
CHAPTER 12:

AN ALTERNATIVE, AN ADDITION, AND EDUCATION

Introduction

12.1 This chapter looks at the evidence received by the Committee concerning two unrelated proposals:

- the Institute of Actuaries of Australia (IAA) proposal for a Universal Pension; and
- the need for a 'lifecycle savings vehicle'.

12.2 This chapter also assesses the extent of community education needed in superannuation.

Universal pension

12.3 The following extract from the submission of the Institute of Actuaries of Australia (IAA) to the Committee captures much of the rationale behind their proposal to replace the current retirement income policy with a universal age pension:

Retirement Incomes are essentially a compromise:

- Ideal levels of benefit are too expensive;
- The most equitable system is too complicated;
- Individual preferences conflict with broad requirements;
- Targeted social security benefits conflict with incentives to save; and
- Budgetary requirements limit desirable tax treatments.

Combined with these conflicts are different political views, differing funding approaches and differing attitudes to government/private responsibilities. It is no wonder that our retirement incomes system has been subject to dispute and change... our present system is unsatisfactory.¹

12.4 The IAA submitted that their objective for the universal pension is 'to enable all Australians to retire at a suitable time and to spend their whole retirement lifetime with a secure and adequate level of income'.²

Outline of universal pension proposal

12.5 To achieve their objective, the IAA propose a structure comprising of:

- a universal age pension entitlement for each Australian; male or female, earner or non-earner, not subject to any means test, but subject to income tax and a residency test; and
- superannuation plans which are tax-encouraged up to a certain level and with benefits primarily in income form, including:
 - (a) compulsory occupation-linked superannuation benefits based on the present SG arrangements;
 - (b) voluntary employer sponsored superannuation;
 - (c) voluntary personal superannuation; and
 - (d) other forms of savings.

12.6 The IAA submitted that their proposal is a flexible integrated structure with built in control mechanisms enabling adjustments to be made in relation to government revenue outlays on the basis of assessments of future costs and benefits which will be made to take into account changing demographic, economic and political situations.

12.7 An integral element of the proposal is the abolition of the age pension income and assets tests. Social Security administration would be simplified and the intrusiveness into pensioners' private affairs, which is a necessary part of means testing, would be alleviated.

12.8 The SG would be frozen at 6%, which would be popular with employers (especially small business), some of whom view the SG as an additional impost, and popular with lower income earners who view the SG as foregone wages.

12.9 The focus of the proposed system is on end benefits and security in retirement rather than on contributions and arbitrary benefit outcomes. This would better enable long term financial planning for retirement.

Cost Estimates

12.10 The IAA used the National Mutual Retirement Income Policy (RIP) Model, as modified by the Government's Retirement Income Modelling Taskforce, to assess the cost of their proposal. The IAA maintain that the cost to government revenue is very similar to the current system for the next three decades or longer.

12.11 The Committee is conscious of the public debate occurring among expert commentators about the cost of the IAA's proposal. For instance, when asked by the Committee to comment on the actuaries' proposal, Mr Greg Smith, Department of Treasury, commented that a paper prepared by the Retirement Income Modelling Taskforce, for submission to the Government's strategic review of the pension income and assets tests 'does, in fact, challenge pretty strongly the results that were claimed in the submission from the Institute of Actuaries'.³

12.12 Mr Smith's claim was supported by Mr Phil Gallagher, a Director with the Retirement Income Modelling Taskforce, who doubts the accuracy of the IAA's modelling and has stated, among other things, that:

although hypothetical analysis cannot make definite conclusions about whole populations, the current analysis suggests the implementation of the IAA's proposals as submitted to the Senate might well substantially increase costs to government and also increase inequity among the aged.⁴

12.13 On a similar note, Mr Anthony Cole, LIFA, questioned the impact of the cost of the IAA's proposal when he told the Committee:

I think that [the] actuaries' presentation talks about a maximum difference in cost of one per cent of GDP. That is very big as a proportion of the sorts of levels of change that we need in total saving in the Australian economy.⁵

12.14 Mr Martin Ferguson, ACTU, has been attributed with saying that the universal pension would cost the Government \$5 billion annually. Mr Ferguson told the ABC radio program, *P.M.*, that:

3 Evidence, p 611

4 *Superfunds*, November 1994, p104

5 Evidence, p 588

so far as I am concerned, the union movement will go out of its way to ensure that the universal pension is not established in Australia at this point in time.⁶

12.15 In answering questions from the Committee, Ms Nicola Cusworth, of the Chamber of Commerce and Industry of Western Australia, observed that such a universal pension option is usually 'phenomenally expensive' and could tend to be somewhat regressive in that those who retire with a substantial nest-egg are still subsidised by the taxpayer. Interestingly, Ms Cusworth said that the United Kingdom and other countries in Europe which have had that kind of proposal are tending to move away from universal pensions, the main reason being that they are extremely expensive.⁷

12.16 The Committee has received a supplementary submission from the IAA which rebuts, in some detail, the criticisms levelled at their proposal, including regressiveness, the inadequacy of the financial model, the assumptions used and the resultant costing estimates. Among other things, the submission states that it must be acknowledged that many contributors to this debate have argued from relatively pre-determined positions, with their sentiment being either:

- the introduction that the universal pension cannot be afforded; or
- the introduction of a universal pension would be inequitable.⁸

12.17 The Committee does not wish to be drawn on the technical merit of the financial model as it is conscious of the complex and subjective nature of financial modelling, especially when dealing with long time horizons and numerous interrelated variables. Rather, the Committee prefers to focus on the general merit of the proposal and the feasibility of implementing such a comprehensive change in retirement income policy.

General Discussion

12.18 In evaluating the IAA's proposal, the Committee was particularly interested in the benefits provided by the present retirement income policy to marginal income earners, who are unlikely to ever self-fund their retirement.

6 Transcript for ABC radio, *P.M.*, Thursday 22 September 1994

7 Evidence, pp 305-306

8 SGCREV Sub No 29 Supplementary

12.19 In this regard, Ms Eva Cox, Women's Economic Think Tank, touched favourably on the concept of a universal pension by suggesting:

that it would actually cost less and be more effective to offer a universal age pension at 25% of average weekly earnings and allow no tax concessions... if you simplified the whole damned thing and had a universal pension with a single supplement available to those people who failed to save, you would probably find that people would be prepared to save because there would be no disincentive to having additional income... at the moment you have a system where people go to enormous lengths to be able to retain bits of the age pension.⁹

12.20 The IAA's call for simplification of the retirement savings system was echoed by Mr Frank Muggeridge, of Sunnybank, Qld, who submitted, among other things, that the Government should:

make the age pension available to all Australians from age 65 for an amount equivalent to say 40% of their earnings over the ten years prior to retirement with a minimum of \$150 weekly and a maximum of \$250 weekly.¹⁰

12.21 Mr Muggeridge also said that all Australians need an incentive to save for their own retirement and 'should be encouraged [with tax deductions] to save as much as they want to top up this amount [the age pension] to their own standard'.

12.22 Also in favour of a universal pension was Mr Kenneth Wynn, from Cronulla, NSW, who told the Committee:

so, overall, a universal pension system would not only provide a better outcome but it would relieve a lot of the angst in society about people who are getting pensions and boasting about them when they are not entitled to them, and people who are on the margin, barely above the pension rate, and have paid into superannuation all their lives, are self-supporting and are worse off. These alternatives are very serious considerations.¹¹

12.23 With regards to the feasibility of making the transition to a universal pension, Ms Alison McClelland, Australian Council of Social Service (ACOSS), provided:

if you were starting from scratch and designing an ideal income system, you might have a universal age pension, which is essentially reducing any disincentives to save that might operate as a result of the income test. So it is

9 Evidence, pp 62-63

10 SGCREV Sub No 114

11 Evidence, pp 116-117

having savings, compared with what we have now. It is giving the same amount to everyone, which is not what we have now... if you combine age pension assistance and superannuation tax concessions, a high earner still gets at least three times more assistance over a lifetime than a low income earner.

A universal pension would be more efficient and more equitable than the current system... However, it is a matter of whether we could ever get there from where we are now.¹²

12.24 In addressing criticisms concerning the difficulty implementing a universal pension, Professor David Knox, Retirement Incomes Committee, IAA, told the Committee 'It is a bit like asking the farmer near Dublin how to get to Dublin: he [the farmer] said, 'I wouldn't start from here'.¹³

12.25 Professor Knox went on to explain to the Committee that the IAA 'took the view that there is no point putting up a proposal to which it would not be practical to move from where we are right now'.¹⁴

12.26 The Committee believes the present retirement incomes framework is well established. The task now is to build community confidence in the system and the Committee feels that wholesale change at this stage would undermine this objective.

Life Cycle savings

Background

12.27 In his June 1993 report to the Treasurer entitled 'National Saving', Dr Vince FitzGerald, Allen Consulting Group, highlighted the economic imperative for Australia to increase national saving.¹⁵ It was from this report that the concept of a 'life cycle savings product' propagated.

12.28 Dr FitzGerald raised the issue that a non-superannuation savings vehicle may have a role to play in increasing private household saving; especially as superannuation investments are generally locked away until retirement. Dr FitzGerald concluded in his report that:

12 Evidence, p 241

13 Evidence, p 538

14 Evidence, p 538

15 Dr Vince FitzGerald, *Report to the Treasurer on National Saving*, June 1993

such a 'life cycle' savings vehicle should be seen as desirable, but is perhaps affordable only quite some years ahead when there has been a substantial structural strengthening of government finances.¹⁶

12.29 The Treasurer addressed the Government's policy intentions with respect to a life cycle savings vehicle his Statement of 28 June 1994 when he said:

Dr FitzGerald proposed that once fiscal circumstances allow, consideration should be given to introducing a new type of tax advantaged saving vehicle.

As the previous Treasurer stated last August, the Government agrees with Dr FitzGerald that priority should be given at this stage to increasing public sector saving.

It will be important that any initiative in this area provide a boost to total national saving, and not merely increase private saving at the expense of public saving.

The Government is continuing to examine various possible approaches to such a vehicle with the view to the introduction of the most cost-effective arrangement.¹⁷

12.30 In the context of reviewing the first twelve months operation of the SG, the Committee heard evidence from several sources in support of a life cycle savings vehicle.

12.31 The Chamber of Commerce and Industry of Western Australia (WACCI) submitted to the Committee that there exists an important need to increase substantially total savings, not just superannuation savings.¹⁸ WACCI was critical of the regressive nature of the taxation of interest bearing deposits, which it claims, outside the family home, are the largest form of household saving.

12.32 The Committee was receptive to the point raised by WACCI that:

the most heavily taxed form of savings is also the one most readily accessible to lower income groups. Equities, investment (or even owner occupied) housing, personal superannuation etc tend to be more accessible to the more affluent.¹⁹

16 Dr Vince FitzGerald, *Report to the Treasurer on National Saving*, June 1993

17 The Hon Ralph Willis, MP, Treasurer, *Statement on superannuation policy*, 28 June 1994

18 SGCREV Sub No 24

19 SGCREV Sub No 24

12.33 WACCI also submitted that:

to raise national savings incentives must have a significant impact on the marginal saver's decision to save... it may difficult to justify the relatively generous taxation treatment currently given to superannuation.²⁰

12.34 These views were endorsed by Ms Nicola Cusworth, WACCI, when she told the Committee 'we would like to see a the Government undertake a broader range review of the whole savings issue implementing perhaps more of the FitzGerald report'.²¹

12.35 WETTANK submitted to the Committee that the taxation benefits of superannuation do not benefit low income earners and these people are more likely to need access to their savings for both normal life cycle needs and crisis.²²

12.36 Ms Alison McClelland, of the Australian Council of Social Service (ACOSS), is another who does not believe superannuation is an attractive investment for low income earners. Ms McClelland told the Committee:

we think there is excessive emphasis on superannuation in relation to compulsory savings when households have other important life cycle savings needs... we should be allowing some of that compulsory savings to be available to households.²³

12.37 ACOSS submitted to the Committee that the SG should be capped at around five per cent and a separate medium-term compulsory savings vehicle introduced to cater for other life cycle needs such as having a family or education. With respect to this proposal, Ms McClelland said 'all we are saying is that we think there should be more flexibility so that it can meet more diverse life cycle needs'.²⁴

12.38 Similarly, Professor David Allen, from Duncraig, Western Australia, told the Committee that there is a need for a broader approach to national savings. Professor Allen articulated:

20 SGCREV Sub No 24

21 Evidence, p 302

22 SGCREV Sub No 27 Supplementary

23 Evidence, p 245

24 Evidence, p 246

You have just mentioned FitzGerald; I think his arguments are quite convincing. I think there should be the encouragement of savings across the board and that there should be various other tax incentives to save in appropriate form.²⁵

12.39 The Committee believes that a broader approach to savings is desirable and endorses the Treasurer's stated intention to continue examining various possible approaches for a life cycle savings vehicle for medium-term non-superannuation savings.

Education

12.40 This section assesses the extent of education in superannuation that is required to assist with the effective implementation of the Government's retirement income policy and to maximise the retirement benefits of the Australian community.

Background

12.41 In its sixth report published in June 1993, the Committee recommended that the Insurance and Superannuation Commission (ISC) and key superannuation industry groups representing the interests of consumers and providers combine to develop and implement a five year superannuation consumer education strategy for implementation in early 1994.²⁶ The Government accepted this recommendation, although carriage of that education campaign has subsequently been taken by the Australian Tax Office (ATO), working with the ISC and other key entities.

12.42 In the 1994/95 budget, the Government allocated \$3.1 million to the ISC over three years from 1994/95 to undertake a community education campaign on the protection of superannuation savings.²⁷

12.43 In a speech at the ASFA 1994 National Superannuation Conference in Perth on 9 November 1994, the Treasurer expressed his belief that the superannuation industry is now moving into a consolidation phase, within which

25 Evidence, p 364

26 Recommendation 3.10 of the Sixth Report of the Senate Select Committee on Superannuation, *Super - Fees, Charges and Commissions*

27 Budget Paper No. 1, 1994-95, pp 3.234- 3.235

more focus will be given to the efficiency with which the industry will handle the large amounts of money entrusted to it and on the effectiveness of the industry's communication with its members.

12.44 The Treasurer stated that the Government had commissioned a team of private consultants to undertake a program of market research into community attitudes and perceptions towards superannuation which would help in the development of the broadly based community education program which would be run by the ATO and the ISC. Seven million dollars has already been allocated for this purpose.

The need for community education

12.45 Notwithstanding the extent of the ATO's efforts to notify employers of their obligations under the *Superannuation Guarantee (Administration) Act 1993* (the SGAA), there is evidence to suggest that many small businesses are ignorant of key features of the scheme. A survey of several hundred small businesses in the Gold Coast area in late 1993 indicated that nearly half of the respondents were unaware that the contribution rate for SG would increase to 9% by 2002.²⁸

12.46 Another finding by this survey was that although employers of small businesses did, in fact, receive material from the ATO and/or the ISC about SG, they did not remember anything about it. Researchers found that although the information within the various communication vehicles was capable of getting the facts across to small businesses, they attracted insufficient interest from the small business sector to pay attention to the information presented. However, most small employers recalled receiving information from insurance companies about superannuation.

12.47 In spite of these survey results, the ATO's education campaign, which had been conducted to ensure that employers were aware of their obligations, appears to have been very effective:

following the first year of operation, research confirmed that employers' awareness and acceptance of their obligations was substantially higher than had been demonstrated by earlier surveys. 90% of employers had superannuation arrangements in place for all staff, as compared with 64% in March 1992.²⁹

28 Tapen Sinha and Rebecca Benedict, *How Small Business Perceives the New Superannuation Guarantee Charge*, December 1993, p 18

29 Commissioner for Taxation, *Annual Report 1993/94*

12.48 The conflict between the findings of the two surveys seemed to be more apparent than real. The installation of superannuation arrangements does not in itself guarantee that the employers will comply with future requirements, particularly if they are unaware of future increases in the rate of SG contributions. However, the ATO appears to be methodically formulating strategies for targeting the causes of non-compliance.

12.49 Westscheme, an industry fund with 60,000 employees and 3,500 participating employers, submitted to the committee that the introduction of SG has produced problems which are basically the same as those commonly encountered in the administration of award superannuation schemes.³⁰ Presumably because of the extensive coverage that is an integral feature of SG, those problems have greatly increased in volume, as well as introducing new problems involving the timing of payment obligations, the earnings base issue, and the uncoordinated interaction between award superannuation and SG, particularly given that awards are both State and Federal.

12.50 Westscheme make the point that changes to the superannuation legislation have confused both employers and employees:

A period of stability and consolidation would serve to focus attention on the benefits of the retirement savings plan. During such a period an important part of the education task would be to enhance the competence of individuals to make informed choices about their superannuation arrangements.³¹

12.51 The Australian Liquor, Hospitality and Miscellaneous Workers Union (ALHMWU) suggested that an education campaign needed to be run by the Government in conjunction with industrial parties to ensure that employees are aware of their entitlements under both SG and the award system.³² Although the campaign which had been conducted by the ATO via television advertisements had generated a large number of inquiries from both employers and employees, ALHMWU considered that the campaign had been too short and had not been followed up.

12.52 The Committee noted the difficulties encountered in administering superannuation in the hospitality industry due to confusion arising from the interaction between award superannuation and SG, and to the youth and the

30 SGCREV Sub No 28; Evidence, p 317

31 SGCREV Sub No 28

32 SGCREV Sub No 40

temporary nature of much employment in that workforce - evidence suggests that 90% of that workforce is employed on a casual basis.³³ In addition, the industry also exhibits a very large turnover of employers.³⁴

12.53 While the recent Test Case by the Industrial Relations Commission has helped to clarify its jurisdiction in this regard, and sought to clarify the interaction between award superannuation and SG, clearly much needs to be done to educate, on an ongoing basis, all the players in industries such as the hospitality industry which are characterised by high levels of casual employment and employer turnover.

12.54 The education campaigns which have been conducted by the ATO in relation to the implementation of SG have clearly been extremely successful and should form the platform for ongoing community education. Nevertheless, the majority of the consumers are still confused by superannuation. Although recent surveys indicate a gradual rise in public confidence, much more work is needed to be done before the community as a whole is confident enough about superannuation for high levels of active member participation to occur, particularly by those whose stake in superannuation at the present time consists of SG or award contributions only.

12.55 The ACTU gave the Committee an example of the level of confusion which occurred in the early days of award superannuation, and which hopefully no longer occurs:

There have been cases in the early days where people have got a statement and thought it was a bill and sent us a cheque.³⁵

Recommendation 12.1:

The Committee recommends that the Government ensure that appropriately targeted education programs be maintained to dispel the confusion and uncertainty about superannuation.

33 Evidence, p256

34 Evidence, p 253

35 Ian Court, Evidence, p 714

BizHelp

12.56 The Committee noted that the Minister for Industry, Science and Technology had recently launched BizHelp, which is a computer-based and updateable directory of business assisted programs and services designed to assist small and medium enterprises. It provides 'accurate and comprehensive information on Commonwealth, State and Territory business assistance programs, as well as selected private sector programs... from a single source'.³⁶

12.57 It appeared to the Committee that this package could usefully signal the superannuation requirements under awards and SG to small and medium businesses, particularly those which were in the process of being established. The BizHelp package could usefully include instructions about where to seek further information in relation to the superannuation arrangements which are relevant to that business.

Recommendation 12.2:

The Committee recommends that some relevant information concerning SG be included in the BizHelp software package, including the number of the SG hotline.

36 Statement by the Minister for Industry, Science and Technology, Senator Peter Cook, 18 November 1994, at the launch of BizLink