
Executive Summary

Adequacy

Identifying and quantifying adequacy

1.1 The Committee found that there is a need to define the meaning of the term ‘adequacy’ of superannuation. In particular, there is a need to establish clearly articulated objectives for Australia’s retirement incomes system, which include targets for representative groups of Australians.

1.2 In order to provide an adequate standard of living in retirement, the Committee notes the high degree of consensus expressed by witnesses at the roundtable that the desirable target for a person on average earnings is a replacement rate of 70-80 per cent of pre-retirement expenditure (which equates to approximately 60-65 per cent of gross pre-retirement income), a target which would need to be higher for those on less than average weekly earnings, and lower for those on high incomes.

1.3 The Committee found that, should this replacement rate be accepted, the available modelling shows that the current arrangements are unlikely to deliver these outcomes, and that other strategies are required to address the anticipated shortfall.

Closing the adequacy gap

1.4 The Committee considers that strategies to close the adequacy gap include more incentives for voluntary contributions, including expanding the government co-contribution concept by raising the threshold and improving coverage to lower to middle income earners, and widening access to superannuation as a savings vehicle by removing the work test for making voluntary contributions, lowering front-end taxes in the long term, providing a cost-effective savings vehicle, and permitting contribution of non superannuation assets to superannuation.

1.5 The Committee considered the evidence in favour of additional compulsory contributions by either employers or employees, but concluded that these could not be supported in the current economic climate.

Factors inhibiting adequacy

1.6 The Committee noted that a number of factors inhibit the effectiveness of the current contributions in delivering adequate retirement incomes, including the impact of front-end taxes, the impact of fees and charges and the impact of rising household debt.

1.7 Although the Committee received no compelling suggestions on how the revenue shortfall could be addressed if front-end taxes were removed or reduced, the Committee favours a gradual move away from front-end taxes. The Committee also

re-emphasises the importance of transparent disclosure up front of fees and charges, and notes that there is a need to monitor the relationship between the effect of household debt and the ability of people to save for retirement.

Baby boomers

1.8 Given that the compulsory superannuation scheme has only been in operation since 1992, the Committee notes that most baby boomers will not have the benefit of a full working life under the compulsory superannuation system and, other savings aside, that their incomes in retirement are likely to fall well short of the consensus target level of 70-80 per cent of pre-retirement expenditure (approximately 60-65 per cent of gross pre-retirement income). The Committee considers that a number of its recommendations for change which apply to the wider community will also assist baby boomers to achieve an adequate income in retirement.

Other adequacy issues

1.9 The Committee notes that there are a number of arrangements which could impact on the adequacy of individuals' or groups' retirement incomes. These include:

- arrangements for the self-employed;
- member protection arrangements; and
- the \$450 SG earnings threshold.

1.10 The Committee has identified in this report a number of strategies to assist people affected by these measures to improve the adequacy of their income in retirement, including examining the extension to the self-employed of the same contribution arrangements that apply to employees, and examining the removal of the \$450 earnings threshold.

1.11 The Committee has also identified strategies to assist women and others with broken work patterns, to achieve an adequate income in retirement.

Equity

1.12 The Committee found that the current taxation arrangements applying to superannuation are not delivering equity to all Australians because of flat rate contributions and earnings taxes and end benefit taxes that encourage lump sums.

1.13 The Committee considers that equity in the superannuation system is best achieved through a whole of life approach to taxation concessions. The Committee suggests that, together with industry, the Government undertake a review of the appropriate benchmark for determining and measuring the impact of superannuation taxation concessions.

1.14 The Committee prefers to gradually move the taxation of superannuation away from the accumulation phase, that is at the front-end, in favour of end benefit taxation. However, not all members of the Committee are attracted to the suggestion

of providing front-end rebates on individual contributions. Instead, the majority of the Committee prefers phasing out the contributions tax in the long term.

1.15 The Committee considers that by implementing the measures outlined in this report, there is scope to improve the ability of individuals, such as women and others with broken working patterns and baby boomers, to increase their retirement incomes.

1.16 The Committee considers that the surcharge is an inefficient tax which is costly to administer. It causes serious inequities for members of defined benefit funds. It also imposes costs on all members, irrespective of whether they are liable to pay the surcharge or not. For this reason, the Committee would prefer to transfer the administration of the surcharge to the ATO and to introduce a maximum 15 per cent cap on employer financed benefits in all defined benefit fund schemes.

1.17 In the context of the Committee's preference to remove or reduce superannuation taxes during the accumulation phase, the Committee considers that lump sum benefit taxes should be adjusted in order to provide for equity through the progressive tax system and to replace revenue lost through any reduction in front-end taxes.

1.18 In addition, the Committee considers that, while the current RBLs should be retained, the annual indexation applicable to the RBL thresholds should be limited.

Integration

1.19 The Committee found that Australia's public and private health and aged care system is well regarded, but, in the light of projected expenditure identified in the *Intergenerational Report* and other reports published in the last decade, the system faces significant challenges in the future as Australia's population ages.

1.20 The Committee believes that the Government could consider a number of strategies to address these challenges, including:

- identifying ways to make savings in health care costs, through further examination of options such as voluntary health insurance through superannuation protocols; and
- monitoring community and residential aged care programs to ensure their effectiveness and sustainability.

1.21 The Committee notes that Australia has a modest universal age pension system which includes targeting through the assets and incomes tests. The Committee also notes that the costs associated with the system are expected to increase in the future, and that strategies need to be identified to deal with this anticipated development.

1.22 To address this, the Committee believes that there are a number of initiatives that the Government could undertake to enhance integration of the three pillars of the retirement income support system in Australia: compulsory employer SG

contributions, voluntary superannuation, and social security measures. Specifically, as discussed in this chapter, the Committee believes the Government should:

- continue to strive for universal and adequate superannuation coverage, with a focus on assisting those who face the greatest challenges in achieving an adequate retirement income – the low and middle income earners;
- review current arrangements for access to the Commonwealth Seniors Health Card scheme to ensure that it focuses on those in greatest need of Government support;
- explore options to encourage workers to remain in the workforce beyond the current superannuation preservation age;
- monitor the uptake of complying annuities, to ensure that they offer an attractive investment option for retirees;
- consider the appropriateness of the current minimum draw-down limits for allocated annuities;
- develop a standard set of rules applying to income streams; and
- develop means by which those who wish to could draw an income stream from their owner-occupied housing assets for retirement income purposes, including health and aged care expenses.

Simplicity

1.23 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.

1.24 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 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.

1.25 The Committee has recommended 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.

1.26 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.

Other issues

1.27 The Committee notes that, in order to improve the safety of superannuation, the Government has recently announced the requirement for all trustees of APRA regulated superannuation funds to obtain a superannuation trustee licence and has proposed a number of other measures designed to provide greater protection of employee retirement savings.

1.28 While the Government's initiative is to be commended, the Committee considers that there are some other issues which the Government should consider in a timely manner to ensure that people have confidence in the superannuation system and that they have adequate savings and incomes in retirement. These include:

- developing alternative savings vehicles, to maximise the potential for increasing national savings and to assist long-term savings for purposes such as health, housing and education;
- considering indexing Commonwealth funds superannuation benefits to the CPI or MTAW, whichever is the higher, to maintain parity with community living standards for Commonwealth public sector and defence force retirees and considering linking the preserved benefit to the fund earning rate, rather than the CPI.

1.29 Finally, 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.

