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Ms Michelle Dowell
Superannuation Tax Reform
Retirement Income Policy Division
The Treasury
Langton Crescent
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Dear Ms Dowdell

Superannuation reform package tranche two

As the peak lobby for the over 50s, National Seniors welcomes the opportunity to provide feedback on tranche two of the superannuation reform package. National Seniors is supportive of the proposed measures to tighten tax concessions, but believes there should be greater flexibility for older people nearing retirement to maximise their superannuation savings.

Transfer balance cap

National Seniors supports the proposed $1.6 million (indexed) limit that an individual can transfer to the retirement phase from 1 July 2017 and we note there will be commensurate measures for those with defined benefit schemes. Excess funds retained as accumulation interest will still benefit from 15 per cent concessional tax treatment on earnings.

We consider the operative provisions in the Bill to be practical. These provisions do not apply earnings and capital growth towards the transfer balance cap, but allow debits for commutations (subject to further consultation on interaction with minimum draw-downs) and in situations where there is fraud, bankruptcy, structured settlement for personal injury and family law payment splits.

The Bill also provides capital gains tax relief for moving assets back into an accumulation interest to meet the new transfer balance cap. We welcome notes in the explanatory material highlighting anti avoidance provisions to ensure this tax relief is applied as intended.

National Seniors understands there is no proposed relief in the Bill for loss of value to assets in pension phase due to major market downturns such as the global financial crisis. An individual who suffers such loss would have no further opportunity to get tax exempt pension income. We accept that as earnings do not count as credits, investment losses will not count as debits and this measure is necessary to limit retirement earnings exemptions.

One aspect that requires further consideration relates to reversionary benefits that count towards the transfer balance cap. National Seniors suggests further consideration be given to the implications of additional tax being paid on death benefits to a surviving spouse who has already used their transfer balance cap. Notwithstanding the six-month grace period to adjust affairs, there may be exceptional circumstances where the penalty tax would be harsh. Where death benefits are taken as an income stream, there may be a case for partial exemption, but we accept that the merits of such an approach would need to be weighed against the need to raise additional tax revenue.

Concessional superannuation contributions
National Seniors supports reducing the threshold at which high-income earners pay Division 293 tax on their concessionally taxed contributions to $250,000 (down from $300,000) as of 1 July 2017.

However, we are concerned about reducing the annual concessional contributions cap to $25,000 for all individuals. This disadvantages those aged 49 and over who are already utilising their full $35,000 concessional contributions cap or are planning to use this higher cap as part of their retirement strategy. Those who have commenced a transition to retirement income stream will also be impacted by the proposed reduced cap as well as the proposed removal of the tax exemptions on transition to retirement income streams with earnings to be taxed at 15 percent.

We suggest retaining the current $35,000 per annum concessional contributions cap for individuals aged 49 and over. This would benefit those individuals who are currently utilising or plan to utilise this higher cap as well as individuals who have more than $500,000 so do not have access to the proposed five year catch up rule.

National Seniors believes the existence of a transfer balance cap provides sufficient limits on the retirement earnings exemptions, so individuals should be afforded additional flexibility in the accumulation phase to increase savings. We note the Bill provides proportionate indexation of the transfer balance cap, which means individuals who do not use the full cap upon entry to the retirement phase will only receive proportionate indexation (based on unused cap percentage) in subsequent years.

Retaining the $35,000 concessional contributions cap for those aged 49 and over is reasonable and would provide greater opportunity for individuals to maximise their savings up to the transfer balance cap. It better aligns with the accelerated pattern of contributions to superannuation that typically occurs for older workers as they gear up for retirement.

Further, this additional flexibility in the accumulation phase would improve the adequacy of retirement incomes and in the longer term, have the effect of supporting the sustainability of government's contribution to the retirement income system.

Annual non-concessional contributions caps
National Seniors supports the proposal to reduce the annual non-concessional contributions cap from the current $180,000 to $100,000 per year, which together with the non-concessional bring forward rule will allow up to $300,000 in any one year up to the transfer balance cap.

We consider this change (which replaces the previous proposal of a $500,000 lifetime non-concessional cap) to be a reasonable compromise that will help curb the use of superannuation as an estate planning tool. We note that an exposure draft Bill and Explanatory Material for this measure will be released in the coming weeks.

National Seniors highlights that those aged 65 and over are not able to use the non-concessional contributions bring forward rule. This further reinforces the case for providing additional flexibility through higher concessional contributions cap to improve retirement income adequacy.

Catch-up concessional contributions
National Seniors supports the proposed measure to allow individuals with superannuation balances below $500,000 to make additional concessional contributions by applying unused concessional contribution cap amounts from the preceding five years. We believe this measure will benefit those with interrupted work patterns, especially women and goes some way toward helping address the gender imbalance in retirement incomes.

Innovative income streams and integrity
National Seniors supports extending tax exemption on earnings in the retirement phase to new lifetime products such as deferred superannuation income streams, which includes guaranteed annuities and group self-annuities. As we understand, the earnings tax exemption will apply when an individual satisfies a condition of release such as retirement or reaching age 65.

We suggest as a complementary measure, consideration be given to modifying the minimum drawdown requirements during the deferred period for other superannuation income streams held simultaneously. This would help facilitate uptake of deferred products.

While we are generally supportive of improved product offerings in the retirement phase for those concerned about outliving their savings, it is unclear how these products will be treated under the Age Pension means test. National Seniors considers this to be a critical aspect and requests further detail on implications so older people can effectively plan for their retirement.

Should you require further information, please contact Ms Suzanne Lawless, Policy Manager, on 07 3233 9108 or policy@nationalseniors.com.au

Yours sincerely

Dagmar Parsons
Chief Executive Officer