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8 February 2009

Australia's Future Tax System Review
Retirement Income - Second Round Consultation
The Treasury
Langton Crescent
PARKES
ACT 2600

Men & Women of the AFTS Review

I have examined the December 2008 consultation paper and make the following comments.

Compulsory Exiting from Superannuation in Pension Form - An Unacceptable and Bad Idea

I have a very bad feeling in my water that the ideas canvassed at pp 25-27 have significant traction within the Review and / or Federal Treasury. This troubles me for the following reasons:

- It would represent a major structural change to the flexibility that has previously existed in relation to superannuation exit arrangements. It is not merely a shift in the goalposts, but an entire reconfiguration of the playing paddock. It's just not cricket.
- Such a proposal has not been electorally mandated by the public
- It will destroy voluntary pre tax sacrificing and disincentivises superannuation as a savings vehicle. It is anti success, anti thrift and penalises personal achievement and effort
- It encourages a lazy funds management industry. Is this a "free kick" for that industry? Many within the community have grave misgivings about the competency and modus operandi of the funds management industry. Many citizens prefer separation as quickly as possible from that industry.
- After 10,20, 30 or even 40 years of hard slog denial, it is now proposed that a further period of denial be imposed.
- As noted by the Review, annuities markets are not properly developed in Australia. There would need to be a lot of detailed analysis of any proposed regulation of the funds management industry and the extent of protections in place for superannuation members before any idea of purchasing of annuities could possibly be countenanced
- There must be no "gazumping" of existing balances (and future earnings thereon), with this proposal. That would be entirely wrong as existing balances have been built up on an understanding of previous and current rules

prevailing and departure from them would represent a moral breach of trust. If this exit by pension idea gets up, (and I hope it does not, or that the Government has the good sense to reject it), existing balances (and a fair deemed future rate of return on them), must be grandfathered and permitted full flexibility as to their exit method.

- Generally, this is such a change of a fundamental nature that it will introduce a very high level of political risk into superannuation savings into the future

Preservation Age for Access to Compulsory Super Must Not be Tinkered With

It would also be a totally unacceptable change to increase the age of preservation. Many of the above reasons for resisting change to exit rules also apply to age of preservation.

Enhancing Superannuation Saving for Low to Low to Mid Earners

Agree that low and low to mid employees need to dramatically lift their superannuation savings balances. An idea of enlightened self interest.

Method. Move to compulsory requirement of all employees to make post tax contributions of 6% p.a., but subject to a maximum annual post tax contribution cap of $5,000 p.a. (6% taken on base of gross + reportable fringe benefits with full economic grossing up , but not including pre tax super). Employees can also voluntarily pay more than 6% post tax, so long as $5,000 annual cap not exceeded.

That the above post tax contributions be accorded a tax incentive in the form of modified co-contribution. Everyone making post tax contributions receives a degree of co contribution, but fulltime workers with base incomes (gross employment salary + reportable fringe benefits + pre tax superannuation contributions) under $55,000 (appropriately indexed) receive 100% co-contribution, those full time and $55,000 - $75,000 receive 40% co – contribution, and those full time on more than $75,000 receive 25% co-contribution. Pro rating for part-timers.

Partly paid for:

a) by reductions to age base pre tax limits. Proposed new pre tax age base limits (indexed) under 50 = $20,000 ; 50 - 57 = $50,000 ; 58 - 65 = $75,000 (existing $100,000 transition measure for those 50 + kept to previously stated end date 2012).

b) abolition of post tax contributions, other than to $5,000 annual cap as discussed above

Alternative Method to Facilitate Pre Tax Voluntary Sacrifice

Tax and other laws should be altered to permit an employee, or self employed person, to make a payment to his or her superannuation fund prior to 30 June and have that payment treated as a pre tax sacrifice amount deductible to the employee.

This is to cater for situations, (hopefully infrequent), where an employer either cannot, or is unwilling to permit, a pre tax sacrifice above the 9% minimum. Employees should not be penalised in these circumstances.

Thanks