

Media Release
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Regaining Momentum on Super

When shaping the 2014-15 Budget over the next three months the Government needs to recognise the importance of continuing to shift the cost of retirement from taxpayers via the Age Pension to individuals through the continued evolution of Australia's superannuation system. SMSFs have a vital role in providing an opportunity for people to take responsibility for their own financial independence in their increasingly longer retirement years.

The long term improvement of the superannuation system should transcend the Budget cycle.

We are two decades into trying to move our retirement system from an Age Pension system funded by the government out of tax revenues collected from subsequent generations to a fully funded private pension system substantially paid for by people's savings during their working lives. There is still a long way to go before this objective can be achieved.

If that objective is to be achieved, the Government needs to take a serious look at the adequacy of superannuation either as part of the forthcoming Financial System Inquiry or as a separate exercise.

In the meantime, there should be no 'fiddling' with super taxes in the forthcoming Budget. Nothing shakes confidence more than sudden changes to the rules under which people make a long term investment in their future via superannuation savings. SMSFOA takes comfort in the pre-election commitment by the Government that there would be no unexpected adverse changes to super in its first term.

In SMSFOA's pre-Budget submission delivered to Treasury today we again point out, as we did before last year's Budget, that the current system is not achieving its objectives. People contributing to super at the compulsory SG rate will not have accumulated enough over their working lives to have enough money to live on throughout their retirement and will have to fall back on the Age Pension.

For example, 25 year old workers on average earnings will need \$2.8 million in super to retire at 65 and have enough to support themselves throughout their 23 year retirement without calling on the Age Pension. However, at the SG rate, they will have saved only \$1.93 million – \$850,000 short. A 55 year old on average earnings will need \$860,000 in super savings yet will have only \$330,000, a shortfall of \$530,000.

The Government needs to encourage people to maximise their super savings when they can through voluntary contributions.

Even if people make additional voluntary contributions they will not have enough in super because the former Government lowered the contribution caps to inadequate levels. The opportunity for people to make voluntary contributions above the SG rate should be enhanced by restoring the voluntary contribution caps to the levels that applied before they were slashed in half by the previous Government. Voluntary contribution caps need to be raised for workers under 50 from the present \$25,000 to at least \$50,000 and for workers over 50 to \$100,000. At the same time, the contribution rules need to be made more flexible so people with broken work patterns, including women taking time off to raise a family, are able to catch up when they are able to do so.

While the Budget repair task may constrain the Government's present ability to restore voluntary contributions to their previous levels, the Government should commit to achieving this objective as soon as possible and perhaps can immediately increase the caps for older workers who have the most imminent problem.

Tax incentives for retirement savings should not be viewed as a cost to the Budget. Our research shows that for every \$1 invested in super tax incentives, the return to the Government in terms of pension cost savings is multiplied over time.

For example, if the Government raised the caps as suggested, for every additional \$1 in tax concessions given to a 25 year old on average weekly earnings during his or her working life, the pay-off for the Government in Age Pension cost savings will be \$20.7.

Super tax incentives make good economic sense. Raising caps so this system has a chance to work properly makes even more sense.

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