From: Trish Power
Sent: Friday, 30 June 2006 5:27 PM
To: Simpler Super
Cc:
Subject: 710 Superannuation for Dummies

Hi all

I am the author of *Superannuation For Dummies*, and *Superannuation: Choosing a Fund For Dummies*.

In the past I have worked for the Insurance and Superannuation Commission and ASIC. I was also Technical Manager for the Australian CPAs' Superannuation Centre of Excellence for a couple of years.

Along with other writing commitments, I now write a weekly column about super for Eureka Report (www.eurekareport.com.au), an online investing service. In last week's column (26 June 2006), I suggested some possible changes to the Government's super plan.

I offer the column's introduction (see below) as a submission.

I may make further submissions.

Regards
Trish Power

Dear Trish: Super's Forgotten Ones
By Trish Power

PORTFOLIO POINT: Changes to superannuation are good news for under-forties, and neutral for the over-fifties. Those caught in between can no longer make the catch-up payments they might have intended to prepare for retirement.

Australians who are now in their forties may be experiencing a level of uneasiness about the latest super changes announced in the budget on May 9. And they should, because It's likely that forty-somethings - older members of generation-X and the youngest baby boomers - will lose out in the latest superannuation reforms.

From July 1, 2007, Australians up to the age of 75, including the self-employed, will be subject to a standard limit of $50,000 each year when making tax-deductible contributions. For employees, the $50,000 limit covers all employer contributions including salary-sacrificed contributions. The age-based contribution limits currently in place (see table below) will no longer apply.

The proposed contribution limits favour the under-40s who have time on their side to take advantage of the annual fixed limit of $50,000. The Government has also recognised the catch-up retirement needs of Australians aged 50 and over by putting in place transitional deductible contribution limits of $100,000 for a five-year period starting July 1, 2007.

Note: You must be aged 50 or over on or after July 1 2007, to take advantage of the transitional provisions.

And then there's poor piggy in the middle: the forty-somethings. They are generally too young to have accumulated substantial amounts of super, and, ironically, they are too old to play super catch-up now that the opportunity to make $100,000-plus contributions has been taken away. When most of the current batch of forty-somethings reach 50, any deductible contributions are subject a flat limit of $50,000, which is less than half of the current aged-based contribution limit of $100,587 (for 2005-06) for over-50s. Only those forty-somethings who started accumulating super at a relatively early age will be well placed when they hit their fifties.

Under-40s are OK

The changes to the contribution limits are great news for the under 35s. From July 1, 2007, anyone under the age of 35 will be able to benefit from the possibility of $50,000 in tax-deductible contributions each year rather than, for example, the $14,603 that applies to this age group for 2005-06.

Parliament recently released a report titled *Improving the superannuation savings of people under 40,* which states that Australians under the age of 40 will be the first to benefit from a fully mature superannuation guarantee system (compulsory employer contributions), and a system that is enjoyed for a full working life. The full superannuation guarantee entitlement of 9% employer contributions has only been in place since 2002.

Despite the high living standards expected by members of this age group, the report says a lifetime of compulsory employer contributions and the acceptance of the need for a self-funded retirement will help them bridge any savings gap between lifestyle expectation and reality.

It appears that the under-40s will also be actively encouraged to take an interest in boosting their super. The report, produced by the standing committee on economics, finance and public administration, makes several recommendations on how Australians under the age of 40 can be encouraged to save more super. For example, a key recommendation (not law) is that when a new employee starts work, an employer can automatically divert 3% of their salary to a super fund as an employee's voluntary super contributions, unless the employee opts out of the arrangement.

Considering over-50s

If you're over the age of 50, the changes to the deductible contribution limits are relatively neutral, unless you're seriously underfunded.

Australians aged 50 and over on or after July 1, 2007 can make up to $100,000 in tax-deductible contributions for another five years. However, I do not regard a five-year transitional period as sufficient to enable substantial catch-up contributions for those who have not had an opportunity to accumulate super savings over time.

Note that any employee currently aged 50 or over can also continue to make deductible contributions of $100,587 and $105,113 for the 2005-06 and 2006-07 years respectively, while self-employed individuals need to contribute $132,450 and $138,484 respectively for the same deduction in those years).

Piggy in the middle

It s a different story for the forty-somethings who appear to be the forgotten generation in the proposed new super regime. If you are 49 on or after July 1, 2007 you cannot take advantage of the transitional rules permitting catch-up deductible contributions of $100,000 a year. If you happen to be one year older - 50 - you can.

If you're in your early forties you are even worse off than someone in their late forties. You have only had the opportunity to make large contributions ($40,560 for 2005-06) since you turned 35, and like many Australians in their thirties your priorities probably were buying a home, paying off a mortgage and/or starting a family. The opportunity to catch-up on your super in your fifties at the same level as today's fifty-somethings (as was the plan for many people) is no longer possible.

The issue of financial opportunity equally applies to the under-40s but remember that many of this group will have had a lifetime of employer contributions as a starting point and a lifetime to make deductible super contributions of up to $50,000. The obvious questions to ask, however, are: how many Australians under the age of 40 can afford $50,000 in deductible contributions? and how many are taking an active interest in their superannuation account?

Cost of childrearing

The truly forgotten Australians in a reasonably progressive superannuation policy, are the women and some men who have taken time out of the paid workforce to rear children and may not have had the opportunity to take advantage of the contribution limits each year, or even to make after-tax contributions.

I believe three changes to the proposed rules will make the new deductible limits more equitable for forty-something Australians and others who had not had the chance to make the most of their super opportunities.

1. An equitable alternative is to permit anyone over the age of 50 to continue making contributions of $100,000 a year, rather than just those lucky few who can make catch-up contributions for the next seven years. Instead of having a transitional period where only those aged 50 or over on or after July 1, 2007, can make a $100,000 deductible contribution, why not make this higher limit part of the new regime. Anyone under the age of 50 has a standard $50,000 limit on deductible contributions and anyone aged 50 years or over can make $100,000 contributions up to the age of 65 or possibly 70. The limit then falls back to $50,000 until the age of 75.

2. The Government needs to seriously consider indexing the $50,000 contribution limit (or lifetime limits, see point 3) to ensure those who are contributing far into the future are not disadvantaged. At the risk of stating the obvious, $50,000 today is worth substantially more than $50,000 in 20 years' time due to the effects of inflation.

3. Alternatively, each Australian be given a lifetime limit representing $50,000 a year over a set number of years taking into account past contributions. If an individual does not take advantage of the $50,000 in one year they can do so in later years when they have more disposable income. This may add more administrative complexity for the tax office, but all super funds including DIY super funds are already required to report contributions to the tax office via a Member Contributions Statement. A fund member could then access an online facility (that could be developed by the tax office) using his or her tax file number as an identifier, to find out how much of his or her lifetime limit has been used. Easy.