Simplifying super the Labor way

By Wayne Swan Shadow Treasurer, Australian Labor Party

On 13 February 2007 Wayne Swan delivered a speech in Parliament in response to the Government's *Tax Laws Amendment (Simplified Superannuation) Bill* 2006. This is an edited version of his speech.

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INTRODUCTION

The changes announced in the Tax Laws Amendment (Simplified Superannuation) Bill 2006 and cognate bills will improve the retirement incomes of many Australians. However, despite the changes in this package, Labor believes that fundamental superannuation reform challenges remain.

The purpose of the Australian superannuation system is to allow Australians to provide a comfortable standard of living for themselves in retirement. A strong superannuation savings system has several economic consequences.

First, by encouraging people to save for their own retirement, an effective superannuation system will increase retirement incomes, thereby improving living standards in retirement.

Second, these reforms will take some of the pressure of the ageing of our population off future budgets. As the Australian population ages, a super system that provides adequate incomes in retirement will ease financial pressure and ensure that we can continue to deliver budget surpluses and lock in our economic prosperity. This is consistent with Labor's budget rules, the first of which is that Labor will keep the budget in surplus on average over the course of the economic cycle.

A large and growing pool of superannuation savings has supported the growth of Australian equity markets, boosting returns for investors through both superannuation and other investment vehicles. This in turn has increased the attractiveness of superannuation as an investment. The total pool of superannuation funds under management is large and it is growing.

APRA reported in September last year that total funds under management reached $945.6 billion. On one projection, which assumes average annual earnings of 8 per cent, that tally will reach $1.8 trillion by 2011 and then $3.3 trillion by 2017.

There are important economic consequences which flow from this enormous accumulation of savings. In the long run, as Australian superannuation assets continue to grow, we will increasingly export our capital, with Australian superannuation funds investing directly in overseas assets and through foreign debt and equity markets. In some ways it is disappointing that the funds of Australian workers are going offshore for want of Australian projects to invest in.

However, it also demonstrates Australia's financial maturity and economic power as we invest globally to secure future prosperity. The fact that superannuation funds today hold assets equivalent to 95 per cent of GDP proves that Labor is the real party of wealth creation.

Only Labor had the foresight to introduce a superannuation system that would underpin the retirement incomes of Australian families and provide a valued source of capital for Australian businesses. Along with the microeconomic reforms of the eighties and nineties, superannuation was one of the reforms that turbocharged the Australian economy and led to the prosperity we enjoy today.

More than anything else, we must recapture that reforming zeal and embrace a new productivity agenda. Labor introduced compulsory superannuation in exchange for wage restraint as part of its historic accord with the Australian workers. In the process, Labor built superannuation into the remuneration package of every Australian employee. That is a wealth-creating legacy that Labor is very proud of.

At a time when households face the burden of the highest ratio of interest payments to household income in Australia's history, the contribution of superannuation savings to Australian households' balance sheets is very welcome. As I said previously, it is a great vehicle for fairness, for spreading the prosperity of economic reform through the whole community rather than to just a select few.

Australia's retirement income system is based on three pillars–the government age pension, indexed to male total average weekly earnings and means tested, the compulsory nine per cent superannuation guarantee and additional voluntary superannuation contributions underwritten by a range of incentives. These pillars were in the main introduced by Labor governments.

These are widely recognised internationally as best practice retirement incomes policy–a fair, affordable system for ensuring dignity in retirement and buttressing our economic performance as well. I watch with amusement as the Treasurer, desperate to find an economic reform legacy that is not merely a new tax, claims authorship of the superannuation system.

The inescapable fact is that he opposed this system. He has called these changes 'the biggest reform to superannuation that Australia has ever seen'. That comment has no credibility with the industry or with commentators. It is just as he claims credit for the independence of the Reserve Bank. In fact, both Australia's system of compulsory superannuation and the independence of the Reserve Bank were initiatives of Labor governments, as any economist will attest.

THE COALITION'S RECORD

The coalition's record on superannuation is poor. Those opposite maintained that pension means testing, the initial 3 per cent compulsory superannuation of 1987 and the 9 per cent superannuation guarantee bills of 1992 would be disastrous for both individuals and the economy. That is their record. To their eternal shame they did everything they could to defeat the 9 per cent superannuation guarantee, including voting against it in both Houses of Parliament.

So let us get the record on that straight. Indeed, both the Treasurer and the Prime Minister were among the chief critics of Labor's reforms.

The Treasurer has displayed a very erratic approach to superannuation policy. He broke the then Liberal opposition's 1995 pledge to maintain Labor's 3 per cent matching government co-contribution to take contributions to 15 per cent, introducing the failed savings rebate, which had only operated for six weeks when he announced its abolition. The Treasurer also introduced a so-called superannuation contributions surcharge, which was a tax on certain superannuation contributions, usually employer and personal deductible contributions, of up to 15 per cent–another broken election promise.

Then the Treasurer deemed superannuation holdings as an asset for social security purposes prior to the age of 65. These are just a few examples of the Treasurer's and his government's lack of long-term vision for such a fundamental part of our economic infrastructure. Despite all of that, Labor has had to put up with the Assistant Treasurer's bizarre fortnightly taunts designed to goad Labor into a rushed response to these complex changes.

I am keen to draw to the House's attention the fact that debate on these bills is hindered by a lack of information. As is increasingly common now, the Treasurer failed to provide detailed costings of these policies or estimates of the numbers of people affected by them, despite our repeated requests. Indeed, the scant costing was upgraded by almost half a billion dollars when some finetuning was announced after the original announcement. I am informed that the government is resisting a freedom of information application for the long-term forecasts of superannuation tax revenue. If the Treasurer is so keen to prove his economic management credentials, there is no reason for him to refuse access to that information.

TAX-FREE SUPER BENEFITS

I want to turn to some of the measures in the bill. The primary change in this package is that from 1 July 2007 superannuation benefits paid from a tax fund either as a lump sum or as an income stream such as a pension will be tax free for people aged 60 and over. Benefits paid from an untaxed scheme, mainly affecting public servants, will still be taxed, although at a lower rate than they are now for people aged 60 and over.

Reasonable benefit limits, known as RBLs, will be abolished. Individuals will have greater flexibility as to how and when to draw down their superannuation in retirement. Under the current rules, funds are forced to pay out the benefits of members who have reached age 65 and who do not meet a work test. Under these changes, superannuation funds are no longer forced to pay benefits.

The concessional tax treatment of superannuation contributions and earnings will remain. Age based restrictions limiting tax deductible–that is, concessional– superannuation contributions will be replaced with a new set of rules. The self-employed will be able to claim a full deduction for their superannuation contributions as well as being eligible for the government co-contribution for their after-tax contributions.

The tax exemption for invalidity payments will also be extended to the self-employed. The ability to make deductible superannuation contributions will be extended to age 75. It will be easier for people to find and transfer their superannuation between funds.

To further increase the incentives to save for retirement, from 20 September 2007 the pension assets test taper rate will be halved to $1.50 per fortnight for every $1,000 of assets above the assets test free area–a welcome initiative. The superannuation preservation age will not change. The preservation age is already legislated to increase from 55 to 60 between the years 2015 and 2025. People will still be able to access superannuation benefits before the age of 60, although they will not be taxed on their benefits under new simplified rules.

THE BILLS' IMPLICATIONS

I turn now to some of the impacts of this package. The total cost of the package is $7.2 billion over the next four financial years. The beneficiaries of the tax-free treatment will be those Australians who have, or will have, $136,000 indexed, or more, in super. For Australians with substantial retirement savings, this package will provide welcome additional retirement income. At present, neither exit tax nor, in most cases, income tax apply to individuals below the level of super savings.

But research from the National Centre for Social and Economic Modelling showed that, in 2004, for baby boomers aged 45 to 60, the average man had $87,000 and the average woman had just $35,000 in super savings, with median retirement savings of just $30,700 and $8,000 respectively. This means that some baby boomer battlers retiring now will receive little or no tax relief. They will need more than $136,000 in retirement savings to benefit from the tax-free treatment this package provides.

The government's discussion paper released with the budget last year confirms this point, showing that there is no tax benefit for those retiring now aged 65 with $100,000 in super, and a tax saving of just $2,272 for those with $150,000. Of course, those retiring in the future will receive a substantial benefit from these measures. The measures in this package, which both expand and rationalise incentives for small business by applying the same rules and including them in the voluntary co-contribution scheme, are welcome.

These changes will assist people in this vital and growing sector of our economy. It should be noted that the loss to revenue from the new tax treatment and co-contribution will amount to $4.2 billion of the estimated $7.2 billion cost of the package over four years.

That means the government is putting just over $1 billion extra each year into superannuation. Combined with a further $1 billion each year from existing voluntary co-contributions, a total injection of some $2 billion a year extra into super has been provided by the government.

This incentive approach is likely to see ongoing additional voluntary contributions of $2 billion to $3 billion a year. This is important for setting up Australians with decent retirement incomes. But the new flows to super are put starkly in the shade when they are compared to Labor's compulsory 9 per cent superannuation guarantee, which delivers some $65 billion every year.

Credit for that achievement should be given to the far-sighted Hawke and Keating Labor governments that introduced our modern Australian superannuation system. It is because of the strong foundation they established that our retirement income system is recognised by the World Bank as global best practice.

My colleague in the other chamber Senator Nick Sherry has noted one area of particular concern in these changes: namely, the new higher tax—at a rate of 46.5 per cent rather than 15 per cent—which will apply to contributions where an employer has failed to provide their employee's tax file number. The Senate Economics Committee looked carefully at this issue in their hearings on these bills. The exemption rate below which this new tax will not apply is $1,000 a year, representing an annual income of just $10,000.

It should be set higher; otherwise, hundreds of thousands of battlers will face a higher tax rate. That was the unanimous recommendation of the committee. The committee also made further unanimous recommendations in areas such as defence force disability pensions and income tax treatment of non-super income for public servants over the age of 60. I note the committee's recommendations.

I referred earlier to fundamental challenges that still face our superannuation system. Labor has announced a range of policies to improve the super system. They include a combined pension superannuation forecast in a simple standard format. Under this system, 10 million Australians will, for the first time, receive critical information that will enable them to plan their savings well ahead. For example, a 25-year-old will get an estimate of likely retirement income at age 60 and 65. It is based on the example of similar systems in Sweden and the United Kingdom which show a higher level of contributions, particularly among young people.

NATIONAL CLEARING HOUSE

Labor also proposes a clearing house that employers may use to solve the new compliance burden which arose with the government's choice-of-fund regime. A clearing house will allow the employer to pay all contributions to a central distribution point, with employees registering their choice of super fund with that central point only once. This removes the up to 36 decision-making steps and much of the bother of repeated form-filling and processing imposed by the government's 'choice' regime.

Labor will allow employer processing of additional contributions where such contributions are authorised by an employee. Labor will ensure the 9 per cent superannuation guarantee contribution is based on pre-salary-sacrifice salary and wages.

Labor will implement automatic consolidation of inactive lost accounts, which now number 5.7 million and hold almost $10 billion. Lost super has skyrocketed over the last 10 years, and these bills contain the government's fourth attempt to address this major structural failure–a 'send-out-a-form' approach. This measure will help, but it is not the fundamental solution that Labor policy would provide. Many people lose contact with their account and never collect their savings. Fees and charges can erode final retirement income.

The administration of lost accounts imposes an additional cost. Under Labor's plan, the tax file number will be used annually to automatically transfer lost accounts into the current or last active account. Under the plan, individuals will have the opportunity to opt out, and automatic consolidation will not apply to defined benefit schemes. Exit fees are another barrier to consolidation.

SIMPLIFIED DISCLOSURE DOCUMENTS

Labor will prospectively prohibit excessive exit fees, while permitting an administrative transfer fee. As well as those measures, Labor will ensure that financial disclosure documents are simplified and standardised.

The implementation of financial services reform—with two so-called 'refinements' to date—has resulted in complex super fund offer documents that often run to 50 or 100 pages. Such documents are often unreadable and they have imposed a significant cost and compliance burden on industry and consumers. Disclosure documents that are unreadable may do more harm than good. This is another example of the Liberal government's red tape and policy failure. Labor will be announcing further measures to reduce regulatory red tape and improve consumer awareness and incentives to save.

One of the most enduring benefits of compulsory superannuation has been its impact on financial literacy within the community. Many more people are now interested in finance and savings than two decades ago. More Australians are investors—both retirees and those still in the workforce—and our nation's wealth is higher as a result. This has also led to a revolution and great expansion in the financial advice industry.

VALUE OF ADVICE

Labor recognises the value of advice; it can quite often make the world of difference to someone's standard of living in retirement. As someone famous once remarked, we do not plan to fail, we simply fail to plan. I think this is true in investment matters as well as many other areas of life.

I am very conscious of the value that good advice can offer, and that the regulation of advice needs to be effective and appropriate—rather than counterproductive, as has been some of the experience of the industry in recent years. I am committed to ensuring that the excessive red-tape burden on the industry is removed and I call on the government to finalise the FSR streamlining process which has now dragged on for years.

As I indicated at the start of my speech, Labor supports the Simplified Superannuation Bill 2006. They provide an improved retirement income for many in the Australian system and they are a welcome boost to simplicity.

But by implementing the additional policies I have referred to, a Rudd Labor government will build on the foundations of two of Labor's great policy achievements—the age pension and compulsory superannuation—to further improve the retirement income security of all Australians.