The Association of Superannuation Funds of Australia Limited
ABN 29 002 786 290
ASFA Secretariat
PO Box 1485, Sydney NSW 2001
p: 02 9264 9300 (1800 812 798 outside Sydney)
f: 02 9264 8824
w: www.superannuation.asn.au

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Manager
Contributions and Accumulation Unit
Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: ConcessionalContributionsCaps-2013@treasury.gov.au

Dear Sir/Madam

RE: Exposure Draft Tax and Superannuation Laws Amendment (2013 Measures No. 3) Bill 2013: Superannuation Concessional Contributions Cap

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the request for comments on proposed *Tax and Superannuation Laws Amendment (2013 Measures No. 3) Bill 2013: Superannuation concessional contributions cap* ("the draft Bill").

While ASFA welcomes the proposal to increase the concessional contributions cap for 'older Australians', we are concerned about the relatively short-term nature of the proposal. ASFA considers there is a compelling need to move toward settling a long term approach to tax concessions for superannuation contributions that will enable all Australians to plan for their retirement with certainty and confidence.

Our concerns are set out below.

ABOUT ASFA

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation system. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

Specific comments:

We have reviewed the draft Bill and explanatory material and consider that they will achieve the policy objective as stated.

General comments:

ASFA notes that the draft Bill will implement a measure announced by the Treasurer and the Minister for Financial Services and Superannuation on 5 April 2013, as part of the Government's proposed 'reforms to make the superannuation system fairer'.

ASFA has long advocated that any caps imposed on contributions should reflect the life experiences of Australians. In particular, cap arrangements should recognise and accommodate the need for many mature age workers to catch up on superannuation contributions when they are more financially able to do so, which coincides with the run-up to retirement when there are relatively few remaining years to contribute. For many individuals the pre-retirement phase coincides with a period of lower financial commitment toward children and home mortgages, and therefore greater opportunities to save for retirement.

ASFA acknowledges the need to ensure that tax concessions provided to superannuation are sustainable and equitable, whilst not being overly complex. In that respect, we welcome the decision not to proceed with an earlier proposal to limit availability of the concessional contributions cap for older Australians to members with superannuation balances below $500,000. That model had the potential to significantly increase the administration burden on funds and the Australian Taxation Office, thereby increasing the complexity and overall cost of administering the superannuation system. In addition, given the complex nature of the proposed rules, there remained a strong likelihood that individuals and their advisers would encounter difficulties in understanding and complying with them.

Whilst the measure outlined in the draft Bill is undoubtedly far simpler for individuals to understand and for funds and the ATO to administer, ASFA is concerned that it is relatively limited in duration and does not provide long term certainty or benefit to older individuals.

In particular, we note that the proposed higher cap for older Australians will cease when the general concessional contributions cap reaches $35,000. From that point, a single cap will apply to all individuals, regardless of their age. The 5 April 2013 press release from the Treasurer and the Minister indicates that this is expected to occur from 1 July 2018. We note that it is also anticipated that the general concessional contributions cap may increase from $25,000 to $30,000 from 2014-15 through indexation.

In effect, therefore, the measure proposed in the draft Bill may provide an individual aged 59 on 30 June 2013 with a $10,000 increase in their cap for one year, and a $5,000 increase for four years, while an individual aged 49 on 30 June 2014 may effectively gain a $5,000 increase in their cap for four years. In contrast, we note that previous proposals to increase the concessional contributions cap for older Australians were intended to apply on an *ongoing* basis. Given the long term nature of superannuation, it is critical that measures are similarly long-term in nature, though such mechanisms as indexation, to ensure certainty in superannuation and enable planning with confidence.

ASFA strongly submits that there is a need to provide certainty by settling the contributions cap arrangements for the longer term, not simply the next four to five years. Ideally any ongoing arrangements should be finalised well before the proposed higher cap ceases to have practical effect on 1 July 2018.

In addition to being short term in nature, the cap arrangements proposed in the draft Bill are the latest in a series of announced changes to these rules. Detail of a proposal to provide a higher cap for older Australians with effect from 2012-13 were first announced in the 2010-11 Federal Budget. This proposal was then 'clarified' in the 2011-12 Budget, while the 2012-13 Budget deferred the intended commencement date of the proposal by two years, from 2012-13 to 2014-15.

The current proposal, as set out in the draft Bill, not only differs in substance from the earlier proposal, it also further amends the proposed commencement date for some individuals. Instead of applying from 2014-15, as announced in the 2012-13 Budget, the measure would now apply from 1 July 2013 for individuals aged 59 or over on 30 June 2013 and 1 July 2104 for those aged over 49 on 30 June 2014.

Incremental changes of this nature can only serve to reduce certainty and confidence, whilst making superannuation more complex for members to understand and for funds to administer. Issues such as this are the drivers behind ASFA's established position regarding a need to adopt a more long-term, holistic approach to the tax settings for retirement incomes.

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I trust that the information contained in this submission is of value. We would be pleased to meet with you to discuss our submission.

If you have any queries or comments regarding the contents of our submission, please contact Senior Policy Adviser, Julia Stannard, on (03) 9225 4027 or by email jstannard@superannuation.asn.au.

Yours sincerely

Fiona Galbraith
Director, Policy