

# **PART 1**

## **BACKGROUND**

A democracy endeavours to provide economic, social and political stability for its citizens. Economic stability takes on a particular significance in many people's retirement years. It is during this period that they are less able to generate new income.

The Superannuation Guarantee has been added to the structure of this country's retirement income system. It has been in operation for 32 months. An understanding of the impetus for its establishment, the policy framework and the industrial context is a vital prerequisite to assessing the relevance, operation and adequacy of the SG.

The first part of this report sets out to provide such a background to the Superannuation Guarantee in the context of the review that is undertaken in the second part.

Part 1 also reports on some overall observations that were received in the course of the inquiry. Assertions were made that the Superannuation Guarantee has impacted upon employment levels, casualisation of the workforce and has contributed to the fear of losing the pension. The level of acceptance of the system was also debated. Each of these issues forms part of the mosaic against which the retirement incomes policy has and will continue to develop.

It is within the frame of reference drawn in Part 1 of the report that the Select Committee on Superannuation has reviewed the system and recommended measures to alleviate aberrations from the relevant principles of retirement incomes.

## CHAPTER 1: INTRODUCTION

### Introduction

1.1 Against the backdrop of an ageing population profile and declining national savings, the Government mandated superannuation for employees in 1992.

1.2 With the introduction of the Superannuation Guarantee (SG) came two enormous challenges. First, there was the obvious need for a suitable and enduring administrative system. The second, not so obvious, challenge was to earn the 'seal of approval' from everyday Australians who have been asked to embrace a compulsory superannuation system involving far reaching economic and sociological implications. The Government has not taken this second challenge lightly as the success of SG depends largely on the confidence and participation of workers and employers alike.

1.3 As with any other project of the magnitude of SG, one would expect a few 'teething pains'. For this reason, the purpose of this report is to review the operation of the SG during its formative year.

### Background

1.4 On 2 April 1992, the then Treasurer, the Hon John Dawkins, MP, outlined the following reasons for the Superannuation Guarantee in the Second Reading Speech on the Superannuation Guarantee (Administration) Bill 1992:

- to provide a genuine retirement savings vehicle for most Australians;
- to increase the level of superannuation savings per individual, in order to maintain a satisfactory living standard in retirement;
- to provide a major extension of overall superannuation coverage in the workforce;
- to provide an efficient means of encouraging employers to comply with award superannuation obligations;

- to provide an orderly way to increase the level of superannuation support over time, consistent with the economy's capacity to pay; and
- to increase the overall national savings so as to reduce Australian reliance on the savings of foreigners to fund development.

1.5 The legislative authority for the SG is provided by the *Superannuation Guarantee Charge Act 1992* and the associated administrative detail is contained in the *Superannuation Guarantee (Administration) Act 1992*.

1.6 The Commissioner of Taxation was given the responsibility for the implementation and administration of SG.

1.7 In the course of their passage through Parliament the Superannuation Guarantee (Administration) Bill and the Superannuation Guarantee Charge Bill were referred to the Senate Select Committee on Superannuation for inquiry and report. The Committee scrutinised the legislation in its second report, *Super Guarantee Bills*. Recommendations made in that report resulted in significant amendments to the legislation before it was passed.

1.8 In view of the involvement of this Committee in both the passage of the SG legislation and the Superannuation Industry (Supervision) (hereafter, SIS) legislation, it was suggested that the Committee was in a good position to review the operation of the SG scheme.

1.9 On 15 December 1993, the Committee was given the following terms of reference for inquiry and report:

The operation of the Superannuation Guarantee Charge (SG) during its first 12 month period, with particular reference to:

- (a) the impact of the SG on women, and on casual and part-time employees;
- (b) any technical deficiencies in the *Superannuation Guarantee Charge Act 1992* and the *Superannuation Guarantee (Administration) Act 1992*;
- (c) the administration, application and coverage of the SG scheme;
- (d) compliance with the SG scheme; and
- (e) any other matters related to the operation of the scheme.

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## Conduct of the Inquiry

1.10 The Committee called for submissions on the reference by placing advertisements in a number of newspapers and journals. It also contacted persons and organisations who had expressed interest in superannuation matters and were on the Committee's mailing list. The Committee received 116 written submissions.<sup>1</sup> Ninety witnesses<sup>2</sup> appeared before the Committee to give oral evidence in hearings conducted in:

Sydney	12 July 1994
Melbourne	13 July 1994
Perth	14 July 1994
Canberra	29 August 1994
Canberra	19 September 1994
Canberra	20 September 1994
Canberra	23 September 1994
Berri	4 November 1994
Canberra	28 November 1994

1.11 In this inquiry, the Committee has sought to obtain the broadest views on the operation of the SG scheme. In doing so it has sought the general impressions of the scheme from a range of participants as well as specific analysis and proposals.

1.12 To facilitate discussion of the issues raised in the terms of reference, and in accordance with the Committee's previous resolutions, unless otherwise ordered, written submissions were published on receipt and uncorrected Hansard transcripts were circulated as soon as they became available.

1.13 Oral evidence is cited by reference to Hansard as follows: 'Evidence, p XX'. Written submissions are referred to by their registration number: 'SGCREV Sub No XX'.

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1 See Appendix A

2 See Appendix B

1.14 The Committee also heard evidence during the course of the above hearings on the increase of SG contribution levels, the Superannuation Complaints Tribunal, the SIS regulations and the Super for Women reference.

1.15 There is significant overlap between this reference and the Committee's reference on the adequacy of current retirement incomes policy in meeting the needs of intermittent workers, particularly women. This report examines some of the issues raised by these references. It also makes some recommendations in respect of those issues. However, the Committee intends to undertake a much broader inquiry and analysis of these matters in the 'Super-Women' inquiry. The terms of reference for that inquiry appear at Appendix C.

1.16 The Committee records its appreciation to those who made written submissions and gave oral evidence in the inquiry.