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Discussion Paper 253KB204KB

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## Objective of Superannuation

### Discussion Paper

Thank you for the opportunity to offer comments on the Purposes and Objectives of Superannuation, and we also offer a totally new and greatly simplified structure to better achieve its objectives.

#### **The FSI's primary and subsidiary objectives:**

I generally agree but believe to provide a true and comprehensive solution to all the needs and 'objectives' of super requires a Totally New Approach and an 'all of life' involvement for all people. This would be much broader than the FSI recommendations on today's 'largely work based' system.

We believe it's not possible to achieve a solution by simply adjusting the present system with its myriad of complexities, confusions, inequalities and endless interference.

We offer for your consideration a new system, and for ease of identification, we'll call **Future Super**.

It provides levels of simplicity, security and understanding not previously seen in Superannuation.

It eliminates excesses, and helps reduce need for retirement welfare for this and future generations.

It is based on and therefore measurable for: Fairness; Equality; Adequacy; Sustainability

It answers all the Issues and Points to Consider in this Discussion Paper.

#### **Retirement income or standard of living in Retirement**

Amounts needed are to continue today's Lifestyle, as well as the Lump Sums and Incomes needed to provide a 'clean start', and for the extra goals, adventures, life events, etc

To successfully achieve...

'Retirement income and standard of living'; 'Adequacy'; 'Fiscal sustainability'; 'Increasing national savings'... requires a system with such simplicity, that understanding is immediate, and engagement to bring long term savings as a greater part of today's expenditure is (almost) automatic.

# Future Super

## Retirement Income

*'To enable Australians to engagingly fund the Income and Lump Sums needed for themselves, future generations and others important to them to have the secure, adequate and enjoyable Retirement they desire.'*

Unlike today's system **Future Super** doesn't place restrictions on funding an appropriate retirement income, other than there is a Maximum Amount available for any person.

### **Why a totally different approach is needed to fix the complexities and failures of today's system, while maintaining its successes.**

24 years of building today's system, has produced many good results, but also created numerous rules, complexities, confusions, endless changes resulting in widespread dissatisfaction and distrust!!

**Extensive research by many groups** shows the levels of confusion, lack of awareness and misconceptions with today's super.

Surveys conducted by: ourselves; SunSuper; AustralianSuper; VicSuper; ASFA; Mercer; Deloitte; Cooper Review; Financial Planning Standards Board; REST; Club Plus Super; ISN; Media groups etc report concerning statistics...

97% of Australians don't know 'how much they are spending on the Living Necessities and Enjoyments' of today's lifestyle'... so they can't know 'how much they need to continue it in Retirement'... This means they don't know how much to fund for, or whether their present arrangements will provide excess, adequate or insufficient!

88% don't know Pension entitlement (if any)

84% are not confident to meet Retirement goals

55% expect lower a lifestyle in retirement

74% are not making additional contributions to achieve target

68% lack confidence and trust in ever changing system

'Comfortable' amount needed increased by \$130,000

"How advice is currently delivered, not how many Australians want it delivered"

**To develop Future Super we started with questioning the many rules of the present system with 3 TESTS...**

- 1 Why does this rule exist?
- 2 What positive benefit would this rule bring to a future fairer system?
- 3 Can an alternative method make retained rules easier and/or give a better result?

Any rules not meeting these tests, we abandoned, replaced or simplified.

Some examples are:

**Contributions**

Caps;  
differences by age;  
work need; 10% supported;  
unsupported;  
concessional; non concessional;  
maximum but can bring forward,  
reduces after 65, 75;  
compulsory; non compulsory;  
splitting;  
working age;  
indexation;  
Salary sacrifice, Self employed  
difference

**Education**

Many calculators... ASFA, MoneySmart,  
Super Funds etc are complicated or  
give inappropriate results if not sure of  
assumptions;  
How much income needed? 60%,  
70%, 80%, 15 x, modest, comfortable?  
How much to fund income?  
Complex or inadequately brief  
budget offerings.

**Taxes**

Contributions;  
earnings;  
CGT;  
accumulations;  
pension;  
receipts;  
age distortions, especially for pre 55  
disability;  
tax free, taxable components;  
restrictive deductibility;  
salary sacrifice imbalance, no  
deductions if not available, restrictions  
if available;  
self employed full amounts;  
compulsory cashing in at death;  
unequal

**Benefits**

Inequalities in incomes;  
income security;  
longevity funding;  
when welfare added to lower  
accumulators.

## **To solve Structural Complexities, we recommend adopting 'what people already know'**

Adopt what people already know, and do every day, when Saving and Investing for Life Events with foreseeable scheduled access... home, weddings, education, and holidays.

They know the rules, taxes, and always... how much will be needed!

They don't have to be working, merely need the income, or lump sum.

They can save and invest for themselves at any age, for any person of any age.

They can contribute any amount to achieve their funding goals.

Tax has usually been paid at Marginal Tax Rate (MTR).

There are no tax deductions on contributions.

Investment earnings are taxed at Company or Marginal Tax Rate for the whole term.

On maturity any tax is at MTR or CGT.

They can add insurance to ensure completion if health changes

If death occurs, assets are passed to Beneficiaries, usually tax free

Saving and investing for a '25 Year Retirement' is identical other than delayed access.

Incentives to make 'delayed access funding' a greater part of today's monetary allocation is achieved with tax deductions equal for all.

## **How Future Super adapts 'what people know about saving and investing'... for their Retirement**

### **Contributions:**

- 1. Anyone can save and invest in Super for retirement...** for themselves and any person, of any age... whether in Accumulation or Pension.
- 2. You can contribute to your or any person's Super Fund, in Accumulation, and Pension...** Topping up in retirement from Home Equity, windfalls, etc is encouraged.
- 3. You can contribute any amount you or others will need** to achieve the chosen Retirement funding amounts, up to the Maximum Allowed.  
**Targeted education** gives people their own amounts, not guesses.

**4. Maximum Super amount per person of \$2.5 million (or \$3 mil)**

Any excess can be transferred to another person's Super Fund tax free, or withdrawn at MTR plus a percentage to cover refund of deductions. Maximum amount is adjusted every 3 years at a declared Average Performance Rate rounded to the nearest \$10,000.

Fair and adequate for all but a small number of HNW people, and going forward rebuilds faith and trust that Australia's future Superannuation system is totally untouchable and free from future Government interference.

A maximum amount eliminates excesses

**5. All 'Grandfathering' ceases...** The excess to be moved to other ownership structures within Government declared period.  
This removes all present excesses.

**6. Super monies left at Death pass to Beneficiaries' Super Fund(s) Tax Free!** Monies accessed not passed to Super Funds retain today's Rules.

Amount passing to next generation's Super Funds are not to exceed the Maximum Super at their Retirement age, based on expected future contributions and earnings.

Monies passed to Super Funds create significant future Retirement Security, a major benefit for Family and Community Retirement security, and reduces future welfare impost.

**7. Super Pension payments with Capital Drawdown are Tax free.**

Retaining today's Tax Free Pension Payments Rule is (mostly) mathematically correct and avoids numerous Tax Returns.

**8. Insurances similar to today** however with adjustments for catastrophe medical conditions (para, quadriplegia, major burns etc,) and could be not taxed on Lump Sum Payments.

## **Taxes:**

**Future Super** can adopt any chosen tax arrangements.

### **Deductions are claimable for ALL in Tax Returns...**

Same as Self Employed today. Salary Sacrifice can continue but restrictive processes removed. Employers still claim deductions for Super Guarantee and additional contributions.

We are making 2 submissions

- 1) **All taxes are Half.** Half Marginal Tax Rate on contributions and Half Company Tax Rate on earnings.  
Contributions up to HALF your Annual Income receive a Tax Deduction at HALF your MTR.

**Investment earnings taxed at HALF Company Tax Rate for Accumulation, and Pension (if required)** Taxing Pension earnings is easiest for Budget or Welfare purposes. 'Half' Investment tax already exists but the emotion and understanding of 'Half' instead of 15% is significant!

- 2) **All Contributions and Retirement Income are Tax Free!**

**Our chosen method** would be to increase earnings tax to the Company Tax Rate (CTR) which could then make All Contributions and Income from Super Tax Free (explained below)

However, in finalising any tax submissions we would prefer to ask the Government "How much do you need, and how much (if any) is to be funded from Super?" Then an appropriate Tax method could be chosen.

### **How Contributions Tax can be replaced by increasing investment tax to CTR...**

*APRA June 2015 for period 2014 to 2015:*

**Aggregate Contributions to Super were \$130.4 Billion.**

So Contributions Tax @ 15% is c. \$19.5 Bn.

**Total Funds in Super are \$2.046 Trillion.**

If Earnings Tax was increased to Company Tax rates, (the same as every other Savings and Investment in the community)... the extra 15% (+/- Imputation Credits etc) on an assumed earnings rate of 7.5% pa would be c. \$23 Billion.

This immediately replaces Contributions Tax and because of the different structure, a flat tax to growth tax could provide the revenue required to comfortably fund Retirement Welfare... which may include more than just Age Pension, but perhaps some Age Health costs etc.

# Summary

## Objectives of Superannuation and 'Future Super'

We believe the simplicity, fairness and security of **Future Super** provides the necessary structure to more readily meet the Purposes and Objectives of Superannuation for all Australians.

- Immediately understandable because it adapts what people already know and do every day when saving for Life Purchases and Events
- Its processes and rules are seen as ... 'obvious'
- It is universally fair because everyone is equal, same rules apply to all
- Legislative changes become unnecessary... Its flexible 'same rule' structure automatically adjusts to changes in the economy, incomes, lifestyles, tax rates etc!!
- Only the Maximum Allowed Amount needs adjusting every 3 years by an Average Growth rate
- Its No Changes Structure will reintroduce Trust in Super
- Intergenerational Retirement Funding is facilitated and encouraged, reducing future welfare
- Targeted Education will help people to calculate Own Target Amounts so guesses by others are replaced, giving more control
- Easy to implement and administer
- Cost reductions come from simplified structures for industry members and Government
- New Retirement products, strategies and structures, including possible adjustments to the Age Pension to assist longevity risk can be developed
- The most appropriate Taxes and Tax Deductions and Processes can be determined when the Government stipulates the revenue they require from Super



**Assume \$10,000 contributions – in all cases Employer claims Salary and Super as full deduction...**

Employee MTR 32.5%	Today		Assumption on MTR less 15%		Money Farms Pty Ltd 'Future Super' ½ Contributions taxed at MTR		All Contributions TAX FREE	
	Income	To Super	Income	To Super	Income	To Super	Income	To Super
<b>Gross Income</b>	<b>60,000</b>		<b>60,000</b>		<b>60,000</b>		<b>60,000</b>	
Contribution Part Claim Full claim	<u>- 10,000</u> ⇨ 10,000		<u>- 10,000</u> ⇨ 10,000		(10,000 ÷ 2) <u>-5,000</u> ⇨ 5,000		<u>-10,000</u> ⇨ 10,000	
<b>Net Taxable income to Employee</b>	<b>50,000</b>		<b>50,000</b>		<b>55,000</b>		<b>50,000</b>	
Tax	7,797		7,797		9,422		7,747	
Medicare	1,000		1,000		1,100		1,000	
Budget Repair Levy	-		-		-		-	
Low Income Offset	(250)		(250)		(175)		(250)	
Super Contribution Tax	-	- 1,500	-	N/A	-		-	N/A
Tax less Discount		-	<u>1,750</u>					-
<b>Total Tax</b>	<b>8,547</b>		<b>10,297</b>		<b>10,347</b>		<b>8,547</b>	
<b>Net in Super</b>		<b>8,500</b>		<b>10,000</b>		<b>10,000</b>		<b>10,000</b>
Add ½ contribution fully deducted					<u>5,000</u>			
<b>Take Home</b>	<b>41,453</b>		<b>39,703</b>		<b>39,653</b>		<b>41,453</b>	
<b>Taxes Paid</b> - Income	8,547		8,547		10,347		8,547	Contributions tax recovered from investment earnings
- Super	<u>1,500</u>		<u>1,750</u>					
<b>TOTAL TAX</b>	<b>10,047</b>		<b>10,297</b>		<b>10,347</b>		<b>10,047</b>	
			<i>T/H compared to today - \$1,750</i>		<i>T/H compared to today - \$1,800</i>		<b>Same Take Home as today and more invested in Super</b>	

**Assume \$10,000 contributions – in all cases Employer claims Salary and Super as full deduction...**

Employee MTR 37%	Today		Assumption on MTR less 15%		Money Farms Pty Ltd ½ Contributions taxed at MTR		'Future Super' All Contributions TAX FREE	
	Income	To Super	Income	To Super	Income	To Super	Income	To Super
<b>Gross Income</b>	<b>100,000</b>		<b>100,000</b>		<b>100,000</b>		<b>100,000</b>	
Contribution Part Claim Full claim	<u>10,000</u> ⇨ 10,000		- <u>10,000</u> ⇨ 10,000		(10,000 ÷ 2) <u>-5,000</u> ⇨ <u>5,000</u>	5,000		10,000
<b>Net Taxable income to Employee</b>	<b>90,000</b>		<b>90,000</b>		<b>95,000</b>		<b>90,000</b>	
Tax	21,247		21,247		23,097		21,247	
Medicare	1,800		1,800		1,900		1,800	
Budget Repair Levy	-		-		-		-	
Low Income Offset	-		-		-		-	
Super Contribution Tax	-	- 1,500	(37-15%= 2%) -	N/A	-		-	N/A
Tax less Discount		-	<u>2,200</u>					-
<b>Total Tax</b>	<b>23,047</b>		<b>25,247</b>		<b>24,997</b>		<b>23,047</b>	
<b>Net in Super</b>		<b>8,500</b>		<b>10,000</b>		<b>10,000</b>		<b>10,000</b>
Add ½ contribution fully deducted					<u>5,000</u>			
<b>Take Home</b>	<b>66,953</b>		<b>64,753</b>		<b>65,003</b>		<b>66,953</b>	
<b>Taxes Paid</b> - Income	23,047		23,047		24,997		23,047	Contributions tax recovered from investment earnings
- Super	<u>1,500</u>		<u>2,200</u>					
<b>TOTAL TAX</b>	<b>24,547</b>		<b>25,247</b>		<b>24,997</b>		<b>23,047</b>	
			<i>T/H compared with today - \$2,200</i>		<i>T/H compared to today - \$1,950</i>		<b>Same Take Home as today and more invested in Super</b>	

**Assume \$10,000 contributions – in all cases Employer claims Salary and Super as full deduction...**

Employee MTR 45%	Today		Assumption on MTR less 15%		Money Farms Pty Ltd 'Future Super' ½ Contributions taxed at MTR		All Contributions TAX FREE	
	Income	To Super	Income	To Super	Income	To Super	Income	To Super
<b>Gross Income</b>	<b>250,000</b>		<b>250,000</b>		<b>250,000</b>		<b>250,000</b>	
Contribution Part Claim Full claim	<u>10,000</u> ⇨ 10,000		- <u>10,000</u> ⇨ 10,000		(10,000 ÷ 2) 5,000 <u>-5,000</u> ⇨ <u>5,000</u>		<u>-10,000</u> ⇨ 10,000	
<b>Net Taxable income to Employee</b>	<b>240,000</b>		<b>240,000</b>		<b>245,000</b>		<b>240,000</b>	
Tax	81,547		81,447		83,797		81,547	
Medicare	4,800		4,800		4,900		4,800	
Budget Repair Levy	1,200		1,200		1,300		1,200	
Low Income Offset	-		-		-		-	
Super Contribution Tax	-	- 1,500	(45-15%= 30%) -	N/A	-		-	N/A
Tax less Discount		-	<u>3,000</u>					-
<b>Total Tax</b>	<b>87,547</b>		<b>90,547</b>		<b>89,997</b>		<b>87,547</b>	
<b>Net in Super</b>		<b>8,500</b>		<b>10,000</b>		<b>10,000</b>		<b>10,000</b>
Add ½ contribution fully deducted					<u>5,000</u>			
<b>Take Home</b>	<b>152,453</b>		<b>149,453</b>		<b>150,003</b>		<b>152,453</b>	
<b>Taxes Paid</b> - Income	87,547		87,547		89,997		87,547	Contributions tax recovered from investment earnings
- Super	<u>1,500</u>		<u>3,000</u>					
<b>TOTAL TAX</b>	<b>89,047</b>		<b>90,547</b>		<b>89,997</b>		<b>87,547</b>	
			<i>T/H compared with today - \$3,000</i>		<i>T/H compared to today -\$2,450</i>		<b><i>Same Take Home as today and more invested in Super</i></b>	

**Assume \$10,000 contributions – in all cases Employer claims Salary and Super as full deduction...**

Employee MTR 19%	Today		Assumption on MTR less 15%		Money Farms Pty Ltd 'Future Super' ½ Contributions taxed at MTR		All Contributions TAX FREE	
	Income	To Super	Income	To Super	Income	To Super	Income	To Super
<b>Gross Income</b>	<b>37,000</b>		<b>37,000</b>		<b>37,000</b>		<b>37,000</b>	
Contribution Part Claim Full claim	<u>10,000</u> ⇨ 10,000		- <u>10,000</u> ⇨ 10,000		(10,000 ÷ 2) - <u>5,000</u> ⇨ <u>5,000</u>	5,000		10,000
<b>Net Taxable income to Employee</b>	<b>27,000</b>		<b>27,000</b>		<b>32,000</b>		<b>37,000</b>	
Tax	1,672		1,672		2,622		1,672	
Medicare	540		540		640		640	
Budget Repair Levy	-		-		-		-	
Low Income Offset	(445)		(445)		(445)		(445)	
Super Contribution Tax	-	- 1,500	-	N/A	-		-	N/A
Tax less Discount		-	<u>400</u>					-
<b>Total Tax</b>	<b>1,767</b>		<b>2,167</b>		<b>2,817</b>		<b>1,767</b>	
<b>Net in Super</b>		<b>8,500</b>		<b>10,000</b>		<b>10,000</b>		<b>10,000</b>
Add ½ contribution fully deducted					<u>5,000</u>			
<b>Take Home</b>	<b>25,233</b>		<b>24,833</b>		<b>24,183</b>		<b>25,233</b>	
<b>Taxes Paid</b> - Income	1,767		23,047		24,997		1,767	Contributions tax recovered from investment earnings
- Super	<u>1,500</u>		<u>2,200</u>					
<b>TOTAL TAX</b>	<b>3,267</b>		<b>2,167</b>		<b>2,817</b>		<b>1,767</b>	
			<i>T/H compared to today - \$400</i>		<i>T/H compared to today -\$1,050</i>		<b>Same Take Home as today and more invested in Super</b>	

## HALF Taxes gives equality while helping lower earners

Income Groups \$	Today	Future Super Half Tax		Likely Pension Entitlement
	MTR less Contribution Tax	Everyone's Tax Deduction (or tax) is Half their MTR	Benefits, or increased tax, compared to today + /	
> \$300,000	45c - 30 % = 15	22.50	Excess tax unnecessary unless required by Govt (see note below)	NIL
181,000 & above	45c - 15 % = 30	22.50	- 7.5	NIL
80,001 – 180,000	37c - 15 % = 22	18.50	- 3.5	Part to NIL
37,001 – 80,000	32.5c - 15 % = 17.5	16.25	- 1.25	FULL or Part
18,201 – 37,000	19c - 15 % = 4	9.25	+ 5.5	Will receive FULL Age Pension which pays many recipients more than ALL THE INCOME TAX they have (or would have) ever paid!! (see below)

Investment Income @ Company Tax Rate	Super Tax	Half Company Tax Rate
30c	15%	15% (Same as today)
* Can also apply in Pension mode if required		

Assume in year retiring you were earning Average Weekly Earnings of \$77,194. The Tax in Retirement year (after all working life) had grown to \$16,635. The Age Pension for a Single starts at \$22,542 and with 3% CPI in 11.25 yrs gives payments greater than All the Income Taxes ever paid!