

### ***Superannuation: Assessing Competitiveness and Efficiency***

- *what impact costs and fees have on members with low account balances, and what actions could be undertaken – whether by funds or policy changes – to ensure that these balances are not eroded needlessly; and*
- *whether tailoring of costs and fees for different member segments would be appropriate.*

Dear Sir,

The feature that I believe must be urgently be reformed is the experience of consumers during the first five years. In particular, a failure to capital guarantee wealth accumulation during this period.

As a young person when I changed employer or industry I could expect to be paid out the balance of my accumulated superannuation. In this period, I tried out lots of jobs. After leaving each, the likelihood was I would have a period [short or long] without more super contributions, so the lump sum of the retirement wealth accumulated was given back to my stewardship. The system seemed to then have lots more flexibility. As a young person I often spent the small amounts, but it was not a case of waste without reward.

Now, due to a non-indexed \$200 low balance cap, most small balance must be compulsory used to pay fees because of complex condition of release, despite low income earners receiving little or nil tax advantage from SG. Super Fund Trustees have wide discretion in holding on to my wealth, and charging fees that will or are likely to materially reduce the balance. Since the \$200 release low balance release cap was set fees have gone up and current rules do not reflect earnings vs expense economic realities.

#### Entry into the labour market & accumulating a sustainable balance

Many young people's 1<sup>st</sup> job is as a casual unskilled labourer on low wages. This could be during evenings or during school holidays. But the main characters in common are low rates and intermittent, often unpredictable, periods of earning.

9.5% of very little is very little. And most people's 1<sup>st</sup> super account balance evaporates quickly. The lesson learnt is that super is a compulsory scam. Often this belief system persists long after, and for me, has endured for my full working life. It was only after the mortgage was paid off and I was within a decade of retirement I, like many, commenced to seriously engage with my retirement savings.

The tax system should not be putting material barriers in accessing small balances of super when accumulated during periods of nil or low taxation [19%]. The taxation system should recognise that the compulsory SG system with a contribution tax rate of 15% is a burdensome obligation while lower earning occurs. With low balances handing stewardship to the individual may produce the best equitable outcome. Compelling a superannuation fund to hold on to these small amounts can just lead to inefficiency in the entire super system. But, giving individuals small balance access

may even lead to innovations like super fund promoting capital guaranteed products such as RSA.

#### Poor earners in the labour market & accumulating a sustainable balance

Given that more than 2 million citizens seem to live in poverty, and up to 2% of working aged population may experience at least 5 years in each 10-year dependant on welfare payments, there seems to be a significant segment of the worker population that is unfairly burdened in the current SG system.

We have a retirement saving system best suited to higher earners, and taxing 9½% of low income earners income at 15% rather than 0% or 19% does not lead to engaged membership of super funds.

If the system gave easier access to SG for salary/wages below \$9,375 / quarter (\$37,500 pa ~ marginal tax rate 19% or less) low earners could even stick their 'super' in a no fees bank account and be better off. It would be good and equitable if the taxation system forgave contribution tax on this class of transaction too. This should be what reform promotes. The principle super policy issues then would be the equity of preservation, and the capacity to rollover, for this class of worker.

Thank you for your consideration in this matter.

Ian Gillard