CHAPTER 3:

SOME GENERAL OBSERVATIONS

Introduction

3.1 The SG scheme was introduced in the context of both retirement incomes policy and national savings policy. However, the scheme has ramifications in a range of areas.

3.2 This chapter reports on some of the general observations made to the Committee on the acceptance of SG and its impact on national saving, employment levels, casualisation of the workforce and perceptions of the abolition of the aged pension.

Acceptance of the SG system

3.3 The Committee received conflicting evidence on the acceptance by the community of the SG system. The dominant view, however, that was expressed to the Committee was that the system has been accepted. Acceptance appears to have firmed over time.

3.4 The NSW Nurses' Association stated that '[employers] all accept that they have to pay' and that the gradual increase to 9% is inevitable.[1] Mayne Nickless declared that it 'is a supporter of superannuation for employees, and has been for a long time, well before it was required to do so'.[2] The Australian Medical Association (AMA) 'has accepted the superannuation guarantee charge scheme as a feature of contemporary medical practice'.[3]

3.5 Sedgwick Noble Lowndes strongly supports the concept of SG but suggested that the scheme is 'more complex than what it needs to be'.[4]

1 Evidence, pp 42-43

2 Evidence, p 149

3 Evidence, p 457

4 Evidence, p 184, p 186

3.6 Mr John McCormack of Melbourne submitted that SG coverage should be extended to unemployed people and some people on pensions, for example those on disability or carers' pensions. He suggested that the Government, as 'de facto employer' contribute SG on behalf of these persons.[5] The Committee has received submissions to its next inquiry on this issue and it will be canvassed in that report.

3.7 In contrast to evidence supporting SG, the Committee heard from a number of witnesses who stated explicitly that they were discontented with the application of SG to those who provide services to them. Many of these witnesses represented small businesses.

3.8 Given the initial concerns expressed by small businesses at the commencement of the SG scheme, the Committee noted that no criticisms of the SG scheme were submitted by the Council of Small Business Organisations of Australia. However, a number of chambers of commerce made submissions on technical and employment issues.

3.9 Mr Myers, of the WA Small Business and Enterprise Association, stated in evidence: 'in my opinion, superannuation is the worst possible form of investment you can get involved in'.[6] Mr Myers argued that superannuation has changed drastically and is no longer 'a three way common law deal between an employer, key personnel and its insurance company',[7] but rather a system 'subject to the whim of political change'.[8]

3.10 The Australian Liquor Hospitality and Miscellaneous Workers' Union essentially shared the view that 'a lot of employers... are not keen to pay superannuation'.[9] The Australian Road Transport Industry Organisation submitted that truck drivers should be responsible for their own superannuation.[10]

3.11 Severe reservations were expressed by the Maitland Chamber of Commerce and Industry (MCCI) about all aspects of the SG.[11] The MCCI submitted that jobs would be lost because of the extra costs to employers, and

5 SGCREV Sub No 32

6 Evidence, p 386

7 Evidence, p 386

8 Evidence, p 386

9 Evidence, p 255

10 Evidence, p172

11 SGCREV Sub No 81

that the employees most affected in this regard would be those the SG was designed to benefit. In addition, the Chamber advocated that superannuation be provided as part of each individual's tax arrangements, possibly through a direct debit transaction by the ATO to a superannuation fund nominated by the individual. The MCCI was dubious of the complexity of the rules governing superannuation, which confused 'the majority of Small Business and employees', and considered that changes in the tax treatment of superannuation over the years progressively reduced its attractiveness as an investment.

3.12 The National Racehorse Owners' Association stated that 'it would be inequitable, burdensome and wrong for the superannuation of jockeys to be paid out of the hard earned money of our members'.[12] Superannuation 'should be directed at the jockeys themselves and not directed at the owners', the Association contended.[13]

3.13 Although a supporter of SG, Jacques Martin indicated the lack of conformity may result from SG still being in its embryonic stage.

> The key thing is, as with any new regime, that people try to test its limits; and you will have employers who will try that out until the tax office demonstrates... that it is really serious where it does uncover cases of evasion.[14]

3.14 In upgrading the administration of the SG requirements for the WA public sector, the Government Employees Superannuation Board of Western Australia (GES) encountered 'considerable difficulties... in establishing the arrangements necessary to cater for a diverse and dispersed workforce, with retrospective application'. Nevertheless, the GES Board concluded that the 'administrative requirements appear manageable', commenting that much of the administrative complexity was due to the inclusion of casual and part-time employees.[15]

3.15 The GES Board postulated that the additional cost of SG to the WA Government in its first 10 years of operation would be about $700 million dollars in 1992/93 values, and asserted that there was a 'strong case for compensation [from the Commonwealth Government] by an increase in financial grants to the States'. The GES Board argued that it was:

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12 Evidence, p 211

13 Evidence, p 214

14 Evidence, p 137

15 SGCREV Sub No 73

> standard practice for the Commonwealth to reduce States' financial assistance grants which adversely affect the Commonwealth... [and] the Commonwealth has often provided compensation to the States for policy changes which adversely impact on the States.

The Board concluded that 'Western Australia could have been better resourced by the Commonwealth to administer the SGC requirements'.[16]

3.16 Mr J Kelberg, of Ocean Grove in Victoria, also expressed some mild reservations, submitting that SG contributions made on behalf of each employee to defined benefit funds should be placed into accumulation accounts, separate from their defined benefits. This would alleviate complications generated by the build up of surpluses and the associated remedy 'contributions holidays' for employers.[17]

3.17 Mr O.A. Malikoff, of Cleveland in Queensland, considered that single income families and retired people would be adversely affected by SG, the latter because SG costs would be passed onto consumers in the form of higher prices for goods and services.[18]

Deferred wages or a tax

3.18 There was also a range of evidence on superannuation being wages foregone and deferred wages. The Australian Liquor Hospitality and Miscellaneous Workers' Union considered that from its perspective:

> award superannuation was initially in substitute for a pay increase. It was a conscious decision made at a national level within the union movement, through the ACTU, that it would be pursued as superannuation.[19]

3.19 The Chamber of Commerce and Industry of WA (WACCI) was also of the view that superannuation is deferred wages.[20]

3.20 The Australian Council of Social Services (ACOSS) strongly supported this view in both its submission and in providing oral evidence before the Committee. The concerns expressed by ACOSS were based on the fact that 'most low income earners cannot afford to forego current income in order to save for

16 SGCREV Sub No 73

17 SGCREV Sub No 21

18 SGCREV Sub No 66

19 Evidence, p 257

20 Evidence, p 305

retirement'.[21] In addition to more urgent current needs of these low income earners, there is the question of the inadequacy of the final retirement benefit such workers will receive. ACOSS proposed that employees below a set threshold, not necessarily the current $450 per month which in itself discriminates against those low income employees, be given the option of having the contribution paid to a superannuation fund or of saying 'I would rather this in cash'.[22]

3.21 Ms Jennifer Willmott, of Nedlands, WA, also questioned the effectiveness of the SG given that many low income earners have more immediate needs. In her business, Ms Willmott, has employed people such as single parents who need money now to pay the rent and feed their children. Other employees have been saving for a house deposit. Ms Willmott stated:

> What I have learned about the sorts of people who take on part-time jobs like these suggests to me that they would be far better off earning an extra 5% NOW and putting it back into the economy.[23]

3.22 Evidence was put to the Committee on the perception of SG as a tax. WACCI identified SG as:

> a tax. It should not be, but it is. The superannuation guarantee charge does not say that you must pay superannuation; it says that, if you do not, you will pay a tax instead.[24]

3.23 The South Australian Employers' Chamber of Commerce & Industry does not support 'the use of a penal taxation Act which does not have as its purpose the collection of revenue for the Government'.[25] The Chamber submitted that the use of the Australian Taxation Office (ATO) to supervise expenditure on SG created a perception in business that superannuation is a tax matter. Therefore, compliance would be met only to the minimum standard.[26]

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21 SGCREV Sub No 86

22 Evidence, p 239

23 SGCREV Sub No 13

24 Evidence, p 307

25 SGCREV Sub No 42

26 SGCREV Sub No 42

3.24 Jacques Martin also questions the involvement of the ATO in the superannuation system. While 'the superannuation guarantee certainly has its basis in tax... the actual operation of the superannuation system should not be seen at the tax office first and at the industry second'.[27]

3.25 While questioning the constitutional authority of the Commonwealth Government to impose superannuation policies on the community, WACCI does see a need for superannuation policy to be coordinated at a national level. A possible solution 'may be for the State Governments (which do have constitutional powers over superannuation) to cooperate with the Commonwealth in designing a national and properly legislated scheme'.[28]

National saving

Treasury estimates

3.26 The Committee outlined the effects of national saving and Superannuation Guarantee in its third report, *Super and the Financial System*, which was published in October 1992. That report focuses on a submission received from Treasury which notes:

> ... the impact of the SGC on national saving has the following components:
>
> an increase in net private saving due to
>
> - an increase in net private **superannuation saving** (measured as contributions plus earnings less fund payouts),
> - a reduction in other forms of private saving;
>
> plus an increase in public saving due to
>
> - reduction in age pension outlays, partly (and in early years more than fully) offset by
> - an increase in the cost of the **superannuation tax concessions**.[29]

3.27 Treasury's submission continues by explaining that its projections of the impact of the implementation of SG on national saving, which are broken down into the components listed above, were derived from the results of simulations

27 Evidence, p 137

28 SGCREV Sub No 24

29 Treasury, SG Sub No 47, 11 May 1992

conducted on the National Mutual Retirement Incomes Policy (RIP) Model. The projections estimate that SG will increase private superannuation savings by about 2 per cent of GDP within fifteen years, increasing to more than 2.5 per cent of GDP by the year 2020, before levelling off. The cost of tax concessions as a result of SG implementation over fifteen years is estimated to be 0.55 per cent of GDP, dropping very slightly to 0.53 per cent of GDP by 2020.[30]

Estimates by the Retirement Income Modelling Task Force

3.28 A recent paper prepared by Rothman and Bacon, of the Retirement Income Modelling Task Force (RIM), discusses how major demographic trends (particularly changes in fertility and mortality) and alternative scenarios impact on important Australian aggregates, such as the asset holdings of superannuation funds, and on age and service pension costs.[31]

3.29 Included in the modelling were some 1994 projections based upon labour force participation, adjusted for assumptions about entry age to the workforce. Projections indicate that 'following parameter adjustments, the current base RIP runs indicate a somewhat higher impact of the Superannuation Guarantee on national savings'.[32]

3.30 The adjustments referred to a labour force entry at age 20 as compared to previous projections which assumed labour force entry at age 25. Figure 3.1 shows the resulting impact on net private savings, age pension outlays, net tax concession costs, and national savings.

3.31 Additional net private savings over the next fifteen years resulting from lowering the assumed age of labour force entry age from 25 to 20 years are projected to amount to over 0.2 per cent of GDP, peaking at about 0.45 per cent of GDP by about the year 2030, before tailing off to about 0.35% in the following decades. Additional savings in aged pension outlays would be comparable with the additional net private savings, overtaking the latter in the very long term.

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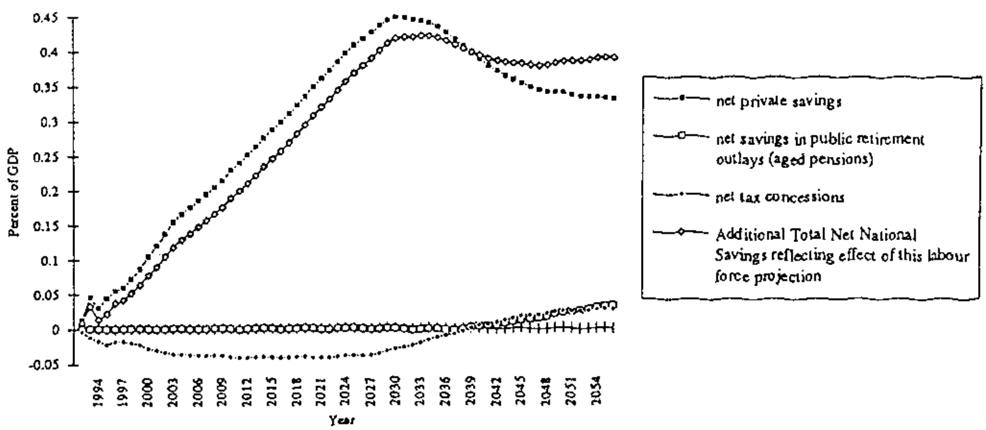
30 Treasury, SG Sub No 47, 11 May 1992

31 Rothman, G.P., & Bacon, B.R., Retirement Income Modelling Task Force, *The Impact of Population and Labour Force Scenarios on Superannuation, Tax Expenditures and Pension Costs*, July 1994

32 Rothman, GP, & Bacon, BR, Retirement Income Modelling Task Force, *The Impact of Population and Labour Force Scenarios on Superannuation, Tax Expenditures and Pension Costs*, July 1994

Figure 3.1

Additional Net Annual National Savings compared with previous analysis of impact of SGC, arising from new labour force projections, 20 year old entry to workforce



Source: Rothman, G.P., & Bacon, B.R., Retirement Income Modelling Task Force, *The Impact of Population and Labour Force Scenarios on Superannuation, Tax Expenditures and Pension Costs*, July 1994

Other comments

3.32 WACCI cites the FitzGerald Report in questioning the effectiveness of SG in terms of national savings. FitzGerald states:

> the Superannuation Guarantee Charge cannot effectively serve its retirement income objectives in the face of rapid aging of the population unless it raises national saving, so as to finance ahead of time a build-up of the capital stock per employee in the economy.[33]

3.33 Projections indicating an increase of GDP by around 1.5 per cent, with a possible two-thirds leakage through lower savings, is not seen by WACCI as making a significant contribution to national savings. WACCI concludes that 'in the context of aggregate national savings, the Charge in isolation is not efficient'.[34]

33 SGCREV Sub No 24

34 SGCREV Sub No 24

3.34 Professor David Allen, from Curtin University of Technology, WA, suggested a need for a 'level playing field as far as possible' to encourage all forms of savings.[35] This need could be enhanced by encouraging savings across the board, with various tax incentives to save. 'I think you should push saving as a whole and not just in particular forms.'[36]

Employment

3.35 In the July 1994 issue of *ACCI Review*, the Australian Chamber of Commerce and Industry (ACCI) looked at the employment effects of the SG. ACCI identified unemployment as Australia's number one priority, but opined that the effect of SG on unemployment has remained entirely unnoticed. The article stated:

> It is important to recognise that the Superannuation Guarantee has cost the Australian economy jobs and will continue to cost jobs as the levy is raised on an almost annual basis until the year 2002. The next round occurs from July 1 when the minimum Superannuation Guarantee payment rises from three per cent to four per cent. Whatever this may do for retirement incomes out beyond the year 2020, the immediate impact must be to slow the recovery in the number of jobs created.[37]

3.36 Despite using recent ABS employment statistics to support this claim on the effect of SG on unemployment, ACCI indicates that the ABS data should be treated with some caution because the series is based on the company register where new firms are not represented to the same degree as existing firms. Notwithstanding this comment, ACCI draws the reader's attention to the ABS table of the trends of wage and salary earners (see Figure 3.2) and concludes that the growth in the number of employees reduced as soon as SG was introduced and has continued to fall:

> The introduction and continual increases in the Superannuation Guarantee are inconsistent with current efforts to reduce unemployment... . The July increase in the Superannuation Guarantee by raising the cost of employment will undermine efforts to lower unemployment.[38]

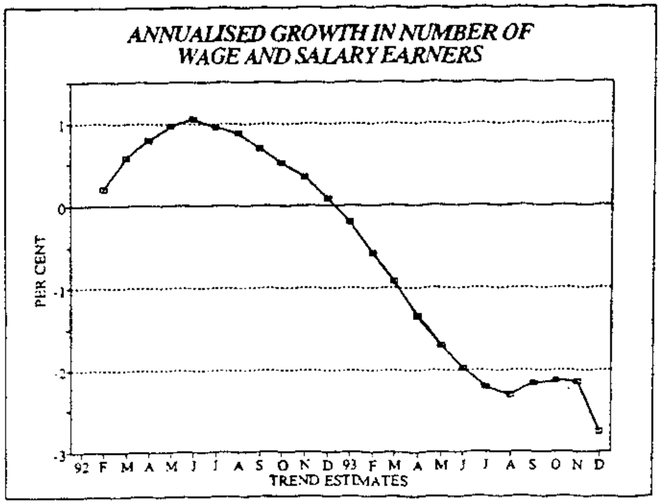
35 Evidence, p 364

36 Evidence, p 365

37 Australian Chamber of Commerce and Industry, ACCI Review, *Employment Effects of Superannuation Guarantee*, July 1994, p 6

38 Australian Chamber of Commerce and Industry, ACCI Review, *Employment Effects of Superannuation Guarantee*, July 1994, p 7

Figure 3.2



Source: Australian Chamber of Commerce and Industry, ACCI Review, *Employment Effects of Superannuation Guarantee*, July 1994

3.37 In a later article, ACCI estimated the number of jobs lost based on the Yellow Pages Small Business Index. Questionnaires, put to very small firms (1-20 employees), asked respondents to name anything which they felt was reducing the number of jobs offered. Results showed 12% of respondents identified the cost of superannuation as causing job restrictions. On this basis, ACCI has calculated that 'there might have been around 100,000 additional people working today than are in fact working had the Superannuation Guarantee not been introduced'.[39]

3.38 Similarly, the Victorian Farmers Federation believes that the 'SGC is a cost of employment which acts as a further disincentive for creating employment'.[40]

3.39 A survey conducted by Professor Tapen Sinha and Ms Rebecca Benedict, of Bond University School of Business, found 23.6 per cent of respondents reduced their number of employees or did not replace employees who quit in order to meet SG costs. Assuming that there are at least 800,000 small businesses in Australia, Sinha and Benedict estimated, on the basis of the sample percentage, that up to 192,000 jobs may have been lost.[41]

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39 Australian Chamber of Commerce and Industry, ACCI Review, The Super Guarantee - *Fewer Jobs, Slower Growth*, October 1994, p 20

40 Evidence, p 224

41 SGCREV Sub No 3

3.40 In a separate submission, Professor Sinha measured, what he labelled, the 'opportunity cost' of SG. Expressed in terms of lost income tax revenue and increased unemployment benefits, he calculated that the opportunity cost will account for between 36 per cent and 72 per cent of age pension cost when SG is fully functional. Professor Sinha questions whether the purported savings to age pension outlays due to SG will eventuate.[42]

3.41 In discussing the effects of employment and SG, the Chamber of Commerce and Industry of WA identified small business as being most affected by SG. Even with transitional provisions, an increase in labour costs impacts heavily. These additional costs are borne by Australian industries forced to compete with overseas markets. However, WACCI did, in discussing employment and SG, acknowledge that:

> All of the job creation in Australia over the past two years has occurred in the small business sector, with most employment projections pointing to new small businesses as a key source of employment growth.[43]

3.42 The Adult and Community Education Council submitted that:

> if the current chronic underfunding of the NSW ACE sector continues, the sector will be unable to sustain its present staff when superannuation contributions rise to even 6%.[44]

3.43 One employer who was not aware of the impact of SG on employment or unemployment was Mayne Nickless who informed the Committee that the SG is not an issue in determining its rate of employment and reiterated that it believed in superannuation and is 'happy to meet an obligation'.[45]

3.44 The Committee compared the evidence associating SG and unemeployment with figures in the *Australian Market Review - November 1994.* The Australian Bureau of Statistics data indicate that, notwithstanding the introduction of the SG, employment has grown since 1992.

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42 SGCREV Sub No 7

43 SGCREV Sub No 24

44 SGCREV Sub No 64

45 Evidence, p 154

Women's work patterns

3.45 Retirement benefits for women under the current occupational superannuation system are comparatively lower than for their male counterparts because of the intermittent work patterns of most women. This intermittency reflects the parenting role played by women during their working lives. A woman's work pattern is greatly affected by child bearing and child raising.[46] A pattern emerges indicating high participation in early working life, an interruption to the pattern resulting from time taken to start and raise a family, and then a surge in the pattern indicating a return to regular paid work in the latter part of life.

3.46 The evidence of the NSW Nurses' Association confirmed the problems experienced by women because of intermittent work patterns and submitted that allowances have not been made for the breaks in employment taken by women for the following reasons:

- maternity leave or other family reasons;
- changing employment;
- early retirement;
- substitution of full-time employment by part-time or casual employment; and
- late re-entry to the workforce when their families eventually become relatively independent.[47]

3.47 The Association asserts that because of these interruptions, 'the average working life for women is significantly shorter than that of men'.[48] The Women's Economic Think Tank referred the Committee to ABS data which indicates that nearly a quarter of the women in the workforce had between 4 weeks and 39 weeks away from work in 1993. The reasons for taking these breaks differ greatly from the reasons men take career breaks. The differences are interesting:

> 62,000 men took career breaks; 40% took paid leave only, 32% unpaid leave only, the balance a mixture. Nearly 2/3 took time off for personal reasons including education, a quarter for work related reasons and there was barely a per cent for family reasons.

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46 Office of Cabinet, Queensland, SGCREV Sub 4

47 SGCREV Sub No 26

48 SGCREV Sub No 26

> In contrast the 139,000 women who took career breaks were much more likely to fund their own time out: only 14% had their full leave paid, 52% took their whole leave unpaid, and the balance mixed pay and no pay. Their reasons were also different: two thirds took their breaks for family reasons, 6% for work reasons and a quarter for personal reasons.[49]

3.48 The Queensland Cabinet submission categorised women's work patterns and outlined the superannuation implications for each category:

- **Women who are self-employed** are limited to participating in private superannuation schemes and depending on the success or failure of the enterprise, may or may not accumulate sufficient contributions to provide a reasonable standard of living in retirement.

- **Women who are unpaid workers** are not eligible for membership of a superannuation scheme in their own right. They may rely on their spouse's benefit at retirement, death, disability. In the case of a breakdown in the relationship, there is little, if any, guarantee of a percentage of that benefit.

- **Women whose work patterns are intermittent** often have a number of accounts and are charged administrative fees on each one. The end result is usually a negative return on contributions invested. Final benefits for these workers are significantly low and dependency on the aged pension is more than likely.

- **Women in low income situations** include workers in part-time casual and full-time positions who, until the introduction of SG, would not have been in receipt of superannuation. Although these women will accumulate some benefits, it will not suffice in retirement. A dependency on the aged pension would be expected.

- **Women in above average wage positions for continuous periods** would be eligible for superannuation contributions by their employers. Ample benefits would be received at retirement, and combined with any assets accumulated, these workers may not be eligible for the aged pension.

3.49 In summary, the Queensland Cabinet submission states that in order for women to receive adequate retirement income from superannuation, they would be required to contribute a 'continual and significant percentage of average weekly earnings to a superannuation fund for thirty to forty years'.[50]

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49 SGCREV Sub No 27

50 SGCREV Sub No 4

3.50 This suggests that the part-time workforce is not catered for by the SG system. The Australian Federation of Consumer Organizations provided data on the size of this sector of the labour force:

> Approximately 1.8 million, or about 22% of all workers are employed part-time in a labour force of around eight million people. This means that a sizeable part of the population receives little benefit from superannuation and are likely to be dependent on the age pension in their retirement.[51]

3.51 Ms Hazel Bateman, of the School of Economics, University of NSW, appeared before the Committee discussing the differences between male and female access to SG. Ms Bateman put these differences down to work force participation and social differences. It was then stated that:

> We would like to emphasise that these differences cannot be resolved easily by tinkering with the superannuation guarantee... we point out that one should look at the entire retirement income system, not just the superannuation guarantee or the age pension... So while women may fare poorly under the superannuation guarantee alone, their circumstances are somewhat improved if one considers the age pension as well.[52]

3.52 Margaret Patrickson, Linley Hartmann and Leonnie McCarron of the University of South Australia submitted an analysis of the problems encountered by older women, mainly teaching staff, in the South Australian education system.[53] A legacy of the indirect discrimination that operated prior to the 1980s is the reduced access to superannuation to women because of broken work patterns, marriage, child rearing and lack of seniority. Although these grounds of discrimination have now been overcome, the earlier lack of access to superannuation has left most older women less financially secure than their male counterparts and in a less viable position to finance any early retirement options.

3.53 The Government Employees Superannuation Board of Western Australia (GES) commented that women and part-time employees (a large percentage of whom are women) are heavily represented in the Fund's non-contributory superannuation:

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51 SGCREV Sub No 20

52 Evidence, pp 119-120

53 SGCREV Sub No 16

> The experience of the GES Fund is that many people do not join contributory superannuation because of other financial commitments, such as mortgage payments.[54]

Casualisation

3.54 It is a universally acknowledged phenomenon that individuals no longer spend their working life with a single employer as was once the case. This increase in mobility has been accompanied by another more recent trend, that of casualisation of the workforce.[55]

3.55 It was submitted by Mr Davies of Mayne Nickless that:

> increasingly census data will reveal that there are increasing numbers of people who are working on a casual basis or a part-time basis and sometimes holding down two jobs on that basis.[56]

3.56 Another facet of casualisation is an increase in 'contract work'.[57] For example, the Australian Road Transport Industrial Organisation submitted that truckdrivers are subcontractors because the industry contracts 'to hire a truck, and the fact is that you need a driver to drive the truck. [The industry does] not contract for the labour of the driver'. [58] These drivers are considered 'independent businessmen in their own right and there is a view that the SGC should not even apply to subcontract truck drivers'.[59]

3.57 The casualisation of the workforce seems to be moving many employees out of the SG net. The issues of 'contract work' and casualisation are connected to that of the SG coverage of contractors and the self-employed. This is discussed at Chapter 11.

3.58 Evidence received by the Committee indicates that small businesses have been most affected by the introduction of SG. Additional costs for small businesses have contributed to the further casualisation of a workforce in industries where the work was by its nature already structured in terms of casual, temporary and part-time work.

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54 SGCREV Sub No 73

55 Maratheftis, Evidence, p 43

56 Evidence, p 158

57 Evidence, p 73

58 Evidence, p 169

59 Evidence, p 169

3.59 Prior to the introduction of SG, small businesses were likely to be paying minimal, if any, superannuation for their employees. And while the timetable for SG allows for a gradual rise in levels of superannuation support, small businesses have the largest proportional increase in superannuation costs over the period.[60]

3.60 The Chamber of Commerce and Industry of Western Australia identified that small businesses are:

> likely to be more seriously affected by the Charge because they tend to be more labour-intensive than large firms. If labour is a larger proportion of a business's input costs, then an increase in labour costs will have a disproportionate effect.[61]

3.61 This view was supported by representatives of the Riverland Horticultural Council.[62]

Employment and Casualisation: Conclusion

Apart from the projected impact of SG on national savings, little analysis has been made about the impact of SG in other areas. Given the evidence received on employment and casualisation, the Committee believes the Government, through its Retirement Income Modelling Task Force, should undertake, on a continuing basis, further analysis and modelling on the effectiveness of SG as part of Australia's retirement income policy. The completion of such an analysis would provide a foundation where actual assessment would be made of how SG has affected or will affect job numbers and casualisation of the workforce, or any other matters that may arise in relation to Australia's workforce. The Government will then be able to modify SG as necessary to ensure an effective form of compulsory superannuation in Australia.

Fear of losing the age pension

3.62 A consistent public perception of the future of the age pension was presented to the Committee: 'there is a real fear that the age pension will go'.[63] This concern is prevalent despite statements by both the major political parties

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60 SGCREV Sub No 24

61 SGCREV Sub No 24

62 SGCREV Sub No 47

63 Eva Cox, Evidence, p 57

that an age pension safety net will remain. Ms Eva Cox of the Women's Economic Think Tank submitted that 'the fear is widespread' although 'the present government keeps saying that it is going to maintain [the pension]'.[64]

3.63 This was reinforced by Ms Susan Ryan, of ASFA, who identified the fear:

> as an understandable fear when generations of Australians, who have been brought up in the expectation that when they retire they will get the old age pension, suddenly hear and read all of this information that retirement is now something that they have to save up for themselves. It is a huge change. I have been publicly critical of the government, not for making the change but for not giving adequate attention to the need to explain those changes and to reassure people by in-principle commitments in relation to access to the old age pension for people whose self-funded retirement is not adequate.[65]

3.64 The Trades and Labour Council of WA indicated that while the fear has decreased somewhat there is still a notion, especially with low paid workers, that access to the aged pension will be restricted. A contributing factor to this fear is a combination of media presentation of the SG philosophy and a lack of understanding by the workers.[66]

3.65 The key role of the age pension in the Government's overall retirement income policy was outlined in *Security in Retirement:*

> There is also concern that those who are unable to provide for their retirement - because, for example, of their inability to work - have access to adequate, publicly provided, retirement security. The framework for superannuation announced in this statement fully protects that access. By requiring those who can do so to save for their retirement, better retirement incomes can be provided for those who cannot save.
>
> **... This Government sees the age pension not just as a security net for future retirees but as the key-stone of its superannuation policies.** It expects that most future retirees will continue to be eligible for the age pension [for example, through a part pension] which, with self-provided and tax-assisted superannuation, will allow a higher retirement income than is now generally available.[67] [Emphasis added]

64 Evidence, p 57

65 Evidence, p 91

66 Evidence, p 292

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

3.66 This position of the age pension in the Government's retirement incomes policy was reiterated by the Treasurer on 28 June 1994 when he stated:

> The age pension and associated social security arrangements will always remain central elements of that policy, providing for everyone the essential safety net standard of retirement living.
>
> However, superannuation, with both compulsory and voluntary components, has been developed as the principal means of providing for a higher standard of retirement living.[68]

3.67 Similarly, the Coalition has identified the key role of the age pension in its retirement incomes policy. Mr David Connolly, MP, Shadow Minister for Superannuation and Retirement Incomes, told attendees at the recent ASFA conference:

> The Coalition accepts that even with the most optimistic predictions, **a superannuation strategy will not replace the need for a social security safety net as part of our welfare system**.[69] [Emphasis added]

3.68 Professor Allen acknowledged the 'strong role for the age pension'. He stated that the age pension will have to be a 'safety net and, clearly, in terms of the less advantaged members of society, they will still rely to a great extent on it'.[70]

3.69 The Catholic Women's League of Tasmania identified some of these less advantaged members as:

> Women who are full-time homemakers and so are not in paid employment, often because of a caring role for the disabled, chronically/terminally ill, the young or elderly, and
>
> Women who are in low paid, low status work and are therefore unable to accumulate Superannuation retirement income.[71]

3.70 Whilst acknowledging that the political parties have stated that there will not be an abolition of the old age pension, the Committee is concerned that this message has not been effectively conveyed.

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68 The Hon Ralph Willis, MP, Treasurer, *Statement on Superannuation Policy*, 28 June 1994

69 *Superannuation: The way ahead*, 11 November 1994

70 Evidence, p 368

71 SGCREV Sub No 8

Defined Benefit Funds

3.71 The Institute of Actuaries of Australia (IAA) gave evidence that government legislation has progressively created a difficult climate for defined benefit funds. The introduction of the SG arrangements:

> has generally been more difficult for defined benefit funds to adapt to than for accumulation funds... because the legislation, as with most superannuation legislation, tends to be framed with accumulation funds in mind, and then defined benefit funds have been allowed for generally as something of an afterthought. As a result, defined benefit funds face a more complex set of rules and relations in relation to SG than do accumulation funds. Much of the complexity was unnecessary...
>
> Trying to change it now to remove [the complexity] would probably create even more complexity. However, we would urge the government to develop future policy in a way which is even handed between different types of funds.[72]

3.72 The Committee did not receive any other evidence on this issue. It is therefore unable to make specific recommendations but draws to the Government's attention the need for consideration to be given to the structure and operation of defined benefit funds in the development of superannuation policy and regulation.

3.73 An observation relating to public sector superannuation was made by the Australian Education Union (AEU). It submitted that 'the introduction of the SG must be characterised as a responsible step'. The AEU went on, however, to note that some state government schemes had reduced the superannuation arrangements for public sector employees to the minimum SG requirement.[73]

72 Stephen Partridge, Evidence p 475

73 SGCREV Sub No 116