CHAPTER 7 : INTERACTION OF SGL WITH SOCIAL SECURITY

7.1 The Government views the SGL as a key element in the provision of 'a coherent and equitable framework in which retirement incomes objectives can be progressed' [Second Reading Speech on the SGL legislation: see Chapter 3]. The SGL is intended to address two of the 'three fundamental sets of policy issues ... [associated with a] retirement incomes policy', namely:

> What is the target replacement standard of living at which retirement income arrangements should be directed? [And] what contributions arrangements and associated institutional support, such as tax concessions and prudential regulation, are necessary over our working lives to support that target?[1]

7.2 The earlier Chapters of this Report have commented on some of these matters and the issue of prudential regulation is covered in the Committee's First Report *Safeguarding Super : the Regulation of Superannuation*, which was tabled in the Senate on 4 June 1992.

7.3 The Treasury identifies the third fundamental set of policy issues as being: 'Given the potential standard of living able to be funded by a retirement benefit, how should policy impact on the conversion of such benefits into actual retirement income?'[2]

7.4 The Secretary to the Treasury emphasised that 'the SGL measures should not be construed as having any intention of addressing policy concerns bearing on the conversion of actual retirement benefits into adequate rest of life retirement income'[3] Among the concerns listed by the Secretary as not having a bearing on the specific SGL proposal are:

> ... concerns about dissipation, the net impact on national savings via the composition and level of private savings, the interaction of the superannuation tax expenditures and age pension outlays ... the dissipation problem has been cited by some as an apparently major flaw in the SGL proposal – it is not. It is a separate problem having to do with the conversion of actual retirement savings into maximum or at least adequate retirement income flows ...
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> It makes no sense to damn the SGL measure for a problem it is not intended to address and cannot address. The SGL proposal is all about maximising the pool of private savings potentially available to fund retirement, without support form the public purse during retirement. We need to do that urgently ... If we do not, the dissipation problem will, at best, be of second order concern. Total retirement savings would then be totally inadequate or to put it differently, what will not have been saved cannot be dissipated.

1 SG evidence, p 4.

2 *ibid.*

3 SG evidence, p 9.

> While further steps are necessary to ensure superannuation savings are used for retirement income purposes, it is surely misguided to criticise the SGL simply because it does not of itself add to the substantial measures the Government has already taken, which reduce, though by no means eliminate, the dissipation problem. These measures include, for example, the replacement of the derisory five per cent lump sum tax arrangements, improved preservation arrangements, the introduction of roll-over vehicles, more attractive pension benefit features, deeming arrangements and lower personal tax rates.[4]

7.5 The Parliamentary Secretary to the Treasurer, Senator the Hon Bob McMullan, also stressed that:

> the capacity of people to dissipate their savings is affected by [the SGL] levy only in so far as, under the levy, more people will have some. The mechanisms of Government policy to deal with double dipping, dissipation, et cetera, are quite separate from the levy legislation. It may be a very important question for [the] Committee to look at it in its broader term of reference, but it is not a matter that the SGL is designed to deal with ... It is other mechanisms of Government policy that will go to what, if any controls we put on the way people spend their savings.[5]

7.6 The Committee was told that the Government is monitoring 'the efficiency with which superannuation arrangements are meeting its retirement incomes policy objectives and that, 'following introduction of the SGL, there may be a need to consider whether the preservation age of 55 is appropriate'.[6]

7.7 The practice of double dipping or dissipation has been the subject of considerable controversy during the Committee's hearings. Double dipping involves taking a superannuation lump sum which has received significant tax concessions, consuming it rapidly and then receiving an age pension. Whilst the evidence given to the Committee was largely anecdotal and not based on any systematic longitudinal data, some witnesses alleged that 'double dipping' is common in Australia.[7] It was submitted, however, that there are legitimate uses for lump sums other than purchasing an income stream, for example, paying out mortgages and other debts.

7.8 Double dipping is facilitated by the preservation age for superannuation benefits being set at a lower age than the age pension age for men (65 years) and women (60 years). It is this policy scenario which allows some retirees who retire before the pensionable age to spend their lump sums and at a later stage to become eligible for the full pension or a greater pension benefit than would have been available had the lump sum not been dissipated.[8]

4 SG evidence, pp 8-9.

5 SG evidence, p 18.

6 *ibid*, p 9.

7 Sub no. 127, pp 14-15.

8 *ibid.*

7.9 The Committee acknowledges that the SGL upholds the 55 year preservation rule. Further, the Committee is well aware of the sound reasons for the rule in so far as it applies to employees who work in occupations which necessitate early retirement, but urges the Government to consider measures to better integrate this aspect of the social security and occupational superannuation systems. The third and final report of the Committee will address this issue in detail.

7.10 The other particular criticism of the SGL was that it would maintain a tax concessional system which is fundamentally unfair.[9] ACOSS submitted that:

> Government support should mainly be directed towards raising minimum retirement income levels, based on need. If people wish to save in order to maintain an above-average lifestyle retirement, it is not the Government's responsibility to subsidise this. The age pension should therefore be the main vehicle for Government support of retirement income, as it achieves this goal more equitably and efficiently than superannuation. Government subsidies for superannuation should also be targeted as far as possible towards those who would otherwise be unable to save for retirement.[10]

7.11 ACOSS claimed that under the current unfair superannuaton tax concessions, high income earners received disproportionately greater tax benefits than lower income earners.[11]

Table 7.1

Distribution of Superannuation Tax Concessions		
	Approximate Value of Concessions	
	For low-income people (cents per dollar)	For high-income people (cents per dollar)
Type of Concession		
Contributions	7	33
Fund earnings	7	33
Lump sum benefits	2	28

7.12 The ACTU contested this view stating that the RBL system limited excessive tax concessions and that the $3 000 tax deduction concession was only available to a limited number of employees, that is, the self-employed and those in receipt of three per cent only award superannuation,[12] However, the ACTU acknowledged that 'all inequities in the tax system should be addressed some time'.[13]

7.13 To ameliorate the inequities of the SGL on lower paid workers, the Women's Economic Think Tank (WET Tank) recommended that:

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9 ACOSS, SG sub no. 23, p 2.

10 *ibid*, p 2.

11 *ibid*.

12 SG sub no. 29, append 8, p 14.

13 SG sub no. 51, p 19.

> The Government should establish a Government Superannuation Fund, similar to Medibank, which would offer intermittent workers and others who expected to have multiple employers, to select this fund. This could offer an administrative subsidy for contributions, where these would exceed one per cent of the contribution; and
>
> Employees should have the right to opt to contribute, even where their income is below the threshold. This is particularly necessary where some people may have multiple short term jobs, or periods of low activity, but want to continue paying in.

7.14 The ACTU responded that:

> A 'super-Medibank' was [its] preference but it proved impossible to obtain at [the] time. Fully vested and portable industry superannuation goes a long way towards the goal, the SGL takes it further and there is no risk that a future government would change the rules as a conservative government did in the 50s with the then infant scheme (for retirement) based on a levy on wages.[14]

7.15 The Committee did not receive other comments regarding the establishment of a national superannuation fund similar to the WET Tank proposal.

7.16 Whilst supporting a national income retirement policy, the Business Council of Australia (BCA) criticised the broad approach taken by the Government. The BCA claimed that:

> ... the development of award superannuation and this [SGL] Bill has focused exclusively on contribution levels at the cost of developing a viable and comprehensive retirement income framework for Australians ... [For] if a national retirement income framework is to be based on both funded superannuation and the pension, there has to be a question of how far it is sensible to force workforce coverage. Forcing coverage in the small business sector and among some casuals and contractors may impose higher economic and administrative costs than are justified[15] [In short, the BCA does] not believe that the levy approach lays the foundation for a comprehensive retirement incomes policy.[16]

14 *ibid.*

15 SG sub no. 21, pp 1-3.

16 *ibid*, p 7.