Chapter 7

Using the benefits of the mining boom to increase retirement savings

7.1 As part of the Minerals Resource Rent Tax (MRRT) package, the government has introduced legislation aimed at boosting the level of individual retirement savings to help meet the challenges Australia will face with an ageing population. This chapter discusses these proposals, which consist of:

- a gradual increase in the superannuation guarantee (SG) charge—the amount employers are required to contribute to their employees' superannuation;
- the abolition of the age limit associated with SG contributions; and
- the low income superannuation contribution—a measure to help boost the superannuation balances of low income earners.

7.2 These measures are contained in:

- the Superannuation Guarantee (Administration) Amendment Bill 2011 (SGAA Bill); and
- schedules 4 and 5 to the Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill 2011 (referred to as the Stronger, Fairer, Simpler Bill).

7.3 Revenue from the MRRT will help account for the fiscal cost arising from these measures. Accordingly, these proposals are dependent on the commencement of the MRRT.

Retirement income in Australia

7.4 Australia's retirement income policy has three pillars:

- the means tested aged pension;
- the compulsory SG system; and
- voluntary superannuation savings.

7.5 In 1986, as part of the terms of a national wage settlement under the Incomes and Prices Accord, three percentage points of wages contributed over three years were allocated to savings and preserved in private pension accounts until employees reached the age of 55. By 1991, 68 per cent of private sector employees were covered by the three per cent scheme compared to 32 per cent in 1987.[1]

---

1 Australian Prudential Regulation Authority, 'A recent history of superannuation in Australia', *APRA Insight*, issue 2, 2007, p. 3.

7.6 The SG charge was introduced in 1992–93. It requires employers to pay nine percentage points of their employees' wages and salaries into their individual superannuation accounts. This legislation was phased in over ten years, with the SG charge increasing by one percentage point every one to three years until the nine per cent SG charge was reached in 2002–03. The maximum contribution age for employee contributions has progressively increased from 65 to 70 (in 1997) and from 70 to 75 (in 2002). In 2003, requirements were introduced for employers to pay SG contributions on a quarterly basis.[2]

7.7 The benefits of the Keating Government's decision to introduce the superannuation guarantee are obvious, although the following anecdote (based on an experience before the superannuation guarantee was introduced) helps demonstrate the advantages of a compulsory system with broad coverage:

> I recall a meeting of the *Australian Financial Review's* bureau in Melbourne. There were 20 journalists who worked there and not a single person—and they were all financial journalists—had any saving whatsoever for their retirement. They had nothing laid aside. At an equivalent meeting of financial journalists now … we would not find that situation occurring. In other words, there would be 100 per cent cover from superannuation.[3]

7.8 Australia's retirement income policy, however, faces some long-term challenges. The period of retirement for many individuals may be longer as life expectancy increases. The expected ageing of the population will also result in fewer workers relative to the number of retirees, with the ratio of people of working age compared to those aged 65 years or over projected to decline from 5 to 1 in 2010 to 2.7 to 1 by 2050.[4] This will place pressure on economic growth and the government's fiscal position.

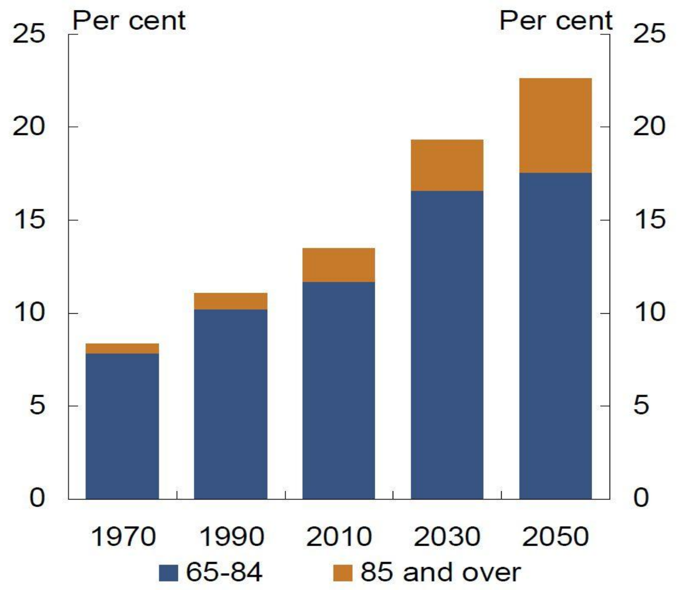
---

2 Australian Prudential Regulation Authority, 'A recent history of superannuation in Australia', *APRA Insight*, issue 2, 2007, pp. 4–7.

3 Mr Gerard Noonan, President, Australian Institute of Superannuation Trustees, *Committee Hansard*, 22 February 2012, p. 68.

4 Australian Government, *Australia to 2050: future challenges—the 2010 intergenerational report*, February 2010, p. 1.

Figure 7.1: Proportion of the Australian population aged 65 and over



Source: Australian Government, *Australia to 2050: future challenges—the 2010 intergenerational report*, February 2010, p. ix; based on ABS cat. no. 3105.0.65.001 (2008) and Treasury projections.

7.9 Further to the challenges regarding Australia's ageing population and the longer periods of retirement future retirees may experience, are issues of gender equality. There is a clear gap in the average superannuation balances between male and female employees:

> The latest APRA data suggests that women retire with an average of around $112,000 and men with an average of around $198,000. That is an average, and of course in this case that disguises the fact that there is an enormous range around that average.[5]

7.10 The government's intent is to increase the stock of superannuation savings to prepare for the ageing of Australia's population and to help improve the superannuation balances of female employees. The Minister noted that while compulsory superannuation's gradual introduction between 1992 and 2002 has smoothed the 'transition path':

> … in terms of providing adequate retirement safety, the system still has great capacity to grow, to mature and to perform better for individuals who get to retire after a whole working life of superannuation behind them.[6]

5 Mr Ian Silk, Chief Executive Officer, AustralianSuper, *Committee Hansard*, 22 February 2012, p. 62.

6 The Hon. Bill Shorten MP, Minister for Financial Services and Superannuation, Second Reading Speech, Superannuation Guarantee (Administration) Amendment Bill 2011, *House of Representatives Hansard*, 2 November 2011, pp. 12420–21.

Overview of the measures

Increase in the SG charge and abolition of the age limit

7.11 The SGAA Bill proposes to increase the superannuation guarantee (SG) charge from nine to 12 per cent. This increase will be gradual and will commence in 2013–14. The SG charge will be increased by 0.25 percentage points in 2013–14 and 2014–15, but from 2015–16 onwards it will increase annually by 0.5 percentage points until the 12 per cent target is reached in 2019–20 (see Table 7.1). The proposal is estimated to increase superannuation assets by approximately $370 billion by 2029.[7]

Table 7.1: Changes to the superannuation guarantee charge

Year	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
SG charge (%)	9.25	9.5	10.0	10.5	11.0	11.5	12.0

Source: Superannuation Guarantee (Administration) Amendment Bill 2011, schedule 1, item 2.

7.12 In addition to the increase in the SG charge, amendments are proposed to the age limit which applies under the SG system. Currently, employers' SG liability applies to all workers under the age of 70. The first reading version of the SGAA Bill sought to increase the SG age limit to make employers have SG obligations for all of their workers under the age of 75. However, the Minister noted in his Second Reading Speech that the bill would abolish the SG age limit.[8] This was confirmed in an amendment made to the SGAA Bill by the government in the House of Representatives. From 1 July 2013, employers' SG liability will apply to all employees.

7.13 Prior to its passage by the House of Representatives, consequential amendments were made to the Stronger, Fairer, Simpler Bill (through the introduction of a new schedule 5) to enable employers to claim income tax deductions for SG contributions made on behalf of employees aged 75 and over. Currently, employers can only claim an income tax deduction for employer contributions made on behalf of their employees up to the age of 75.

Low income superannuation contribution

7.14 Most superannuation contributions (including an employer's SG contribution) are taxed at a concessional flat rate of 15 per cent. However, low income earners who earn less than $37,000 (and therefore whose marginal income tax rate is 15 per cent or less) do not receive any special tax concessions for the contributions made on their

---

7 Australia's Future Tax System Review, *Report to the Treasurer*, part 2: detailed analysis, vol. 1, December 2009, p. 114.

8 The Hon. Bill Shorten MP, Minister for Financial Services and Superannuation, Second Reading Speech, Superannuation Guarantee (Administration) Amendment Bill 2011, *House of Representatives Hansard*, 2 November 2011, p. 12420.

behalf. The superannuation contributions related to these individuals, therefore, can be subject to a higher rate of tax than that imposed on their ordinary income.

7.15 Schedule 4 to the Stronger, Fairer, Simpler Bill seeks to amend the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003* to effectively provide that no tax is paid on superannuation contributions of those earning up to $37,000 per annum; any money collected by the Commonwealth due to the tax levied on superannuation contributions is instead returned to the employee's superannuation. The tax reduction is limited to $500 per person (which is the nine per cent SG liability for a person earning $37,000).[9] This measure is intended to apply from 2012–13.

7.16 The Minister's second reading speech on the bill noted that there are currently 3.6 million low income Australians, including around 2.1 million women, who receive no (or minimal) tax benefit from contributing to superannuation given that the 15 per cent superannuation contribution tax is above or equivalent to their income tax rate. The Minister added that the superannuation savings of these 2.1 million women will be increased by $550 million in 2012–13 alone.[10]

Fiscal implications of the measures

7.17 The projected financial implications for the government associated with the increase in the SG charge to 12 per cent, removal of the SG age limit and the introduction of the low income superannuation contribution over the forward estimates are presented in Table 7.2 below.

---

9 Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill 2011, *Revised Explanatory Memorandum*, p. 27.

10 The Hon. Bill Shorten MP, Minister for Financial Services and Superannuation, Second Reading Speech, Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill 2011, *House of Representatives Hansard*, 2 November 2011, pp. 12418–19.

Table 7.2: Summary of the financial impact of the superannuation measures

Measure	2011–12	2012–13	2013–14	2014–15	Over the forward estimates (i.e. total)
Increasing the SG charge					
Increasing the SG charge to 12% (A)	–	–	–$240m	–$500m	–$740m
SG age limit					
Removing the SG age limit	–	–	$22m*	–$10m	$12m
Making SG contributions related to employees 75+ tax deductible for employers	–	–	–	–$17m	–$17m
Overall impact of SG age limit measures (B)	–	–	$22m*	–$27m	–$5m
Low income superannuation contribution					
Low income superannuation contribution (C)	–$0.7m	–$19.6m	–$892.4m	–$975.6m	–$1,888.3m
Overall					
Overall impact of increasing the SG charge and the SG age limit measures (A+B)	–	–	–$218m	–$527m	–$745m
Impact of all superannuation measures (A+B+C)	–$0.7m	–$19.6m	–$1,110.4m	–$1,502.6m	–$2,633.3m

* In 2013–14, the first year that employers are required to make a contribution for their employees aged 70 and over (contributions which will be subject to tax at a rate of 15 per cent) revenue is expected to increase. However, in 2014–15, this addition to revenue will be offset when employers lodge their tax returns for the 2013–14 financial year and claim a deduction for the superannuation amounts paid to employees between the ages of 70 and 75.

Source: Superannuation Guarantee (Administration) Amendment Bill 2011, *Revised Explanatory Memorandum*, pp. 3–4.

7.18 The Financial Services Council (FSC) argued in its submission that the increase in the SG charge to 12 per cent should not be 'considered solely within a narrow debate around the costings of the reform in the short- to medium-term as the long-term benefits of the reform significantly outweigh the expected short-term budgetary implications'.[11] The most obvious long-term benefit is that higher personal savings will relieve pressure on public finances through lower age pension costs.[12]

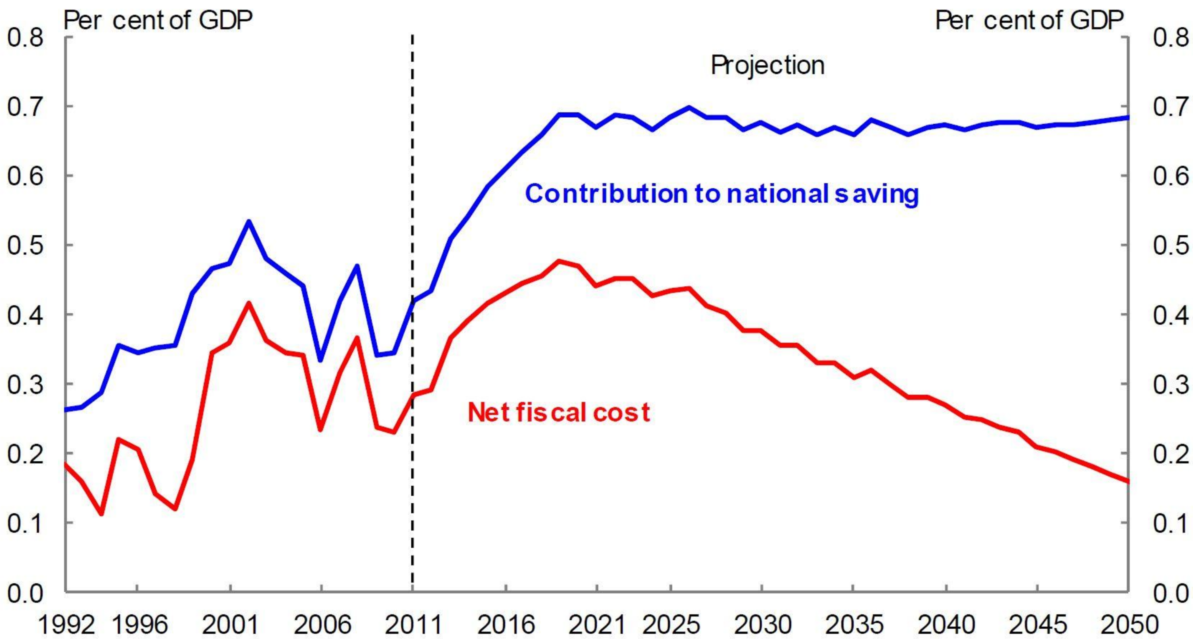
---

11 Financial Services Council, *Submission 1*, p. 4.

12 Additionally, because Treasury consider wages are lower with compulsory superannuation, pension payments will also be lower as they are indexed to wages. See Dr David Gruen and Leigh Soding, 'Compulsory superannuation and national saving', *Treasury Economic Roundup*, issue 3, 2011, p. 52.

Although the public sector's contribution to national saving will increase (as a consequence of the concessional taxation of superannuation contributions), the net fiscal cost will decline. The FSC noted Treasury's estimate of a $10 billion reduction in these outlays by 2030 from the proposed 12 per cent SG charge.[13]

Figure 5.2: Public sector contribution to national saving and the net fiscal cost with an increased SG charge



Source: Dr David Gruen and Leigh Soding, 'Compulsory superannuation and national saving', *Treasury Economic Roundup*, issue 3, 2011, p. 52; based on Treasury estimates.

Views on the increased superannuation guarantee charge

Support for the proposed increase

7.19 Many submitters supported the government's decision to increase the SG charge on the basis that it is a prudent long-term economic measure. The FSC, for example, argued that the proposed increase will lead to long-term economic benefits and address the national shortfall in retirement savings. Its submission cited actuarial research showing the current nine per cent contribution rate will result in a retirement savings gap of $897 billion.[14] The FSC also cited research from the National Centre for Social and Economic Modelling (NATSEM). Unsurprisingly, the greatest benefit

---

13 Financial Services Council, *Submission 1*, p. 4. See The Hon. Julia Gillard MP, Prime Minister, 21 August 2011, www.pm.gov.au/press-office/speech-financial-services-council-breakfast-sydney (accessed 31 January 2012).

14 Rice Warner Actuaries, *Superannuation Saving Gap at 30 June 2009*, October 2010; cited in Financial Services Council, *Submission 1*, p. 1. For purposes of estimating this gap, an adequate level of retirement savings is considered to be 62.5 per cent of pre-retirement income.

from the increase in the SG charge will be among younger cohorts of workers. Those aged between 15 and 24 will have $150,000 added to their retirement incomes by age 65; those aged between 25 and 34 will have an additional $144,000 in retirement savings by age 65.[15]

7.20 The superannuation fund AustralianSuper supports the increased SG charge on the basis of the boost it will give to Australia's retirement savings in the face of an ageing population and longer life expectancy. Its submission noted an online petition it conducted in 2011 seeking support for increasing the SG to 12 per cent. It was signed by over 7,750 of its members.[16] AustralianSuper also argued that the increase to 12 per cent will ensure that almost all employees are 'retirement ready' (based on a comfortable level of retirement):

> Our retirement readiness indicator would suggest that for the average 25- to 34-year-old their level of retirement readiness would increase from the current system, which provides an RRI—a retirement readiness indicator—of around 85 per cent, to 99 per cent under the proposed measures we are considering today.[17]

7.21 The Australian Council of Trade Unions (ACTU) noted that unions are strong supporters of the increase in the SG charge to 12 per cent. In its submission, the ACTU cited research modelling by the Australian Institute of Superannuation Trustees which indicates that a single male on an average income who spends 40 years in employment would not achieve an adequate retirement income with nine per cent, but would with 12 per cent.[18]

Opposition to the increase in the SG charge

7.22 Opposition to the proposed increase in the SG charge came from business and employer groups and was based on several grounds, but mainly focused on concerns about the financial cost to employers and the unlikelihood that wage restraint could be provided in a decentralised wage bargaining system.

7.23 The Australian Chamber of Commerce and Industry (ACCI) provided various reasons as to why employers should not be liable for the higher SG charge. These included that the increase in the SG charge:

- is a $20 billion compulsory levy on payroll which will also be borne indirectly by the community through less investment in 'jobs, infrastructure and growth';
- represents significant cost shifting by the Commonwealth to the private sector and in particular to small and medium sized enterprises (SMEs) which will

---

15 Financial Services Council, *Submission 1*, p. 2.

16 AustralianSuper, *Submission 5*, p. 2.

17 Mr Ian Silk, Chief Executive Officer, AustralianSuper, *Committee Hansard*, 22 February 2012, p. 60.

18 Australian Council of Trade Unions, *Submission 9*, p. 13.

pay about half of the costs caused by the bill. This raises 'serious equity issues' for SMEs; and

- unlike when superannuation was first negotiated in the mid-1980s, the increase cannot be realistically funded by a wage–superannuation trade-off given the less centralised nature of the wages system.[19]

7.24 The ACCI argued that the committee should recommend that the government amend the Fair Work laws so as to require minimum wage decisions by Fair Work Australia to discount increases it may order by the relevant cost to employers of the corresponding years of the seven proposed levy rises.[20]

7.25 Other groups were more measured in their assessment. While suggesting that the increased SG charge would impact the agricultural industry, the NFF described it as 'insignificant' compared to the skills shortage facing the sector.[21]

Assessment of the impact of a higher SG charge on employers

7.26 It is difficult to assess the concerns raised from industry groups regarding the increased SG charge without recalling the similar arguments that were put forward in the early 1990s when the SG was first proposed. An example of the types of claims being made at the time is a media release from the Confederation of Australian Industry (CAI) from 1992, an extract of which was read into *Hansard*. Mr Spicer, the Chief Executive of the CAI was attributed as stating:

> There are some people who seem to think that, unless employers are bleeding to death, the workers are not getting their due. If the SGL [superannuation guarantee levy] goes through there will be a lot more employers bleeding. But anyone who believes that it would be good for workers in Australia, or for anyone else, for that matter, is living in a world of fantasy. The results of CAI's survey show that if the SGL is introduced jobs will be lost, prices will rise, wages will fall and profitability will be down. If we lived in a rational community, the Australian parliament could not possibly be considering legislation of this kind at this time.[22]

7.27 The ability to have a meaningful debate on increasing the SG charge is complicated further by the vastly divergent views on who will bear the cost of the increase. In its submission, the ACCI strongly contended that employers would bear the full cost of the obligation, as unions would not agree to a wage–superannuation trade-off once the increased SG charge is legislated.[23]

---

19 Australian Chamber of Commerce and Industry, *Submission 14*, pp. 8–9, 15.

20 Australian Chamber of Commerce and Industry, *Submission 14*, p. 22.

21 Mr John McKillop, Chair, NFF Economics Committee, National Farmers' Federation, *Committee Hansard*, 22 February 2012, p. 49.

22 *Committee Hansard*, 22 February 2012, p. 46.

23 Australian Chamber of Commerce and Industry, *Submission 14*, pp. 14–15.

7.28 For the analysis it undertook on the implications of a higher SG charge for farming businesses, the NFF assumed that 75 per cent of the obligation would be ultimately paid by the employer and 25 per cent met by the employee.[24]

7.29 AustralianSuper offered a more reflective analysis, pointing out that various sectors and workplaces respond to wage negotiations and changes to labour costs in different ways:

> When award superannuation was introduced in the early to mid-1980s it was through the then Industrial Relations Commission, when we had a centralised wage fixation regime and it was possible to do so. It is recognised that we no longer have that system and so there will be a decentralised application of this. In some workplaces, essentially where labour is strong, there may be no offsetting in income. In other workplaces where employers are relatively strong the reverse will apply and it will be fully offset, and in many workplaces there will be some hybrid arrangement, one assumes. So I do not think it is possible to make a generalised statement as you were able to do in the mid-1980s. We have a much different system of industrial regulation at workplaces, so it is not possible to make a simple statement that will be true of the entire workforce.[25]

7.30 Treasury, however, is of the view that the increase will be 'largely borne by wages':

> The lead time and the period over which it will be introduced and the fact that businesses and employees will be able to sit down and build this into their remuneration discussions we think will mean that it will be not be in the main borne by business. It will largely fall on labour.[26]

7.31 Other witnesses supported Treasury's argument that the timeline for the proposed increases in the SG charge will result in employees ultimately meeting the cost through adjusted rates of wage growth. CPA Australia wrote in its submission that 'the gradual increase of 0.25% pa for two years and then 0.5% pa over five years should be able to be absorbed into future wage increases with minimal impost on employers'.[27] The FSC noted that this schedule provides sufficient time for individuals, businesses and the industry to adjust to the reforms. It argued that the schedule allows employers to take the increased SG contributions into account when

---

24 Mr John McKillop, Chair, NFF Economics Committee, National Farmers' Federation, *Committee Hansard*, 22 February 2012, p. 50.

25 Mr Ian Silk, Chief Executive Officer, AustralianSuper, *Committee Hansard*, 22 February 2012, p. 63.

26 Mr Paul McBride, General Manager, Personal and Retirement Income Division, Department of the Treasury, *Committee Hansard*, 22 February 2012, p. 75.

27 CPA Australia, *Submission 17*, p. 1.

negotiating future wage settlements, ensuring that the incidence will largely fall on individuals.[28]

7.32 The experience of the initial introduction of the SG over the 1990s and early 2000s is also useful for considering the impact on business. Treasury notes that unit wages 'did not grow much' over the period of time that the SG was introduced.[29]

7.33 There are some areas where it is clearer that the increase in the SG charge could directly impact businesses. The Chamber of Commerce and Industry Queensland's submission noted that other costs for employers, such as WorkCover premiums and state payroll tax liabilities will increase as wages are defined to include superannuation contributions.[30] While this may be the case, it is worth noting that many smaller businesses are not subject to payroll tax; Treasury advises that the payroll thresholds used by state and territory governments 'are designed to exclude small employers'.[31]

7.34 There are other factors which may mitigate any possible implications for business. The ACTU argued that, through either workplace bargaining or additional voluntary employer contributions, 40 per cent of employees were already receiving superannuation contributions from their employers of more than nine per cent;[32] although, as pointed out by the ACCI, the share of public sector would need to be disaggregated from that figure for the purposes of debating the SG.[33]

7.35 Finally, there is another approach to considering the impact of an increased SG, as large superannuation savings can be positive for businesses, in that they make a large source of domestic funds available for investment.

Other issues

Timing

7.36 Some stakeholders called for the passage of the provisions related to the increased SG to be delayed. The ACCI argued for debate on the provisions to be

---

28 Financial Services Council, *Submission 1*, p. 3.

29 Mr Paul McBride, General Manager, Personal and Retirement Income Division, Department of the Treasury, *Committee Hansard*, 22 February 2012, p. 75.

30 Chamber of Commerce and Industry Queensland, *Submission 4*, p. 2.

31 The thresholds range from $550,000 in Victoria to $1.5 million in the ACT. Treasury, answer to question on notice, AET 34, Additional Estimates 2010–11, p. 2.

32 Mr Tim Lyons, Assistant Secretary, Australian Council of Trade Unions, *Committee Hansard*, 22 February 2012, p. 35.

33 Mr Peter Anderson, Chief Executive, Australian Chamber of Commerce and Industry, *Committee Hansard*, 22 February 2012, p. 42.

deferred until the Fair Work Act Review Panel has reported to the government. The ACCI pointed out that the measures are not due to commence until 2013.[34]

7.37 More surprising, however, was the suggestion from the Australian Council of Social Service (ACOSS) that the increase in the SG charge be delayed. While the committee acknowledges ACOSS has strong equity concerns regarding the current tax treatment of superannuation contributions, the committee was astonished by its acknowledgment that it would prefer to see the increase in the SG charge delayed until some unknown point in the future:

> In relation to the superannuation guarantee we would prefer to see a delay in the move from nine per cent to 12 per cent until we fix the tax concession arrangements.[35]

Committee view

7.38 ACOSS's approach to these measures is disappointing. The committee believes that the purist approach to policy adopted by ACOSS on this matter is not in the interest of those it seeks to assist. There is an opportunity available at this moment for the Parliament to act to ensure that employee retirement savings are adequate. While there may be room to improve the taxation arrangements for superannuation, waiting until these hypothetical changes can be fully developed and implemented before lifting the SG charge appears absurd.

Impact on the aged care sector

7.39 Organisations representing the aged care sector supported the proposed increase, but sought some form of compensation for the increase in the SG charge due to the nature of the price setting arrangements for aged care services. Aged and Community Services Australia explained:

> Currently, the wages component of the price paid to providers for care (75% of the price) is indexed annually in line with Fair Work Australia's minimum wage adjustments, and the balance or non-wage component (25%) is indexed to the equivalent of the Consumer Price Index. The resulting indexation is substantially less than movements in Average Weekly Ordinary Time Earnings, the Labour Price Index for the health and community services sector and price changes as measured by the Consumer Price Index, and does not reflect price movements in the sector.
>
> … Under current arrangements, the 3% increase in the superannuation guarantee rate will add to service delivery costs, but the additional costs will not be reflected in the wages component of the already inadequate indexation arrangements. As a consequence, providers will have to absorb

34 Mr Peter Anderson, Chief Executive, Australian Chamber of Commerce and Industry, *Committee Hansard*, 22 February 2012, p. 45.

35 Dr Cassandra Goldie, Chief Executive Officer, Australian Council of Social Service, *Committee Hansard*, 22 February 2012, p. 55.

> the increase through productivity gains either by constraining wage increases or reducing staff levels.[36]

7.40 Catholic Health Australia also argued that as the not-for-profit charitable sector receives no benefit from any income tax offsets, the government's annual care subsidy indexation formula include a reimbursement of the cost.[37]

Committee view

7.41 The committee notes the concerns raised by Aged and Community Services Australia and Catholic Health Australia, and wishes to draw the government's attention to these issues. However, it considers they are best dealt with through other processes, either as part of the government's response to the Productivity Commission's recent report *Caring for Older Australians,* or as the subject of separate, dedicated consideration.

Views on abolishing the SG charge age limit

7.42 Most submitters supported the decision to abolish the SG charge age limit. The following example provided by the ACTU illustrated the rationale behind the proposed change:

> I personally have been in the experience of being at a workplace where the worker who was tipping over the age threshold and who wanted to keep working, his employer wanted him to keep working, yet he was going to receive in that case a nine per cent pay cut. Given our ageing workforce, people who can work and continue to make a good contribution to the economy and to society, it is extremely counterintuitive to suggest that we should have a system where they are penalised for continuing to work.[38]

7.43 The concerns raised by the ACCI in its submission regarding the inability for businesses to claim tax deductions for contributions made on behalf of their employees aged over 75[39] appear to have been addressed by the amendments made to the Stronger, Fairer, Simpler Bill in the House of Representatives (schedule 5 to that Bill).

Views on the low income superannuation contribution

7.44 The ACTU supported the decision that all employees earning $37,000 or less will receive an automatic co-contribution from government of up to $500 a year.[40]

---

36 Aged and Community Services Australia, *Submission 7*, pp. 1–2.

37 Catholic Health Australia, *Submission 6*, p. 2.

38 Mr Tim Lyons, Assistant Secretary, Australian Council of Trade Unions, *Committee Hansard*, 22 February 2012, p. 32.

39 Australian Chamber of Commerce and Industry, *Submission 14*, pp. 21–22.

40 Australian Council of Trade Unions, *Submission 9*, p. 14.

However, it argued that reform of the way that the contributions of high income earners are taxed is needed. It suggested that contributions could be taxed at the individual's marginal tax rate, minus a fixed percentage point offset.[41] The Australian Manufacturing Workers Union also supported this proposal.[42]

7.45 CPA Australia 'strongly supports' the low income superannuation contribution, noting that it is of greater significance in the short-term than the increase in the SG charge. However, it expressed concern that the upper payment of $500 would not follow changes to marginal tax rate thresholds. It suggested that that this maximum payment should be linked to the upper threshold of the 15 per cent marginal tax rate bracket.[43]

7.46 The consultancy firm Mercer also supported the low income contribution measure. However, it argued that as the $37,000 income threshold is not indexed, the number of low income earners entitled to the government contribution is likely to diminish over time. Additionally, Mercer (and CPA Australia) noted the contribution is based on the current nine per cent SG and is not linked to any increases in the SG. Once the SG reaches 12 per cent, a government contribution of $666 would be required to fully offset the tax on SG contributions for a person earning $37,000.[44]

7.47 Mercer also argued that the $37,000 threshold should be phased in over an income range of between $37,000 and $42,000. As the bill is drafted, an extra dollar in earnings over the $37,000 threshold would result in the loss of $500 in tax benefits.[45]

Committee view

7.48 The arguments regarding indexation and suggestions that the threshold be phased in over an income range have merit. However, they would also add complexity to the administration of the measures. The thresholds for many other government payments and levies are structured in a similar way to the proposed low income superannuation contribution, and the appropriateness of the threshold could simply be reviewed from time to time.

Committee view

7.49 The proposals contained in the MRRT package that will increase the superannuation balances of employees, particularly the gradual increase in the SG charge to 12 per cent, are important measures which will help meet the challenges

41 Australian Council of Trade Unions, *Submission 9*, p. 14.

42 Australian Manufacturing Workers Union, *Submission 10*, p. 1.

43 CPA Australia, *Submission 17*, pp. 2–3.

44 Mercer, *Submission 13*, p. 5.

45 Mercer, *Submission 13*, p. 6.

Australia will face with an ageing population. The implementation of these changes at this time will help alleviate future pressure on Australia's retirement income system, minimising the size of the adjustment that may be required in the long-run. They will also have a clear impact in lifting the superannuation balances of female employees at retirement which, on average, lag significantly behind their male counterparts. With this change, Australians will have a greater chance of having a retirement income that is adequate to ensure their standard of living can be maintained.

7.50 The superannuation changes are an important reform in their own right, and a necessary next step in the history of the SG. However, the introduction of the MRRT provides an opportunity for such a reform to be introduced, as the MRRT's revenue will offset the impact on government finances the increased SG charge will have, while also making company tax cuts and other favourable tax changes for businesses possible. The committee is of the view that because the SG charge will increase at a slow rate, staggered over a number of years, businesses will be able to adjust and accommodate the reform, just as they did when the SG was increased from three to nine per cent over the period 1992 to 2002.

7.51 Put simply, the measures aimed at increasing the individual superannuation balances of employees will ensure that the benefits of the mining boom are felt throughout the community for years to come.