



AUSTRALIAN
INSTITUTE OF
COMPANY
DIRECTORS

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Professionalism in Directorship

Charter of Superannuation Members' Rights

Supplementary Submission

To

Senate Select Committee on Superannuation

On

Superannuation and standards of living in retirement

9 July 2002

Charter of Superannuation Members' Rights

In response to the Senate Select Committee on Superannuation's Inquiry into Superannuation and Standards of Living in Retirement the Australian Institute of Company Directors (AICD) agrees there is a great deal of concern shared by community, business and government, particularly in the ability of future governments to financially meet the needs of an aging population.

Further the AICD believes that greater community acceptance of superannuation and individuals willingness to invest for their retirement will only occur if the system is simple and consistent.

The AICD's objective is to have an all party endorsed "Charter of Superannuation Members' Rights".

This Charter should:-

1. Recognise that superannuation accumulated today has TWO benefits

- a) **Present contribution to revenue through contributions and earnings tax**
- b) **Future reduction of social security funding**

This recognises the intergenerational funding of social security which currently occurs. Members now fund both current social security benefits and also their retirement benefits in the future.

The benefits of superannuation are reduced by the bringing forward of taxation through contributions and earnings taxes which reduces the need to raise taxes in other areas. Ensuring retirees in the future have sufficient benefits to match their retirement income needs will reduce the requirement for social security funding at that time.

2. Ensure compulsory and voluntary contributions are treated equally both now and in the future

This goes not only to the deductibility of 100% of eligible contributions, but also to accessibility, earnings tax, contributions tax etc.

An additional objective is to ensure that a future government does not decide that compulsory superannuation needs no encouragement and decides to remove part or all of the tax advantages it enjoys.

3. Address simplification of the system around contributions and their regulation

a) Remove the work test entirely for membership and ability to contribute

This simplifies the superannuation regime and addresses the inequality of the position on non-working persons not in a heterosexual "marriage". Thus, either singles or individuals in same sex relationships would be able to make contributions to superannuation in the same way as spouse contributions.

b) Set a maximum age of 70 years, for contribution but not membership of the fund - the latter to remain connected to the full time work test

4. Ensure equity between all individuals

Self employed individuals need to be required to make superannuation guarantee contributions on income earned from employment.

5. Remove the maximum deductibility levels on contributions at all ages

Benefits receivable would still be controlled through Reasonable Benefit Limits. A minimum superannuation guarantee level ensures that all members have a minimal level of superannuation.

6. Guarantee the nexus between earnings tax (including contributions as earnings) and the rebate on benefits taken as income streams

This addresses the argument around the triple taxation of superannuation.

7. Endorse the concept of encouraging individuals accessing their superannuation benefits in the form of retirement income streams

Many of the negative aspects of complying pensions could be addressed by the introduction of "growth" complying pensions, with minimal investment restrictions other than those required to achieve actuarial sign off.

Benefits to members would not be commutable, however to address the disadvantages with regard to estates they could be utilised to continue income streams for other family members or provide a lump sum to the estate, after certain taxes. A set pension, with indexation would be a requirement.

Key steps to a better superannuation tax regime

The AICD advocates:

A. The replacement of the tax deductibility of superannuation contributions by companies and employers by a rebate system

Superannuation contributions would be deductible to employers but be part of an employee's taxable income, taxed at their individual marginal tax rate.

A flat rebate of 30% would apply to all individuals in relation to superannuation contributions made on their behalf by employers or made by themselves out of income. The rebate would be similar to franking credits in that it reduces the tax liability of individuals and if more rebate was available than taxation liability, a refund would be payable.

This advantages lower income earners, making superannuation far more attractive for them. It also makes superannuation simpler.

B. The removal of the superannuation surcharge

This ensures that superannuation remains attractive for higher income earners. Applied in conjunction with "A" above, this is expected to be revenue neutral.

C. An increase to superannuation guarantee contribution

It is generally agreed that a regime of 9% superannuation guarantee contributions is insufficient to provide an acceptable level of retirement income even for those commencing contributions in their early twenties.

To ensure equity between employers and employees it is suggested that the superannuation guarantee be increased progressively and that it be matched by personal - undeducted or non rebateable - contributions at the same rate. The rate of increase in total (50% from employers and 50% from employees) should be 1% per annum, with a maximum to be determined by this Inquiry.

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