

The Manager
Superannuation Unit
The Treasury
Langton Crescent
Parkes ACT 2600

By e-mail to superannuation@treasury.gov.au

Dear Sir

CONSULTATION PAPER
SPLITTING OF SUPERANNUATION CONTRIBUTIONS BETWEEN COUPLES

We refer to the above paper issued for public comment in July 2002 and set out below our suggestions and concerns regarding the proposals raised.

The Corporate Super Association

The Corporate Super Association is Australia's representative body for major Not For Profit corporate superannuation funds and their corporate sponsors.

The assets of Association members amount to approximately \$60 billion, representing about 75% of total corporate superannuation sector assets in Australia and some 750,000 individual employee fund members.

Splitting of contributions – points of support

We support the principle of building the superannuation assets of spouses who work at home or receive a low income. We are conscious of the merit of providing retirement income to those who would otherwise have no independent support and of the benefits of enabling each spouse access to the lump sum low tax rate threshold and his or her own RBL.

However, for reasons outlined below, we believe that these objectives are best achieved by contributing voluntary amounts to spouse accounts, rather than redistributing amounts which would already have accrued for the benefit of a couple.

Splitting of contributions – points of concern

General concerns

We have reviewed the proposals for putting the Government's plan for contribution splitting into action. Our primary concern arises in relation to the costs of the proposals, as compared with the benefits.

The potential benefits arise from the granting of formal access for a non-working or low paid spouse to the partner's superannuation. We recognise that this approach has significant social value, in that it provides the spouse who has low existing superannuation savings with ownership and interest in saving for retirement. However, we are concerned that the cost of this move would be a reduction in the overall retirement income for a couple, arising from increased administration costs

and account fees. We submit that existing mechanisms informally arrange for the same income to be provided for a couple's retirement. This results because, if the couple remains together, both have access to the superannuated spouse's retirement benefits. If they separate, the new superannuation provisions relating to divorced couples permit benefits to be split.

We acknowledge that the above arrangements do not provide the non-working spouse with the same measure of independence. However, we question whether it is the role of superannuation to provide this – just as an employer might question whether wage splitting along similar lines should be implemented or would achieve an efficient result.

In our view, the increase in administration costs will be significant: see further below. We note that each of the proposed options for implementation would involve the fund passing on the administration costs to the splitting member. We acknowledge that this approach has the merit of fairness but we are also concerned that the result will be reduced benefits in aggregate for the member and his or her spouse. The difficulty, we believe, lies in the fact that the amounts flowing into superannuation will not increase as a result of this measure, but the number of superannuation accounts and transactions will rise.

Sources of increased cost

One of the sources of increased cost would be the cost to the fund of administering up to double the number of member accounts. Aside from the costs of account establishment and maintenance, we note that a major increase in cost would result from necessary member communication (annual reports, member statements and other information). Potentially, these costs could double, without any compensating increase in aggregate benefits.

A further source of increased cost would be the potential for spouses to incur significant fees when setting up their accounts with a provider other than the splitting spouses's superannuation provider. Again, this would detract from the aggregate final benefits available to a couple.

Specific proposals

We have reviewed the options presented in the paper and have the following specific concerns.

Option 1: prospective split

Aside from the general concerns mentioned above, this option involves a stream of multiple transactions per year out of the splitting spouse's account and into the receiving spouse's account. We believe that the transaction costs will be commensurately high.

Option 2: annual split

The arrangements for annual splitting would involve complexity and unpredictability in establishing each member's wishes. Transactions relating to a financial year would remain unresolved until the deadline for notification of spouse splits had passed.

Option 3: joint accounts

It is possible that this proposal would reduce the number of accounts required in respect of each couple. On the other hand, members requiring to transfer less than 50% of their contributions to a spouse would still end up with at least two family accounts, with resulting additional costs. We also foresee difficulties with tracking the entitlement and interests in joint accounts from which one spouse has decided to transfer his or her benefits. We acknowledge also the significant potential legal complexity in arranging to establish joint accounts.

Other comments on Options 1-3

We have attached as Appendices 1 and 2 some detailed comments received from two major employer-sponsored funds. These contain specific observations on potential administrative and policy related issues. Both funds have commented on the cost of implementation, noting that there will be a significant up-front systems cost before any costs can be recovered from members. Appendix 1, on page 6, contains some observations on difficulties with timing of desired splits, particularly in relation to Option 2. Appendix 2 expresses concerns that the splitting preferences should be kept flexible to adapt to couples' changing circumstances and highlights some additional member protection costs which may result.

Alternative approach suggested

It is our view that, if it is desirable to ensure that each partner should have access to his or her own share of benefits, it would be more efficient to split the benefits at the time of the retirement of the splitting spouse. We acknowledge that this would not give the receiving spouse the same sense of ownership during the accumulation phase, but believe that the cost of providing this ownership by way of separate accounts would, as argued above, be too heavy to justify. A split at the time of retirement would provide the same practical effect – giving the non-working or poorly superannuated spouse a separate retirement benefit – and would also enable the receiving spouse to access the lump sum low rate threshold and a separate RBL.

We believe that the above suggestion might more readily be implemented given that there will shortly be similar mechanisms in place in funds to facilitate splitting of benefits under Family Court arrangements.

Please contact me on (03) 9270 8261 if you would like to discuss the above.

Yours faithfully

Elizabeth Goddard
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Corporate Superannuation Association