

## Summary of ASFA September 2009 submission to the Henry Review

This third and final submission by ASFA to the Henry Panel responds to specific conclusions and recommendations made in the Panel's interim report on retirement incomes. The submission argues that the interim report was a largely wasted opportunity to set out a strategic vision for retirement incomes in the future.

In particular, the submission:

- Maps out a range of ASFA findings and arguments that are at odds with the interim report. Specific attention is given to how OECD, ASFA and indeed Harmer Review modelling indicates that current superannuation settings will not deliver acceptable retirement incomes for the bulk of the population. The submission at pages 5 to 7 demonstrates that contributions of 12% or more generally will be needed. Even on the basis of Treasury modelling only 2% to 3% of retirees are expected to have retirement incomes in excess of \$40,000 a year even when the SG system is fully mature. For a person on average earnings a retirement income of only \$24,500 a year is projected.
- Addresses the impact of higher superannuation contributions on disposable income in the pre-retirement period, particularly for low to middle income earners (pages 8 to 9). The interim report implied that higher contributions are not affordable for these individuals. However, ASFA calculations indicate the additional contributions are very affordable. For a person on average earnings an additional 1% going into superannuation leads to a reduction in disposable income of only \$411 a year, around \$7.90 a week. For a person on median income the reduction in disposable income is just \$5.90 a week.
- Describes how the Commonwealth Corporations and Taxation powers could be used to set up effective and efficient soft compulsion arrangements where individuals would make additional superannuation contributions unless they opted out (page 9). The submission points out that opinion polling indicates that 78% of the community support soft compulsion for additional super contributions.
- Provides commentary on why savings outside superannuation generally represent a less desirable outcome for both government and the community (pages 13 to 14). ASFA's analysis indicates that given there is no preservation requirement for savings outside superannuation, a tax concession for such savings would amount to no more than a subsidy for current consumption and/or would encourage funds to flow to risky or inappropriate forms of savings.
- Points to how tax inequities for low and middle income earners could be addressed by providing a tax rebate for the 15% contributions tax faced by low income earners and by an expansion of the co-contribution to better cover middle income earners (page 13). That said, the paper demonstrates that when both superannuation tax concessions and receipt of the Age Pension are taken into account, the retirement income system is remarkably equitable across income deciles 1 to 10.
- Provides detailed arguments on why the compulsory system should cover the self employed (pages 9 to 11). The submission provides evidence that a substantial proportion of the self employed do not make adequate provision for their retirement, and that compulsory contributions for the self employed apply in most developed countries. Australian is the odd country out rather than the role model for others. The submission also provides legislative and practical details of how compulsory coverage of the self employed could be implemented.
- Provides detailed arguments on why the SG threshold of earnings of \$450 a month should be abolished (page 12). For a person earning \$300 a month in a job, they would get an additional \$81 a month, and many such persons hold multiple such jobs. The administrative costs of abolishing the threshold would be low for employers and would be low relative to the contributions for those benefitting. Some 200,000 to 300,000 persons, mostly women, would benefit.

- Analyses the equity of current superannuation tax concessions (pages 15 to 19). ASFA sets out recent research indicating that current tax concessions are broadly equitable when considered on a whole of life basis and when receipt of the Age Pension by those on lower incomes is taken into account. The problems associated with very tight caps on contributions in a given year and/or taxation of contributions at higher than current rates are also identified. Further tightening of the contribution caps or taxing contributions at personal income tax rates would involve equity and practical problems even greater than those involved in the superannuation contributions surcharge. ABS figures indicates that of the 1.25 million persons making salary sacrifice contributions in 2007, only around 30% have superannuation account balances in excess of \$150,000. Over 60% of those making salary sacrifice contributions are aged over 45, and they are likely to be trying to catch up on their savings.
- Responds to suggestions that the preservation age should be increased to the entitlement age for the Age Pension (pages 19 to 20). ASFA does not support such an increase as it would disadvantage those people who have worked in physically demanding jobs and are unable to keep working, and people who need to retire due to health or care responsibilities. Currently some 400,000 Australians aged 55 to 64 are drawing on superannuation. The great bulk of those recipients are either not in the labour force or are unemployed. Raising the preservation age will not create jobs for those individuals or increase their capacity to undertake paid employment.
- Points out changes to government policies which would lead to better post-retirement policies (pages 20 to 21). ASFA recommends that both income tax rulings and SIS regulations be amended, and consideration be given to social security means test concessions for individuals who take out products providing longevity cover. Reasons for the current Australian post-retirement market not being as developed as it could be are explored. ASFA notes that allowing access to lump sums provides flexibility for events outside normal retirement income needs. Such flexibility is likely to be a necessary feature of the retirement income system. However, there could be a role for government incentives encouraging the take-up of “new generation” retirement products which help share the financial risks of longevity.

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