

6 February 2015

Mr Claudio Damiani
Fiscal Group
Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

By email: prebudgetsubs@treasury.gov.au

Dear Mr Damiani,

Pre-Budget Submission – Improving superannuation

Rice Warner is pleased to provide this submission which sets out some ideas for improving our superannuation system.

Our submission deliberately focuses on matters which will have minimal impact on the Federal Budget, but which will improve the efficiency of the superannuation system. We have done this as we believe it will be easier to implement these suggestions quickly.

We do have some other suggestions for improving the superannuation system. In our submission to the Financial System Inquiry (FSI), we suggested several changes which would make superannuation more equitable and affordable for government¹. In due course, we will expand on those matters in response to the forthcoming Tax White Paper.

About Rice Warner

Rice Warner is a boutique business which works in financial services. As well as providing traditional professional advice to the industry, we are also a leading researcher, particularly in superannuation and life insurance. We also have an emerging digital business which provides a range of services including business intelligence and online tools.

We are active in public policy and made several contributions to the FSI. We worked on two private reports for the secretariat and we also prepared submissions on behalf of the ABA, ASFA and the Actuaries Institute. I was also on the Retirement Incomes Working Group set up by the FSI. Our work helped shape the FSI position on superannuation fees.

More details about our business can be found on our website www.ricewarner.com.

¹ <http://www.ricewarner.com/media/101438/Rice-Warner-Submission-to-the-Financial-System-Inquiry.pdf>

Efficiency within Superannuation

In its Final Report, the FSI noted that the superannuation industry was not competitive and that fee levels appeared to be too high. We consider one way to improve efficiency is to raise the level of member interest in superannuation. Higher levels of engagement would lead to higher levels of empowerment. Engaged members will want competitive products.

One way this could be done is to allow married couples to have a joint account for their superannuation. We set out the logic of this arrangement in a newsletter last year² and had positive feedback from the superannuation industry.

The benefits of joint accounts include:

- It would be much easier to engage members.
- We could reduce the number of superannuation accounts by several million. If half of all couples exercised the option, there would be a reduction of 3.5 million accounts or 12% of all accounts.
- Married members who combined accounts are likely to consolidate all their superannuation.
- Retirement benefit projections provided by superannuation funds would be more accurate and members would get a better picture of how they are tracking for retirement. For example, the use of the Age Pension in benefit projections or online calculators would be based on the correct current marital status.
- It would help to reduce the female retirement savings shortfall as couples would plan their retirement finances together.
- Superannuation funds could market to members to bring their spouse into the fund. This would increase the number of active members, which is the goal of all funds.
- We could remove the facility allowing members to split their contributions and allocate some to a spouse. This is an administrative burden and adds little value to the system.
- The simplified structure for couples, combined with Member Direct investments now offered by several funds, would provide many of the benefits of a self-managed superannuation fund (SMSF). This might appeal to those members who want the flexibility but not the responsibility of running an SMSF.
- An SMSF would have a simpler process too. Where both partners of a couple are the only members, the accounts would be much simplified as they wouldn't need separate annual statements.

If this initiative were introduced, it would improve efficiency in the system, be beneficial for millions of members and have no cost to government.

Valuing Females

In July 2013, Rice Warner introduced a package of benefits for its female employees. The purpose of the initiative was to assist our female employees to improve their retirement savings. We also wanted to create an environment and culture that encourages female employees who choose to have children to return to the workforce. Increased workforce participation will benefit the individual's career and Rice Warner in terms of diversity and retention of experienced female staff. The package also partly compensates for the impact of lower retirement savings for females.

²http://www.ricewarner.com/media/93823/Joint-Superannuation-Accounts_April-2014.pdf

Some of these measures were long-standing benefits and others were introduced more recently to complete our **Valuing Females** package (see Table 1).

One of the components of this package was an additional 2% employer superannuation contribution (paid on salaries up to twice AWOTE). In order to ensure we did not breach the Sex Discrimination Act (and discriminate against male employees) we sought advice from the Human Rights Commission.

The Human Rights Commission was supportive and considers our initiative to be a Special Measure because it seeks to address an existing inequality between genders. Other organisations have since considered similar measures. For example, Unions NSW now pays an additional 2% to its female employees.

We recommend that the government amend legislation to allow any employer to pay additional contributions to its female employees. This would encourage more participation by employers and cut out the need for separate applications to the Human Rights Commission. The legislation could cap the benefit or provide a reasonable range (which could be set by the Government Actuary).

Providing SG on low incomes

We know that several organisations have suggested eliminating the \$450 a month threshold under which SG contributions do not need to be paid. This threshold was introduced to avoid high costs of collecting small amounts by small businesses. However, we consider that this threshold is no longer needed as the majority of contributions are being lodged electronically.

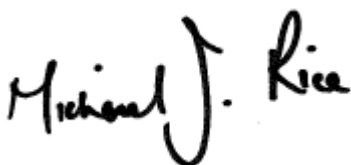
Removal of the threshold will assist part-time workers (including those with second jobs). Arguably, these employees, the majority of whom are female, need as much support as they can get.

Summary

The initiatives we have set out will be beneficial for many Australians yet the impact on government revenue is negligible.

We ask that Treasury consider introducing these changes as part of the 2015 Federal Budget.

Yours sincerely



Michael Rice
CEO & Authorised Representative
Rice Warner Pty Ltd AFSL 239 191

Table 1. Valuing females package

Measure	Comments
Paid parental leave for up to 18 weeks at full pay	Scale based on number of years of service
Superannuation Guarantee contributions payable on parental leave for up to 12 months	
Long service leave accrual throughout parental leave (capped at 12 months)	If the employee is working part time prior to taking parental leave, then the long service leave accrual will be pro rata.
Flexible working arrangements	Part time employment Flexible hours Ability to work from home
An additional 2% superannuation payment whilst employed at Rice Warner (including periods of maternity leave)	Payment is separate from employee's salary package.
Life Insurance Cover	Death & TPD and Salary Continuance cover funded by Rice Warner
Payment of SG irrespective of the \$450 monthly earnings threshold	
Option to purchase up to 2 weeks additional annual leave to assist with caring duties	
An educational program to build awareness of the unique challenges facing females in saving adequately for retirement.	Will include actions individuals can take over and above Rice Warner's initiative to improve their retirement savings

These measures are an additional staff benefit for female employees and are not taken into account in setting each female employee's remuneration package.