but also from the trustee's point of view in being responsible for asking, 'Are you actually eligible to make these contributions?' We are putting more pressure on trustees, and that adds to the whole complexity from their point of view and it costs.[23]

Committee view – the work test for making voluntary contributions

13.35 The Committee accepts that work test for making voluntary contributions has added unnecessarily to the complexity of superannuation. The Committee supports the removal of this test.

13.36 The Committee considers that allowing any individual who is in receipt of taxable income to participate in the accumulation phase of superannuation, subject to the age limits and appropriate RBLs that apply to other contributors, would both reduce the complexity of current arrangements and improve adequacy.

Account consolidation

13.37 The Committee notes that the average employee already has three superannuation accounts. In addition, there is currently around $6.8 billion, or an average of $1,600 per person, waiting to be claimed in 'lost' superannuation.

13.38 Given this proliferation of accounts and lost superannuation, DOFA argued in its written submission to the inquiry for reform of choice and portability arrangements:

> Compulsory superannuation, without associated reforms to choice and portability, has increased the number of small superannuation accounts. For example, at end-December 2001, industry superannuation funds held only 8.9 per cent of total superannuation sector assets but had 30.2 per cent of all superannuation accounts (APRA 2002). Superannuation assets per account in industry funds averaged only $6,580.
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> Other things being equal, the greater the number of small accounts held by an individual, the greater the likelihood that these savings will be dissipated at the benefits stage. Choice and portability reforms, when implemented, have the potential to address this risk if employees take up opportunities to consolidate their superannuation accounts. However, it would also depend upon the extent to which these reforms are available to individuals.[24]

13.39 Similarly, in his evidence to the Committee on 8 October 2002, Mr Luke, Chief Executive Officer of Sunsuper, commented:

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23 *Committee Hansard*, 8 October 2002, p. 730.

24 *Submission* 89, DoFA, p. 15.

> We really need to do something about account consolidation, which we talked about before. The fact that people have four or 10 accounts when they are 17 is inefficient and it costs a lot of the money for the system overall. Someone pays for those inefficiencies, so we have to do something to encourage people. For people who have been working in the system for a number of years to have member benefit protection does not make any sense at all. There has to be a time when they do not get it any more or there is some form of forced consolidation. Perhaps that is the way it needs to be done.[25]

13.40 The Committee also notes the written submission of Mr Bob Stephens, Chief Executive Officer of Host Super, that the resources used to operate the Superannuation Holding Account Reserve and Lost Members Register with the ATO could be better used to fund an independent account consolidation service. Mr Stephens suggested that Tax File Numbers are an obvious central identification tool.[26]

13.41 ASFA also advocated in its supplementary written submission more effective and efficient mechanisms for dealing with small superannuation payments and their consolidation.[27] Indeed, Mr/s Sasha Vidler, who made a private submission to the inquiry, advocated fines for funds that do not force consolidation of accounts (presumably within the one fund).[28]

Committee view – account consolidation

13.42 The Committee notes that the Government has recently introduced its choice of fund bill, the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002, and has also released its portability proposals in a discussion paper.[29] The Committee considers that, together, successful implementation of choice and portability may facilitate consolidation of superannuation accounts, however significant barriers to effective consolidation remain, including substantial entry and exit fees in some funds.

13.43 In its report on the Choice of Superannuation Funds Bill,[30] tabled on 12 November 2002, the Committee noted that a considerable proportion of fund members are already able to consolidate their superannuation accounts but don't because of the paperwork involved and/or the exit fees levied on them. The Committee also noted that, as part of the 'Unclaimed Super Recovery Initiative', launched by the Government in October 2002, a number of members have been reunited with their

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25 *Committee Hansard*, 8 October 2002, p. 731.

26 *Submission* 101, Mr Bob Stephens, p. 2.

27 *Submission* 108, ASFA, p. 20.

28 *Submission* 71, Mr/s Sasha Vidler, p. 11.

29 *Portability of Superannuation Benefits, Enhancing the Right of Members to Move Existing Benefits Between Superannuation Entities*, Consultation Paper, September 2002.

30 Senate Select Committee on Superannuation, *Provisions of the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002*, November 2002.

'lost' or 'inactive' accounts. With over $6.8 billion in 'lost' accounts, and an average of $1,600 per account, this important initiative is an encouraging step towards reuniting some 2.7 million Australians with their accounts. The Committee notes that $4.7 million was recovered in the first week of the initiative.

Education

13.44 The Committee notes concerns that the general Australian population lacks sufficient education to make informed decisions in relation to the management of their superannuation.

13.45 For example, in its written submission, IFSA noted that its research, and a wide range of other research, highlights an evident gap in people's knowledge and awareness about saving, superannuation and investment generally. IFSA continued:

> This gap could be addressed by a well targeted campaign to educate people about retirement saving at points in their lives when they would be most likely to absorb, and possibly respond, to new information and understanding. IFSA has long supported the development of measures to help grow a savings culture in Australia.
>
> A well-constructed and targeted education program on these issues could only assist in improving voluntary savings for retirement.[31]

13.46 In relation to a Government-sponsored superannuation education program, the Committee notes the written submission from Mr Bob Stephens, Chief Executive Officer of Host Super. He noted that:

> The development and implementation of a comprehensive education programme should be a key objective. While such a strategy requires industry participation, the central focus must lie with the Government to ensure that is aimed at providing a genuine increase in understanding, not increasing sales.[32]

13.47 In response to this issue, FACS highlighted in its written submission that it provides free information through a number of means:

- a series of information publications for retirees and pre-retirees. The department works with industry bodies, other agencies and community groups in producing these publications;
- the National Information Centre on Retirement Investments Inc (NICRI). NICRI is an independent body funded by the Commonwealth Government to provide the public with free information on these issues; and

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31 *Submission* 70, IFSA, p. 20.

32 *Submission* 101, Mr Bob Stephens, p. 1.

- the Financial Information Service provided by specialist Centrelink officers.[33]

Committee view - education

13.48 In the Committee's opinion, there is clearly a critical need to educate the public on the benefits of superannuation, and the level of incomes they can realistically expect in retirement. In many cases, the Committee notes, individuals may hold unrealistic expectations of the income that will be available to them from superannuation in retirement.

13.49 The Committee notes the evidence of FACS in its written submission that it already provides free information to superannuation fund members through a number of means. In addition, the Committee also notes that as part of the current choice bill before the Parliament, the Government has committed $28.7 million over four years to an education program to inform employers and employees of their rights and obligations under a choice superannuation environment. The Committee notes that $14 million will be spent on education and communication, with the rest allocated to administration and infrastructure within the ATO.

13.50 The Committee welcomes this initiative, together with ASIC's *Consumer Education Strategy 2001-2004*, which includes a commitment to a financial literacy in schools project, to encourage the provision of financial education to children and teenagers through school education.

13.51 However, while the Committee acknowledges that there is a great deal of good work already being done, the Committee considers that there should be more resources allocated by Government agencies to assist people to prepare for retirement. Such resources should be directed towards those still in employment and better means of delivery should be developed.

Recommendation

13.52 **The Committee recommends that more resources be allocated by Government agencies to assist people to prepare for retirement.**

Overall conclusions - simplicity

13.53 The Committee accepts that there are some real and perceived complexities in Australia's superannuation system which need to be addressed in order to streamline the operation of the system and improve individual's understanding of their entitlements.

13.54 Some of these complexities include:

- the ongoing amendments to the legislative framework, specifically relating to transitional arrangements for older workers, the preservation age of benefits, and

33 *Submission* 79, FACS, p. 17.

the tax and social security consequences of either cashing out, rolling over or purchasing a retirement income product;

- the 'grandfathering' of taxation provisions for superannuation when calculating superannuation entitlements;
- the arrangements governing who could make a contribution to a superannuation fund (i.e. the work test for making voluntary contributions);
- the proliferation and loss of monies in superannuation fund accounts; and
- the lack of understanding of superannuation in the Australian population generally.

Recommendation

13.55 **The Committee recommends that the Government consider the matters raised in this report in order to identify ways to make the superannuation system less complex and more comprehensible to the Australian people.**

13.56 The Committee considers that the implementation of its major recommendations in Part III – Equity, together with the suggestions for simplifying the system in Part IV – Simplicity, would significantly reduce the complexity of the superannuation system, enhance member understanding, and assist with the efficient administration of superannuation funds.