

SUBMISSION 8



House of representatives Standing Committee on
Economics, Finance and Public Administration

Submission No: 8

Date Received: 19/7/05

Secretary: *SLS*

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION**

**INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS
OF PEOPLE UNDER AGE 40**

SUBMISSION BY SENATOR GARY HUMPHRIES

JULY 2005

Gary Humphries



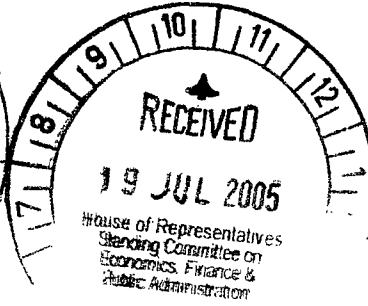
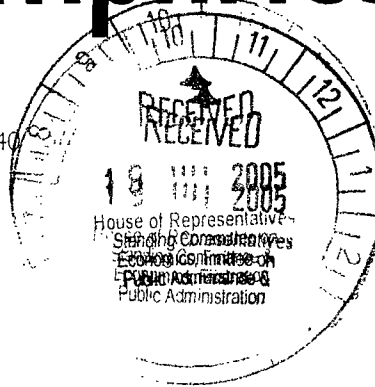
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Dear Secretary,

Thank you for the opportunity to contribute to this inquiry. It is addressing an issue that has significant implications for the quality of life of future generations.

The advent of 'Choice of superannuation' (and its accompanying advertising campaign) will no doubt encourage people under 40 to think about where their superannuation savings are going. Furthermore, it may encourage them to consider whether they are setting aside enough money to fund an adequate retirement. Presently, anecdotal evidence suggests that a large number of people under 40 do not find superannuation a sexy topic, 'a barbeque stopper', or an immediate concern. It may be that many of them believe the 9 per cent Superannuation Guarantee alone is enough to live on, simply because the Government mandates it. For those who scale down their material expectations in retirement, it may well be enough.

It should be noted that the Government's response to the Senate Select Committee on Superannuation Report 'Superannuation and Standards of Living in Retirement' did not support setting a target for superannuation contributions stating: 'The Government believes that individuals are best placed to determine their own retirement income target based on their desired standard of living in retirement.'

If the Government is fearful that those under 40 are not making enough provision for their retirement there are some obvious steps that can be taken such as making the Super Co Contribution Scheme more attractive, increasing taxation concessions for superannuation contributions, further reducing the superannuation surcharge and launching an advertising campaign.

Experience that counts for Canberra

The 'stick', as well as the 'carrot', could be used to encourage people to voluntarily contribute to superannuation with two Government measures aimed at increasing the take-up of private health insurance possibly serving as models with which to increase voluntary superannuation contributions.

The Medicare Levy Surcharge is a 1 per cent surcharge of taxable income imposed on high-income earners who do not have hospital insurance with a health fund. Similarly those on reasonable incomes who do not make voluntary contributions towards superannuation could incur a surcharge.

Lifetime Health Cover recognises the length of time that a person has had private health insurance and rewards that loyalty by offering lower premiums. People who take out hospital cover early in life will be charged lower premiums throughout their life relative to people who delay doing so. Again, those who do not make voluntary superannuation contributions from a certain age could incur a surcharge.

There are significant cultural and societal factors affecting young people's perception of voluntary superannuation contributions. Young people have far more lifestyle choices available to them than their predecessors. Overseas travel, eating out, and the lure of inner city living are sought by large numbers of young people. Powerful cultural influences, such as television advertising, are constantly urging people to spend up immediately in order to obtain self-gratification. It is understandable that many people would rather spend their disposable income in the prime of their lives rather than put it aside for a day that may never come. The spectre of terrorism may even have caused many people to think about their mortality and "live for the moment".

In November 2003, the Governor of the Reserve bank of Australia raised the possibility of 'intergenerational conflict' between the baby-boomers and their children:

'The young may resent the tax burden imposed on them to pay for pension and health expenditure on the old. This will particularly be the case if they see the old as owning most of the community's assets. Housing is the most obvious example, where people of my generation have benefited from 30 years of asset price inflation, while new entrants to the workforce struggle to buy their first home.'

I am on the public record as suggesting that people should be given the option of accessing their superannuation savings for the purpose of raising a housing deposit (obviously, some safeguards would need to be in place such as a cap on the amount that could be withdrawn). Home ownership is part of the Australian ethos and provides significant social benefits. It is also an excellent long-term investment which, like superannuation, is regularly used by people to finance their retirement.

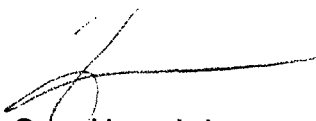
The goal of raising a housing deposit among young people could be used as a way of encouraging greater superannuation contributions. After all, investing in superannuation has significant tax advantages. If they were able to use, for example, 20 per cent of every dollar voluntarily contributed for a housing deposit greater investment may occur.

Another option is modifying the Super Co Contribution scheme to give people the option of putting the Government's co-contribution amount towards a housing deposit, rather it being directed into superannuation. For a person earning under \$28,000 this would mean a Government contribution of \$1500 towards buying a house – a powerful incentive to contribute to superannuation.

These measures could boost not only retirement savings and first home ownership, but also help develop a savings culture in Australia that is badly needed (the level of Australian household debt has soared to 160 per cent of disposable income, having doubled in the past decade).

I hope you find what I have contributed useful and thought provoking.

Yours sincerely



Gary Humphries
Senator for the ACT

18 July 2005