MERCER
Human Resource Consulting

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

Subject:
Mercer Submission No. 8 – Miscellaneous Issues

Dear Sir

This is the 8th submission made by Mercer Human Resource Consulting in response to the Government's Plan to Simplify and Streamline Superannuation. It concludes our current series of submissions.

Key Government proposals covered in this submission

- Various changes in the rules relating to pensions; and
- The introduction of annual limits on the amount of concessionally taxed deductible contributions and undeducted contributions in respect of self-employed persons.

We have also considered the treatment of pensions paid from an overseas source, the ability of self-employed persons to claim invalidity benefits and the difficulties faced by employers who wish to ensure that all of their employees have at least a minimum level of death and disablement insurance.

Executive Summary

Pensions

In this report we have recommended that:
- The deductible amount of existing pensions should be increased to allow for the pre-July 1983 component where the pensioner is currently under age 60;

- Trustees should be able to commute existing non-commutable pensions within a short transitional period. This will enable trustees to simplify their operations by minimising or removing legacy products;
- Existing allocated pensions should be automatically converted to pensions that incorporate the new pension standards. This will ensure that existing allocated pensions do not become legacy products;
- It should be possible to add further superannuation eligible termination payment amounts to account-based pensions; and
- It should be possible to pay lump sum death benefits to dependants or non-dependants of a deceased pensioner and such payments should be tax free if the pensioner is aged 60 or over.

We have also made recommendations in relation to some administrative aspects of determining the minimum draw down amounts each year.

Overseas Pensions

We have considered whether there should also be changes to the taxation treatment of pensions received from an overseas source. Although we have concluded that this is not feasible, our analysis confirms the views expressed in Submission No. 5 that the Government's proposed treatment of untaxed schemes is inappropriate and that an approach more consistent with that proposed for taxed schemes would be more equitable.

Self-employed Persons

The Government's proposals regarding annual limits on undeducted and concessionally taxed deductible contributions create additional difficulties in relation to self-employed members. These additional difficulties arise because the decision as to whether the contributions are undeducted or deductible is often not made until after the end of the year. Nevertheless, we believe that the recommendations that we have made in Submissions No. 1 and No. 2 will enable funds and the ATO to cope with these difficulties. In particular, we consider that it is vital that, once the ATO determines that a member may have exceeded one or more of the annual contribution limits, the ATO should liaise with the member and not the superannuation fund. If this process is not put in place, we can envisage considerable difficulties arising in relation to self-employed members.

Insurance

Following the introduction of Choice of Fund, it is no longer a simple matter for an employer to ensure that all of its employees have at least a minimum level of death/disability insurance on a cost effective basis. The outworking of Choice of Fund is that some employees will unintentionally lose insurance cover in some circumstances. Further, it is likely that insurers will reduce the availability of automatic cover resulting in a greater level of restrictions and exclusions being placed on insurance provided. Premium rates are also likely to rise.

We, and many of our employer clients, believe that this is a significant issue of concern and that it should be addressed as part of the current simplification process. We have suggested two means of addressing this issue. The first involves the removal of FBT from certain group insurance contracts taken out by employers. The second involves a simplification of the disclosure requirements for members of an insurance only category in a superannuation fund.

Both of these suggestions would enable employers to more easily and cheaply provide insurance cover for all employees.

The attached report sets out more background and reasoning behind the recommendations outlined above.

Our full recommendations are set out in Appendix 1 to this letter.

In Appendix 2, we have listed the previous submissions made by Mercer on the Government's discussion paper.

Please contact either John Ward (03 9623 5552) or David Knox (03 9623 5464) if you wish to discuss any of these issues. They will be happy to elaborate further on our ideas.

Yours Sincerely

Peter Promnitz
Chief Executive

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APPENDIX 1: Mercer Recommendations In Relation To Miscellaneous Issues

Recommendations	Government Discussion Paper Reference

Pensions – Refer to section 1 of attached report		
1.1	Funds should be required to recalculate the Unused Undeducted Purchase Price (UUPP) and the deductible amount of the pension for all existing pensioners under the age of 60 to reflect any pre-July 1983 component.	2.3.1
1.2	The revised deductible amount should be determined by adding an additional amount to the existing deductible amount. The additional amount will be calculated based on the pre-July 1983 component divided by the current life expectancy factor.	2.3.1
1.3	Trustees should be able to commute, on a voluntary basis, existing non-commutable pensions during a short period ending on say, 30 June 2008. Such commutations would normally be subject to the agreement of the pensioner. Any existing assets test exemption would continue for any continuing pensions.	
1.4	A special method based on the annual pension rather than a lump sum value (as outlined in the attached report) should be adopted to determine the pre-July 1983 component for defined benefit pensions.	2.3.1
1.5	Trustees should be able to automatically convert all existing allocated pensions to pensions which meet the new standards without treating them as new pensions.	
1.6	It should be possible to add additional superannuation eligible termination payment amounts to account-based pensions which meet the new requirements. For pensioners under age 60, the deductible amount relating to the additional undeducted purchase price should be added to the existing deductible amount.	

1.7	The minimum draw down amounts should be based on the account balance at the start of the year or the initial account balance for a new pension. The minimum draw down should be adjusted for new amounts credited to the account. For new pensions and new amounts credited, the minimum draw down should be determined on a proportionate basis. New amounts credited on or after 1 June in a year should not impact on the minimum draw down.	3.2.3
1.8	Where a pension is being commuted, the trustee must ensure that the proportionate minimum draw down has been met. For pensioners under age 60, this minimum draw down must have been met in pension form. For pensioners who have reached age 60 and the benefit is being rolled over, the form of the draw down could either be as a lump sum or as pension payments.	3.2.3
1.9	Where determining proportionate minimum draw downs, trustees should be able to determine the proportion using a simpler method than currently applies (for example, based on complete months).	3.2.3
1.10	It should be possible to pay a lump sum benefit to either a dependant or a non-dependant on the death of the pensioner.	2.4 & 3.2.2
1.11	We reiterate Recommendation 2.1 of Submission No.4. All death benefits in respect of a member or pensioner over age 60 should be tax free.	2.4

Overseas Pensions – Refer to section 2 of attached report		
2.1	Overseas pensions should continue to be taxed as income. Although there are arguments for treating overseas pensions in a similar manner to “untaxed” pensions, it would be too difficult to implement. This highlights the need for “untaxed” pensions to be treated in a manner that is more consistent with the treatment of taxed pensions as recommended in Submission No. 5.	

Self-employed Persons – Refer to section 3 of attached report		
3.1	The ability to claim an invalidity component should be extended to self-employed and unemployed persons by removing the termination of employment conditions from the current requirements.	4.4 & 4.5
3.2	The ATO should deal directly with self-employed persons to identify the split between deductible and undeducted contributions, and then issue an assessment to the individual for any additional tax on contributions in excess of the relevant limits.	

Insurance – Refer to section 4 of attached report		
4.1	The Government should: a) Remove FBT from employer paid insurance premiums where insurance cover on a standard formula is provided for at least 75% of permanent employees; and/or b) Significantly simplify the disclosure requirements for insurance only categories of superannuation funds where all premiums and expenses for that category are met by the employer and membership of that category is a condition of employment.	

APPENDIX 2: Previous Submissions made by Mercer Human Resource Consulting

Submission	**Date**
Submission Overview	13 July 2006
Submission No.1 – Undeducted Contributions	13 July 2006
Submission No.2 – Deductible Contributions	13 July 2006
Submission No.3 – Portability	31 July 2006
Submission No. 4 – Benefit Taxes	1 August 2006
Submission No. 5 – Untaxed Schemes	7 August 2006
Submission No. 6 – Defined Benefit Funds	9 August 2006
Submission No. 7 – Employer Eligible Termination Payments	9 August 2006