RETIREMENT INCOME MODELLING TASK FORCE

PRESERVATION AND THE EFFECTIVENESS OF RETIREMENT INCOMES POLICY

- SOME RESULTS OF INDIVIDUAL MODELLING

Colin Brown
Retirement Income Modelling Task Force

Paper for the Fifth Colloquium of Superannuation Researchers, University of Melbourne, 11/12 July 1997

Conference paper 97/1

Retirement Income Modelling Task Force
C/- The Treasury, Parkes Place, Canberra
Phone (06) 263 3932 Fax (06) 263 2724 Email clb@treasury.gov.au

RIM papers may be accessed via the Internet at www.treasury.gov.au/organisations/rimtf

The RIM Task Force is jointly sponsored by the Commonwealth Departments of the Treasury, Finance and Social Security.

I would like to thank my colleagues in the RIM Task Force for their advice and assistance. The views expressed in this paper are those of the author and do not necessarily reflect those of the Government or any of the sponsoring Departments of the RIM Task Force.

OVERVIEW

This paper reviews the development of preservation policy and its importance to the effectiveness of retirement incomes policy. It examines the impact of the new preservation arrangements announced in the 1997-98 Budget, which will apply from July 1999, and compares these with the former proposed preservation arrangements which would have applied from July 1998.

The paper notes the importance of introducing more effective preservation arrangements, both to enhance National savings and retirement incomes policy. It also highlights the desirability of reducing the complexity of the current preservation arrangements.

Finally, it presents the results of modelling for hypothetical individuals, showing the differences in preservation outcomes under the current preservation arrangements, the former proposed arrangements and those announced in the 1997-98 Budget. The complementary aggregate analysis of preservation policies is presented in the paper by Dr George Rothman (1997).[1]

THE DEVELOPMENT OF PRESERVATION

Preservation is the requirement that money saved for retirement through a superannuation scheme should remain in the superannuation system until the person *retires* at or after a minimum *preservation age* (currently 55) or retires on grounds of permanent invalidity. This requirement is a safeguard intended to ensure that retirement savings are used to finance expenditure in retirement and are not available to finance other, pre-retirement expenditures. Without preservation, superannuation savings would be in danger of degenerating into a form of deferred remuneration scheme, providing a concessionally taxed windfall payment whenever a person changes employment and becomes eligible to withdraw their accumulated superannuation.

However, it is still the case that a very large proportion (around 65 per cent) of superannuation savings in Australia are not preserved (see Rothman 1997).

In the beginning, there was no compulsory preservation of employer financed superannuation and such benefits often bore little relationship to retirement benefits. Prior to July 1983, the very concessional treatment of eligible termination payments (only 5% was included in assessable income) made employer financed superannuation an attractive form of deferred remuneration. This continued to be the case for many people even after the increases in taxes on lump sum superannuation benefits introduced in 1983 due to the continuing concessional tax treatment of the pre-July 1983 component of ETPs. Compulsory preservation for employer financed superannuation was first introduced with the advent of industrial award superannuation in June 1986. Benefits arising from award contributions were required to fully vest in employees and were required to be preserved until retirement on or after age 55. The introduction of the SG, from July 1992, provided a further extension to preservation through the introduction of a phased in *minimum* level of employer superannuation support, fully vested in the employee and subject to preservation to a minimum age. From 1 July 1994, benefits financed from existing employer superannuation contributions, up to the minimum support required under the SG, became subject to preservation. However, these increases in preservation only applied to the new or minimum superannuation

---

[1] Rothman, Dr George: "Aggregate Analysis of Policies for Accessing Superannuation Accumulations" - RIM conference paper 97/3, presented to the Fifth Colloquium of Superannuation Researchers, July 1997

benefits and did not apply to employer financed superannuation in excess of awards or SG minimum employer contributions or to member contributions.

Currently, the benefits that are subject to preservation[2] are:

- benefits made from employer contributions not in excess of the SG requirement and made on or after 1 July 1994;
- benefits from employer contributions made under an industrial award;
- any new or improved benefits arising from an arrangement or agreement made after 22 December 1986 for a private sector fund, or 1 July 1990 for a public sector fund;
- benefits made from member contributions which were made during a period before 1 July 1994 when the member did not have any employer support (ignoring any different provisions prior to July 1992);
- benefits from member contributions that are not undeducted contributions and were made on or after the fund's "commencement day" (ie the later of the first day of the fund's 1994-95 income year or and the day the fund becomes a "regulated superannuation fund" under *Superannuation Industry (Supervision) Act 1993*);
- any preserved components of superannuation benefits transferred into a superannuation fund or eligible rollover fund.

The preservation standards set out the minimum amounts funds must compulsorily preserve and funds may impose tighter preservation requirements. Fund members cannot access compulsorily preserved benefits until retirement at or after the preservation age, except where they satisfy a release of benefit condition or where they take the benefit in the form of a non commutable, indexed lifetime pension or annuity. The release of benefit conditions allowed payment of benefits where the account balance is less than $500, on grounds of financial hardship, compassionate grounds and where the person permanently departs from Australia. Changes to these release of benefit conditions were announced in the 1997-98 Budget and are outlined in Attachment A.

Essentially the current preservation standards provide for the preservation of benefits arising from compulsory employer superannuation contributions (whether under the SG or under awards), and for the preservation of benefits financed from *deductible* member contributions. Deductible member contributions refers almost exclusively to contributions by the self employed or, prior to July 1994, contributions to personal superannuation schemes (which were preserved irrespective of whether the contributions were deductible or not).

Under the current preservation arrangements superannuation benefits *not* subject to *compulsory* preservation are:

- Benefits arising from undeducted member contributions made to an employer sponsored superannuation scheme;

---

[2] See Colin Brown & Ann McDiarmid, "Legislative References and Assumptions for RIMHYPO", February 1995, RIM Technical Paper 95/1, for an outline of the current preservation arrangements. The CCH *1997 Australian Master Tax Guide,* ∂8.158 also provides an outline of the current preservation arrangements.

- Benefits arising from undeducted contributions to personal superannuation schemes (including by the self employed) made since a fund's commencement day (generally the first day of the fund's 1994-95 income year);

- Benefits arising from employer financed contributions in *existing schemes* (as at the dates above) that are excess of the minimum contributions required under industrial awards or the SG; and

- ex gratia employer financed eligible termination payments.

These non-preserved benefits currently amount to about 65% of accrued superannuation assets, a figure which we would expect to gradually decline as the SG arrangements phase in.

The current preservation arrangements are complex to administer, requiring funds to calculate the amount of benefits attributable to particular contributions in order to determine preserved balances. This may not be difficult for funds which only accept a single category of contribution, however, it becomes extremely complex for schemes that pre-date the SG and offer better than SG benefits. Other aspects of the rules are also potentially difficult to administer because they require complex calculations in many cases. For instance, identifying the benefit from an improvement in scheme benefits made after 22 December 1986 (1 July 1990 for a public sector scheme) may not be a straightforward exercise, particularly where the gain is not uniform for all members. Such complexity adds to the administrative costs of superannuation funds and represents a deadweight loss to the Government's retirement income policy.

TOWARDS TIGHTER PRESERVATION RULES

The previous Government recognised the inadequacies of the current preservation arrangements, both in terms of the complexity of the preservation arrangements and from a National savings and retirement incomes policy perspective. In the 30 June 1992 *Security in Retirement* Statement, the then Treasurer announced that:

> "From 1 July 1996, all superannuation benefits will be subject to compulsory preservation, except an amount equal to the greatest of:
>
> - a person's cash vested resignation benefit (ie his or her unpreserved amount) as at the plan's annual review date in the 1996 calendar year (or 1 July 1996 where no annual review date exists) as defined in the rules of the scheme at the date of announcement of this measure indexed annually by movements in Average Weekly Ordinary Time Earnings (AWOTE); or
>
> - the person's case vested retrenchment benefit as at the fund's 1996 review date (or 1 July 1996 where no review date exists) .... indexed annually by movements in AWOTE; or
>
> - the person's post-June 1983 undeducted contributions."

Security in Retirement also announced the Government would increase the preservation age from 55 to 60, phasing in from July 2015 for people born after 30 June 1960, so that by July 2025 the preservation age will be 60 years for anyone under that age at that time.

In respect of these measures, the tighter preservation arrangements announced in *Security in Retirement* in 1992 have been twice deferred, first by the previous Government to commence from June 1997 and, in November last year, to commence from June 1998. These deferrals were made in order to avoid imposing an excessive administrative burden on superannuation fund at a time when a number of other administrative and regulatory changes were occurring. The increase in preservation age has not yet been legislated for (although the intention to legislate for this change was confirmed in the 1997-98 Budget).

1997-98 BUDGET CHANGES

In the 1997-98 Budget, the Government announced a number of enhancements to the preservation arrangements. These included a general tightening of the conditions for release of preserved benefits (see Attachment A), the introduction of a tighter preservation regime to apply from July 1999 and legislating for the increase in preservation age to age 60 announced by the previous Government.

The new preservation arrangements which the Government announced are that:

> "From 1 July 1999, all future superannuation contributions (including member contributions) and earnings will be preserved until preservation age, except in limited circumstances. Transitional arrangements will provide that the greater of the member's undeducted contributions and the member's resignation/retrenchment benefits as at 1 July 1999, as well as the amount as at 1 July 1999 of other unpreserved benefits which can currently be accessed at any time, will not be preserved."

The transitional rule proposed is similar to that proposed for the 1992 measure, being based on the greater of the member's cash vested resignation/retrenchment benefit or undeducted contributions at the changeover date. However, the new preservation standard is somewhat tighter than the former proposed arrangements announced in 1992. The differences between the 1997-98 Budget preservation standard and the former proposed standard are:

- The non-preserved balance in a member's account (defined as the member's cash vested resignation/retrenchment benefit) as at the changeover date (1 July 1999) will not be indexed; and

- Undeducted contributions made after the changeover date cannot add to the person's non-preserved balance. Under the former proposed standard, this could occur where undeducted contributions exceeded the person's (remaining) indexed non-preserved balance as at the changeover date.

In respect of this tightening of preservation , the Government has stated:

> "The Government believes that superannuation savings should be directed to their intended purpose; namely to provide for retirement income. Towards this end, superannuation receives substantial tax concessions. For these reasons and in order to simplify the complex

> preservation arrangements, the Government has decided to preserve all superannuation contributions and earnings from 1 July 1999."[3]

The new preservation arrangements should be simpler for funds to administer. This is because it will only require them to keep account of a single non-preserved balance. There will not be any indexation requirement and funds will not need to compare the indexed non-preserved balance with undeducted contributions to determine which amount is greater and therefore determines the preserved balance.

The tighter preservation standard should result in a more rapid build up in the proportion of total superannuation assets subject to preservation, reducing the potential for leakages from the system and making a positive contribution to the Government's retirement incomes policy and National savings objectives[4]. The tighter preservation arrangements will be further augmented by the tightening of the release of benefit provisions also announced in the Budget (see Attachment A for details).

As with the *Security in Retirement* preservation requirements, the new preservation arrangements will have no impact on people whose only superannuation support is through minimum SG or award superannuation contributions. Such contributions are already subject to full preservation. The main effect of the new preservation arrangements will fall on people who are members of existing more generous employer sponsored superannuation schemes and people who make undeducted member contributions (including, to the extent of undeducted contributions, the self employed). However, these people still account for the majority of assets in the superannuation system.

Table 1 summarises the preservation treatment of various components of accrued superannuation benefits under the current, former proposed and 1997-98 Budget proposals.

---

[3] Costello, P: *Savings: Choice and Incentive,* Statement by the Treasurer, Commonwealth of Australia, AGPS 13 May 1997 - page 17

[4] See Dr George Rothman's paper "Aggregate Analysis of Policies for Accessing Superannuation Accumulations" - RIM conference paper 97/3, presented to the Fifth Colloquium of Superannuation Researchers, July 1997, for an assessment of the National savings impact of the tighter preservation regime.

Table 1: Comparison of the Preservation Treatment of Different Components of Accrued Superannuation Benefits Under Different Preservation Regimes

Benefit component	Current Preservation Arrangements	Former Proposed Preservation Arrangements	1997-98 Budget Preservation proposals
Member undeducted contributions:			
Contribution	Not preserved	Not preserved	Preserved
Earnings	Not preserved	Preserved	Preserved
Transitional balance	N/a	Not preserved, indexed	Not preserved
Member deductible contributions *(ie Contributions by substantially self employed people)*			
Contribution	Preserved	Preserved	Preserved
Earnings	Preserved	Preserved	Preserved
Transitional balance	N/a	Preserved	Preserved
SG minimum employer contributions and award contributions			
Contribution	Preserved	Preserved	Preserved
Earnings	Preserved	Preserved	Preserved
Transitional balance	N/a	Preserved	Preserved
Employer contributions in excess of SG minimum and awards (in existing schemes)			
Contribution	Not preserved	Preserved	Preserved
Earnings	Not preserved	Preserved	Preserved
Transitional balance	N/a	Not preserved, indexed	Not preserved

THE IMPACT OF PRESERVATION ON BENEFIT ACCRUALS

I have used the RIM individual hypothetical model RIMHYPO to compare the effect of three preservation scenarios on a hypothetical member of a generous existing employer superannuation scheme. The scenario modelled is as follows:

- a single person who commences in a superannuation fund at age 20 and retires at age 65 and is continuously employed during this period;
- the person is in the "para-professional" occupational group, as defined by the ABS, and has an age specific earning profile typical of that group;
- the person commences accumulating superannuation benefits in 1974, 1984 or 1992 and in the accrual period receives 9% employer superannuation contributions in an existing scheme, plus 3% award superannuation contributions from July 1986 and makes 3% member contributions throughout the accrual period; and
- the analysis uses historical data for CPI growth, earnings growth and the 10 year bond rate (on which the fund earning rate is based) in historical analysis. For future years the analysis assumes CPI growth of about 2½%, earnings growth of about 3½% and a 10 year bond rate declining to 6% by July 2000. Fund earnings are 1% above the 10 year bond rate.

The modelling examines 3 preservation regimes:

- the maintenance of the current preservation arrangements, under which only SG and award employer contributions are preserved (the *current arrangements*).
- the *Security in Retirement* preservation arrangements, which would have applied from July 1998 (the *former proposed arrangements*); and

- the 1997-98 Budget preservation arrangements, applying from July 1999 (the *Budget arrangements*).

Charts 1 to 12 illustrate the potential impact of the different preservation arrangements depending upon when a person commenced in a superannuation scheme. The examples model a person in an existing generous employer sponsored superannuation scheme. The charts present the outcomes in *nominal* terms to best illustrate the characteristics of the different preservation arrangements and readers should not place too much emphasis on the absolute level of benefit that accrues.

The charts show that:

- the current arrangements would only result in a gradual increase in preservation for members of existing generous employer sponsored superannuation schemes (Charts 1, 5 and 9);

- under all the preservation options, the increase in preservation is greatest for people who have been members of funds for the least time (compare Charts 1 to 3 with Charts 5 to 7 and Charts 9 to 11):

  – under the current arrangements this reflects the earnings on earlier non-preserved benefits;

  – under both the former proposed arrangements and the Budget arrangements it reflects the larger accrual of non-preserved benefits prior to the date of effect of the new preservation regime;

- *both* the Budget arrangements and the former proposed arrangements would result in substantial increases in the level of preserved benefits relative to the current arrangements (Charts 4, 8 and 12);

- the Budget arrangements result in a higher increase in preserved benefits than the former proposed arrangements even though they commence a year later. This effect is more pronounced for members who have been in schemes longer who would have had larger existing non-preserved benefit entitlements indexed under the former proposed arrangements (Charts 4, 8 and 12).

The charts also illustrate the impact of increasing the preservation age. In all the cases, the person modelled commences in a fund at age 20 and the charts plot the preserved and non-preserved components of the benefit up to age 65. In the case of the person commencing in a fund in 1974 (Charts 1 to 4), the benefits are preserved to age 55, while the person commencing in 1984 (Charts 5 to 8) has the benefits preserved to age 58 and the person commencing in 1992 (Charts 9 to 12) has benefits preserved to age 60.

When the person reaches the preservation age, the benefits in superannuation funds effectively cease to be preserved, changing from preserved to *restricted non-preserved*. This means that the person effectively has access to the benefits on any termination of employment. In the case of benefits in rollover fund the benefits become *unrestricted non-preserved* meaning they have already satisfied a condition of release and can be accessed at any time. Increasing the preservation age increases the amount of preserved assets in the superannuation system by deferring time at which this change in preservation status can occur. It also helps to ensure that individuals accumulate a larger retirement benefit which, through later retirement, does not have to last as long in retirement and can therefore provide a more adequate standard of living over the period of retirement.

Chart 1: Superannuation accumulations. Preserved and non-preserved components, Current preservation arrangements - Person commences 1974

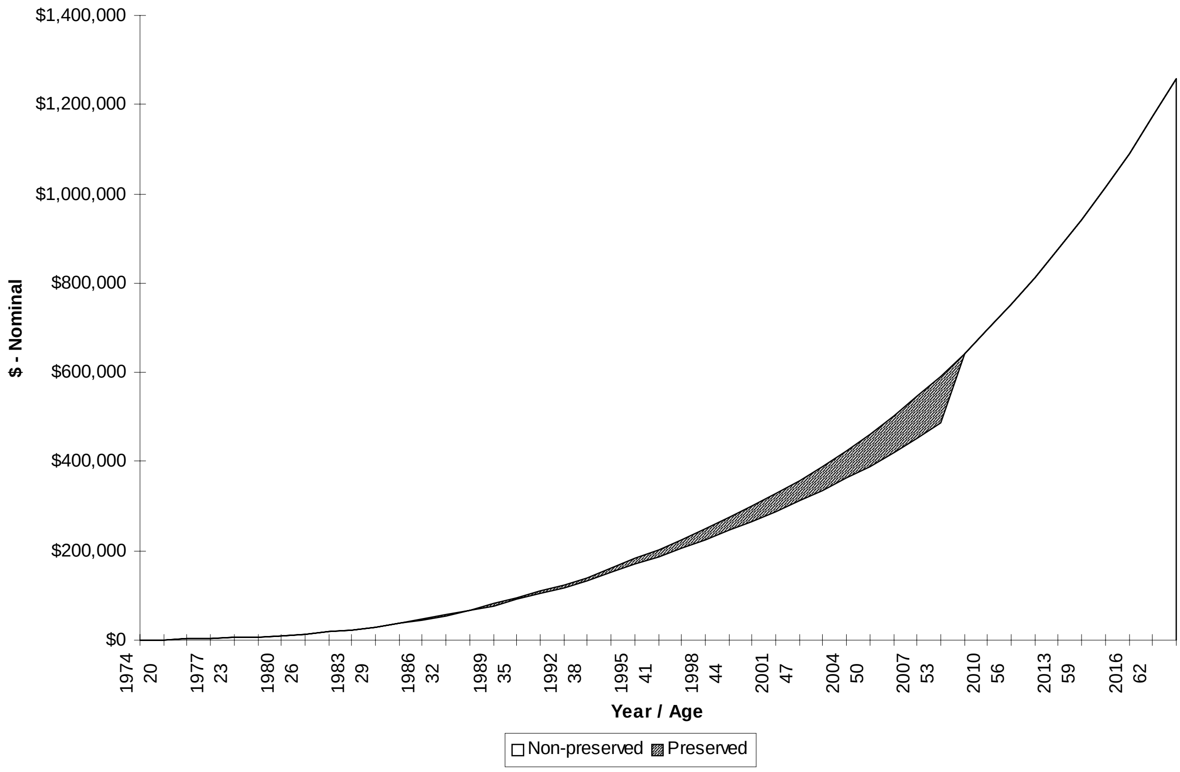


Chart 2: Superannuation accumulations. Preserved and non-preserved components, Former announced preservation arrangements - Person commences 1974

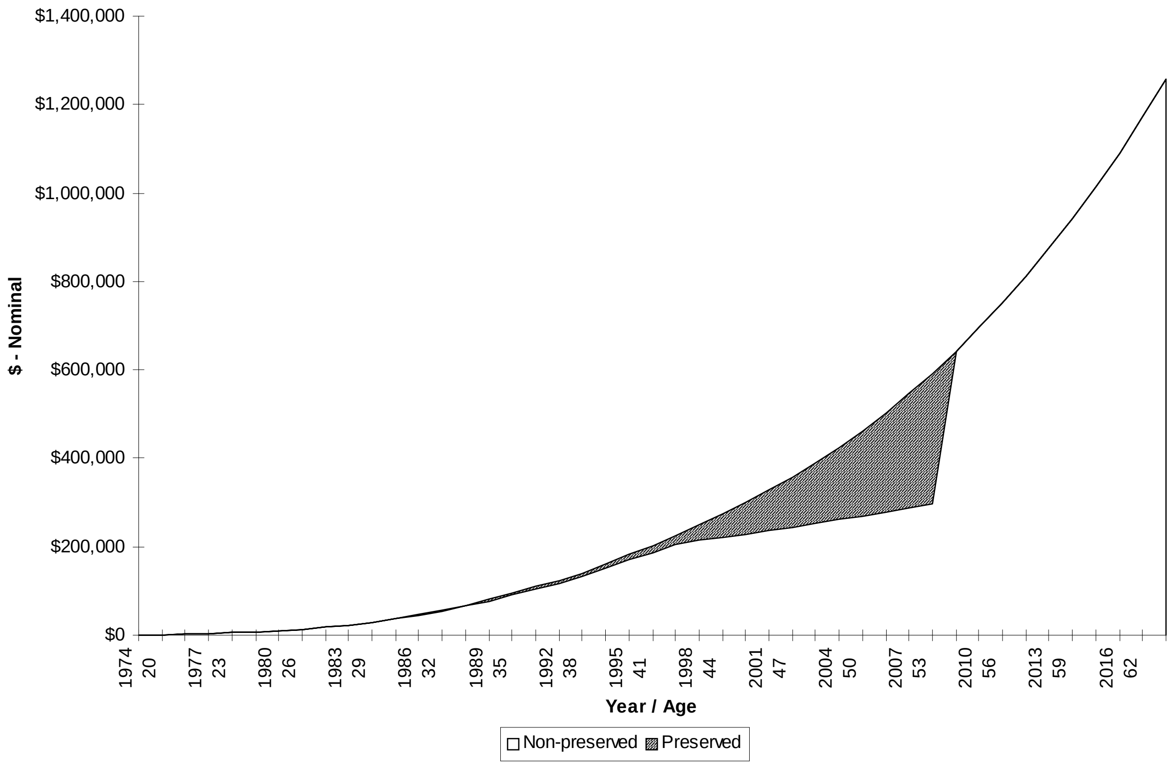


Chart 3: Superannuation accumulations. Preserved and non-preserved components, 1997-98 Preservation arrangements - Person commences 1974

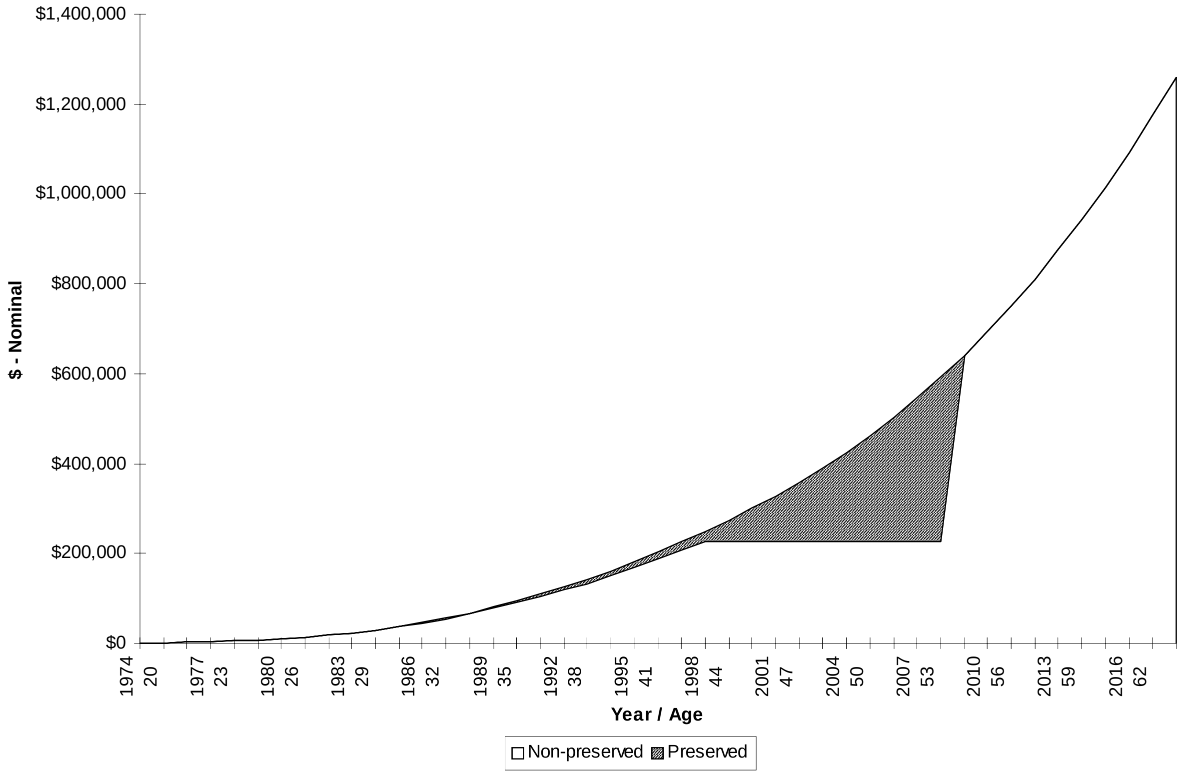


Chart 4: Difference in preservation from current arrangements - Person commences 1974

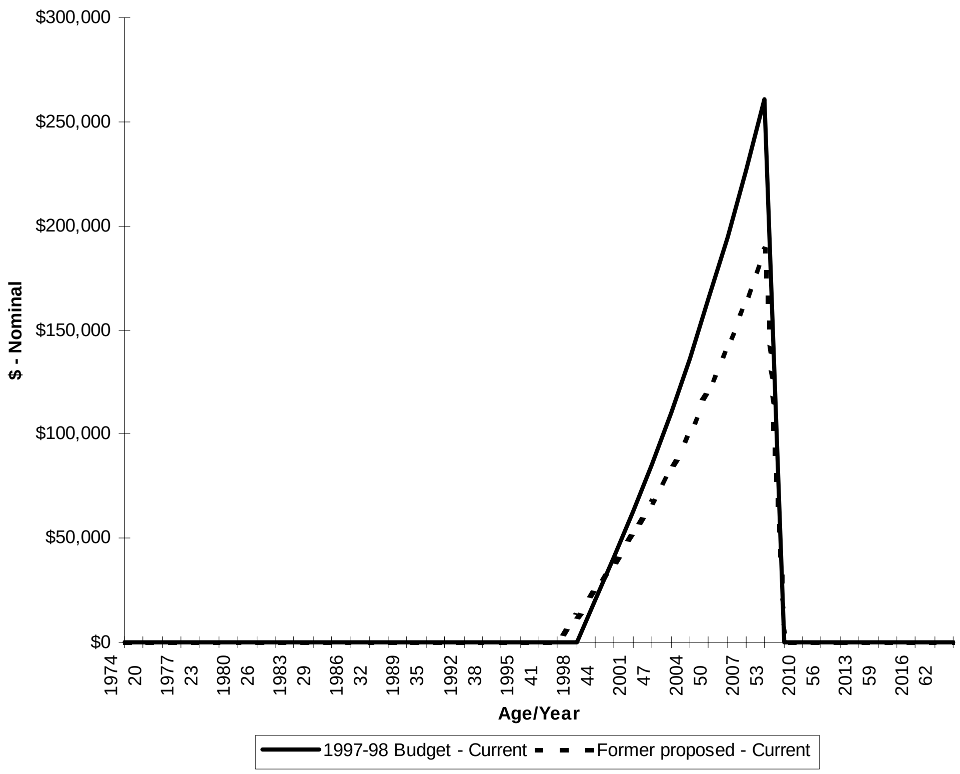


Chart 5: Superannuation accumulations. Preserved and non-preserved components, Current preservation arrangements- Person commences 1984

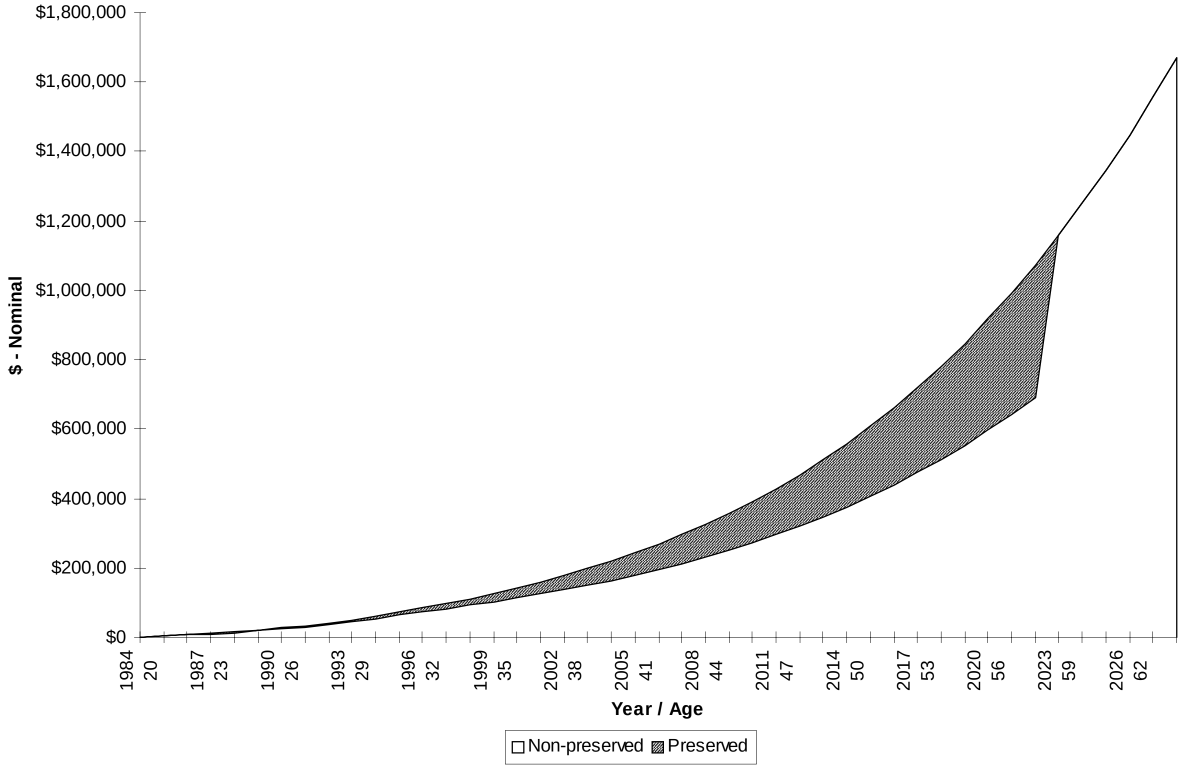


Chart 6: Superannuation accumulations. Preserved and non-preserved components, Former announced preservation arrangements- Person commences 1984

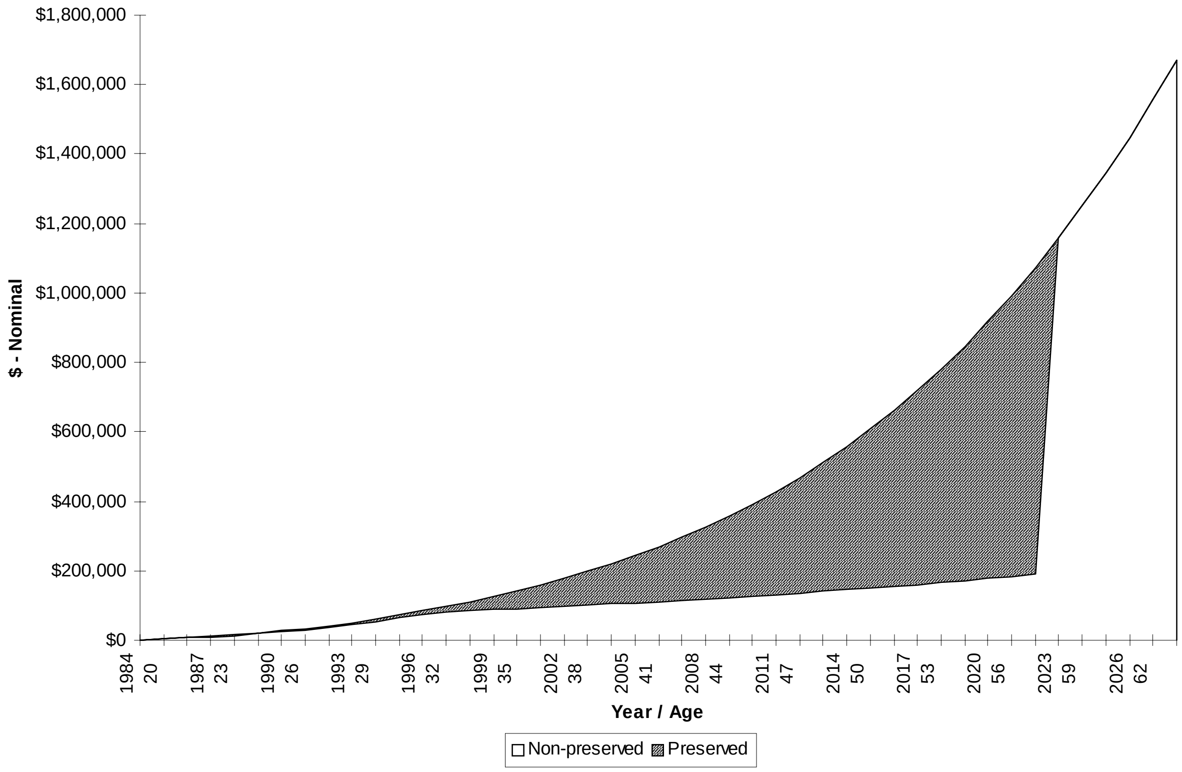


Chart 7: Superannuation accumulations. Preserved and non-preserved components, 1997-98 Preservation arrangements- Person commences 1984

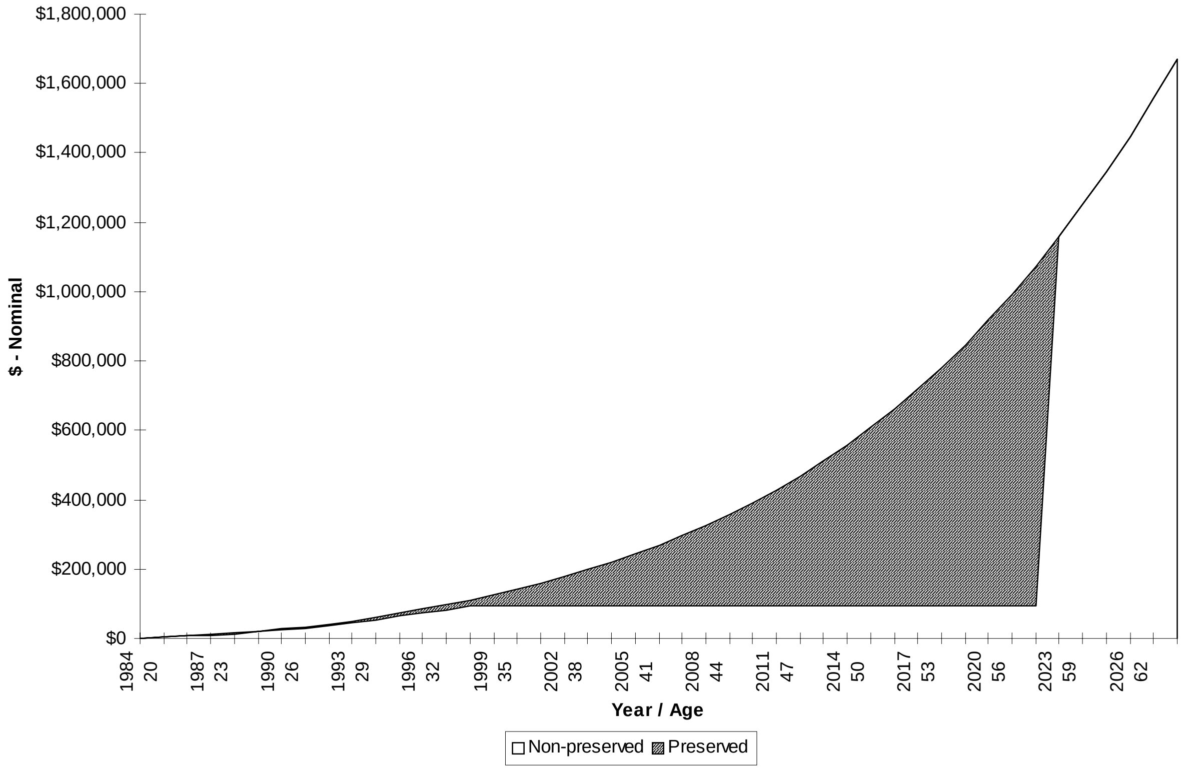


Chart 8: Difference in preservation from current arrangements - Person commences 1984

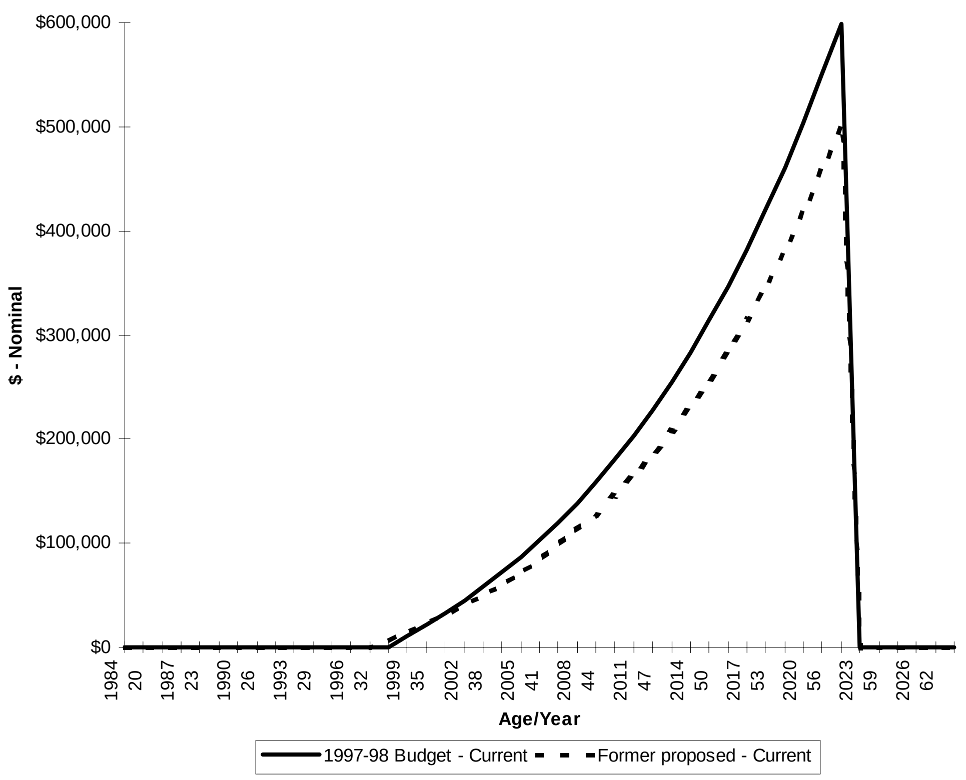


Chart 9 Superannuation accumulations. Preserved and non-preserved components, Current preservation arrangements - Person commences 1992

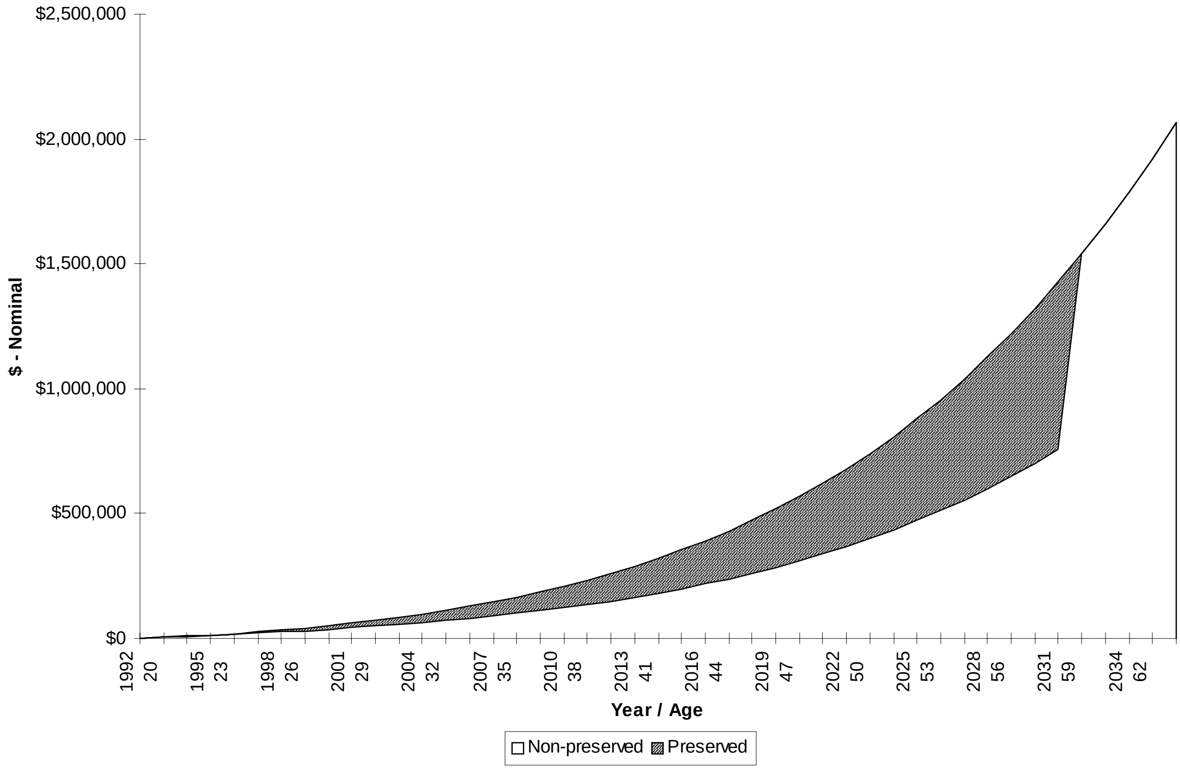


Chart 10: Superannuation accumulations. Preserved and non-preserved components, Former announced preservation arrangements - Person commences 1992

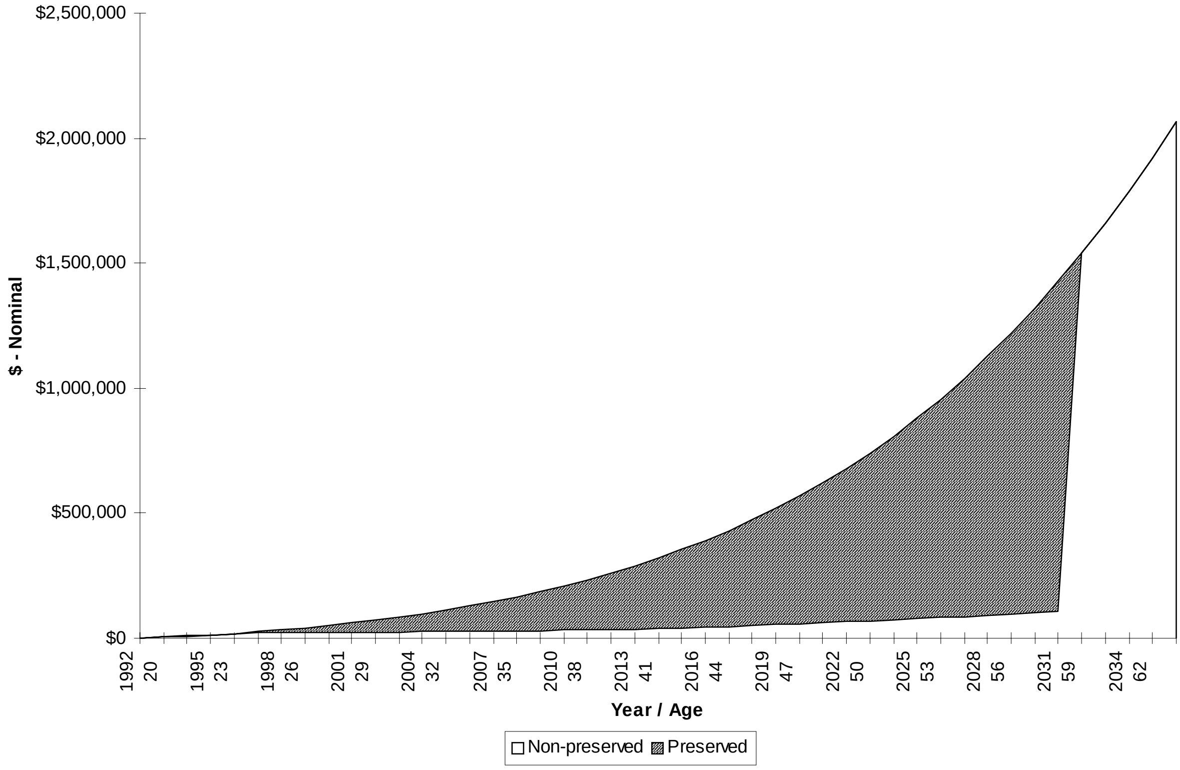


Chart 11: Superannuation accumulations. Preserved and non-preserved components, 1997-98 Preservation arrangements - Person commences 1992

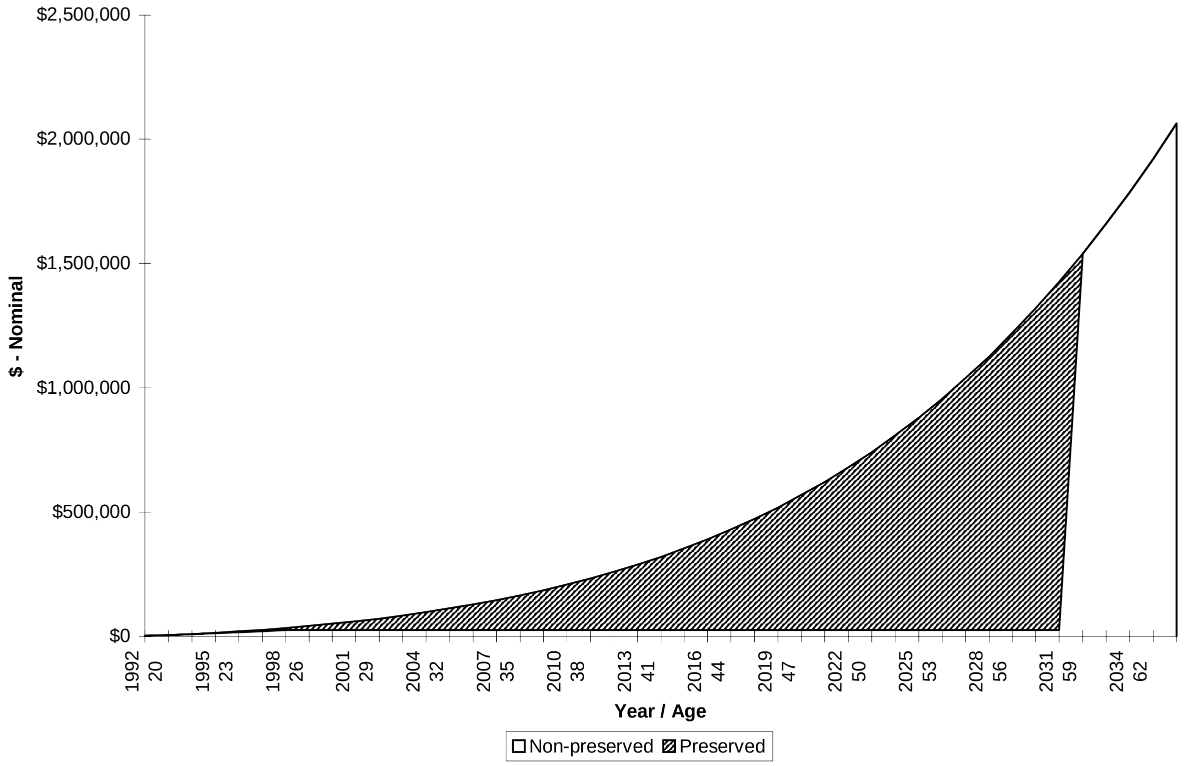
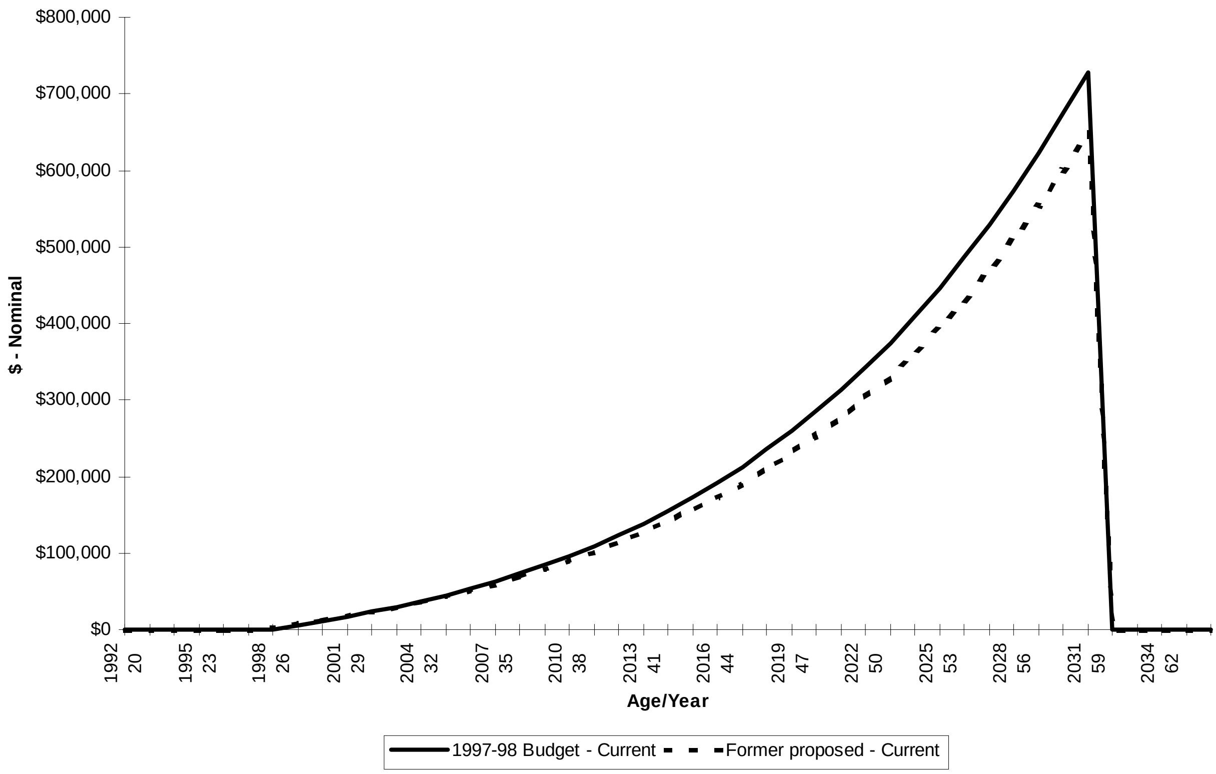


Chart 12: Difference in preservation from current arrangements - Person commences 1992



Tables 2 and 3 illustrate the impact of the different preservation arrangements on the amount of superannuation a person can dissipate prior to retirement. Taking the case of the person who commences in a superannuation fund in July 1992, the tables compare outcomes with full preservation of benefits with outcomes where the person changes job at either age 35 and or at age 45 and withdraws the maximum non-preserved amount.

Table 2 shows the differences in the amount of benefit a person would be able to withdraw under each preservation option at the different withdrawal ages. Under the current arrangements, the person could draw down a substantial portion of the accrued benefit, with the proportion declining slightly with age. However, the later drawdown has a substantially greater real value, reflecting the greater accrual period for the non-preserved benefits. The former proposed preservation arrangements would have effectively capped the real value (deflated by Average Weekly Ordinary Time Earnings) of the amount as at July 1998. While the CPI deflated real value of such a drawdown rises somewhat where the person draws down the benefit later, the proportion of benefit the person is able to withdraw at that time is smaller. By contrast the Budget preservation arrangements place a nominal value cap on the amount a person can access as at July 1999 with the result that the real value of the amount a person can access falls with time and there is sharper decline in the amount of benefit a person can dissipate.

Table 2: Amounts dissipated on job change at age shown

	Dissipation on job change occurs at age:		
	Full preservation	35	45
	(1996-97 prices, CPI deflated)		
(a) Current preservation			
Amount dissipated	$0	$68,390	$143,171
Proportion of total benefits at time	0.0%	60.8%	55.4%
(b) Former proposed preservation			
Amount dissipated	$0	$22,235	$28,661
Proportion of total benefits at time	0.0%	19.8%	11.1%
(c) 1997-98 Preservation arrangements			
Amount dissipated	$0	$19,614	$15,292
Proportion of total benefits at time	0.0%	17.4%	5.9%

Table 3 shows the effect on retirement benefits, age pension outlays, taxes in retirement and net retirement income of the different preservation options, with full preservation, drawdowns of the maximum non-preserved benefits on job change at age 35 and 45 and where the person is a chronic dissipator prior to age 60. In the chronic dissipator case, the person changes job each year before age 60 and draws down the maximum available non-preserved benefit, illustrating the worst case of dissipation of non-preserved benefits (the person is assumed to come to his or her senses at age 60 so that some money remains in the system for retirement at age 65).

Table 3 shows that under the current preservation arrangements, dissipation of non-preserved superannuation can have a substantial impact on *retirement* benefits, substantially increase the cost of the age pension, reduce taxes collected in retirement and reduce net retirement incomes. Under the current arrangements, the impact of dissipation of non-preserved superannuation is greater where the person dissipates later in life because the real value of the amount the person dissipates is much larger. Much of the impact of dissipation on net retirement income is offset by increases in age pension entitlements and reduced taxes payable in retirement, for instance while drawing down the maximum unpreserved benefits at age 35 reduces average private income in retirement by 27%, average net retirement income falls by 17%. In the worse case, the chronic dissipator could reduce final benefits by 51%, nearly doubling age pension outlays and halving taxes payable in retirement with the result that net retirement income falls by 34%. The chronic dissipator case illustrates how ineffective the current preservation arrangements can be and the potential scope they provide for abuse of the superannuation tax concessions.

Table 3: Impact of dissipation on retirement income with different preservation arrangements

	Dissipation on job change occurs at age:			
	Full preservation	35	45	Chronic dissipation pre age 60
		(1996-97 prices, CPI deflated)		
(a) Current preservation				
Average private income	$52,110	$38,153	$32,165	$25,692
Average age pension	$5,527	$8,133	$9,222	$10,421
Average taxes in retirement	$10,447	$7,246	$6,101	$4,976
Average net retirement income	$47,190	$39,020	$35,286	$31,138
Porportion of full age pension	42%	60%	68%	76%
(b) Former proposed preservation				
Average private income	$52,110	$47,573	$48,117	$36,317
Average age pension	$5,527	$6,368	$6,267	$8,453
Average taxes in retirement	$10,447	$9,454	$9,733	$7,262
Average net retirement income	$47,190	$44,486	$44,651	$37,508
Porportion of full age pension	42%	48%	47%	62%
(c) 1997-98 Preservation arrangements				
Average private income	$52,110	$48,108	$49,980	$44,367
Average age pension	$5,527	$6,269	$5,922	$6,962
Average taxes in retirement	$10,447	$9,585	$10,190	$9,130
Average net retirement income	$47,190	$44,791	45712	42198
Porportion of full age pension	42%	47%	45%	52%

Table 3 shows that the former proposed preservation arrangements would have substantially reduced the impact of dissipation of unpreserved benefits where that dissipation occurs once during a person's working life. Also the impact of such dissipation does not vary substantially where it occurs at different ages because the former proposed preservation arrangements would have reduced substantially the amount of non-preserved benefit available. However, in the chronic dissipation case, the former proposed preservation arrangements would have allowed a person to make member contributions and withdraw those contributions (each year in the case modelled) on job change. This is because the former preservation arrangements allowed member access to an amount equal to the *greater of* the indexed non-preserved balance as at July 1998 *or* the person's undeducted contributions. This would have posed a particular problem with the new capital income rebate, because people would been able to use member contributions as a means of accessing the rebate without any intent of leaving the rebatable member contributions in the superannuation system.

Table 3 shows that the Budget preservation proposals result in the least impact from dissipation, including in the chronic dissipation case. In the Budget preservation arrangements case, much of the difference in benefits from full preservation mainly arises as a result of dissipation *before* July 1999. Under the Budget preservation arrangements, dissipation later in life has a proportionally smaller impact on benefits, because the real value of non-preserved benefits declines with time.

CONCLUSIONS

The changes in the preservation arrangements announced in the 1997-98 Budget represent a substantial improvement over the current arrangements and will enhance preservation relative to the preservation arrangements announced in 1992 by the previous Government. The increase in preservation should make a substantial contribution to the effectiveness of retirement incomes policies and enhance national savings.

The full preservation of member undeducted contributions from July 1999 is likely to be the most significant long term difference between the Budget proposals and the former proposed preservation arrangements.

The Budget preservation arrangements will have the most impact on more recent entrants to superannuation schemes with higher than minimum SG employer support or where the members make contributions. The change will have no impact on people who only receive minimum SG superannuation support. The changes should enhance the equity of the preservation arrangements by ensuring reducing the differences in early access to benefits between people with different levels of employer superannuation support.

ATTACHMENT A

CHANGES TO PRESERVATION AND THE EARLY RELEASE OF BENEFITS ANNOUNCED IN THE 1997-98 BUDGET

The Statement "*Savings: Choice and Incentive*" released by the Treasurer and the Minister for Social Security on Budget night, 13 May 1997, summarises the Government's 1997-98 Budget initiatives in the area of saving and retirement income policy. In the area of preservation and access to accruing superannuation benefits the statement included the following changes:

Preservation

From 1 July 1999, all future superannuation contributions (including member contributions) and earnings will be preserved until preservation age, except in limited circumstances. Benefits which are not preserved at 1 July 1999 will remain non-preserved. Transitional arrangements will provide that the greater of a member's undeducted contributions and the member's resignation/retrenchment benefits as at 1 July 1999, as well as the amount at 1 July 1999 of other unpreserved benefits which can currently be accessed at any time, will not be preserved.

Preservation age

The Government will proceed with the phased increase in the preservation age from 55 to 60 as originally announced in 1992. This will affect people born after 30 June 1960 so that by 2025 the preservation age will be 60 for anyone under that age (ie anyone born after 30 June 1964). The Government will legislate for these changes as soon as practicable.

- Individuals affected by the higher preservation age will continue to be allowed to obtain early access to preserved benefits where the benefits are taken as a non-commutable life pension or lifetime annuity on termination of gainful employment, subject to the terms of superannuation trust deeds.

The schedule for increasing the preservation age to age 60 is as follows:

People born:	Preservation age
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
After 30 June 1964	60

Early release of benefits

The following table sets out the changes to the conditions for the early release of superannuation benefits. These changes all have effect from 1 July 1997.

Current treatment	New arrangements
On change of employment, accrued superannuation account balances are not subject to preservation where the account balance is less than $500.	The $500 preservation threshold will be abolished.
A person may be paid out preserved superannuation benefits on permanent departure from Australia. This test is administered by funds based on evidence that the person intends to depart Australia and not return (eg a one way ticket out of the country).	Superannuation funds will only be able to release preserved superannuation benefits to a person who has left Australia permanently only after that person has reached preservation age.
The ISC can approve release of superannuation benefits (including preserved benefits) from a fund in cases of "severe financial hardship". The criteria for such release are largely ad hoc in nature.	The current ad hoc assessment of claims for release of benefits on grounds of severe financial hardship will be replaced with an objective test of hardship to be administered by fund trustees based on the following criteria: • people aged under 55 who have been in receipt of a specified Commonwealth income payment for 12 months will be considered to meet the test; and • people over age 55 who have been in receipt of specified Commonwealth income payment for a cumulative period of 9 months or more after reaching age 55 will be considered to meet the test.
The ISC can approve release of benefit on "compassionate" grounds. Such releases are determined on a case by case basis.	Defined criteria for determining the release of benefits on compassionate grounds will be introduced.

References

1. Colin Brown and Ann McDiarmid: *Legislative References and Assumptions for RIMHYPO*, RIM Task Force, February 1995. RIM Technical Paper Number 95/1

2. Dr George Rothman: *Aggregate Analysis of Policies for Accessing Superannuation Accumulations*, RIM Task Force, July 1997. RIM Conference paper 97/2, presented to the Fifth Colloquium of Superannuation Researchers.

3. Howe, B: *Better Incomes: Retirement Income Policy into the Next Century*, Statement by the Minister for Social Security, Commonwealth of Australia, AGPS August 1989.

4. Dawkins, J: *Security in Retirement - Planning for Tomorrow Today,* Statement by the Treasurer, Commonwealth of Australia, AGPS 30 June 1992.

5. Willis, R: *Saving for our Future*, Statement by the Treasurer, Commonwealth of Australia, AGPS 9 May 1995.

6. Costello, P: *Savings: Choice and Incentive*, Statement by the Treasurer, Commonwealth of Australia, AGPS 13 May 1997.

7. CCH Australia Ltd: *1997 Australian Master Tax Guide, 28th edition.*