Australian Consumers' Association

Submission to the Senate Select Committee on Superannuation

Superannuation Guarantee Charge Amendment Bill 2002 and Taxation Laws Amendment (Superannuation) Bill (No. 2) 2002

The Australian Consumers' Association (ACA) is an independent, not-for-profit, non-party-political organisation established in 1959 to provide consumers with information and advice on goods, services, health and personal finances, and to help maintain and enhance the quality of life for consumers. Independent from government and industry, it lobbies and campaigns on behalf of consumers to advance their interests.

ACA welcomes the opportunity to contribute to the work of this Committee in its consideration of the provisions of the Superannuation Guarantee Charge Amendment Bill 2002 and Taxation Laws Amendment (Superannuation) Bill (No. 2) 2002.

The introduction of universal, compulsory superannuation almost a decade ago was one of the most sweeping social and economic reforms introduced to modern Australian society. It has the potential to provide a retirement income scheme which meets the expectations of the increasing number of retiring Australians, and to relieve the pressure on public revenues this expected wave of retirement will generate.

Whether it achieves that potential depends on the ongoing review and reform of the system, to ensure it continues to preserve and grow these savings in the best interests of members. This must entail a broad consideration of the threats to adequacy and safety of these funds, taking the expectations of members, and existing and emerging disincentives to their growth into account.

With the first 'baby boomers' now entering retirement, the decade-old system is experiencing its first tests, and hurdles. While ongoing monitoring of the superannuation system has been conducted over recent years, notably through the work of this Committee in its various incarnations, 2002 marks an unprecedented level of analysis, review and reform of superannuation arrangements.

While favouring a single, comprehensive review with the power to inquire into all areas of superannuation, in much the same way as the Wallis Inquiry into financial services had the power to examine all areas of that important industry, ACA has welcomed the opportunity to contribute to the Mercer Superannuation Working Group's review of superannuation safety, other Federal Government consultative processes, and the work of this Committee.

A strong reform agenda is required to enable superannuation meets the expectations consumers, and community, hold of it. While several provisions contained in the proposed legislation before this committee are welcome reforms to the superannuation system, ACA is concerned at the limited scope of the legislative package, likely limited uptake of some of the measures, and potentially adverse consequences of particular measures.

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The compulsory nature of superannuation sets it apart from other financial services or products. Consumers are required to hold at least one account, into which payments are made by their employer, on their behalf. In most cases, the fund in which the account is held is not chosen by the consumer, and their capacity to enforce any of the rights usually enjoyed by investors is very limited.

ACA believes these factors have the effect of not only increasing consumers' vulnerability to poor practice, but also the onus on government to ensure this vulnerability is not exploited by poor or fraudulent practice. Issues of compliance and cost are frequently raised in debates on superannuation reform, yet is the consumer who ultimately gains or loses from the conclusions reached.

While safety of superannuation is rightly a strong concern, the greatest threat to most consumers' superannuation is not the collapse of their fund, but inadequacy of their payout sum. This submission will highlight some of the key reforms ACA believes are necessary to improve adequacy, and ensure that superannuation not only provides retirement income support, but is able to meet the expectations of the millions of consumers currently foregoing earnings to provide for their post-retirement lives.

It is also crucial that reducing the complexity of superannuation be a key focus of any reforms. Ongoing change can have the undesirable effect of adding to, rather than reducing the complexity which already proves a strong barrier to consumers taking control of their superannuation.

Comments on specific provisions

Surcharge on superannuation contributions

Government must decide whether superannuation primarily a tax-effective investment, or a universal retirement income scheme. ACA believes the original design and intent of the scheme show the latter to be the case. The important challenge for Government is to direct expenditure on superannuation (either in direct spending or foregone revenue) to most efficiently promote this aim.

ACA does not believe the cost of reducing the surcharge, applicable to high-income earners, meets this test. Superannuation is already an attractive tax-effective savings vehicle for high-income earners, who are also better-placed to secure adequate income for their retirement.

Reducing the contributions tax to encourage greater voluntary contributions across all income levels is a more effective way of promoting superannuation as the primary means of providing for adequate retirement incomes for all Australians. Unless contribution levels are increased, either through an increase in the Superannuation Guarantee, or higher levels of voluntary contributions, the aims and expectations of our superannuation system, will not be met.

These high expectations of superannuation should not be discounted. Millions of Australians are foregoing income which could otherwise assist them with contemporary living expenses to provide for a secure and comfortable retirement. This inevitably means a retirement income in excess of the aged pension.

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Australians can expect to live longer – women can expect to live to 86, men to 81. This means Australians can expect an average retirement life of around 15 years. Australians are also indicating a preference for early retirement, with the average intended retirement age currently 59.

Australians are increasingly looking to their superannuation savings to fund their retirement.[1] Recent ANOP polling suggests 88 percent believe they will need at least $20,000 per anum to fund their retirement, and 70 percent at least $30,000. More than 60 percent believe that the rate of 9 percent compulsory contribution will deliver this. They are likely to be disappointed. The Superannuation Guarantee is more likely to deliver an average retirement income of $19,000 per annum, well below expectations.

A commonly recommended level of contribution to superannuation to provide a secure and adequate retirement income is estimated at between 12 and 15 percent, as opposed to the 9 percent mandatory contributions coming into effect on July 1 this year.

Recommendation: That the expenditure allocated to the superannuation surcharge reduction under this Bill be re-directed towards reducing the contributions tax rate, or that the commitment to reducing the surcharge be matched by a commitment to reducing the contributions tax.

Quarterly Contributions

ACA welcomes the move to require quarterly reporting by employers of superannuation contributions made on behalf of their employees. Despite having been in existence for a decade, Australians report low levels of understanding of their superannuation, funds, and how the scheme works. This has worrying implications for safety and adequacy, with employers less likely to be held accountable for the administration of employees' funds where reporting requirements are minimal.

Increasing the reporting requirements is an important step towards enhancing accountability and promoting the vital 'connection' with superannuation that so many Australians currently lack.

However, ACA is concerned that the framing of this measure may exclude some of the most vulnerable employees – part-time, casual or seasonal workers, who stand to lose eligibility for superannuation contributions through the lifting of the minimum wage threshold from $450 per month to $1350 per quarter. Aside from the deeply concerning equity implications of this consequence, it undermines the universality of the superannuation system.

Recommendation: ACA strongly recommends that the monthly threshold be restored to ensure the ongoing eligibility of these workers for superannuation entitlements.

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[1] Rod Cameron, ANOP Research Services Pty Ltd, address to ASFA National Conference, 'It's Time for a Retirement Reality Check', 20 September 2001/, Cairns. p.3, In 1989, when ANOP first conducted its survey of expectations, 51% if respondents (750 people) indicated they expected to receive and aged or veterans' pension. In 2001, that figure had declined to 29%, pp7-8.

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Contributions on behalf of children

The proposal to allow contributions on behalf of children of up to $3000 over a three-year period may provide the opportunity for the early accumulation of funds, though the limited funding available suggests a low take-up of this proposal. In this light, the potential compliance costs for funds present some concerns for consumers, who are likely to ultimately bear those costs in higher fund fees. It would be unfortunate if a proposal ostensibly aimed at increasing member funds has the opposite effect.

ACA is also concerned at the design of the measure, which appears to create a discrepancy between rights of control over super by minors. While employed minors currently have the right to make decisions with respect to the administration of their funds (notably consolidation and investment choice, where available), this measure will deny minors control over funds deposited under it.

Recommendation: That minors benefiting from funds deposited on their behalf under this measure be granted the same rights of control as employed minors of the same age.

I would be happy to discuss any of the matters raised in this submission, and can be contacted on 02 9577 3349.

Yours sincerely

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