FINANCIAL PLANNING
ASSOCIATION of AUSTRALIA

13 May 2013

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. Tax and Superannuation Laws 2 Amendment (2013 Measures No. 3) Bill 3 2013: Superannuation concessional contributions cap

The Financial Planning Association of Australia (FPA) welcomes the opportunity to provide feedback to The Treasury in relation to the Bill amending the superannuation concessional contributions cap.

Government policy should encourage Australians to contribute to their superannuation and, where possible, fund their own retirement. The overall objective of the superannuation system is to provide an accessible mechanism to encourage Australians to save enough money to be financially independent in retirement to reduce the reliance on the social welfare system, thereby reducing the financial burden on the Government.

The FPA, its members and the millions of Australians that they service, strongly request that the Government does not introduce any changes that will reduce the incentives and benefits of the superannuation system which encourage people to save for their retirement.

Temporary measure

While the FPA welcomes an increase in the concessional contributions cap for older Australians, we do not support the limit of $35,000 or the temporary aspects of this measure. This limit is too low and not flexible enough to encourage older Australians to make additional contributions to superannuation.

The FPA acknowledges Government's intensions of bring into alignment the 'older Australians' concessional contributions cap and the general concessional contributions cap by indexing the latter. However, the lead up to retirement (such as the last 10 years of full-time work) is a critical period for retirement preparedness, employing sound transition to retirement strategies and growing one's retirement savings. For many Australians, it is these final years of full-time work when they are more likely to be able to afford to make additional voluntary contributions to superannuation.

The FPA recommends the Government set the concessional contribution cap for those 50 years and over at two times that of the concessional cap for those under 50 years and indexed, and remove the temporary aspect of the older Australians cap. This would encourage individuals to contribute to their superannuation and, in the long-term, reduce the reliance on the age pension.

A comparison between the current cap of $25,000 and the former indexed age-based limits makes it very clear just how far back we have come in relation to self-funding as a key pillar of Australia's superannuation system. We have for many years prided ourselves on having one of the most robust superannuation systems in the world, we cannot allow complacency and competing objectives to over-shadow the importance of this pillar.

Without a provision 'older Australians' cap to remain and for both caps to be subject to indexation we are moving towards a two-pillar retirement system where it will simply be a function of the Superannuation Guarantee and a heavy and increasing reliance on the Age Pension.

The FPA urges the Government to permanently increase the 'older Australians' cap to twice that of the general concessional contributions cap for all Australians 50 years and over.

Age restrictions for 'older Australians' concessional contributions cap

The FPA notes the Exposure Draft proposes that for one year (2013/14) the 'older Australians' cap of $35,000 applies to those aged 59 years and over; and from 1 July 2014 it applies to those aged 49 years and over. The change in age unnecessarily complicates this measure and restricts the ability of those aged 49 years to 59 years from making additional contributions in the coming financial year.

The FPA questions the intent of delaying the introduction of this measure for those aged 49 to 59 years, particularly given the temporary nature of the 'older Australians' concessional contributions cap. It has been estimated that it will take approximately five years for the general concessional contributions cap to align with the 'older Australians' cap through indexation, as proposed in the Exposure Draft. Delaying the application of the increased cap to those aged 49 to 59 years reduces the benefits of having an 'older Australians' cap for those in this critical stage of life in relation to their ability to save for retirement.

The FPA supports the proposal under the Exposure Draft of determining the superannuation member's age as at 30 June as it is simple to administer and is consistent with the approach used for the non-concessional contributions cap.

The FPA recommends the increase in the older Australians concessional contributions cap apply to those 49 years and over from the introduction of this measure for the 2013-2014 financial year.

Components of the concessional contributions cap

The concessional contribution cap includes personal deductible contributions, Superannuation Guarantee contributions and voluntary employer contributions, including salary sacrifice. The penalties for breaching the caps are applied at the member level but the control of contributions can be outside the control of the fund member, creating administrative complexity. For this reason it is recommended that Superannuation Guarantee contributions (which are mandated under specific rules) be removed from the concessional contribution cap.

This will ensure those individuals that can afford to contribute to superannuation in excess of their SG amount actually have a 'cap' available. It needs to be recognised that not all high-income earners remain that way indefinitely and there should be the opportunity in good years for these individuals to be incentivised for the income to be contributed to superannuation. This will become increasingly important with the proposed increase of the Superannuation Guarantee from nine to 12 percent.

The FPA recommends the Government remove Superannuation Guarantee (SG) contributions are removed from both the general and 'older Australians' concessional contribution cap.

The FPA would welcome the opportunity to discuss this further. If you have any questions, please contact me on 02 9220 4505 or dante.degori@fpa.asn.au.

Yours faithfully

Dante De Gori
General Manager Policy and Conduct
Financial Planning Association of Australia[1]

[1] The Financial Planning Association (FPA) represents more than 10,000 members and affiliates of whom 7,500 are practising financial planners and 5,500 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- We banned commissions and conflicted remuneration on investments and superannuation for our members in 2009 – years ahead of FOFA.
- We have an independent conduct review panel, Chaired by Professor Dimity Kingsford Smith, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 132,000 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 17 Australian Universities for degrees in financial planning. As at the 1st July 2013 all new members of the FPA will be required to hold, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
- We are recognised as a professional body by the Tax Practitioners Board