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Talking Points: Superannuation Guarantee '$450 rule'

Key Points

- The '$450 rule' is a long-standing feature of the superannuation guarantee system. It is designed to balance administrative effort of paying small amounts of superannuation against adequate retirement savings.

- Abolishing the rule would increase coverage for some workers. But it may also result in the creation of small balances that are largely eroded by fees and charges. This would occur where the additional amount is paid into a new superannuation account, such as a default fund that is different from an individual's main super account.

  - For a university student who has no super and whose only job pays $4,000 per year, more than 40 per cent of the superannuation they would receive each year if the threshold were abolished would be taken up by fees and insurance in an average MySuper product.

- Abolishing the threshold is likely to increase the cost for employers of taking on some workers, particularly in low-wage or casualised workforces, or result in lower take home pay for these works to mitigate the additional superannuation costs.

Background

- Employers are not required to pay superannuation guarantee for employees whose salary or wages do not exceed a monthly threshold of $450. This is known as the '$450 rule'.

  - The rule is applied on an employer basis, so someone may earn more than $450 from multiple employers and not receive superannuation guarantee.

- The earnings threshold was part of the original superannuation guarantee law, introduced in 1992, and was intended to minimise the administration effort in highly casual areas of employment.

  - In 1992 the $450 exemption was one twelfth of the annual tax free threshold of $5,400.

Stakeholder views

- Stakeholders views on the '$450 rule' are varied.

- The Senate Economics References Committee Inquiry report recommended abolishing the '$450 rule'.

  - This was supported by submissions from Australian Institute of Superannuation Trustees (AIST), Council of Small Business Australia (COSBOA), Women in Super, National Foundation for Australian Women, CFMEU, Council of the Ageing (COTA), United Voice and Anglicare Australia.

- In 2015 the Board of Taxation recommended moving to a $1,350 quarterly threshold, but this idea was rejected by the Government, on the basis that it could reduce superannuation for some low income earners (in its *Review of Tax Impediments Facing Small Business*).
  - In its submission to this review, Restaurant and Catering Australia recommended raising the threshold to $600 per month or $1,800 per quarter. The increase is in line with and reflects that the $450 threshold has not increased since its introduction in 1992.

Cameos

<u>Cameo: Student earning $4,000 a year ($0 starting balance)</u>

Under current policy this person would not be paid SG as she is under the $450 per month threshold.

If she were to receive the statutory rate of SG on her salary she would receive $380 into her superannuation every year. Her contributions taxes would be offset by the LISTO, but she would be charged about $192 in fees every year. Her total contributions over the 5 years would be $1,900. After earnings and fees, her account balance would be about $1,100.

<u>Cameo: Worker in two jobs, earning $30,000 in the first and $5,000 in the second</u>

Under current policy, this person would not be paid SG for her second job as she is under the $450 per month threshold.

If she received the statutory SG rate on her wages from her second job, she would receive an additional $475 every year into her superannuation every year. Her contributions taxes would be offset by the LISTO. The amount of fees she would be charged and her account balance at the end of 5 years depend on whether her superannuation from her second job are paid into the same fund as super from her primary job.

If SG from her second job is paid into the same fund as her first job, her account balance would be about $2,700 higher after 5 years.

If SG from her second job is paid into a different fund, she would be charged an additional $190 per year in fees and insurance every year. After earnings and fees, her balance in the second fund would be about $1,600 in 5 years.

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TREASURY MINISTERIAL SUBMISSION

3 October 2017 PDR No. MS17-003151

Minister for Revenue and Financial Services cc: Treasurer

NICK XENOPHON TEAM'S SUPERANNUATION BILL AND THE '$450 RULE'

Timing: Your Office requested our analysis of this Bill.

KEY POINTS

- On 11 September 2017, Ms Rebekha Sharkie MP introduced the Fair Work Amendment (Recovering Unpaid Superannuation) Bill 2017 (the NXT Bill), which includes several measures intended to 'strengthen the operation of Australia's superannuation system'.

s 22 [redacted]

  - Some measures reflect recommendations of the Senate Economics Committee's inquiry into superannuation guarantee non-payment, e.g. payslip reporting, more frequent payment and removal of the '$450 rule'.

s 22 [redacted]

- A table comparing the measures in the NXT Bill with the Government's positions and the recommendations of the Senate Committee and the Cross-Agency Working Group is at <u>Attachment A</u>. Talking points are at <u>Attachment B</u>.

Removing the $450 rule

- Your Office has asked specifically for analysis of the proposal to remove the rule that superannuation contributions are not required for employees earning less than $450 a month.
  - The data available to inform our analysis is limited and contains known data quality issues. However, we have undertaken analysis of this data to illustrate the likely number of affected individuals and the impact of removing the rule.
- In 2014-15 we estimate that there were around 1 million employees earning less than $450 per month from a single employer, meaning the employers were not by law required to pay the superannuation guarantee (SG) for them.
  - Nevertheless, around 60 per cent of these received SG regardless of the $450 rule. Of the remaining 40 per cent (400,000) who did not receive SG, we estimate that around 60 per cent were female.
- The cost of removing the $450 rule would be borne primarily by employers, not employees.
  - Many of those earning less than $450 in a month will be earning the minimum wage or subject to awards where the take-home wage could not be reduced by the employer to offset the increased superannuation payment.

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- Removing the $450 rule would likely increase the national wage bill by less than 0.1 per cent. We consider the change would be unlikely to have a material impact on either economy-wide employment or total hours worked.

- The $450 rule may help prevent erosion of low balance accounts through taxes and fees.

  - The Low-Income Superannuation Tax Offset effectively removes the contributions tax for many affected employees.

  - However, fees and premiums are likely to be very high as a proportion of contributions. For the purposes of our analysis we assume an average fee of $194 (including default insurance premium). A person earning exactly $450 per month would have an annual SG entitlement of $513.

  - Removing the rule would therefore most benefit affected employees who also have other jobs that do pay SG, so are already paying fees and premiums from an account. Around 40 per cent of employees under the threshold have another job paying above the threshold.

  - Conversely, those on very low incomes throughout their life will likely see their balances eroded over time. For these individuals, the Age Pension will already provide a net replacement rate of over 100 per cent.

- Some more detailed analysis of the proposal, including cameos, is at <u>Attachment C</u>.

  - However, we have not costed the budget impact of removing the rule.

s 22 [redacted]

A/g Manager, Accumulation and Savings Unit
Retirement Income Policy Division
Ext: s 22 [redacted]

Contact Officer: s 22 [redacted] Ext: s 22 [redacted]

Consultation: Tax Analysis Division, Macroeconomic Conditions Division

s 22 [redacted]

ATTACHMENT A

MEASURES IN THE NXT BILL

Measure in NXT Bill	In Senate report?	In Working Group report?	Government action
s 22 [redacted]			
Remove $450 threshold	Yes, Rec 3.	No. Not an SG compliance issue.	–
s 22 [redacted]			

s 22 [redacted]

s 22 [redacted]

ATTACHMENT B

TALKING POINTS ON THE NXT BILL

s 22 [redacted]

- Removing the '$450 rule' would expand the coverage of the superannuation system, but it would not have an impact on SG compliance, and it may result in the creation of small balance accounts that become eroded by fees and charges.

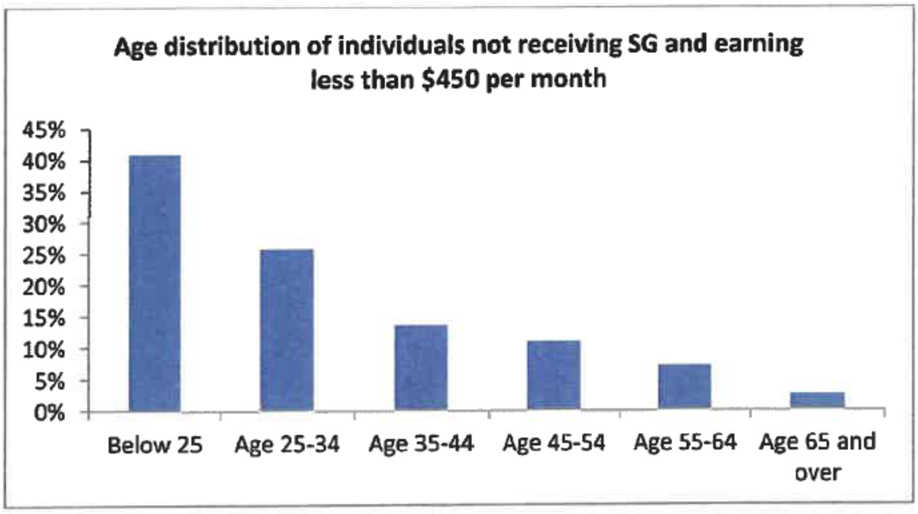
s 22 [redacted]

ATTACHMENT C

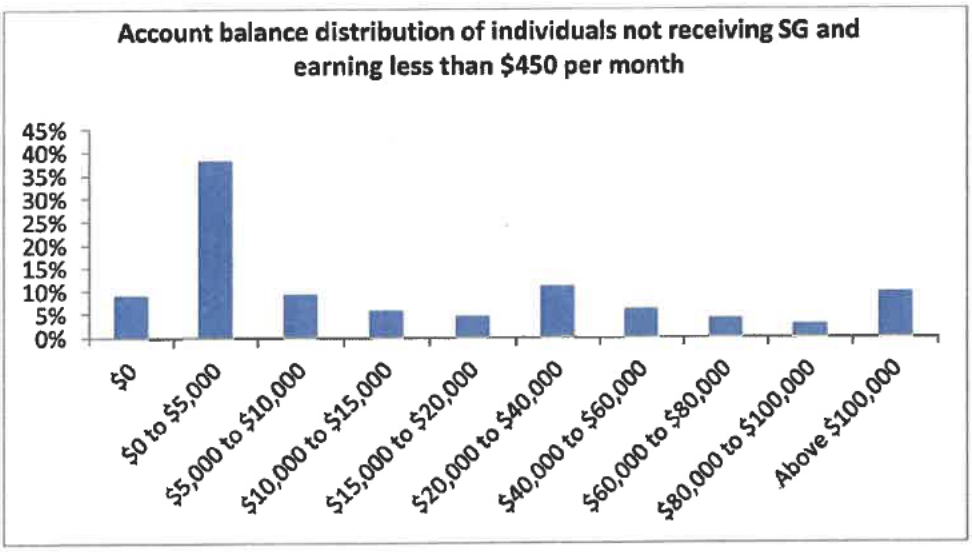
ANALYSIS OF PROPOSAL TO REMOVE THE $450 RULE

Affected workers

- We estimate that the $450 threshold impacts 3.5 per cent of all employees (around 400,000 individuals).
  - 60 per cent (around 240,000) are women and 40 per cent (around 160,000) are men.
- The threshold primarily affects younger employees, with around 40 per cent of those affected aged under 25, and two thirds aged under 35.



- Removing the threshold would have a positive impact on employees who have multiple jobs and one superannuation account, and are already paying fees and insurance premiums, who would receive an annual increase in their superannuation of up to $513 per year.
  - Around 40 per cent of individuals who are under the threshold have another primary job earning above $450 per month.
- Around 47 per cent of employees under the threshold and not receiving SG have a superannuation balance of under $5,000.



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Impact on participation

- The payment of superannuation for those who earn less than $450 per month is unlikely to be a significant determinant of these workers' decisions to participate in the labour market, given the small estimated impact on their retirement incomes.

- Assuming that the cost of the proposed change to superannuation arrangements is borne by employers, the resulting increase in labour costs for companies is unlikely to have any material impact on either economy-wide employment and/or total hours worked, given that the national wages bill was $0.8 trillion in 2016-17.

Impact on wages

- In 2014-15, a total of 1.0 million employees earned less than $450 per month such that their employers were not under legislation required to pay superannuation. However, many employers paid superannuation regardless, with an estimated 0.6 million workers receiving superannuation and 0.4 million workers not receiving superannuation.

- This means that the proposed change in policy to require employers to pay superannuation to workers earning less than $450 per month would affect an estimated 0.4 million employees in the year of implementation, equalling about 3 and a half per cent of the workers paying PAYG tax, but less than 0.1 per cent of the national wage bill (see below), as these employees work only a few hours per month (for a worker on minimum wages of $18.29 per hour, $450 per month would equate to around 24 hours per month, or around 6 hours per week on average).

- In general the incidence of higher mandated superannuation payments would be expected to fall on employees. That is, the payment of superannuation influences the mix of overall compensation between take-home wages and other types of remuneration such as superannuation but does not have a lasting impact on the real level of compensation paid by employers.

- However, for many of these workers likely to be on awards, the incidence of the proposed payment of superannuation to those earning less than $450 per month may fall on employers. This increase in costs may cause those employers to reassess the mix of their workforce, either in terms of the number of employees working a few hours per month or the number of hours worked by those employees, noting that the policy will merely bring the hourly rate of compensation into line with that of employees earning more than $450 per month.
  - The Department of Employment's initial analysis of award agreements suggests that awards do not require employers to make additional payments in lieu of superannuation not being paid.

- In terms of the maximum effect on the economy-wide wage bill, assuming the estimated 0.4 million affected workers earned just under the $450 per month threshold, this policy change could raise the wages bill by as much as $0.2 billion, which equates to less than 0.1 per cent of the national wages bill of $0.8 trillion in 2016-17.
  - The actual effect is likely to be much smaller than this upper bound, though, because not all of the affected workers would earn this close to the $450 per month threshold. Also, some workers under this threshold may be on individual wage agreements rather

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than awards. And some awards have the threshold set at the lower amount of $350 per month.

- In terms of whether the incidence of the changed policy eventually shifts from employers towards employees on minimum wages and awards, the independent body the Fair Work Commission (the Commission) sets the levels of award and minimum wages.
  - We think that the Commission would take account of the proposed policy change in its deliberations but it appears unlikely to have a large influence given its likely small impact on the national wages bill (and total hours worked in the economy).
  - Also, it seems unlikely that the Commission would effectively penalise all workers on minimum wages and awards for a change in policy that merely brought workers previously missing out on superannuation in line with other employees.

Cameos

- Sally has a part-time job at an ice cream parlour which pays $300 per month. She currently does not receive SG and does not have an existing superannuation account. If the $450 rule were removed, Sally would receive $342 in annual gross SG. The Low-Income Superannuation Tax Offset (LISTO) will offset the contributions tax, however after annual fees ($80) and insurance ($114), the majority of her contributions (57 per cent) would disappear.
- Oliver earns $200 per month at the ice cream parlour and does not have an existing superannuation account. With the removal of the $450 rule, his $228 in annual gross SG contributions would be reduced by 85 per cent after fees and insurance.
- Cohen earns $300 per month at the ice cream parlour, but he also has another job at a cafe which pays $800 per month and SG. If the $450 rule were removed, the $342 in annual gross SG from his ice cream parlour job could go into his existing superannuation account. As he would not have to pay additional annual fees or insurance premiums, the full $342 contribution would build his superannuation balance.

Key assumptions

- Annual fee of $80 and default insurance premium of $114 (based on average costs from three industry funds).
- Assumes each individual's total taxable income is below $37,000, so they are all eligible for LISTO.

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s 22 [redacted]

From: s 22 [redacted]
Sent: Wednesday, 18 October 2017 5:35 PM
To: s 22 [redacted]
Cc: MRFS.DLO; FG RIPD DEM s 22 [redacted] FG RIPD Accumulation and Savings Unit
Subject: RE: Briefing: NXT's Superannuation Bill and the $450 rule [SEC=PROTECTED, DLM=Sensitive:Cabinet]

Hi s 22 [redacted]

Further to the costing on the $450 rule that was sent up yesterday, below are some points on key stakeholder's analysis of the $450 rule. If there is some specific analysis you are aware of that we have not covered, let us know and we can look into it.

Cheers

s 22 [redacted]

ASFA claimed that "There is currently a $450-a-month wage threshold for the Superannuation Guarantee (SG) and as a result, an estimated 220,000 Australian females and 145,000 males are missing out on around $125 million of superannuation contributions each year."

- The number of people affected is broadly consistent with Treasury analysis, which estimated that 240,000 women and 160,000 men are affected. Treasury estimates that they are missing out on around $50 million in superannuation per year. However, we note that there is significant uncertainty surrounding this estimate and we do not consider $125 million to be unreasonable.

ASFA produced a number of cameos of foregone superannuation for people affected by the $450 rule. For example: "A 35 year old who works part time due to family responsibilities doing bookwork for a local business and earns $4,500 a year is missing out on $2,138 in super contributions over five years.

- These are calculations are accurate and are straightforward. They do not account for lost earnings, fees and do not project forward to retirement.

Based on a survey, AIST claimed that 18 per cent of women had a job that paid less than $450 per week and that 42 per cent of these do not receive superannuation (that is, roughly 7.6 per cent of women in the workforce).

- Compared to Treasury's figures that suggest 3.5 per cent of women in the workforce are affected by the rule, this overstates the proportion of women affected by the $450 rule.

ISA have called for the abolition of the $450 rule, but have not made numerical claims that we are aware of about the impact of the change.

From: s 22 [redacted]
Sent: Friday, 6 October 2017 4:36 PM
To s 22 [redacted]
Cc: MRFS.DLO; FG RIPD DEM s 22 [redacted]
Subject: RE: Briefing: NXT's Superannuation Bill and the $450 rule [SEC=PROTECTED, DLM=Sensitive:Cabinet]

H[redacted] s 22

I've set out below some answers to the questions you asked us on Tuesday, and the additional cameos you requested. I understand you've spoken separately to Wayne about options for dealing with fees in accounts affected by the $450 rule.

Happy to discuss.

Cheers

s 22 [redacted]

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s 22 [redacted]

s 22

[redacted]

$450 rule: workers affected

- Around 160,000 employees have a job which pays under $450/month that does not pay SG <u>and</u> have another job earning over $450/month (which must pay SG).

$450 rule: personal contributions

- Since 1 July 2017, individuals wishing to contribute to their superannuation can do so by making a personal contribution and claiming a deduction; i.e. there is no need to enter into a salary sacrifice arrangement.
  - This mechanism would be available to an individual earning less than $450 a month in one job and not receiving superannuation for that job.
  - Note that if the individual's total income is below the tax-free threshold there would be no tax advantage in doing so. Such an individual could generally make a non-concessional contribution.

$450 rule: industry-specific cameos

Hospital

- Miriam has a part-time job at a hospital which pays $450 per month. She currently does not receive SG. If the $450 rule is removed, she would receive $513 in annual gross SG into a new HESTA account, which is her employer's default fund. The Low Income Superannuation Tax Offset (LISTO) will offset the contributions tax, however after annual fees ($71) and insurance ($328), her contributions would be diminished by 78% (to $114).

Tourism

- Craig is a tour guide and earns $450 per month. With the removal of the $450 rule, he joins HOSTPLUS and receives $513 in annual gross SG contributions. However, after fees ($85) and insurance ($104), his balance would reduce by 37% (to $324).

Forestry

- Warwick earns $450 per month as a forestry worker. If the $450 rule were removed, the $513 in annual gross SG would be contributed into a new First Super account. After fees ($145) and insurance ($480), his superannuation savings would be completely diminished.

Farming

- Susan earns $450 per month as a farmhand. With the removal of the $450 rule, she receives $513 in annual gross SG contributions into a new AustSafe account. 72% of her contributions would be dissipated by fees ($201) and insurance ($167) (leaving $145).

Multiple jobs

- Matt works in retail and earns $1,000 per month. His employer pays SG into his existing REST account. He also works as a bar attendant which pays $300 per month and has an internship as a social worker which pays $450 per month. With the removal of the $450 rule, Matt receives an additional $855 in SG from his bar job and internship which is paid into new HOSTPLUS and HESTA accounts. As a result, he pays three sets of fees and insurance which reduces his additional SG to $269 (a reduction of 69%).

- If Matt is able to exercise choice of fund, he can direct his three employers to pay SG into his existing REST account. As he does not need to pay additional annual fees and insurance, only investment fees, his superannuation balance would grow by $848 as a result of removing the $450 rule.

<u>Assumptions:</u>

- Annual fees and insurance premiums are based on the default cover option in the respective superannuation fund, taken from the relevant fund website (accessed 5 October 2017). Where applicable for insurance purposes, individuals are assumed to be 20 years of age.

- Assumes total taxable income is below $37,000 and therefore all are eligible for LISTO.

From: s 22 [redacted]
Sent: Tuesday, 3 October 2017 12:42 PM
To: s 22 [redacted]
Cc: MRFS Executive Minute Distribution; FG RIPD DEM; s 22 [redacted]
Subject: Briefing: NXT's Superannuation Bill and the $450 rule [SEC=PROTECTED, DLM=Sensitive:Cabinet]

H s 22

I attach a brief to Minister O'Dwyer outlining our analysis of the proposal to remove the '$450 rule', which is included in the Nick Xenophon Team's superannuation Bill.

I will bring hard copies to this afternoon's meeting.

Yours
s 22

A/g Manager, Accumulation and Savings Unit

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