2017-18 Pre-Budget Submission

19 January 2017

AIST Submission

AIST

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $700 billion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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1 Executive summary

In brief

AIST welcomes the opportunity to present our Pre-Budget submission for 2017-18. We do not endorse superannuation being used for deficit reduction to a greater extent than other industry segments or for untested superannuation policy announcements to be made on Budget night. The current package of superannuation reforms should be implemented and allowed to settle, and KPIs should be developed and used to assess system performance against the primary and subsidiary objectives by an independent, publicly-funded body. AIST recommends a range of changes to improve superannuation for consideration.

AIST thanks the Minister for Small Business for the opportunity to present our Pre-Budget Submission for 2017-18.

Whilst we support the role that the Budget must play in sustainable government, we remind the Government that the superannuation industry is presently in the midst of a large programme of reform initiated through last year's Budget. In any event, the retirement savings of Australian taxpayers should not be viewed as a resource to balance the Budget.

As part of our submission, we make the following recommendations:

- An independent publicly-funded body should be set up to assess superannuation policy changes, to develop and refine tools to be used in this process, and to be available to Parliamentarians intending to propose superannuation changes. Key Performance Indicators (KPIs) should be developed to track whether superannuation is delivering against system objectives.
- The $450 per month income threshold for the superannuation guarantee be abolished from 1 July 2017.
- The Low Income Superannuation Tax Offset (LISTO) rate be doubled for Australians earning less than the tax-free threshold, and that the LISTO be adjusted to reflect the increase in the SG rate.
- Recommencement of increases to the Superannuation Guarantee (SG) rate from 1 July 2017, with a view to achieving 12% in July 2021.

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- Age-based rules that prevent contributions should be removed, along with work tests for 65-74 year olds and under 18s. In addition, retirees should be allowed to ‘top-up’ their retirement income streams.
- The proposed increase in the Age Pension age to 70 years should be ruled out.
- The SG should be linked to gross remuneration, and not Ordinary Time Earnings (OTE). SG should also be payable on paid parental leave, and a return-to-work super bonus should be considered.
- The threshold for small lost member accounts should be progressively reduced back down to $2,000 by January 2019 and the lost and unclaimed super rules should be reviewed.
- CGT relief to facilitate fund mergers should be extended, and a penalty regime implemented for funds who fail to move accrued default amounts (ADAs) into MySuper products by the deadline of 30 June 2017.
- The Age Pension assets test taper rate should be reduced to $2.
- Funding to indigenous identification schemes should be increased, and the provision of financial counselling services to Aboriginal and Torres Strait Islander people increased.

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2 The role of the Budget and superannuation

AIST supports the role of the Budget in safeguarding sustainable Government via control of revenue and expenditure.

We note that the 2016-17 Budget contained as its centrepiece a thorough programme of reform of superannuation. AIST generally supported the programme, but noted that as a result of this reform, the measures sourced a net amount of almost $3 billion[1] from superannuation fund members (over forward estimates).

This came on top of changes to the assets test for the Age Pension as part of the 2015-16 Budget that will see additional savings of nearly $2.5 billion[2].

AIST is supportive of responsible and effective financial management of the Commonwealth Government's financial resources. That said, we would like to take this opportunity to remind the Government that the change programme presently underway in the superannuation industry is complex, and may cost upwards of $1 billion across the industry in implementation, which will eventually be borne by members.

AIST wishes to emphasise that this stage of the cycle must allow trustees to get on with the job of implementing the hefty schedule of changes which are mostly required to come into effect in July 2017. We believe that superannuation reform must focus on an efficient retirement savings regime rather than being viewed as a resource for balancing the budget.

While only a small minority of Australians will negatively impacted by the 2016 budget reforms, anecdotal evidence suggests that resultant publicity around these changes – in addition to the pensioner backlash about the assets test changes – has hit consumer confidence in superannuation as a long-term savings vehicle. Further, changes to super that result in a significant cost to super funds or a reduction in retirement benefits for fund members should be avoided in the short to medium term. These changes come off the back of fund members consistently raising concerns about the constant tinkering with superannuation, which is a long-

[1] Treasury, The, (2016). *Budget 2016: A superannuation system that is sustainable, flexible and has integrity*. Superannuation Fact Sheet 01. [online] Canberra: Commonwealth of Australia. Available at: http://tinyurl.com/hdne7wt [Accessed 13 Jan. 2017].

[2] Klapdor, M. (2015). *Pensions*. [online] Parliament of Australia. Available at: http://tinyurl.com/jz6d2dw [Accessed 13 Jan. 2017].

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term savings regime. These concerns and the need for greater certainty underpin the need for a transparent process through which to assess superannuation proposals.

2.1 How to assess superannuation system performance and policy changes

The final report of the Financial System Inquiry (the "Final Report") generally proposed an *ad hoc* approach to assessing the performance of the superannuation system against the proposed objectives. While the Final Report identified proposed objectives, it did not set out how the objectives should be measured. AIST queries the use of setting objectives without measurement.

Clause 7(2) of the *Superannuation (Objective) Bill 2016*, presently in front of Parliament, requires that a statement of compatibility must include an assessment of whether the Bill is compatible with the primary and subsidiary objectives of the superannuation system. Subsidiary objectives are presently under consultation.

However, the Bill does not provide an evidentiary basis comparing and evaluating future superannuation policy proposals. An example of this is the omission of the vital role of increasing national savings in the Bill's explanatory memorandum.

AIST submits that appropriate and robust measurement tools are necessary to support the assessment process. The framework developed by the Productivity Commission to assess the competitiveness and efficiency of the superannuation system will also assist with this process. We note that there are proposed key performance indicators regarding measuring competitiveness and efficiency, but no proposed measurement of whether the system is delivering against objectives.

Within this context, AIST has developed the AIST-Mercer Super Tracker to assess the progress of the retirement income system based on available evidence and to support a reasoned discussion about the system's ongoing progress. The Tracker will be used by AIST for this purpose, but is also presented to governments and others as a starting point or potential framework to measure performance against superannuation objectives.

The measurement of proposals affecting the superannuation system should consider both macro-economic effects and the impact at the personal (or micro) level. Both are important. Hence, tools such as the AIST-Mercer Super Tracker can be used to consider the movement in certain macro-economic measures, such as the value and fairness of tax concessions and the level of

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assets within the economy, as well as measures that affect individuals, such as net retirement income and the gender gap.

The Super Tracker has considered several indicators under the broad headings of 'adequacy' and 'sustainability'. There is a natural and healthy tension between adequacy and sustainability. It is important to recognise the importance of both providing adequate benefits and long term sustainability.

Notable findings from the Tracker included scores for equity, the gender gap, superannuation coverage, personal contributions, cost of government support, and length of retirement. The scores highlighted the need for improvement in the areas of tax, gender and workforce participation. The Tracker has been and will continue to be used to test a number of different scenarios. The Tracker can also be used to both assess and therefore help shape policy positions and measure the performance of the retirement income system.

AIST recommends the establishment of an independent publicly-funded body to assess the superannuation policy changes, develop and refine tools to be used in this process, and be available to Parliamentarians intending to propose superannuation changes.

AIST also recommends that key performance indicators be developed to measure whether the system is delivering against objectives, similar to the framework developed by the Productivity Commission around competitiveness and efficiency.

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3 Recommendations

3.1 Improve the fairness of the superannuation system

3.1.1 Removal of the $450 per month superannuation guarantee (SG) threshold

AIST recommends the removal of the $450 per month income threshold on the Superannuation Guarantee as a measure to improve fairness.

There are three key reasons supporting our recommendation:

- Cost to government would be minimal.
- Those on lower incomes would have a better retirement outcome.
- Australia's superannuation coverage – while quite high – is comparatively lower than other systems with mandatory superannuation.

3.1.1.1 Cost to Government

Access Economics[3] modelling commissioned by AIST in 2009 shows that while the aggregate impact of removing the $450 monthly threshold would be small, industry experience suggests it is likely to be quite concentrated, resulting in significant improvements for those individual workers who are most disadvantaged by the current exemption. Access Economics estimated that the cost to government of removing the exemption would be minimal (0.003 per cent of GDP in 2041).

3.1.1.2 Improving retirement for part-time employees (particularly women)

AIST notes that the high concentration of females working part-time is a contributing factor to their relatively low superannuation balances. Women comprise over 67 per cent of the part-time workforce and have almost the same number of full time and part-time workers[4] (over twice as many full time workers are men as compared to part time). AIST has long argued that abolishing the exemption on compulsory superannuation contributions for those earning less than $450 per month would benefit many women – as well as males – on low incomes, working on casual or part-time bases. In female-dominated industries where working for several employers is common

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[3] Access Economics Pty Ltd. 2009. *Retirement Incomes Policy Simulations Paper*. Melbourne: Australian Institute of Superannuation Trustees and Industry Superannuation Network.

[4] ABS, *Employee Earnings and Hours*, Australia, May 2010 (6306.0)- [Accessed 27 January 2012]

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(such as retail, hospitality and nursing), many employees are excluded from the SG system because the $450 threshold applies only to a single employer, and not on a combined income level. Australia ranks fifth in the OECD for incidence of women in part time work at 38.5%.[5]

We note that in the years since the limits in SG participation were formulated, a great deal of change has happened in the Australian workplace, as well as the Australian superannuation system. The introduction of MySuper was accompanied by the removal of member benefit protection. Although we note that this was a reflection of the growth in real wages in the Australian economy, we also note the increased impact of the loss of contributions due to members falling below the $450 threshold on low account balances. The Insurance in Superannuation Working Group is currently looking at ways to reduce the impact of insurance premia on accounts in this situation.

We note that whilst wages have grown, so too has the increasing casualisation of the Australian workforce. As the percentage of Australians holding more than one job increases, so too does the likelihood that at least one job will pay under the threshold. As this, in turn, affects the retirement savings of Australians, we believe that time is right to debate the role that this threshold plays in limiting the retirement comfort of Australians.

It should also be noted that at current SG rates, anyone earning just under the threshold would be eligible for $41.63 per month: Administration of this measure could cost more than this. The cost to Government for this measure would therefore be limited solely to the LISTO payable, and has been costed at less than $5 million per year[6].

3.1.1.3 Superannuation coverage - improve Australia's comparative position

As noted by the AIST-Mercer Super Tracker and according to the OECD[7], 68.5% of working age Australians (that is, those aged 15-64) are covered by private pension (or superannuation schemes)[8]. Although this is a good result on the global scene, other countries with mandatory

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[5] OECD, http://www.oecd.org/statistics/#d.en.199456, Chart LMF1.6.A: Incidence of part-time employment, 2011, Sourced 04/01/2013.

[6] Clare, R. (2017). *Equity and superannuation – the real issues*. [online] Sydney: Association of Superannuation Funds of Australia, p.15. Available at: https://tinyurl.com/jbtjtko [Accessed 18 Jan. 2017].

[7] OECD. *Pensions at a Glance 2015*: OECD and G20 indicators, 2015.

[8] The percentage for Australia may appear low given our SG system, but the SG does not apply to the self-employed.

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arrangements have higher percentages, including Israel (94.2%), the Netherlands (88.0%), Finland (84.1%), and Denmark (83.3%). Therefore, there is scope for Australia to broaden its coverage and provide superannuation to an increased percentage of the population.

AIST recommends that the $450 per month income threshold for the superannuation guarantee be removed from 1 July 2017.

3.1.2 Further improve fairness for lower income earners

AIST supported the Low Income Superannuation Contribution (LISC) scheme, as it was sound and fair policy. We welcomed the Government's new Low Income Superannuation Tax Offset (LISTO) which is to replace the LISC when it is due to end in June 2017.

The LISTO addresses a number of equity issues, either in full or in part:

1. Low income earners are subject to tax on superannuation contributions at a higher rate than tax on their wages or salary, unlike middle or higher income earners.
2. Tax returned to superannuation savers acts as an incentive to save.
3. Progressive rates of taxation in superannuation assist in addressing the gender gap – a growing problem in superannuation savings.

AIST notes a crescendo of calls for a fair treatment of the equity of taxation in the superannuation system. We note that the benefits of the LISTO can be realised as part of a more targeted approach to taxation. In particular, we note recommendations by Industry Super Australia, Deloitte, Rice Warner, the Grattan Institute, the Australian Council for Social Services (ACOSS) and others calling for a progressive approach to taxation in superannuation based upon discounted or rebated taxation. To this end, we believe that improving fairness in taxation will benefit low income earners in particular.

We believe that there are two places in particular where the LISTO could be further enhanced in order to better entrench fairness in the taxation applicable to superannuation contributions.

A principle proposed by ACOSS suggests that tax-based compensation for consumption foregone should be the same for each dollar saved, regardless of where the dollar comes from. This implies a more progressive approach to taxation of retirement savings where an accepted discount on ordinary marginal rates of taxation is static and portable between income tax brackets.

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As the LISTO is presently set, it means that Australians who are below the tax-free threshold would be subject to a net tax on contributions of zero, however this is also the marginal tax rate of money they would be paid as ordinary remuneration. In other words, unlike those on higher income tax brackets, Australians on lower income tax brackets are not compensated by the tax system for deferring consumption.

We support the ACOSS proposal to double the LISTO for taxpayers earning less than the tax-free threshold, predominantly women, as this will ensure that appropriate compensation is credited to their savings. This would also provide low income Australians with further incentives to save. An example of how this might work is below:

Example

Jerry is a member of the Dharma Staff Super Fund. Her taxable income this year was $15,000, all of which was paid to her for her work at Dharma Pty Ltd.

Jerry's employer paid SG contributions into his super totalling $1,425. Contributions tax totalling $213.75 was forwarded off by the fund to the ATO.

After Jerry does her tax return, the Government notes that Jerry came in under the tax-free threshold and credits her super fund with a LISTO amount totalling $427.50, representing a refund of contributions tax of $213.75, together with another amount of $213.75 representing her marginal rate of tax on the contribution less 15%.

Later enhancement and simplification could see LISTO and Division 293 brought together to enshrine a uniform differential of 15% across all marginal rates of tax as well as to reduce red tape.

We additionally note that the LISTO thresholds as they are at the moment are presently designed for an old setting of the SG rate, being 9%. We notice that in the intervening years, the SG rate has increased to 9.5%, and is set to progressively increase to 12%. The policy intention of the LISC, which the LISTO is designed to replace, was to ensure that low income Australians were adequately compensated for the compulsory nature of superannuation. Although this means that – in the short term – the maximum level of the LISTO should be increased slightly to accommodate the present 9.5% SG rate, we would recommend that into the future, the LISTO be

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permanently linked to the lower threshold of the middle income tax bracket, as well as the SG rate as follows:

$$\mathrm{LISTO} = \min(t * C, t * SG * I)$$

Where adjusted taxable income is less than the lower income threshold for the middle income tax bracket, and where:

LISTO = amount of LISTO payable to taxpayer
t = LISTO rate applicable
C = amount of concessional contributions made on behalf of the taxpayer
SG = SG rate applicable
I = lower income threshold for the middle (30c in the dollar, presently $37,000) income tax bracket.

Example

Hurley also works for Dharma Pty Ltd. In the same year as Jerry, Hurley earns $36,000 in taxable income, all of which is paid by Dharma. Contributions totalling $3,500 are paid into the Dharma Staff Super Fund, and contributions tax totalling $525 is paid by the fund to the ATO.

When Hurley sends off his tax return, the Government notes that he is eligible for the LISTO and proceeds to do the calculation to work out how much LISTO he is eligible for, based on the contributions made by Dharma.

The first formula, using a LISTO rate of 15% provides a calculated LISTO amount of:

15% * $3,500 = $525.00.

The second formula, using the same LISTO rate, the SG rate of 9.5% and the low threshold of the middle income tax bracket of $37,000 provides a calculated LISTO amount of:

15% * 9.5% * $37,000 = $527.25.

The assessed figure will be the lesser of the two, and Hurley's account will be credited with a LISTO amount of $525.

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The AIST-Mercer Super Tracker ranks 'fairness' of the superannuation system as having the lowest of the 10 Tracker scores. This was noted in our last year's Pre-Budget submission.

To improve the fairness measure of Australia's superannuation, AIST recommends that the LISTO be doubled for Australians earning less than the tax-free threshold, and that the LISTO be adjusted to reflect the increase in the SG rate.

3.2 Review the timeframe around increases to the Superannuation Guarantee

The changes to the schedule of increases to the Superannuation Guarantee (SG) which will see it eventually increase to 9.5% was formally delayed in 2014, through the repeal of the Mineral Resources Rents Tax.

Under the current timetable, the SG rate is set to increase to 12% from the earliest date of 1 July 2025, and will be fixed at 9.5% until 1 July 2021. This represents a major setback to a key long-term objective of superannuation, which is to ensure all working Australians enjoy an adequate retirement income. Delays to the SG timetable will also create more fiscal pressure on future governments in regards to age pension funding. To this end, AIST recommends the recommencement of regular increases to the SG rate so that the targeted SG rate of 12% may be reached sooner. The following schedule illustrates how soon this transition could occur (next page):

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Financial year	SG charge percentage		
	Rates as per the originally proposed schedule (%)	**Rates as per the current schedule (%)**	**Schedule of rate increases proposed in this submission (%)**
2016-17	10.5	9.5	9.5
2017-18	11.0	9.5	10.0
2018-19	11.5	9.5	10.5
2019-20	12.0	9.5	11.0
2020-21	12.0	9.5	11.5
2021-22	12.0	10.0	12.0
2022-23	12.0	10.5	12.0
2023-24	12.0	11.0	12.0
2024-25	12.0	11.5	12.0
2025-26	12.0	12.0	12.0

Table 1

AIST recommends recommencement of increases to the SG rate from 1 July 2017, with a view to achieving 12% in July 2021.

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3.3 Review age-based rules and changes to eligibility

3.3.1 Remove age-based restrictions on contributions into superannuation

We are mindful that Australians are living and working longer.

In January 2015 the then Treasurer, The Hon Joe Hockey MP[9]noted that:

> *The fact that we are living longer is great news. It is kind of remarkable that somewhere in the world today, it is highly probable a child has been born who will live to be 150. That is a long time. They would have said 100 years ago that living to 80 or 90 was a long time. The question is how do we live with dignity? How do we ensure that we have good quality of life the whole way through? This is the conversation we are going to be having with the Australian people over the next few months.*

The problem of ageing Australia was acknowledged by the current Treasurer, The Hon Scott Morrison MP, in last year's Budget, when he announced that the age-based restrictions applying to those aged 65-74 would be removed. However, this announced measure met a premature end when the Treasurer (along with the Minister for Revenue and Financial Services, The Hon Kelly O'Dwyer MP) announced that the harmonisation of contribution rules for those aged 65 to 74 would not proceed.

We are aware of the increasing problems that longevity risk is creating, notably with regards to Australians' retirement savings. We further note research findings, such as AIST's research with the Australian Centre for Financial Studies[10], where it was found that lower income Australians were more likely to retire sooner than professionals, placing additional strain upon low retirement savings and social security.

As Australians live longer, the justifications for age-based restrictions on contributing into superannuation are disappearing, and we can no longer support the restrictions. The opportunity to top up one's superannuation may not be present during the window of one's working life, which for some Australians extends well past age 75 anyway. Other developed countries are (as is

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[9] Hockey, J. (2015). *Mornings with Neil Mitchell* [radio], 3AW, 19 January 2015. Melbourne.

[10] Australian Centre for Financial Studies, (2014). *Involuntary Retirement: Characteristics and Implications*. An independent report prepared for AIST by the Australian Centre for Financial Studies. [online] Melbourne: Australian Institute of Superannuation Trustees and Australian Centre for Financial Studies. Available at: http://tinyurl.com/otvay4u [Accessed 16 Jan. 2017].

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Australia) actively encouraging people to stay at work longer where they are able to do so – and the superannuation system needs to back up this policy.

Age-based restrictions also add complexity and red tape to the system. In accepting contributions, a trustee must be mindful of whether a member is in a position to make a contribution, based upon their age. And although age-based restrictions on SG contributions ended in 2013, we note that there remain a plethora of regulations making it difficult or even impossible, for older working Australians to contribute to their retirement savings. The following is a list of some age-based restrictions presently in force with regards to contributions into superannuation:

- A work test (of gainful employment on at least a part-time basis) must be satisfied from the age of 65, if a member is making a personal contribution;
- If a member is making a contribution on behalf of an eligible spouse, the eligible spouse must satisfy the work test from age 65 onwards;
- The 'bring forward rule' which allows members making non-concessional contributions to bring forward two additional years of non-concessional contributions is no longer able to be used from age 65 onwards;
- Contributions on behalf of eligible spouses may no longer be made once the eligible spouse has turned 70;
- Eligibility for the government co-contribution ceases for financial years which end in the year that the taxpayer turns 71;
- Personal contributions may no longer be contributed to superannuation, once a member turns 75; and
- Retirement income streams may not be contributed to at all, once commenced, due to tax integrity rules. With some restrictions, these can be commenced from age 65, regardless of taxpayers' personal situation, however rules exist to commence these earlier under transition-to-retirement rules.

We note that in addition to these, the Age Pension age is in transition to 67, meaning that where some of the above thresholds may have been linked to the Age Pension in the past, this no longer appears to be the case.

These rules appear both discriminatory and arbitrary. AIST recommends that age-based rules that prevent contributions be removed. Furthermore, we recommend a review of the tax integrity rules to ensure that retirees, who legitimately supplement their retirement income with

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occasional work, or those who are genuinely transitioning to retirement, are able to 'top-up' their retirement income streams.

3.3.2 Removal of the work test requirements on contributions for superannuation fund members

In the process of removing age-based restrictions on superannuation contributions, AIST recommends removal of the work test in place for members aged 65-74.

The work test was designed for an earlier period, where superannuation benefits were subject to a reasonable benefit limit imposed through use of taxation, and the use of such disincentives tacitly noted that one's life expectancy was shorter.

We view the imposition of this requirement to be unnecessary, as well as being unable to be enforced. The removal of this limitation will enable all Australians to contribute as well as allow superannuation funds to get on with their job of processing contributions, unencumbered by this layer of regulation.

AIST also recommends removal of the work test that affects SG eligibility for workers under 18 (or who are private or domestic workers) who work less than 30 hours per week.

3.3.3 Concern over higher Age Pension eligibility age

AIST does not support any further raising of the Age Pension eligibility age beyond age 67. Australia's retirement income policies must recognise that many individuals will have a different work pattern and may not be in a position to work until age 70. Research conducted by the Australian Centre for Financial Studies and AIST in 2014[11] found that up to 40% of older Australians do not get to choose when they retire due to a range of factors, notably age discrimination, ill healthy, poor English proficiency and caring demands. Further research into involuntary retirement should be prioritised and more policies are needed to address work issues impacting on older, vulnerable Australians.

For similar reasons, we do not support any changes to super preservation age levels (which currently range from 55 to 60 years). Raising the age at which people can access their super could see the level of involuntary retirees blow out to more than half the Australian workforce.

[11] Refer Australian Centre for Financial Studies (2014), cited in a previous footnote.

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Maintaining the preservation age for those who retired involuntarily could play an important role in funding the period between when involuntary retirement occurs and the Age Pension is available. We note that in previous reviews, the Productivity Commission has acknowledged that changing the preservation age won't help those who currently retire involuntarily and will lead to only a marginal 2 per cent increase in the overall workforce participation rate. We question the benefit of such a policy change that will only make it harder for a significant number of vulnerable older Australians to access their own super savings.

Additional research conducted by the Australian Centre for Financial Studies and AIST in 2013[12] noted that scope exists for measures that could be undertaken in order to provide incentives for those who wish or are able to defer retirement, including modifying the means test, or offering actuarially fair compensation for the deferral of pension income.

AIST recommends that the proposed increase in the Age Pension age to 70 be formally ruled out.

3.4 Review the fairness of existing arrangements for employees

3.4.1 Link the Superannuation Guarantee to a gross remuneration measure

The SG is presently linked to ordinary time earnings, or OTE. OTE unfortunately only captures some of the many payments that can be paid to employees as part of their work. OTE does not incorporate overtime, whether or not this is regularly worked, nor does it incorporate paid parental leave.

It is not always clear whether a payment forms part of OTE. In Superannuation Guarantee Ruling SGR 2009/2[13], the Commissioner of Taxation considered 24 different types of payments (with some of these further broken down into sub-types) and only concluded in 14 cases that these formed part of OTE.

We have included the table from SGR 2009/2 as an appendix to this submission.

[12] Davis, K. (2013). *The Age of Retirement*. An independent report prepared for AIST by the Australian Centre for Financial Studies. [online] Melbourne: Australian Institute of Superannuation Trustees and Australian Centre for Financial Studies. Available at: http://tinyurl.com/zsknmbt [Accessed 19 Jan. 2017].

[13] Australian Taxation Office, *Superannuation guarantee: meaning of the terms 'ordinary time earnings' and 'salary or wages'*, SGR 2009/2, 13 May 2009.

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Although SGR 2009/2 forms guidance and is not binding upon the Commissioner of Taxation, the confusion that this creates is unnecessary. In addition, we are concerned that these payments are capable of being gamed by employers or employees in order to reduce an employer's SG liability, or inflate an employee's take-home pay at the expense of their retirement savings.

In addition, we point to the gender pay and retirement savings gap between male and female Australians and note that as recently as October 2015[14], we recommended that the superannuation guarantee be also paid on paid parental leave.

AIST recommends that SG be linked to an employee's gross remuneration rather than OTE to reduce confusion, red tape, and manipulation.

3.4.2 Pay SG on paid parental leave

AIST supports a Government-funded parental leave scheme that includes a superannuation component, linked to the payment of SG contributions required on average weekly earnings. The implementation of a paid parental leave scheme with a superannuation component, would allow parents to continue building their superannuation whilst on parental leave.

The lack of such a superannuation component – coupled with the very low level of paid parental leave – adversely contributes to the gap between women and men's retirement savings. Paid parental leave schemes (coupled with superannuation) assist with improved workforce participation rates (particularly for women of child bearing age). The following is a chart[15] representing where Australia sits comparatively in terms of paid parental leave (next page):

[14] AIST, (2015). *Senate Economic References Committee: Economic Security for women in retirement*. [pdf] Canberra: Parliament of Australia. Available at: http://tinyurl.com/h6hmcay [Accessed 5 Feb. 2016].

[15] Popovic, N. (2014). The US is still the only developed country that doesn't guarantee paid maternity leave. *The Guardian*. [online] Available at: http://tinyurl.com/mtabaum [Accessed 18 January 2017].

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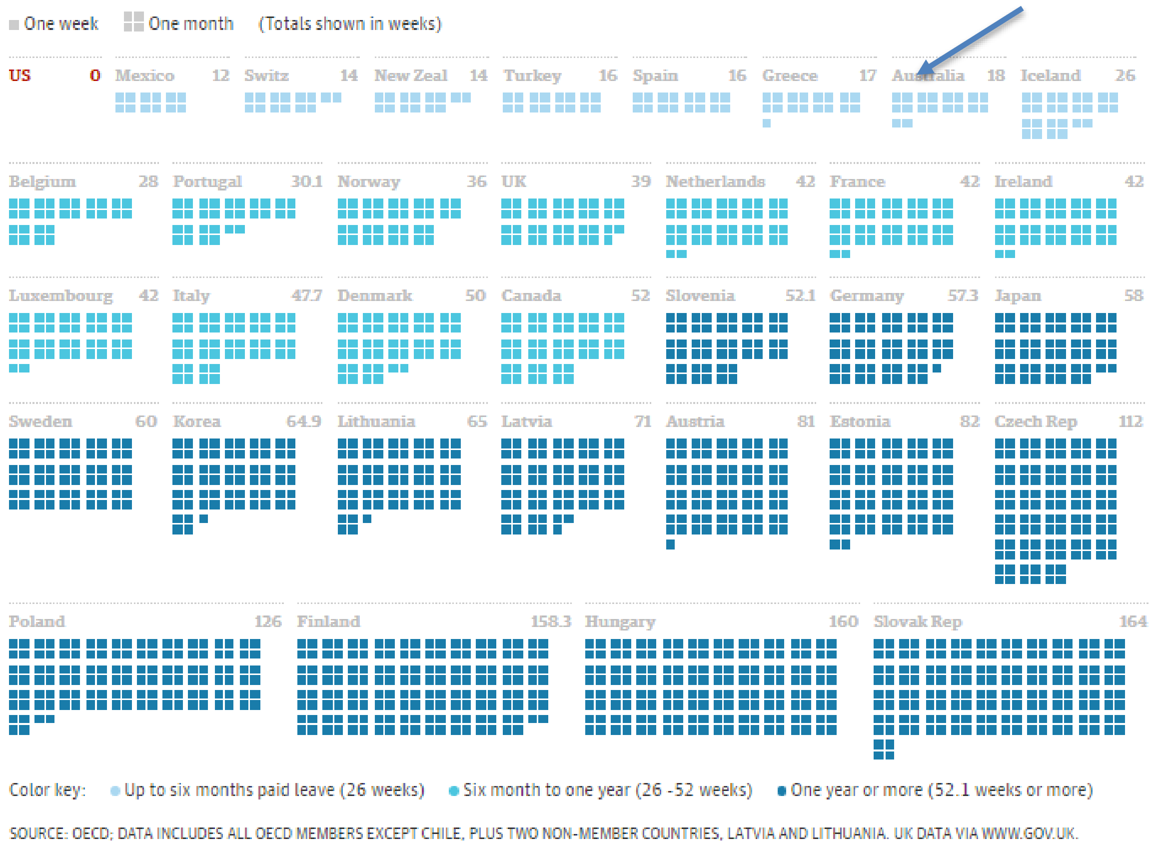

AIST recommends that (in addition to examining levels of paid parental leave) SG be paid on paid parental leave.

3.4.3 Return-to-work super bonus

Another key factor affecting the retirement outcomes for Australian women is the relatively low workforce participation rate among mothers with young children. Australia ranked 46th amongst OECD countries in workforce participation rates for females aged between 25 and 54 in 2015[16]. Given that a woman must earn an income to qualify for superannuation contributions, any policy initiative that lifts female workforce participation will also lift the retirement savings of Australian women.

[16] OECD, (2017). *LFS by sex and age - indicators*. [online] OECD.stat. Available at: http://tinyurl.com/j6twjqk [Accessed 19 Jan. 2017].

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As such, we believe the Government should consider a one-off $2,000 "return-to-work" super bonus for qualifying parents who have spent time out of the paid workforce to raise children. Such an initiative would have the benefit of topping up the superannuation balances of parents who have taken time out of the workforce, whilst also providing a strong incentive for women to re-enter the paid workforce – sooner rather than later. A 'return-to-work' super bonus could also help women engage with their superannuation at a critical point in their working lives where many would benefit from making voluntary contributions. This policy could include thresholds for age and time spent out of the workforce.

3.5 Reduce the level of lost super transferred back to the ATO

AIST notes and welcomes initiatives taken at the ATO to reduce red tape for small business and to increase the efficiency of the superannuation system. Major technological improvements such as SuperStream have revolutionised superannuation, reduced errors, improved non-payment problems and reduced the time out of the market previously suffered by superannuation members as their contributions waited to be connected with their accounts.

Further initiatives, such as Single Touch Payroll will see members better connected with their superannuation. Together, these improvement mean that lost superannuation will become less of an issue.

AIST takes this opportunity to point out that the policy need for such high thresholds for "small" lost member accounts will be increasingly less relevant due to these initiatives. We recommend that the threshold balance, recently increased to $6,000, is progressively reduced to $4,000 on 1 January 2018, then to $2,000 in 2019.

We further believe that the rules regarding lost and unclaimed superannuation are unnecessarily complicated and we would welcome measures to streamline these rules.

3.6 Measures to facilitate mergers

3.6.1 Extend Capital Gains Tax (CGT) relief

The CGT relief granted to funds which merge is due to expire on 30 June 2017.

AIST supports Government policy to see more consolidation across the super industry. We believe that this is sound policy to ensure that adequate scale is built by funds to achieve better cost efficiency for members.

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AIST also believes that there are still opportunities for further consolidation throughout the industry and believes that is in the interest of members that they are not adversely affected by the CGT impacts of funds which choose to merge.

AIST recommends that CGT relief for fund mergers be extended beyond the 30 June deadline this year.

3.6.2 Penalty regime for funds which don't comply with MySuper transition deadline

Accrued default amounts (ADA) arose as a term during the process to legislate the MySuper reforms in 2012, and is now defined at section 20B of the *Superannuation Industry (Supervision) Act 1993*. The transition period, where all members of funds with ADAs are moved into compliant MySuper products, is due to expire on 30 June this year.

MySuper was designed for two groups of super fund members:

- Members of super funds who were placed in the default option because they hadn't chosen any superannuation arrangements; as well as
- Members who had actively chosen the default option.

It was identified that trustees should allow members of their default options to benefit from the MySuper reforms as quickly as possible, but the five year transition would allow plenty of time for funds to comply with moving their members over.

AIST believes that it is in the interests of super fund members that this period be extended no further, and recommends that no further extensions be granted. AIST also recommends that trustees who wish to further delay the transition of ADAs to MySuper should be subject to severe financial penalties and/or loss of licence.

3.7 Reduce assets test taper rate to $2

The changes made by the government as part of the 2015-16 Budget (which became effective as of 1 January this year) substantially reduces net Age Pension payments to the majority of recipients. The modest increase to the lower assets test threshold does not offset the much more significant effect of increases to the taper rate from $1.50 to $3.00 per fortnight. This will reduce the partial age pension significantly for low and middle-income households.

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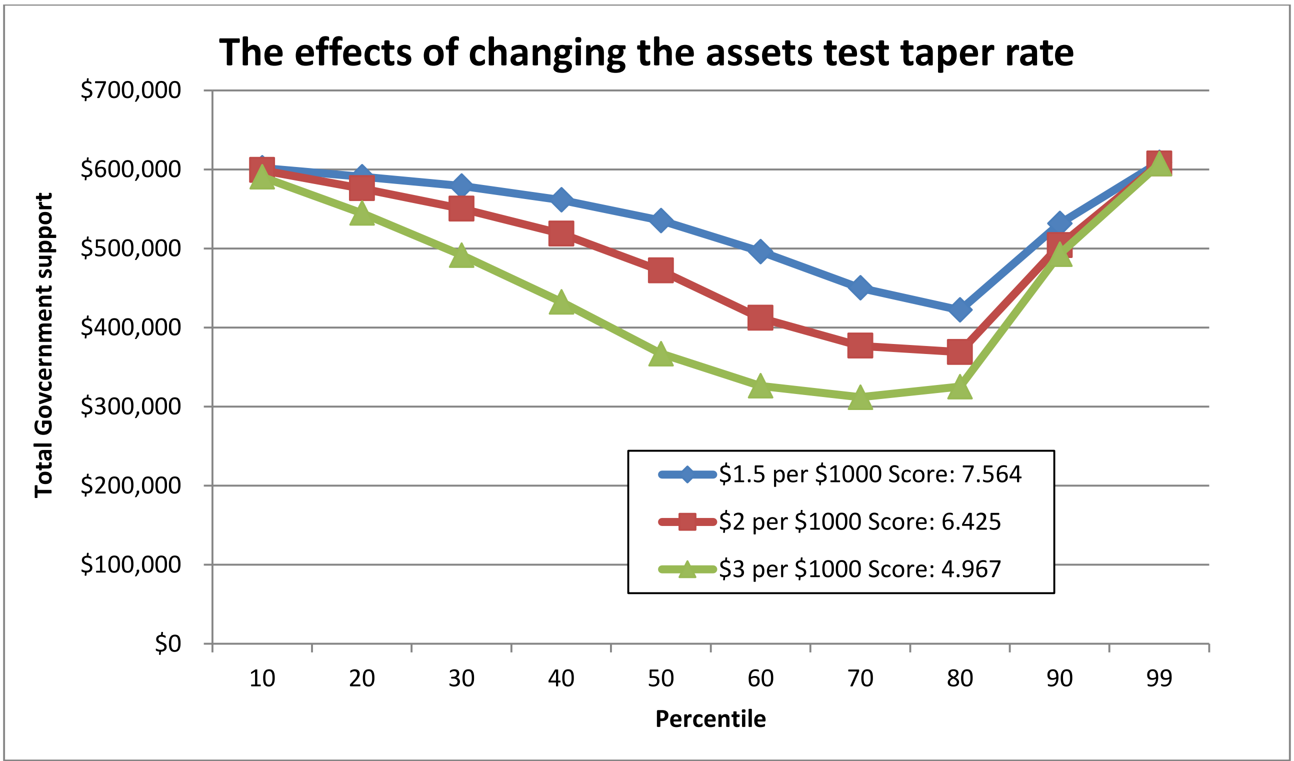
Over the long run, there will be more people affected on below average incomes than above. A fairer model would, in conjunction with the package of reforms outlined above, set an asset taper rate of $2.00, with the asset-free area being set at the midpoint between the old levels and new levels. This achieves fiscal savings that are at the midpoint between the old and new asset test.

As previously noted, the AIST-Mercer Super Tracker presently ranks 'fairness' of the superannuation system as having the lowest of the 10 Tracker scores. In 2016, AIST and Mercer tested different taper rates using the AIST-Mercer Super Tracker and found that the fairness score in the tracker reduces substantially as the assets test taper rate is increased. With the fairness score at that time being 7.6, the increase from $1.50 to $3.00 would reduce the fairness score to 5.0. On the other hand, increasing the taper rate up to $2.00 would increase fairness to 6.4.



AIST recommends that the assets test taper rate be increased to $2.00 to improve the fairness of Australia's retirement income system.

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3.8 Increase assistance for Indigenous Australia

3.8.1 Increase funding for Indigenous identification schemes

There are a number of issues that compound Indigenous disadvantage in Australia and AIST believes that more should be done to improve the economic participation of our First Australians. Financial inclusion is only achieved with access to appropriate financial services. Our work in the Indigenous superannuation space has highlighted the problems that exist for many Aboriginal and Torres Strait Islander people with regard to proving or verifying their identity for the purposes of claiming their own retirement savings.

We therefore ask that the Australian government fund the Indigenous ID card initiatives such as the Larrakia Nation card, and encourage the government to support the development of other card schemes around Australia to assist First Australians with identification concerns.

3.8.2 Improve the availability of financial counselling services

Economic participation and financial inclusion are also dependent on education and access to appropriate services. The funding of financial counsellors, especially in areas with high density Indigenous populations are a vital component of financial inclusion.

AIST therefore submits that funding for financial counselling services be increased to provide Aboriginal and Torres Strait Islander people with appropriate guidance on accessing information about their personal finances.

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4 Appendix: Payments to employees considered as part of Superannuation Guarantee Ruling SGR 2009/2

Payment no.	Payments to an employee in relation to...	Salary or wages?	OTE?
Awards and agreements			
1	A simple overtime situation	Yes	No
2	Overtime hours - agreement prevailing over award	Yes	No
3	Agreement supplanting award removes distinction between ordinary hours and other hours	Yes	Yes
4	No ordinary hours of work stipulated	Yes	Yes
5	Casual employee -		
	shift-loadings	Yes	Yes
	overtime payments	Yes	No
6	Casual employee whose hours are paid at overtime rates due to a 'bandwidth' clause	Yes	No
7	Piece-rates - no ordinary hours of work stipulated	Yes	Yes
8	Overtime component of earnings based on 'hourly driving rate' formula stipulated in award	Yes	No
Allowances			
9	Allowance by way of unconditional extra payment	Yes	Yes
10	Expense allowance expected to be fully expended	No	No
11	Danger allowance	Yes	Yes
12	Retention allowance	Yes	Yes
13	Hourly on-call allowance in relation to ordinary hours of work for doctors	Yes	Yes

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Payment no.	Payments to an employee in relation to...	Salary or wages?	OTE?
Payment of expenses			
14	Reimbursement	No	No
15	Petty cash	No	No
16	Reimbursement of travel costs	No	No
17	Payments for unfair dismissal	No	No
18	Workers' compensation -		
	Returned to work	Yes	Yes
	Not working	No	No
Leave payments			
19	Annual leave	Yes	Yes
Termination payments			
20	Termination payments -		
	In lieu of notice	Yes	Yes
	Unused annual leave	Yes	No
Bonuses			
21	Performance bonus	Yes	Yes
22	Bonus labelled as ex-gratia but in respect of ordinary hours of work	Yes	Yes
23	Christmas bonus	Yes	Yes
24	Bonus in respect of overtime only	Yes	No

Table 2

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