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Submission on 'A Plan to Simplify and Streamline Superannuation'

Introduction

A.I.R. strongly supports the Government Plan to Simplify and Streamline Superannuation. The proposed changes will dramatically simplify and clarify superannuation resulting in greater confidence and better understanding by potential and existing retirees. It will encourage potential retirees to save through superannuation. Accumulation of retirement assets should increase as advisory and administration costs reduce. Most government objectives for building retirement assets among potential retirees appear to have been met.

The Plan removes two significant issues for retirees during the drawdown phase because there will be no tax payable both on asset investment and also on withdrawal: (i) removal of capital gains tax on investment and (ii) effective splitting of superannuation incomes. However, these improvements within superannuation exacerbate the inequality between retirees who draw their income from assets outside superannuation and those who have access to superannuation.

Future retirees have the opportunity to decide the extent they choose to accumulate superannuation to gain its benefits and the extent they choose to invest outside superannuation to gain flexibility. Many existing retirees, especially those now in their late 70s and 80s, put their retirement savings plans in place 40 to 50 years ago in a totally different policy setting. Many have limited superannuation but are denied access to superannuation and its advantages over the age of 70 under the Plan. This issue is addressed in further detail below.

Summary of Recommendations

1. *Pensions*

- 1.1. Minimum drawdown rates for pensions should be established as contained in the sample in the Plan.
- 1.2. All existing allocated pensions should be transferred to the new arrangements from 1 July 2007.
- 1.3. Complying pensions in operation at 1 July 2007 should be able to be cashed in, subject to the provider being prepared to offer a suitable cashing in proposal and

the original purchaser being prepared to accept the proposal. There should be no compulsion on a provider to offer a cashing-in proposal and no prescription of the amount. SMSFs should be treated in exactly the same way as other providers.

1.4. Tax free pensions should not be reported on Income Tax Returns.

2. *Existing Retirees*

2.1. The elements of the Plan that relate to individuals over the age of 55 should be retained except that retirees over the age of 65 should be exempt capital gains tax on assets transferred into superannuation up to a non-indexed total superannuation asset of $750,000 following the transfer and at the date of the transfer

2.2. Because many individuals, including existing retirees, have investments outside superannuation in relatively large assets, such as property, allowable undeducted contributions of $150,000 pa should be able to be averaged over three years

2.3. Retired couples should have the option of submitting a joint tax return.

3. *Untaxed Funds*

The rebate on pensions from untaxed funds should be based on the total pension paid and not the amount of tax payable.

Submission

A.I.R. raises the following issues arising from the Plan.

1. *Pensions*

A.I.R. welcomes the increased flexibility available to retirees in drawing down superannuation that will arise from limiting control of drawdown to prescription of the minimum drawdown.

1.1 Minimum drawdown rates have been set in accordance with life expectancy tables. This has required revision of the rates and caused increased complexity through the introduction of grandfathering requirements. A.I.R. supports a simplified set of average factors not directly linked to life expectancies and needing infrequent revision.

Age range	**Percentage of Fund balance**
55–64	4
65–74	5
75–84	6
85–94	10
Over 95	14

1.2 A.I.R. proposes that all existing allocated pensions should be transferred to the new arrangements from 1 July 2007. Because these pensions will be tax free, issues of deducted and undeducted contributions should not arise.

1.3 The Plan should enable cashing in of complying pensions including lifetime and fixed term annuities and pensions in operation at 1 July 2007, subject to the provider being prepared to offer an acceptable cashing in proposal. There should be no compulsion on a provider to offer a cashing-in proposal and no prescription of the amount. SMSFs should be treated in exactly the same way as other providers.

1.4 The Plan proposes that pensions and lump sums arising from the drawdown of superannuation will be tax-free. Consequently, A.I.R. believes that such funds should not be reported on Income Tax Returns because this will cause considerable confusion as to whether they are taxable or not. If the government wishes to collect this information for statistical purposes there should be a very detailed consideration of how to do this without causing confusion.

2. *Existing Retirees*

Existing retirees have widely different circumstances related to their investment in retirement assets and income derived from these assets. Many have been discriminated against because of past legislation. Some retirees have been prevented from having, or chosen not to access superannuation. A major constraint against building superannuation assets has been the requirement to pay capital gains tax on transfer of assets into superannuation. However, some retirees have built considerable superannuation assets and some were able to obtain substantial RBL limits during the RBL transitory phase.

Many retirees seek to have the work requirement removed on the grounds that it discriminates against retirees over the age of 65 and that it is clumsy and easily circumvented by many. The requirement, for example, prevents a person aged over 65 from selling their family home, downsizing into a retirement village, and contributing the excess funds into superannuation.

As stated in the Introduction, the Plan exacerbates inequality between retirees who draw their income from assets outside superannuation and those who have access to superannuation because, during the drawdown phase, two significant issues for retirees have been resolved arising from no tax payable both on asset investment and also on withdrawal. These issues are: (i) removal of capital gains tax on investment of assets, and (ii) effective splitting of superannuation incomes.

The policy difficulty is how to assist existing retirees without adding to complexity, administrative cost, and capacity for misuse.

A.I.R. proposes that retirees in the drawdown phase should have the ability to transfer funds exempt from capital gains tax into superannuation to take advantage of the Plan. This ability should be capped and should reduce over time as potential retirees can make appropriate decisions within the policy framework of the Plan. Therefore, it proposes a non-indexed cap to total assets in superannuation for individuals qualifying for capital gains tax exemption on transfer and which is limited to retirees.

A.I.R. proposes that retiree couples should have access to income tax splitting by having an option to submit a joint tax return.

A.I.R. proposes that:

2.1 The elements of the Plan that relate to individuals over the age of 55 should be retained except that retirees over the age of 65 should be exempt capital gains tax on assets transferred into superannuation up to a non-indexed total superannuation asset holding of $750,000 following the transfer and at the date of the transfer.

2.2 Because many people, including existing retirees, have investments outside superannuation in relatively large assets, such as property, allowable undeducted contributions of $150,000 pa should be able to be averaged over three years.

2.3 Retired couples should have the option of submitting a joint tax return.

3. *Non-taxed Funds*

A.I.R. seeks clarification of the method of operation of the 10% rebate or offset available to members of ‘non-taxed’ superannuation funds. It supports the position that the rebate should be based on the total pension paid and not the amount of tax payable.

End of submission