welcome to brighter

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Subject: Better Targeted Superannuation Concessions draft legislation

Dear Sir/Madam

Mercer welcomes the opportunity to comment on the Exposure Draft Legislation and explanatory materials relating to the Treasury Laws Amendment (Better Targeted Superannuation Concessions) Bill 2023 released by Treasury on 3 October 2023.

The structure of this submission is as follows:

- Who is Mercer?
- Our support for the Bill
- Recommended amendment
- Further comments and recommendations

Who is Mercer?

Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 85,000 colleagues and annual revenue of over $20 billion. Through its market-leading businesses including Marsh, Guy Carpenter, Mercer and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

Our support for the Bill

Mercer has long supported the need for a fairer system of superannuation tax concessions. For example, in our paper entitled *Rethinking super tax concessions* released in August 2023, Mercer recommended a reduction in the Division 293 threshold and supported the introduction of an additional tax on investment earnings for super balances above $3 million, whilst ensuring that this threshold is always greater than or equal to the indexed Transfer Balance Cap.

Therefore, Mercer supports the Bill, as presented in the draft legislation, together with a recommended amendment and some additional comments set out below.

Recommended amendment

Subsection 995-1 in the draft legislation defines the *large superannuation balance threshold* to be $3 million. There is no provision to index this threshold in the draft legislation.

Yet, the Transfer Balance Cap (TBC), currently $1.9 million, is subject to regular indexation. As you are aware, pension products up to the level of the TBC are exempt from any tax on investment earnings.

It would be very strange and inconsistent to have the new tax payable on investment earnings which are exempt from tax in the normal superannuation pension environment. Such an outcome would be confusing and lead to reduced community confidence in the overall superannuation system.

> It is therefore recommended that the definition of the *large superannuation balance threshold* be amended so that the threshold is the greater of:

- $3 million; and
- 1.5 times the Transfer Balance Cap

This approach would mean that investment earnings from superannuation funds would be taxed at three different rates:

- 0% for earnings from assets in pension products within the TBC, thereby encouraging retirees to take up pension products and receive regular retirement income;
- 15% for earnings from assets in superannuation products up to the large superannuation balance threshold; and
- 30% for earnings from assets in superannuation products above the large superannuation balance threshold.

This progressive scale of taxation would also be consistent with the current taxation rates on concessional contributions, namely:

- 0% for low income earners;
- 15% for most income earners; and
- 30% for high income earners with the additional tax arising from Division 293.

Further comments and recommendations

Mercer strongly supports the need for Regulations to determine the value of a defined benefit (DB) superannuation interest as outlined in Subsection 307-230A (2). However, given the complexity and variety of DB benefit interests that exist within the public and private sectors, we strongly recommend that the draft regulations relating to these interests should be open for consultation for **at least four weeks.** A shorter consultation period is likely to lead to unintended consequences for some individuals.

A major reason for the introduction of this legislation was to make superannuation tax concessions fairer and more equitable, in line with the wording of the proposed objective for superannuation.

Yet, we are aware that many individuals with significant superannuation balances are under no obligation to withdraw these funds at any age. That is, the current minimum drawdown rules only apply to pension products, which are limited by the TBC.

Yet the proposed wording for the objective of superannuation “is to preserve savings to deliver income for a dignified retirement”. That is, superannuation should have a focus on the provision of retirement income.

> It is therefore recommended that the minimum drawdown rules apply to all superannuation balances for individuals aged 75 and over.

Not only would this change be consistent with a focus on retirement income, but it would also reduce the opportunity for those with significant superannuation balances to use the super system for estate planning. In short, the system would become fairer.

Naturally, we would be very happy to discuss any of our comments with you and your team as you carefully consider these matters. Please do not hesitate to contact us.

Yours sincerely,

Dr David Knox AM
Senior Partner