



Investment & Financial Services Association Ltd
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30 August 2002

The Secretary
Senate Select Committee on
Superannuation and Financial Services
Parliament House
CANBERRA ACT 2600

Dear Ms Morton

Reference:

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 Investment & Financial Services Association represents Australia's leading investment managers and life insurance companies. Our 100 members hold more than \$670 billion in assets under management on behalf of nine million Australians who have superannuation and managed funds.

IFSA undertook to follow up a number of issues in the public hearings.

BABY BOOMERS – OPTIONS FOR IMPROVING ADEQUACY

A number of suggestions to improve the adequacy of 'baby boomers' retirement incomes were included in our main submission. These are summarised below, with page references to the main submission.

We would comment that, the closer someone is to retirement, obviously the less time there is to make contributions and for compounding of returns on savings. Clearly, money has to come from somewhere – and so these options do not seek to find 'new' money but maximise what someone has available to contribute.

Allow non-super monies into allocated income streams (Sub p15)

- ❑ Currently, non-super money can only be contributed to lifetime or term annuities, which are backed by interest-based investments.
- ❑ Allocated products facilitate capital drawdown – whereas retirees tend to only draw income from other investments

- ❑ This would give access to appropriate tax exemption on earnings in a product retirees prefer

Remove employment nexus on voluntary savings (Sub p14)

- ❑ Few - but significant – groups still are excluded from voluntary superannuation
- ❑ Planners often quote cases of women not in employment who cannot put assets (eg divorce settlement) in to super

Reduce or remove the superannuation surcharge (Sub p 11, 10/7 hearing)

- ❑ Data presented at our first hearing showed that there are many older workers with lower account balances who are paying surcharge.

Remove annual contribution limits (MDCs) (Sub p13)

- ❑ Maximum deductible contribution below age 50 is \$35,318

Recognise Growth Pensions (sub p16)

- ❑ Gives immediate increase in retirement incomes for current retirees
- ❑ Low or no fiscal impact

PROSPECTUS / PRODUCT DISCLOSURE STATEMENTS

A selection was forward to the Secretariat prior to IFSA’s second appearance.

“\$52,800 TAX FREE” INCOME

This amount reflects the income possible given a number of assumptions under current law. We would stress that the amount requires no special or contrived arrangements – it is simply the product of current rules.

The calculation is as follows:

Assumptions:

- Only source of income is from superannuation sourced income streams (ie. superannuation pensions/annuities) which benefit from the 15% offset.
- The income is received equally.
- The retiree couple are eligible to the Senior Australians Tax Offset (SATO).

Calculations:

			Him	Her
	\$	\$	\$	\$
Gross pension/annuity income (ie. \$52,800 combined) – taxable income			<u>26,400</u>	<u>26,400</u>
Gross tax payable			4,300	4,300
Less offsets:				
▪ 15% super sourced income stream offset (26,400 x .15)		3,960		
▪ SATO				
➤ Maximum	1,602			
➤ Reduced due to gross income exceeding threshold (26,400 – 16,306) x .125 (say)				
Tax payable	1,262	340	4,300	4,300
			Nil	Nil

Notes:

1. Medicare levy is payable.
2. If the superannuation income stream was purchased with undeducted purchase price (UPP) components (eg. undeducted contributions) so as to generate some tax free (deductible amount) income, the actual gross income amount that can be received tax free will be further increased.

I trust this information is useful to you.

(Bill Stanhope)

Yours sincerely,
Bill Stanhope
 Senior Policy Manager

ORGN	10 JULY	QUESTIONS ON NOTICE
IFSA P208	CHAIR P237	Discussion of 401K plans (as in America)..... Chair asks " Would you like to take that on notice?" Witness agrees
	SENATOR SHERRY P239	"...What are your average fees and charges? What is your pre-retirement assumption in your projections?" "You can take this question on notice..." Commitment to come back with some more detailed data by witness (p240)
	SENATOR SHERRY P240	"Could you have another look at this issue of the transition problem we have with the baby boom generation and their expectation, and whether we need to do something special for people who are older than 40."
	SENATOR SHERRY P240&241	"Similarly there are issues relating to women.....You might also have a look at the \$52, 800 tax free.....So could you take those issues on notice and give us a bit of feedback....The other thing is fees and charges: could you ask all 75 of your wholesale managers for a copy of all their fees and charges details and send it to the committee before we meet again?" Gilbert gives a commitment P241 to send Committee copy of old key features statements and new PDS for as many as possible.
	SENATOR SHERRY P242	"...one other thing: what was the average balance for non-surchargeable individuals in the example you gave earlier?" Question taken on notice....
	SENATOR HOGG P244&245	Question about managing expectations from retirement incomes....foreshadows wanting to discuss this further "...if you have focus groups that you have met with and you can bring something along that we can discuss on that..."