

# ASFA Pre-Budget Submission for the October 2022 Budget

September 2022



ASFA is a non-profit, non-partisan national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its \$3.3 trillion in retirement savings.

Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 17 million Australians with superannuation.

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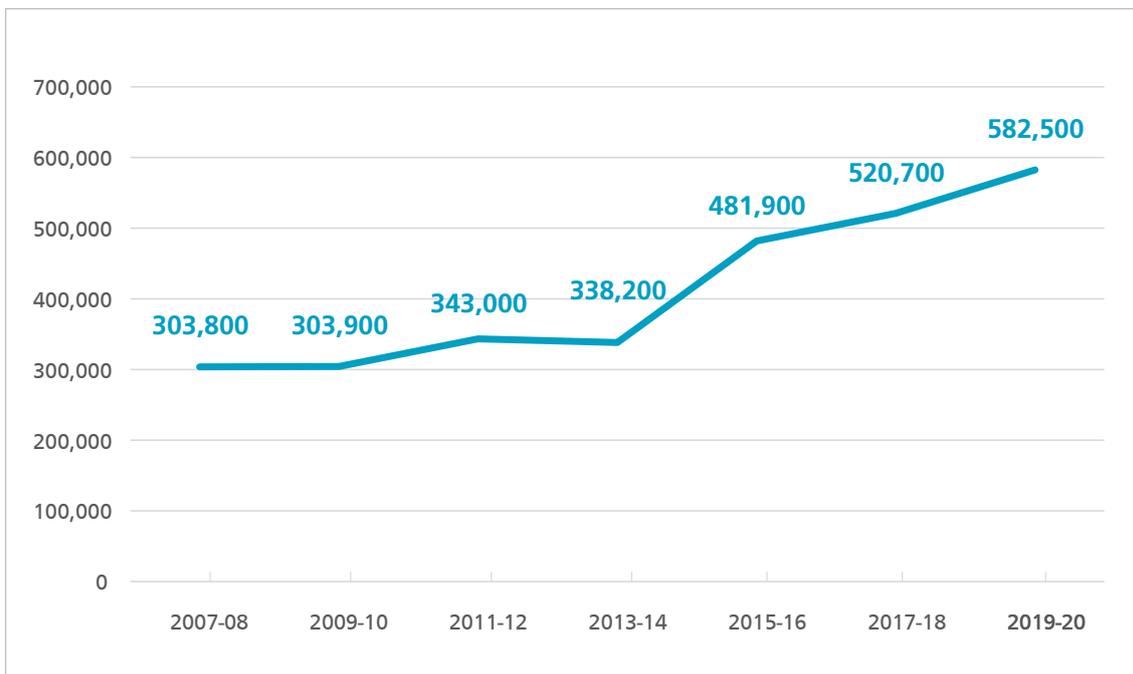
# Overview

The Superannuation Guarantee (SG) system is 30 years old this year and getting to the stage where at least some retired Australians have benefitted from SG contributions for much or all of their working life. It is delivering better retirement outcomes for Australians, and is also having a positive impact on the whole economy.

With respect to individual's retirement prospects, the compulsory superannuation system underpins higher standards of living in retirement than otherwise would be the case.

For workers on low incomes, compulsory superannuation allows the accumulation of superannuation balances that can make a material difference to their standard of living in retirement and ensures that it is better than on the Age Pension alone.

## Number of households mainly dependent on superannuation income



Source: ABS, *Household Income and Wealth*, 2019-20.

Only around 40 per cent of those currently aged between 66 and 70 receive the Age Pension indicating the success of compulsory superannuation in both boosting retirement incomes and containing the Age Pension bill for the government. The figure is well down on the 80 per cent of new retirees in 1990 who received the Age Pension and the 60 per cent of new retirees in 2012 who received the Age Pension.

In 2020-21 superannuation funds paid out \$59 billion in pension payments from 2.0 million pension accounts, compared to a total of \$53 billion paid by the Government to 2.6 million Age Pensioners.

As well as improving retirement incomes and taking pressure off the Commonwealth's finances, compulsory superannuation has broader positive impacts on the Australian economy. Compulsory superannuation has led to higher levels of national saving than otherwise would be the case. Higher levels of national saving facilitate and support higher levels of fixed capital investment in the Australian economy, which in turn results in a larger capital stock and productive capacity. Ultimately, this means higher levels of GDP, higher levels of aggregate productivity and higher living standards for the broader Australian population.

However, retirement outcomes between the cohorts of men and women still differ. When the SG rate increases as legislated to 12 per cent, male workers who enter the workforce today and earn median wages throughout their career would be expected to reach a balance (at retirement) that is consistent with the ASFA Comfortable Retirement Standard (currently \$545,000). In contrast, female workers who earn median (female) wages would be around \$100,000 shy of this.

The submission has adopted the following framework for recommendations relating to the October 2022 Budget:

- The overall package of recommendations needs to have a positive impact on Budget outcomes given the need for Budget repair
- Equity issues should be at the forefront, with measures needing to improve the position of those on low incomes, especially women and indigenous Australians
- Any changes to the superannuation policy settings should either improve or have no adverse impact on the retirement income of the average Australian
- Any policy changes should not involve any undue compliance or administrative burden on individuals, funds or government departments.

This submission puts forward a number of suggested policy changes that would go some way to addressing the imbalance of outcomes between men and women and more generally to improve retirement outcomes for those on low incomes and/or who have time out of the paid labour force.

The submission also makes a number of recommendations in regard to limiting superannuation tax concessions that flow to those on high incomes and/or with very high superannuation balances in order to improve equity and to assist in the financing of additional assistance for low-income earners and for those with relatively low superannuation balances.

ASFA appreciates that there is a need for Budget repair. Accordingly the package of recommendations being put forward would have a positive net impact on the Budget. They would also improve the budgetary situation as the Australian population structure ages as they would lead to greater self funding of retirement incomes in the years ahead.

The submission also points to policy changes that would lead to more Australians receiving the superannuation contributions that they are legally entitled to.

The following recommendations if adopted by the Government would lead to better retirement outcomes for Australians and would also strengthen the Australian economy through increased investments by superannuation funds and improved Budget outcomes.

# Paying the Superannuation Guarantee at the same time as wages

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## Background

The Australian Taxation Office (ATO) has indicated that in 2018-19 (the latest year for which data are available) there was a \$2.4 billion shortfall in Superannuation Guarantee (SG) payment by employers. The ATO has also indicated that in 2020-21 it issued \$1.63 billion in SG charges with \$1.39 billion collected.

Recent changes to reporting requirements for employers and superannuation funds has given the ATO greater visibility into unpaid employer contributions. However, a recent Australian Audit Office report has indicated more work needs to be done to address SG non-compliance.

Many employers already align payment of SG with wages or pay more frequently than quarterly. ATO data indicates that in 2020-21 around 38 per cent of employers paid SG contributions more regularly than quarterly. However, large employers tend to pay contributions more frequently than small employers with over 78 per cent of contributions paid more frequently than quarterly. Over 25 per cent of contributions are made at least fortnightly. There are around 7,200 large employers, around 140,000 small to medium employers and around 574,000 micro employers.

## Addressing the problem

Requiring employers to pay SG contributions at the same time as wages (or at the very least more frequently than quarterly) would make it easier for employees to monitor the SG compliance of their employer and for the ATO to compare superannuation payments with wage payments. It would also limit build-up of SG liabilities of employers. In effect, the policy change would reduce the terms of payment on SG liabilities from up to four months to potentially one week in some cases.

Standard payroll systems should be able to easily accommodate such changes to payment arrangements without incurring any significant increased transaction costs. All employers now make use of Single Touch Payroll (STP). With STP, employers report employees' payroll information to the ATO each time they pay them through STP-enabled software. Payroll information includes salaries and wages, pay as you go (PAYG) withholding and superannuation. SuperStream together with the Small Business Superannuation Clearing House provides low cost or free mechanisms for making superannuation contributions. The abolition of the \$450 a month threshold for making SG payments also has removed another barrier to paying SG at the same time as wages.

A change to the time of payment of SG would have some implications for businesses, particularly small businesses. There would also be implications for the pattern of taxation receipts during the introduction of such a policy given that tax at the rate of 15 per cent is paid by funds on employer contributions with employer contributions deductible at the employer's marginal tax rate. However, once introduced such a change would be neutral in terms of tax revenue for the Budget.

### **Transitional treatment of small businesses**

For some businesses the transition to paying SG at the same time as wages could have a noticeable impact on cashflows. For this reason consideration could be given to small businesses being given additional time to move to paying SG at the same time as wages.

It is recommended that large businesses be required to pay SG at the same time as wages from 1 July 2023 and that this requirement apply to small businesses no later than 1 July 2024.

The ATO also could be given the power to require a small or medium employer to make SG contributions at least fortnightly if there was evidence of non-compliance by such an employer in regard to SG payments.

#### **RECOMMENDATION 1:**

ASFA recommends that arrangements should be put in place to require employers from 1 July 2023 to make SG payments at the same time as wages. If considered appropriate, small businesses could be provided with up to an additional year to transition to the new arrangement.

# Review the treatment of superannuation payments owed by insolvent employers

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## Background

The Fair Entitlements Guarantee (FEG) provides for the Commonwealth to pay an 'advance' on certain unpaid 'employment entitlements' in cases where an individual's employment ended in circumstances connected with the insolvency or bankruptcy of their employer, and the individual cannot obtain payment of their entitlements from other sources. However, the types of 'employee entitlements' currently covered by the FEG are limited and do not include unpaid superannuation contributions. There have been a number of recent high profile cases, including restaurant groups, where businesses have become insolvent and there are unpaid superannuation contributions.

From the perspective of employees, unpaid compulsory superannuation contributions are equivalent to unpaid wages. They are part of an employee's remuneration and are vital for achieving dignity in retirement. Without government assistance in regard to unpaid superannuation contributions due to employer insolvency many Australian employees will have a substantial shortfall in their superannuation savings and lifestyle in retirement.

The ATO has indicated that in 2018-19 (the latest year for which data are available) there was a \$2.4 billion shortfall in SG payment by employers. The ATO also has indicated that in 2020-21 it issued \$1.6 billion in SG charges with \$1 billion collected. While a significant proportion of the SG shortfall is owed by employers who are able to pay, a substantial amount of unpaid SG relates to employers which are insolvent or bankrupt.

## Addressing the problem

While recent changes to reporting requirements for employers and superannuation funds gives greater visibility for the ATO to unpaid employer contributions, and greater attention is being given to contributions in arrears, it is likely that there will be continuing cases where there are unpaid contributions when businesses become insolvent. In ASFA's view, there is merit in reviewing the treatment of unpaid SG entitlements in insolvency/bankruptcy, with the objective of considering how to achieve the maximum possible recovery on behalf of affected employees.

It suggests that unpaid superannuation should be treated the same way for the purposes of the FEG as unpaid wages as both make up the remuneration of employees. If the ATO is subsequently able to raise an SG charge against an employer this could be used to offset any SG related payments made through the FEG arrangements.

### **The number of employees benefiting and the budgetary cost**

ASFA estimates it would cost around \$150 million per year to include unpaid SG in the FEG, with around 55,000 employees a year benefitting.

#### **RECOMMENDATION 2:**

ASFA recommends unpaid SG entitlements be included in the definition of unpaid 'employment entitlements' for the purposes of the Fair Entitlements Guarantee.

# Introducing SG on paid parental leave and/or a superannuation baby bonus in order to reduce the retirement savings gap between females and males

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## Background

The retirement savings gap between males and females is one that has been well-documented and canvassed for several years now. The median superannuation balance in June 2020 for those aged 60 to 64 was around \$181,00 for males and \$139,000 for females which equates to a retirement savings gap between women and men of 23.1 per cent. While this figure is down on the equivalent figure for five years earlier it is still very substantial.

The reasons for this gap for women are also well documented, including time out of the workforce (predominantly as a result to raise children and care for ageing parents), part-time working hours for at least a portion of their career, and gender segmentation of the labour force with traditionally female jobs receiving lower wages on average.

From 1 July 2022 the \$450 a month earnings threshold for the payment of compulsory superannuation was abolished. This will assist around 300,000 low-income earners, around 200,000 of which are women. Removal of the \$450 a month threshold for payment of compulsory superannuation will go a little way to improving the superannuation balances of women. However, ASFA in this submission is putting forward two options that would substantially further assist women and reduce the gap between men and women in the average amount of superannuation held.

The first option is introduction of a superannuation baby bonus. The second option is payment of superannuation contributions on paid parental leave.

## **Reducing the retirement savings gap and increasing the living standards of females in retirement**

This is an issue that is far bigger than the employer and the individual and one that requires the backing and support of the Government to put women on an equal footing to their male counterparts. With the acknowledgement that compounding is the key to accelerating retirement savings, the earlier the additional funds are contributed the bigger the impact they will have on an individuals' retirement savings. Further we also acknowledge that each child a woman has further contributes to her time out of the workforce and consequently less retirement savings.

It is for these reasons that ASFA is proposing that superannuation contributions could be paid in regard to paid parental leave. No such payments currently are made in regard to paid parental leave provided by the government. However, while it is not compulsory for employers to pay superannuation in regard to the paid parental leave they choose to provide, many do.

Larger employers are more likely to provide paid parental leave than smaller employers. Around 50 per cent of women getting government funded paid parental leave receive employer funded parental leave as well. Survey data indicates that around 80 per cent of the employers paying parental leave also pay SG on the amount (with some topping up the government payment with SG as well).

Requiring SG to be paid on parental leave payments is likely to have a net cost for the government of around \$200 million a year and would involve additional payments from employers of around \$30 million a year.

In addition to SG on parental leave another desirable initiative would be to introduce a Super Baby Bonus that is payable directly into superannuation following the birth or adoption of a child. No additional Bonus would be paid in the case of twins or other multiple births. This measure could have a wider coverage than those who are eligible for paid parental leave.

The Super Baby Bonus although targeted at women (as predominant carers) could also be paid to a man where he is the primary carer of the baby.

### **How many women would benefit and by how much?**

There are around 300,000 births a year in Australia, around 175,000 of them first time and around 80,000 a second child. The average age of women for first birth is around 29, the average age for a second child is 31. Income and employment tests applying to paid parental leave mean that only about 170,000 women a year receive government funded payments.

If budgetary circumstances permitted it would be desirable to provide a superannuation baby bonus to every new parent. However, some targeting of the measure might be required depending on the state of the Budget at the time of introduction.

A \$5,000 superannuation baby bonus from the government would be equivalent to the after-tax contribution amount that a person would receive from SG contributions on a \$60,000 wage for one year.

The median super balance for a female is around \$30,000 at age 30, so a \$5,000 baby bonus contribution would be a significant boost to the super balance of females who have time out of the paid labour force due to family responsibilities. In today's dollars each \$5,000 contributed on behalf of a 30-year-old leads to a super balance at age 67 being \$11,000 higher. For someone on \$60,000 a year who has two children, that is an increase from \$395,000 to \$417,000 using the default settings of the ASIC Moneysmart calculator.

This would lead to a significant reduction in the gap between the average retirement savings of females and males.

#### **RECOMMENDATION 3:**

ASFA recommends the Government require SG contributions be made in regard to all paid parental leave payments and that it introduces a Super Baby Bonus payment of \$5,000.

# Increasing the upper threshold for the Low Income Superannuation Tax Offset

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## Background

The Low Income Superannuation Tax Offset (LISTO) is a government superannuation payment of up to \$500 that helps people earning \$37,000 or less a year save for retirement. Until 2019-20, the \$37,000 ceiling for LISTO corresponded with the top of the second lowest tax bracket. However, the top of the second lowest tax bracket was increased to \$45,000 for 2020-21 and following years.

The maximum amount of \$500 is equivalent to 15 per cent of 9 per cent of \$37,000, which was in line with the 9 per cent SG when the LISTO was introduced.

The first tax bracket (\$0-\$18,200) incurs a zero per cent rate of tax and the second (\$18,201- \$45,000) incurs a 19 per cent rate of tax. For those on the 19 per cent rate there is also the 2 per cent Medicare levy. Individuals in these income bands can also benefit from superannuation payments rather than wages such as favourable impacts on family tax payments and higher child care rebates.

## Addressing the problem

It is equitable that individuals on the lowest tax bands receive concessional tax treatment for superannuation that is commensurate with the rate of assistance for higher income earners. With the increase in the upper threshold on equity grounds it is reasonable to provide those earning between \$37,000 and \$45,000 with a tax concession in line with what they received prior to the change in the taxation rate structure. Otherwise those falling within that income band receive a tax concession of only 6 per cent of contributions, which is lower than for any other income group.

Increasing the upper threshold has implications for the maximum amount payable. The rate of the SG has also increased.

ASFA therefore recommends that the ceiling for LISTO payments be increased to correspond with the top of the second lowest tax bracket and that the maximum value of the LISTO payment be increased correspondingly to \$700 in line with that tax threshold and with the increase in the SG since the LISTO was first introduced.

### **The number of employees benefiting**

Currently around 2.66 million individuals receive a total of around \$670 million from LISTO. Increasing the upper threshold to \$45,000 would lead to around 1 million additional individuals receiving LISTO with expenditure on LISTO increasing by about \$600 million a year.

#### **RECOMMENDATION 4:**

ASFA recommends that the upper threshold for the LISTO be increased to \$45,000 a year and the maximum amount be \$700 a year.

# Improving equity of superannuation by reducing the amount of tax concessions going to individuals with a relatively high income and/or account balance

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## Background

Because tax on concessional contributions and on investment earnings generally is levied on the superannuation fund at a flat rate of 15 per cent, those members on higher marginal tax rates and/or with very high superannuation balances enjoy a greater tax concession than those members on lower marginal tax rates or who have relatively modest superannuation balances.

## Reducing the tax concessions for those on a high income and/or with a high account balance

ASFA has identified two priority areas for adjusting current tax settings for superannuation:

- The threshold for the imposition of the additional Division 293 tax on concessional contributions
- The earnings tax concession for very large balances.

In regard to the threshold for the additional Division 293 tax on concessional contributions ASFA is proposing that the threshold be linked to the threshold for the top personal marginal income tax rate plus an additional amount to take into account compulsory superannuation contributions. For financial year 2023-24 it is proposed that the threshold for the Division 293 tax be \$200,000, that is the threshold for the top personal tax rate of \$180,000 with a further \$20,000 allowance for compulsory superannuation contributions. In later years the threshold for the Division 293 could be adjusted in line with any changes to the threshold for the top personal tax rate and for changes in the rate of compulsory superannuation. For example, the threshold for the top personal rate is legislated to increase to \$200,000 from 1 July 2024.

Linking the Division 293 threshold in this way would mean that no further indexation arrangements would be required.

ASFA estimates suggest that in excess of \$700 million a year would be raised in additional Division 293 tax if the threshold was lowered as described above.

One of the remaining concerns in relation to the sustainability of tax concessions within superannuation is the tax concession enjoyed in relation to investment earnings for high-balance members. This tax concession can be substantial for large accounts. There are at least 11,000 superannuation fund members with balances within superannuation of over \$5 million according to the Retirement Income Review report. Some of these funds have balances of some hundreds of millions of dollars, well in excess of retirement needs.

While the current caps on superannuation contributions limit the ability for members to build up excessive balances in the future there is a real question regarding the appropriate treatment of high balances that were achieved in the context of more generous contribution caps in the past. The transfer balance cap regime limits the amount a member may take into pension phase. However, 'excessive' balances may still be present in accumulation accounts and therefore subject to a tax concession of up to 30 per cent of the tax on earnings (that is, 45 per cent personal tax rate less 15 per cent tax on fund earnings). A balance of \$5 million in concessional tax superannuation cannot reasonably be justified as necessary to support a comfortable lifestyle in retirement.

ASFA estimates that introducing a \$5 million cap on the amount that an individual could hold in superannuation would lead to additional revenue of around \$1.5 billion a year, although the exact amount raised would depend on how excess balances were invested after they were withdrawn from the superannuation system.

#### **RECOMMENDATION 5:**

ASFA recommends that:

- the Division 293 tax on superannuation contributions apply to individuals who have taxable income plus superannuation contributions equalling the threshold for the top marginal personal tax rate plus \$20,000 (which is equal to \$200,000 in 2023-24) or more a year
- those members aged 65 or older with a total superannuation balance as at 1 July 2023 in excess of \$5 million, whether in accumulation, pension phase or a combination, should be required to withdraw the excess out of superannuation.

# Reviewing retirement income issues impacting on indigenous Australians

## Background

Both the incidence of superannuation and average and median balances are significantly lower for both Aboriginal and Torres Strait Islander (ATSI) males and females compared to the overall population. However, the positive impact of compulsory superannuation can be observed, with both incidence of superannuation and average and median balances increasing between 2014 and 2018.

**Table 1: Superannuation coverage and superannuation holdings of Aboriginal and Torres Strait Islander males and females who were not yet retired**

	2014			2018		
	% with superannuation	Superannuation balance of those with super (\$)		% with superannuation	Superannuation balance of those with super (\$)	
		Mean	Median		Mean	Median
<b>Males</b>	66.0	62,985	13,000	74.0	78,294	25,000
<b>Females</b>	56.9	45,718	15,000	58.6	59,951	19,000
<b>Total for entire male population</b>	84.7	129,148	50,000	85.8	153,978	60,635
<b>Total for entire female population</b>	80.2	74,218	29,986	83.7	96,530	38,000

Life expectancy for the general Australian population at age 60 is 24.4 years for males and 27.4 years for females. For indigenous Australians the equivalent numbers are 19.2 years for males and 20.9 years for females.

## **Reviewing retirement income policy settings for Aboriginal and Torres Strait Islander individuals**

Clearly the public policy focus should be on improving life expectancy outcomes for ATSI people. This is where the great bulk of government attention and funding should be focused.

However, due to lower life expectancy ATSI people currently will not receive the benefit of superannuation in the way that it has been designed for the majority of the population. The average superannuation balance of ATSI individuals is also lower than for the general population.

Along with differences in life expectancy there are other retirement income issues particularly affecting ATSI individuals. For instance, some ATSI individuals have multiple superannuation accounts as a result of being known by different names at different times. There also can be differences between ATSI kinship groups and dependency arrangements and the rules in superannuation legislation for the distribution of death benefits.

It is suggested that the Government explore whether superannuation policy settings with respect to preservation should take into consideration the lower life expectancy of ATSI people, to provide earlier access to superannuation benefits. This could include temporarily lowering the preservation age for ATSI individuals by five years until such time as the gap in life expectancy has reduced significantly. The age gap for preservation could be reviewed every, say, five years in the context of future developments in the gap in average life expectancy.

The initial review of preservation age could also encompass other retirement income issues impacting on ATSI individuals, including superannuation fund identification of members and potential beneficiaries.

Consideration would need to be given to the operational issues that will be created by such a change to the preservation age, including with respect to the identification of ATSI members and confirmation they are eligible for an earlier preservation age.

Of course, an adjustment to preservation age should only be proceeded with if it is supported by First Nations people who should also have input into how such a measure, if adopted, should be administered.

### **RECOMMENDATION 6:**

ASFA recommends that while the priority should be improving the life expectancy of First Nations people, the Government explore, in conjunction with representatives of First Nations people, whether there should be a reduction in the preservation age for accessing superannuation on retirement grounds for Aboriginal and Torres Strait Island individuals.

