

Superannuation

AUSTRALIAN DEMOCRATS ACTION PLAN
SUPERANNUATION
TAXATION, FINANCE & CORPORATE AFFAIRS

In 2007 Australia's superannuation system had a \$7.2 billion overhaul with the introduction of the Simple Super legislation. Despite these welcome changes, many challenges remain. The Australian Democrats acknowledge the challenge posed by an increasing proportion of our population being older. This ageing demographic needs superannuation measures that ensure every Australian has an adequate income in retirement. Effective governance, the fiduciary duty of care, attention to equity issues and the rationalising of taxation and administration are core issues to address as a matter of policy and principle.

"...significant superannuation taxation reforms introduced from 1 July 2007, mean that the provisions relating to superannuation will affect the retirement decisions of many Australians. However, the current superannuation rules do not provide a clear indication of the government's intention about the retirement age."

Dr David Knox
Committee for Economic
Development of Australia

Steps taken so far

When the Democrats negotiated 'Superannuation Choice' we took the opportunity to ensure that Australians workers got greater control over their superannuation savings. We won further consumer protection. The Democrats obliged the Government to provide simple, dollar-based fee disclosure for superannuation and financial services products. We negotiated some reductions in superannuation discrimination against same-sex couples and the removal of tax from a wide range of death benefit payments for interdependent relationships. Over the years the Democrats have made a very significant contribution to superannuation and pension reform. Along the way our wins have included permanently increasing indexed aged pensions, boosting the ethical investment industry, introducing super fund choice, fee disclosure, CGT reforms, GST reforms, ensuring the introduction of superannuation co-contributions...the list goes on. There is more to do.

Our Action Plan

- To campaign for the implementation of HREOC's recommendations to give same-sex couples and families the same basic financial and superannuation entitlements as opposite-sex couples and families;
- To investigate making publicly funded superannuation contributions for women when out of the workforce for parenting or caring purposes;
- To continue to advocate for high prudential, ethical and socially responsible investment standards for superannuation funds.
- To review superannuation reporting measures to improve disclosure of administrative and other charges and to improve reporting of underlying assets and pricing mechanisms;
- To improve consumer financial literacy, and to assist that goal through standardising the reporting of superannuation risks and returns, including the benchmarking of performances and costs;



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- To continue the campaign for easy but safe superannuation portability, and for easier identification of 'lost super';
- To push for an independent inquiry to investigate whether it is socially and economically desirable for the Superannuation Guarantee to be progressively raised from 9 percent to 15 per cent; and, to assess whether the retirement set at specific superannuation and pension ages should be assessed at different ages or on a basis other than a selected age;
- To preserve a set percentage of taxation revenue raised from superannuation for unfunded government pensions; and, to review the taxation settings for superannuation;
- To review liquidity risk within the superannuation system and examine methods to mitigate this risk; to review the adequacy of superannuation fund risk management for domestic and foreign investment, including the adequacy of reporting risk to superannuation account holders.

Issue One: A sustainable superannuation future

The 2007 reform of the Australian superannuation system, known as 'Simple Super', addressed three goals, namely: to simplify and streamline superannuation arrangements for retirees so that it can be more easily understood, so that there is greater clarity regarding future income streams, and to improve the provision of superannuation; to improve incentives to work and save; and, to introduce greater flexibility in how superannuation savings can be drawn down in retirement.

The Democrats have long sought to simplify the superannuation system, so these changes were supported by us. However, the most recent 2007 Intergenerational Report highlights a number of key demographic challenges that Australia must address. Chief amongst these is the capacity to effectively save for our future. Moreover, the responsibility to manage a still largely unfunded government pension system for a proportionately larger retired population will be borne by a smaller working tax base. The Democrats propose to push for an independent inquiry to investigate whether it is socially and economically desirable for the Superannuation Guarantee to be progressively raised from 9 percent to 15 per cent; and, to assess whether the retirement set at specific superannuation and pension ages should be assessed at different ages or on a basis other than a selected age. These changes would complement recent government stimuli to encourage continued workforce participation by superannuants nearing retirement age.

Issue Two: The unfunded public pension

Retirement, an ageing population and retirement funding dilemmas are all inextricably linked. Australia needs policies and regulatory mechanisms that will enable Australians to effectively save for their retirement, whilst at the same time ensuring that increased concessions to superannuation do not jeopardise ongoing government obligations to pay for our nation's healthcare, education, infrastructure and other expenses. Only time will tell if the new 'Simple Superannuation' system has struck the right balance - whether it offers the best system to partly and wholly self-funded retirees, low income pensioners and taxpayers alike.



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Striking a balance between protecting taxation revenue and providing tax concessions to encourage Australians to save for their retirement is difficult. Those who can take advantage of tax concessions to save are often better-off Australians. This contributes to the socioeconomic divide that continues to grow within our nation, which is manifest in the varying capacity of Australians to save enough superannuation to retire without the need of a government funded pension.

By removing the benefits tax on superannuation which only applies to wealthy retirees and making a number of other structural changes, the new superannuation system has removed a significant hurdle to investment in superannuation. With significantly greater investment in superannuation the Government may stand to gain substantially from taxation revenue through both the once-off contributions tax, and a tax on earnings with concessional rates of 15 percent, at an estimated 7.1 percent return respectively. If that is so, with money pouring into super, the Government has crafted a growing 'taxable' base that may dwarf the present personal income tax base in the future. The Democrats propose preserving part of this tax base to finance unfunded government pensions.

Issue Three: Improving governance

Superannuation has changed dramatically in the past decade. Funds under management have grown exponentially to more than \$1.2 trillion in 2007, and are estimated to quadruple in the next decade. Superannuation funds are now so large that they have great social and economic significance, and require the best governance and prudential systems possible to maintain the integrity and efficiency of our systems. Key governance issues that the Democrats propose addressing include fee structures that penalise lower value superannuation accounts, and liquidity risk. Liquidity risk remains as a significant intrinsic risk for the Superannuation system. The Democrats propose a significant review of methods that can be applied to mitigate this systemic risk.

As our superannuation balance grows, the quantum of funds under management will continue to outstrip domestic demand for investment. This means a dramatic growth in the proportion of our superannuation assets invested overseas. Whilst foreign investment is a necessary and valuable investment option it also carries significant additional risks – risks that must be reported and adequately managed. The Democrats propose reviewing the adequacy of risk management strategies for superannuation funds invested overseas.

Issue Four: Equity issues

The May 2007 report of the Human Rights and Equal Opportunity Commission entitled *Same-Sex: Same Entitlements* found that *"At least 20 000 couples in Australia experience systematic discrimination on a daily basis. Same-sex couples and families are denied basic financial and work-related entitlements which opposite-sex couples take for granted."* This is hardly news to the Democrats who have mounted a sustained attack on this injustice for decades, including moving many amendments rejected by the Coalition, and introducing a Private Senator's Bill. When the Democrats negotiated the 'super choice' legislation we negotiated some reductions in superannuation discrimination against same-sex couples and



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the removal of tax from a wide range of death benefit payments for interdependent relationships. The Coalition committed itself in a letter to the Democrats to further reform, but has reneged on its commitment.

Of 58 federal acts HREOC identified needing amendment to address this unjust discrimination, 15 affected superannuation entitlements. These are some of the ways HREOC found that federal superannuation laws discriminate against same-sex couples or families:

- A federal government employee's surviving same-sex partner cannot access direct death benefits (lump sum or reversionary pension) available to a surviving opposite-sex partner (unless the employee joined the Public Service after 1 July 2005);
- It is harder for a surviving same-sex partner to qualify for death benefits in private superannuation schemes (as a person in an 'interdependency relationship') than for a surviving opposite-sex partner as a 'spouse');
- A surviving same-sex partner cannot usually qualify for a reversionary pension in a private superannuation scheme, which is available to an opposite-sex partner;
- It is harder for a surviving same-sex partner to access death benefits from a retirement savings account (as a person in an 'interdependency relationship') than for a surviving opposite-sex partner;
- It is harder for a surviving same-sex partner to access death benefits tax concessions than for a surviving opposite-sex partner;
- A same-sex partner cannot engage in superannuation contribution splitting and the associated tax advantages available to an opposite-sex partner.

The other group needing greater equity attention in our superannuation system is women. The average retirement account balance for women is about half that of men – a consequence of lower average pay, and a working career that has been on average 20 years less than men, largely because of greater unpaid family responsibilities. Whilst some improvement has occurred with longer working careers and opportunities, salary and superannuation inequality continues. It is unlikely that superannuation contributions of most women will be enough to move many off the pension level. This would require more than 40 years full time work at above average weekly earnings. Therefore, the majority of women will likely continue to need the publicly funded pension on retirement unless this difference can be made up. There have been improvements. Under recent changes to superannuation laws, partners can make additional contributions to their spouse's superannuation if he or she earns less than \$13,800 per year and qualify for a tax rebate for contributions of up to \$3,000 each year. The maximum rebate is 18% and this applies if the spouse earns \$10,800 or less. New divorce laws have also improved access to family held superannuation. The Democrats are conscious of the need to highlight this inequality and to continue to develop measures to ensure that women are able to face retirement as confidently as their male counterparts.