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**Work test exemption for recent retirees – draft legislation and regulations**

Please find enclosed our submission in relation to the work test exemption for recent retirees.

Should you require further information in relation to our submission please do not hesitate to contact me on [REDACTED] or [REDACTED]

Kind regards,

Adam Shultz  
Executive Manager, Policy  
Mine Super



# Work test exemption for recent retirees – draft legislation and regulations

Submission by Mine Super

October 2018

## About Mine Super

Mine Super is a profit to members, public offer superannuation fund dedicated to serving the retirement needs of all Australians. Its shareholders are the Construction, Forestry, Maritime, Mining and Energy Union (**CFMEU**), the NSW Minerals Council (**NSWMC**) and the Queensland Resources Council (**QRC**). Mine Super (formerly known as Mine Wealth + Wellbeing and AUSCOAL Superannuation) has been delivering exceptional retirement outcomes to members for over 75 years through a comprehensive range of superannuation and pension products, insurance and financial advice. Mine Super was awarded a Platinum rating by SuperRatings along with Chant West's Five Apples for both super and pension products in 2017. Mine Super employs approximately 200 staff and manages \$11bn in assets for more than 63,000 members.

## Executive summary

We welcome the opportunity to provide a submission to Treasury on the work test exemption for recent retirees. We hope that this submission (**Submission**) is afforded adequate consideration and assists in the abolition of the work test. The following is an outline of the key recommendations contained within this submission:

- we believe that the work test should be abolished;
- all individuals (under 75) should be able to contribute to superannuation within the existing concessional and non-concessional caps if their transfer balance is below \$1,600,000;
- removal of the work test would reduce complexity and improve flexibility in the superannuation system which is required due the existing nature of employment across the Australian economy; and
- the work test impedes vulnerable people (often women and part-time workers) from increasing their superannuation savings.

## Government proposal

The draft legislation and regulations provide recent retirees with a one year exemption from the work test which will allow superannuation contributions to be made following retirement. Currently, individuals aged 65 to 74 must meet a work test of a minimum of 40 hours in any 30 day period within the financial year to make a voluntary contribution to superannuation.

The draft proposal would allow individuals aged between 65 to 74 with a total superannuation balance of less than \$300,000 to make voluntary contributions for 12 months from the end of the previous financial year in which they last met the work test. Further, if an individual has not reached their concessional contribution cap over the previous 12 months, the individual will be able to 'bring forward' the unused portion of their contribution cap during the 12 month period (allowing them to contribute more than \$25,000 during the year). The \$100,000 non-concessional contribution cap will also apply to their contributions made under the work test exemption.

## Existing framework

### Contribution caps, balance limits, pension age and the objective of superannuation

The existing legislative and regulatory framework provides:

- Concessional contribution limit: \$25,000 per annum;
- Non-concessional contribution limit: \$100,000 per annum;
- 'Catch up' concessional contributions: Superannuation balance must be below \$500,000 to access the unused portions of concessional contributions;
- Transfer balance cap: \$1,600,000 is the total amount of superannuation that can be transferred into the retirement phase;
- Age pension eligibility age: Increasing from 65 to 67 by July 2023; and
- Superannuation (Objective) Bill 2016: The draft legislation before the Senate proposes that the objective of the superannuation system is to provide income in retirement to substitute or supplement the Age Pension.

## Concerns with the proposal

The proposed change for recent retirees with low balances to contribute additional funds into superannuation is welcomed. However, Mine Super have several concerns with the proposal including:

- the work test adversely impacts those on low incomes;
- the proposed \$300,000 threshold is significantly below the existing 'catch up' concessional contribution threshold of \$500,000 and the transfer balance cap threshold of \$1,600,000;
- the Association of Superannuation Funds of Australia (**ASFA**) recommend that an individual requires \$27,425 per annum for a modest lifestyle in retirement and \$42,953 per annum for a comfortable lifestyle (a superannuation balance of \$300,000 at retirement is not sufficient in meeting ASFAs recommendations);
- the work test adds intricacies to an increasingly complex superannuation system;
- the pension age eligibility requirements are increasing from 65 to 67 (concludes July 2023) while the work test applies for individuals who are 65 to 74 years of age (no consideration has been provided to align the age requirements of the work test with an increased pension age);
- the work test potentially discriminates against those who perform volunteer work; and
- the work test is not measured appropriately, verified or enforced.

## Recommendation

Mine Super is of the view that the work test should be abolished (a view widely supported in Australia).<sup>1</sup> All individuals up to 75 years of age with a transfer balance below \$1,600,000 should be able to contribute to superannuation through existing concessional and non-concessional thresholds. Removal of the work test would also reduce complexity associated with applying it for individuals aged 65 to 74. This would simplify and improve the superannuation system by adding flexibility which is required due to the existing nature of employment across the Australian economy.

Individuals who have not had the opportunity to save adequate resources for their retirement within the superannuation system should have a simple method of increasing their savings. These individuals are often women, part-time workers, those who have been forced out of full-time employment for extended periods of time during their working lives and could be regarded as vulnerable people. Retrenchment, medical ailments or family related reasons (primary care givers, divorcees or victims of domestic violence) may all be valid reasons as to why individuals have had to leave the workforce for an extended period.

It is not appropriate for Government to impede these individuals from increasing their superannuation savings. This would be an unintended consequence of the existing legislation and regulatory system and would be contrary to the proposed objective of the superannuation system (substituting or supplementing the Age Pension). Government need to provide greater flexibility for individuals to contribute to superannuation. This will reduce the fiscal burden on future Governments by reducing Age Pension obligations.

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<sup>1</sup> The Law Council of Australia (Law Council) also supports the abolition of the work test. The Law Council cite that while the work test was originally 'an integrity measure to avoid excessive accumulation in a tax concessional environment', it is no longer needed because contribution caps now perform this function. Abolition of the work test would improve system coherence because contribution rules would then be the same irrespective of a member's age.

