

Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (c)

Submission No. 70

Submittor: Mr Reg Hamilton
Manager, Labour Relations
Australian Chamber of Commerce
& Industry
PO Box 18008
Collins Street East
MELBOURNE VIC 8003
 - (03) 9289 5289
 - (03) 9289 5250



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

ACN 008 391 795



28 August 2000

Sue Morton
Secretary
Senate Select Committee on Superannuation
And Financial Services
Parliament House
CANBERRA ACT

Dear Ms.Morton, *Inquiry into Matters Relating to Superannuation
and Financial Services*

Following your request, I sought in the time available to me information which would assist this important inquiry. I hope the following is of assistance.

I attach the ACCI *Retirement Incomes Policy*, which was developed and approved in 1999. This policy forms the basis of our approach to retirement incomes. Overall on administrative issues, ACCI's objective is an efficient, simple, and cost effective delivery of superannuation, and as with all relevant employment and other laws ACCI members support and advise compliance with employer obligations.

First of all, you will note that in paragraph 8 we deal with management and administration of superannuation and retirement savings funds. We suggest that the management and administration of funds will be improved by among other things requiring more frequent period payments of superannuation contributions by employers. Legislation currently requires that compulsory employer contributions only be paid once a year, which has led to a range of difficulties for employers and employees. Making payments more frequent, eg. by requiring a periodic payment to be made every quarter, may provide greater security for employees while removing some of the administrative difficulties faced by employers. ACCI would not however support a universal requirement of monthly payments, which itself



would probably add unnecessarily to the administrative burden for many employers.

Secondly, another way of easing administration would be for there to be an employer option to transmit *Superannuation Guarantee Charge* data electronically to superannuation providers, so that all parties meet their obligations to provide investor details and payment in a manner that facilitates compliance. We understand that the superannuation industry and payroll providers are currently working on a transfer protocol to advance this key issue. We endorse that work as a constructive contribution to efficiency of administration.

Thirdly, we understand that under the *Superannuation Guarantee Charge* legislation the Australian Taxation Office (ATO) has no discretion to waive penalties under that legislation, so that an employer could be one day late with a good reason for lateness, and would still be liable for the SG levy. We respectfully submit that the ATO needs this discretion.

Fourthly, ACCI respectfully submits that there should be a qualifying period of for example twelve months before employer obligations to provide contributions with respect to non-residents came into operation. The current position leads to the situation where most or virtually all of the payments made by employers with respect to short term residents provide no contribution at all to their retirement incomes. If the purpose of these contributions is to provide for retirement incomes with respect to these persons then the purpose is not being achieved, and yet substantial labour costs are still being incurred by employers. This is an unsatisfactory situation.

Fifthly, on the issue of the possible role of education, there are it appears some difficulties being experienced by employers in for example ascertaining in practice which payments made to employees are required to be used for calculating the superannuation percentage and which should not be. Some education on such matters might play a useful role, particularly for small business.

Finally, we are not aware of the full range of evidence and material before the Committee, and which the Committee has to assess and make recommendations with respect to. Employers face a difficult task in complying with a wide range of legal obligations, while still dealing with the

r0082412



often enormous competitive pressures that running a business involves. This Committee will as always we assume take a careful and balanced approach in assessing submissions, and have regard to the need not to increase the administrative burden on businesses.

Yours faithfully,

A handwritten signature in cursive script that reads 'Reg Hamilton'.

Reg Hamilton

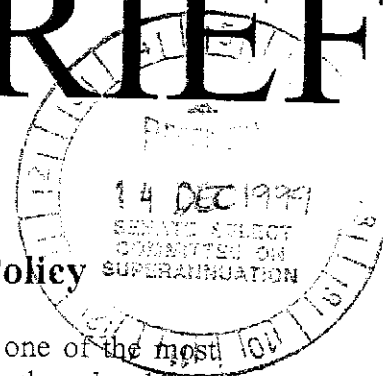
Manager, Labour Relations

r0082412

POLICY BRIEF

Retirement Incomes

Principles of Retirement Incomes And Savings Policy



Developing a new approach to retirement incomes and savings is one of the most important policy issues facing Australia, in common with most other developed countries.

The considerations involved in determining an appropriate retirement incomes and savings policy are extremely complex and interwoven. It is essential that retirement incomes and savings policies are thoughtfully developed, comprehensive and designed to achieve strategic, long-term objectives. Many policy changes made to date have unfortunately been piecemeal and ad hoc. This approach to Australia's retirement incomes and savings system has been unsatisfactory.

Successive governments have already recognised that significant change is needed if the retirement incomes system is to be able to meet future needs, be fair, sustainable, and compatible with our social goals. It is unfortunate that this recognition has not been translated into determined and significant policy reform.

The changing economic, social and demographic environment provides an imperative for reform of current policies. In summary the key features of that environment are:-

1. Major population and labour force change. The ageing of the population means that the proportion of retirees will continue to increase substantially and the demand for pensions, health care and aged care will also increase. In 1976 Australia had 1.3 million people over the age of 65 years - 9 per cent of the population. By 2016 it will be 16 per cent or 3.6 million people. In addition labour force participants are spending less time in the workforce, and are less likely to be full-time employees - resulting in more pressures on the existing system. The tax base will come under greater pressure as Australia's age dependency ratio (the ratio of those of working age compared to those not of working age) declines.
2. Consequently, the sustainability of the current system of superannuation, tax funded pensions and subsidised aged care is in question. This is particularly significant, given that 83 per cent of Australians over 65 currently rely, to some degree at least, on the pension or an equivalent government payment.

3. The level of household savings in Australia has been dropping steadily for 20 years and shows no sign of recovery. Compared with many overseas nations, our level of household savings is low. This is reducing the level of domestic capital available for investment, forcing increased borrowing from overseas, and having an adverse impact on our international competitiveness. New initiatives are necessary to help restore domestic savings to an acceptable level.
4. Taxation treatment of superannuation in Australia is complex and heavy-handed. The system is difficult to administer and savings are taxed at all three levels: contribution, accumulation and withdrawal. Present taxation arrangements do not do enough to encourage people to invest in superannuation.
5. The Superannuation Guarantee legislation, which requires Australian employers to accept partial responsibility for retirement incomes, has had an adverse effect on voluntary schemes. Employers should be encouraged to contribute their fair share towards Australia's superannuation needs and it should also be remembered that, at present and historically, employers have voluntarily contributed to superannuation on behalf of their employees. However this must be balanced by appropriate contributions from both Government and employees themselves. A system which places onerous obligations on employers will produce negative economic effects in areas such as employment.
6. Ad hoc changes continue to be made to the superannuation system by governments of varying political persuasions. The complexity of the system is discouraging increased voluntary contributions to superannuation; as such it has a detrimental effect on efforts to increase the level of household savings.
7. Many other countries are experiencing an ageing of the population and similar problems. Retirement incomes and savings reforms are being considered or have been taking place throughout OECD countries. Australia must accept that, unless it engages in a process of reform, it runs the risk of being saddled with an out-of-date retirement incomes and savings system in the next century. This will hamper Australia's future social and economic wellbeing.

Policy Objectives

The major policy objective must be to bring about fundamental change in Australia's system of retirement incomes and savings. Change must be directed towards the goal of providing all Australians with the fairest and most sustainable system of retirement incomes and savings, consistent with the constraints of prudent economic management.



The guiding principles that will lead to the achievement of these objectives are:

- Consistent and comprehensive policies: long-term objectives and strategies should be developed and adhered to. Short-sighted and opportunistic policy changes must be avoided;
- Any policy must have two fundamental aims. The first is restraint in the level of public expenditure on retirement incomes in recognition that the ageing of the population places significant strains on the social security purse. The second is raising the level of national savings;
- Employers must not be forced to accept an inordinate amount of the cost of retirement incomes; to do so would cost jobs and reduce investment, which would put pressure on resources in other parts of the social security budget and on the economy. Placing onerous obligations on employers must therefore be rejected as being counter-productive to the fundamental aims of the policy;
- All initiatives for change must be directed towards developing policies which are sustainable in the long term. Consistent with this approach, individuals must be encouraged to save for their own retirement with confidence in the stability of the system. Haphazard change represents a disincentive for individuals who may wish to contribute more for their own retirement needs;
- Taxation of retirement income savings should be simple to understand and consistent. The system must encourage and reward saving. Retirement savings must not be treated as a current revenue device for government via excessive taxation burdens. This does not assist in creating a greater pool of savings for Australia's long-term needs; it simply shifts the burden of savings back towards the public sector.

The Policy Framework

Australia's system of retirement savings is based on a multi-pillared approach that includes government funded pensions, compulsory superannuation and voluntary savings. This three pillar approach is an appropriate way of achieving retirement incomes and savings policy objectives. It should be retained, whilst reforming aspects that discourage saving and/or are inconsistent with fundamental policy objectives.

A policy framework, driven by the guiding principles explained above, is set out below:

1. **Access to tax funded pensions should ensure that funds drawn from tax revenue are directed towards those most in need. In other words, legislators should ensure that taxation revenue being directed into retirement incomes is spent as effectively as possible**



and encourages people to prepare and save for their own retirement.

The question is not whether public moneys should be spent, but rather how to spend them most effectively. Means testing is a necessary part of such a system and should be conducted in such a way as to ensure that individuals are not discouraged from saving for self-funded retirement. Public moneys should aim to fulfill social obligations to those in need, who do not have the resources to provide for themselves in retirement.

A system of means testing should not result in those who did not save for their own retirement getting the same amount as those who did. Saving for retirement must be rewarded. However, at a certain level of wealth it is appropriate for access to public funds to be restricted, consistent with the intention of directing public moneys towards those most in need.

The demographic scenario described above means that it is essential that individuals are encouraged to fund their own retirement to the greatest extent possible. The more individuals are encouraged to save for their own retirement, the better off they and the economy will be.

2. If compulsory employer contributions are to continue, they must be supplemented by compulsory employee contributions.

Governments have periodically recognised the necessity of introducing compulsory employee contributions. Lamentably, short-term political considerations have been allowed to thwart significant economic and social policy objectives. Compulsory employee contributions are clearly necessary to extend and provide balance in the sources of superannuation contributions.

3. Further means of encouraging ongoing employment or gradual retirement past the retirement age should be introduced.

The tax system should not discourage individuals from working after the pensionable age is reached. A special tax schedule for persons over the pensionable age should be established to provide an incentive for individuals to remain in the workforce. This tax schedule should take into account a 'minimum retirement income' so that income earned is in addition to official retirement income rather than in place of it. However such an approach must apply to an individual's retirement savings rather than government funded benefits. Moneys earned after retirement should not eliminate entitlement to government funded benefits where such an entitlement existed; entitlements must be offset progressively.

The 'Pension Bonus Scheme' that has operated since July 1998 is an example of a way to reward individuals who choose to partly fund their retirement through

continuing to work. However the Bonus Scheme must be modified and made more attractive if it is to provide sufficient incentive for individuals to stay in the workforce. The Swiss system is another example of how an individual can earn a 'partial pension' and have this supplemented by income earned through part-time work. Such a system assists in reducing the financial burden government faces.

4. Regulations should discourage tax funded early retirement.

Consistent with the principles outlined in the preceding point, disincentives for workers to remain in the labour force after a certain age must be eliminated. This will only occur if tax-funded early retirement is made less attractive.

The issue of discouragement has been partly addressed in recent legislation which has changed the preservation law to ensure that future superannuation contributions are preserved until retirement and to raise the retirement age at which benefits can be taken. In addition to this, the simplest means of discouraging tax-funded early retirement is to establish a system that discounts eligible government benefits for the years before the official eligibility age to an extent that early retirement based on social security payments is unattractive. If such a system were implemented together with the changes in preservation rules and an increase in the retirement age rules, early retirement should become less attractive.

5. Choice of funds.

Choice is an important element of a sound retirement incomes system. ACCI supports the principle of fund choice in superannuation subject to the establishment of satisfactory mechanisms to ease the administrative burden on employers and provided the legislation to implement choice has appropriate safeguards to protect employers from litigation arising out of the transition to a choice regime.

Any choice of funds policy should possess the following characteristics:

- It must minimise the compliance burden for business in implementing choice arrangements;
- It must give employers an opportunity to choose the most appropriate arrangements, including:
 - i. choice of five or fewer funds with arrangements properly drafted to protect employers against liability and to minimise the employer role and responsibilities;
 - ii. unlimited employee choice, with no employer role except to pay to a fund as specified by the employee;
 - iii. determining choice of fund arrangements through a statutory common law workplace agreement;



- the special problems raised by Defined Benefit Schemes require that they be exempted from the choice legislation;
- There should be a statutory protection against employer liability;
- Notional earnings bases must be retained in awards, and superannuation removed, and
- Employers and employees must be adequately informed and educated on the new rules.

6. In principle, the system should encourage income streams as opposed to lump sum payments.

Income streams must be encouraged in order to assist national savings and avoid the undesirable social consequences that can be caused by unwise financial choices being made on receipt of a lump sum for retirement. It is much easier to design a comprehensive tax and social security system when individuals only have access to an income stream form of payment.

7. There should be minimal exemptions from coverage of compulsory superannuation.

A significant lift in the coverage of compulsory and voluntary superannuation contributions could be achieved by ensuring that the self-employed and those who work casually or part-time are brought within the compulsory pillar when they earn above a certain income band, and that individuals who do not work but who have the capacity to invest (e.g. spouses not in work) are encouraged to invest in superannuation.

In principle, no group of people, no matter what their source of income, should be exempted from the superannuation system. The self-employed and those relying on business and investment income should be included in the compulsory pillar where possible.

8. The management and administration of superannuation and retirement savings funds must be transparent, efficient and cost effective. Competition will assist in the achievement of these objectives.

For the greatest benefits to be obtained from a retirement incomes policy it is necessary that retirement incomes funds be operated in the most cost effective way possible. In particular the administration and management of these funds must be efficient, must avoid excessive charges on contributors' funds and must enable the tracking of lost members, using technology to reduce imposts on employers. It is important that the governance and administration of funds be conducted in a manner

that allows for transparency and member scrutiny. Review and evaluation arrangements must be improved. By the same token, excessive regulation of funds should be avoided. The introduction of competition is the most efficient way of achieving these objectives and maximising the efficiency and accountability of schemes.

The management and administration of funds will also be improved by requiring more frequent period payments of superannuation contributions by employers. Legislation currently requires that compulsory employer contributions only be paid once a year, which has led to a range of difficulties for employers and employees. Making payments more frequent, e.g. by requiring a periodic payment to be made every quarter, may provide greater security for employees whilst removing some of the administrative difficulties faced by employers.

9. The taxation of retirement savings must be aimed at encouraging private contributions - not maximising current taxation revenue.

If Australia is to achieve the retirement incomes and savings policy objectives outlined above, a strategic, long-term approach must be taken to the taxation of retirement income. Taxation measures applied as part of a retirement incomes policy must adopt the following aims:

- (a) maximising retirement savings;
- (b) encouraging private contributions for all members of the community;
- (c) setting taxation at levels which do not inhibit a fund's capacity to grow;
- (d) minimising the compliance costs for business.