

CORPORATE SUPER ASSOCIATION

SUBMISSION TO

SENATE SELECT COMMITTEE ON SUPERANNUATION

ON

PLANNING FOR RETIREMENT

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1 BACKGROUND

1.1 *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 85% of total corporate superannuation sector assets in Australia and some 750,000 individual employee fund members.

1.2 *Abbreviations used in this submission*

The Association	The Corporate Super Association
Senate Select Committee	The Senate Select Committee on Superannuation
The Inquiry	Referral by the Australian Senate to the Senate Select Committee of an Inquiry into planning for retirement, 18 December 2002
The Adequacy Report	Report by the Senate Select Committee <i>Superannuation and standards of living in retirement: Report on the adequacy of the tax arrangements for superannuation and related policy</i> , December 2002.
The Intergenerational Report	Intergenerational Report, Budget Paper No 5, 14 May 2002: http://www.budget.gov.au/2002-03/bp5/html/index.html
SIS Act, SIS legislation	Superannuation Industry (Supervision) Act 1993, and related legislation

1.3 *Context of submission*

This submission has been prepared in response to the invitation to interested parties dated 18 December 2002 from the Senate Select Committee.

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2 SUMMARY

The Senate Select Committee in announcing the Inquiry has highlighted the importance of planning for the transition from work to retirement and the need to focus on mechanisms to assist people to make the change. In particular the Committee has indicated that it will examine ways of encouraging progressive transitions from work to retirement.

We have highlighted below the issues we perceive as crucial in this context and have raised some proposals for addressing them.

3 ISSUES AND CONCERNS

3.1 Adequacy of savings

Immediate concerns exist that existing super savings may not be adequate for the generation currently approaching retirement. These concerns have been raised in submissions to the Senate Select Committee and in the Committee's recent Adequacy Report. Much of the focus has been on the adequacy of contributions to the system as well as on the impact of up front taxes.

3.2 Intergenerational issues

Longer term concern has been expressed about the social impact of funding of super and aged care. As the age profile is in transition from a large number of younger workers to a population profile skewed towards older workers and retired people, it is anticipated in the Intergenerational Report that there will be excessive strain on the Federal Government's Social Security Age Pension system which is not forward funded and which relies on tax collections from current generation of workers.

3.3 Alterations in mortality and in working patterns

The problem is exacerbated by extending life expectancies coupled with a trend towards early retirement (voluntary or involuntary). Hence there is a call for an increase in retirement savings to fund the longer period of support.

3.4 Lump sum preference

Despite existing tax concessions for pensions, there remains a preference for lump sums benefits. There is resulting concern about double dipping, i.e. the practice of accessing the lump sum benefit, spending it and then qualifying for the Social Security Age pension.

The lump sum mentality is also linked to the issue of savings adequacy, as many retirees do not have enough savings to fund a realistic lifetime pension. Therefore it makes more sense to them to use a lump sum to achieve a specific goal at retirement such as paying off debt, buying a car, taking a holiday, and then to rely after that on the social security system.

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4 STRATEGIES TO ADDRESS ISSUES

4.1 Addressing adequacy issues at the contribution and savings stage

We note that in the Adequacy Report the Committee has already considered strategies to close the adequacy gap, including increasing incentives for voluntary contributions, widening access to superannuation as a savings vehicle by removing the work test for making voluntary contributions, lowering front-end taxes in the long term, providing a cost-effective savings vehicle, and permitting contribution of non-superannuation assets to superannuation.

We support moves to encourage voluntary contributions from employee members of our funds.

We would also support a transition from front end taxes and would be happy to explore methods of bridging the gap in Government revenue caused by such a change.

We raise at this point our continuing concern that increases in regulatory complexity pose a major threat to the adequacy of the retirement benefits for most employed individuals through increases to costs without compensating benefits.

- In Not For Profit corporate provision of super the extra costs imposed by Financial Services Reform have no visible benefit and, in accumulation funds, directly reduce individuals' superannuation savings. In defined benefit funds, the cost is seen indirectly - increased costs reduce incentives for employers to provide generous benefits.
- Additional costs are involved in the proposed APRA licensing system, and in APRA's proposed new reporting framework, where we are concerned that vast increases in reported data are required without a clear indication that it will be usable by the regulator for an effective purpose.
- We remain concerned also about the potential impact on costs and returns, if employers become obliged to offer full choice of fund.

We raise a plea for a period of regulatory stability and urgent attention to the need to evaluate any proposed change in terms of its effectiveness in relation to the extra costs it brings in its train.

4.2 Reversing the trend towards early retirement

A fixed retirement age assists with adequacy of funding, provided that the members actually work until that age. However, general trends have emerged for earlier retirement. These have arisen as a result of a tendency by employers to shed staff of a certain age because of the availability of cheaper younger workers (with linked youth employment tax incentives). In addition, employers are concerned that the older workers will become less productive and be

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harder to retrench at a later stage because of age discrimination and other issues. Thus there is a growing tendency for older members of the workforce to cease full-time work in their fifties and either to retire or to work on contract either full or part-time. With access to superannuation permitted at 55 (for the current group in this age bracket) there is more strain on retirement savings if benefits are regularly accessed up to 10 years before the age envisaged when retirement benefits were funded.

From a retirement income policy standpoint, restrictions on early access stop people from taking their benefits early and using them up too fast. There have been moves to defer access: however, the stepped increase in minimum age for access will not affect retirees for a number of years.

It is desirable that continued part time work after commencement of benefits should be facilitated, to ease the strain on adequacy of savings at this point, allowing savings to be boosted by further earnings.

We would, however, have concerns regarding the use of existing superannuation savings to fund re-training schemes. We believe that this would be counter-productive to efforts to promote adequacy of retirement savings. We suggest that re-skilling may not be the major issue and that it may be that employers merely need encouragement to recognise the existing skills of older members of the work force.

4.3 Providing incentives for employers to retain older employees

It is desirable that the trend for employers to dispense with the services of (and not to hire) older workers should be reversed. One method would be to provide tax incentives for continuing to employ and for hiring full or part time workers over a specified age. This approach would support and complement the strategy of encouraging older members of the workforce to defer or supplement their pensions with further earnings.

4.4 Altering the traditional form of benefits from lump sum to pension

The preferred form of benefits remains the lump sum. It is hoped that the Superannuation Guarantee system will yield more adequate benefits in the future such that it is feasible to fund a viable income stream rather than a one-off bonus. Responsible management of such sums requires that their enjoyment should be spread over time, preferably over the remaining life of the retiree.

It is recognised that significant tax incentives already exist to encourage a preference for pensions. However, it may be that the incentives are poorly understood by the public. It may be necessary to raise public awareness of these concessions or to introduce even further well-publicised concessions so as to encourage change.

5 CONCLUSION AND RECOMMENDATIONS

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- We support addressing adequacy of contribution levels by increasing incentives for employee voluntary contributions and reducing the burden of contribution taxes.
- We support moves to encourage those who have left the full-time work-force to continue working part-time to boost the adequacy of their savings through earnings.
- We support Government incentives to employers to maintain older employees in the workforce, full-time or part-time.
- We support moves to increase public awareness of the desirability of taking benefits as pensions, accompanied if necessary by further incentives.
- It is imperative that regulatory change and the demands of regulators be kept within reasonable limits, and that changes to compliance requirements be examined for effectiveness before they are allowed to add to the costs burdening our retirement income system.