INDUSTRY FUNDS FORUM INC

Review of Australia's Tax System

Submission on the Retirement Income System in response the Consultation Paper: Australia's Future Tax System

27 February 2009

Industry Funds Forum Inc.
Industry Funds Centre
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Sydney NSW 2000

WHO WE REPRESENT

The Industry Funds Forum (IFF) is an incorporated association made up of the Chief Executive Officers of 24 of Australia's largest industry superannuation funds (Industry Funds) (See Attachment).

These Industry Funds include multi-industry and industry-specialist, national and state funds. Collectively members of IFF represent over 9 million accounts, over 550,000 participating employers and manage around $120 billion in retirement benefits[1].

IFF is able to provide a broad cross section of the views and interests of Industry Funds and their members who are representative of average Australians.

PURPOSE OF THE REVIEW

In May 2008 the Australian Government announced a major review of Australia's Taxation System, including State taxes, to allow the nation to take care of its aging population, and meet the economic and social challenges of climate change and globalisation.

The review aims to "…harmonise and simplify taxes, reduce inefficient taxes, ensure a progressive system and address negative interaction with the welfare system" to deliver a fair and efficient taxation system.

The Government has identified the key issues in relation to the retirement income system as the broadness and adequacy of the system and its level of acceptance, robustness, easy and simplicity and sustainability.

TERMS OF REFERENCE

Objectives and scope:

1. The tax system serves an important role in funding the quality public services that benefit individual members of the community as well as the economy more broadly. Through its design it can have an important impact on the growth rate and allocation of resources in the economy.

2. Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter-generational), and minimise complexity for taxpayers and the community.

3. The comprehensive review of Australia's tax system will examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes. The review will consider:

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[1] Figures apply as at 30 June 2008

3.1. The appropriate balance between taxation of the returns from work, investment and savings, consumption (excluding the GST) and the role to be played by environmental taxes;

3.2. Improvements to the tax and transfer payment system for individuals and working families, including those for retirees;

3.3. Enhancing the taxation of savings, assets and investments, including the role and structure of company taxation;

3.4. Enhancing the taxation arrangements on consumption (including excise taxes), property (including housing), and other forms of taxation collected primarily by the States;

3.5. Simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian Federation; and

3.6. The interrelationships between these systems as well as the proposed emissions trading system (ETS).

4. The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:

4.1. workforce participation and skill formation;

4.2. individuals to save and provide for their future, including access to affordable housing;

4.3. investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness; and

4.4. reducing tax system complexity and compliance costs.

5. The review will reflect the government's policy not to increase the rate or broaden the base of the goods and services tax (GST); preserve tax-free superannuation payments for the over 60s; and the announced aspirational personal income tax goals.

6. The review's recommendations should not presume a smaller general government sector and should be consistent with the Government's tax to GDP commitments.

7. The review should take into account the relationships of the tax system with the transfer payments system and other social support payments, rules and concessions, with a view to improving incentives to work, reducing complexity and maintaining cohesion.

8. The review should take into account recent international trends to lower headline rates of tax and apply them across a broader base, as well as domestic and global economic and social developments and their impact on the Australian economy.

9. The review will also incorporate consideration of all relevant tax expenditures.

Composition and consultation:

10. The review panel will be chaired by the Secretary to the Treasury, Dr Ken Henry AC and will also comprise Mr Greg Smith (Australian Catholic University); Dr Jeff Harmer (Secretary of FaHCSIA), Heather Ridout (Australian Industry Group), and Professor John Piggott (University of New South Wales).

11. The review panel will be supported by a working group from within the Treasury, with representation from the Department of Families, Housing, Community Services and Indigenous Affairs, and drawing on other Australian Government and state agencies as appropriate.

12. The Chair may task members of the review panel to oversee programs of work related to their field of expertise.

13. The review panel will consult the public to allow for community and business input.

14. The review will also, where necessary, draw on external expertise and shall have the co-operation of State Governments and their Treasuries as well as relevant COAG working groups.

15. The Minister for Families, Housing, Communities Services and Indigenous Affairs will provide input on issues related to transfer payments, family assistance and retirement incomes.

Structure and timing:

16. The review process will be conducted in several stages. These will follow the release of an initial discussion paper by Treasury on the architecture of the tax system and an examination of the existing tax rates and bases (excluding the GST). The paper will be released by the end of July 2008.

17. The review panel will provide a final report to the Treasurer by the end of 2009. The Government will respond in a timely way to the tax review's recommendations as they are released.

CONSULTATION QUESTIONS

The retirement income system

Q1.1 In considering the future of Australia's retirement income system, which objectives are relevant in setting retirement income policy? Does the current system of the Age Pension and compulsory and voluntary savings meet these objectives? If not, how should the system be changed to meet these objectives?

A broad and adequate retirement income system

Q2.1 As the SG system matures, it will become a greater part of an employee's retirement income. What are the implications for individuals partially or fully excluded from the mature SG system (the self-employed, individuals with broken work patterns such as carers, women and migrants), and how can the retirement income system best accommodate these groups?

Q2.2 Noting that the adequacy of the Age Pension is being considered by the Pension Review, what is an appropriate concept of adequacy for the retirement income system? Should it be to ensure there is a minimum level of income in retirement, to replace a proportion of income earned prior to retirement, or some other alternative?

Q2.3 What should the role of the government be in assisting individuals to meet their retirement income expectations in relation to the support provided by the Age Pension, the level of compulsory savings and incentives to make additional savings? Should the role of government change as an individual's income increases over their working life?

An acceptable retirement income system

Q3.1 Do the settings of the retirement income system, such as the level of SG and access to concessions, adequately consider the needs and preferences of individuals both before and after retirement?

Q3.2 Is the current level of superannuation income tax concessions appropriate and sustainable into the future? Are the current concessions properly targeted, and if not, how should they be reformed?

A robust retirement income system

Q4.1 At what age should an individual be able to access their superannuation and at what age should they become eligible for the Age Pension?

Q4.2 What is the role of individuals in dealing with investment and longevity risk in accumulating and drawing down their retirement income? Do financial markets provide the means to deal with these risks? If not, is there a role for government to address these shortcomings?

A simple and approachable retirement income system

Q5.1 In what ways does the retirement income system impose undue complexity and cost on retirees and workers? How could this complexity be reduced?

A sustainable retirement income system

Q6.1 The Age Pension serves two roles, as a safety-net for individuals who are unable to sufficiently save for their retirement and as an income supplement for many individuals who do save. What should be the role for the Age Pension and means testing in a future retirement income system and what impact does this have on its sustainability into the future?

Q6.2 In what ways does retirement income policy affect workforce participation decisions and what, if any, changes might reduce disincentives to work? Does the sustainability and cost of the retirement income system affect the workforce decisions of younger generations of workers?

Q6.3 What impact could financial intermediation have on the effectiveness of retirement income policy?

WHAT OUR SUBMISSION ADDRESSES

Our Submission focuses on the Retirement Income Consultation Paper, and including giving consideration to the Consultation Questions. It also considers the key considerations as identified in the Executive Summary of the consultation paper: the broadness and adequacy of the system and its level of acceptance, robustness, easy and simplicity and sustainability. Our approach in considering these issues is based on:

- **Best interests of members**: What is in the best interests of the members whose retirement savings are entrusted to Industry Funds to manage with the view to maximising those retirement savings, while still having regard for security and cost.
- **Equity between members:** Reducing and where possible removing, any potential inequities or discrimination between members or groups of members.
- **Opportunities:** Identifying opportunities to improve the current retirement income system.
- **Costs and complexity:** Identifying inefficiencies and unnecessary complexity of the system, highlighting cost and other disadvantages which will ultimately result in a reduction of members' retirement savings.

IFF welcomes the opportunity to make this submission in response to the Retirement Income Consultation Paper as part of the Government's review of Australia's Tax System.

CONTACT DETAILS

Please contact Helen Hewett, IFF Executive Officer on [removed for privacy reasons] or [removed for privacy reasons] if you require any further information on this submission or wish to discuss same.

AUSTRALIA'S RETIREMENT INCOME SYSTEM

IFF has a vision of a retirement income policy that gives dignity and security by providing adequate and sustainable retirement incomes for all retirees. Australia's retirement income system should:

- address the consequences of an ageing population;
- be funded by an appropriate balance between private and public responsibilities; and
- recognise and address the limitations on those sectors of our society who are not in a financial position to contribute to superannuation or are unable to contribute amounts sufficient to support themselves in retirement.

IFF believes that this vision is attainable through the development of a retirement incomes system (**the System**) that meets the following criteria:

(a) Equitable
The System must be built on a platform of equity for all by recognising that different sectors of our society are more able to contribute to the cost of their retirement savings than others.

(b) Low Cost
The System must be low cost by promoting:

- simplicity;
- efficiency; and
- avoiding retirement savings being depleted through commissions and excessive fees.

(c) Simple
The System must be able to be understood by those it seeks to benefit through access to:

- information and education on their rights and entitlements; and
- a low cost mechanism for resolving problems and disputes.

(d) Secure
The System must offer those who entrust their retirement savings to a superannuation fund, security and peace of mind.

(e) Appropriate Regulatory Supervision
The System must be supported by a robust and efficient regulatory system, which offers effective supervision and protection of consumers' rights.

(f) Bi-partisan approach
The System must be supported by a bi-partisan retirement income policy that:

- promotes and enhances national savings; and
- offers certainty and stability.

Our position:

IFF strongly supports the three pillar system and the shared obligations it imposes on Government, individuals and their employers to improve the security and dignity of all Australians in retirement.

Further, the basis for Government retirement incomes policy should be maintenance and adequacy of income at a level that provides moderate comfort in retirement. This should be achieved through the three pillar system with a Government funded Age Pension supported by compulsory savings through the Superannuation Guarantee, along with voluntary savings.

Some members of the community will be unable to accumulate sufficient assets to provide an adequate level of retirement income to enable them to live a modest lifestyle with adequate income to provide for decent housing, health services, sustenance and enjoyment. These people will include:

- many low income earners:
- people out of the paid workforce for long periods such as mothers, itinerant workers, carers and people with significant health problems such as mental health problems that make it difficult for them to hold down a permanent job: and
- older workers who have not had the benefit of the Superannuation Guarantee for much of their working lives.

For these people it is essential to maintain a safety net in the form of the Age Pension to provide for many their only source of income in retirement and for others, to supplement their modest superannuation savings; and it is equally essential that the Age Pension be provided at an adequate level.

IFF believes that the Government needs to review the Age Pension to ensure that it provides at adequate level of income particularly for those that rely upon it as their only form of income in retirement, as there is growing concern that it is less than adequate.

IFF supports the Superannuation Guarantee (SG) but as it has now been more than 20 years since superannuation begun to significantly increase its coverage through firstly award superannuation and then the SG, it is time to review the system to improve its efficiency and ensure that it will deliver adequate retirement income.

In this submission IFF provides comment and recommendations on how this might be achieved.

IFF supports Government initiatives to encourage people to save for their retirement through voluntary savings, both after tax and before tax. IFF in this submission also provides comment and recommendations on how these policies and incentives might be improved.

Although the IFF submission does not deal with health services and housing (other than make a few observations), we believe that consideration of adequacy and affordability of these essential services is a critical factor when considering retirement incomes policy and the adequacy debate.

As people age they generally are in need of increased health services and for those on a low or even moderate retirement income it is difficult if not impossible to sustain high health care costs without significantly affecting their standard of living in retirement.

Lack of home ownership, and the affordability and security of rental accommodation is often another significant issue for those in retirement. IFF congratulates the Government on initiatives to assist first home owners such as the First Home Owners Grant Scheme and the First Home Savers Accounts. However IFF believes that sustained efforts may be needed if they are to produce any significant improvements to housing affordability for first home buyers, particularly during these difficult economic times. Further, IFF believes that Government needs to consider how assistance could be given to those who genuinely have not been able to afford to sustain home ownership such as the long-term unemployed, single-mothers, carers and others with long periods out of the paid workforce including people suffering chronic illness, as well as those on very low incomes. Many of these people will never achieve home ownership again and demand is likely to continue to exceed the availability of public housing. IFF is concerned that over time these numbers will grow significantly as those currently in their forties start to retire only to find themselves with modest retirement savings, rising health costs and unable to afford decent accommodation.

Home ownership is a significant retirement asset that can be ‘eaten’ in the latter years of retirement by selling down to meet reduced accommodation needs, freeing capital for retirement income purposes. IFF supports the ability for members to draw down phase receiving an income stream to be able to ‘top up’ that income stream from sources such as this.

IFF does not support access to superannuation savings to provide for home ownership or health care costs during peoples working lives and the accumulation phase (except in those exceptional cases as permitted by SIS). This is because most Australians will retire with less than adequate retirement savings in the foreseeable future. Further, access to superannuation assets at an early stage is likely to provide any meaningful contribution to these costs, and the ‘opportunity cost’ of lost compound interest during the critical early accumulation stage is far to great. IFF believes that the rules for accessing superannuation assets for those retired and over age 60, are appropriate.

ADEQUACY AND EQUITY

Most Australians are unable to accumulate an adequate retirement income based on mandatory employer contributions of 9% of earnings, and with a 15% Contributions Tax. [2]

IFF is concerned that many Australians will not be able to accumulate sufficient savings to enable them to have an appropriate income in retirement. This includes:

- those in part time, casual or low paid work;
- many self employed workers;
- those with broken periods of work; and
- people on low incomes, who are particularly disadvantaged under our present system.

In addition most people on average only work for 30 years, which for many people is too short a timeframe to accumulate savings adequate to support them in retirement. Contributions of 9% for someone on average earnings after working for 30 years will have a lump sum benefit of approximately $167,000, which will provide approximately $19,800 in retirement income. However, most people expect a minimum income in retirement of $30,000 pa, which requires a lump sum benefit of approximately $370,000.[3]

There has been a great deal of debate about the adequacy of the current rate of 9% for the Superannuation Guarantee (SG), and there have been a number of studies in support of increasing the SG, including the ASFA work referred to above.

Presumably the former Labour Government was also convinced of this argument as it too proposed an increase in the SG to 15%, with the increase funded by contributions from Government and member contributions.

There are been many attempts to define adequacy but there remains no uniform definition or formula. This in-it-self presents a problem for Government, the industry and for individuals attempting to set themselves a retirement savings target.

Our position:

- IFF recommends Government define adequacy for the purposes of retirement incomes policy for superannuation and the Age Pension.

  This calculation needs to be done using the latest available life expectancy rates as often the rates used are dated. Currently life expectancy rates show a man aged 60 will live a further 23 years and a woman a further 26 years, but the Treasury intergenerational report shows that a 60 year old man in 2047 will live a further 28 years and a woman a further 31 years.

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[2] ASFA Fact Sheet # 5 “An Adequate Retirement Income?”

[3] ASFA Fact Sheet #5

Once adequacy has been properly defined we truly determine to required level of SG and from that determine appropriate retirement incomes policy.

In the meantime in the absence of such as definition, IFF supports increasing the level of mandatory contributions to a minimum of 15% over time, to be funded by an appropriate combination of member, employer and government contributions. However IFF recognises that increased superannuation contributions may not be achievable in the immediately further given the current Global Financial Crisis and that it may be more achievable to concentrate on other improvements to the system to improve equity and efficiency. This will add to the retirement savings of members and to national savings.

- IFF urges Government to examine different income levels and the ability of people on low and moderate incomes to generate adequate retirement income. IFF supported the Better Super changes, but recognises that those groups with limited means to fund their own retirement have not been assisted by those changes.[4]

- IFF recommends that self-employed people who do not have provision for retirement be required to make SG contributions so they are not reliant on the Age Pension, which is funded by all taxpayers.

- IFF recommends reducing the Contributions Tax as it impacts significantly on low and income members, and many at the lower end of the middle income range, who are the majority. The Contributions Tax denies most low income earners any discernable tax benefit and for some the 15% tax rate on superannuation contributions can offer no advantage and even some disadvantage. Voluntary contributions, even if affordable at later stages in life, are not an equitable or attractive proposition for most of these people.

  What will assist these groups is a reduction in the Contributions Tax for people on low incomes, by way of a tax credit of 15% on employer contributions for those with taxable incomes up to $28,000 scaling back to zero for those with taxable incomes above $58,000.

  The cost of this would be offset by a significant reduction in the cost of providing the Age Pension and other subsidies to retirees, as a greater number will, over time, become self funded.

- IFF recommends the removal of the $450 a month threshold of earnings for SG contributions as this currently disadvantages many people with lower retirement savings such as casual and part time workers, many of whom are women. The Standing Committee on Economics, Finance and Public Administration also recommended that the threshold not be increased, and that consideration be given to reducing it.[5]

- IFF recommends that all contributions be required to be paid on a monthly basis so that members can maximise their interest earnings and minimise the

[4] Institute of Actuaries of Australia, paper on “Tax-free superannuation benefits: a future revenue problem?” 2006

[5] “Improving the superannuation savings of people under 40” May 2006.

risk of non-compliance. In order to maintain administrative efficiencies and manage processing costs IFF supports minimum monthly payments of $10.

- IFF recommends the extension of the Federal Government's highly successful Co-Contribution Scheme to enable all people on low and middle incomes to benefit. IFF supports increasing the higher income threshold to the top of the income range for those paying 30 cents in the dollar income tax. For the year 2008-09 this would mean increasing the current higher income threshold of $60,342 to $75,000. For those on incomes of less than the lower income threshold (for the 2008-09 year $30,342) IFF supports the introduction of a universal Government contribution of $1,500.

- IFF supports access to low cost insurance through superannuation funds, in the knowledge that superannuation savings are only generally accumulated when a person is earning income. However, this needs to be balanced against the impact this cost has on the final retirement benefit. IFF does not support excessive insurance being funded from superannuation savings.

- IFF recommends that all employers who do not paid contributions on time be actively pursed. Most superannuation funds do not have access to payroll details that show wage rates and times worked, so they are unable to calculate the amount due from an employer under the SG Legislation. In addition they generally do not have records of employees.

  Unfortunately some employers fail to pay superannuation contributions for all employees entitled to receive such contributions under the Superannuation Guarantee Legislation; pay at reduced rates; or pay contributions late.

  The Australian Taxation Office (**ATO**) is the enforcement agency for the collection of the Superannuation Guarantee contributions payable by employers. It administers this responsibility through desk audits and some visits to worksites. Sometimes these arise from complaints from employees not receiving contributions.

  Compliance relies heavily upon the goodwill of employers the majority of who pay on time.

  The current approach to enforcement is simply not enough to protect the interests of employees, particularly during difficult economic times. Many Industry Funds actively pursue employers who do not pay contributions, either fully or on time, these attempts can be limited, time consuming and costly. Some funds do not accept, and are not required to accept, this enforcement role, which requires an enforceable contract between the trustee and the employer. The introduction of fund choice has exacerbated this situation by allowing employers to reject a chosen fund of an employee that requires an employer to enter into a contract with the Trustee.

EFFICIENCY AND THE IMPACT ON ADEQUACY

> **"Improve the efficiency by say 2% you could achieve an additional $30 per year in national savings, and that number will grow at a compound rate as the asset pool grows. … a 2% increase in compulsory contribution rates would produce $10 billion per year. [6]**

- IFF recommends that commissioned sales of Superannuation Guarantee and other mandated contributions be outlawed because they reduce retirement savings and give rise to conflicts of interest:

(i) the impact of commissions over the life of a superannuation product can significantly erode the end benefit to the member. Commissions can be excessive and their impact is often not understood by members.

(ii) payment of commissions out of legislatively mandated savings is inappropriate.

(iii) the practice of paying commissions to financial planners and other advisers (for example, accountants) for the sale of superannuation products has potential to significantly reduce the level of income available to retirees. This can already be seen from the disparity in fees charged by retail superannuation funds, which generally pay commissions, and those charged by Industry Funds, which are run only to profit members, and on a no-commissions basis.

(iv) IFF believes that the practise of paying commissions is inappropriate as there is often no direct relationship between the amount of client money and the amount of work involved for the adviser (where the commission is based on a percentage of the client's investments).

(v) payment of commissions creates a conflict between the financial interests of the adviser and the selection by that adviser of the best financial product/s for their clients and which may not produce results that are in the best interests of the client.

The APRA Insight report 'Celebrating ten years of superannuation data collection 1996-2006" shows that the return of the retail sector averaged less than the return of any other sector. In response to this report IFSA commissioned a review by International Centre for Financial Services (ICFS) which showed that retail funds impose higher expenses but offer extra services in the form of financial planning services and more investment products.

A recent report prepared by Rice Warner Actuaries for Industry Funds Financial Planning suggests that the use of commission-paying financial

[6] Garry Weaven's speech to the National Press club 'Funding our future through reform of super', 4 February 2009

products by financial both increases the cost to consumers of paying for advice, and reduces the monetary value of that advice over time.[7]

This article quotes from the Rice Warner report “In other words, the effect of an adviser receiving an average ongoing commission over a reasonable time horizon, assuming the average retail superannuation product fee, can result in remuneration two to 13 times higher than the remuneration charged by IFFP for similar advice over the same period.”

Examples given include a ”co-contribution strategy, in which a client seeks advice on taking advantage of the Government’s co-contribution scheme, resulted in a commission-based adviser receiving almost six times the remuneration of the IFFP fee-based planner - $3,876 over seven years, compared to a one-off $660.”

The article gave a further example of the cost of commission based advice compared to fee-based advice “ ...a client sought limited advice on a salary sacrifice strategy, the one-off upfront fee was again $660, compared to a cost over nine years of $9769 for commission-based advice, or almost 15 times as much. Over the nine years, the salary sacrifice strategy advice was worth $56,679 to the client of the fee-based planner, compared to $31,753 to the client of the commission-based adviser.”

- IFF recommends minimum standards for default funds, including:
  - a basic level of death and total and permanent disablement insurance cover, with all members entitled to protection when changing funds, whether individually by choice or collectively by successor fund transfer or a transfer initiated by the employer, through appropriate group life arrangements for extended cover to avoid any gaps in cover;
  - an investment strategy for accumulation schemes linked to a balanced portfolio with a clear understanding of what range of asset allocation constitutes a balanced portfolio; and
  - portability rules that enable members to exercise their choice without the impost of excessive exit fees. This will also help minimise the multiplicity of accounts.

- IFF recommends that Electronic Commerce become a priority issue for Government.

Electronic commerce supported by robust business rules and appropriate risk management procedures offers great administrative and cost efficiencies. Electronic commerce has become a widely accepted means of handling many business and financial transactions. It is being embraced by an increasing number of businesses, regardless of size and transaction volume for banking and bill payments, but generally it is only being adopted by medium or large employers who are the minority, for transacting superannuation data and contribution payments.

The superannuation industry has recognised that there are benefits to the industry and its participants of electronic commerce, and there have been a

[7] The Sydney Morning Herald, Weekend Business 28 Feb – March 1, 2009 ‘The price isn’t always right with cost of advice’ by Simon Hoyle.

few attempts including swimEC program which developed industry standard s for messaging standards and protocols. But by and large these have failed.

IFF believes that in order for the industry to adopt uniform standards and for all employers to use the system, regardless of size, it will be necessary for Government to mandate standards and mandate the use of electronic commerce by all employers for transacting data and superannuation contributions. IFF believes that in order for such a system to be successful and not impose an unreasonable expectation on small employers, the system may need to phased-in and it must cater for employers who may not have immediate access to a computer or may have very limited computer literacy.

IFF has established a Working Group of industry experts to design an effective system, and we would be pleased to give a briefing on the scope of the project and the work to-date.

IFF believes that it is essential for Government and the industry to tackle this issue if it is too make any significant progress in reducing the cost of collection of contributions and data, and fully utilise the benefits of clearing house facilities.

- IFF supports the Government's initiatives to encourage consolidation of accounts. IFF believes that these measures plus increases in the SG rate to 9% and the introduction of Fund Choice overcome most of the issues that necessitated member protection mechanisms. IFF therefore believes it is no longer equitable to require all members to bear the cost of providing member protection to a minority of members' accounts.

  Member protection needs to be balanced against the needs of other members. Member Protection should not be applied to accounts in the first 12-month reporting period in which a member has received a contribution. This is because the account is in the growth stage and if contributions continue will exceed the $1,000 threshold.

  IFF supports the establishment of Government controlled clearing house facilities for all superannuation contributions that are not to be paid to the default fund, and for transfers between funds. We believe that this will greatly assist in the management of lost members and consolidation of small accounts. This facility should be available free of charge to all employers, regardless of size, and be supported by a robust electronic commerce strategy to convert all employers to this more efficient contribution and data collection mechanism.

- IFF recommends the abolition of entry and exit fees on mandated contributions as defined under the SG legislation, an industrial award or an employment agreement.

  Legislation should allow funds to recover the actual cost to the fund of processing benefit payments, including a transfer to a retirement product, subject to a cap of $100 on the amount charged. This ensures that other members of the fund do not have to subsidise these costs which is inequitable. It also removes the ability to pay some of the commissions on superannuation contributions. It does not remove trailing commissions which are captured by the Management Expense Ratio (**MER**).

- IFF has established a Joint Working Group so identify effective and administratively efficient solutions that permit funds to ‘top up’ pensions rather than be required to establish another income stream adding to complexity and cost.

Currently if a member opens a pension account he or she cannot make further lump sum contributions to that account. If they contribute a lump sum they are required to set up a separate pension account. This can result in a member having multiple pension accounts and bearing the administration costs on all of them. It also increases the administration cost to the superannuation funds that offer these post retirement products.

The current level of contributions caps is adequate to meet the saving needs of the majority of members, except for those in the final phase of savings for their retirement. For many of these people, often with very modest retirement savings, it is likely that their cost of living has reduced as adult children have finished their studies and training and finally left home. They are also likely to have repaid all or much of their mortgage. They could be in a position where they may want to and need to contribute in excess of the cap notwithstanding the ability to spread over three years, if they have sold their home and are ‘down-sizing’ or simply over 60 and drawing on an income stream and saving all of their wages. IFF therefore recommends that further consideration be given to the level of the cap for the final pre-retirement from full time work years.

SECURITY OF CONTRIBUTIONS

Salary sacrifice is a tax effective way of making contributions for many members. However these contributions do not have the same security as SG and voluntary contributions. It is important that this anomaly be addressed, particularly in light of current financial uncertainty and increased risk of business failure. The improved insolvency ranking of unpaid superannuation contributions offer little protection and should not be relied upon as the solution.

- IFF recommends that additional Salary Sacrifice contributions in excess of mandated employer contributions should be subject to the same legislative protection as SG contributions, as minimum. IFF recommends that these contributions should be required to be paid monthly in the same way as voluntary member contributions. This is particularly important as many members are making significant contributions using salary sacrifice facilities and they are in essence member voluntary contributions.

  Currently contributions paid by an employee under a salary sacrifice arrangement with an employer are not subject to the time limit imposed on employers for payment of all other superannuation contributions including voluntary members' contributions and SG contributions. Consequently these contributions can be withheld without the Employer incurring a penalty, posing significant risk of loss to the member. Currently it would be up to an individual employee to take action against the employer if it failed to remit these contributions to a superannuation fund.

  In addition clarification is needed to ensure an employee's leave entitlements and SG contributions are calculated using the employees pre-salary sacrifice salary and wages.

  IFF recommends legislative changes, to impose the same protection on non-mandated salary sacrifice contributions as that imposed on mandated contributions.

  IFF also recommends making the requirement for payment of these contributions to be made within 28 days from the end of the month when deductions were withheld from the employee's salary. This is in line with the current requirement for employers to make payments of voluntary member contributions under Section 64 of the *Superannuation Industry (Supervision) Act 1993* (SIS).

  IFF recommends that all SG contributions be paid on a monthly basis rather than a quarterly basis as currently required under the SG legislation, to reduce the risk to employees of business failure of the employer and to increase interest earnings.

IFF recommends amendments to the Superannuation Guarantee (Administration) legislation and any other relevant legislation to protect superannuation payments made by salary sacrifice. In order to further protect employees' superannuation entitlements these changes should correctly specify the basis for calculation or payments when there are salary sacrifice arrangements in place. These changes need to ensure that SG contributions and leave entitlements are calculated on the pre-salary sacrifice salary and wages rather than the current post salary sacrifice total so the employee receives their full entitlements under the SG.

All employers be required to offer all employees the opportunity to salary sacrifice for superannuation.