FINANCIAL PLANNING
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The Secretary
Senate Economics Legislation Committee, SG.64
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

21st November 2013

Dear Sir / Madam

RE: Mineral Resources Rent Tax (MRRT) and Related Measures Repeal

The Financial Planning Association of Australia (FPA) welcomes the opportunity to provide feedback to the Senate on the *Minerals Resource Rent Tax Repeal and Other Measures Bill 2013*.

The FPA understands that many of the related measures which this Bill would repeal were funded by the anticipated revenue from the MRRT. However, we believe that some of these changes are not inherently linked to the MRRT, and are vital developments in the Australian superannuation system. Alternative sources of funding should be found for these measures, both in order to keep the present system of superannuation stable and fair for all Australians, as well as to relieve the stress which the age pension places on the Federal budget.

On 7 November, the Hon. Arthur Sinodinas spoke to the Association of Independently Owned Financial Professionals (AIOFP) National Conference in Hobart, Tasmania. Regarding the Coalition's policy on superannuation, he said;

> "[w]e will take a considered approach to reform and the implementation of all of our election commitments. That means there will be no unexpected or detrimental changes to the superannuation system under our Government, with any final changes to settling recent reforms carried out in a fully consultative manner and with a view to minimising imposts on the industry."

The FPA considers this Bill to be a significant change to the Australian superannuation system. In particular, the FPA is concerned that repealing the Low Income Superannuation Contribution will disproportionately affect already disadvantaged members of Australian society, and dissuade low income earners from engaging with their superannuation.

Further, we would encourage the government to reconsider delaying the increase to the superannuation guarantee charge percentage. The volume of funds under management through superannuation schemes is significant and continues to grow, but this will not obviated retirees' reliance on social security. The superannuation balances of Australian retirees will not sustain them through their retirement unless superannuation contributions increase in the near term.

Repealing the Low Income Superannuation Contribution (LISC)

The Explanatory Memorandum to this Bill states that that the Government will "revisit incentives in superannuation for low income earners once the budget is back in a strong surplus".[1] Repealing the LISC will disincentivise low income earners from engaging with their superannuation, and effectively return Australia to a

[1] Explanatory Memorandum, Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 (Cth), 27.

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flat tax on superannuation contributions. As such, the LISC represents a significant structural change to superannuation in Australia, and repealing it will negatively impact on Australian society and the Federal budget in the long term.

The LISC was introduced to redress the unfairness of a flat 15% tax on superannuation contributions. As the Explanatory Memorandum to the Superannuation (Sustaining the Superannuation Contribution Concession) Imposition Bill noted;

> "[c]urrently, concessional contributions to superannuation are taxed at 15 per cent regardless of the individual's relevant marginal income tax rate (which may be lower than 15 per cent). As a result, individuals who have a marginal tax rate below 15 per cent pay more tax on these concessional contributions than if they had received the money as salary or wages and paid tax at their marginal income tax rate."[2]

The need to support low income workers in Australia's superannuation system through tax concessions was recognised in our 2009 submissions to the Retirement Income System Review.[3] In our 2011 submissions to the Low Income Earners Government Superannuation Contribution Consultation Paper, we supported the Labor Government's initiative to achieve greater equity within the superannuation system by reimbursing taxes paid on superannuation contributions for workers paid $37,000 or less annually.[4]

By repealing the LISC, the Government is reintroducing systemic inequality into the Australian superannuation system. This is particularly true for Australian women, half of whom already receive the benefits of the LISC and account for nearly two-thirds of those affected by repealing the LISC.[5] The impost of this Bill on the retirement income of Australian women is compounded by the greater longevity risk which women experience over men.

Young people are also disproportionately affected by these changes to superannuation. In general, younger people are expected to earn less than others in the workplace, and Australians aged between 25 and 30 own only 2% of Australian super assets.[6] For a person aged 25 earning under $35,000 a year, repealing the LISC and the superannuation guarantee charge percentage will wipe between $9,900 and $23,258 from their super balance at retirement.[7] For young Australians, the LISC represents an opportunity to become familiar with the superannuation system, and to proactively engage with Australia's superannuation and financial advice service industry.

Abandoning the Low Income Superannuation Contribution scheme will also affect the overall balance of superannuation in Australia. Industry Super Australia has calculated the loss to the national superannuation asset balance to be $13 billion by 2021-22.[8] Rather than returning Australia to its former position where low income earners, women, and youth are systemically disadvantaged by the tax on their employer's superannuation contributions, the Government should look to alternative sources of funding for the LISC.

Delaying the superannuation guarantee charge percentage

The superannuation guarantee system was introduced in 1992 and will not reach maturity until in 2037. Retirees in 2037 will not have benefited from the superannuation system throughout their working lives and as such will be

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[2] Explanatory Memorandum, Superannuation (Sustaining the Superannuation Contribution Concession) Imposition Bill 2013 (Cth), 13.
[3] Financial Planning Association of Australia, Submission to Treasury, *Australia's Future Tax System Review*, 27 February 2009, 27.
[4] Financial Planning Association of Australia, Submission to Treasury, *Consultation Paper - Low Income Earners Government Superannuation Contribution*, 15 July 2013.
[5] Women in Super, 'Open letter urges Prime Minister not to impose super tax on low-paid', (Media Release, 12 November 2013).
[6] Association of Superannuation Funds of Australia, *'Developments in the level and distribution of retirement savings'* (September 2011), 3
[7] Industry Super Australia, Submission to Treasury, *MRRT and Related Measures Repeal*, 31 October 2013, 7, available at <http://www.industrysuperaustralia.com/wp-content/uploads/2013/11/ISA-Submission-MRRT-Repeal.pdf>.
[8] Industry Super Australia, Submission to Treasury, *MRRT and Related Measures Repeal*, 31 October 2013, 7.

heavily reliant on the age pension during retirement - 25 per cent of the population potentially seeking social security from 2037 will put considerable pressure on the federal budget[9].

In the FPA's 2009 submissions to the Retirement Income System Review, we pointed out that the average superannuation balance for couples between 60-64 was $202,600.[10] When combined with the aged pension, this amounted to only a $30,000 annual income for retirees, which is well under the $50,561 ASFA/Westpac estimated for a 'comfortable' lifestyle. Since then, the amount needed to meet that standard of living has increased to $57,195.[11]

Without a corresponding increase to super contributions, we will not meet the demands of an aging population which are already reliant on social security to supplement their retirement income. The Australian Bureau of Statistics have recently released research which indicates that Australia is experiencing 'the highest life expectancy estimates ever recorded in Australia, reflecting record low death rates'.[12] As already insufficient superannuation incomes are expected to last for longer, a rise in the statutory superannuation guarantee charge will be necessary to address longevity risk.

Increasing the retirement age and eligibility for the aged pension are part of the solution, but superannuation contributions must also rise to address longevity risk. Our 2009 submissions to the Retirement Income System Review recommended an increase of the superannuation contribution to 12%, a position which has been adopted under both the current law and the new law. Worryingly, as this table extracted from the Explanatory Memorandum for this Bill demonstrates,[13] the proposed "rephrasing" only makes a commitment to a 0.25% increase to the rate of the superannuation contribution during this term of government.

Table 2.1 Rephasing of the SG charge percentage

Year	*SG charge percentage*	
	New law	*Current law*
Year starting on 1 July 2013	9.25	9.25
Year starting on 1 July 2014	9.25	9.5
Year starting on 1 July 2015	9.25	10
Year starting on 1 July 2016	9.5	10.5
Year starting on 1 July 2017	10	11
Year starting on 1 July 2018	10.5	11.5
Year starting on 1 July 2019	11	12
Year starting on 1 July 2020	11.5	12
Years starting on or after 1 July 2021	12	12

Like the LISC, this measure has long term effects on superannuation balances, and the retirement preparedness of all Australians. Deloitte has published a report on the future of superannuation in Australia, and has calculated that $77 billion would be lost from the total superannuation asset pool by 2033.[14]

This money is lost to retirees, but also to investment in Australian businesses and infrastructure. As the Treasury has noted, the OECD Economic Outlook rates Australia's economic growth well ahead of the OECD average in

[9] Treasury projections, Intergenerational Report 2007.
[10] Using Rice Warner's *Superannuation Market Projections* (2009).
[11] Association of Superannuation Funds of Australia, *'ASFA Retirement Standard'* (September 2013), available at < http://www.superannuation.asn.au/ArticleDocuments/129/ASFA-RetirementStandard-Sep2013.pdf.aspx>.
[12] Australian Bureau of Statistics, 'Australians living longer' (Media release, 3302.0 Deaths – Australia, 7 November 2013).
[13] Explanatory Memorandum, Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 (Cth), 27.
[14] Deloitte Actuaries & Consultants, '*Dynamics of the Australian Superannuation System The next 20 years: 2013 – 2033'* (2013), 7.

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the next two years.[15] The next two years are therefore an excellent opportunity to support this growth without a significant impost on the federal budget by increasing employer superannuation contributions.

As such, the changes to superannuation enacted by the previous government are significant and systemic in their scope. The LISC and the increase in the superannuation guarantee charge percentage are vitally important reforms to improve the fairness and effectiveness of the Australian superannuation system. They should not be tied to the income of the MRRT and should be funded independently.

Yours sincerely,

Dante De Gori
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Financial Planning Association of Australia[16]

[15] Treasury, 'OECD Economic Outlook – November 2013' (Media Release, 19 November 2013).

[16] The Financial Planning Association (FPA) represents more than 10,000 members and affiliates of whom 7,500 are practising financial planners and 5,500 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- We banned commissions and conflicted remuneration on investments and superannuation for our members in 2009 – years ahead of FOFA.
- We have an independent conduct review panel, Chaired by Professor Dimity Kingsford Smith, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 150,000 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 17 Australian Universities for degrees in financial planning. As at the 1st July 2013 all new members of the FPA will be required to hold, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
- We are recognised as a professional body by the Tax Practitioners Board.

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