National Seniors Australia

Independent voice of the over 50s

Submission in Response to the Consultation Paper

Concessional superannuation contribution caps for individuals aged 50 and over

About National Seniors Australia (NSA)

With a quarter of a million members Australia-wide, National Seniors is the consumer lobby for the over-50s. It is the fourth largest organisation of its type in the world.

We give our members a voice – we listen and represent our members' views to governments, business and the community on the issues of concern to the over 50s.

We keep our members informed – by providing news and information to our members through our Australia-wide branch network, comprehensive website, forums and meetings, bi-monthly lifestyle magazine and weekly e-newsletter.

We provide a world of opportunity – we offer members the chance to use their expertise, skills and life experience to make a difference by volunteering and making a difference to the lives of others.

We support those in need – as a not-for-profit organisation, we raise funds and redirect monies received to older Australians who are most in need.

We help our members save – we offer member rewards with discounts from over 7,000 business across Australia, we offer discount travel and tours designed for the over 50s, and we provide older Australians with affordable, quality insurance to suit their needs.

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Executive Summary

National Seniors appreciates the opportunity to comment on the proposals contained in the Consultation Paper *Concessional superannuation contributions caps for individuals aged 50 and over*.

We note that the consultation paper has a highly operational focus, with the aim being to help settle the detailed administrative and legislative design features of the measure, which would allow people aged 50 and over whose superannuation savings are less than $500,000 to make up to $50,000 annually in concessional superannuation contributions, rather than $25,000 annually, which is the cap that is due to apply from 1 July 2012.

Our response to the consultation paper focuses primarily on the key policy parameters, rather than on the intricacies of the various options put forward for consideration.

We have two major concerns about the broad policy parameters that we believe the Government needs to address prior to its consideration of the policy detail.

Firstly, we strongly believe that the eligibility requirements for the concessional contributions cap measure should be changed, by removing the $500,000 limit (the ‘low balance’ test). This is critical to improving intergenerational equity and to recognising the particular circumstances of those who are currently aged 50 and over, whose retirement savings were particularly hard hit by the Global Financial Crisis (GFC).

Furthermore, it is clear from the consultation paper that implementation of the measure is fraught with difficulty. National Seniors considers that all the options presented in the paper for determining eligibility involve unacceptable trade-offs either in relation to fairness (treating those in like circumstances the same) or simplicity (clarity and ease of administration). Yet fairness and simplicity are two key goals the Government highlighted in announcing its planned superannuation changes in May 2010.

Secondly, the additional $25,000 concessional superannuation contributions cap for those aged 50 and over should be indexed, in the same way that the base cap is indexed. This is vitally important to maintain the real value of the concession and help people maximise their retirement savings.

The two proposals that National Seniors has put forward would especially help the current generation of older workers to maximise their superannuation and position them to achieve a reasonable standard of living in retirement.

Introduction

National Seniors appreciates the opportunity to comment on the proposals contained in the Consultation Paper *Concessional superannuation contributions caps for individuals aged 50 and over*.

This particular measure is of one of four superannuation measures announced in May 2010 as part of the Government's tax plan *Stronger, Fairer, Simpler: A Tax Plan for our Future*. The other superannuation measures contained in the tax plan are:

- an increase in the Superannuation Guarantee from 9 per cent to 12 per cent, over seven years commencing in 2013-14;
- a government contribution up to $500 a year for low income earners, to improve the equity of superannuation taxation arrangements for those on adjusted taxable incomes of up to $37,000; and
- raising the Superannuation Guarantee age limit from 70 to 75.

The concessional superannuation caps measure would allow people aged 50 and over whose superannuation savings are less than $500,000 to make up to $50,000 annually in concessional superannuation contributions, rather than $25,000 annually, which is the cap that is due to apply from 1 July 2012. Its stated aim is to enable people with balances under $500,000 to 'catch up' on their superannuation contributions when they are most able. An estimated 275,000 people are expected to benefit.

As proposed in the consultation paper, the cap for those aged 50 and over would be set at $25,000 (unindexed) above the indexed cap for individuals under 50. That is, the total concessional contributions cap for those 50 and over would rise over time, but only by the amount of indexation applied to the $25,000 base. Furthermore, it is not intended to index the $500,000 threshold.

In addition, the consultation paper addresses issues such as:

- the eligibility of those who have commenced drawing down their superannuation;
- the process for assessing eligibility for the higher concessional contributions cap;
- the calculation of an individuals' total superannuation account balance;
- rules for self managed superannuation funds;
- fund reporting;
- the assessment process for excess contributions tax; and
- the commencement date.

Our response focuses primarily on the key policy parameters, rather than the intricacies of the various options put forward for consideration.

NSA's position

Overall, National Seniors welcomes the May 2010 package of superannuation initiatives, which over time should significantly improve Australians' retirement savings and help enable them to achieve a better standard of living in retirement.

We note that the consultation paper has a highly operational focus, with the aim being to help settle the detailed administrative and legislative design features of the measure. However, we have two major concerns about the broad policy parameters that we believe the Government needs to address prior to its consideration of the policy detail.

Firstly, we strongly believe that the eligibility requirements for the concessional contributions cap measure should be changed, by removing the $500,000 limit (the 'low balance' test). This is critical to improving intergenerational equity and to recognising the particular circumstances of those who are currently aged 50 and over, whose retirement savings were hard hit by the Global Financial Crisis (GFC).

Furthermore, it is clear from the consultation paper that implementation of the measure is fraught with difficulty. National Seniors considers that all the options presented in the paper for determining eligibility involve either unacceptable trade-offs in relation to fairness (treating those in like circumstances the same) or simplicity (clarity and ease of administration). Yet fairness and simplicity are two key goals the Government highlighted in announcing its planned superannuation changes in May 2010.

It appears that the main motivation for imposing a 'low balance' test on eligibility for the higher concessional contribution cap is to protect taxation revenues by limiting concessions. While this may be a valid public policy goal, it comes at the cost of creating even greater complexity and disincentive for people to save for their retirement, at a time when most people have the greatest capacity to do so.

Secondly, the additional $25,000 concessional superannuation contributions cap for those aged 50 and over should be indexed, in the same way that the base cap is indexed. This is vitally important to maintain the real value of the concession and help people maximise their retirement savings.

Rationale

Minister Shorten has acknowledged, in *Stronger Super*, the Government's response to the Super System Review, that "We cannot encourage Australians to save more for their retirement without providing certainty in terms of policy settings". However, in recent years the policy settings relating to the caps for concessional contributions have been in a constant state of flux creating great difficulty for people trying to understand and make superannuation contribution decisions and plan their retirement. This is demonstrated in the following table.

Changes to age based concessional superannuation caps		
Date of Effect	**Yearly concessional cap**	
Pre July 2007	Under 35 35 – 49 50 and over	$15,260 $42,385 $105,113
1 July 2007	All ages	$50,000 (indexed), with a five year transitional cap of $100,000 for people aged 50 and over
1 July 2009	All ages	$25,000 (indexed), with a three year transitional cap of $50,000 for people aged 50 and over
1 July 2012 (proposed)	All ages People over 50 with total superannuation balances below $500,000	$25,000 (indexed) $50,000

These continual and arbitrary changes to the rules that have been a feature of superannuation policy have had a major impact on contribution rates (including Superannuation Guarantee, salary sacrifice and after tax contributions), as the AMP Retirement Adequacy Index[1] shows (see table below).

Contribution Rates by Age, December 2006 to June 2010								
Age	**Dec 06 (%)**	**Jun 07 (%)**	**Dec 07 (%)**	**Jun 08 (%)**	**Dec 08 (%)**	**Jun 09 (%)**	**Dec 09 (%)**	**Jun 10 (%)**
20-24	10.1	11.0	10.1	10.3	10.1	10.0	10.0	9.7
25-29	10.2	11.0	10.2	10.4	10.3	10.1	10.4	10.0
30-34	10.7	11.4	10.6	10.7	10.4	10.2	10.5	10.1
35-39	10.8	12.4	10.9	10.8	10.8	10.5	10.6	10.4
40-44	11.3	16.7	11.6	11.4	11.5	11.4	11.3	11.4
45-49	13.7	17.7	12.8	12.2	12.1	12.1	11.9	11.9
50-54	14.4	21.5	16.0	14.3	13.7	13.9	13.4	13.6
55-59	18.1	28.4	19.4	18.2	17.6	18.4	17.7	18.1
60-64	21.6	40.0	25.0	22.2	22.8	23.5	21.3	23.0
65-69	25.5	56.5	24.4	25.7	25.6	28.6	25.1	27.6
All workers	**12.6**	**17.2**	**13.0**	**12.6**	**12.5**	**12.5**	**12.4**	**12.5**

The AMP data, drawn from more than 328,000 of the company's corporate superannuation customers, show a clear pattern of declining contributions following each change in contribution caps, with the older age groups (50+) typically showing the greatest declines. At June 2010, contribution rates for all workers (12.5%) remained below the level they were when the Index began in December 2006 (12.6%), and significantly below the peak in June 2007 (17.2%), just prior to the major change on 1 July 2007 which restricted contribution caps to $50,000 for all workers, except those aged 50 and over, who were eligible for a five year transitional cap of $100,000. Following the 1 July 2009 changes, there was another consistent drop in contribution rates for those 50 and over, with a slight recovery by June 2010.

However, it is precisely this older cohort of workers who will have the lowest estimated level of retirement savings and, hence, the worst prospects of attaining a reasonable standard of living in retirement. Reflecting the fact that Australia's compulsory superannuation system only commenced 20 years ago, with a contribution rate of just 3 per cent of salary, it is the very oldest workers who are estimated to have the lowest retirement balances of all, as the AMP Retirement Adequacy Index shows[2].

[1] AMP Media release *Super balances up but Australians remain cautious*, 1 March 2011, page 3.
[2] AMP Media release *Super balances up but Australians remain cautious*, 1 March 2011, page 4.

Average Assets at Retirement – Today's Dollars			
Age	**Super ($)**	**Other Assets ($)**	**Total ($)**
20-24	818,912	143,732	962,644
25-29	707,729	127,884	835,613
30-34	602,147	142,939	745,086
35-39	504,170	140,564	644,734
40-44	411,291	163,975	575,266
45-49	321,129	162,263	483,393
50-54	238,538	188,372	426,910
55-59	186,455	202,688	389,143
60-64	151,579	218,388	369,966
65-69	119,146	220,133	339,279
All workers	**493,856**	**159,252**	**653,108**

It can be seen from the table that a young person in the workforce today (aged 20-24) is estimated to accrue superannuation savings at retirement of over $800,000 in today's dollars – a level which is more than 300 per cent greater than a person who is currently aged 50-54, and over 500 per cent greater than a person who is currently aged 60-64. This reflects the fact that younger people are starting out with a much higher level of employer superannuation contributions and the effects of compound interest over 40 years or more. Older workers have not had these advantages.

National Seniors considers that the AMP data present a compelling argument, on intergenerational equity grounds, to remove the $500,000 limit for eligibility for the higher concessional contributions cap for those aged 50 and over.

We recognise that many older workers have substantially lower account balances than $500,000 so that, intergenerational equity issues aside, this limit may at first glance be seen as affecting high income earners only. However, as the consultation paper highlights, there are considerable administrative complexities involved in determining whether a person has reached the $500,000 limit. A number of the options presented in the consultation paper would exclude those with much lower balances, for the sake of administrative ease. Such options undermine the fairness of the proposed measure.

The imposition of an arbitrary limit on superannuation balances to determine eligibility for the measure has created a minefield of issues that need to be resolved, such as:

- how to maintain the integrity of the limit, which involves consideration of withdrawals (lump sums and income streams, including transition to retirement pensions) and how they should be treated;

- who would be responsible for assessing superannuation balance criteria – the individual or the Australian Taxation Office;
- how an account balance would be calculated, including the calculation date, what funds would be included, and the methodology for valuing a person's superannuation account balance.

As the options presented in the consultation paper make clear, **setting an arbitrary limit on superannuation account balances means that it is not possible to achieve both fairness and simplicity**. The trade-offs that need to be made between these two goals to operationalise the limit are, in National Seniors' view, unacceptable. This situation can easily be resolved by abolishing the $500,000 limit for eligibility.

Conclusion

National Seniors urges the Government to rethink its policy parameters for the concessional superannuation contributions caps for people aged 50 and over. To improve intergenerational equity, fairness and simplicity, it must abolish the $500,000 limit for eligibility. It must also maintain the real value of the concession by indexing the additional $25,000 concessional superannuation contributions cap for those aged 50 for those who qualify for the measure. These two proposals would especially the help the current generation of older workers, whose retirement savings have been hit hard by the GFC, to maximise their superannuation and position them to achieve a reasonable standard of living in retirement.