
MINORITY REPORT – SENATORS ALSTON AND WATSON

1. The Committee's report brings together a number of important issues upon which we are in broad agreement with the Government. However, the differences in basic philosophy of the Government and Opposition are well illustrated in the proposed amendments to the taxation and social security legislation. The Government believes that the answer to all problems of human behaviour lies in compulsion and if the problem is a financial one, this Government's answer will include higher taxes.

2. It is common ground that the aging of our population will place some strain on our resources from about 2010 onwards unless effective and timely counter-measures are taken. There is also general agreement that superannuation should play a much greater role in the provision of retirement income than it does now. The Government's response to this challenge is the blunt instrument of compulsion: firstly through its encouragement of award superannuation and, more recently, through the punitive Superannuation Guarantee Charge.

3. Australia has an appalling savings record, so bad indeed that the nation is totally dependent on foreigners for the maintenance of its living standards. If Australia cannot sell its few remaining prosperous companies for foreign currency, it goes cap in hand to the market and borrows what is needed. The reason why Australians are poor savers is that there is no incentive to save – the deadly scissor blades of taxation and years of endemic inflation have convinced a whole generation that it is not worth while to put money aside for the future.

4. The Government's reaction has been to abolish virtually all the remaining tax incentives to saving through superannuation, the very antithesis of what is required.

5. We set out below our points of dissent from the report.

Level of Pensions

6. In Chapter 2, the report notes without comment that 'welfare groups submitted that the current age pension is too low and needs to be increased.' It is now apparent that the Government is reluctant to countenance, let alone facilitate, any increase in the age pension.

7. In *Security in Retirement* (released by the Treasurer on 30 June) the Government said on page 23:

To increase base pension levels significantly and to have the pension paid also increase with income ... would weaken further all the incentives that otherwise exist ... for private self provision. Given Australia's inadequate savings performance, that would be a perverse policy outcome and is one that has therefore been rejected by this Government.

8. Further, Labor Senator Nick Sherry, the Superannuation Committee's chairman, told the *Townsville Bulletin* on 5 August 1992 that:

... if we don't improve superannuation, we would not be able to pay the same amount (of the pension) we do now, simply because of the number of people over 65.

Taxation Treatment of Member Contributions

9. We do not consider that the changes to the tax treatment of superannuation contributions envisaged in the Bill will provide a more equitable system, as claimed in the Conclusion to Chapter 6. Currently there is a range of different taxation concessions for different categories of employees. For wage and salary earners the position is as follows:

- those with no superannuation cover can claim tax deductions on the same basis as the self-employed, namely \$3 000 a year plus 75 per cent of excess contributions up to their RBLs;
- those with award superannuation only are entitled to a deduction of \$3 000 a year; and
- those with incomes of less than \$25 000 per year (tapering off to \$31 000) and with modest levels of employer support (less than \$1 600 per year) are entitled to a rebate of up to 25 per cent – a maximum rebate of \$750.

10. The Bill will abolish the first two concessions and severely limit the third by replacing it with a uniform rebate of 10 per cent. The highest rebate under these proposals will be a token \$100 to those on the bottom of the income ladder, provided they can scrape up a superannuation contribution of \$1 000.

11. All other changes announced by the Treasurer on 30 June last had two years' lead time, but for the removal of tax deductions on personal contributions, the Government gave less than 24 hours' notice.

12. Apart from saving the Government an estimated \$230 million in 1993-94, these proposed changes will dramatically and adversely affect an estimated 1.3 million individuals who are currently contributing to superannuation plans, particularly personal plans. These involve a contractual arrangement, usually for a set period of at least five years, and many such persons have already been confronted with the dilemma of effectively contributing a higher net amount or breaching their contracts.

13. There has been widespread speculation as to the Government's motives but it would seem quite consistent with its view that, unlike virtually every other industrialised country in the world, employers should bear the full responsibility for superannuation contributions and that employees should be effectively discouraged from helping themselves by making supplementary arrangements on their own account.

14. At a recent seminar in Perth, the Federal Labor's representative, the Member for Canning and Government Whip, George Gear, let the cat out of the bag when he told the audience 'with a compulsory superannuation system fully in place you don't need tax concessions'. It can only be a matter of time before the Government succumbs to irresistible temptation and abolishes the \$3.5 million a year tax deductions on employer contributions.

15. This is totally unacceptable situation as the current generation of employees will receive nothing like an adequate level of retirement income under SGC timetable. On the Government's own calculations, for an individual on average weekly earnings to receive 40 per cent of AWE, there would need to be twelve per cent contributions made over a forty-year period. Most workers will not be in the workforce for anything like forty years, even if they are fortunate enough to be employed at the present time. The majority of the workforce are aged over thirty years and are still effectively encouraged to retire at age 55. Women also tend to work ten years less on a full-time basis than men.

16. The overwhelming majority of the current generation of the workforce will also not have the benefits of anything like 12 per cent of contributions whatever length of time they are in the workforce. Some 850 000 employees are not covered by awards and have therefore not been receiving the first 3 per cent award superannuation. A further 600 000 award employees have not received their entitlements as a result of employer non-compliance and a further 100 000 public sector employees have not been receiving award superannuation. As the SGC is to be phased in over a ten-year period, it follows that even those already receiving the first round 3 per cent will not reach 9 per cent until the year 2002, let alone the 12 per cent advocated by the Government. In these circumstances the immediate removal of any incentives to top up is not only callous and unnecessary but also extremely unfair.

Taxation of Employer and Self-Employed Contributions

17. We dissent from Recommendation 7.1, which supports the retention of the current contributions tax regime, which is unfair in the extreme. Being at a flat rate, it is highly regressive. As many welfare groups have urged on the Committee, it would be much fairer to bring in a variable tax on contributions, based on the member's marginal tax rate, less a 25 per cent rebate.

Taxation of Fund Earnings

18. We dissent from Recommendation 7.3, which supports the current rates of taxation on fund earnings. In fact a modest increase in the fund earnings tax, after allowing for dividend imputation, would enable a significant decrease in contributions taxes and the abolition of lump sum taxes – a much better and fairer mix than the current regime.

Pre- and Post-1983 Problem

19. The Bill does not address the significant and unnecessary complexities of the pre- and post-1983 problem. This probably has much to do with a lack of political will on the part of the Government. The Coalition will abolish this complex regime by abolishing taxes on the lump sums taken after preservation age.

Vesting of Employee Contributions

20. The Government has now been dithering for more than three years over its policy on the vesting of employer contributions. Meanwhile, many employees continue to walk away from even long standing employment with a single employer with little more than employee contributions plus interest.

21. This is a quite unsatisfactory and unfair outcome, especially as many employees in these circumstances, often women, end up with quite inadequate retirement income arrangements.

22. We do not believe the recommendations in Chapter 3 go far enough and urge the Government to adopt the Coalition's policy of immediate vesting for accumulation funds and a progressive five-year vesting regime for defined benefit funds.

Preservation Age for Superannuation Benefits

23. We dissent from Recommendation 3.6. While we welcome the Government's belated decision to raise the preservation age to 60, despite the continued intransigence of the ACTU, we cannot understand why such a simple and urgently needed change should take 24 years to commence and 32 years to complete. The Treasurer's announcement of the Government's decision on 30 June 1992 gave no reasons for the delay, other than to observe that the change would not upset existing plans for retirement. This decision is an extreme example of fiscal irresponsibility. We believe that the program can be brought forward by 20 years without depriving anyone of any reasonably held right or expectation, and urge adoption of the Coalition's Fightback proposals, which are set out below:

DATE OF BIRTH	PRESERVATION AGE
before 1 January 1940	55 years
1 January 1940 – 30 June 1940	55 years and 6 months
1 July 1940 – 31 December 1940	56 years
1 January 1941 – 30 June 1941	56 years and 6 months
1 July 1941 – 31 December 1941	57 years
1 January 1942 – 30 June 1942	57 years and 6 months
1 July 1942 – 31 December 1942	58 years
1 January 1943 – 30 June 1943	58 years and 6 months
1 July 1943 – 31 December 1943	59 years
1 January 1944 – 30 June 1944	59 years and 6 months
after 1 July 1944	60 years

24. The Government's continued refusal to commission detailed statistics on the nature and extent of double dipping is to be deplored. Its preservation proposals are an open invitation to double-dipping and demonstrate its total subservience to the union movement, which regards superannuation as a mixture of deferred holiday pay and an employer-financed housing subsidy.

Social Security Legislation — Allocated Pensions

25. We dissent from the support, expressed in Chapter 4 of the report, for the proposed treatment of allocated pensions in Division 19 of the Bill. However, we strongly support the need for a more flexible pension and annuities regime. In this context, allocated pensions have a vital role to play and we therefore believe that the current provisions are likely to diminish the attraction of allocated pensions and hence undermine an effective retirement incomes policy.

26. For some time now, the Government has been giving lip service to the need for retirees to use their superannuation benefits to produce a steady retirement income stream instead of dissipating lump sums as so many now do.

27. There are aspects of conventional lifetime annuities which make them unattractive to some potential purchasers – they are inflexible, relatively low-yielding, and do not have a residual value to be passed on.

28. Allocated pensions were developed to fill a market gap and, eventually, received the Treasurer's commendation in *Security in Retirement* last June. The ISC has developed rules which expand the definition of annuities in such a way as to include allocated pensions.

29. The proposed amendments to the Social Security legislation, by denying allocated pensions the same treatment already given to annuities in the income and assets tests, are likely to undo all that good work and fly in the face of the stated policy of encouraging allocated pensions.

30. The only reason given by the Government is the rather pathetic assertion that allocated pensions are more like bank accounts than annuities, despite the change in definitions with the specific objective of encouraging their use by treating them as annuities for tax purposes.

31. We deplore the obvious failure of the two departments involved to get their act together and co-operate in the development of a sensible retirement incomes policy.

32. In the absence of detailed information as to the current usage of allocated pensions, it is difficult to understand the Government's haste to kneecap this form of retirement income stream.

33. As there is only about \$2 million of revenue involved, we propose that the provisions should not take effect until the completion of a further inquiry by an appropriate Senate Committee, or 1 October 1993, whichever is the later.

34. There are many problems associated with the proposal to include unrealised capital gains in the Social Security income means test and we are disturbed that this was not the subject of a coordinated review to ensure equity of treatment.