Comments on "A Plan to Simplify and Streamline Superannuation"

What follows is an attempt to focus on principles rather than detail. Obviously, I would be prepared to expand further on any aspect if requested. In this respect it should be noted that I have had an involvement with superannuation and investment going back more than 50 years.

General

The proposal accepts too readily " Australia's three pillar approach to providing retirement incomes" and the role of the Superannuation industry. It would have been useful to examine just how financially effective (for the nation) the industry has been in putting us where we are today.

It seems to me that the industry has focused too much on tax minimisation and on the high end of the social scale and rewarded itself too highly in the process. In fact, I suspect that the cost of tax concessions, the cost of applying means tests and the cost of otherwise administering social services, far outweigh the savings achieved in reduced pension payments.

I believe that a better approach would have been to remove all taxation support for the industry and allow it to survive on its merits against other forms of savings. Means tests on pensions should have been removed and pensions taxed with other income leaving the tax system (including consumption taxes and death duties) as the only redistributive process.

Limit on contributions rather than benefits

There is considerable logic in limiting contributions rather than benefits. However,

(i) It should be made a requirement of the new system that unallocated schemes not be permitted (in the accumulation phase) and that all defined benefit schemes be fully allocated to members. It is instructive to recall the 1950s when, without much involvement of actuaries, superannuation plans were set up to provide defined benefits on a fully allocated basis. With the aid of modern computers it would be quite a simple matter now, to do it a lot more efficiently.

(ii) In some types of employment people reach high earnings levels quite early in their careers, whereas in others high earnings are achieved quite late. Some people have heavy family commitments at a young age, whereas others acquire them later in life. The annual limit of $50,000 is sufficiently high to cover these issues in most circumstances but a working lifetime limit would provide a more satisfactory approach.

(iii) A working lifetime limit would also make it easier to mesh the employer ETPs with superannuation and to implement (i) above.

Effect on those past or near retirement

It is all very well to look at things conceptually as far as the future is concerned, but there is also a need to look at the effect on those immediately affected.

I happen to be one of those who will receive a windfall as a result of the proposals. I find it objectionable however, that those who have recognised the existence of rip off merchants in the industry and have saved outside it, will now be fully taxed in respect of their investment income. The arrangement in respect of undeducted contributions does not go far enough, particularly when it is realised that sale of existing investments to make undeducted contributions will bring forward capital gains tax liability.

Other

I notice an apparent inconsistency as between the treatment of contributions pre tax in excess of $50,000 and that of undeducted contributions, which are generally limited to $150,000. A very high income individual could salary sacrifice to whatever level he/she liked and avoid the undeducted cap, thus gaining the benefit of tax advantaged investment income (having effectively paid full tax on his/her primary earnings).

It is not clear to me what the treatment will be of franking credits in respect of the segregated assets backing a complying pension. When these credits started to be paid over to the funds concerned a few years back, there was no increase to lifetime pensions being paid as fund managers pocketed the refunds (at least in my case involving an AMP pension). It would be a bit hard to take if the credits ceased to be paid and fund managers used that as a reason for corresponding reduction in pensions.

It would appear that the proposals make it more difficult in some circumstances for providers to lock in customers whilst blaming the law. This can only be good.

Bill Jocelyn

20th July 2006