CHAPTER 2:

RETIREMENT INCOME POLICY

'Something has to be done now to

meet our future retirement needs'.[1]

Introduction

2.1 Superannuation Guarantee is a key component of the superannuation component of the Government's Retirement Income Policy.

The Government's Retirement Income Policy

Background

2.2 The Government's retirement income policy (RIP) was developed to address problems stemming from an ageing population caused by the large post war "baby boom" generation moving toward age pension age within the next couple of decades. Other major factors which were taken into consideration were the disadvantages faced by women in saving for their later years and the trend towards older people leaving the workforce at earlier ages.[2]

2.3 The policy framework for a comprehensive retirement income policy was established in an August 1989 Statement by the Minister for Social Security, Mr Brian Howe. It detailed the policy progress made since 1983 in relation to:

- superannuation;
- social security;
- taxation;

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1 The Hon John Dawkins, MP, Treasurer, *Security in Retirement, Planning for Tomorrow Today*, 30 June 1992, p 2

2 Statement by the Honourable Brian Howe, MP, Minister for Social Security, *Better Incomes: Retirement Income Policy into the Next Century*, August 1989, p 1

- community services;
- health care; and
- housing.

2.4 Recognising that 'the key to providing better income support for the growing number of older people is increased saving', the Government was instrumental in making profound changes to the superannuation system which it considers to be the 'most direct form of saving for retirement'.[3] As the age pension was retained as the centrepiece of its RIP, better integration with superannuation was seen as conducive to a more effective national retirement income policy.

2.5 The Committee notes that Ageing Agendas was commissioned to engage in a strategic review of the Income and Assets Tests. Ageing Agendas produced a discussion paper in July 1994 which, amongst other tasks, looked at the objectives of the income and assets tests within the framework of the Government's RIP and other relevant policies and proposed a set of benchmarks to guide decision making about the options.[4] The final report of that review, *Targeting for Equity*, was presented to the Minister for Social Security on 27 November 1994.

2.6 As the major objective of the RIP 'is to ensure an adequate income for retired Australians, both now and in the future',[5] SG was designed to ensure that those still in the workforce have opportunities to save more, either through superannuation or otherwise, for their retirement years.

2.7 The Government considered that improving superannuation benefits for both employees and the self-employed was the major way in which total retirement income adequacy could be increased, and that this could be achieved by:

- extending superannuation coverage across the labour force;
- increasing the levels of contributions;

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3 Statement by the Honourable Brian Howe, MP, Minister for Social Security, *Better Incomes: Retirement Income Policy into the Next Century,* August 1989, p 2

4 *Questions of Balance*, a Discussion Paper, by John Barber, Gillian Moon and Sharon Doolan, 'Aging Agendas', July 1994

5 Statement by the Honourable Brian Howe, MP, Minister for Social Security, *Better Incomes: Retirement Income Policy into the Next Century,* August 1989, p 28

- ensuring that superannuation benefits are not lost when an employee changes jobs;
- making superannuation more responsive to women's pattern of working; and
- ensuring that superannuation is not wasted before or at retirement.[6]

2.8 Until the advent of award superannuation in the mid-1980s, Australia's retirement incomes system comprised an aged pension and voluntary superannuation. The tax incentives offered in relation to superannuation were ineffective in extending coverage of superannuation. By 1983, only a minority of the workforce had any superannuation coverage, with most being highly paid white collar workers or public sector employees.

2.9 Between 1983 and 1986, a number of policy initiatives were introduced progressively to address what were perceived as major problems with superannuation. These initiatives were:

- to change the taxation treatment of the post June 1983 component of lump sums;
- to create rollover vehicles to encourage preservation of benefits;
- to encourage the spread of superannuation throughout the workforce, beginning with award superannuation in 1985/86;
- the introduction of vesting and portability to make superannuation a more effective vehicle of providing retirement income.

2.10 The Insurance and Superannuation Commission (ISC) was established in 1987 to administer guidelines by which superannuation schemes have to operate in order to be eligible for tax concessions. The *Occupational Superannuation Standards Act 1987* (OSSA) and its associated regulations codified these guidelines, or standards.

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6 Statement by the Honourable Brian Howe, MP, Minister for Social Security, *Better Incomes: Retirement Income Policy into the Next Century*, August 1989, pp 35-36

Superannuation Guarantee

2.11 In August 1991 the Government announced its intention to extend superannuation coverage throughout the workforce at large by introducing widespread compulsory superannuation.

2.12 In his statement of 30 June 1992, the then Treasurer, the Hon John Dawkins, MP, stated that:

> Australia - unlike most other developed countries - meets its age pension from current revenues. Taxation paid by today's workers is thus not contributing to workers' future retirement security; the revenue is fully used to meet the annual costs borne by governments.
>
> And, like most other people, Australians generally undervalue savings for their own future retirement. Private voluntary savings cannot be relied upon to provide an adequate retirement security for most Australians. This is so even with the very generous taxation concessions which are available for private superannuation savings.
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> Our existing arrangements are no longer sustainable in the face of the community's growing retirement aspirations, as well as demographic and other changes.
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> These changes include the ageing of Australia's population, the significant trend to earlier retirement and changing community views about what level of retirement income is adequate. None of these changes can be readily reversed by government policies. The ageing of our population can only be postponed, by ever increasing the number of young immigrants; increasing aspirations for retirement are necessarily linked to increased living standards and improved health care.
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> In the face of these factors, changes are required to the current reliance on the pay-as-you-go approach to funding widely available retirement incomes. This means that we need now to start saving more for our future retirement. It also means that saving for retirement will have to be compulsory. It means that these savings will increasingly have to be 'preserved' for retirement purposes. Lastly, the rate of saving will have to ensure retirement incomes which are higher than that provided today through the age pension system.
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> There seems to be a general awareness in the community that something has to be done now to meet our future retirement needs.[7]

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7 The Hon John Dawkins, MP, Treasurer, *Security in Retirement, Planning for Tomorrow Today*, 30 June 1992, pp 1-2

2.13 The *Superannuation Guarantee Charge Act 1992* (SGC Act) and the *Superannuation Guarantee (Administration) Act 1992* (SGAA) took effect from 1 July 1992.

2.14 Australia's retirement income policy now has three key components:

- compulsory superannuation;
- voluntary superannuation arrangements; and
- age pension and other social security arrangements.

2.15 Australia now has a superannuation system similar to those in other developed countries.[8] The system could be considered unique, however, given that the payment of compulsory superannuation is operated through private sector organisations rather than operating through a central fund or on a pay-as-you-go basis.

2.16 The introduction of Superannuation Guarantee increased community concerns about the prudential management of superannuation benefits. The supervisory regime instigated under OSSA was seen as ineffective because its sanctions were derived chiefly from the Commonwealth's taxation head of power under the Constitution. Any breach of standards by trustees could only be punished by withdrawing a fund's complying status and its associated eligibility for tax concessions. Such a sanction was seen to be both draconian and ineffective as it generally penalised the members a second time without affecting the trustees.

2.17 As this was seen to be inadequate for the purposes of protecting the superannuation assets of the Australian workforce, new legislation was enacted which gave the ISC enhanced supervisory powers flowing from the corporations and pensions heads of power under the Constitution. The advantage of this was that trustees could be made directly responsible for the management and operation of funds. Breaches of the standards are punishable with civil and criminal sanctions without endangering a fund's compliance status.

2.18 The *Superannuation Industry (Supervision) Act 1993* and a raft of associated legislation came into effect generally from the commencement of a fund's 1994/95 year of income for funds whose trustees elected that the Act apply in relation to the fund. That election is irrevocable.

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8 Senate Select Committee on Superannuation, *Super System Survey - A background paper on retirement income arrangements in twenty-one countries*, December 1991

2.19 Funds cannot be complying funds for the 1994/95 or subsequent years of income until such an election is made.