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4 August 2006

Mr J Lonsdale  
General Manager  
Superannuation, Retirement and Savings Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Mr Lonsdale

### **A Plan to Simplify and Streamline Superannuation (the Plan)**

Australian Reward Investment Alliance (ARIA), as trustee of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) and the Public Sector Superannuation Accumulation Plan (PSSap), is pleased to respond to Treasury's request for submissions on the proposed simplification and streamlining of superannuation. As the trustee of superannuation entities with funded, unfunded, taxed and untaxed elements, we are acutely aware of the complications inherent in the current system. We understand that the proposed changes are financially beneficial to superannuation members from both taxed and untaxed schemes and as a result support these proposals.

However, we consider that a number of additional transitional and technical matters relating to the benefits paid from untaxed sources should be addressed. These matters do not relate to core principles such as the quantum of the 10% offset, or our schemes' specific provisions which we understand are not within the scope of this submission process.

### **Concessional \$700,000 Lump Sum and Rollover Limits**

The Plan states that for fund members aged over 60 years, untaxed benefits up to a proposed new \$700,000 limit are to be taxed at 15% and at the top marginal tax rate thereafter. *"These arrangements recognise the difficulty of applying the concessional deductible tax cap to the entire rollover amount (as outlined in Chapter 4)"* (refer Plan 8.4.2). The proposed new limit will restrict the amount of superannuation benefits which are treated in a concessional manner, in a similar way to the concessions afforded under the proposed \$50,000 contribution limit for taxed funds.

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However we are concerned that members of untaxed schemes will not be as advantaged as members of taxed schemes. This is because the \$50,000 contribution limit is a prospective limit – it ignores existing taxed members' balances. In addition, a higher \$100,000 contribution limit for individuals over 50 years of age has been announced for a period of 5 years.

The \$700,000 benefit limit on the other hand is both retrospective and prospective. That is, existing untaxed balances and future contributions will both count towards the \$700,000 limit - there is no higher transitional limit provided.

It is our view that the \$700,000 untaxed benefit limit should be prospective only. This can be achieved by excluding existing untaxed balances. Existing untaxed balances will need to be calculated (from a given date for example from 1 July 2007) because of the proposed exemption of 'pre 1983 amounts' and, for efficiency reasons, we recommend that the same date (1 July 2007) be used for both purposes.

If the \$700,000 limit is not changed to be prospective only, then consideration should be given to increasing the size of the benefit limit. This would counterbalance both the retrospective nature of the limit and the higher \$100,000 transitional arrangement. We consider a limit in excess of \$1 million would be needed to account for these two factors.

In addition we consider it appropriate for all limits to be indexed to AWOTE. Indexation provides greater confidence to members that contributions made now will not be additionally eroded in real terms over time.

### **Post Retirement Income**

For taxed funds one of the reported advantages of the proposals is that, for members 60 years of age or older, *"Individuals would not need to include lump sum superannuation benefits and superannuation pensions in their tax return, lowering their taxable income and therefore potentially lowering the tax paid on other income"* (refer Plan 2.2.3).

However, as proposed, this advantage does not apply to members of untaxed schemes who are 60 years of age or older. Members of untaxed schemes have not paid tax on their contributions at the point of entry (unlike taxed funds' members who have paid 15%) and hence the Plan argues on equity grounds that tax should be paid upon exit. The Plan proposes that for pensions (paid after the age of 60) the amount of tax payable is based on the individual's marginal tax rate including the Medicare Levy, applied against total assessable income (pension plus other income) less a 10% reduction based on the pension amount. For lump sums the amount of tax payable will be at 15% up to the \$700,000 limit and at the top marginal tax rate thereafter. To pay this amount an individual would need to lodge a tax return even if their only assessable income was a pension or lump sum.

This approach inappropriately penalises members of untaxed schemes who earn assessable income in retirement because they will pay a higher amount of tax on this extra non pension income. For example, a 61-year-old member of a taxed scheme who takes up part time work and earns \$6,000 will keep that entire amount, whereas a 61-year-old member of an untaxed scheme is likely to only keep \$4,200. If the same retired members each sell an investment house (capital gains tax event), the taxed fund member keeps 18% to 40% more of the capital gain than the untaxed member. We believe this effect was not intended and is inappropriate. We also believe that the additional benefits of not having to lodge a tax return should be available to all retirees who are 60 years of age or older.

We propose that Untaxed Superannuation Funds (USFs) be permitted to calculate the tax payable and pay after tax amounts to their members who are 60 years of age or older as non assessable income. USFs would calculate the untaxed element of any benefit and, for pensions, apply the standard individual marginal tax rates to this amount, reduce the tax payable by the 10% offset and pay the member their benefit post tax. For lump sums the tax scale applied would be 15% to \$700,000 (as currently proposed) and at the top individual marginal tax rate thereafter.

As these benefit amounts would not be included in assessable income, any additional income would not be effected and the member may not need to lodge a tax return. The Plan's full benefits at 2.2.3 (see above) would also become available to untaxed members.

USFs would forward the amount of tax collected to the ATO along with a copy of the Payment Summary given to the pensioner.

### **Medicare Levy**

The Plan's proposal that taxed fund members receive their pension tax free means that they will not be paying the Medicare Levy. For equity reasons we believe it is inappropriate that members of untaxed funds incur this additional Medicare Levy cost. For this reason the Medicare Levy has been excluded from the rates applied above.

### **Portability**

The Plan proposes that superannuation funds be required to transfer a benefit to a new fund with 30 days rather than the current 90 day period (refer Plan 9.2.1). This new time limit should not apply to defined benefit funds, as their benefits usually require complicated calculations. These calculations for example may include multiple contributory periods, an individual's final salary and benefit multiples. This information needs to be collected and confirmed, often by third parties, before a benefit can be paid. The shorter 30 day period is therefore not appropriate.

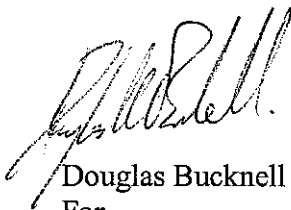
### **Re-Contribution of Superannuation Strategy**

There appears to be scope within the Plan for members over the age of 60 to withdraw their deducted contributions and re-contribute un-deducted amounts within the \$150,000/\$450,000 limits so as to avoid additional tax to non dependants upon death. The additional churn in members' balances unnecessarily increases costs (administration and buy/sell spreads) and reduces efficiency. With appropriate policy settings this inefficiency can be eliminated.

We have consulted on a preliminary basis with many other USFs on our proposals and they are supportive in principle. We would be willing to form a working group of USFs, Treasury and the ATO to discuss these matters.

Please contact our Senior Policy Advisor Douglas Bucknell on (02) 6263 6922 to clarify any of the points in this letter or any related issues.

Yours sincerely



Douglas Bucknell  
For  
Peter Carrigy-Ryan  
Chief Business Operations Officer