

Parliament of the Commonwealth of Australia

**Second Report of the
Senate Select Committee on Superannuation**

Super Guarantee Bills

Superannuation Guarantee (Administration) Bill 1992

Superannuation Guarantee Charge Bill 1992

*Superannuation Legislation (Consequential Amendments and
Transitional Provisions) Bill 1992*

Superannuation Guarantee (Consequential Amendments) Bill 1992

June 1992

© Commonwealth of Australia 1992

ISBN 0 642 18035 0

This document was produced from camera-ready copy prepared by the Senate Select Committee on Superannuation Secretariat, and printed by the Senate Printing Unit, Parliament House, Canberra.

MEMBERS OF THE COMMITTEE:

Senator N Sherry	Chair	Tasmania
Senator R Alston	Deputy Chair	Victoria
Senator B Childs		New South Wales
Senator C Kernot		Queensland
Senator J Watson		Tasmania
Senator S West		New South Wales

Former Members of the Committee:

Senator M Lees	13.08.92 – 17.10.91	South Australia
Senator S Spindler	21.06.91 – 13.08.91	Victoria

Secretariat Staff:

Secretary:	Mr R Gilbert
Principal Research Officers:	Ms L Curran
	Mr M Game
Research Officer:	Mr R Power
Executive Assistant:	Miss H Hibbitt

Address: The Senate
Parliament House
CANBERRA ACT

Telephone: (06) 277 3439

CONTENTS	Page No.
Members of the Committee	iii
1. INTRODUCTION	1
2. DESCRIPTION OF THE SGL	5
3. RATIONALE FOR THE SGL	9
4. TARGETS, TIMETABLE AND LEVELS OF CONTRIBUTION	13
5. COMPLIANCE AND COVERAGE	27
6. ECONOMIC IMPACT	37
7. INTERACTION OF SGL WITH SOCIAL SECURITY	63
8. STATE GOVERNMENTS	67
9. AMENDMENTS PUT TO THE COMMITTEE BY ORGANISATIONS AND INDIVIDUALS	73
10. RECOMMENDATIONS	81
Minority Report by Senators Alston and Watson	87
Minority Report by Senator Kernot	105
 Appendices:	
A. Terms of reference of on-going inquiry	115
B. List of witnesses re SGL inquiry	117
C. List of submissions re SGL inquiry	121
— by number	
— by alphabetical order	
D. List of submissions re on-going inquiry	125
— by number	
— by alphabetical order	
E. Government amendments as moved in the House of Representatives	135
F. Government response to the issues raised by the Australian Democrats	137
G. Glossary	151

CHAPTER 1: INTRODUCTION

1.1 On 4 May 1992 the Senate resolved:

- That the provisions of the *Superannuation Guarantee (Administration) Bill 1992*, the *Superannuation Guarantee Charge Bill 1992* and the *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 1992* be referred to the Senate Select Committee on Superannuation for inquiry and report by 17 June 1992.
- That when these Bills are introduced into the Senate, they stand referred to the Senate Select Committee on Superannuation for inquiry and report by 17 June 1992.

1.2 On 6 May 1992 the Senate further resolved:

- That the provisions of the *Superannuation Guarantee (Consequential Amendments) Bill 1992* be referred to the Select Committee on Superannuation for inquiry and report by 17 June 1992.
- That when the Bill is introduced to the Senate, it stands referred, after the moving of the motion for the second reading, to the Select Committee on Superannuation for inquiry and report by 17 June 1992.

1.3 The Superannuation Guarantee Bills are commonly referred to as the SGL Bills. The term 'SGL' stands for 'superannuation guarantee levy', which was the expression originally used by the Government to refer to its forthcoming legislation. As that legislation now stands, however, the term 'levy' has been replaced by the term 'charge'. Since the term 'SGL' still seems to be commonly used to describe the legislation, the Committee has chosen to use it in this report as a convenient short-hand reference to the Superannuation Guarantee Bills.

1.4 At the first public hearing on the Bills (6 May 1992) the Parliamentary Secretary to the Treasurer and Manager of Government Business in the Senate, Senator the Hon Bob McMullan, tabled Government amendments to the legislation as agreed in the House of Representatives. The Committee received the amendments (applying to the *Superannuation Guarantee (Administration) Bill 1992* and determined that they be incorporated in *Hansard*.

1.5 The referral of the Superannuation Guarantee Bills to the Select Committee was unusual in several respects. First, the Bills were referred to a select committee already in existence rather than to a standing committee. Second, the Bills were referred on the motion of the Australian Democrats – and at the initiative of the Committee rather than through the Selection of Bills Committee. Third, the Bills were not before the Senate at the time the above resolutions were passed; hence use of the expression 'that the provisions' of the Bills be referred to the Select Committee (pending the actual introduction of the Bills into the Senate).

Conduct of the Inquiry

1.6 At a private meeting of the Committee on 4 May 1992 members discussed the list of witnesses to be called to give evidence on the Superannuation Guarantee Bills. In considering which witnesses to hear, members took into account the fact that the Committee had already heard over 200 witnesses in the course of its inquiry into superannuation issues as set out in the Senate's resolution of 5 June 1991. That resolution established the Select Committee on Superannuation; a copy of its terms of reference and procedures is at Appendix A.

1.7 Members acknowledged the great value of the evidence already taken by the Committee in passing the following motion (moved by Senator Kernot) at the first SGL public hearing:

The Committee wishes to record in the *Hansard* of this evening's proceedings the fact that it has heard evidence in previous hearings on a number of matters which are relevant to the growth of superannuation and its impact on macro and micro-economic performance in the economy.

In particular, in this regard, the Committee acknowledges the evidence given by representatives of the Industry Research and Development Board on matters relating to the use of superannuation funds to further the development of Australian industry.

1.8 The Committee conducted public hearings on 6 May, 8 May, 11 May and 3 June 1992. A list of witnesses appearing before the Committee is at Appendix B and a list of submissions (and other relevant written evidence) is at Appendix C.

1.9 This Report is more detailed than the standard report of a committee on the referral of a bill because it addresses four of the seventeen terms of reference of this Committee's on-going inquiry into superannuation. The four terms of reference are:

... to inquire into and report upon the following matters:

- (l) the appropriate means of providing adequate superannuation for part-time and casual employees and the feasibility of providing superannuation for people outside the workforce;
- (m) the rate of employer non-compliance with superannuation awards;
- (o) the feasibility of providing improved benefits to superannuation arrangements in lieu of increased contributions under superannuation awards in appropriate circumstances; and
- (p) the need for an appropriate target and timetable for the achievement of adequate levels of superannuation.

1.10 A significant number of the remaining terms of reference have already been addressed in the Committee's First Report entitled *Safeguarding Super: the Regulation of Superannuation*. This report was tabled in the Senate on 4 June 1992 and covers regulatory issues affecting superannuation. Those terms of reference not addressed in the First Report or in this report on the SGL will be covered in the Committee's third, and final, report due to be presented to the Senate by 10 September 1992.

Treatment of Evidence

1.11 Appendix C lists all the written material which the Committee authorised to be published in a supplementary volume of evidence to be tabled at the end of the Committee's general inquiry. The supplementary volume includes both formal submissions and other material relevant to the inquiry, such as a description of the Superannuation Guarantee Bills prepared by the Bills Digest Service of the Department of the Parliamentary Library. Also relevant are the responses of certain Government agencies to the Committee's request for supplementary information; the agencies are Treasury (material dated 1 May, 5 May, 6 May, 11 May and 29 May 1992), the Australian Taxation Office (ATO, material dated 4 May and 11 May 1992) and the Department of Industrial Relations (DIR, dated 1 May 1992).

1.12 In order to facilitate community discussion, the Committee adopted the stance of publishing all submissions on receipt. Likewise, the Committee circulated uncorrected *Hansard* transcripts as soon as they became available. References in the Report to oral testimony are to page numbers in these uncorrected *Hansard* transcripts.

1.13 In order to clarify whether a particular reference is to the Committee's on-going inquiry into superannuation or to the specific inquiry into the SGL, the following practice has been adopted:

- written submissions to the on-going inquiry are referred to as 'Sub no. xx' (a list of written submissions to the Committee's on-going inquiry into superannuation is at Appendix D);
- written submissions to the SGL inquiry are referred to as 'SG sub no. xx';
- oral evidence to the general inquiry (recorded in the uncorrected proof copy of *Hansard*) appears as 'Evidence, p xx'; and
- oral evidence to the inquiry into the SGL (recorded in the uncorrected proof copy of *Hansard*) appears as 'SG evidence, p xx'.

Appreciative Comments

1.14 The value of the Committee's work in both its general inquiry and its specific inquiry into the Superannuation Guarantee Bills was noted by several witnesses as shown by the following quotations:

We congratulate the Senate on undertaking this inquiry because it is a very important, critically important, issue to the business community...¹

I really think your Committee has contributed so much to the debate in this country...²

¹ Mr Ian Spicer, Chief Executive of the Confederation of Australian Industry, SG evidence, p 63.

² Mr Daryl Dixon, SG evidence, p 89.

I would like to congratulate this Committee for the work it has done in airing issues that have been deliberately buried by organisations...³. [and]

There has not been wide ranging and extensive consultation on these proposals and this Senate inquiry, to its credit, is the only public forum where we have had the ability to actually express our views⁴

I think this Committee's report will be an important contributor to getting together a comprehensive retirement incomes policy for Australians.⁵

1.15 The Committee records its appreciation of the submissions and oral evidence tendered to both of its inquiries. The Committee also acknowledges the cooperation of the Parliamentary Secretary to the Treasurer, Senator the Hon Bob McMullan, in attending and answering questions during the Committee's examination of matters relating to the Treasury, the Australian Taxation Office and the Insurance and Superannuation Commission.

Minority Reports

1.16 This report contains two minority reports. The first minority report is by Senators Alston and Watson, and the second is by Senator Kernot.

³ *ibid*, p 78.

⁴ Ms Jane Elix, Director, Australian Federation of Consumer Organisations, *ibid*, p 95.

⁵ Mr Laurie Eakin, Executive Director, Retailers Council of Australia, *ibid*, p 158.

CHAPTER 2: DESCRIPTION OF THE SGL

The package of bills dealing with superannuation comprises four separate Bills:

- the *Superannuation Guarantee (Administration) Bill 1991*
- the *Superannuation Guarantee Charge Bill 1992*
- the *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 1992*
- the *Superannuation Guarantee (Consequential Amendments) Bill 1992*

2.1 The third of these Bills is not related to the other Bills. *The Consequential Amendments and Transitional Provisions Bill* amends 28 Acts to update provisions in them relating to superannuation; but the amendments have no bearing on the superannuation guarantee initiative that is the subject of this Report. In the words of the Minister for Finance, the Hon Ralph Willis MP, the Bill 'makes only consequential amendments that reflect changes that have previously been put in place'.¹ For this reason, the Committee did not further consider this Bill and **recommends to the Senate that the Bill be agreed to without amendment.**

2.2 The constitutional basis of the three Superannuation Guarantee Bills is:

... the taxation power contained in sub-section 51(ii) of the Constitution. The use of this power to impose the training guarantee levy is currently subject to a challenge in the High Court and if that challenge is successful the implication is that the taxation power cannot be used to support the SGL. However, if this is the case, the Commonwealth will be able to rely on other powers, such as the corporations and trade and commerce powers, to ensure a wide application of the levies. If these powers were relied on, the levies would not have the universal application they have relying on the taxation power.²

2.3 The *Superannuation Guarantee (Administration) Bill 1991* (as amended by the House of Representatives) establishes the Superannuation Guarantee Scheme and provides for its administration. The Scheme is to commence on 1 July 1992. The Scheme will require a levy to be paid where employers fail to contribute a percentage of employee's earnings to a fully vesting superannuation fund.

2.4 The Administration Bill has nine parts. Part 1 states that the legislation applies to the Commonwealth and all States and Territories, but it goes on to exclude Commonwealth and tax-exempt Commonwealth authorities from liability to pay the superannuation guarantee charge. Part 2 defines terms used in the Bill including 'complying superannuation fund', 'defined benefit superannuation scheme', 'employee' and

¹ Second reading speech, House of Representatives, 2 April 1992.

² Parliamentary Research Services, Bills Digest, SG sub no. 1, p 3.

'employer', 'maximum contribution base', 'notional earnings base', 'ordinary time earnings', 'salary or wages' and 'superannuation scheme'. Part 2 also stipulates that the maximum contribution base is \$80 000.

2.5 Part 3 of the Bill provides that the superannuation guarantee charge imposed on an employer's superannuation guarantee shortfall for a year is payable by the employer. The shortfall is made up of the total of individual shortfalls for the year plus the nominal interest component and the administration component. The shortfall is to be calculated on an annual basis in 1992-3 but on a monthly basis for later years. The shortfall is calculated by multiplying wages or salary by a 'charge percentage' which varies as to whether an employer has a notional payroll for the base year of over or under \$500 000. However, in both cases the charge percentage is to be nine per cent by the year 2000.

2.6 Part 3 also provides for reductions in the charge percentage in certain circumstances:

Where the contributions are to a defined benefits scheme and a benefit certificate has been issued that specifies the contribution rate for a class of employees, the required contribution is reduced by the contribution rate multiplied by the percentage of time in a contribution period for which the contribution was made... For contributions made in accordance with industrial awards, or under a superannuation agreement, which are based on the employees notional earnings base, the required contribution rate is to be reduced in the same manner as described above. Where the employees notional earnings base is not specified, the contribution rate is to be calculated as a percentage of the employees ordinary time earnings.³

2.7 Further, Part 3 outlines certain exclusions from the Superannuation Guarantee Charge; these include salary or wages paid to an employee aged 65 (or over) and to a part-time employee who is under 18. Also exempt are employees who receive less than \$250 per month.

2.8 The Bill was amended in the House of Representatives, principally:

to allow for the situation where an employer makes superannuation contributions up to 12 months in advance of a monthly contribution period...[and] to provide that salary or wages paid to 'prescribed employees' are to be excluded from the shortfall calculation. It is proposed that a prescribed employee (to be set out in regulations) would include certain foreign executives working in Australia for short periods of time.⁴

2.9 The nominal interest rate component of the shortfall charge is set at 14.026% per annum and is subject to regulatory change. The administration component is \$50 plus \$30 for each employee in respect of whom the employer has a superannuation guarantee shortfall. Both the \$50 and the \$30 are subject to regulatory amendment.

2.10 Part 4 of the Administration Bill deals with superannuation guarantee statements and assessments, which involve the employer and the Commissioner of Taxation who is responsible for the general administration of the legislation (Part 5).

³ *ibid*, p 4.

⁴ Australian Taxation Office, SG sub no. 35, p 2.

2.11 Part 6 of the Bill deals with the collection and recovery of the charge, and Part 7 describes the penalty charge. Part 8 outlines the way in which the Commissioner of Taxation is to deal with the shortfall component of a payment of superannuation guarantee charge in relation to a particular employee. The final Part of the Bill contains miscellaneous provisions.

2.12 The *Superannuation Guarantee Charge Bill 1992* imposes a charge based on any shortfall in superannuation contributions for employees. The superannuation guarantee shortfall is calculated by reference to the relevant provisions of the Administration Bill.

2.13 The *Superannuation Guarantee (Consequential Amendments) Bill 1992* similarly provides for the amendment of certain Acts to take account of the proposed changes to superannuation provisions.

CHAPTER 3: RATIONALE FOR THE SGL

3.1 Occupational superannuation in the form of a federal award entitlement dates from the decision in the 1986 National Wage Case to include a superannuation component in federal awards, the component to be three per cent of salary. In the 1990-91 National Wage Case the Australian Council of Trade Unions (ACTU) argued for a further three per cent round of award contributions. The Government supported the ACTU's claim, noting that:

occupational superannuation is a key element in the Government's retirement income policy of encouraging retirement provision by employees during their working lives to achieve adequate living standards... [And] the key to providing better income for the growing number of old people in the future is to increase savings now. Improved access to superannuation is the best way of achieving this.¹

3.2 In April 1991 the Australian Industrial Relations Commission adjourned the superannuation claim and requested the Government convene a national conference on superannuation involving all relevant parties. The business community requested the Government convene a national conference on superannuation, but instead, the Government announced that it would pursue compulsory superannuation coverage by passing legislation.

3.3 The Superannuation Guarantee Bills give legislative backing to the Government's policy. The rationale for the Bills is outlined in the Second Reading Speech on the *Superannuation Guarantee (Administration) Bill 1992*, during which the Treasurer, the Hon John Dawkins MP, stated:

... there is an on-going need to ensure that as many Australians as possible have access to superannuation. There is also a need to increase the average level of superannuation savings for each individual, if these savings are to provide an adequate level of retirement income. Consistent with these goals, the Superannuation Guarantee Levy was announced in last year's budget...

The levy... will provide a coherent and equitable framework in which retirement incomes objectives can be progressed. It will ensure that, by the beginning of the next century, virtually all employees will be accumulating substantial superannuation savings to help fund their retirement income.

The increased self-provision for retirement will permit a higher standard of living in retirement than if we continued to rely on the age pension alone. The increased self-provision will also enable future Commonwealth governments to improve the retirement conditions for those Australians who were unable to fund adequately their own retirement incomes.

Lastly, self-provision will increase the flexibility in the Commonwealth's Budget in future years, especially as our population ages, and will increase our national savings overall, thus reducing our reliance on the savings of foreigners to fund our development.

¹ Quoted in the attachment to SG sub no. 4.

3.4 In evidence to the Committee, the Treasury expanded on the rationale for the Bills. Treasury Secretary, Mr A Cole, stated that the SGL contribution standard of 12 per cent of earnings over 40 years was 'a sensible and appropriate objective for various reasons':²

First, the current levels of self-provision in retirement are far too low...

Secondly, the present low average levels of superannuation support in the work force, particularly in the private sector, hold out little promise of significant improvements for future retirees...

Thirdly, the long period that it typically takes to accrue retirement benefits necessarily means a correspondingly greater urgency for action now...

Fourthly, the demographic structure of the Australian population is going to age markedly... [and] delays in increasing the present inadequate levels of superannuation support will exacerbate the difficulties in meeting the retirement income needs of an ageing population.

Finally... it is also my judgement that the pace of adjustment towards the SGL's interim target is calibrated pretty well, having regard to the current economic position and prospective developments.³

3.5 Mr Cole added that:

... the SGL will be of greatest benefit to those principally low paid workers who currently have no superannuation support, or whose only superannuation is provided under an industrial award...

... the impact of the SGL on retirement income is very progressive, with the greatest proportion of increases going to low income earners with the lowest levels of existing superannuation support, and absolutely nothing going to those who are already adequately covered by existing superannuation arrangements.⁴

3.6 Treasury, in additional evidence, provided the Committee with details of its modelling which assumed shorter periods of employment than 40 years and the retirement income benefits which might accrue. These issues are canvassed in Chapter 4.

3.7 A large number of submissions to the Committee's on-going inquiry supported the principle of compulsion to achieve long-term retirement income objectives.

3.8 The Life Insurance Federation of Australia (LIFA) supported the Treasury arguments, noting in particular that 'the superannuation guarantee will provide the savings discipline which is presently lacking'.⁵

2 SG evidence, p 5.

3 *ibid*, pp 5-6.

4 *ibid*, p 6.

5 *ibid*, p 134.

3.9 Similarly, the Association of Superannuation Funds of Australia (ASFA) endorsed the Treasury comments, and added that 'the broad approach embodied in the super guarantee legislation is the most practical way forward'.⁶

3.10 Mr Block, who is a member of a superannuation working party of the Committee for the Economic Development of Australia, supported the SGL because of 'the need to build national savings and, in the process, build retirement income'.⁷ This support 'is essentially based on the view that it [the legislation] will assist marginally in increasing national saving'⁸ which is a pre-requisite for faster economic development.⁹

3.11 Two prominent academics who appeared before the Committee supported the Superannuation Guarantee Bills. The academics were Associate Professor Knox and Professor Piggott. The latter commented in relation to savings:

... it is reasonable to expect in the longer term that the fiscal implications of an ageing population will be much less severe with the SGL than without it. It is in this important sense that the SGL can be seen to help our national saving performance.¹⁰

3.12 The ACTU strongly supports the SGL. In relation to compulsion, the ACTU noted award superannuation has meant that '79 per cent of the work force are covered' by superannuation, including '72 per cent of all women workers'.¹¹ This led the ACTU to conclude that:

For those workers, the women and the lower paid, compulsion has worked and delivered benefits where a system based on incentives has failed.¹²

3.13 The extent of the additional coverage due to the SGL and the size of the superannuation savings is substantial: virtually all employees are to be covered under the SGL, and the additional superannuation contributions are estimated to rise from \$328 million in 1992-93 to \$4795 million in 2000-01 (present value dollars).¹³

3.14 The following chapters examine these and other aspects of the Superannuation Guarantee Bills in more detail. Chapter 4 considers the Bills in relation to appropriate superannuation targets and Chapter 5 sets out additional information on compliance and coverage. Chapter 6 provides greater detail on the economic impact of the Superannuation Guarantee Bills and Chapter 7 considers their interaction with the social

6 *ibid*, p 135.

7 *ibid*, p 78.

8 *ibid*.

9 *ibid*, p 80.

10 *ibid*, p 167.

11 *ibid*, p 44.

12 *ibid*.

13 SG sub no. 32, p 6.

security system. Chapter 8 deals with the effect of the Bills on State and Territory governments.

3.15 The considerable number of amendments put to the Committee are listed in chapter 9. The Committee's recommendations are in Chapter 10. A special section titled *Minority Reports* follows Chapter 10. The first minority report is by Senators Alston and Watson and the second minority report is by Senator Kernot.

CHAPTER 4 : TARGETS, TIMETABLE AND LEVELS OF CONTRIBUTION

The SGL Target

4.1 Under the SGL, the Government's retirement income target for a person on average weekly earnings (AWE) is 40 per cent of that level of income. To reach this target, the Government intends phasing in employer contributions which will total nine per cent by 2000. The final 12 per cent outcome will be achieved by an arrangement being reached with employees at a stage, yet to be determined, whereby employees will contribute the other three per cent. The schedule for the phasing-in of the employer contributions is in Table 4.1.

Table 4.1

SGL Targets	
Year	Percentage
1992-93	5
1993-94	5
1994-95	6
1995-96	6
1996-97	7
1997-98	7
1998-99	8
1999-2000	8
2000-01 and subsequent years	9
For employers where payroll in the base year did not exceed \$500 000 the schedule is:	
1992-93	3
1993-94	3
1994-95	4
1995-96	5
1996-97	6
1997-98	7
1998-99	8
1999-2000	8
2000-01 and subsequent years	9

4.2 Treasury justified these targets in supplementary material made available specifically at the Committee's request. Table 4.2 shows increases in retirement benefits potentially available to hypothetical individuals whose present income is a specified multiple of AWE. The shaded rows in the table show the SGL outcomes compared to existing outcomes under existing policy.

Table 4.2

		Increase in Retirement Benefits Potentially Available to Hypothetical Individuals*					
Present Income		Multiple of AWE					
		.5	.75	1	1.5	2	3
Assumed contribution rates (b)							
(i)	Employer						
	No SGL	0.00	0.03	0.03	0.05	0.10	0.15
	SGL	0.09	0.09	0.09	0.09	0.10	0.15
(ii)	Member						
	No SGL	0.00	0.00	0.00	0.03	0.05	0.05
	SGL	0.03	0.03	0.03	0.03	0.05	0.05
Annual retirement benefit							
	No SGL	50%	45%	35%	37%	57%	66%
	SGL	*81%	62%	52%	47%	57%	66%
	Increase	31%	17%	17%	10%	0%	0%
Age pension entitlement (Full, Part, or None)							
	No SGL	F	P	P	P	N	N
	SGL	P	P	P	N	N	N

Source: Submission no. 195, supplementary submission of 6 May 1992, p 8.

* Assumptions:

- (i) Post-retirement benefits for single retiree assuming 40 year accumulation with retirement at age 65 and private retirement income in the form of a 5 per cent-indexed annuity, taking account of the pension income and assets tests.
- (ii) Proportion of member earnings. SGL rates assume that the measure is fully phased in.
- (iii) Per cent of pre-retirement income. This is the net present value (NPV) of annual net income in retirement expressed as a percentage of gross final salary.
- (iv) Inflation rate of 4 per cent p.a.
- (v) Fund earnings rate of 8 per cent p.a.

4.3 Treasury's explanation of the model in Table 4.2 was:

... [it] illustrates the progressive impact of the SGL on the pattern of retirement benefits. For somebody on three-quarters of AWE, for example, the SGL increases projected post-tax retirement income by 17 per cent of pre-retirement income. By comparison, somebody on twice AWE experiences no increase in retirement income; the assumed present superannuation contributions made in respect of this individual already exceed the minimums proposed under the SGL legislation.¹

¹ Sub No. 195, Additional sub of 6 May 1992, p.8.

The Use of Other Assumptions

4.4 At the specific request of the Committee, Treasury provided further justification for the Government's targets. The Treasury modelled the following additional assumptions:

Impact of Death/Disability Cover and Administration Charges

4.5 Treasury used a total fee level of \$1.70 (\$1 insurance, 70 cents administration charges) which it submitted was 'close to an average level of combined administration fee and death and disability premium for award superannuation funds ...'²

4.6 Treasury concluded that:

... while fees have negligible impact on a person's average level of net retirement income, a higher level of fees does result in a small increase in age pension eligibility for lower income earners. This is because:

- for higher income earners, with high levels of superannuation support, the fee is insignificant relative to the assumed level of contributions and so has a negligible impact on benefits; and
- for lower income levels, where the level of superannuation support is assumed lower, the reduction in superannuation benefits arising from fees is offset by the combined effect of an increase in age pension eligibility and reduced taxation.³

Higher Real Earning Rates

4.7 In additional material, Treasury incorporated a higher real earning rate for a ten year period during the accumulation period for a benefit. Treasury assumed that the higher rates of return would begin in 2002, once the SGL had been fully implemented. Having presented the data in table form, Treasury commented:

The impact of a period of higher real earning rates on a person's net retirement income depends upon when during the accumulation phase of the superannuation benefit that period of higher earnings falls. The closer the period of higher earnings is to the person's retirement date, the greater the impact on final benefits because of the impact of the higher earnings rate upon already accumulated benefits.

It should be noted that sustained real earning rates as high as ten per cent are extremely unlikely, particularly over periods as long as 10 years. In this regard the 1980s cannot be regarded as typical and followed a long period of low and often negative real earning rates. A December 1991 paper – *The Role of Superannuation in the Financial Sector and in Aggregate Saving: A Review of Recent Trends* by Messrs Edey, Foster and Macfarlane of the RBA – reports nominal average earning rates of six, seven and 15 per cent per annum for the past three decades successively. Adjusted for average inflation of around eight per cent per annum, on this basis the real earning rate for the 1980-90 decade

² SG sub no. 48, p 2.

³ *ibid.*

would have been around seven per cent – well under the ten per cent assumption of this question.⁴

Shorter Working Life

4.8 A number of witnesses questioned the fundamental assumption of a 40 year contribution period, suggesting that for many employees this was an unrealistic figure. Mr Daryl Dixon submitted that a working life of 37 years was more realistic.⁵

4.9 The witnesses representing welfare groups also questioned the 40 year assumption saying that it was 'quite misguided'⁶ and that for women it would be well less than 30 [and] closer to about 20.⁷

4.10 Accordingly, the Committee sought Treasury advice on the outcomes that would be obtained for periods less than the 40 years in the original model using contributions of 12 per cent (that is, nine per cent employer contributions and three per cent member contributions) throughout the accrual period. Table 4.3 shows the benefits which would accrue to employees, assuming 40, 31, 20 and ten year working lives respectively.

4.11 A person on AWE, assuming a 40 year accumulation period, would receive 55 per cent of AWE on retirement. Should a 31 year period be relevant, 48 per cent would result. For 20 and ten year periods, the outcomes would be 42 per cent and 34 per cent respectively.

Table 4.3

Retirement Incomes Under SGL for 40, 31, 20 and 10 Year Working Life						
Present income:	Multiple of average weekly earnings					
	50%	75%	100%	150%	200%	300%
Average annual retirement income under SGL						
40 years	85%	65%	55%	49%	57%	66%
31 years	78%	58%	48%	38%	43%	50%
20 years	71%	52%	42%	31%	29%	32%
10 years	59%	43%	34%	26%	23%	19%

Source: SG submission number 48, Tables 8, 9, 11 and 13.

***Assumptions:**

- (i) Assumes:
 - Marital status: Single
 - Commencement in fund: 1992
 - Retirement age: 65 years

⁴ *ibid.*

⁵ SG evidence, p 84.

⁶ Professor J Disney, SG evidence, p 100.

⁷ Ms E Cox, SG evidence, p 108.

Fund earning rate in projections	8.0%
Effective tax rate on funds	7.0%
AWE growth	5.5%
Retirement benefit is 5% indexed lifetime annuity	

- (ii) For SGL cases, contribution rates assume the SGL is implemented without any phasing in period.
- (iii) Average value of annual net income in retirement as a percentage of gross final salary (measured as the NPV of expected net retirement income as a percentage of the net present value of pre-retirement earnings projected over the same period).
- (iv) Average pension entitlement as a percentage of the full age pension over the period a person is eligible for an age pension.

Women – Broken Labour Force Participation

4.12 In addition, the Committee requested that Treasury model the particular problems that women experience in participating in occupational superannuation. The material provided assumes that the age pension is payable from age 60 or the preservation age, whichever is later, and the person in the case study is assumed to either live on the proceeds of other, non-superannuation savings or be supported by another person's income. The case involves a person who works full-time for seven years at 90 per cent of Australian Weekly Ordinary Time Earnings (AWOTE), leaves the workforce for ten years, returns part-time for five years at 40 per cent of AWOTE before returning to work full-time for ten years at 90 per cent of AWOTE before retiring at age 50. During the accrual period of the benefit, fees are assumed to continue to apply annually at the same level as in contributory periods in years where no contributions are made. The outcomes for such a person are set out in Table 4.4⁸ which shows that at 55 retirement, a retiree would receive marginally more than the single age pension benefit (25 per cent of AWE). Retirement at 60 or 65 would result in an income stream significantly greater than the age pension.

Table 4.4

Illustration of Impact of Broken Labour Force Participation on Retirement Benefits			
	Age 55 preservation	Age 60 preservation	Age 65 preservation
Gross retirement benefit (multiple of AWE)	2.03	2.22	2.34
Average value of net retirement income (as percentage of the value of AWE level payments)			
– Annuity payments	11%	13%	14%
– Age pension payments	18%	22%	21%
– less tax	1%	1%	1%
Total	28%	34%	38%
Percentage of full rate age pension payable over the period the person is eligible and a superannuation benefit is paid	96%	91%	89%

Retirement Income Targets

Assumptions, Contributions and Outcomes

4.13 The adequacy of Treasury's targets can be gauged by considering them in the context of factors identified by witnesses as being relevant in setting an appropriate retirement income target. These included:

- (i) that community expectations about the desirability of rising standards of living need to be considered in setting future retirement income targets;
- (ii) that a minimum standard can be inferred by referring to the level of age pension, in that it reflects an adequate level of income;
- (iii) that the income cut-off point for part pensions under the means test for the single age pension gives some guide as to what is a more reasonable standard of living. Under the means test the cut-off point for a part-pension is \$17 800 or 58 per cent of AWE.⁹
- (iv) that overseas comparative data can be a useful guide in setting targets but that any comparisons need to take account of the extent to which tax-driven incentives operate, and that some overseas retirement income policies also may include health, medical and unemployment and maternity benefits;
- (v) that established contributory superannuation schemes in the public sector provide an indication of contributions and benefits. A typical public sector scheme provides for a retirement income of around 50 per cent of final salary which is generated by five per cent member and 13-15 per cent employer contributions over approximately 40 years; and
- (vi) that in private sector contributory superannuation schemes a five per cent employee and an eight-ten per cent employer contribution would be 'average' for that sector.¹⁰

4.14 At no stage of the Committee's inquiry was a demand made for the Government to reduce the present level of pension benefit expressed as a percentage of AWE, that is, 25 per cent. Those witnesses representing the interests of welfare groups submitted that the current age pension is too low and needs to be increased.

4.15 In this regard, AFCO submitted that the aged pension should remain at least indexed to increases in inflation but that it should be elevated to 35 per cent of male average weekly earnings.¹¹ ACOSS contended that if the Treasury model had

⁹ SG evidence, p 5.

¹⁰ Mr Rob Paton, Australian Institute of Actuaries, Evidence, pp 8-9.

¹¹ Sub No. 139 p 4.

incorporated a pension set at 30 or 35 per cent of AWE, other than 40 per cent, it would have been a fairer analysis of the claimed benefits of the SGL.¹²

4.16 Referring to the criteria in points (i) – (iv) in paragraph 4.13, Treasury pointed to community standards regarding a reasonable retirement income which is suggested to be at around half pre-retirement income.¹³ This position is consistent with an earlier submission to the inquiry by the same department which observed that a person on AWE making a contribution of 12 per cent for 40 years would receive a retirement income of 40 per cent of AWE, compared with 26 per cent of AWE under the pension system.¹⁴

4.17 The Institute of Actuaries provided the Committee with information on retirement benefits that assumed a contribution rate of 15 per cent of salary.

4.18 This reflects the Institute's beliefs that contribution targets higher than 12 per cent are desirable. The Institute submitted that a ten per cent employer and five per cent employee contribution would produce an adequate income given current tax arrangements.¹⁵ Table 4.5 shows lump sum benefits from this level of contributions.

Table 4.5

LUMP SUMS	
Institute of Actuaries Lump Sum Projections	
Years of Contribution	After tax lump sum benefit from contribution equal to of 15 per cent of salary
25	4.1 years of salary
30	5.1 years of salary
35	6.2 years of salary
40	7.4 years of salary

Assume: real rates of return of two per cent and current tax arrangements.

Source: Submission no. 108.

4.19 Should the member purchase an annuity with the above mentioned lump sums, Table 4.6 shows the following net income streams, based on a retirement salary of \$35 000, would be generated.

4.20 The Institute's data is useful because it demonstrates the relationship between lump sum benefits and subsequent income streams following the purchase of an annuity. Also, it takes into account the fact that many employees do not experience a 40 year period in the workforce, for example, a person who spends 25 years only in the workforce

¹² SG evidence, p 111.

¹³ *ibid*, p 92.

¹⁴ Sub No. 195, p 15.

¹⁵ SG evidence, p 7.

would receive an income stream of 31 per cent of final salary as opposed to 56 per cent should the 40 year assumption be appropriate.

Table 4.6

PENSIONS	
Institute of Actuaries Annuity Projections*	
Years of Contribution	Gross of Tax Indexed Annual Annuity resulting from Above Lump Sums
25	31% of Salary
30	39% of Salary
35	47% of Salary
40	56% of Salary

Source: Sub No. 108.

** Assumptions*

- (i) life-time annuity indexed to the CPI;
- (ii) male age 65 with a spouse age 62 (this is not substantially different to a female age 65 with a spouse age 68);
- (iii) 50 per cent reversion of annuity to spouse;
- (iv) no guaranteed minimum payment period; and
- (v) purchase price of \$13,200 per \$1,000 per annum of annuity (expenses have been ignored).

4.21 The Association of Superannuation Funds of Australia used the Government's projected increase in compulsory superannuation contributions as per the SGL (final projection 9 per cent employer and 3 per cent employee contribution in lieu of a wage increase) and submitted that the benefits shown in Table 4.7 would accrue to members.

4.22 ASFA considered that whilst a target of 12 per cent should be pursued via compulsory funding, additional contributions are 'desirable' and should be encouraged with tax concessions.¹⁶

4.23 This was a theme taken up by a number of witnesses who argued that a retirement income which approximates 70-80 per cent of pre-retirement earnings would be sufficient to maintain a standard of living consistent with that experienced when a retiree was a member of the workforce. The AMP¹⁷ and Mercer Campbell Cook & Knight (Mercers)¹⁸ and a number of other witnesses submitted that this level of retirement income would be a suitable target.¹⁹

¹⁶ Sub no. 89, p 130.

¹⁷ Sub no. 120, p 54.

¹⁸ SG sub no. 9.

¹⁹ Evidence, p 43.

Table 4.7

ASFA Lump Sum and Pension Benefits Table*		
Age (as at 1991)	Benefit at 65 (before benefits tax)	
	Lump Sum (multiple of final salary)	Pension – per cent of final salary
Assuming a real rate of investment return of 4 per cent:		
25	9.03	60.2 per cent
35	5.44	36.3 per cent
45	2.94	19.6 per cent
55	1.21	8.4 per cent
Assuming a real rate of investment return of 2 per cent:		
25	5.91	39.4 per cent
35	4.00	26.7 per cent
45	2.42	16.1 per cent
55	1.10	7.3 per cent

Source: Submission no. 89, p 28.

**Assumptions*

- (i) Employer contributions 9% of salary;
- (ii) Member contributions 3% of salary;
- (iii) Tax on employer contributions 15%;
- (iv) Expenses and insurances 10% of contributions;
- (v) Pension annually CPI indexed 85% pension reversion to spouse upon retiree's death
- (vi) Commutation factor is 15 – i.e. if a lump sum benefit were convertible to a pension/annuity, the first annual payment would be equal to one fifteenth of that lump sum.

Overseas Practices

4.24 A number of witnesses referred to overseas practices in setting compulsory levels of contributions for both employees and employers. The Committee, in its research prior to the public hearings, compiled a survey on *Retirement Incomes Arrangements in Twenty-One Countries - Super System Survey* which showed that in 20 of those countries compulsion for either the employer or employee was a feature in providing retirement benefits. In only three of the countries was it not compulsory for the employer to contribute. There were only two countries which did not compel an employee contribution. Table 4.8 shows the levels of compulsory contributions and the retirement income benefits which are generated through a combination of social security and private provisions.

4.25 It should be noted that this information is summary data only and that the particular provisions of each system should be examined before making comparisons. For example, one of the prime considerations is the extent to which tax concessions are used to drive any system which compels or encourages superannuation and what is the opportunity cost of providing such incentives *vis a vis* the long term savings that are made

against pension outlays. Also, a number of the countries in the survey operate an integrated social insurance system which includes retirement income, health, aged care and maternity provisions.

Table 4.8

Retirement Incomes System in Twenty-One Countries Contributions & Benefits			
	Data from <i>Super System Survey</i> Compulsory Contributions for Retirement		Retirement Income Stream
Austria	Employer	12.55%	40-73% of actual final earnings
	Employee	10.25%	
Belgium	Employer	8.86%	60% of career average earnings for single person
	Employee	7.50%	
Chile	Employer	Nil	Government guarantees minimum pension
	Employee	20.6%	
Denmark	Employer	A\$314	Minimum social security pension
	Employee	A\$157	
Finland	Employer	19.3%	Up to maximum of 60% of earnings
	Employee	1.55%	
	(includes social security (sickness, medical etc) cover as well)		
France	Employer	8.20% min	40-75% of career earnings
	Employee	7.60% min	
Germany	Employer	9.35%	40-45% of final earnings
	Employee	9.35%	
Greece	Employer	10.5%	30-70% of final earnings
	Employee	5.25%	
Ireland	Employer	11.3%	Flat social security benefit
	Employee	Nil	
Italy	Employer	14.80% to 30.43%	80% of final career earnings
	Employee	6.1% to 10.79%	
Japan	Employer	7.25%	Flat social security benefit plus an earnings related benefit
	Employee	7.25%	
Luxembourg	Employer	8%	60-70% of final pay
	Employee	8%	
Netherlands	Employer	Nil	60% of national average earnings
	Employee	16.95% (subject to ceiling)	
New Zealand	Employer	Nil	Flat rate pension
	Employee	Nil	

Portugal	Employer	24.5%	50-60% of final year salary
	Employee	11.0%	
Singapore	Employer	17.5%	Privately funded end benefits a function of contributions
	Employee	22.5%	
Spain	Employer	24.0%	76-85% of final earnings
	Employee	21.8% (including sickness, medical and family allowances etc)	
Sweden	Employer	20.45-8% (including mandatory private plan)	66% of final pay
Switzerland	Employer	4.8% plus (mandatory supplement 7- 18% depending on age and sex)	60% of final salary
	Employee	4.80%	
United Kingdom	Employer	10.45% (average)	20% of revalued earnings with effect from 2000
	Employee	2%-9% depending on level of earnings	
USA	Employer	6.2%	25-60% of assessable earnings
	Employee	6.2%	

Compulsory or Voluntary Superannuation

4.26 In discussing retirement income targets and time tables with a range of witnesses representing the various superannuation interest groups, the Committee endeavoured to gain an enhanced understanding of the principles which underpin both voluntary and compulsory retirement incomes policies. A number of witnesses signalled their support for the general principle of a compulsory national pensions scheme but were not prepared to support the SGL because they disagreed with its particular provisions. Two of the supporters of compulsion, Professors Knox and Piggott, outlined in greater detail the reasons for compulsion. Professor Piggott cited overseas experience and reservations about the effectiveness of using tax concessions to promote voluntary savings as his reasons for compulsion. He went on to say:

The biggest lesson to be drawn from international experience is that unfunded schemes – such as those operating in the US or the UK – can have alarming implications for fiscal burden and therefore national saving, in the face of an ageing population.²⁰

4.27 On being asked whether he saw any potential problems arising from paying pensions in the future if compulsory funding were not pursued, Professor Knox remarked:

I think, given the ageing population, the demographic situation if you like, then my answer is yes. We could argue that we do not need to do anything because we are going to have enormous increases in productivity and we are going to be able to fund the age

²⁰ SG evidence, p 167.

pension in the year 2020. I do not buy that argument. I think if you do have significant productivity and it all goes to the age pension, then the workers are going to get a bit uptight about it. So I believe we do need to do something compulsory.²¹

4.28 He went on to add that:

we need a compulsory core and an optional extra ... we need individuals to have the option, with some tax support.²²

4.29 He suggested that a core contribution for employers should be between seven and 12 per cent but added that employee contributions would need to be encouraged by tax concessions.²³

4.30 The BCA informed the Committee that '... there is an emerging sort of consensus across the industry and employer groups that some form of compulsory payment is necessary.'²⁴

4.31 The MTIA in its original submission also supported the general principle of compulsion submitting that: '... government, employers, employees and self employed would all contribute to the retirement income package'.²⁵ However, it stressed that such a policy including the planned contribution levels would need to be:

... compatible with economic capacity, form part of approved aggregate labour cost increases and not detract from industry competitiveness. This would include the need to ensure that resultant savings in government outlays were reflected in reduced taxes and charges to Australian industry.²⁶

4.32 The Woman's Action Alliance (Australia) upheld the general principles of the existing tax-driven occupational superannuation retirement incomes system and argued that tax incentives should be more finely tuned to encourage spouses who are not in the paid workforce to receive superannuation coverage through payments made by the spouse in paid employment.²⁷

4.33 The Hon I B Wilson, MP also supported a voluntary approach to superannuation coverage in recommending a choice between either retirement savings tax rebates or a pension at age 65 or a combination of these rebates and pension.²⁸

²¹ *ibid.*

²² *ibid.*

²³ *ibid.*

²⁴ SG evidence, p 183.

²⁵ Sub no. 55, p 6.

²⁶ *ibid.*

²⁷ Sub no. 64, p 6.

²⁸ Sub no. 71, p 1.

4.34 Another facet of the compulsory/voluntary debate is the matter of the incidence of contributions. Most witnesses discussed compulsion from a holistic viewpoint and did not venture into the matter of apportioning employee/employer contributions. The following witnesses who advocated compulsion submitted that there be an apportioning of employee/employer contributions:

Mr O'Sullivan, Noble Lowndes	Minimum of ten per cent including member contributions ²⁹
Mercer Campbell Cook & Knight	Maximum employer and employee compulsory contribution of five per cent ³⁰
Mr Davis, Australian Small Business Association (NSW Branch)	Mandatory employer and employee contributions totalling at least ten percent.
Mr Mansfield	Compulsory employer contribution of five per cent and employee contribution of between five and ten per cent ³¹

4.35 The Committee observes that most of the witnesses advocating a compulsory system of retirement incomes suggested contributions of nine to 12 per cent of income which for persons on AWE would mean a retirement income of between 40 and 50 per cent of final salary. The Committee further observed strong support for a compulsory system of contribution for retirement incomes but notes that a significant number of witnesses, whilst supporting compulsion, did not believe that the SGL was the appropriate means of achieving this objective at this particular point in time.

²⁹ Evidence, p 209-10.

³⁰ *ibid*, pp 39-41.

³¹ *ibid* p 1327.

CHAPTER 5 : COMPLIANCE AND COVERAGE

Award Superannuation Compliance

5.1 In June 1986, the Conciliation and Arbitration Commission decided that it would be prepared to 'certify agreements or make consent awards covering superannuation'.¹ It fixed 1 January 1987 as the starting date but, following representations from the Commonwealth, agreed to arbitrate where agreement could not be reached and extended the operative date to 1 January 1988, subsequently further extending it to 1 September 1988. State industrial tribunals have generally followed the Commission's decisions.²

5.2 The coverage of award superannuation has increased rapidly since its introduction and the Department of Industrial Relations (DIR) was able to inform the Committee that, by October 1991, over 90 per cent of employees under federal awards were entitled to award superannuation, with a 'broadly similar' coverage in State jurisdictions.³ Since about 80 per cent of wage and salary earners are covered by awards, around 72 per cent of all employees were eligible for superannuation cover.⁴ The Department estimates that about one-fifth of these were not covered, i.e. around 14 per cent of all employees.⁵

5.3 The main reasons given by employers for their failure to comply with award provisions were ignorance and uncertainty relating to both the existence of the provisions and the precise nature of the action required of them.⁶

5.4 The DIR responded to this situation by stepping up its compliance activities, moving to strengthen the legislation and implementing a publicity campaign to overcome the prevailing ignorance, uncertainty and, probably evasion. Particular attention was paid to accountants as advisers to small business, where compliance was lowest.⁷

5.5 Mr Peter Boyle, of the Australian Small Business Association, said that many small businesses were not complying because they could not afford to pay and that the move to compulsion would 'further exacerbate the high rate of small business failure and/or will lead to a substantial reduction in employment'.⁸

1 DIR, Sub No. 81, p 8.

2 *ibid*, pp 8-9.

3 *ibid*, p 10.

4 *ibid*, p 6.

5 Evidence, p 1837.

6 *ibid*, pp 1831-32.

7 DIR Sub No. 81, pp 11-12.

8 SG evidence, p 176.

5.6 In addition to award non-compliance, a further gap in the superannuation coverage of wage and salary employees occurs in the estimated 20 per cent who are not covered by awards. A significant number of these, for example, managerial and professional employees, estimated by the Department at about one-third, would be covered by traditional occupational superannuation schemes. Many, perhaps more than half, have no superannuation.

5.7 Thus, it appears that around 25-30 per cent of eligible wage and salary earners have no superannuation cover. The SGL is designed to extend cover to this group, as well as to increase, over time, the depth of cover to all employees. A further group, numbering perhaps eight per cent, although covered by awards, are outside superannuation schemes by reason of the casual nature of their employment, very low earnings or failure to meet service qualifying periods.

5.8 The proposed charge aims to extend superannuation coverage to employees not already covered by levying a charge on employers, at least equal to current award superannuation requirements plus interest and administration components. The amounts collected, less the administration component, will be paid into complying superannuation funds nominated by the affected employees. As the impost will not be tax deductible, there will be a strong financial incentive for employers to arrange superannuation cover for the employees concerned, thereby avoiding the charge altogether.

5.9 Among the few exemptions are employees over 65 years of age, part time employees under 18 and those earning less than \$250 per month.

5.10 From a breadth of cover viewpoint, the essence of the legislation is therefore to make superannuation compulsory for all but the youngest, oldest and most transitory of all employees.

Coverage for Disadvantaged Groups

5.11 As both contributions and benefits are linked to income, it follows that those who benefit most are those whose incomes are highest and those with the longest periods of continuous service. At the opposite end of the spectrum, those with relatively low lifetime earnings necessarily attract lower employer contributions, pay proportionately higher administrative charges, are less able to finance private superannuation and benefit less from the taxation concessions.

5.12 For this reason, some organisations representing disadvantaged groups saw little or no benefit in superannuation in general, or the SGL in particular. For example, Ms Jane Elix of Australian Federation of Consumer Organisations (AFCO) told the Committee that:

The two million part-time and casual employees will be losing ... The one million unemployed will be losing, as they are not actually going to be part of this process ... Almost all female workers will be losing as it is rare for them to be in a position to put away enough money to ensure that they have an adequate retirement income.⁹

5.13 The Australian Council of Social Service (ACOSS) was concerned that the programmed increases in superannuation contributions would be at the expense of wage increases. The lower paid workers would therefore be deprived of much-needed wage increases without any compensating benefit.¹⁰ Ms Eva Cox, of the Women's Economic Think Tank (WET Tank), noted that, since fund earnings were taxed, those temporarily out of the work-force, eg for maternity reasons, would have their superannuation savings taxed at up to 15 percent, whereas the same amount in conventional savings would be tax free.¹¹ The WET Tank proposed a threshold of \$6 000 per year.¹²

5.14 The ACTU believes that low-paid workers, mainly women, are already disadvantaged and that equity requires that they should benefit fully from superannuation. It denies that a wage increase is a possible alternative. It proposes the establishment by the SGL legislation of a 'floor' contribution of a flat amount equal to around five per cent of AWE. This would enable low-income earners to receive a higher level of superannuation cover than their incomes would otherwise determine.¹³

5.15 AFCO was concerned that the total cost of superannuation tax concessions was greater than the additional cost of establishing a universal age pension.¹⁴ Indeed, according to ACOSS:

... it would be more appropriate to rely predominantly on a retirement income system which, by one means or another, raises the revenue progressively...and then pays it out at a flat rate universally.¹⁵

5.16 ACOSS further pointed out that the value of tax concessions on both contributions and fund earnings was likely to be four or five times greater for high income earners than for low income earners.¹⁶

5.17 Welfare and women's groups reflected a community concern that the growth of superannuation might lead to the attrition of the age pension. The Committee acknowledges there is concern that future governments might reduce the pension in economically difficult times.

5.18 This concern would be allayed if the Government, preferably with all party support, reiterated its determination to maintain the present relative value of the age pension.

¹⁰ Sub No 35, Appendix, pii.

¹¹ SG evidence, p 101.

¹² Sub No 126, p 14.

¹³ SG sub no. 29, p 17.

¹⁴ Evidence p 1938.

¹⁵ *ibid*, p 1369.

¹⁶ SG sub no. 23, p 2.

5.19 The Committee stresses that, in the long run, the greater the numbers who are independent of the age pension, the greater will be the scope for real increases in the age pension for those who must rely on it.

Casual, Part-Time, Temporary and Intermittent Employment

5.20 About 23 per cent of all employees work part-time only and, of these, three quarters are females.¹⁷

5.21 The retail, hospitality, entertainment and rural industries are, by their nature, served by disproportionately high numbers of casual and part-time employees. Coles-Myer, for example, stated that 32 per cent of its workforce were junior casuals and that, for the retail industry as a whole, 55 per cent were juniors, three-quarters of whom were casuals.¹⁸ A similar emphasis was reported by the Motor Inn and Motel Association.¹⁹

5.22 Figures supplied by the National Association of Personnel Consultants indicate that about 230 000 people work an average of six to seven weeks per year as temporary workers in clerical and technical support jobs, aggregating nearly 60 million hours of work. Their yearly earnings average about \$3 000.²⁰

5.23 Many workers do not stay in the work-force continuously throughout their working lives. A typical example would be women interrupting their labour force participation for child rearing for periods of varying length. Many would return to the workforce by way of part-time or temporary work before resuming full-time employment. Others may never rejoin the workforce.

5.24 The implications for superannuation of arrangements of this kind were brought home to the Committee by the experiences of three Tasmanian schoolteachers.²¹ Under the applicable legislation, each had to resign and rejoin both the service and the superannuation scheme as there were no provisions for maternity leave. Qualifying service under their superannuation scheme dates only from the latest commencement.

5.25 Mrs Cooley had, over 40 years, worked for 36 years, with maternity breaks totalling four years. Her superannuation entitlement is determined by service commencing after her second rejoining 24 years ago. Mrs Turner had service commencing in 1953 but, with periods of absence due to maternity, study and part-time employment, had only 22 years of qualifying service for superannuation. Mrs White, with 28 years of service and a 10 year break over 38 years, had only 23 years of qualifying service. The Committee notes that the Tasmanian Government is reviewing its superannuation schemes.

¹⁷ ABS Cat. No. 6203.0.

¹⁸ Sub No. 103, p 10.

¹⁹ Sub No. 110, p 1.

²⁰ Sub No. 104, pp 2-3.

²¹ Sub Nos 75, 87 and 88.

5.26 These cases raise other issues, such as vesting and preservation, with which the Committee will deal in its third and final report. They also illustrate, however, a major departure from the tacitly assumed norm of 40 or so years of continuous, full-time employment.

5.27 The Committee points out that not all casual, part-time and temporary workers are financially disadvantaged. The exceptions include secondary and tertiary students, many of whom will earn above-average incomes in full-time employment, as well as spouses whose partners are on high incomes with adequate superannuation and who may not wish to be fully employed. Others will hold casual or part-time employment as second or even third jobs, with their main full-time jobs covered by superannuation. Many who rely solely on casual work are able to earn incomes comparable with those in single, full-time employment.

Specific Disabilities

5.28 Another group of low-income earners of indeterminate size, comprising those with mental or physical disabilities, language problems, lack of training or other problems, will always have difficulty in holding down reasonably paid full-time jobs.

5.29 Mr Frank Fisher, of Monash University, gave the Committee a detailed account of the difficulties confronting the chronically ill, firstly in obtaining reasonable employment, and secondly in obtaining superannuation, especially when it is associated with life insurance cover.²² Whilst the SGL may go some way towards assisting such people, problems could arise if there is no way of breaking the insurance nexus.

5.30 To those with disabilities must be added those who are unemployed, for whatever reason, for part of their working lives.

5.31 The existence of these disadvantaged groups reinforces the case for the maintenance of an adequate level of social welfare, notwithstanding the expansion of superannuation coverage.

Comments

5.32 While those who earn low incomes over their working lives will be unable to receive superannuation benefits large enough to provide an adequate retirement income and would probably prefer to have the equivalent as a wage increase, it does not follow that they cannot accumulate benefits which will provide a useful supplement to the age pension. Under the income means test, a single pensioner may earn income of \$42 per week and receive a full pension. The corresponding figure for a married couple is \$74 per week. The Committee notes however, that, under current tax arrangements, there is every incentive for better paid workers to contribute to superannuation and few tax incentives for low income earners. The Committee acknowledges that the current arrangements include some inequity and need to be addressed.

5.33 The means-test free incomes referred to in the previous paragraph correspond roughly with lump sum benefits of \$30 to 35 000 and \$60 to 65 000 respectively. Superannuation within those ranges can therefore be an efficient means of supplementing the retirement incomes of disadvantaged individuals, provided that it is financed in a cost-effective manner.

Impact of Administration Charges on Small Contributions

5.34 From information obtained from a survey conducted by the Committee, administration charges in a typical industry fund are around \$35 per year for active accounts and \$20 for inactive accounts. In some schemes, life insurance, at about \$50 per year, is obligatory, in others optional. Tax at 15 per cent is payable on all contributions and also on fund income. Depending on the investment pattern, funds may reduce the incidence of income tax through dividend imputation on equities.

5.35 Table 5.1 illustrates the impact of these imposts, other than insurance, on contributions based on annual incomes of \$3 000 (the SGL threshold), \$5 400 (the tax threshold) and \$10 000.

Table 5.1

THE TAX AND CHARGE AS A PERCENTAGE OF SUPERANNUATION CONTRIBUTIONS					
	Percentage rate of contribution to superannuation				
	3%	5%	7%	9%	12% ^(a)
Case A: wage of \$3 000 pa					
Contribution (\$)	90.00	150.00	210.00	270.00	360.00
Less total of:					
- tax at 15% (\$)	13.50	22.50	31.50	40.50	40.50
- admin charge at 70¢/week ^(a) (\$)	36.40	36.40	36.40	36.40	36.40
	49.90	58.90	67.90	76.90	76.90
Tax and charge as percentage of contribution	55.4%	49.3%	32.3%	28.5%	21.4%
Case B: wage of \$5 400 pa					
Contribution (\$)	162.00	270.00	378.00	486.00	648.00
Less total of:					
- tax at 15% (\$)	24.30	40.50	56.70	72.90	72.90
- admin charge at 70¢/week (\$)	36.40	36.40	36.40	36.40	36.40
	60.70	76.90	93.10	109.30	109.30
Tax and charge as percentage of contribution	37.5%	28.5%	24.6%	22.5%	16.9%
Case C: wage of \$10 000 pa					
Contribution (\$)	300.00	500.00	700.00	900.00	1 200.00
Less total of:					
- tax at 15% (\$)	45.00	75.00	105.00	135.00	225.00
- admin charge at 70¢/week (\$)	36.40	36.40	36.40	36.40	36.40
	81.40	111.40	141.40	171.40	171.40
Tax and charge as percentage of contribution	27.1%	22.3%	20.2%	19.0%	14.3%

Note: (a) Attracts 15 per cent contribution tax on first nine per cent only.

5.36 At the initial rate of contribution of three per cent for award and SGL superannuation, tax and charges range from 27 per cent to 55 per cent of contributions; at five per cent from 22 per cent to 39 per cent; at seven per cent from 20 per cent to 32 per cent; and at nine per cent from 19 per cent to 28.5 per cent. If, in addition, insurance premiums are deducted, the net sums invested are negligible.

5.37 Mr S R Mathews, who has a small business but supplements his income by taking regular casual work, told the Committee that he had a long-standing arrangement for private superannuation. Following the introduction of award superannuation, he now finds himself a member of four industry funds, in each of which his account is charged with monthly charges for tax and administration, even though in some of them there are contributions for only one month per year. Life and disability cover are charged against each of the four accounts, reducing the superannuation coverage to negligible proportions. There is provision for consolidation in such cases, but there is a clear need for better education and communication.²³

5.38 Mrs M Belshaw, a part-time clerical worker, forwarded documentation showing that, at current levels, deductions against her account could actually exceed her contributions. After 18 months, her vested contributions amounted to a mere \$11. Her daughter's account was reduced to nil by charges on \$91 of contributions.²⁴

Employer Costs

5.39 As was to be expected, employer organisations were critical of the additional labour and administrative costs imposed on them, particularly during the current recession. Employers were also critical of the 'double jeopardy' consequent upon the differing requirements of award and guarantee superannuation. Whereas awards had varying thresholds for admission to superannuation, such as a qualifying periods of employment and/or minimum hours or earnings, the SGL legislation sets its own standard of \$250 earned in any month. It is therefore possible to comply with an award while being in breach of the Act, or to comply with the Act while being in breach of an award.

5.40 Mercers suggested that a solution to this problem could be found by abolishing all award superannuation and relying totally on the SGL.²⁵ Such an arrangement would avoid the possibility of awards failing to keep pace with the progressive increases in contributions set out in the SGL legislation.

5.41 The Queensland Minister for Health drew the Committee's attention to what will, in his view, be an unwarranted cost increase with unintended side-effects.²⁶ Most public hospitals employ visiting medical officers for a few hours per week. The doctors are in private practice for the bulk of their time and, as they are self-employed, make their own superannuation arrangements. The State Government will now have to provide additional

²³ SG Sub No. 10.

²⁴ Sub no. 36, pp 1-5.

²⁵ SG Sub. No. 9, p 2.

²⁶ SG sub no. 49.

superannuation cover of five per cent for them, irrespective of the extent of their private cover. Moreover, the provision of such cover by their employer will negate the doctors' rights to claim deductions for their self-financed cover.

5.42 The Institution of Engineers pointed out that its members made extensive use of casual and contracted professionals and expressed concern at the resulting 'complexities and anomalies' which would become a 'nightmare to administer'.²⁷

Contribution Threshold

5.43 Under the SGL, employers are obliged to meet superannuation for virtually all employees in receipt of wages greater than \$250 per month. A number of witnesses drew the Committee's attention to this threshold.

5.44 The State Governments submitted that in the three per cent only award schemes there exists a high turnover of members employed as casuals on low rates of pay and that this was placing a heavy tax burden on these workers without furthering any retirement incomes objective. For example, in South Australia, where there are 130 000 members in the productivity scheme, 1 000 employees are paid out amounts less than \$620 monthly. In Queensland, where the minimum preservation level is \$500, more than half of workers leaving employment take their accumulations in cash.²⁸

5.45 When money is taken from a superannuation fund under these circumstances it attracts taxes and charges which approximate 53 per cent of contributions, whereas if it were paid as part of salary, for most low income earners, it would be taxed at 21.25 per cent.²⁹

5.46 The following example of a worker who earns \$300 a month for three months illustrates this point:

Total of 5% contributions	\$45.00
15% contribution tax is deducted	\$6.75
Admin charges of 50¢ per week (12 weeks)	\$6.00
Total deductions	\$12.75
Balance after charges	\$26.25
Plus interest @ 10% pa	\$ 0.33
Balance	\$26.58

²⁷ SG sub no. 13.

²⁸ SG evidence, pp 126-127.

²⁹ SG Sub No. 17, Attachment A, p 2.

5.47 If the member claims the amount in cash, he or she could receive \$20.93, after tax on Eligible Termination Payment (ETP).³⁰

5.48 On the face of it, a substantial raising of the threshold would considerably reduce both the wage and the administrative costs of employers – substantially in small businesses heavily reliant on casual and part-timers – without any significant impact on retirement incomes. The ACTU rejected this view and asserts that coverage should be universal.³¹ It proposed an earnings threshold of \$1 000 per year (\$83 per monthly) but, to reduce the extent of erosion by monthly charges, suggested that contributions in respect of earnings between the threshold and \$2 400 per year (\$200 per month) be paid annually to coincide with group certificate preparation.³²

5.49 The Committee notes that lower thresholds have the advantages of widening superannuation coverage while discouraging distortions in the labour market, such as a pronounced shift towards casualisation, against the disadvantage of higher costs to both the employer and the fund member. Higher thresholds are less costly to administer but may encourage job splitting by employers to avoid contributions, as well as reducing the spread of cover.

5.50 One way of maximising coverage while containing administrative costs would be to leave the threshold in the Bill unchanged but to allow contributions in respect of incomes up to, say \$12 000 per year (\$1 000 per month) to be paid quarterly. This has the potential to reduce administrative costs by two-thirds. The loss of interest income would be negligible.

5.51 Another possibility would be to raise the threshold while contributions rates are low and expenses proportionately high, and progressively lower it as contribution rates increase.

5.52 There may also be a case to be made for awards to be amended to provide for the exemption of junior, casual and part-time employees from compulsory death and disability insurance.

5.53 Another option which was canvassed by ASFA was that of issuing non-negotiable contribution credits. Under this proposal, members would aggregate credits from different employers and periodically deposit them in a fund of their choice.³³

\$500 000 Payroll Threshold

5.54 The other threshold under SGL which impacts on the depth of cover for many part-time workers is the \$500 000 large/small payroll threshold. The ACTU opposes having any threshold at all and further opposes it being raised to \$1 million. It believes

³⁰ *ibid*, p 1.

³¹ Sub No 106, pp 26-28,

³² *ibid*, p 31.

³³ SG evidence, p 145.

that if it were raised to this level, it would generally exclude firms employing less than 40 people. The ACTU argues that generally, employees in these small firms:

- are predominantly female;
- are low income earners; and
- have little access to over-award conditions.

5.55 The ACTU believes that to exclude employers with less than 40 workers would severely disadvantage employees in the weakest sectors of the economy.³⁴

5.56 The ACTU also drew the Committee's attention to a practice in the clothing industry which has been the subject of proceedings in the AIRC of altering company structures by acquiring shelf-companies and reducing each company's employment to a level below award obligations and thereby avoiding redundancy costs. The ACTU is concerned that this practice might be adopted to avoid SGL obligations.³⁵

5.57 Chapter 6 includes details of employers' attitudes to the \$500 000 payroll threshold issue.

Inactive Accounts

5.58 One of the inevitable legacies of casual and part-time employment is a mounting number of inactive accounts against which administration fees are debited, albeit at a lower rate than for active accounts. As noted in its first report,³⁶ the Committee recommended that a satisfactory way to overcome the problems of casuals who frequently change jobs and of inactive accounts, would be the establishment by the Government of a central fund into which the balances could be pooled and invested at minimum cost. Identification of beneficiaries could be facilitated by recording of a tax file or superannuation number against each account.

Ex-Workforce Coverage

5.59 The question of allowing taxation relief for superannuation contributions for those outside the work force was not extensively canvassed by witnesses. Most of those who did comment pointed out that the main beneficiaries would be the very rich who, in addition to financing ample, tax-subsidised superannuation for themselves, would be able to do the same for their spouses and even other relatives.

³⁴ SG sub no. 29, pp 12-13.

³⁵ *ibid*, attachment 5.

³⁶ *Safeguarding Super*, Canberra, June 1992, pp 81-83.

CHAPTER 6 : ECONOMIC IMPACT

The present government has a policy of substantially lifting retirement incomes over the next forty years or so. It has deliberately chosen to 'front load' the costs (and 'back load' the benefits) to the Budget of meeting this target: Tax concessions are paid now to achieve lower aggregate Budget support for retirement incomes in thirty years' time. In considering the merit of the Government's approach it is important to resist the temptation to focus only on the front loaded budgetary costs. Succumbing to this temptation runs the risk of losing sight of the substantial retirement income funding problem emerging over the next three or four decades (due in large part to the ageing of the population, but also to the legitimate objective of increasing over time the retirement benefit of all retirees). For these reasons the counterfactual cost to the Budget against which the SGL should be assessed is not a 'no policy change' scenario, but rather an alternative policy which returns the same increases in retirement incomes.¹

6.1 This chapter discusses the possible macro-economic effects of the SGL. The chapter is divided into six parts:

- increase in superannuation contributions due to the SGL and the effect of the SGL on national savings;
- increase in retirement benefits due to the SGL;
- increase in superannuation tax concessions due to the SGL;
- the effect of the SGL on Budget pension outlays;
- the effect of the SGL on Budget outcomes; and
- the effect of the SGL on employment and inflation.

6.2 The discussion is constrained because only two studies have been completed on the projected economic effects of the SGL. The first by Dr Vince FitzGerald and Professor Ian Harper examined the effects of the SGL and the 'Fightback!' proposals. The second, by the Treasury, was in response to a number of questions put by the Committee. Both studies have used the National Mutual Retirement Incomes Policy Model which:

... generates, given a set of economic and other parameters, the flows between individuals and their employers on the one hand and superannuation funds on the other, including inflows of contributions and fund earnings and outflows of benefits on retirement, death, disability or termination of employment. The model also covers all the main interactions between the government budget and the superannuation system, including tax deductions

¹ Treasury, SG sub no. 32.

and taxes on contributions, fund income and benefits. It also measures impacts on outlays for age pensions as determined by the income and assets test.²

6.3 However, the specifications used by Treasury differed from those used in the earlier study by FitzGerald and Harper so that the results given in the simulations are different. In particular, Treasury assumed employee contributions of three per cent and a real earnings rate of 2½ per cent, whereas FitzGerald and Harper undertook their modelling on the basis of the SGL timetable announced in the 1991-1992 Budget and factored in variable real earning rates. This serves to illustrate that modelling exercises cannot be regarded as forecasts and that projections over forty year periods are highly speculative because of changes in key economic variables.

6.4 The Committee notes the need for detailed data on the economic effects of the SGL and other retirement income issues, and to this end, it further notes that the Government has recently announced the formation of a Retirement Incomes Modelling Unit. The Unit will be used to evaluate different policy options for the Government but the Committee has been required to report on the SGL Bills and the effect of SGL on national savings before the Unit's work is available.

Increases in superannuation contributions due to the SGL

6.5 The Treasury advised the Committee that the SGL would produce a substantial increase in projected superannuation contributions. The results of the Treasury modelling are reproduced in Table 6.1.³

Table 6.1

Additional Superannuation Contributions Due to the SGL			
Year	Nominal	Present Value (a)	Percentage growth in superannuation contributions due to SGL
	(\$million)		
1992-1993	413	328	2.94
1993-1994	1 281	942	8.21
1994-1995	1 894	1 289	11.26
1995-1996	2 637	1 662	14.28
1996-1997	3 511	2 049	17.29
1997-1998	4 425	2 390	19.63
1998-1999	6 398	3 200	26.39
1999-2000	8 466	3 921	31.90
2000-2001	11 181	4 795	39.14

(a) Nominal discount rate equal to the assumed fund earnings rate of eight per cent per annum.

6.6 The impact of the SGL on national saving can be calculated by:

- the increase in net private superannuation saving (measured as contributions plus earnings, less fund payouts);

² FitzGerald and Harper, *Super Preferred or Level Playing Field?*, pp 21-22.

³ SG sub no. 32.

- contribution in other forms of private savings;
- plus the reduction in age pension outlays; and
- less the increase in the cost of the superannuation tax concessions.

6.7 Treasury also estimated that the SGL will increase saving in the form of private superannuation by about two per cent of GDP within 15 years, increasing to more than 2.5 per cent of GDP by 2020, before levelling off.⁴ Treasury assumed that half of this increase in superannuation saving would remain in private sector saving.⁵ The net increase in private sector saving due to the SGL is estimated to reach about 1¼ per cent of GDP in about 25 years from now.⁶ Assuming that, in the absence of the SGL, the social security pension would increase to a level to provide the same level of benefits provided by the SGL, it is estimated that the SGL will increase national saving by three per cent of GDP by 2020.⁷

6.8 FitzGerald and Harper estimated that gross saving through superannuation would rise from about six per cent of GDP in 1991 to about nine per cent in the year 2000 and would peak at over 11 per cent fifteen years later. On a net basis, saving through superannuation rises from three per cent of GDP in 1991 to six per cent in the year 2000, peaking ten years later at about seven per cent of GDP.⁸

6.9 FitzGerald and Harper estimated that under the 'benchmark' scenario (in which award superannuation coverage and contribution rates continued as just prior to the 1991 Budget) gross saving through superannuation would rise from six per cent of GDP to almost seven per cent by the year 2000 and peak at about 7.5 per cent nine years later. On a net basis, the rise is projected to be from three per cent in 1991 to just over four per cent in the year 2000, peaking at most 4.5 per cent of GDP around the year 2005 and moving back to present levels around 2030.⁹ Figures 6.1 and 6.2 show the projected patterns of private saving through superannuation.

6.10 FitzGerald and Harper concluded that:

Assessing how much of the increased superannuation saving under the SGL would remain in total private saving is difficult, although there are grounds to believe, given how much of it is forced saving from low to middle income households, that much of it would. We judge that perhaps half and possibly more would remain in aggregate private saving well into the future. Even allowing for the offsetting rise of around 0.5 per cent of GDP in reduced public sector saving through the increased budget cost of the tax concessions,

4 SG sub no. SG.34, p 3.

5 *ibid.*

6 *ibid.*

7 *ibid.*

8 *op. cit*, p 27.

9 *ibid*, p 28.

it is then reasonable to expect that there will be left a gain of something like one per cent of GDP, possibly more, in national saving.¹⁰

Figure 6.1 Gross Saving through superannuation (% to GDP)

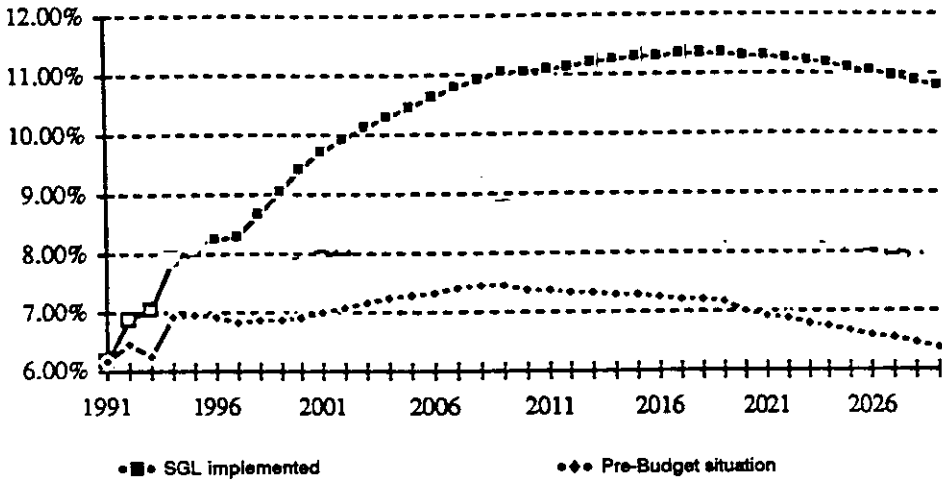
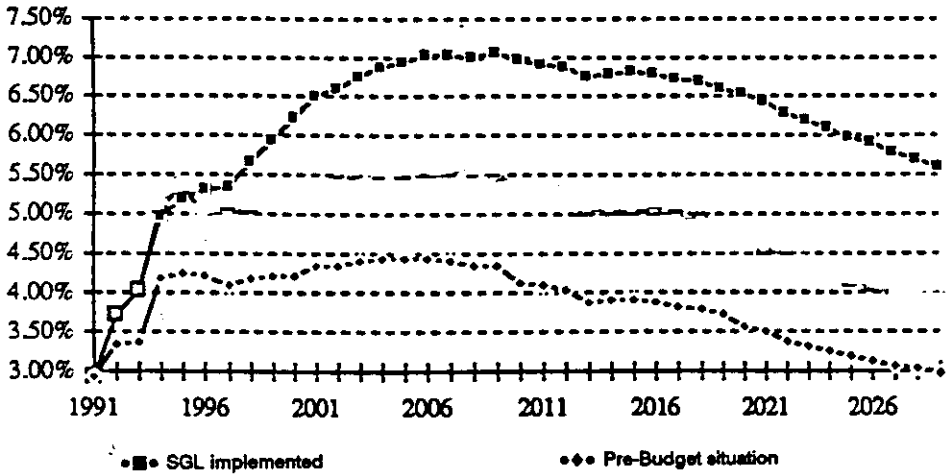


Figure 6.2 Net saving through superannuation (% to GDP)



6.11 The Confederation of Australian Industry (CAI) argued in its submission to the Committee that if total savings are to increase then total consumption must fall.¹¹ The CAI stated that the SGL is regressive in the sense that the heaviest burden will fall on those for whom employer contributions rise to the greatest extent, ie the lower paid.

¹⁰ *ibid*, p 28.

¹¹ SG sub no. 15, p 11.

Table 6.2 shows the distribution of household wealth in 1986 by form and superannuation cover.¹²

Table 6.2

Average household wealth by form and superannuation cover (Wealth \$000, per cent in brackets; super cover – percentage of population in percentile group with superannuation cover)					
Percentile Group	Total wealth	Wealth in the form of house	Wealth in the form of equities	Wealth in the form of interest	Super cover
0-29	0	0 (-)	0 (-)	0	19
30-39	1	0 (-)	0 (-)	1 (96)	36
40-49	10	5 (48)	1 (6)	4 (44)	48
50-59	36	32 (89)	1 (2)	3 (7)	48
60-69	56	51 (92)	1 (2)	3 (6)	45
70-79	75	68 (91)	1 (1)	4 (6)	38
80-89	103	88 (85)	3 (2)	10 (9)	44
90-100	322	165 (52)	99 (31)	33 (10)	45

6.12 The CAI argued that there is a possibility that the total level of saving may actually fall as a result of the introduction of superannuation because financial intermediation involves transaction costs. The CAI argued that:

The immediate transfer is from business retained earnings to superannuation funds. Thus, the transfer is from one form of saving into another. There is no increase in the total level of saving as a result. Indeed, the possibility is that the total level of saving may actually fall as a result of the introduction of superannuation ... The administrative charges of superannuation funds will eat into the capital transferred, lowering the aggregate level of investable savings.¹³

6.13 The joint submission from the Women's Economic Think Tank (WET Tank) and the Women's Electoral Lobby (WEL) noted that 62 per cent of women in full-time wage and salary positions earn below AWE.¹⁴ The submission argued that:

... this whole [SGL] exercise can be seen as being targeted at the pockets of those earning between \$25 000 and \$30 000. On Treasury's own estimates these are the only group whose change in savings behaviour might substantially decrease their dependency on government expenditure. Those on incomes below this bracket cannot save enough to make major difference and those above are in the 30 per cent or so who currently do not draw pensions.¹⁵

6.14 Commenting on Treasury figures relating to the increases in retirement benefits due to the SGL, the submission went on to argue that:

¹² Cited in FitzGerald & Harper. Dilnot (1990), highest decile aggregated.

¹³ *op cit.*

¹⁴ SG sub no. 24, p 1.

¹⁵ *ibid.*

... the lower the income of the contributor, the greater justification for compulsory flat rate contributions must be given.¹⁶

6.15 With respect to the effect on national savings, Wet Tank and WEL noted that:

... in effect, ... the Commonwealth is tying up substantial tax concessions for the next three decades, in the hope that savings will come. Apart from the vagaries of markets and the possibility of wage and inflation outcomes affecting the earnings, the fact that this period covers a possible dozen elections makes this plan nonsensical.¹⁷

6.16 The submission argued that if the current superannuation tax expenditure was added together with the increased tax expenditures due to the SGL, the value of the tax concession would be over \$5 billion, or around 50 per cent of current pension expenditure. The submission maintained that:

... it would seem preferable to allocate this sum over the next few decades to an accumulation fund, together with the tax concessions, and use this for paying a universal pension.¹⁸

6.17 ACOSS considered the impact of superannuation on savings is often over stated because government support is required to counter the inflexibility of superannuation as a savings vehicle.¹⁹

6.18 ACOSS told the Committee that the current tax concessions substantially reduce public saving and that compulsion will improve national savings to the extent that it forces people to save who would not otherwise save.²⁰ The group most likely to be affected was low-income earners and families who have reached a stage in their life-cycle where their income needs are greatest.

6.19 ACOSS argued that:

... a fairer approach would be to encourage long-term saving generally, or at least to remove some of the disincentives to save in the taxation system ... Another option is to raise our comparatively low level of taxation in order to improve the social security system.²¹

Increase in Retirement Benefits due to the SGL

6.20 The interim retirement income target implied by the SGL is 40 per cent of pre-retirement income compared to the current age pension target which is 25 per cent of

16 *ibid.*

17 *ibid*, p 3.

18 *ibid*

19 SG sub no. 23, p 5.

20 *ibid*, p 5.

21 *ibid.*

AWE. The Treasury advised the Committee that the increase in annual post-tax private retirement benefits due to the SGL would be in the order of 26 per cent after 40 years (see Table 6.3 below). The increased benefits generated by the SGL are 'back loaded' (i.e. they increase over time) due to the effects of compounding contributions and earnings and the phasing in of the SGL minimum.²²

Table 6.3

Increase in Annual Post-tax Private Retirement Benefits Due to the SGL; Cash Flow Basis (a)			
Years from 1989	Nominal	Present Value (b)	
	(\$million)		Percentage (c)
5	30	21	0.61
10	375	173	5.18
15	1 394	439	11.68
20	3 677	789	17.05
25	7 843	1 145	20.34
30	15 296	1 520	25.44
35	28 862	1 952	30.48
40	50 401	2 320	25.92

(a) Projected lump sum retirement benefits paid from superannuation funds, including benefits used to purchase annuities.

(b) Nominal discount rate equal to the assumed fund earnings rate of eight per cent per annum.

(c) Per cent of benefits received in the absence of the SGL.

6.21 Table 6.4²³ illustrates Treasury's claims about the progressive impact of the SGL on the pattern of retirement benefits. For somebody on three-quarters of AWE, for example, the SGL increases projected post-tax retirement income by 17 per cent of pre-retirement income. By comparison, somebody on twice AWE experiences no increase in retirement income.

6.22 The Committee asked the Treasury to undertake further analysis of the retirement income benefits flowing to individuals with broken labour force participation. These figures are reproduced in Chapter 4 and show that, even allowing for the effects of fees and charges, there is an increase in post-tax private retirement benefits.

6.23 However, WET Tank, ACOSS and Coles Myer disputed the progressive nature of the SGL for part-time and casual employees.²⁴

Increase in Superannuation Tax Concessions due to the SGL

6.24 The estimated tax expenditures through retirement and other employment termination tax concessions was \$3.59 billion in 1990-91.²⁵ In calculating the estimated

²² SG sub no. 32.

²³ *ibid.*

²⁴ SG sub nos 24, 23 and 4.

²⁵ Tax Expenditures Statement, The Treasury, 1991, p 52.

tax expenditure Treasury uses the savings benchmark. Treasury describes this benchmark as having the following features:

- remuneration in respect of employment is deductible to taxable employers and fully taxed to the employee;
- savings are normally financed out of after-tax income;
- investment income on savings is normally taxed in the income year it is derived; and
- dissaving of amounts (including interest) accumulated and already taxed is not taxed again.²⁶

Table 6.4

Increase in Retirement Benefits Potentially Available to Hypothetical Individuals (a)						
Present Income	Multiple of AWE					
	.5	.75	1	1.5	2	3
Assumed contribution rates (b)						
(i) Employer						
No SGL	0.00	0.03	0.03	0.05	0.10	0.15
SGL	0.09	0.09	0.09	0.09	0.10	0.15
(ii) Member						
No SGL	0.00	0.00	0.00	0.03	0.05	0.05
SGL	0.03	0.03	0.03	0.03	0.05	0.05
Annual retirement benefit (c)						
No SGL	50%	45%	35%	37%	57%	66%
SGL	81%	62%	52%	47%	57%	66%
Increase	31%	17%	17%	10%	0%	0%
Age pension entitlement (Full, Part or None)						
No SGL	F	P	P	P	N	N
SGL	P	P	P	N	N	N

- (a) Post-retirement benefits for single retiree assuming 40 year accumulation with retirement age 65 and private retirement income in the form of a five per cent-indexed annuity, taking account of the pension income and assets tests.
- (b) Proportion of member earnings. SGL rates assume that the measure is fully phased in. No SGL assumes three per cent award superannuation and additional employer support for higher income earners.
- (c) Per cent of pre-retirement income. This is the average value (NPV) of annual net income in retirement expressed as a percentage of gross final salary.

6.25 Professor Knox considered that an alternative to the single year approach used by Treasury was the establishment of a discounted cash flow model which projects cash flows over several years and thereby provides an estimate of the long term cost to

Government revenue.²⁷ Professor Knox also argued that the Treasury analysis overstated the value of the tax concessions.²⁸

6.26 Treasury provided the Committee with an estimate of the increase in the net value of the superannuation tax concessions due to the growth of superannuation under the SGL which are detailed in Table 6.5.²⁹

Table 6.5

Present Value of the Increase in Tax Concessions Due to the SGL							
Decade 1 Year	(\$m)	Decade 2 Year	(\$m)	Decade 3 Year	(\$m)	Decade 4 Year	(\$m)
1	0	11	1 737	21	1 712	31	1 523
2	0	12	1 806	22	1 693	32	1 487
3	96	13	1 794	23	1 667	33	1 446
4	233	14	1 765	24	1 641	34	1 412
5	319	15	1 769	25	1 617	35	1 377
6	409	16	1 753	26	1 593	36	1 342
7	504	17	1 733	27	1 596	37	1 313
8	585	18	1 716	28	1 545	38	1 271
9	962	19	1 697	29	1 518	39	1 236
10	1 341	20	1 676	30	1 487	40	1 199

6.27 The Treasury noted that while the implementation of the SGL will invariably mean a higher aggregate value of superannuation tax concessions, it should also mean a more equitable distribution of those concessions.³⁰ Table 6.6³¹ shows for individuals at different multiples of AWE, likely tax concessions included in retirement benefits, both before and after the full phasing in of the SGL. The table shows that the increase in tax concessions for lower income individuals generally exceeds that available at higher incomes. The Treasury claimed that the progressivity of the SGL is enhanced by the fact that the proportion of the workforce with award only superannuation is higher at income levels below AWE.

6.28 FitzGerald and Harper estimated that the net cash flow budget cost of the superannuation tax concessions following implementation of the SGL rises from under 0.5 per cent of GDP in 1991 to around one per cent in the year 2000, then peaking at 1.1 per cent of GDP before slowly declining.³² The benchmark case is that in which the coverage and contributions rates applying just prior to the 1991 Budget continue indefinitely. The outlook is for a net budget cost of superannuation going no higher than

²⁷ Attachment to sub no. 52, *Tax, Super and The Age Pension : The Issues of Equity and Incentives*.

²⁸ *ibid.*

²⁹ SG sub no. 32.

³⁰ *op cit*, p 11.

³¹ SG sub no. 32.

³² FitzGerald and Harper, *op cit*, p 23.

the present level of just under 0.5 per cent of GDP, falling slightly below it in some years in the 1990s and beginning a steady but slow decline in the mid 2000s.³³

Table 6.6

Increase in Superannuation Tax Concessions Potentially Available to Hypothetical Individuals (a)						
Present Income	Multiple of AWE					
	.5	.75	1	1.5	2	3
Assumed contribution rates (b)						
(i) Employer						
No SGL	0.00	0.03	0.03	0.05	0.10	0.15
SGL	0.09	0.09	0.09	0.09	0.10	0.15
(ii) Member						
No SGL	0.00	0.00	0.00	0.03	0.05	0.05
SGL	0.03	0.03	0.03	0.03	0.05	0.05
Value of tax concessions (c)						
No SGL	0%	8%	8%	24%	45%	61%
SGL	16%	26%	28%	34%	45%	61%
Increase	16%	18%	20%	10%	0%	0%

(a) Tax concessions embedded in retirement benefits for single retiree assuming 40 year accumulation with retirement at age 65.

(b) Proportion of member earnings. SGL rates assume that the measure is fully phased in.

(c) Per cent of pre-retirement income. This is the average value (NPV) of the superannuation tax concessions expressed as a percentage of gross final salary.

6.29 ACOSS believes that the present superannuation system is unfair, wasteful and economically inefficient.

It is unfair because high income-earners receive greater government support though tax concessions than low income-earners, and substantially higher superannuation benefits on retirement ... The system is wasteful because government subsidies are directed towards replacing a proportion of each retiree's previous income. As other nations have found, this is a very expensive approach, and the support provided bears no relationship to the need of the recipient ... It is economically inefficient because the generous tax concessions for high income earners reduce public savings without necessarily increasing private savings.³⁴

6.30 ACOSS argued that the SGL will require low income earners to forego wage increases, and to make contributions directly for their retirement but with little or non-existent increases in their retirement benefits. ACOSS went on to note that:

... it cannot seriously be disputed that such a requirement would have an adverse impact on wage outcomes, whether it be immediate or somewhat delayed ... Many low-income

³³ *ibid.*

³⁴ SG sub no. 23, p 1.

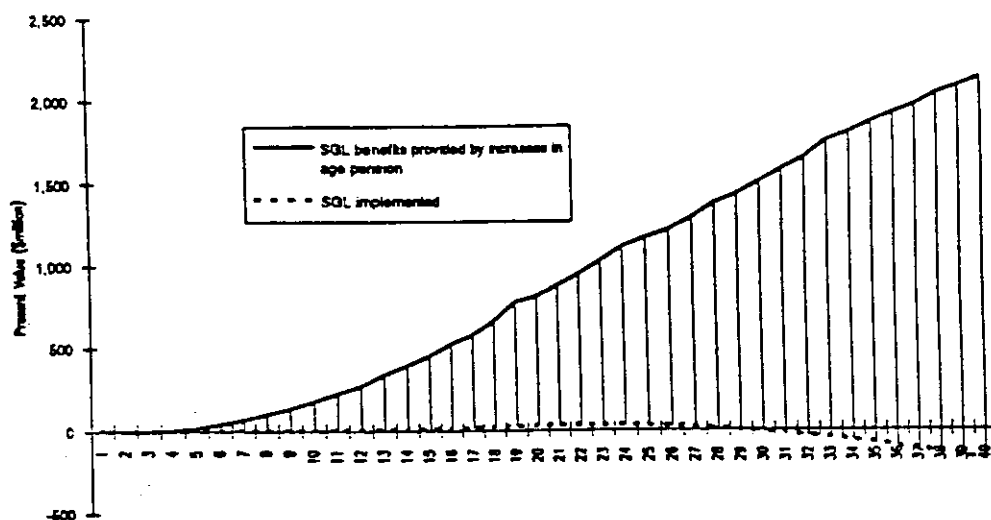
people simply cannot afford to be deprived of wages which they badly need for day-to-day living, especially when the longer-term tax benefit of doing so is insubstantial.³⁵

6.31 In this context, ACOSS, Mr Daryl Dixon and others argued that the current taxation arrangements, particularly as they affected low income earners, required changes to ensure that the superannuation taxation regime was more progressive.³⁶

Impact on Budget Pension Outlays

6.32 The Treasury argued that the additional superannuation benefits generated by the SGL will reduce age pension outlays because of the interaction of the SGL with the age pension income and assets tests. Figure 6.3³⁷ shows Treasury's estimate of the amount by which pension outlays (net of any tax claw back) under the SGL are lower than they would otherwise have to be in order to achieve the Government's interim retirement benefits target of 40 per cent of pre-retirement income.

Figure 6.3 Projected Saving in Present Value of Pension Outlays



6.33 Treasury noted that its figures probably overstate the budgetary costs of the SGL.³⁸ Professor Knox disputed this claim in his evidence to the Committee on three accounts. Firstly, Treasury assumed that all individuals would accrue benefits over a 40 year period. Professor Knox observed that this assumption ignored employees with broken labour force participation, particularly women. Secondly, Treasury assumed that only \$30 000 of the lump sum benefit would be dissipated at retirement. Professor Knox argued that more than \$30 000 would be dissipated unless people were forced into pensions and annuities. Thirdly, the original Treasury calculations made no allowance for

³⁵ *ibid*, p 3.

³⁶ SG sub nos 23 and 18.

³⁷ *ibid*, p 15.

³⁸ SG sub no. 32.

administrative expenses and Professor Knox argued that net retirement benefits would be lower than those portrayed by Treasury.³⁹

6.34 The Committee asked Treasury to model the effects of administration changes and the cost of death and disability insurance. On the specified assumptions of administration fees of 70 cents per week and \$1 per week and assuming an insurance premium of \$1 per week, the modelling showed that, whilst fees have a negligible impact on a person's average level of net retirement income, a higher level of fees does result in a small increase in age pension eligibility for lower income earners.⁴⁰

6.35 FitzGerald and Harper argued that the SGL would reduce the costs of aged pension outlays as a percentage of GDP (presently just over four per cent) until approximately 2014 then the costs would rise to a peak at about 4.3 per cent in the mid 2020s and then begin to ease.⁴¹ These results reflect a number of different assumptions from the Treasury model, principally that the age pension will remain at the current level of 25 per cent of AWE. FitzGerald and Harper also constructed a model estimating the impact of three policies which they claim would be more effective if the major goal of superannuation policy were to reduce the future public budget costs of retirement. These were:

- full alignment at 65 of the pensionable ages for men and women, phased in at one year of age per two years from 1995;
- setting the effective tax rebate on all contributions (employer or individual) to 15 per cent (net of the contributions tax) at all income levels and making all tax-supported contributions subject to preservation, the tax on fund income remaining at the present 15 per cent; and
- increasing the proportion of benefits taken as annuities to 50 per cent by the mid 1990s.

6.36 The impact of these measures on the public budget costs of retirement are illustrated in Figure 6.4.⁴² Because the modelling does not capture any major difference in dissipation of lump sum before pensionable age, the annuities case has a modest and slow to build up effect. The FitzGerald and Harper model shows that the pension measure, on the outlays side, and the set of tax measures, on the revenue side, are each capable of reducing the total budget costs of retirement by over 0.5 per cent of GDP.⁴³

³⁹ SG evidence, p 166.

⁴⁰ SG sub no. 47, p 2.

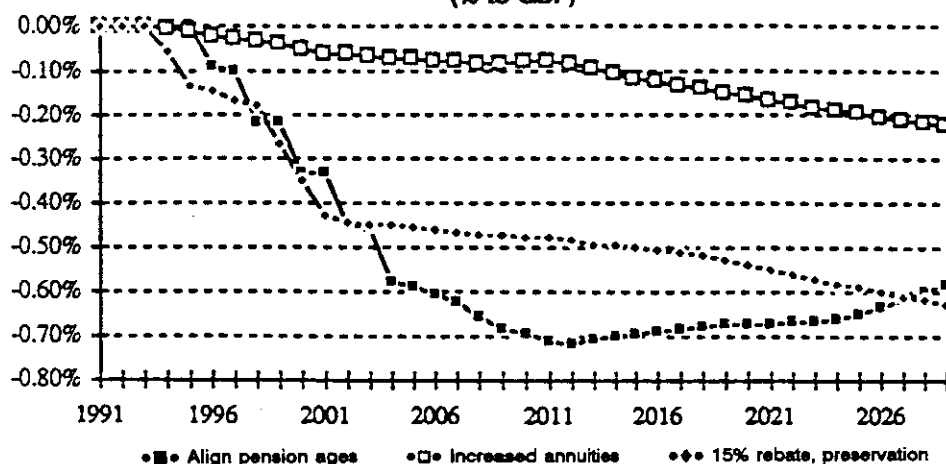
⁴¹ Fitzgerald & Harper, *op cit*, p 24.

⁴² *ibid*, p 24.

⁴³ *ibid*, p 24.

6.37 ACOSS argued that the cost of funding the age pension for a growing proportion of aged people next century is frequently over-stated.⁴⁴ It pointed to work undertaken in 1988 by the Economic Planning and Advisory Council (EPAC) which suggested that under the policy settings at that time, social expenditure devoted to aged persons would rise by around 2.5 per cent of GDP from 1988 to 2025.⁴⁵

Figure 6.4 Effects on total budget costs of retirement (% to GDP)



Impact of the SGL on Budget Outcomes

6.38 The impact of the SGL on the Budget is estimated by comparing the projected increase in superannuation tax concessions – which are front loaded in their impact – with the projected reduction in age pension outlays – which are back loaded in impact. Treasury estimates show that the SGL does not produce favourable Budget outcomes for about 30 years. The estimates are shown in Table 6.7.⁴⁶

Table 6.7

Present Value of the Impact of the SGL on the Budget (\$ million)			
Years from 1989	Increase in value of tax concessions	Reduction in age pension outlays (a)	Impact on Budget balance (b)
10	1 341	173	-1 168
20	1 676	789	-887
30	1 487	1 520	33
40	1 199	2 320	1 121

(a) Against the counterfactual of increased pensions matching improved benefits provided under the SGL

(b) A negative indicates a deterioration.

⁴⁴ SG sub no. 23, p 3.

⁴⁵ *ibid.*

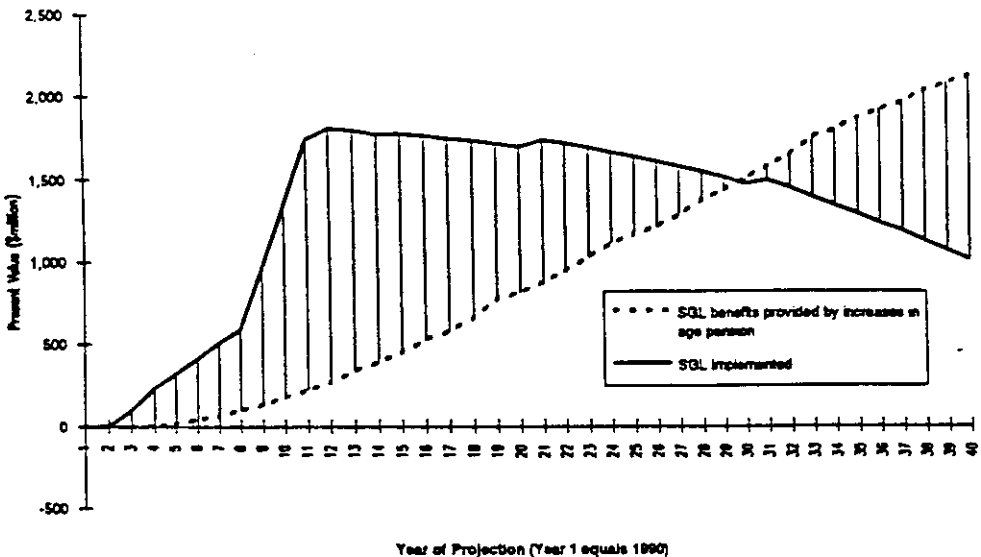
⁴⁶ SG sub no. 32.

6.39 The Treasury also provided the Committee with the chart (Figure 6.5)⁴⁷ which compares two alternative means of increasing the total value of retirement incomes to the Government's interim retirement income target: use of the SGL (and associated superannuation tax concessions) versus increases in the age pension. It reveals that in years three to 29 of the projection the cost of the SGL exceeds the latter, but that the picture is reversed in subsequent years.

6.40 Treasury pointed out that the chart illustrated some important issues concerning inter-generational equity and affordability.⁴⁸ In essence, the alternative policy of providing the interim retirement benefits target of 40 per cent of pre-retirement income through the age pension rather than the SGL means that Budget outlays are back loaded. Hence, there is reason for concern that future generations of working people may have some difficulty supporting a rapidly increasing aged population which raises the prospect of a future Government having to reduce the real value of the age pension.⁴⁹

Figure 6.5

Projected Increase in Present Value of Budgetary Cost of Retirement Income Policy



6.41 The Treasury concluded by noting that:

... the SGL proposal should not be judged on its own merits alone. Its true worth can only be revealed by comparing its impact with the consequences of an alternative policy which might be available in the absence of the SGL. In making such a comparison it would be particularly important to assess the projected retirement benefits available

47 *ibid.*

48 *ibid.*

49 *ibid.*

under the alternative, and their net budgetary costs and profile, against those implicit in the SGL proposal.

The Effect of the SGL on Employment and Inflation

6.42 A range of views was received on the effect of the SGL on employment. The Committee also notes that all employer groups, as well as the superannuation industry itself, were concerned about the complexity of the administrative arrangements envisaged in the Bills and potential 'double jeopardy' faced by employers because the SGL would operate independently of the award system.

Treasury

6.43 Treasury estimated that the impact of the SGL would be equivalent to an aggregate three to four per cent of average earnings on a national accounts basis by the end of the period of its introduction in 2000-01.⁵⁰

6.44 Treasury noted that about half of the impact occurs in the first year of introduction, reflecting:

- the substantial lift in superannuation coverage for those not receiving superannuation; and
- the increase to five per cent superannuation for those currently receiving three per cent award based superannuation.⁵¹

6.45 Treasury also advised the Committee that using an assumption of 1.5 per cent per annum productivity growth over the period the SGL is introduced, would be equivalent to a total increase in productivity of 14 per cent. On this basis, the SGL cost would account for less than one-third of productivity increases over the period of its introduction.⁵²

6.46 Treasury was asked to model the effect of the SGL on employment using the assumption that the SGL would be fully reflected in increased real unit labour costs. Under this assumption, the Treasury estimated that employment losses resulting from the first year implementation of the SGL would be up to 45 000 in the first two years. This would rise to about 100 000 after five years.⁵³ The Treasury further advised that:

... the effect on unemployment would be considerably less. Unemployment rises by about half of any fall in employment with the remaining fall in employment being offset by a fall in the participation rate. On this basis, ... unemployment would rise by up to about 20 000 in the first two years and by up to 50,000 in the first five years.⁵⁴

⁵⁰ Treasury sub no. SG.31, p 1.

⁵¹ *ibid*, p 1.

⁵² *ibid*.

⁵³ *ibid*, p 2.

⁵⁴ *ibid*, pp 2-3.

6.47 Treasury further advised that to assume the SGL would be fully absorbed in increased real unit labour costs was unreasonable and that it expected the 'cost of the SGL will be largely, if not fully, offset by lower growth in other forms of remuneration, especially wages'.⁵⁵

6.48 Treasury was also asked to model the employment effects for 1992-93 if the contribution rate for business with a payroll of \$500 000 came in at four per cent instead of five per cent. Treasury estimated that decreasing the rate from five to four per cent for the employers in question would, in isolation, lower the wage equivalent impact of the SGL by about one third to one half percentage point in 1992-93. Treasury advised the Committee that:

... any estimates of the employment effects of such a change depend crucially on the assumption as to the offset in other wage costs flowing from the SGL. As the Committee has been previously advised, estimates of effects can only be properly identified when a full range of assumptions is provided. An assumption of providing no offset could be viewed as extreme and, as Treasury has previously indicated, it considers it is reasonable to expect that the cost of the SGL will be largely, if not fully, offset by lower growth in other forms of remuneration.

On the assumption of a full offset in wages to the SGL, there would be negligible employment losses under either case.⁵⁶

6.49 Treasury was also asked to model the employment effects of SGL if the threshold were raised to \$1 million or \$1.5 million. Treasury advised the Committee that:

The wage equivalent impact of increasing the thresholds would only be small. Treasury estimates that increasing the employer threshold from \$0.5 million to \$1 million would result in about 250 000 employees being entitled to receive only the lower, rather than higher, minimum rate of employer superannuation support in 1992-93 (ie three rather than five per cent). It is estimated that this would result in a decrease of around 0.05 percentage point in 1992-93 in the wage equivalent impact of the SGL. A further increase in the threshold from \$1 million to \$1.5 million is estimated to have a similar effect.⁵⁷

6.50 Treasury noted that modelling of the employment effects of different thresholds is dependent on the assumptions specified.

Retailers Council

6.51 The Retailers Council submitted that the differential treatment between larger and small businesses in the phasing in of the nine per cent is discriminatory because it differentiates between the labour costs of large and small business.⁵⁸ The Council believes that 'because of the larger number of employees which will be caught in large

⁵⁵ *ibid*, p 3.

⁵⁶ SG sub no. 60, p 1.

⁵⁷ *ibid*.

⁵⁸ SG sub no. 16, p 3.

businesses, the financial and therefore the potential employment impact on large businesses will be greater.⁵⁹

6.52 The Council advised that the additional costs imposed on retailers include:

- the increase in the minimum level of superannuation support to be provided by employers;
- the additional costs associated with extending coverage to those staff currently exempt under award arrangements;
- the costs of changing the vesting scale in company funds to provide for full vesting of five per cent;
- the costs of actuarial assessments which will be necessary in respect of defined benefit funds; and
- the additional administrative costs.⁶⁰

6.53 The Council concluded that:

Whilst it may be argued that the amount per employee is not large, the aggregate cost to employers is significant without any demonstration that this additional tax on employment in this period of unacceptably high levels of unemployment is justified.⁶¹

6.54 The Retailers Council surveyed its membership regarding the SGL. A total of nineteen organisations responded, representing large retail companies carrying on business in two or more states, having 20 or more outlets, and with an annual turnover exceeding \$50 million each.⁶² The survey showed that:

- moving to a five per cent superannuation contribution from 1 July 1992 will cost those retailers almost \$41 million per annum over and above their existing obligations;
- a further cost of \$15 million will be incurred by adding-in award staff not currently covered by award superannuation provisions; and
- another \$1 million will be added to cover the additional 20 000 seasonal staff who work between four and six weeks a year and earn at least \$250 a month.⁶³

59 *ibid.*

60 *ibid.*

61 *ibid*, p 4.

62 *ibid.*

63 *ibid.*

6.55 In response to these costs, five companies in the survey said they would increase prices, nine respondents said they would decrease hours available to staff and thirteen respondents said that they would decrease the number of employees.⁶⁴

Coles Myer

6.56 Coles Myer noted in its submission to the Committee that the proposed legislation:

- imposes new and additional requirements in relation to award staff;
- discriminates between large and small businesses when no such differentiation exists by award prescription;
- will impose additional costs, including:
 - increasing the minimum employer liability to five per cent;
 - including staff currently exempt from award superannuation;
 - the inclusion of managerial staff who have elected not to join company funds
 - the costs of changing the vesting scale in company funds for full vesting;
 - costs of additional actuarial assessments for defined benefit funds; and
 - additional administration costs.⁶⁵

6.57 Coles Myer further noted that the award provisions in relation to occupational superannuation, including such matters as eligibility criteria, vary significantly between awards in recognition of the employment patterns and circumstances of the various industries. For example:

- retail industry awards generally include a probationary period before an employee becomes eligible to be enrolled in a superannuation fund. If the SGL legislation continues to calculate employer liability on a monthly basis, seasonal casual workers who may work for six to eight weeks will be entitled to occupational superannuation payments and will then, because they have not accumulated \$500 be entitled to withdraw that money on leaving their employment or alternatively can leave the accrued benefit with the industry scheme and have administration charges deducted.

⁶⁴ *ibid.*

⁶⁵ SG sub 4, p 3-4.

- retail awards include provisions that establish a minimum standard based on the number of hours worked in a particular time period (generally an average of 12 hours a week over a 4 week period.)⁶⁶

6.58 Coles Myer advised the Committee that one of its subsidiary companies had calculated that an increase in costs of \$1 million translated to an equivalence of 50 jobs.⁶⁷

Metal Trades Industry Association (MTIA)

6.59 The MTIA told the Committee that:

... the Federal Government is seeking to impose a substantial increase in minimum superannuation contribution standards during the most severe and protracted recession we have experienced for some 60 years. The additional cost pressures this will create must result in further business closures, continuing workforce retrenchments and a stifling of investment in industry. Necessarily this will jeopardise many existing programs designed to improve our efficiency and competitiveness to the long term detriment of the nation.⁶⁸

6.60 MTIA was concerned that these problems would be exacerbated in some areas of the traded goods sector as the higher minimum support level for large employers will discriminate against labour intensive companies involved in import competing and exporting. It advised the Committee that in the two years to 31 March 1992, employment levels in the 7 000 member companies of the MTIA had fallen by approximately 15 per cent.⁶⁹ Also, MTIA was concerned about the effect of the proposed fixed timetable of the SGL for international competitiveness.⁷⁰ MTIA observed that:

Subsequent planned increases in minimum contribution levels throughout the balance of the 1990s on a fixed arbitrary timetable ... run the risk of producing additional negative effects on investment, employment and economic growth. In the dynamic, global environment in which Australian industry must compete it is inconceivable that we can even contemplate further cost increases without any meaningful consideration of prevailing economic and political conditions, let alone commit to them in the way the Superannuation Guarantee Charge proposes.⁷¹

Business Council of Australia (BCA)

6.61 The BCA was also concerned about the economic consequences of the Bill. The Council noted that:

⁶⁶ *ibid*, pp 4-5.

⁶⁷ *ibid*, p 5.

⁶⁸ SG sub no. 11, p 2.

⁶⁹ *ibid*.

⁷⁰ *ibid*.

⁷¹ *ibid*, pp 2-3.

... there is an underlying assumption that there will be capacity in the economy to meet the prescribed level of support to the year 2000. There is nothing in current economic forecasts to support that assumption. At a time when unemployment is at unacceptably high levels and predicted to continue for some time, this Bill can only exacerbate that situation.⁷²

Confederation of Australian Industry (CAI)

6.62 The CAI noted that AWE have risen at more than twice the rate of inflation over the last year and this is one of the factors which has depressed the level of economic activity.⁷³ The CAI also noted that SGL will increase the on-cost component of labour. Whilst there are variations between businesses and industries, on-costs represent approximately 30 per cent of the total cost of labour. The CAI argued that the SGL would mean an increase in the cost of labour equivalent to 2.1 per cent or 3.5 per cent in 1992/93 depending on whether the firm was below or above the \$500 000 threshold.⁷⁴ Table 6.8 shows CAI's estimates of the effective annual increase in labour costs.⁷⁵

Table 6.8

Effective Annual Increase in Cost of Labour Due to Introduction of Superannuation Guarantee Levy		
Financial Year	Payroll <\$500 000	Payroll >\$500 000
1992-93	2.1	3.5
1993-94	2.1	3.5
1994-95	2.8	4.2
1995-96	3.5	4.2
1996-97	4.2	4.9
1997-98	4.9	4.9
1998-99	5.6	5.6
1999-2000	5.6	5.6
2000-01	6.3	6.3

6.63 CAI advised the Committee that the direct effects of the increase in labour costs will affect employment and job creation, private sector investment, the level of economic activity, inflation and international competitiveness.

6.64 The CAI argued that significant increases in labour costs associated with the SGL will 'unquestionably reduce the number of persons employed'.⁷⁶ It further argued that:

⁷² SG sub no. 21, p 2.

⁷³ SG sub no. 15.

⁷⁴ *ibid*, p 5.

⁷⁵ *ibid*, p 6.

⁷⁶ *ibid*, p 7.

... the less direct, but more important effect of the higher cost of labour on employment will occur through either a slow-down of recovery or an actual return to recessionary conditions.⁷⁷

6.65 The CAI believes that it is 'a highly unrealistic assumption' that there will be a trade-off of lower wages to finance the higher costs of superannuation. Whilst the CAI agrees that over the long run the level of wages will adjust to compensate for the increased cost of superannuation, it suggests in the short run, the adjustment 'will not occur to a sufficient extent.' The CAI argued that:

No one has suggested that when superannuation costs increase nominal wages should fall. What has been indicated is that over time, money wages will not rise to the extent they would have had superannuation not been introduced. The adjustment process thus requires a wage increase against which superannuation can be off-set. But if employers are already unable to afford higher wages as many of them will be over the foreseeable future, the opportunities for adjustment are extremely limited.⁷⁸

6.66 The CAI went on to argue that:

... attempts to limit wage increases due to legislated contributions to superannuation funds will meet with stiff workplace resistance.⁷⁹

6.67 CAI advised the Committee that it had undertaken a survey of the effects on the Australian economy of the SGL. The CAI acknowledged that the precise estimates of the effect of the SGL on employment were a matter for conjecture; if the SGL is introduced, 'job losses' will be certain and they will be heavy.⁸⁰ It expects that between 45 000 and 60 000 jobs could be put at risk.⁸¹ The results of the survey are shown at Table 6.9 and indicate that employers intend to finance the SGL through increased prices or unemployment.

Table 6.9

Results of CAI Survey	
Means Used to Finance SGL	Proportion of Employees
Fewer employees	77.6%
Higher prices	38.6%
Lower wages	26.6%
Absorption costs	35.6%
Other	6.6%

⁷⁷ *ibid.*

⁷⁸ *ibid.*, p 9.

⁷⁹ *ibid.*, p 10.

⁸⁰ *CAI Industrial Review*, p 4.

⁸¹ SG sub no. 51, p 20.

Australian Small Business Association Ltd (ASBA)

6.68 ASBA was also concerned about the possible impact on employment if the SGL were to proceed. It advised the Committee that:

The introduction of a compulsory three per cent levy payment by those small businesses currently not meeting their award obligations in regard to superannuation payments will further exacerbate the high rate of small business failures and/or will lead to a substantial reduction in employment throughout the entire small business sector. As this sector is responsible for in excess of 60 per cent of the total private sector work force, unemployment numbers will undoubtedly increase dramatically, causing welfare benefit expenditure increase accordingly, thereby putting more pressure on government revenue, which ultimately will, undoubtedly, result in taxation increases.⁸²

6.69 As with other business groups, ASBA was concerned about the implications for inflation and international competitiveness and suggested that, given the current fragility of the economy, the introduction of the levy at this time was 'irresponsible and ludicrous'.⁸³

ACROD

6.70 ACROD is the national peak council of organisations and associations in the disability field. ACROD advised the Committee that it will be particularly affected by the SGL because most employees are involved in direct support services for people with disabilities where it is not possible to achieve productivity gains through reducing the amount of support without adverse consequences for disabled persons.⁸⁴

6.71 ACROD has asked that the Commonwealth Government top-up subsidies provided under the *Disability Services Act* to allow payment of the SGL but it has not been able to get a definitive response from the Department of Health, Housing and Community Services. If subsidies are not forthcoming, ACROD believes that the levy on voluntary organisations classified as 'public benevolent institutions' should be deferred.⁸⁵

National Association of Personnel Consultants (NAPC)

6.72 NAPC considers that the SGL 'will act as a real disincentive to growth in employment generally, and especially in the temporary, non-permanent sector'.⁸⁶ Its research indicated that, in any 12 months' period:

- one third of temporary employees work on average for two days per employer, and on average will have three employers or assignments during the period;

⁸² SG evidence, p 176.

⁸³ *ibid.*

⁸⁴ SG sub no. 12, pp 1-2.

⁸⁵ *ibid.*, p 2.

⁸⁶ SG sub no. 8, p 1.

- another third will on average work for eight days per employer, averaging 3 employers or assignments; and
- the final third will work for an average seven weeks per employer, for an average 2 employers or assignments annually.⁸⁷

6.73 On the assumption that these assignments were all worked during a one month period, the NAPC estimated that the level of superannuation support generated in one year would be as shown in Table 6.10.⁸⁸

Table 6.10

Estimate of Level of Superannuation Support in Personnel Industry				
	Hours worked	\$ rate per hour	Gross \$	5% super
Group 1. above	45.6	13.50	615.60	\$30.78
Group 2. above	182.4	13.50	2 462.40	\$123.12
Group 3. above	532.0	13.50	7 182.00	\$359.10

6.74 Regarding the specific structure of the personnel industry, the NAPC advised the Committee that a requirement for employer support to be measured on a monthly basis will increase the strain on members' cash-flow positions.⁸⁹ This was because temporary employees are paid by the majority of members on the Tuesday following the week that they worked and the consultancy carries the financing of the temporary's wage until payment is received from the client. The Committee was advised that around 100 000 people are currently provided with employment through temporary arrangements each week.⁹⁰ It argued that any disincentive to temporary employment would see a dramatic increase in unemployment levels.

States and Territories

6.75 The State and Territory Governments gave evidence that increases in 'on-costs' for employment due to the SGL came during an unfavourable economic climate, and at a time when Government budgets were already stretched to the limit.⁹¹ It was noted that some States:

... may well need to consider a reduction in services and public sector employment in order to offset the increase in budgetary expenses.⁹²

⁸⁷ *ibid.*

⁸⁸ SG sub no. 8.

⁸⁹ *ibid.*

⁹⁰ *ibid.*, p 2.

⁹¹ SG sub no. 17, p 2.

⁹² *ibid.*

6.76 These issues are further canvassed in Chapter 8.

6.77 The States and Territories regarded the Commonwealth's view that increases in remuneration under the SGL legislation would not be a net 'add on' as inadequate for three reasons:

- given current unemployment levels there can be no case for a general rise in employee remuneration as early as July 1992;
- the argument ignores the fact that many employees (including those in voluntary State schemes) already have superannuation benefits in excess of the minimum required by the proposal; and
- by 'guaranteeing' increased benefits in advance, the legislation weakens the ability of employers to negotiate productivity improvements in return for remuneration increases.⁹³

6.78 The States and Territories also noted that unlike private sector employers, they cannot claim the costs as a tax deduction and the Commonwealth should therefore provide some additional funding as compensation.

Aged Care Australia

6.79 Aged Care Australia is an umbrella council of State Associations and represents approximately 900 charitable and benevolent service provider members which provide nursing home and hostel care to almost 90 000 aged and disabled Australians. Members of the Council employ some 57 000 staff and the majority are classified as 'small businesses, although having payrolls in excess of \$500 000 per annum. The Council estimates that the SGL will cause one in every 70-80 employees to lose his/her job or have his/her hours reduced.⁹⁴

ACTU

6.80 The ACTU believes that the Treasury assumption of productivity growth of 1.5 per cent per annum is conservative.⁹⁵ The ACTU believes that productivity growth will be higher than this, particularly over the next two years because:

- historical precedents such as the fact that productivity growth coming out of the 1982 recession was of the order of 4.5 per cent per annum for each of the years 1983-84 and 1984-85; and
- there is clear evidence that some of the largest Australian companies achieved significant productivity gains in 1990 and 1991. The ACTU believes that these

⁹³ *ibid*, p 3.

⁹⁴ SG sub no. 5, p 1.

⁹⁵ SG sub no. 29, p 20.

gains are permanent but will not be fully realised until sales return to their past peak.⁹⁶

6.81 The ACTU advised the Committee that it was committed to policies ensuring low inflation in Australia and that it accepts that 'costs must rise slowly if at all'.⁹⁷ Real unit labour costs include national wage cases, enterprise bargaining outcomes, superannuation costs, and productivity offsets. The ACTU argued that the key issue was the growth in the package relative to productivity.⁹⁸

6.82 The ACTU told the Committee that the ACTU and Government have reached agreement on aggregate wage outcome targets since 1986/87 and that the targets were always achieved.⁹⁹ Such targets not only include wages and salaries, but also supplements and superannuation.¹⁰⁰

6.83 The ACTU considers that enterprise bargaining brings greater uncertainty to aggregate wages growth but not greater uncertainty to unit costs because it is associated with productivity and efficiency in the enterprise.¹⁰¹

6.84 The ACTU noted that real unit labour costs are presently at levels which supported strong employment growth throughout the 1980s. It observed that:

- real unit labour costs have increased in the last two years due to the recession, but will fall with recovery and increased capacity utilisation;
- industry is restructuring and has spare capacity so that as output increases during the recovery, productivity will rise and unit costs will fall; and
- profits will rise.¹⁰²

6.85 Further, the ACTU argued that: '... the key requirement for employers and investors is certainty and predicability at moderate levels where labour cost growth is concerned.'¹⁰³ In its view, the Accord has delivered certainty and predicability in the past and will continue to do so during the implementation of the phased SGL program.

6.86 The ACTU also advised the Committee that executive remuneration has the potential to impact adversely on employment and pointed to the example of Coles Myer,

⁹⁶ SG sub no. 51, p 4.

⁹⁷ SG sub no. 29, p 22.

⁹⁸ *ibid.*

⁹⁹ *ibid.*

¹⁰⁰ *ibid.*

¹⁰¹ *ibid.*

¹⁰² *ibid.* p 22.

¹⁰³ *ibid.* p 23.

where total wage costs fell by 2.7 per cent in nominal terms in 1990-91 whereas directors/executive remuneration increased by 10.5 per cent over the same period.¹⁰⁴

6.87 Commenting on the CAI survey referred to above, the ACTU observed that the results were from only 360 employers and that it 'represents a skewed, biased sample' because there are 350 500 employers in Australia.¹⁰⁵

P C Turner

6.88 The Committee's attention was drawn to the practices of one employer in the service industry who is seeking to reduce the labour cost implications of the SGL. In this particular case employees are not covered by any award, and remuneration is in the form of a structured Target Employment Cost (TEC) package. The employer has written to all staff advising them where superannuation contributions of at least five per cent of taxable income are not part of the TEC package, staff will be required to either:

- vary their total remuneration package so that at least five per cent of taxable income is received in the form of superannuation in order to satisfy the SGL requirements; or
- vary their total remuneration package to reflect the costs of the employer paying the superannuation guarantee charge.¹⁰⁶

¹⁰⁴ *ibid*, p 20.

¹⁰⁵ SG sub no. 51, pp 5-6.

¹⁰⁶ SG sub no. 61, pp 2-3.

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 ...

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 from 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 superannuation 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:

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 justified¹⁵ [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.

CHAPTER 8 : STATE GOVERNMENTS

8.1 Public sector superannuation schemes conducted by the Commonwealth and State and Territory governments provide superannuation benefits to approximately 20 per cent of the Australian workforce, or nearly 2 million employees. It has been estimated that investments in public sector superannuation funds total \$32 billion.¹

8.2 The State and Territory governments have been longstanding providers of superannuation benefits to employees, especially those involved in white collar work. Currently, State and Territory public sector superannuation coverage has been extended to over 1.5 million employees on a two-tiered basis.²

8.3 The first tier of coverage which usually applies to higher paid salaried employees involves contributory superannuation schemes whereby the employer contribution is roughly 2-2½ times the employee contribution. For example, in Queensland the employer contribution to the defined benefit scheme is 14.55 per cent of a salary for a member who contributes five per cent of salary.³

8.4 In New South Wales where over a 30 year period employee contributions average 6 per cent of salary, the employer contribution is basically twice that amount.⁴

8.5 The second and less generous tier of superannuation coverage was introduced as part of the award three per cent award wage outcome. Members in these schemes have elected not to contribute or have not been eligible to join the more generous voluntary contribution schemes.

8.6 During the hearings on the Bills, the Committee heard that in some states more than half of the public sector workforce receives the three per cent award superannuation contribution only. The evidence on this matter for those states that provided the Committee is included in Table 8.1.

8.7 The Committee was led to understand that, in spite of repeated attempts by a number of States to have a greater number of employees voluntarily join the more generous schemes, progress towards universal coverage was proceeding slowly. It would appear that cost and the industrial relations constraints have militated against encouraging all public sector employees to join the more generous schemes.

1 Superfunds November 1991, ASFA Sydney 36.

2 SG evidence, p 113.

3 Evidence, p 1170.

4 Evidence, p 923.

Table 8.1

Public Sector Superannuation Coverage – Selected States			
	Employees in fully contributory schemes	Employees in 3% only award schemes	Employers not in receipt of superannuation benefits
NSW ⁵	260 000 or 72% of employees	100 000 or 28% of employees	–
QLD ⁶	80 000 or 50% of employees	50 000 or 50% of employees	–
WA ^{7,8}	30 000 or 30% of employees	60 000 or 60% of employees	10 000 or 10% of full-time equivalent employees
SA ⁹	30% of employees	70% of employees	

8.8 For some schemes, however, compulsion has been a key feature. Queensland has compulsory superannuation for its 80 000 salaried employees and New South Wales had compulsory schemes until 1985.¹⁰

Financial Impact of the SGL

8.9 The lack of substantial progress towards broader coverage for State government employees beyond the three per cent award provision has meant that the introduction of the SGL will impose significant cost burdens on State and Territory budgets. For most State and Territory governments, the additional costs under SGL will be a consequence of increasing superannuation coverage from three to five per cent. However, in the case of Western Australia, where some employees are not in receipt of any superannuation, SGL will mean cost increase of five per cent.

8.10 The State and Territory government estimates of the cost of SGL are shown in Table 8.2.¹¹

8.11 The States contend that the cost increases associated with the SGL have come at a most unreasonable time in that their budgets are stretched and that it is unlikely that they will receive additional compensatory funding. Further, they see no general wage rise

⁵ SG evidence, p 117.

⁶ *ibid*, p 118.

⁷ Evidence, p 1559.

⁸ *Annual Report (WA) Government Employees Superannuation Board 1990-91*, p 20.

⁹ SG evidence, p 118.

¹⁰ SG evidence, p 118.

¹¹ SG sub no. 17, p 2.

in prospect on 1 July 1992 and therefore little opportunity exists for the SGL cost increases to be absorbed in wage rises.¹²

Table 8.2

Financial Impact of Superannuation Guarantee			
	1992-93	1992 to 2001	Annual Accrual in 2001
	\$M	\$M	\$M
New South Wales	90	1 550	250
Victoria	70	1 110	190
Queensland	40	920	150
South Australia	35	590	100
Western Australia	35	590	100
Tasmania	20	350	70
Northern Territory	10	110	20
ACT	2	50	10
	\$302	\$5 270	\$890

These superannuation costs, which are in 1992 dollars, are over and above those which would have been expected without the SGL.

8.12 The States see the following outcomes accruing as a result of the legislation:

- (i) additional taxation collected by the Commonwealth from taxes on fund incomes;
- (ii) if SGL is provided as a substitute for wages, there will be an adverse impact on State revenue from a loss of payroll tax; and
- (iii) the increase in wage costs will cause some States to reconsider the level of services and public sector employment, and/or to offset the increase in budgetary expenses.¹³

Unfunded Liabilities

8.13 The Committee was advised of the level of accumulated unfunded liabilities which have been incurred by the public sector in conducting employee superannuation. Table 8.3 shows the level of unfunded liabilities for public sector superannuation schemes.

¹² SG evidence, p 115.

¹³ SG Sub No. 17, pp 2-4.

Table 8.3

Public Sector Employee Superannuation Unfunded Liabilities – 30 June 1988	
	\$ (billion)
Commonwealth	33.0
New South Wales	14.0
Victoria	15.6
South Australia	2.8
Western Australia	3.9
Queensland	fully funded
Tasmania	1.8
Defence Forces	4.6 - 5.5

Source: *Superfunds*, November 1989, p 18.

8.14 It was suggested that the introduction of new obligations under the legislation will add \$1.5 billion to the level of unfunded liabilities in NSW by 2000, and approximately \$5 billion nationally.¹⁴ Queensland, the only State which has fully funded superannuation schemes, plans to maintain this policy in meeting SGL obligation. The Committee notes the SGL does not require schemes established by statutes to be funded but that it will increase unfunded liabilities.

8.15 Unfunded superannuation schemes are seen by some commentators as unsound because their growth disguises the true cost of labour in the public sector. Also, overseas rating agencies include superannuation liabilities in formulating credit ratings for the State and Territory governments.¹⁵

Constitutional and Legislative Difficulties

8.16 The States contended that they have not had sufficient time to address the constitutional and legal difficulties which the legislation poses. They asked whether it is appropriate, efficient or necessary for State superannuation schemes to be subject to two sets of legislation and claimed that there is no evidence to indicate they have been unable to cope with the requirements of employee superannuation.¹⁶ They believe that their superannuation schemes already have extensive operational and reporting standards, are fully accountable to State parliaments, are subject to the scrutiny of Auditors-General, Ombudsmen (where applicable) and Ministers.¹⁷

8.17 A further issue raised by the States was that, as a number of their Parliaments are in recess and will not resume until August 1992, they would need to pass retrospective

¹⁴ SG evidence, p 119.

¹⁵ SG evidence, p 120.

¹⁶ SG Sub No. 17, p 5.

¹⁷ Sub No. 84, p 2.

legislation to implement the provisions of the SGL should it come into force on 1 July 1992.

Technical Concerns

Treatment of Defined Benefit Scheme

8.18 The States and Territories suggested that as the SGL legislation is framed with defined contributions or accumulation schemes only in mind, detailed and comprehensive guidelines will need to be issued to define the way defined benefit schemes should be treated in assessing compliance with the SGL contribution requirements. As the final guidelines have not been issued, the States submit they are unable at this stage to frame legislation to implement the SGL. Also, under defined benefit schemes the level of cover can vary from year to year but over the lifetime average out well in excess of SGL requirements. The treatment of yearly contributions less than the required SGL level is therefore of critical interest to the States and Territories.

Compliance

8.19 It was argued that the SGL Bills ignore the different funding arrangements of most government schemes which involve meeting obligations when they arise rather than fully funding liabilities as they accrue. Under the legislation, it would appear State unfunded superannuation schemes would not be deemed as 'complying funds', as no fund exists, nor could the Insurance and Superannuation Commission deem a State's Consolidated Revenue Account, where that is used to pay superannuation benefits, to be a 'complying fund'.

CHAPTER 9: AMENDMENTS PUT TO THE COMMITTEE BY ORGANISATIONS AND INDIVIDUALS

9.1 A considerable number of amendments were put to the Committee in the course of its examination of the Superannuation Guarantee Bills. The amendments include:

- ACTU amendments:
 - the \$500 000 payroll threshold be eliminated¹
 - the legislation to prescribe a lower threshold than \$250 per month². (\$200 is suggested)³
 - in addition to the percentage calculation, the legislation should prescribe 'a flat dollar amount rather than a percentage calculation alone... [and] a flat dollar floor'⁴
 - the legislation should stipulate that the employer's contribution is to be 'net of any fees and charges'⁵
 - the minimum level of superannuation support should be paid monthly in arrears⁶
 - the age 65 threshold should be removed⁷
 - the current definition of 'employees' should be tightened 'to guard against contrived quasi-employee arrangements'⁸
- Life Insurance Federation of Australia amendments:
 - to permit any complying superannuation fund to be used by employers to meet the legislated minimum requirement⁹ and if this is not adopted then

1 SG evidence p 44.

2 *ibid*, p 47.

3 SG sub no. 29, p 13.

4 SG evidence, p 45.

5 SG sub no. 29, p 12.

6 *ibid*, p 15.

7 *ibid*, p 14.

8 *ibid*.

9 SG evidence, p 135.

'as a minimum, any arrangements which are put in place by employers before any award provision, should not have to be dismantled',¹⁰ and to allow:

... that if funds become non-complying for technical or other reasons, that is not held against the employer that has made contributions on a bona fide basis when, to the best of their knowledge, that fund was complying¹¹

- [to provide] that all consequential legislation and regulations, which cover such matters as requirements for vesting, preservation solvency and tax treatment of personal contributions, be tabled now. Failing this, LIFA believes that additional transitional arrangements must be provided in the first year ...¹²
- to permit a 90-day grace period rather than 28 days¹³
- to increase the threshold to \$500 per month¹⁴
- to 'require employers to specify where the contributions being remitted are prescribed'¹⁵
- to reinstate 'the concept of successor schemes for determining the earnings base'¹⁶ and that the definition of salary and wages should exclude components such as shift allowances¹⁷
- to allow Australian Taxation Office payments which are paid direct to members to be classed as eligible termination payments¹⁸
- to amend s.61 of the Superannuation Guarantee Administration Bill to require the Commissioner of Taxation to 'pay shortfall amounts to all retired employees, not just employees under 55 who have retired due to ill health'¹⁹

¹⁰ SG sub no. 25, p 1.

¹¹ SG evidence, p 141.

¹² Sub no. 25, p 1.

¹³ SG evidence, p 135.

¹⁴ *ibid.*

¹⁵ *ibid.*

¹⁶ *ibid.*

¹⁷ *ibid.*

¹⁸ SG sub no. 25, p 2.

¹⁹ *ibid.*

-
- to permit an allocation from reserves to meet prescribed minimum contributions, 'provided that they are fully vested from 1 July 1992 and preserved from 1 July 1993'²⁰
 - to exclude independent contractors 'from the scope of the legislation until the Government determines the treatment of all self-employed persons'²¹
 - to provide for an annual payment in arrears to be allowed where the payment does not exceed \$100 for an employee
 - Australian Association of Superannuation Funds of Australia (ASFA) amendments:
 - as for LIFA but also:
 - in relation to the first year's operations of the SGL, that employers be permitted to meet their obligations to pay contributions 'only in respect of the current employees at that time', namely, the end of the year;²² or, to permit employers 'to be given six months in which to change their deeds and bring their arrangements into line'²³
 - to allow 'an adequate arrangement for dealing with small superannuation contributions ...[in order to avoid] a very real prospect of such contributions being eaten up by administration costs'.²⁴ A suitable arrangement is to allow 'these contributions to be combined with all other contributions received previously or concurrently'²⁵
 - to allow contributions to an accumulation plan to count for SGL purposes only 'where the employer has advised the trustee that the contributions will be counted for SG purposes'²⁶
 - [to allow] ... an exemption for those with vested benefits in excess of the minimum lump sum Reasonable Benefit Limit ... [or] if the approach of a limit on the earnings base is to be adopted... [then] a cap significantly lower than \$80 000... [be adopted]²⁷

²⁰ SG evidence, p 135.

²¹ *ibid.*

²² *ibid.*, p 136.

²³ *ibid.*

²⁴ *ibid.*

²⁵ SG sub no. 20, p 2.

²⁶ *ibid.*

²⁷ *ibid.*, p 3.

- NSW Coal Association amendments:
 - ... [to provide that] where an employer is contributing to the fund in accordance with an industrial award or a law of the Commonwealth or of a State or Territory, then 'notional earnings base', in respect of an employee, means the earnings of the employee, or the earnings of the employee which equate to a rate of earnings prescribed under that industrial award or law, by reference to which the employer contribution is calculated²⁸
 - in relation to the transitional provisions for funds created by legislation, amend the regulation under the *Occupational Superannuation Standards Act* so that:
 - a 'public sector scheme' is exempt permanently from minimum funding requirements and is exempt until 1 July 1993 from full vesting requirements
 - or alternatively
 - a public sector scheme which is not government guaranteed is exempt from minimum funding and vesting requirements until 1 July 1993²⁹
- Queensland Mining Council amendment:
 - ... [to provide] for the notional earnings base of a pre-existing industry based scheme to be adopted by employers whether or not they were contributing to the scheme prior to 21 August 1991³⁰
- Retailers Council of Australia amendments:
 - (i) Amend Section 20(3) and other relevant sections to set a minimum employer contribution for all employers at three per cent. This would mean larger employers would not have their contributions increased to five per cent.
 - (ii) Amend Section 24(2) in at least one of several ways:
 - If an employee's terms and conditions of employment are subject to an award that, as at 20 August 1991, contained provisions relating to employer funded occupational superannuation, the eligibility as established by that award will be the eligibility in relation to that employee for the purposes of the legislation. For an employee, whose terms and conditions of employment are not subject to an award that as at 20 August 1991 contained provisions relating to occupational superannuation, if that employee receives from one employer less than \$6 000 by way of salary or wages in respect of the year calculated as commencing on 1 July and concluding on 30 June, the salary or wages so received in respect of that year will not be taken into account for the purpose of making a calculation under Sections 18 or 19.

²⁸ SG sub no. 3.

²⁹ *ibid.*

³⁰ SG sub no. 7, p 3.

[Note: \$500 per month could be substituted for the \$6 000 per annum as long as the \$500 monthly threshold is calculated over at least a two month period]; OR

- If an employee receives from one employer less than \$6 000 by way of salary or wages in respect of a year, calculated to commence on 1 July and conclude on 30 June in the following year, the salary or wages so received in respect of that year will not be taken into account for the purpose of making a calculation under Section 18 or 19; OR

- If an employee receives less than \$500 by way of salary or wages in respect of a month, ... etc.³¹

- Australian Taxpayers' Associations (Mr Risstrom) amendments:

- the contributions threshold should be increased to \$3 000 per annum³²
- definition of salary/wages should be explicit³³
- the monthly basis for contributions should be rejected but, if pursued, the following amendment should be made:

The Commissioner of Taxation may issue a certificate to an employer declaring the monetary extent to which the employer shall be deemed to have complied in respect of a financial year, and shall have regard to –

- (a) the total contributed during the year in respect of an employee, or of a class of employees,
- (b) the dates or dates on which contributions were made during the year,
and
- (c) contributions in any prior year, including a period before July 1992, which have resulted in an entitlement of the employee at the end of the year of an amount equal to or greater than would have resulted had the required contributions under this Act been made during –
 - (i) the year commencing on 1 July 1992, *or*
 - (ii) the respective months after June 1993.³⁴

- Alexander Consulting Group amendment:

- to allow employers to meet their obligations by providing a benefit to employees which may be funded from a surplus in a defined contribution scheme³⁵

³¹ SG sub no. 16, p 3.

³² SG sub no. 2, p 2.

³³ *ibid.*

³⁴ *ibid*, p 6.

³⁵ SG sub no. 14.

- Mr Block suggested the following changes:
 - the current tax threshold is far too low. We would like to see that threshold increased³⁶ ... [and] we would like to see the award superannuation and the SGL being, as it were, merged into one and simplified from the point of view of employers³⁷
- Australian Council of the Rehabilitation of the Disabled (ACROD) amendment:
 - that, if the Commonwealth Government does not provide additional subsidies to cover the costs to voluntary organisations of complying with the SGL obligations, 'the levy on voluntary organisations classified as 'public benevolent institutions' should be deferred'³⁸
- Institution of Engineers Australia amendment:
 - that provision be made 'to confine the effect of the guarantee scheme to employees, that is, those persons accepted by the Taxation Office as employees'³⁹
- Women's Economic Think Tank and Women's Electoral Lobby amendments:
 - ... the monthly limit should be set above the tax threshold as this would reduce the likelihood of employers making use of this to curtail certain limited part time jobs ... We would propose at least \$500 per month;
 - the recipient should have the option of receiving a cashed out equivalent of the SGL if they show income levels up to double the threshold and they have been at a low income level for the previous year. This will allow low income earners some choice of savings versus immediate bills and needs;
 - the Government should establish a Government Superannuation Fund, similarly 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.'⁴⁰

³⁶ SG evidence, p 81.

³⁷ *ibid.*

³⁸ SG sub no. 12, p 2.

³⁹ SG sub no. 13.

⁴⁰ SG sub no. 24, p 5.

- Pharmacy Guild of Australia amendments:
 - the threshold should be raised to \$800 000 instead of \$ 500 000⁴¹
 - payments should be made on an annual or biannual basis⁴²
 - the legislation should provide that superannuation be calculated on the basis of an annual not the monthly amount, and 'should be at least \$6 000 per annum'⁴³
- Thompson Douglass Butterell amendment (on behalf of Booz-Allen & Hamilton (Australia) Limited):
 - [that] prescribed employees in the category of exempt employees be extended to include employees who hold Class 2 temporary entry permits to Australia – Code 414 in terms of Schedule 3 of the Migration Regulations – and who are in receipt of sufficient employer superannuation support be deemed to satisfy employer obligations under the Bill⁴⁴
- Clayton Utz amendment:
 - that the legislation be amended to exclude persons who are 'substantially self-employed ... [and] who, in addition to any income they receive by way of self-employment also receive a relatively small non-award salary.'⁴⁵
- Queensland Branch of the Australian Medical Association amendment, supported by the Queensland Minister for Health:⁴⁶
 - that provision be made to exclude doctors who are Visiting medical Officers in public hospitals;⁴⁷
- Mr P C Turner amendment:
 - that the legislation be amended to include 'a clause explicitly prohibiting an employer from varying an employee's existing remuneration package'⁴⁸ (with the intent to 'sidestep [the employer's] contribution under the legislation and pass the cost of the SGL on to his employees).⁴⁹

41 SG sub no. 42, p 2.

42 *ibid*, p 3.

43 *ibid*

44 SG sub no. 44, p 1.

45 Sg sub no. 37, p 1.

46 SG sub no. 49.

47 SG sub no. 45.

48 SG sub no. 61, p 1.

49 *ibid*

CHAPTER 10 : RECOMMENDATIONS

BILLS TO BE AGREED

Recommendation 1

The Committee recommends to the Senate that the *Superannuation Guarantee Charge Bill 1992*, the *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 1992* and the *Superannuation Guarantee (Consequential Amendments) Bill 1992* be agreed to without amendment.

Recommendation 2

The Committee recommends that the Senate agree to the *Superannuation Guarantee (Administration) Bill 1992* as amended in accordance with the points contained in recommendations 3 to 7.

Recommendation 3

The Committee recommends that the amendments to the *Superannuation Guarantee (Administration) Bill 1992* moved by the Government in the House of Representatives be agreed to without amendment. These are contained in Appendix E.

Recommendation 4

The Committee recommends that the Government prepare amendments to the *Superannuation Guarantee (Administration) Bill 1992*:

- (i) to ensure that local government councillors who receive salary or wages are covered by the Superannuation Guarantee, while other local government councillors, who typically receive a monthly payment for attending meetings, will not be covered by the Superannuation Guarantee;
- (ii) to provide that employer superannuation support for 1993-94 and subsequent years will be measured on a quarterly basis;
- (iii) to increase the \$500 000 annual national payroll threshold to \$1 million;
- (iv) to provide tables of charge percentages for employers with annual national payrolls of \$1 million or less as follows:

Year	%
1992-93	3
1993-94	3
1994-95	4

1995-96	5
1996-97	6
1997-98	6
1998-99	7
1999-2000	7
2000-01	8
2001-02	8
2002-03 and subsequent years	9

- (v) to provide tables of charge percentages for employers with annual national payrolls exceeding \$1 million as follows:

Year	%
1/7/92-31/12/92	4
1/1/93-30/6/93	5* Disallowable
1993-94	5
1994-95	5
1995-96	6
1996-97	6
1997-98	6
1998-99	7
1999-2000	7
2000-01	8
2001-02	8
2002-03 and subsequent years	9

- (vi) to provide that the increase to five per cent on 1 January 1993 for employers with payrolls over \$1 million will have force following the making of a regulation within 28 days of Royal Assent which regulation may be disallowed* by either House;
- (vii) to provide that if no such regulation referred to in (vi) is made, or if the regulation is disallowed no later than two sitting days after 8 December 1992, the increase to five per cent on 1 January 1993 for employers with payrolls exceeding \$1 million will not have effect; and
- (viii) to provide that, if an employee receives less than \$450 by way of salary or wages in respect of a month, the employee's employer will not be required to provide superannuation support for that employee for that month.

TECHNICAL ASPECTS

The Government's December 1991 Information Paper indicated that where an employer company goes into liquidation, the Levy would rank equally with employee entitlements. The Committee notes that these requirements are not in the Bill.

The Committee also understands that there are technical difficulties with the Bill in relation to benefit certificates for defined benefit superannuation schemes and the calculation of the reduction in charge percentages where certain salary or wages are not to be taken into account for working out a shortfall component. In relation to the first issue, the difficulties arise from the issue of and the period covered by a certificate and the method of calculation of the national employer contribution rate. The Committee understands that Government officials have discussed these aspects of the Bill with industry representatives.

The second issue concerns the calculation of the actual amount of employer superannuation support in respect of an employee where for some part of the contribution period the employee receives salary or wages that do not need to be taken into account. There is a difficulty with the Bill in that the actual level of superannuation support calculated under the provisions of the Bill does not correctly take into account those periods of employment where the employee is receiving salary or wages that do not need to be taken into account. This difficulty can result in the employer being taken to have provided a smaller amount of superannuation support than should be the case.

Recommendation 5

The Committee recommends that the Government introduce legislation to cover the three technical aspects of the superannuation guarantee scheme noted above.

Recommendation 6

The Committee recommends that the Commissioner of Taxation issue a ruling on the issues of who is an employer and who is an employee as soon as practicable after the legislation is passed.

Recommendation 7

The Committee recommends that the provisions of the *Superannuation Guarantee (Administration) Bill 1992* should be regarded as a minimum benefit and thus should not override obligations above that minimum that may arise under an award superannuation provision. In respect to Recommendation 4(viii), the minimum of \$450 should not override any existing award superannuation provision where that award provision is lower.

OTHER ISSUES

The Committee recommends that the Senate take note of the matters contained in the following paragraphs and that where appropriate, the Government introduce legislation before the end of the Budget Sittings 1992. Appendix F, *Government response to the issues raised by the Australian Democrats*, provides additional information on these matters.

PRUDENTIAL SUPERVISION OF SUPERANNUATION FUNDS

The Committee released its report 'Safeguarding Superannuation' on 4 June 1992. Its recommendations covered a number of matters, including codification of trustees' responsibilities and the establishment of dispute resolution mechanisms.

On 16 June 1992, the Government released a document 'Government Responses' which, among other things, provided its approach to the major recommendations which the Committee made. A precis of the Government's response to the Committee's main recommendations is below:

The Government accepts the recommendation that the Insurance and Superannuation Committee (ISC) be the sole regulator and that it liaise and co-ordinate with the Reserve Bank of Australia and the Australian Securities Commission.

The Government supports the codification of certain trust law principles for inclusion in OSSA.

The Government agrees to enhance the regulatory power of the ISC in terms of instituting penalties for breaches of the OSSA and removing Trustees and Directors where they have failed to meet fiduciary obligations.

The Government accepts that the current threshold for 200 members, before equal employer/employee representation is required, ought to be reduced.

The Government agrees that a central fund could be appropriate to reduce costs faced by individual funds managing inactive accounts.

The Government supports a requirement for members to be consulted before major changes to their funds are effected. It will also consider questions about the disposal of funds surplus to needs for defined benefits.

The Government will require that trustees who act as investment managers hold dealers' licences.

The Government supports efficiency gains through increased competition and will consider means to support increased competition through new entrants.

The Government is prepared to propose internal and external dispute resolution mechanisms for the industry.

The Government is examining the basis of its powers in superannuation matters and will consider widening the basis to include taxation, corporation and pension powers.

Finally, the Government is considering, in the context of prudential supervision, the situation where an employee refuses to join a complying fund. It also intends to propose amendments to OSSA to allow employees to contribute SGL with

respect to former employees, and to ensure, as far as is practicable, that SGL contributions are not made to non-complying superannuation funds.

The Committee welcomes the preparedness of the Government to respond to the Committee's recommendations so promptly. It notes that the Government intends to develop 'a detailed package of measures concerning prudential supervision for introduction to Parliament in the forthcoming Budget Settings'.

SUPERANNUATION POLICY ISSUES

The Paper 'Government Responses' also outlined a number of issues, and the Government's approach to them, which it is considering for the Treasurer's foreshadowed statement on Superannuation Simplification Policies. These are outlined below.

On preservation, the Government intends that, from 1 July 1993, all future superannuation benefits be preserved to the preservation age; and to consider increasing the preservation age so that by 2025 virtually all superannuation benefits are preserved to age 60. The Government indicated some flexibility to access benefits between age 55 and 60 would also be considered.

The Government intends to announce before 30 June 1992 its plans for an indexed, fixed cap on the lump sum for reasonable benefits limit purposes.

LINKAGES BETWEEN THE SGL AND WAGE INCREASES

The Committee received a number of submissions on this important question which touches on a number of issues fundamental to the SGL (such as timing of introduction; rate of increase in the SGL requirement; any SGL employment effects; and the appropriate maximum level of the SGL).

In his statement of 16 June 1992 (Government and Australian Democrats Agree on Superannuation Guarantee Bills) the Treasurer, the Hon John Dawkins, MP, expanded on the Government's announced policy that employers' contributions under SGL be taken into account in future wage decisions.

That statement announced the Government's agreement to an amendment to the Industrial Relations Act 1986 that would require the Industrial Relations Commission to take the SGL contributions into account in arriving at national wage case decisions.

SGL CONTRIBUTIONS MADE BY GROUP TRAINING COMPANIES AND COMMUNITY SERVICES

Group Training Companies

These companies are essentially formed to allow one entity to employ apprentices on behalf of a number of small businesses. The costs incurred by these companies are

passed on and are ultimately met by those small businesses. The Government considered the impact of the higher SGL that these companies might be required to meet (compared to their small business numbers) but indicated it was constrained in differentiating in law between these Group Training Companies and other like entities. Ultimately, all employers will face the same SGL rate, irrespective of payroll size, but the Government indicated it would consider providing grants to the Group Training Companies if that were necessary to reduce difficulties.

Community Services

Community Services such as HACC and child care may be affected by the provisions of the legislation. Accordingly, this should be taken into account in relation to the funding of projects in these programs.

MINORITY REPORT – SENATORS ALSTON AND WATSON

With Australia still suffering from the deepest economic recession in 60 years, and with unemployment over ten per cent, the last thing which business needs is policies which undermine the capacity of employers to expand their enterprises and increase employment.

Yet the Government's proposed Superannuation Guarantee Charge, or levy (SGL) regime will add at least an extra \$2 billion a year to labour costs irrespective of the state of the international or the domestic economy, let alone the plight of individual employers. Even the hapless John Kerin, when Treasurer, was forced to concede that the Government's superannuation proposals were 'basically an additional cost'.

Even ardent advocates of compulsory superannuation such as National Mutual are concerned that 'the legislated contribution levels make no allowance for the capacity of various employers and industry to meet the requirements. The legislated approach assumes everyone can pay higher rates at the same point in time.'

The impact on small business, where the great bulk of the burden will undoubtedly fall, is particularly severe. The Victorian Automobile Chamber of Commerce estimates that for an average award employee, total on-costs will rise from 31.5 per cent to 37 per cent of labour costs and even more for many staff not covered by awards.

Like the Training Guarantee Levy (TGL), the SGL is a de facto payroll or employment tax imposed regardless of profitability but, unlike the TGL, it offers no prospect of productivity improvements.

Since the SGL is being imposed as a legislative obligation, there will not be any opportunity for employers to bargain any offsetting productivity increases with their workforce. At a time of very weak demand, firms will have great difficulty in absorbing the costs or passing them on.

There can be little doubt that most Australians aspire to a higher level of retirement income than that enjoyed by the current generation. After eight years in office, the present Federal Government has finally managed to achieve an age pension equivalent to 25 per cent of AWE, but the capacity to make significant future improvements will be critically affected by the health of the national economy. Already more than three-quarters of persons of age-pension age receive at least a part pension – at a cost to revenue of approximately \$12 billion and this amount will undoubtedly increase with the ageing of the population, unless there are a number of significant structural changes, such as the gradual raising of the age-pension age for women, the abolition of compulsory retirement ages and the easing of pensioner poverty traps.

But the bottom line is that a country simply cannot achieve permanent increases in national savings and retirement incomes unless they are financed by faster economic

growth, higher levels of productivity and rising levels of disposable income. These are not simply retirement income issues, they are national economic issues.

Two major arguments constantly advanced by the Government to justify a compulsory system are the need to boost national savings and the need to curb the rising cost of age pensions.

Savings

There is undoubtedly an urgent need to boost national savings. Household savings have more than halved – from a peak of about 15 per cent of disposable income in the mid 1970s to just over six per cent in 1990-91. But it by no means follows that forcing workers to go without wage increases will help the cause. As overseas experience has shown, unless there is rising output and productivity, compulsory savings in one form will simply lead to a run-down in savings elsewhere.

Treasury is particularly conscious of this switching effect – the most that it claims in favour of the SGL is that:

Higher superannuation savings would not be fully offset by reductions in other savings because many employees have equivalent levels of non-superannuation savings and superannuation savings are not a perfect substitute for other savings ... Some substitution ... can be expected, however, ... there is unlikely to be complete substitution. No estimate of the likely magnitude of this effect is available.

In other words, there is likely to be a very considerable switching effect, not a perfect switch by any means but a very high level of switching. Therefore it cannot be said with any degree of confidence that there will be any particular level of increase in savings as a result of the SGL regime.

As Paddy McGuinness has cogently argued:

The weight of economic evidence is that imposing compulsory superannuation on individuals does not increase total savings. It simply causes people to save less of their residual income, their take home pay.

Or worse still, to go further into debt.

Professor John Freebairn is right:

The key to providing high income in retirement is the pursuit of policies promoting high economic growth.

Even prominent advocates of government intervention, such as Ray Block, who gave evidence to the Committee on behalf of Committee for the Economic Development of Australia (CEDA), admitted that 'we realise that the increase in national savings will only be marginal'.

According to Peter Griffin, Managing Director of Rothschilds, a compulsory system is unlikely to increase national saving and will lead to lower returns to savers as well as a

big distortion in the allocation of investment capital and the workings of the capital market.

The key to national savings is to build a sound economy and provide incentives to save. A leading retirement income commentator, Daryl Dixon, told the Committee '... the key to increasing national savings is to give people incentive to save' and Professor Julian Disney, a member of EPAC, said '... if one is concerned about national savings, it seems to me self-evident that the best way of encouraging savings is to provide a savings incentive for the widest range of purposes.'

Despite being required to make some last minute attempts to conjure up savings scenarios to repair the political damage to the Government resulting from its professions of profound ignorance to the Committee, it is clear that Treasury remains deeply sceptical concerning a proposal about which it was not consulted and to which it had no policy input. It was simply required to take on board an Accord deal and massage it through the Parliament. Unfortunately, the Government's strategy backfired when the nakedness of the policy justification for the legislation became clear.

The crucial issue then is national savings, that is, how much the country as a whole saves, not the savings of any particular group. The OECD's most recent comparison of savings patterns shows Australia's national savings averaged 20 per cent of national income throughout the 1980s, down from around 24 per cent in the 1960s and 1970s. As with most other industrialised countries, the 1970s decline in national saving in Australia was due mostly to the deterioration of public sector saving. Australia's performance places it about mid field in the OECD. The US saves only 16 per cent of national income and Britain 17 per cent, with Germany, France, Italy, Canada and New Zealand all at similar levels to Australia. Switzerland, Finland and Norway have higher savings ratios than other European countries but all are well under 30 per cent. Japan is the OECD exception with 32 per cent of national income saved.

For many years, Australians have spent more on investment than they have been able to save (the savings and investment gap). This gap between domestic savings and investment has meant a heavy dependence on foreign equity and overseas debt to maintain economic growth. The result has been a large (and at times explosive) growth in Australia's overseas deficit and foreign debt. Interest payments overseas are now equal to \$1.2 billion per month: Australia needs to spend one-fifth of its export income to service foreign obligations, thus limiting the growth in national living standards.

Further, Australia's savings problem has been accentuated in recent years by a combination of structural and cyclical factors. The interaction of high inflation and penal rates of personal taxation on interest income has eroded the attractiveness of traditional forms of saving (the structural disincentive to save). The recession has also forced many Australians, particularly those unemployed, to draw down their savings to maintain their standard of living (the cyclical disincentive to save). Corporate sector savings and the net fiscal position of Government have also deteriorated as a result of the recession (an adverse cyclical impact on saving). A series of tax reforms and the use of tight monetary policy to squeeze inflation out of the system have failed to offset these structural and cyclical disincentives to save.

However, there is no evidence that the Government's superannuation initiatives have produced, or will produce, a large net increase in national savings. Indeed, it is possible that the Government's initiatives are exacerbating a major shift in savings away from the traditional retail financial institutions (the substitution effect). This structural shift of savings from retail financial institutions to superannuation funds will have profound and largely unforeseen consequences for the composition of investment flows. Compulsory superannuation would hasten the process. By allowing major taxation concessions for compulsory superannuation, national savings may actually decline.

Personal retail deposits have traditionally formed the funding base for mortgage loans for new homes and loans to farmers and small and medium business – the engine of Australian economic growth and job creation. Superannuation funds, on the other hand, generate long-term retirement income by placing members' contributions in investments such as shares in Australia's top 100 companies, government securities, commercial property and overseas equities. Retail financial institutions can raise deposit rates to attract savings or gain access to higher cost funds through the commercial market, but this will mean higher transaction costs and interest rates on loans to their customers: home owners, farmers and businesses. The commercial market is more volatile than the retail market and some financial institutions, in particular non-bank financial institutions, may struggle to attract funds in a tight market.

Given the growing asset base of superannuation funds and capital shortage in key areas of investment, some may argue for investment controls on superannuation funds. This would further distort the savings-investment equation, increasing the costs of savings for all Australians. A better approach would be to provide more equitable tax treatment (economic efficiency) and thus encourage all forms of savings.

There are no short cuts to economic prosperity. Nor is there any magic retirement incomes pudding whereby increasing levels of retirement income can be forced on employees or encouraged by taxpayers irrespective of capacity to pay.

This is recognised by all the major institutions. The National Mutual Life has urged the government to deregulate the labour market, deregulate and privatise key areas of the economy, including transportation, communications and government business enterprises, and direct fiscal stimulus toward encouraging savings and long term private sector investment.

The Coalition supports, and indeed has made the running on, many of these vital national reforms.

With the nation experiencing a protracted economic crisis of Argentinian dimensions, more than ever it is vital to take a leaf out of the Japanese post-war rebuilding book and start to engender a national savings culture.

This will not come about via a system of compulsory superannuation which pretends to put all the burden on employers. Inevitably many employees will take the view that their superannuation needs are being taken care of by others and that there is no need for them to make any further provision for their retirement. This lowest common denominator approach is quite the opposite to a savings culture. Indeed, once compulsory

superannuation is firmly entrenched it will not be long before politicians are being urged to take the view that tax concessions – currently around \$3.5 billion and set to at least double by the turn of the century – could be better used elsewhere. Indeed, there are a number of senior government figures who already take this view.

Affordability

Perhaps the most damning indictment of the SGL proposals is their impact on employment. It is quite fatuous, and indeed disingenuous, to pretend, as the Government's principal spokesman on superannuation, Senator McMullan did recently that '... the Levy will not be an additional cost. In the initial stages at least most [employers] would already pay out the required amount of superannuation ...'.

The legislation does not just tinker around the edges. It will involve substantial cost increases to provide superannuation cover for:

- possibly 800 000 non-managerial non award private sector wage and salary earners;
- possibly 50 000-100 000 public sector employees currently lacking effective coverage, for example due to poor vesting; and
- possibly 650 000 employees of non complying employers (at least 600 000 in the private sector).

These new recruits constitute 25-30 per cent of private sector employment and around five per cent in the public sector.

Overwhelmingly, they are in small businesses. Some are young professionals who consciously prefer not to save via superannuation until much closer to retirement, but the great bulk are employees earning less than average weekly earnings.

The fact is that many firms are not even paying the first three per cent of award superannuation. Senator Cook, Minister for Industrial Relations, has estimated that the outstanding amount is around \$700 million a year. The main reason, according to his own Department, is that most employers simply cannot afford to do so.

As Treasury made clear in its evidence, if the full unit cost impact is to be borne by employers, there will be up to 45 000 jobs lost over the next two years and up to 100 000 jobs lost over the next five years.

The only way to avoid such an outcome is to discount any wage increases by around 1.5 per cent for the effect of the SGL. But this the Government steadfastly refuses to do. Instead, it supports an ACTU wages claim for an increase of around 4.5 per cent when Australia's underlying inflation rate is almost half that figure, and then piously promises that if Australia's inflation rate gets significantly out of line with that of our major trading partners, it will somehow depart from a specified legislated timetable for annual increases in contributions to the year 2000. In this regard, the following extract from the

Committee's *Hansard* is most instructive (note that Dr Preston referred to in the quotation is Deputy Secretary of the Commonwealth Treasury):

At Expense of Wage Increases

Senator Alston: Your submission states: 'The effect on employers net savings will be influenced by the extent to which increases in employer superannuation contributions are taken into account in wage negotiations. If increases in contributions do not result in any change in employee's total remuneration – which you say elsewhere must include superannuation – employer's net savings positions should not change significantly.'

In other words the SGL will be at the expense of wage increases. That is what it is saying, is it not?

Dr Preston: It is saying that wage increases will be lower that they would otherwise have been.

Senator Alston: And that if it does not involve any net increase in the cost burden to employers, it must be at the expense of wage increases, must it not?

Dr Preston: Yes.¹

Not only does this defy political reality but it also contains the seeds of an economic and social disaster waiting to happen. If Australia is to become truly competitive as quickly as possible, it surely must do everything possible to lower its export cost structure. Once the fruits of increased exports start to flow through, there will be a sound case for employees being entitled to share in the increased profits. But to ignore actual costs and wait perhaps several years at least before making some subjective comparative judgements about international inflation rates will only ensure that our economic predicament will worsen.

In addition to the substantial evidence placed before the Committee which indicates that widespread unemployment will be the result of the SGL, Opposition Senators and Members have had access to countless individual cases of how small businesses employing between 40 to 50 people will have no alternative than to reduce staff levels. It is a logical equation that a three per cent increase in labour costs equals retrenching one worker in a workplace that employs 30 or so persons.

In recent weeks, the Government has claimed that the economy will be able to afford both the increased costs of the SGL – at least several billion dollars in the first year – and a wages claim well in excess of inflation, because the *One Nation Statement* asserts that Australia is suddenly poised to achieve unprecedented growth rates and productivity increases.

These utterly unlikely and intuitively implausible predictions have been greeted with a great deal of scepticism on all sides and the recent downward revision of the expected 1992-93 growth rate from 4.75 per cent to four per cent by the Government's own economic adviser, the Joint Economic Forecasters Group, is simply official confirmation that these targets are absurdly optimistic.

Australian business is in no position to afford a new multi-billion dollar payroll tax, especially one which is scheduled in most cases to treble or even quadruple within eight years. Even if existing double-dipping loopholes are closed, it will be of little consolation to taxpayers if a declining pension bill is more than offset by the rising costs of the national dole cheque. More importantly, however, the dangers to the social fabric of high and prolonged unemployment are already apparent world-wide. With unemployment levels on present policy certain to stay around ten per cent for years to come and even the Government only claiming a marginal improvement over the next few years, it will be little short of lunacy to introduce a massive new cost burden on employers – with unions saying only that the cost will be 'taken into account' in further wage negotiations. History over the last decade offers no basis for any confidence and any reliance at all could be placed in such a vague and essentially meaningless formula.

Who Pays?

The Employer

Unlike every other compulsory system in the world, the SGL legislation puts the burden entirely on employers, many of whom will be expected to find 12 per cent within eight years. The Government's timetable ostensibly requires employers to pay nine per cent by the year 2000 but it is clear that they will be expected to pay the last three per cent as well – the Government has said only that '... it will give consideration to using employee contributions and tax cuts.'

This 'employer pays' approach will inevitably encourage many employees to take the view that superannuation is no longer their responsibility, thereby ensuring a lowest common denominator outcome for retirement incomes.

Even the Australian Chamber of Manufactures, which has been generally supportive of award superannuation, has argued that '... mandatory employer funded superannuation in the absence of wage offsets is both inequitable and counter productive'.

Other Wage and Salary Earners

If the Government pursues its pretence that the cost of the SGL will be funded by general reductions in wage increases, this clearly means that those already in receipt of the prescribed level of superannuation will be required to go without a wage rise to cross-subsidise those without superannuation coverage.

Retirement Incomes System in Twenty-One Countries Contributions & Benefits			
	Data from <i>Super System Survey</i> Compulsory Contributions for Retirement		Retirement Income Stream
Austria	Employer	12.55 per cent	40-73 per cent of actual final earnings
	Employee	10.25 per cent	
Belgium	Employer	8.86 per cent	60 per cent of career average earnings for single person
	Employee	7.50 per cent	
France	Employer	8.20 per cent min	40-75 per cent of career earnings
	Employee	7.60 per cent min	
Germany	Employer	9.35 per cent	40-45 per cent of final earnings
	Employee	9.35 per cent	
Italy	Employer	14.80 per cent to 30.43 per cent	80 per cent of final career earnings
	Employee	6.1 per cent to 10.79 per cent	
Japan	Employer	7.25 per cent	Flat social security benefit plus an earnings related benefit
	Employee	7.25 per cent	
Luxembourg	Employer	8 per cent	60-70 per cent of final pay
	Employee	8 per cent	
Singapore	Employer	17.5 per cent	Privately funded end benefits a function of contributions
	Employee	22.5 per cent	
Spain	Employer	24.0 per cent	76-85 per cent of final earnings
	Employee	21.8 per cent (including sickness, medical and family allowances etc)	
USA	Employer	6.2 per cent	25-60 per cent of assessable earnings
	Employee	6.2 per cent	

Overseas Comparisons

The Committee's background paper *Super System Survey* revealed that a significant number of countries maintain a retirement income system which ensures that the incidence of contribution falls more equitably on both employers and employees than is proposed under the SGL. The following countries have equal or roughly equal employer/employee contributions. However, in making comparisons or drawing conclusions, one should be careful to establish whether the country under survey has an integrated social security system which may include unemployment, health, aged care and retirement provisions.

In contrast, the SGL only incorporates a nine per cent employer contribution and does not **guarantee** that any employee contribution will be made. As the pronouncement of the Government clearly indicate that employees will not forego future wage increases to reach the final target, one can only conclude that Australia will have a 100 per cent employer funded SGL system.

Inflation and Unemployment

Access Economics and the CAI have predicted that the Government's proposals will lead to a five per cent increase in inflation and the loss of at least 60 000 jobs through the 90s. The Treasury figures make it clear that, if employers bear the full burden, up to 100 000 jobs will be lost over the next five years. The only way such a scheme could possibly succeed without putting thousands out of work and refuelling inflation would be for the increases to be at the expense of wage rises. In other words, to require Australian workers to forego significant wage increases over the next decade in order to disqualify themselves from the age pension. The more likely outcome is that the cost of superannuation will be met from funds which would otherwise have been used by businesses to reinvest, generate new jobs and expand activities.

Some Real Losers

Part-time and Casual Employees

Those who will do worst out of compulsory superannuation are part-time and casual employees, more than two million of whom are women. Not only will they be effectively forced to forego very substantial wage rises but the amount set aside for them in the name of superannuation will be decimated by administration, insurance and taxation charges, leaving them with a small cash pittance and no retirement income.

The retail industry, which is the largest employer of staff in the private sector, and is traditionally a major employer of part-time and casual employees, has made it clear that the legislation will not only be administratively complex but will lead to immediate job reductions, particularly in the depths of the current recession.

The Retailers Council of Australia is also concerned that to allow the levy to operate in conjunction with the existing award system will expose employers to a situation of double jeopardy, particularly because of the vast differences in award superannuation provisions compared to the standard levy requirement. This is particularly evident with the different

qualifying periods which vary between States, but in most instances, require a person to be employed for at least six months before payments are made, usually retrospectively. This contrasts with the SGL legislation, which will require payments for all part-time and casual employees from day one, even though major retailers such as Woolworths have a staff turnover of 30 per cent a year.

According to Coles Myer, the country's largest private employer, with 135 000 employees, of whom 32 per cent are regular casuals under the age of 21:

Not only would there be a significant administration burden for both the company and funds if such employees are to receive employer funded occupational superannuation, but there would be no real gain for the individual in terms of retirement income.

Women

As the SGL only applies to those in the paid workforce, some two million non-working women are denied access to the alleged benefits, despite the fact that they not only live longer than men but they are particularly financially vulnerable in their retirement years in the event of early widowhood or divorce.

Timing

From the time the Bills were first introduced into Parliament on 2 April 1992, the Government has been insisting on a 1 July 1992 start up date. This is despite the fact that there has been no clamour for such a date from any organisation except the ACTU. On the contrary, a wide range of community groups and organisations have repeatedly requested the Government to at least defer the legislation and convene a national conference to be attended by all interested parties in order to develop a long term viable and effective retirement incomes policy for Australia. The Coalition would welcome such an initiative and would be keen to play an active and constructive role in any such discussions.

Not only have serious administrative deficiencies and technical problems been identified, but the whole premise of a compulsory superannuation scheme has been severely undermined by the Government's own financial advisers and the Department of the Treasury whose senior officials have cast very serious doubts on the likelihood that the Bill will achieve its professed objectives, particularly:

- the need to boost national savings; and
- the need to arrest the rising cost of age pensions.

During the course of the hearings it became absolutely clear that, whilst it is highly desirable that a coherent and effective system of superannuation should be in place sooner rather than later, there is absolutely no magic about a 1 July starting date.

Whilst the Government is to be commended for its willingness to take pre-emptive steps to avert pressure on the welfare system that may well arise as a result of the post-war baby boom generation reaching retirement age over the next 15-20 years, the imperative

is to put in place a workable system which enjoys widespread community support, rather than rush to entrench a flawed system.

The evidence presented to the Committee over recent months makes it plain that the Bill enjoys support from the ACTU and some elements of the life insurance industry and superannuation industries. Otherwise it is strenuously opposed by almost every other major group or organisation in the country, including the business Council of Australia, the Confederation of Australian Industry, the Australian Small Business Association, the Retailers Council of Australia, the Australian Council of Social Services, the Australian Federation of Consumer Organisations and the Womens Economic Think Tank.

It is therefore incomprehensible that, instead of accepting the recommendations of the IRC in its April 1991 national wage case to convene a national conference on retirement incomes policy, the Government has steadfastly refused to debate any of the major issues in the public domain.

It surely recognises that its complex and confusing approach to the tax treatment of employee contributions is a shambles. It surely knows that its current policy of encouraging an early retirement age of 55 years is a major reason why more than three-quarters of persons of age-pension age receive at least a part pension. It must be acutely aware that unless the preservation age is gradually raised to at least 60 years, double dipping will undermine any serious attempts to reduce Australia's pension bill.

Even its Accord partner, the ACTU, has acknowledged the regressive nature of the contributions tax and the need for a universal rebates approach. The mindless complexities of the reasonable benefits limit are yet another constant source of industry concern and a major factor in higher than necessary administration charges.

Yet in the face of all these uncertainties and the need for further significant changes, the Government is blindly determined to impose a whole new layer of compulsion on a profoundly unstable and ineffective system.

Why is the Government not prepared to wait for community response to its own long awaited and soon to be released White Paper on Simplification of Superannuation?

After having publicly said that it looks forward to receiving the report of the Senate Select Committee, why is it not prepared to wait until the final report becomes available before proceeding with yet more fundamental changes to the system?

Following intense questioning during the later stages of the inquiry, Treasury provided detailed estimates of the costs and savings of the SGL initiative. These indicated that in 20-30 years time, net savings would begin to accrue on pension outlays. The Committee has seen neither detailed breakdowns of the new tax regime for superannuation nor has it had access to the impact of such changes on pension outlays and tax concessions. It would be prudent under this scenario for the Government to allow the Committee time to examine these estimates and advise the Senate of the efficacy of these changes in policy. The lack of information on this aspect of SGL is indeed alarming. Treasury was unable to give precise details of the cost of tax concessions towards 2000, but it was

broadly agreed that a figure of \$7 billion, double that which prevails at present, would be likely.

Not one witness before the Committee seriously sought to justify the indecent haste of a July 1 start up date. Even ASFA, which generally supports the thrust of the legislation, told the Committee:

... there remains in our view a number of significant defects in the legislation and ten of these are in the paper that I have tabled today. ...As none of these have yet been addressed by the Government and businesses throughout the country are complaining about the impossibility of meeting such a tight deadline the Government has no option but to defer the legislation.

Indeed its consultants and industry representative made it plain to the Committee that with the shape of the final outcome quite uncertain the fate of the Bill as yet unknown and the Senate debate not scheduled to start until 24 June, a July 1 timetable would impose impossible compliance obligations on employers.

It is plain therefore that the only explanation for the Government's obsession is its anxiety to have its Accord deal with the ACTU in place well before the next election. Such a justification is almost a perversion of the democratic process. When the country is crying out for a sensible long term approach to retirement incomes policy, the Government seems determined to honour a back-room deal irrespective of the consequences and in defiance of overwhelming community opposition. The irony is that once the workers of Australia become aware that they are at least in theory expected to forego wage rises and to accept lower standards of living in order to disqualify themselves from the age pension, they will be most unlikely to show any gratitude to the Government at the ballot box.

A group of welfare, women's and community groups, including ACOSS, AFCO, ACOTA, AP&SF, Association of Civilian Widows, WEL and WIN, wrote to the then Treasurer, Mr Kerin, in October 1991 as follows: 'We would regard it as completely unacceptable if the major anomalies, inequities and inefficiencies ... were not addressed prior to further entrenching the current system and legislation'.

As the Government has taken no action to address these issues it is clear that it totally lacks support for pursuing the legislation further at this time.

One cannot help but agree with the BCA, which urged the Government prior to the last Budget 'to postpone its plans to legislate for superannuation until agreement is reached by employers, unions and the Government on the future direction of superannuation and retirement incomes policy.'

It has consistently stressed the need for a 'comprehensive approach to retirement incomes based on outcomes rather than contributions.'

The small business sector will be particularly effected by the SGL legislation as the bulk of non-compliance is in this area and most of this comes about through inability rather than unwillingness to pay, compounded by genuine uncertainties about the appropriate fund.

According to the VACC, the SGL will have devastating effect in the retail motor industry: 'Business across all sectors of this industry will face retrenchments, loss of retained earnings and vulnerability to bankruptcy'.

The arbitrary \$ 500 000 dividing line between 3-5 per cent will particularly affect smaller firms at the margin who will be faced with sudden-death extra costs once their wages bill exceeds the limit. Small firms, with as few as 10-12 employees, could find at the end of the year that their total payroll had pushed them into the four or five per cent bracket. If they have only paid three per cent during the year, then \$10 000 could be payable as a non-deductible fine – yet another massive disincentive to expanding employment.

Small business (those with less than 20 employees) make up 96 per cent of Australian enterprises.

According to the Victorian Employers Chamber of Commerce and Industry (VECCI) the cost to the Australian small business sector of providing superannuation already amounts to \$1.14 billion a year – equal to 60 000 jobs for workers on an average weekly wage. The Australian Chamber of Manufactures is particularly incensed that the Bill deems independent contractors to be employees.

Consultation

As stated in the Committee's first report, *Safeguarding Super*, the SGL initiative is the third attempt since Federation to implement a compulsory system of superannuation coverage. By any standard, it is a large scale development which has the potential, if not properly planned and executed, to have horrendous employment and budgetary outcomes. The Committee heard evidence from a number of employer witnesses that the Government was unwise in not convening a National Conference of relevant parties as requested by the AIRC. Their view is that major legislative initiatives, especially those which will have a deleterious impact on employment and business profitability, should only be taken after full and proper consultative procedures have been followed.

In this case, such procedures have not been adhered to and so the SGL, especially as it is employers who will be footing the bill, will always be at risk.

The Government's refusal to consult with community groups and effected parties is quite extraordinary as the following extracts from the evidence make clear.

One of the best summaries of all the objections to the current legislation was enunciated by Mr Willis on behalf of the MTIA:

First, that the timing of 1 July 1992 will impose an unsustainable cost burden on industry, unavoidably resulting in further business closures and job losses. Given the protracted and the severe recession being experienced and the urgent need to lift business investment to improve both competitiveness and employment opportunities, this new employment tax is totally unjustified; second, that the arbitrary timetable for future contribution increases may also be prejudicial to future economic growth later in the 1990s; third, that the form of the Bill is unnecessarily complex and costly to administer; fourth, that another tier of legal compliance for superannuation will compound the problem of excessive regulations rather than contributing to necessary simplification; fifth, that the many uncertainties of the

proposal, including the extent to which consequential cost increases are to be offset against future wage claims, may cause significant industrial disputation; sixth, that there is no firm provision for direct employee contributions and seventh, that the exemption and thresholds are unrealistically low and will result in a substantial number of costly but ineffectual benefits.²

Mrs Vilgan:
(Queensland Treasury)

We have received no response to any of the submissions raised. We put submissions in on the draft White Paper and on the White Paper. We received no comments back and we were not able to see the legislation in draft form.³

Mr Emery:
(South Australian Federation of Consumer Organisations)

... our Premier wrote on behalf of all Premiers requesting Treasury and other consultation before the legislation was introduced and that request was simply declined...⁴

Jane Elix:
(Director, Australian Treasury)

The Government has undertaken no consultation with the community at large and absolutely minimal consultation with the organised community sector.

Les Scott, in the House of Representatives on 5 May, made it quite clear that the consultative process has occurred between government, business and organised labour ...

... as a result of the last year's lack of demonstrable evidence to support the SGL, and particularly as a result of the last two weeks' pathetic presentations to this Committee by Treasury and other Government officials, public credibility for the SGL has been blown apart.⁵

Eva Cox:
(Womens' Economic Think Tank)

... this is a deal between the Government and the ACTU about something which has got very little to do with retirement income and much more to do with the politics of the union movement and the Government.⁶

² SG evidence, p 67.

³ SG evidence, p 125.

⁴ *ibid.*

⁵ *ibid.*, p 95.

⁶ *ibid.*, p 96.

Mr Emery:

(CEO, SA Treasury – presenting a unanimous submission on behalf of the State Governments)

... about consultation between the commonwealth and State governments. There has been virtually none of any significant despite the importance of the topic, despite the fact that there are about 1.5 million people in State and Territory superannuation schemes and despite the very long experience of States and Territories in this area.⁷

Administrative Problems and Transitional Arrangements

The Bills will pose substantial administrative difficulties for employers, many of whom are likely to find that they have unintentionally failed to comply with its strict requirements and have thereby incurred on SGL shortfall.

In many instances a significant increase in contributions will be involved simply by virtue of updating current award obligations. For example, many awards currently specify a fixed contribution, being three per cent of the appropriate wage when the award was granted – which may be as long ago as 1986. Thus even three per cent of the current wage would effectively require an additional 2-3 per cent payment.

Many industrial awards require superannuation contributions to be paid into particular funds. As a result many employers face considerable administrative difficulties and increased expenses by being required to pay into a multiplicity of industry funds nominated by separate awards which do not allow employers and employees to develop their own superannuation arrangements.

The levy regime perpetuates the continuing lack of freedom for employees to choose their preferred superannuation fund. This is graphically illustrated in Queensland where the retail award allows for employee choice and as a result, an overwhelming number of staff choose to use the company fund instead of REST the industry fund.

The SGL legislation will compound these problems.

Whilst it purports to allow contributions to be made to 'any complying fund' it will not excuse failure to comply with award obligations. Indeed Treasurer Dawkins has made it clear that the Government will support ACTU attempts to vary award provisions so as to absorb the increases in compulsory employer contributions.

As Treasury has recently admitted to the Senate Select Committee, once a compulsory system is in place, there is no economic or financial justification for the retention of an award-based system.

In the United States, England and Canada the tax system is structured to allow people who want to run their own retirement accounts to do so by allowing them to contribute to the institution or fund of their choice, through the investment vehicle of their choice.

⁷ *ibid*, pp 112-113.

But under the SGL regime this will not be possible, except where employers neglect to pay their contributions. In this case the SGL will be collected by the ATO and then invested with the fund of the employee's choice. This illogical outcome offers the only means by which employers and employees can avoid the tyranny of the award system.

Administrative Costs and Transitional Arrangements

The main administrative cost to employers will be complying with the record keeping involved to ensure the correct contributions are made. This will become particularly burdensome after 1992-93, when the monthly contribution period will require individual calculations each month for each employee.

In addition to the employers' costs of arranging for superannuation contributions, there will also be the costs associated with directing any amount paid under the SGL to the individual employee concerned. Where employers have a shortfall in their contributions, they will be subject to the levy to recover the shortfall, an interest component and an administrative charge. The charge will initially consist of a flat amount of \$50, plus an amount of \$30 for each employee in respect of whom the employer has a superannuation shortfall.

Another cost of the scheme will be the increased administration charges of superannuation funds. In cases of low or minimal contributions, it is likely that the charges will be equal to or exceed, the required contribution.

Many awards currently provide for flat rate contributions but these will not satisfy SGL requirements. In many instances a change-over to even the minimum percentage contribution will mean a significant increase in payments.

In addition, the legislation does not sanction a fixed earnings base. As a result, the New South Wales Coal Association estimates that it will be required to pay a quite unnecessary additional \$12 million a year into what is already a very generous scheme.

In this regard the NSW Coal Association submitted that, whilst its members contribute an average of 11 per cent of the superannuation earnings base, the SGL will impose a \$50 to \$130 million impost on the NSW coal industry.⁸ The burden arises because, under an agreement negotiated between employers and unions, with the support of the Commonwealth and NSW Governments, employers will decrease contributions to the NSW coal industry statutory superannuation fund, which does not meet vesting and solvency requirements of the SGL and increase contributions to the award-related accumulation fund or to a company fund. While the switch between funds will mean that contributions are made to a complying fund, the Bill does not allow the contributions basis of the statutory fund (an award-linked reference rate) to be carried over to the accumulation fund (which has no explicit earnings base). This is contrary to the intent of government policy. Broader provision is required for retention of the earnings base for contributions to existing funds.

⁸ SG sub no. 3, p 5.

As the Bill does not contain adequate transition provisions, depending on the start-up date of the new arrangements referred to above, coal industry employers could fail to meet the five per cent levy for 1992-93 for some employees, even though they would be paying at a much higher rate into the non-complying statutory fund.

Should the Government not amend the SGL to take account of this anomaly, it places in jeopardy one of the nation's key export industries.

Further Anomalies

The SGL legislation does not require any levels of contribution for self-employed persons. If it is so important to insist that the employed workforce should be required to accept a compulsory regime there is no good reason why the self employed should be exempt, particularly as are some of the Government's most generous concessions are directed towards them.

Government Employees

The whole thrust of the SGL legislation is to force private sector employers to fully fund ever-increasing amount of superannuation. It therefore makes no sense at all that public sector schemes with current accumulated liabilities of between \$80-\$100 billion are to be excused from the discipline of funded arrangements.

Conclusion and Recommendation

The SGL goes to the heart of the debate about superannuation in this country. It is an Accord solution to an industrial relations problem. It does nothing to address the fundamental complexities and inequities of the present system but merely seeks to force an unaffordable timetable on top of the current unfair and inefficient award based system.

It is for the preceding reasons that we recommend that the Senate not agree to the Superannuation Guarantee Legislation.

MINORITY REPORT – SENATOR KERNOT

Towards a National Retirement Incomes Policy

The superannuation legislation before the Committee has evoked a very strong public debate and a huge amount of media interest. The Democrats regard this as a very healthy process and a vindication of the important reviewing role of the Senate.

Although there were a variety of views both for and against the legislation, there is one common thread binding the evidence given to the Committee. This thread is that all groups in the community want to have a comprehensive retirement incomes policy agreed to and enacted by the Commonwealth Parliament. The community is tired of an environment of uncertainty. People want to be able to plan knowing the rules will not be constantly changed.

This is a great step forward and offers real hope of a rational and generally accepted retirement incomes policy.

I wish to stress that the Democrats support a national, portable superannuation system. We believe that such a system, which is totally integrated with the age pension and social security system is the superior superannuation model. The system in Singapore is without parallel in respect of simplicity, flexibility and popularity with its members.

Such a system would simplify greatly the current complexity by ensuring that everybody was a member of the same fund, that everybody obtained the same benefit for equal contributions, that superannuation is an addition to a minimum pension benefit, that employers and employees only have to deal with one organisation on all superannuation matters, that the exploitation of some superannuation fund members by unscrupulous people is eliminated, that the total amount of superannuation devoted to administration and other charges and fees is substantially reduced, that the money invested in superannuation be used to strengthen local industry and employment, and probably most importantly that the funds would then be guaranteed by the Government.

Unfortunately, despite repeated attempts to convince the Government and the Opposition to support such an approach there is no chance of such a national system being implemented.

Instead the Government has proposed that the Superannuation Guarantee Levy system be introduced.

The Superannuation Guarantee Levy (SGL) Proposal

The SGL legislation proposes to achieve two distinct objectives: to increase the coverage of occupational superannuation, and to increase the amount of contributions to a level adequate to fund a reasonable retirement benefit (nine per cent of salary). It proposes

to do this by **compelling** employers – via the taxation powers in placitum 51(ii) of the Constitution – to make contributions on behalf of their employees at the prescribed rates.

The issue of compulsion has caused a philosophical split between the members of the Committee. The Opposition states that it is philosophically opposed to the notion of compulsory savings. The Democrats do not share this view.

In his evidence to the Committee, the Secretary to the Treasury, Mr Tony Cole, showed that there is a clear market failure in Australia in the self-provision of retirement incomes. If desired outcomes – that is, higher standards of living in retirement – are to be achieved, the market failure must be addressed by Government intervention.

The first objective of the SGL – to widen the coverage of occupational superannuation – is supported by the Democrats.

Since 1983 there has been a massive increase in the proportion of the workforce who are members of superannuation funds. The Australian Bureau of Statistics has reported that 72 per cent of the total workforce (aged 15-74) were members of superannuation funds as at November 1991. Some 78 per cent of employees, 52 per cent of employers and 37 per cent of self-employed persons were covered.

This represents a doubling of coverage over the last decade and is largely due to the introduction of compulsory award superannuation.

Although there has been a dramatic increase in employee coverage there is still a significant problem of non-compliance with some award conditions. This is despite the fact that the industrial relations legislation has been amended to assist compliance. As such, it is reasonable to use the greater resources of the Australian Taxation Office to assist in protecting the legal rights of employees. What is important is an equitable outcome, not the particular legislative method which achieves the outcome.

The second objective of the SGL legislation is to provide an adequate level of retirement benefits. The SGL legislation proposes that by 1 July 2000 all employees will have contributions to the value of nine per cent of their earnings made on their behalf by their employers. However, in evidence presented to the Committee, officials from the Treasury indicated that the Government's interim retirement incomes target by the year 2000 is in fact 12 per cent, not the nine per cent specified in the legislation.

This 12 per cent target was first stated publicly in a speech given by the Member for Blaxland, the Hon P J Keating MP, prior to the formal announcement of the SGL in the 1991/92 Budget. The Budget papers stated:

Consideration will be given to ways, using employee contributions and tax cuts, of increasing the minimum level of superannuation support to 12 per cent by the year 2000.¹

¹. 1991/92 Budget Paper No 1, p 4.7.

Evidence before the Committee on the level of superannuation contributions which are necessary to provide adequate retirement incomes confirmed that 12 per cent is a reasonable target (see particularly Chapter 4 of this report).

Large and Small Employers

The SGL legislation before the Committee proposes a dichotomous contributions system. Employers with a payroll in excess of \$500 000 are considered to be large employers and are to pay five per cent from 1 July rising to nine per cent by 1 July 2000, whereas employers with a payroll of \$500 000 or lower are considered to be small employers and will be liable to three per cent from 1 July rising to nine per cent by 1 July 2000. This dichotomy was not part of the original Accord agreement, but was announced by the Government in the Budget.

In addition, the original timetable as announced in the Budget is different to that in the legislation. The legislation allows a slower phase-in for small employers than the original announcement. Contributions are limited to three per cent until 1 July 1994.

Consequently, there will be no increase in cost for two years for those small businesses which already pay three per cent to their employees. No employer submission received by the Committee has acknowledged this important fact.

Relative to the Accord proposals, it represents a **concession** to small businesses, not a penalty on larger employers. However, it also introduces a significant discrepancy over the short-term for employees, that is, people's compulsory superannuation entitlements vary according to the size of their employer, not their income or their occupation.

Clearly, any reduction in the difference between the two SGL rates will diminish any competitive distortion which arises from a differential cost structure being imposed on business, and will reduce the discrepancies between employees of small and large businesses.

Employment Effects

Each of the employer representatives appearing before the Committee has argued that the SGL will lead to an increase in costs and that this will therefore have an impact on employment. It was further argued that the general economic conditions are still very poor and that this special circumstance must also be taken into account.

Worst case scenario unemployment figures were produced for the Committee by the Treasury. These have been the subject of political manipulation by some members of the Committee, but are clearly not a reasonable estimation of the likely effects of the SGL.

The ACTU argued that employers always oppose all wage claims of employees and that the current position is simply a manifestation of that trend. Further, the ACTU argued the union movement has specifically stated that increases in the SGL will be 'taken into account' in future wage negotiations.

The employers countered that if increased superannuation contributions are legislated, then there is no compulsion for the increased contributions to be taken into account in future wage outcomes.

Clearly there is merit in both positions.

The SGL legislation arose because of an Accord agreement between the Government and the ACTU. There is no doubt that at the time the Accord was agreed to, the view within the Government was that there would not be a severe recession. Subsequently, the Industrial Relations Commission refused for a variety of reasons to ratify the proposal to increase award superannuation from three per cent to six per cent at one per cent per annum. This independent rejection of the proposal on economic grounds also cannot be ignored.

Recommendations:

As noted above, the Government has already altered the implementation timetable without altering the final target level of contributions. Given the concerns about the possible short-term employment consequences of the levy, the implementation schedule should be altered to reduce the proposed five per cent levy on large employers from 1 July 1992 to four per cent.

In addition, the Democrats consider that raising the threshold from \$500 000 to \$1 million will mitigate as far as possible any adverse employment effects in the short-term.

Furthermore, the Democrats insist that the Industrial Relations Act 1988 be amended to make clear that the employers' liability under the SGL must specifically be taken into account by the Australian Industrial Relations Commission when making wage decisions.

Equity Problems of the SGL Proposals

The legislation before the Committee proposes that all employees who earn between \$3 000 and \$80 000 be recipients of the same percentage of income in the form of superannuation contributions. ACOSS and other groups have argued that very low income earners may be worse off if these proposals are implemented.

Certainly for people earning less than the income tax threshold (\$5 400) there will be a disadvantage if future wage increases are taken as superannuation contributions. This disadvantage arises because superannuation contributions and the fund earnings are taxed at a rate of 15 per cent. If the money was paid as wages no tax would arise.

The unions and the Government argue that the option of automatic wage rises to very low income earners is not a realistic option because of the fragmented Federal/State industrial relations tribunals and the lack of industrial muscle for this section of the workforce.

In addition, the charges for administration and life insurance premiums are normally levied on a flat basis and hence impact much more heavily on low income members of superannuation funds.

These problems are not insurmountable. There could be an exemption to the contributions tax in respect of low income earners. A low income earner could be defined as somebody who earns less than a specified amount, say \$6 000. This would increase the complexity of the system, yet it would improve the equity. Such trade-offs are common and desirable in taxation systems.

The administration and other charges should be limited to a certain percentage, say five per cent, of a fund member's accumulated benefit or contributions. I favour a limit with respect to contributions because this exempts people who cease employment and hence cease contributions. This eliminates the problem for casual or itinerant workers who have small superannuation benefits eaten up by charges because they have not made any contributions for long periods of time.

If such exemptions and charge limitation measures were introduced, there does not appear to be an equity problem in commencing the SGL at \$250 per month. The increase to nine per cent will significantly diminish the relative size of this problem.

Recommendation:

It is recommended that the law governing trustees be amended to make clear that different rates of administration charges may apply to members of superannuation funds, and that all such charges be limited to five per cent of the contributions of low-income earners.

The Democrats are extremely disappointed that despite repeated negotiations on this point, the Government has refused to agree to such a proposal.

Wage Settlements

The equity problems referred to above can be more than offset by a situation where the national wage increase negotiated by unions on behalf of all employees is paid as a flat rate amount as opposed as a percentage increase. The Democrats support this kind of arrangement and feel very disappointed that the advantages of this type of arrangement has been ignored by advocates of the position of low income workers.

Recommendation

The Democrats recommend that the Government support flat rate wage settlements in submissions to future national wage cases and in negotiating future wage Accord agreements with the ACTU.

Future supplements to Superannuation

One further issue which has the potential to radically benefit low income earners is the distribution of the additional three per cent referred to in page 2 of this chapter. That is, apart from the nine per cent in the SGL legislation, the Govt apparently has an intention to direct an income tax cut into the superannuation accounts of individual taxpayers.

It is this amount which is without doubt the most crucial when assistance to the lower paid is concerned. When this amount is distributed, it is essential that it be distributed on an equal per capita basis. That is, every member of a superannuation fund should obtain the same amount of the tax cuts. Such an outcome would benefit low income earners and would massively benefit very low income earners. Indeed in an extreme case this flat rate amount could be larger than the nine per cent of their income otherwise payable under the SGL.

Recommendation

That the Government distribute the 'additional three per cent' which is contained in the Government's interim retirement income target of 12 per cent by way of a flat rate income tax cut distributed to all members of superannuation funds so as to further increase the retirement income of low income earners.

One further matter must be mentioned in any discussion on the equity of the legislation before the Committee. The major equity problem in the superannuation system concerns the distributional impact of the \$3.5 billion taxation expenditure.

This matter is not dealt with in this legislation, although it will be considered by the Senate later in the year. The view that the rejection of the SGL legislation would in any way address the inequities inherent in this system is completely incorrect.

Flat Rate Superannuation Arrangements

The SGL raises a further question of equity.

The reliance on identical percentage-based SGL liabilities across the income range of \$3 000 to \$80 000 clearly confers massive benefits on higher income earners relative to lower paid employees. This is somewhat mitigated by the fact that many highly paid employees already enjoy substantial superannuation benefits and so may not gain anything from the legislation.

Apart from the limitation on charges as recommended above, one measure which would increase the equity of the SGL is to encourage the provision of flat rate superannuation arrangements whereby all employees obtain the same amount of superannuation benefit from their employers irrespective of their individual income. Such arrangements already exist in some industries and have been successful.

It is proposed that an additional category of superannuation arrangements should be recognised and encouraged by the SGL legislation. This would involve allowing an employer to extinguish his or her liability to employees by way of a qualifying enterprise or industry superannuation arrangement. This could be through either an industrial award or some other type of employment contract.

Under such an arrangement, an employer would be able to satisfy his or her SGL requirements by providing **aggregate** superannuation contributions equal to those which are required under the legislation, even though not all employees are receiving the required amounts.

Such an arrangement provides flexibility in allocating superannuation benefits. It would ensure that employers cannot reduce the total amount of SGL liability, although they can provide additional benefits to lower income earners. Employers are then free to top up any individual's superannuation benefits as a normal part of salary negotiations.

The ACTU has given evidence to this Committee that it does favour flat rate superannuation arrangements in certain circumstances. Such arrangements can only increase the equity of the superannuation system. They would have to be negotiated between employers and employees, just like all other industrial conditions.

The final benefits provided would not be determined by the salary of an individual employee but would satisfy a community standard on what constitutes a basic retirement income – this is basically what the age pension system achieves.

The Committee heard evidence from the NSW Coal Association that it has successfully managed a flat rate superannuation scheme for many years. The arrangements enjoy wide support amongst the employees of the industry, especially the lower paid workers.

Recommendation

That the Bills be amended to allow employers to satisfy their SGL liabilities by making contributions to a 'qualifying enterprise or industry superannuation arrangement' which provides equal payments to all employees irrespective of their particular income. Part-time and casual workers would receive a proportionate payment according to hours worked.

Technical Problems

There is considerable doubt about the technical structure of the legislation.

To avoid having to pay the SGL, an employer has to make a contribution at the prescribed rates to a **complying superannuation fund**. This is a defined term in income tax legislation. A complying fund is one which qualifies for concessional taxation treatment – that is, is taxed at 15 per cent – and which also adheres to all the other regulations concerning disclosure, trustee representation, et cetera as specified in the *Occupational Superannuation Standards Act* and associated Regulations.

Unfortunately, a fund is not a complying fund unless a certificate of compliance is issued by the Insurance and Superannuation Commissioner after the end of the financial year. As such, employers cannot be certain of technically complying with the legislation even where they have made the appropriate superannuation contributions.

Recommendation

A technical amendment is necessary to deem that a fund which was a complying fund in the previous year continues to be a complying fund unless the employer had reasonable grounds to believe that the fund would not be a complying fund for the year in question.

Another technical matter is the question of the definition of employee. Subclause 12(10) of the Administration Bill includes a local Government councillor as an employee. This issue first arose when the Taxation Commissioner ruled that a councillor was an employee under the *Income Tax Assessment Act 1936* and hence liable to PAYE tax deductions. This was overturned by a court decision and the Government subsequently announced its intention to legislate to include local councillors in the definition of employee. This decision was subsequently reversed.

It is considered reasonable to treat full-time councillors who receive large remuneration in the same manner as State and Federal members of Parliament. However, because of the special nature of councillor remuneration – that is, incidental expense reimbursement – it is not appropriate to deem all councillors to be employees.

Recommendation

That the definition of 'employee' be amended to exclude local government councillors except for those earning full-time salaries in respect of their duties.

Another technical problem is that of the time and steps necessary to amend trust deeds so as to ensure that funds meet the prospective standards necessary to qualify as a complying superannuation fund. The Government correctly argues that there is over a year for the necessary legal work to be done before any SGL liability arises in respect of an employee. However, the position for employers in respect of employees who cease employment after 1 July 1992 but before trust deeds are satisfactorily amended is unfair. Employers will not be able to make qualifying contributions to the relevant fund. As such, an employer will incur a non-tax deductible SGL liability for something which is beyond his or her control.

Recommendation

That a transitional provision be enacted to permit tax deductibility for SGL payments made in respect of 1992-93 on behalf of employees who terminate employment during that period.

One other anomaly in the legislation concerns the situation where an employee refuses to join a superannuation fund. In such a situation, rare as it is, an employer would incur a non-deductible SGL charge even though he or she was not responsible for the non-provision of superannuation contributions.

If the employee had joined the fund, the employer's contributions would have been tax-deductible. Clearly, this situation is unfair.

Recommendation

That SGL payments made by employers in respect of employees who refuse to join a superannuation fund be tax-deductible.

General Reform of the Superannuation System

The legislation before the Committee does not address the fundamental design of the retirement incomes system. Indeed, from the evidence given by Treasury officials, the legislation before the Committee does not even seek to fully implement the Government's interim retirement incomes target of 12 per cent by the year 2000.²

The Government's position is that this legislation simply attempts to create a much larger pool of retirement savings, and that the fundamental design of the retirement incomes framework is a separate and distinct issue which must be dealt with in isolation. In other words, the Government is saying 'pass this legislation and trust us to deal with the other outstanding issues'.

The Australian Democrats do not agree with this approach. As such, the Government has provided a written assurance that it will legislate during the Budget session in respect of the vital area of prudential supervision of superannuation funds.

Furthermore, the questions of fair and responsible taxation arrangements and the transition to a more realistic preservation age have also been agreed to in principle by the Government.

The areas which continue to need reform include:

² SG evidence, p 10.

- the prudential regulation (that is, the financial supervision) of superannuation funds to ensure that members' interests are protected;
- the interaction between the superannuation system and the social security system in such areas as the preservation age, access to age pension fringe benefits for superannuants and the differential taxation regimes which apply to age pensioners and self-funded retirees;
- the current income tax concessions which are highly regressive and strongly favour high income earners;
- the appalling lack of regulation, and disclosure, of the fees and charges which superannuation funds may impose;
- the complexity and incomprehensibility of the superannuation system to most ordinary people;
- the appropriate treatment of accrued superannuation benefits on the breakdown of a marriage;
- the lack of access to superannuation for those not in the workforce;
- the complete lack of regulation of the investment practices of fund managers and the ignoring of the long term economic needs of Australian industry, particularly with respect to development capital; and
- the lack of a credible independent low cost non-legalistic disputes resolution mechanism which will protect the rights of fund members.

APPENDIX A : TERMS OF REFERENCE OF ON-GOING INQUIRY

Terms of Reference

On 5 June 1991 the Senate established a Select Committee on Superannuation to inquire into, and report on, the following matters:

- (a) the constitutional arrangements governing superannuation;
- (b) the taxation arrangements which apply to superannuation;
- (c) the adequacy of prudential control arrangements applying to superannuation funds;
- (d) the implications for the financial system of the expected growth in superannuation fund assets;
- (e) the investment of moneys by superannuation funds;
- (f) the ownership of surpluses in defined benefit superannuation funds;
- (g) the level and structure of fees and commissions charged in relation to superannuation fund membership and asset management;
- (h) the information available to members of superannuation funds;
- (i) the representation of fund members in trustee structures of superannuation funds;
- (j) the dispute resolution mechanisms available to members of superannuation funds;
- (k) the rules applying to contributions and the vesting and preservation of benefits;
- (l) the appropriate means of providing adequate superannuation for part time and casual employees and the feasibility of providing superannuation for people outside the workforce;
- (m) the rate of employer non-compliance with superannuation awards;
- (n) the possibilities for simplifying superannuation;
- (o) the feasibility of providing improved benefits to superannuation arrangements in lieu of increased contributions under superannuation awards in appropriate circumstances;
- (p) the need for an appropriate target and timetable for the achievement of adequate levels of superannuation; and
- (q) any other relevant matters, including superannuation arrangements existing in other countries.

**APPENDIX B: LIST OF WITNESSES RE SGL INQUIRY
(listed alphabetically under date of appearance)**

Wednesday 6 May

Australian Taxation Office

- Mr Brian Nolan, Second Commissioner
- Mr Michael Monahan, Assistant Commissioner, Revenue Collection Systems
- Ms Diedre Gerathy, Assistant Commissioner, Personal Taxation

Insurance and Superannuation Commission

- Mr Ron Dean, Deputy Commissioner for Superannuation
- Mr Nick Stuparich, Assistant Commissioner, Compliance and Reporting
- Ms Wendy Robinson, Compliance and Reporting Branch
- Mr Donald Duval, Australian Government Actuary

Senator the Hon Bob McMullan, Parliamentary Secretary to the Treasurer and Manager of Government Business in the Senate

Treasury

- Mr Tony Cole, Secretary
- Dr Alan Preston, Deputy Secretary (Structural and Taxation)
- Dr Ken Henry, Principal Adviser (Taxation)
- Mr Alan Oster, Senior Adviser, Economics Division

Friday 8 May

Australian Council of Trade Unions

- Mr Iain Ross, Assistant Secretary
- Mr Mike McKay, Senior Industrial Officer

Business Council of Australia

- Mr Peter Wade, Chairman of BCA's superannuation task force and Managing Director, North Broken Hill Peko Ltd
- Mr Ray Stevens, Director, Mercer Campbell Cook and Knight
- Mr Clive Speed, Assistant Director, BCA

Confederation of Australian Industry

- Mr Ian Spicer, Chief Executive
- Mr David Nolan, Director

Metal Trades Industry Association

- Mr Grahame Willis, Director, Finance and Administration

Monday 11 May*Association of Superannuation Funds of Australia*

- Mr Brian Scullin, Executive Director
- Mr David Shirlow, Director of Policy Research

Australian Bankers Association

- Mr Vernon Winley, Chairman, Industrial Relations Group, ABA, and Chief Manager – Employee Relations, Westpac Banking Corporation
- Mr Gordon Joseph, Superannuation Adviser, ABA, and Manager Superannuation Projects, Westpac Banking Corporation
- Mr Terry Cleal, Director, Industrial Relations, ABA

Australian Council of Social Services

- Ms Alison McClelland, Economic Policy Coordinator
- Mr Julian Disney, Policy Resource Coordinator

Australian Federation of Consumer Organisations

- Ms Jane Elix, Director

Australian Taxpayers' Associations

- Mr Eric Ristrom, AM

Block, Mr Ray (Convenor, Strategic Issues Forum Working Party Group, Committee for the Economic Development of Australia)

Coles Myer Ltd

- Ms Elise Callander, General Manager, Employee Relations

*Dixon, Mr Daryl**Government of New South Wales*

- Mr Ian Neale, Assistant Secretary, NSW Treasury
- Mr David McMahon, Director, Policy, NSW Superannuation Office

Government of Queensland

- Mr Dale Hennessy, Director, Government Superannuation Office, Qld Treasury
- Mrs Rosemary Vilgan, Manager, Research and Policy, Government Superannuation Office, Qld Treasury
- Mr Ian Macoun, Chief Executive, Qld Investment Corporation

Government of South Australia

- Mr Peter Emery, Chief Executive Officer, SA Treasury
- Mr Dean Prior, Principal Adviser, Superannuation Policy, SA Treasury

Knox, Associate Professor David (Actuarial Studies, Macquarie University)

Life Insurance Federation of Australia

- Mr Darren Davis, Assistant Manager – Operations
- Mr John Maroney, Superannuation Committee Convener

NSW Coal Association

- Mr Frank Topham, Government Affairs Manager
- Mr Denis Porter, Director, Economic Affairs

Piggott, Professor John (Director, Superannuation Economics Research Group, University of NSW)

Retailers Council of Australia Ltd

- Mr Laurie Eakin, Executive Director

Womens' Economic Think Tank

- Eva Cox, Senior Associate

Wednesday 3 June 1992

Australian Council of Trade Unions

- Mr Iain Ross, Assistant Secretary

Australian Small Business Association

- Mr Peter Boyle, National Director

Business Council of Australia

- Mr Clive Speed, Assistant Director

Confederation of Australian Industry

- Mr David Nolan, Director
- Mr Stephen Kates, Chief Economist

Metal Trades Industry Association

- Mr Grahame Willis, Director, Finance and Administration

APPENDIX C : LIST OF SUBMISSIONS RE SGL INQUIRY

– BY NUMBER

Sub. No.	Name
SG.01	Commonwealth Department of the Parliamentary Library, Parliamentary Research Service, <i>Superannuation Guarantee (Administration) Bill</i> Digest
SG.02	Australian Taxpayers' Associations
SG.03	NSW Coal Association
SG.04	Coles Myer Ltd
SG.05	Aged Care Australia Incorporated
SG.06	SA Treasury
SG.07	Queensland Mining Council
SG.08	National Association of Personnel Consultants
SG.09	Mercer Campbell Cook and Knight
SG.10	Mathews, S
SG.11	Metal Trades Industry Association of Australia (MTIA)
SG.12	ACROD Limited
SG.13	Institute of Engineers Australia
SG.14	Alexander Consulting Group, The
SG.15	Confederation of Australian Industry (CAI)
SG.16	Retailers Council of Australia
SG.17	State and Territory Governments
SG.18	Dixon, D
SG.19	Business Council of Australia (BCA)
SG.20	Association of Superannuation Funds of Australia (ASFA)
SG.21	Business Council of Australia (BCA)
SG.22	Gallagher, P (Policy Co-ordination Unit)
SG.23	Australian Council of Social Service (ACOSS)
SG.24	Women's Economic Think Tank & Women's Electoral Lobby
SG.25	Life Insurance Federation of Australia Incorporated (LIFA)
SG.26	Piggott, Prof J
SG.27	Commonwealth Treasurer: Letter to the Australian Taxpayers Association
SG.28	Queensland Mining Council
SG.29	Australian Council of Trade Unions (ACTU)
SG.30	Commonwealth Treasury – 1 May 1992
SG.31	Commonwealth Treasury – 5 May
SG.32	Commonwealth Treasury – 6 May
SG.33	Australian Taxation Office – 4 May 1992
SG.34	Australian Taxation Office – 11 May 1992
SG.35	Australian Taxation Office – 11 May 1992
SG.36	Commonwealth Department of Industrial Relations – 4 May 1992
SG.37	Clayton Utz
SG.38	Piggott, Prof J (Superannuation Economics Research Group)
SG.39	Confederation of Australian Industry (CAI)

SG.40	Queensland Mining Council
SG.41	Noble Lowndes
SG.42	Pharmacy Guild of Australia, The
SG.43	C S Superannuation Pty Ltd
SG.44	Thompson Douglas Butterell
SG.45	Australian Medical Association – Queensland Branch
SG.46	Australian Bankers Association
SG.47	Commonwealth Treasury – 11 May 1992
SG.48	Commonwealth Treasury – 29 May 1992
SG.49	Queensland Minister for Health
SG.50	Confederation of Australian Industry (CAI)
SG.51	Australian Council of Trade Unions (ACTU)
SG.52	Cradle Runways
SG.53	Mahon, M & V
SG.54	Teow, S
SG.55	Mac's Food Centres Pty Ltd
SG.56	Ostro Pty Ltd/Balga Cheap Foods
SG.57	Jenkins, R
SG.58	Supa-Valu
SG.59	Jamieson, L
SG.60	Office of the Treasurer
SG.61	Turner, P

APPENDIX C : LIST OF SUBMISSIONS RE SGL INQUIRY

– BY ALPHABETICAL ORDER

Sub. No.	Name
SG.12	ACROD Limited
SG.05	Aged Care Australia Incorporated
SG.14	Alexander Consulting Group, The
SG.20	Association of Superannuation Funds of Australia (ASFA)
SG.46	Australian Bankers Association
SG.23	Australian Council of Social Service (ACOSS)
SG.29	Australian Council of Trade Unions (ACTU)
SG.51	Australian Council of Trade Unions (ACTU)
SG.45	Australian Medical Association – Queensland Branch
SG.33	Australian Taxation Office – 4 May 1992
SG.34	Australian Taxation Office – 11 May 1992
SG.35	Australian Taxation Office – 11 May 1992
SG.02	Australian Taxpayers' Associations
SG.21	Business Council of Australia (BCA)
SG.19	Business Council of Australia (BCA)
SG.43	C S Superannuation Pty Ltd
SG.37	Clayton Utz
SG.04	Coles Myer Ltd
SG.36	Commonwealth Department of Industrial Relations – 4 May 1992
SG.01	Commonwealth Department of the Parliamentary Library, Parliamentary Research Service, <i>Superannuation Guarantee (Administration) Bill Digest</i>
SG.27	Commonwealth Treasurer: Letter to the Australian Taxpayers Association
SG.32	Commonwealth Treasury – 6 May
SG.31	Commonwealth Treasury – 5 May
SG.47	Commonwealth Treasury – 11 May 1992
SG.30	Commonwealth Treasury – 1 May 1992
SG.48	Commonwealth Treasury – 29 May 1992
SG.15	Confederation of Australian Industry (CAI)
SG.39	Confederation of Australian Industry (CAI)
SG.50	Confederation of Australian Industry (CAI)
SG.52	Cradle Runways
SG.18	Dixon, D
SG.22	Gallagher, P (Policy Co-ordination Unit)
SG.13	Institute of Engineers Australia
SG.59	Jamieson, L
SG.57	Jenkins, R
SG.25	Life Insurance Federation of Australia Incorporated (LIFA)
SG.55	Mac's Food Centres Pty Ltd
SG.53	Mahon, M & V
SG.10	Mathews, S

SG.09	Mercer Campbell Cook and Knight
SG.11	Metal Trades Industry Association of Australia (MTIA)
SG.08	National Association of Personnel Consultants
SG.41	Noble Lowndes
SG.03	NSW Coal Association
SG.60	Office of the Treasurer
SG.56	Ostro Pty Ltd/Balga Cheap Foods
SG.42	Pharmacy Guild of Australia, The
SG.38	Piggott, Prof J (Superannuation Economics Research Group)
SG.26	Piggott, Prof J
SG.07	Queensland Mining Council
SG.40	Queensland Mining Council
SG.28	Queensland Mining Council
SG.49	Queensland Minister for Health
SG.16	Retailers Council of Australia
SG.06	SA Treasury
SG.17	State and Territory Governments
SG.58	Supa-Valu
SG.54	Teow, S
SG.44	Thompson Douglas Butterell
SG.61	Turner, P
SG.24	Women's Economic Think Tank & Women's Electoral Lobby

APPENDIX D : LIST OF SUBMISSIONS RE ON-GOING INQUIRY
- BY NUMBER

Sub. No.	Name
No. 1	Gynn, W J
No. 2	Fisher F
No. 3	Newman, C A
No. 4	Liquor Trades Union, The
No. 5	Perry, K F
No. 6	Walsh, A
No. 7	Buildings Union Superannuation
No. 8	N E Renton & Associates
No. 9	Serendip Publications
No. 10	InterData Pty Ltd
No. 11	[Not a submission]
No. 12	Trau, Dr J
No. 13	McJannet, D
No. 14	Davies, D
No. 15	Garrett, P R
No. 16	Samson, S W
No. 17	Schwarz, D
No. 18	Restuccia, V
No. 19	Downs, B
No. 20	Clayton Utz
No. 21	Adams, G
No. 22	Lucas, J M
No. 23	Cartledge, O
No. 24	Hearn, G
No. 25	Foley, E
No. 26	Civil Service Association of WA
No. 27	E S Owens & Co
No. 28	Independent Schools Superannuation Trust
No. 29	Burns, W G
No. 30	In camera
No. 31	ACT Council of Social Service Inc
No. 32	Hughes, D
No. 33	Shell Superannuation Rights Committee
No. 34	Australian Salaried Medical Officer
No. 35	Australian Council of Social Service
No. 36	Belshaw, W J
No. 37	Smith, B
No. 38	Boffa, G
No. 39	Arthur Andersen & Co

-
- No. 40 Williams, T
No. 41 Prudential Life Underwriters Association (NSW)
No. 42 Nipper, M R G and Weeks, P L
No. 43 Prudential Assurance Company Ltd
No. 44 Retired Associate Members' Branch Public Service Association of NSW
No. 45 Myuna Pty Ltd
No. 46 du Cros, N
No. 47 Fisk, B
No. 48 Trustee Companies Association
No. 49 Australian Lifewriters Association
No. 50 Australian Small Business Association
No. 51 Long, P D
No. 52 Knox, Professor D
No. 53 Tribunal on Homosexuals and Discrimination
No. 54 Chamen, P
No. 55 Metal Trades Industry Association of Australia
No. 56 National Association of Nursing Homes & Private Hospitals Inc
No. 57 Duesburys
No. 58 Morgan Stockbroking Ltd
No. 59 IOOF Australia
No. 60 Non-Government Schools Superannuation Fund
No. 61 Alexander Consulting Group, The
No. 62 Metal Manufacturers Limited
No. 63 National Australia Bank
No. 64 Women's Action Alliance (Australia)
No. 65 Chamber of Commerce & Industry of WA
No. 66 Melbourne Metropolitan Board of Works (MMBW) Employees' Superannuation Fund
No. 67 Yann, R N
No. 68 Secondary Colleges Staff Association
No. 69 Ulverstone Chamber of Commerce
No. 70 Belshaw, M
No. 71 Wilson, The Hon Ian, MP
No. 72 Crouch, W G
No. 73 ANZ Bank
No. 74 Independent Insurance & Superannuation Agencies
No. 75 Cooley, L M
No. 76 Australian Finance Conference
No. 77 Northern Territory Superannuation Office
No. 78 Lee, W A
No. 79 Mercer Campbell Cook & Knight Inc
No. 80 Noble Lowndes
No. 81 Commonwealth Department of Industrial Relations
No. 82 Klumpes, Dr P J M
No. 83 National Farmers Federation
No. 84 WA Government Employees Superannuation Board
No. 85 Australian Government Employees Superannuation Trust
No. 86 Smith, A W J
No. 87 Turner, M

No. 88	White, B
No. 89	Association of Superannuation Funds of Australia Ltd, The
No. 90	Jacques Martin
No. 91	CSA Consulting Group
No. 92	Mansfield, G
No. 93	Civic Securities Pty Ltd
No. 94	Australian Retirement Fund
No. 95	Australian Chamber of Manufactures
No. 96	AM Corporation Ltd
No. 97	Taxpayers' Association of Tasmania, The
No. 98	County NatWest
No. 99	In camera
No. 100	National Mutual
No. 101	Chifley Superannuation Services
No. 102	Commonwealth Funds Management Ltd
No. 103	Coles Myer Ltd
No. 104	National Association of Personnel Consultants Ltd
No. 105	Bankers Trust Australia Limited
No. 106	Australian Council of Trade Unions
No. 107	Commonwealth Attorney-General's Department
No. 108	Institute of Actuaries of Australia, The
No. 109	Retirement Benefits Office
No. 110	Motor Inn & Motel Association of Australia, The
No. 111	Langley-Bates, D
No. 112	NSW Farmers' Association
No. 113	Motor Trades Association of Australia (MTAA) Superannuation Fund
No. 114	Life Insurance Federation of Australia Inc
No. 115	WA Minister for Productivity and Labour Relations
No. 117	Metway Corporation
No. 118	NSW Minister for Industrial Relations
No. 119	Australian Society of Certified Practising Accountants
No. 120	AMP
No. 121	Hanson, Mr J H
No. 122	SA Minister of Finance
No. 123	Moon, G
No. 124	Taxation Institute of Australia, The
No. 125	Australian Pensioners & Superannuants Federation and Combined Pensioners & Superannuants Association of NSW
No. 126	Women's Economic Think Tank
No. 127	Commonwealth Department of Social Security
No. 128	Qld Director-General, Office of the Cabinet
No. 129	Davey & Associates
No. 130	Women's Electoral Lobby Australia Inc
No. 131	de Visser, L
No. 132	Westpac Banking Corporation
No. 133	Griffin, P
No. 134	Australian International Pilots Association
No. 135	State Insurance Office of Victoria (SIO) Consumer Appeals Centre
No. 136	Australian Friendly Societies Association

-
- No. 137 Whittimore-Hull, J
No. 138 Trades and Labor Council of Western Australia
No. 139 Australian Federation of Consumer Organisations
No. 140 Victorian Automobile Chamber of Commerce
No. 141 Rothschild Australia Asset Management Limited
No. 142 Federated Ironworkers' Association of Australia
No. 143 Jacques Martin - Reply to Tasmanian Taxpayers
No. 144 National Association of Nursing Homes & Private Hospitals Inc
No. 145 Trade Practices Commission
No. 146 Shell Australia Contributory Pension Fund
No. 147 Smith, Dr G F
No. 148 Australian Association of Permanent Building Societies
No. 149 Docker, A R
No. 150 University of NSW Superannuation Economics Research Group
No. 151 Insurance and Superannuation Commission
No. 152 Commonwealth Department of Community Services & Health
No. 153 Crawford, G J
No. 154 Investment Funds Association of Australia Limited
No. 155 Australian Taxation Office, Commissioner of Taxation
No. 156 Langfield-Smith, I
No. 157 Health Employees Superannuation Trust Australia
No. 158 National Mutual - Nexis Proprietary Limited
No. 159 Weijers, A J
No. 160 Foster, W
No. 161 Gierczycki, L M
No. 162 Ramakrishnan, H
No. 163 Permanent Trustee Company Limited
No. 164 Industry Research and Development Board
No. 165 Health Employees Superannuation Trust Australia Ltd (HEST)
No. 166 Shell Superannuation Rights Committee
No. 167 Shell Australia Contributory Pension Fund
No. 168 Unity Action Group for Retired Persons
No. 169 Crome, I
No. 170 Campbell, B G
No. 171 Knight, Dr J
No. 172 Australian Council on Smoking and Health
No. 173 Commonwealth Bank of Australia
No. 174 Clothier, D P
No. 175 Australian Government Employees Superannuation Trust
No. 176 **In camera**
No. 177 Selstay Pty Ltd
No. 178 J G Mulhally & Sons (Vic) Pty Ltd
No. 179 Armstrong, W J
No. 180 Rutter, A
No. 181 Australian Workers' Union
No. 182 Sly and Weigall
No. 183 **In camera**
No. 184 **In camera**
No. 185 SA Employers' Federation

No. 186	Australian Securities Commission
No. 187	Grey, P
No. 188	Pacific Industrial Investments
No. 189	CIG Employees' Superannuation Fund
No. 190	Reserve Bank
No. 191	Aitkin, J
No. 192	Harrower E
No. 193	Grace E
No. 194	University of Melbourne
No. 195	Commonwealth Treasury
No. 196	SBC Dominguez Barry Ltd
No. 197	Financial Planning Association of Australia
No. 198	Commercial and International Finance Consultants Pty Ltd
No. 199	Australian Eagle Superannuation
No. 200	Ellis, M
No. 201	Moore, E J
No. 202	Morley, B
No. 203	Tindal, B
No. 204	Shell Australia Limited
No. 205	Tasmania Treasury
No. 206	Mathews, S R
No. 207	In camera
No. 208	Human Rights and Equal Opportunity Commission
No. 209	In camera
No. 210	Colonial Mutual Investment Management
No. 211	Pollard, D
No. 212	Advance Bank
No. 213	Blanchard, W
No. 214	Moore, A
No. 215	Wilson, R

APPENDIX D : LIST OF SUBMISSIONS RE ON-GOING INQUIRY

– BY ALPHABETICAL ORDER

Sub. No.	Name
No. 31	ACT Council of Social Service Inc
No. 21	Adams, G
No. 212	Advance Bank
No. 191	Aitkin, J
No. 61	Alexander Consulting Group, The
No. 96	AM Corporation Ltd
No. 120	AMP
No. 73	ANZ Bank
No. 179	Armstrong, W J
No. 39	Arthur Andersen & Co
No. 89	Association of Superannuation Funds of Australia Ltd, The
No. 148	Australian Association of Permanent Building Societies
No. 95	Australian Chamber of Manufactures
No. 35	Australian Council of Social Service
No. 106	Australian Council of Trade Unions
No. 172	Australian Council on Smoking and Health
No. 199	Australian Eagle Superannuation
No. 139	Australian Federation of Consumer Organisations
No. 76	Australian Finance Conference
No. 136	Australian Friendly Societies Association
No. 85	Australian Government Employees Superannuation Trust
No. 175	Australian Government Employees Superannuation Trust
No. 134	Australian International Pilots Association
No. 49	Australian Lifewriters Association
No. 125	Australian Pensioners & Superannuants Federation and Combined Pensioners & Superannuants Association of NSW
No. 94	Australian Retirement Fund
No. 34	Australian Salaried Medical Officer
No. 186	Australian Securities Commission
No. 50	Australian Small Business Association
No. 119	Australian Society of Certified Practising Accountants
No. 155	Australian Taxation Office, Commissioner of Taxation
No. 181	Australian Workers' Union
No. 105	Bankers Trust Australia Limited
No. 70	Belshaw, M
No. 36	Belshaw, W J
No. 213	Blanchard, W
No. 38	Boffa, G
No. 7	Buildings Union Superannuation

No. 29	Burns, W G
No. 170	Campbell, B G
No. 23	Cartledge, O
No. 65	Chamber of Commerce & Industry of WA
No. 54	Chamen, P
No. 101	Chifley Superannuation Services
No. 189	CIG Employees' Superannuation Fund
No. 93	Civic Securities Pty Ltd
No. 26	Civil Service Association of WA
No. 20	Clayton Utz
No. 174	Clothier, D P
No. 103	Coles Myer Ltd
No. 210	Colonial Mutual Investment Management
No. 198	Commercial and International Finance Consultants Pty Ltd
No. 107	Commonwealth Attorney-General's Department
No. 173	Commonwealth Bank of Australia
No. 152	Commonwealth Department of Community Services & Health
No. 81	Commonwealth Department of Industrial Relations
No. 127	Commonwealth Department of Social Security
No. 102	Commonwealth Funds Management Ltd
No. 195	Commonwealth Treasury
No. 75	Cooley, L M
No. 98	County NatWest
No. 153	Crawford, G J
No. 169	Crome, I
No. 72	Crouch, W G
No. 91	CSA Consulting Group
No. 129	Davey & Associates
No. 14	Davies, D
No. 131	de Visser, L
No. 149	Docker, A R
No. 19	Downs, B
No. 46	du Cros, N
No. 57	Duesburys
No. 200	Ellis, M
No. 142	Federated Ironworkers' Association of Australia
No. 197	Financial Planning Association of Australia
No. 2	Fisher F
No. 47	Fisk, B
No. 25	Foley, E
No. 160	Foster, W
No. 15	Garrett, P R
No. 161	Gierczycki, L M
No. 193	Grace E
No. 187	Grey, P
No. 133	Griffin, P
No. 1	Gynn, W J
No. 121	Hanson, Mr J H
No. 192	Harrower E

No. 157	Health Employees Superannuation Trust Australia Ltd (HEST)
No. 165	Health Employees Superannuation Trust Australia Ltd
No. 24	Hearn, G
No. 32	Hughes, D
No. 208	Human Rights and Equal Opportunity Commission
No. 176	<i>In camera</i>
No. 99	<i>In camera</i>
No. 30	<i>In camera</i>
No. 207	<i>In camera</i>
No. 184	<i>In camera</i>
No. 209	<i>In camera</i>
No. 183	<i>In camera</i>
No. 74	Independent Insurance & Superannuation Agencies
No. 28	Independent Schools Superannuation Trust
No. 164	Industry Research and Development Board
No. 108	Institute of Actuaries of Australia, The
No. 151	Insurance and Superannuation Commission
No. 10	InterData Pty Ltd
No. 154	Investment Funds Association of Australia Limited
No. 59	IOOF Australia
No. 90	Jacques Martin
No. 143	Jacques Martin - Reply to Tasmanian Taxpayers
No. 82	Klumpes, Dr P J M
No. 171	Knight, Dr J
No. 52	Knox, Professor D
No. 156	Langfield-Smith, I
No. 111	Langley-Bates, D
No. 78	Lee, W A
No. 114	Life Insurance Federation of Australia Inc
No. 4	Liquor Trades Union, The
No. 51	Long, P D
No. 22	Lucas, J M
No. 92	Mansfield, G
No. 206	Mathews, S R
No. 13	McJannet, D
No. 66	Melbourne Metropolitan Board of Works (MMBW) Employees' Superannuation Fund
No. 79	Mercer Campbell Cook & Knight Inc
No. 62	Metal Manufacturers Limited
No. 55	Metal Trades Industry Association of Australia
No. 117	Metway Corporation
No. 123	Moon, G
No. 214	Moore, A
No. 201	Moore, E J
No. 58	Morgan Stockbroking Ltd
No. 202	Morley, B
No. 110	Motor Inn & Motel Association of Australia, The
No. 113	Motor Trades Association of Australia (MTAA) Superannuation Fund
No. 178	Mulhallen, J G, & Sons (Vic) Pty Ltd

No. 45	Myuna Pty Ltd
No. 56	National Association of Nursing Homes & Private Hospitals Inc
No. 144	National Association of Nursing Homes & Private Hospitals Inc
No. 104	National Association of Personnel Consultants Ltd
No. 63	National Australia Bank
No. 83	National Farmers Federation
No. 100	National Mutual
No. 158	National Mutual - Nexis Proprietary Limited
No. 3	Newman, C A
No. 42	Nipper, M R G and Weeks, P L
No. 80	Noble Lowndes
No. 60	Non-Government Schools Superannuation Fund
No. 77	Northern Territory Superannuation Office
No. 112	NSW Farmers' Association
No. 118	NSW Minister for Industrial Relations
No. 27	Owens & Co, E S
No. 188	Pacific Industrial Investments
No. 163	Permanent Trustee Company Limited
No. 5	Perry, K F
No. 211	Pollard, D
No. 43	Prudential Assurance Company Ltd
No. 41	Prudential Life Underwriters Association (NSW)
No. 128	Qld Director-General, Office of the Cabinet
No. 162	Ramakrishnan, H
No. 8	Renton & Associates, N E
No. 190	Reserve Bank
No. 18	Restuccia, V
No. 44	Retired Associate Members' Branch Public Service Association of NSW
No. 109	Retirement Benefits Office
No. 141	Rothschild Australia Asset Management Limited
No. 180	Rutter, A
No. 185	SA Employers' Federation
No. 122	SA Minister of Finance
No. 16	Samson, S W
No. 196	SBC Dominguez Barry Ltd
No. 17	Schwarz, D
No. 68	Secondary Colleges Staff Association
No. 177	Selstay Pty Ltd
No. 9	Serendip Publications
No. 167	Shell Australia Contributory Pension Fund
No. 146	Shell Australia Contributory Pension Fund
No. 204	Shell Australia Limited
No. 166	Shell Superannuation Rights Committee
No. 33	Shell Superannuation Rights Committee
No. 182	Sly and Weigall
No. 86	Smith, A W J
No. 37	Smith, B
No. 147	Smith, Dr G F
No. 135	State Insurance Office of Victoria (SIO) Consumer Appeals Centre

No. 205	Tasmania Treasury
No. 124	Taxation Institute of Australia, The
No. 97	Taxpayers' Association of Tasmania, The
No. 203	Tindal, B
No. 145	Trade Practices Commission
No. 138	Trades and Labor Council of Western Australia
No. 12	Trau, Dr J
No. 53	Tribunal on Homosexuals and Discrimination
No. 48	Trustee Companies Association
No. 87	Turner, M
No. 69	Ulverstone Chamber of Commerce
No. 168	Unity Action Group for Retired Persons
No. 194	University of Melbourne
No. 150	University of NSW Superannuation Economics Research Group
No. 140	Victorian Automobile Chamber of Commerce
No. 84	WA Government Employees Superannuation Board
No. 115	WA Minister for Productivity and Labour Relations
No. 6	Walsh, A
No. 159	Weijers, A J
No. 132	Westpac Banking Corporation
No. 88	White, B
No. 137	Whittimore-Hull, J
No. 40	Williams, T
No. 215	Wilson, R
No. 71	Wilson, The Hon Ian, MP,
No. 64	Women's Action Alliance (Australia)
No. 126	Women's Economic Think Tank
No. 130	Women's Electoral Lobby Australia Inc
No. 67	Yann, R N
No. 11	[Not a submission]

APPENDIX E : GOVERNMENT AMENDMENTS AS MOVED IN THE HOUSE OF REPRESENTATIVES

(1) Clause 6, page 3, subclause (1), definition of 'defined benefit superannuation scheme', line 32, omit 'superannuation' (where last occurring).

(2) Clause 6, page 4, subclause (1), definition of 'ordinary time earnings', lines 34 to 38, omit the definition, substitute the following definition:

'ordinary time earnings', in relation to an employee, means:

(a) the total of:

(i) earnings in respect of ordinary hours of work; and

(ii) earnings consisting of over-award payments, shift-loading or commission; or

(b) if the total ascertained in accordance with paragraph (a) would be greater than the maximum contribution base for the contribution period – the maximum contribution base.

(3) Clause 6, page 5, subclause (1), definition of 'public sector scheme', line 1, omit 'superannuation scheme', substitute 'scheme of superannuation'.

(4) Clause 6, page 5, subclause (1), definition of 'superannuation scheme', lines 22 to 24, omit paragraphs (a) and (b), substitute the following paragraphs:

(a) a defined benefit superannuation scheme whether or not embodied in the governing rules of a superannuation fund; or

(b) any other scheme embodied in the governing rules of a superannuation fund.'

(5) Clause 6, page 6, at the end of the clause add the following subclause:

'(3) For the purposes of this Act, a reference to salary or wages paid by an employer to an employee includes a reference to a payment made on behalf of the employer.'

(6) Clause 13, page 10, subclause (3), lines 8 to 11, omit the subclause, substitute the following subclause:

'(3) If an employee's notional earnings base ascertained in accordance with subsection (2) in relation to a contribution period would be an amount

greater than the maximum contribution base for that period, the employee's notional earnings base is the maximum contribution base.'

- (7) Clause 14, page 11, subclause (4), lines 8 to 11, omit the subclause, substitute the following subclause:

'(4) If an employee's notional earnings base ascertained in accordance with subsection (2) in relation to a contribution period would be an amount greater than the maximum contribution base for that period, the employee's notional earnings base is the maximum contribution base.'

- (8) Clause 23, page 18, subclause (6), line 29, omit 'Subject to subsection (8), a contribution to a', substitute 'A contribution to a complying'.

- (9) Clause 23, page 18, lines 35 to 43 and page 19, lines 1 and 2, omit subclauses (7) and (8), insert the following subclauses:

'(7) A contribution to a complying superannuation fund made by an employer for the benefit of an employee may be taken into account under this section as if it had been made during a particular contribution period commencing after 30 June 1993 if the contribution is made:

(a) not more than 12 months before the beginning of the contribution period; or

(b) not more than 28 days after the end of the contribution period.

(8) A contribution to a superannuation fund made by an employer for the benefit of an employee that is taken into account under this section in relation to a contribution period is not to be taken into account under this section in relation to any other contribution period.'

- (10) Clause 24, page 19, at the end of subclause (1) add the following paragraph:

'(d) salary or wages paid to an employee who is a prescribed employee for the purposes of this paragraph.'

- (11) After clause 62, page 37, insert the following new clause:

Payment not subject to taxation

'62A. An amount paid under section 61 or 62 is not subject to taxation under a law of the Commonwealth.'

APPENDIX F : GOVERNMENT RESPONSES TO THE ISSUES RAISED BY THE AUSTRALIAN DEMOCRATS

1. GENERAL

- 1.1 Prudential supervision: The Australian Democrats request a clear and specific commitment from the Government on the Senate Select Committee Report on *Safeguarding Superannuation*

GOVERNMENT RESPONSE

The Government on 4 June 1992 welcomed the Committee's report and announced its intention to develop a detailed package of measures concerning prudential supervision for introduction to Parliament in the forthcoming Budget Sitzings. It is important in developing that package that the Government be able to consult with the industry, and bodies such as the Institute of Actuaries of Australia, so that a balance is achieved between the costs and benefits to contributors of enhanced prudential supervision. The Government is also required to consider other important reports (such as those of the Industry Commission and the Australian Law Reform Commission) which have made recommendations on matters canvassed in the Senate Select Committee's report.

But the Government is able to indicate the direction it wishes to follow in considering the recommendations of the Senate Select Committee on Superannuation report *Safeguarding Superannuation*, released on 4 June 1992.

The Committee recommends that the ISC become the sole regulator of superannuation products, but that it liaise and co-ordinate with the RBA, ASC and TPC.

This recommendation accords with the Government's announcement in the 1991-92 Budget on the role of the ISC and with the Treasurer's announcement of 5 June 1992, on the Government's response to the Martin Committee, that a Council of Financial Supervisors would be established to improve the consultative links between financial supervisors. This Council would comprise officers of the RBA, ISC and ASC, and would meet at least biannually and would be chaired by the RBA.

The Committee recommends that the main duties and responsibilities of trustees and directors of corporate trustees be clearly spelt out in the Occupational Superannuation Standards Act (OSSA).

The Government supports the codification of certain trust law principles for inclusion in that Act. Detailed proposals on this are being developed for the Government's consideration.

An industry fidelity fund be established to protect members in the event of fraud.

The Government is considering the issue of fidelity funds; the feasible coverage of such funds; whether industry coverage should be voluntary or compulsory; the likely costs and benefits of such funds; and the changed expectation and behaviour which might result from such funds. It is not yet in a position to respond to this recommendation.

The OSSA be altered so that

- (i) the ISC can impose civil and criminal penalties;
- (ii) trustees and directors can be removed where they are not fulfilling fiduciary obligations;
- (iii) civil proceedings can be instituted by the ISC against trustees on behalf of members.

Recommendations (i) and (ii) are consistent with the Committee's recommendation on codification (see above) which the Government supports. The precise nature and extent of the enhanced powers to be proposed for the ISC would need to minimize the prospect of subjective action by the ISC and to reduce intrusion by the ISC on the normal responsibilities of members towards their trustees and directors. Recommendation (iii) does affect these responsibilities and the Government would wish to consider that issue further and in the context of the powers and duties of other regulators, such as the TPC.

The Committee recommends that the requirement for equal employer/employee representation should apply to all funds with 5 or more members (cf the current threshold of 200 members or more).

The Government agrees to the appropriateness of a lower threshold for equal representation – or the appointment of an independent trustee. It will examine such a lower threshold in terms of its practicalities and costs for members.

The Committee recommends that a central fund be established for unclaimed benefit funds (or inactive accounts) with its administration tendered out by the Government on a fee for service basis.

The Government agrees that a central fund could be appropriate to reduce the costs faced by individual funds in managing inactive accounts. It proposes to consider detailed arrangements for such a fund.

The Committee recommends:

- (i) that members approve a repatriation of a surplus in a defined benefit scheme to the employer;
- (ii) various rules be applied to defined benefit funds regarding, for example, the maximum size of a surplus and a minimum ratio of assets to liabilities.

These recommendations require detailed consideration eg. as to the liability of employers for defined benefits; the role of any employee contributions in meeting defined benefits;

and the appropriateness of a minimum funding standard. A Government response to the recommendations would need to be informed by these technical considerations. In general, however, the Government can support a requirement that members be consulted before major changes to their funds are effected, eg. as to the disposition of any surpluses.

The Committee recommends that the funds maximum investment in in-house assets be reduced from ten per cent to five per cent.

The Government supports the basis of the Committee's recommendation and has asked that detailed proposals to improve the integrity of the in-house assets rule be developed for its consideration.

The Committee recommends that trustees who act as investment managers of superannuation funds be required to hold dealers' licences.

The Government accepts that such trustees should be treated consistently with the treatment of other investment managers who are required to hold a dealers' licence.

The Committee's majority recommendations in the investment area are that:

- (i) no investment controls be placed on superannuation fund investments
- (ii) the matter be re-examined within three years.

Its minority recommendation is that a National Development Fund be established with one per cent of superannuation fund assets for directed investment for the development of new technology and for patient development capital for smaller firms and that no more than 20 per cent of assets of superannuation funds be invested off-shore.

The Government announced in 'One Nation' in February 1992 the establishment of programs for the development of new technology and for patient capital. In particular, the pooled development fund initiative is specifically directed at the sorts of investment of concern in the minority recommendation. In designing this measure, the Government has deliberately set up a mechanism that will encourage superannuation funds to invest in these areas. The Government is willing to consider further refinements to the pooled development funds measure if necessary. Consistent with its earlier statements, the Government prefers to use incentives for these purposes rather than directing members' funds in order to support the broader goals of society. Any such direction would give rise to claims that members' funds are not being maximised for their intended purposes – members' retirement incomes – and/or are being subjected to unduly high risk.

The Committee's main recommendation on the scope of the superannuation industry is that the Government support increased competition by supporting new entrants.

The Government supports increasing efficiency through increased competition and is considering the role of bank account superannuation and superannuation savings accounts in this context.

The Committee recommends that:

- (i) all funds formalise internal dispute resolution mechanisms;
- (ii) the establishment of an external dispute resolution mechanism.

Proposals are being developed in response to the Government's intention (announced in the 1991-92 Budget) and the Committees' recommendations on this matter. The Government then intends to consult with industry on a proposed approach to dispute resolution.

The Committee recommends that the Government seek wider powers over superannuation and legislate relying on a combination of taxation, corporation and pension powers.

This recommendation is in accord with the Government's 1991-92 Budget announcement. The Government is obtaining legal advice on the matter and will respond after that advice has been considered.

- 1.2 Preservation age: The Australian Democrats propose setting the preservation age at 60, except for occupations with a lower statutory retirement age. The Australian Democrats suggest that the preservation age could be phased in over, say, 15 years.

GOVERNMENT RESPONSE

The Government intends to replace the current preservation arrangements with provisions requiring all future superannuation benefits to be preserved to the preservation age after 1 July 1993

- this measure will increase substantially the proportion of superannuation savings that are subject to preservation.

The Government is also willing to consider increasing the preservation age, so that by 2025 virtually all superannuation benefits will be preserved to age 60

- some flexibility in the access to superannuation benefits allowed between the ages of 55 and 60 would also be considered.

- 1.3 Taxation of lump sums: The Australian Democrats propose setting a maximum (indexed) lump sum amount.

GOVERNMENT RESPONSE

The Government proposes to announce in its Superannuation Simplification Policy new arrangements for reasonable benefits limits. These arrangements will include an indexed fixed dollar cap on the lump sum RBL, together with transitional arrangements.

- 1.4 Taxation of contributions: The Australian Democrats propose taxing contributions at different rates depending on the income of the member. In particular, they propose exempting low income earners' contributions and applying higher rates of tax to higher income earners' contributions.

GOVERNMENT RESPONSE

The Government considers that it would be extremely difficult to administer a system of varying rates of tax on employer contributions, depending on the income of the employees on whose behalf the contributions were made. Such a system would add significantly to the administrative and compliance costs of the SGC, which would result in lower retirement incomes. Moreover, differences in tax rates applied to employer contributions would open avenues for tax avoidance.

The Government is, however, willing to consider other ways to ameliorate the impact of fund charges and taxes on small contributions. For example, the Government will consider measuring compliance with the SGC on a quarterly basis and lifting the income threshold from \$250/month.

- 1.5 The Australian Democrats propose that the Government should address the alleged bias against self-funded retirees in respect of income tax and fringe benefits.

GOVERNMENT RESPONSE

The income tax system is not biased against self-funded retirees. Indeed, self-funded retirees have often benefited from substantial tax concessions during the period that they have accumulated their retirement savings.

The Government is examining a range of issues that relate to the tax and social security treatment of retired persons in the Budget context.

2 SGC SPECIFIC

- 2.1 Impact on employment: Senator Kernot requests answers to questions, on the impact of introducing the SGC at the rate of 4 per cent for large businesses and on changing the small business threshold to \$1 million or \$1.5 million, she asked in the Senate Select Committee's hearings.

GOVERNMENT RESPONSE

The answers to Senator Kernot's questions will be provided to the Senate Select Committee's Secretariat on 15 June 1992.

- 2.2 The Australian Democrats propose moving the system from a monthly basis to a quarterly basis from 1 July 1993.

GOVERNMENT RESPONSE

The Government is willing to adopt a quarterly system for the SGC from the 1993-94 year. Under this system, employer superannuation support would be measured on a quarterly basis. The employer would be expected to provide the prescribed minimum level of superannuation support during the quarter or within 28 days of the end of the quarter

- this system would not override monthly compliance obligations that may arise under an award superannuation provision.

- 2.3 The Australian Democrats think that the exemption threshold (\$250/month) can stay if:

- there is a limit placed on the administration fees funds can charge;
- insurance is made voluntary; and
- contributions are exempt where they are made on behalf of low income earners.

GOVERNMENT RESPONSE

The Government is not attracted to requiring superannuation funds to cross subsidise members according to their incomes by placing a cap on administration fees.

The SGC does not require insurance. The Government understands that insurance is voluntary in some funds.

The Government believes that it would be administratively complex to apply different rates of tax to employer contributions depending on the incomes of the employees on whose behalf the contributions are made. Moreover, multiple rates of tax would open up avenues for tax avoidance. For these reasons, the Government is not attracted to exempting contributions made on behalf of low income earners.

In these circumstances, the Government believes that a more appropriate method of addressing the concerns raised by the Australian Democrats would be to consider lifting the exemption threshold to \$450/month.

- 2.4 The Australian Democrats propose that the SGC legislation be amended in order that flat rate enterprise (or industry) superannuation awards be allowed to override the requirement that the superannuation guarantee percentage be contributed for each individual employee. This would only apply where the employer's total contributions are larger than or equal to those that would apply under the SGC.

GOVERNMENT RESPONSE

It would be extremely difficult to administer a system that allowed flat dollar employer contributions based on the aggregate SGC obligation across all of an employer's employees. The Government believes that administrative factors would not permit such a system.

- 2.5 The Australian Democrats seek much more clarification on the linkages between increases in the SGC and future wage negotiations.

GOVERNMENT RESPONSE

The Government has previously indicated that, on present information about inflation, earnings growth and output growth, there would appear to be room for a national wage increase and the SGC over the course of 1992-93, consistent with its inflation target.

However, the Government has given no commitment on the timing of a national wage increase or the quantum of such an increase. It observes that the ACTU has not formulated a claim and there have been no discussions with the Government on timing or quantum.

The Government has also indicated that the provision of additional superannuation under a Superannuation Guarantee Charge would be taken into account by the Government in determining its attitude on a national wage increase. Thus, for example, should a national wage increase be granted which was inconsistent with the Government's view of the economy's capacity to absorb that increase, the Government retains the option to ask the Parliament to legislate more modest SGC provisions than those now planned.

The provision of further details on the linkages must, however, await the formulation of a proposal which is specific as to the timing and quantum which proposals can be assessed in light of the Government's relevant economic forecasts.

That assessment would be guided by information already provided to the Australian Democrats that, on even modest forecasts of productivity growth, the implementation of the SGC over the decade will equal only one third of expected productivity gains.

Furthermore, on an assumption of a full offset in wages to the SGC, there would be negligible employment losses with an SGC of 5 per cent.

While employment losses would be encountered on the hypothetical and extreme assumption that 5 per cent SGC would add fully to unit labour costs, that assumption is entirely contrary to the Government's stated policy and to the productivity forecasts noted above.

- 2.6 The Australian Democrats seek a Government commitment that community services such as HACC, child care, etc will receive supplementation to cover the SGC, so that services are not cut.

GOVERNMENT RESPONSE

Costs such as superannuation contributions are routinely taken into account in examining the efficiency of programs such as HACC. Supplementation must take into account productivity and efficiency gains, changes in prices of other inputs, etc. This suggests that a dollar-for-dollar supplementation is neither feasible nor desirable. Nevertheless, the total remuneration of employees, including superannuation contributions stemming from the SGC, will be taken into account in relation to the funding of projects in these programs.

2.7 The Australian Democrats propose that the SGC, interest and the ATO's administrative fee be tax deductible in the following circumstances:

- (a) where the employee refuses to join a superannuation fund so that the employer cannot discharge an SGC liability;
- (b) where the employee leaves during the first year and the employer cannot make qualifying contributions for whatever reason; and
- (c) where the fund to which contributions have been made is not a complying fund and the employer could not reasonably know of this – subject to vesting to protect the employee.

GOVERNMENT RESPONSE

(a) Whether or not an employee can in fact refuse to join a fund depends on the rules of the particular fund. In some cases, where an employer makes contributions on behalf of an employee, the employee is automatically and irrevocably a member of the fund. In other cases, employees can refuse to join a fund, simply by refusing to fill in a form

- in these circumstances, the employer always has the option of making contributions to another fund.

The Government is examining this issue in the context of prudential supervision of superannuation funds.

(b) The Government is drafting amendments to the Occupational Superannuation Standards legislation to enable employers to make contributions on behalf of former employees

- such contributions would be tax deductible to the employer.

(c) The Government is drafting an amendment to the Occupational Superannuation Standards legislation that will ensure as far as is practical that SGC contributions will not be made to non-complying superannuation funds

- the Insurance and Superannuation Commission will publish a list of complying funds.

2.8 The Australian Democrats propose that certain companies be treated as small employers, irrespective of their annual payrolls: for example, group training companies and labour hire firms.

GOVERNMENT RESPONSE

The Government sees no reason to treat labour hire firms differently from other employers. To provide a special provision for such employers would cut across tax equity and neutrality objectives and would not sit well with the Government's retirement incomes policy. Moreover, any such special provision would involve difficult boundary issues; for example, such a firm could be a part of a larger company group.

It is also aware that, in law, the Government is unable to distinguish between group training companies and other like companies. The Government would consider providing grants to reduce any difficulties which affect group training companies.

2.9 The Australian Democrats propose that:

- local government councillors be exempt from the SGC unless they are on normal salaries; and
- the contractors provision be clarified.

GOVERNMENT RESPONSE

Local Government Councillors

The Government intends moving an amendment to the SGC legislation to remove a technical defect that seemingly brings local councillors automatically within the definition of 'employee'. The Australian Taxation Office has advised that the word 'payment' in the relevant clause of the Bill be changed to the word 'remuneration'

- this amendment will result in local councillors who receive salary or wages being covered by the Superannuation Guarantee. Other local councillors, who typically receive a monthly payment for attending meetings, will not be covered by the Superannuation Guarantee.

Contractors

The Commissioner of Taxation will issue a ruling on the whole issue of who is an employee and who is an employer shortly after the legislation is passed. This ruling should go a long way to resolving the uncertainties about this matter.

The following comments are offered to assist the Australian Democrats in understanding the provision.

Background

Clause 12(3) of the Superannuation Guarantee Bill includes as 'employees' persons who work under contract that is wholly or principally for their labour. The provision is designed to include a person who may not be an employee in the normal sense but who is in fact not very distinguishable from an employee.

Under subclauses 11(2) and 12(11) of the Bill, salary or wages paid to a person who works 30 hours or less per week, where that work is wholly or principally of a domestic or private nature, is not taken into account for superannuation guarantee scheme purposes.

Contract

Whether someone is a contractor rather than a common law employee will be a question of fact. The Commissioner of Taxation's view (see IT 2129) is that a contractor, as distinct from an employee, is someone who:

- Is contracted to perform a specific task within a specific time for an agreed amount of money;
- otherwise has freedom in the way the task is performed;
- doesn't have the normal entitlement of employees, such as leave and sick pay;
- normally renders accounts payable by invoice;
- bears the responsibility, and liability, for losses;
- generally is not eligible for workers' compensation from the principal;
- generally will be available to perform services for the public at large.

The mere fact that someone is a contractor does not mean that clause 12(3) will apply. That will depend on whether all the tests in 12(3) are satisfied (see below).

Wholly or Principally

The Commissioner of Taxation's view is that a contract is principally for labour where the labour content exceeds 50 per cent of the value of the contract (see IT 2129). The Commissioner would not simply accept the values the parties to the contract assigned to each of its elements. Instead, he would use a market based apportionment made in the context of the contract's overall value.

For Labour

'Labour' is not defined in the Bill. The usual position is that labour means work of a physical nature. But the courts tend to take a wider view of this context and include work which is physical, mental or artistic (*DFCT v Bolwell* (1967) 1 ATR 862).

Whose Labour?

Subclause 12(3) requires the contract to be for the labour of the person who works under the contract.

In *Neale v Atlas Products (Vic) Pty Ltd* (1955) 10 ATD 460, the High Court decided (at p461) that, if the contractor is free to engage others to perform the work for him, the contract is not for his labour. This is so even if the contractor actually did perform the work himself and had no intention of doing otherwise.

Amendments have limited the scope of this decision in the PAYE context. But there are no similar provisions in the Superannuation Guarantee Bill.

Accordingly, subclause 12(3) would apply only where the contract, either expressly or impliedly, required the work to be done by the party to the contract.

Professionals

Accountants and lawyers are concerned that they may be treated as employees of their clients for the purposes of the Superannuation Guarantee Legislation.

This concern seems to be unfounded. In *Bolwell*, the court said that professionals are not employed under contracts for labour because their efforts result in something of their own creation, defined and limited according to their talents. People employed under contracts for labour are those employed to achieve a result determined or defined by someone else.

Partnerships

Another issue that has been brought to the Government's attention concerns whether a partner, who performs work under a contract entered into by the partnership, can be said to be an employee of the other party.

One view is that, because the Bill says that it applies as if a partnership were a legal person, a fictional entity is inserted between the principal and the partners so that they cannot be the principal's employees. A consequence of this view would be that forming 'husband and wife' partnerships could become a common avoidance technique. Another may be that partners would effectively be deemed to be their own employees.

The other view is that the Bill does not say that it applies as if a contract with the partners were a contract with a separate legal entity. The consequence of this view would be that a partner who performs work would be treated as an employee of the principal.

This would probably not affect large professional partnerships, because it is difficult to envisage cases where the work would be required to be done by a particular partner. So the contract would not usually be one for that partner's labour.

The Australian Taxation Office is examining the issues raised by this debate.

The Pay As You Earn (PAYE) and Prescribed Payments (PPS) Systems

The Superannuation Guarantee Bill generally requires superannuation contributions to be made for people employed to work under a contract wholly or principally for their labour.

The PAYE system extends to payments made to a person under a contract principally for the labour of the person to whom the payments are made unless they are covered by PPS.

For a person to be covered by PPS, he or she must not be an employee at common law; must be employed under a contract which in whole or in part involves the performance of work; and must be in one of nine specified industries.

There may be some people who are not covered by the PAYE system who will be covered by the Superannuation Guarantee.

Common Law Employees

Many people who describe themselves as 'contractors' are in fact common law employees. Such people are covered by the Superannuation Guarantee, regardless of the contractors question.

- 2.10 The Australian Democrats propose that the large employer threshold be lifted from \$500 000 annual payroll to \$1.5 million annual payroll.

GOVERNMENT RESPONSE

The Government sees good reason for the \$500 000 large business threshold: it is consistent with the Training Guarantee Scheme and is broadly consistent with similar thresholds in State payroll taxes. Nevertheless, the Government is prepared to consider lifting the threshold to \$1 million.

- 2.11 The Australian Democrats propose that the SGC be introduced in 1992/93 at the rates of 3 per cent for small employers and 4 per cent for large employers.

GOVERNMENT RESPONSE

In 'One Nation', the Prime Minister announced an altered SGC implementation schedule which extended for a further year the 3 per cent rate applicable to small businesses (that is, those with an annual payroll of \$500 000 or less). Whereas it was announced in the 1991-92 Budget that a four per cent rate would be applicable in 1993-94 that has now been postponed to 1994-95.

While no changes were proposed in 'One Nation' for larger firms, the Government is prepared to countenance an easing of the transition costs for firms with an annual payroll of between \$500 000 and \$1 million. It is prepared to consider raising the small business threshold for SGC purposes to \$1 million thus allowing those medium sized firms a 3 per cent rate for 1992/93 and 1993/94 in place of the five per cent rate which they otherwise faced. (This would also allow those firms to meet a lower prescribed rate under the SGC until 1997/98, when the same rate is to be met by small and large firms.)

The Government considers that this, together with its approach to a national wage increase, discussed above, would be a sufficient response to the real concerns of Australian firms.

APPENDIX G : GLOSSARY

Accumulation Fund	A superannuation plan where the employer and/or employees contribute a set amount that accumulates and earns income for the benefit of the members.
Annuity	A private pension for a fixed term or for life usually bought with a member's Eligible Termination Payment (ETP). An annuity can be bought so that regular repayments are made back to the member in the form of a pension.
Award Based Contributions (or Award Superannuation)	Contributions determined by an Industrial Tribunal paid by the employer to a superannuation plan for all eligible employees.
Commutation	Term used to describe the process whereby one type of superannuation benefit is commuted (changed) to another type, for example conversion from a pension to a lump sum.
Defined Benefits Fund	A superannuation fund that contracts to pay a member a fixed or defined amount of money that is linked to the salary level.
Eligible Termination Payment (ETP)	The lump sum paid to a member on retirement, job termination or death. It includes superannuation contributions and accrued sick leave, but not holiday pay or long service leave. ETPs can be rolled over into approved rollover funds (ADFs and DAFs).
Life Policy	A contract of insurance agreed to when a person purchases life insurance.
Lost Member	The classification given to a member of a superannuation fund whose current postal address is not available.
Lump Sum Benefit	A benefit paid out in a single cash payment.
Occupational Superannuation	Pension or retirement benefit arising from an employment contract.
Portability	Allowing a superannuation plan to be transferred from one fund (or one employer) to another.

Preservation	Maintenance of a member's entitlements in a superannuation fund until a specified minimum age (usually at least 55).
Prudential Controls	The measures instituted to supervise and control activities in the superannuation industry to ensure the security of contributor's funds.
Reasonable Benefits Limit (RBL)	The maximum limit on the amount a member can receive from superannuation, ADFs or DAFs, with preferential taxation treatment. The limit can be calculated from a member's highest average salary.
Rollovers	When a member changes jobs and takes an ETP from a superannuation fund, ADF or DAF, this lump-sum can be transferred to other schemes without losing the tax advantage.
Superannuation Fund	Fund designed to produce retirement benefits for members. To attract tax concessions, it must have these characteristics: (a) be indefinitely continuing, and (b) be maintained solely for following purposes: provision of benefits for fund members, or for dependants of each member in the event of death, or any other purpose allowed by the Insurance and Superannuation Commission in writing.
Unfunded Superannuation	A superannuation plan where no fund has been established but superannuation benefits have been defined; and the employer meets the costs of benefits as they arise.
Vesting	The established entitlement of a member to his or her own contributions to a superannuation fund, the employer's contributions, and accrued interest.