The Superannuation system

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The superannuation system

The government is committed to a retirement income policy that encourages individuals to achieve a higher standard of living in retirement than would be possible from the age pension alone. This is achieved by a three-tiered retirement income policy comprising:

- the age pension and associated social security arrangements that provide an income safety net in retirement;
- a voluntary level of superannuation encouraged by tax concessions; and
- a compulsory element of superannuation achieved by the superannuation guarantee scheme, which ensures a minimum level of employer contributions to superannuation funds so that employees will accumulate savings for a more comfortable retirement.

Superannuation is a long-term savings plan that aims to provide a source of income in retirement. It involves employers, employees or self-employed people making regular contributions over a long period to a superannuation fund or a retirement savings account. These contributions are held in trust for the member and invested to increase their balance or holding. The accumulated superannuation benefits are made available to the member or beneficiary:

- upon retirement (when a person is no longer earning income through employment);
- upon reaching a prescribed age; or
- upon earlier ill health or death.

If a person is unable to receive superannuation benefits, or has insufficient superannuation funds invested, they will need to rely on other types of investments or the age pension.

Superannuation helps benefit the Australian economy because the majority of fund assets are invested in Australia—which increases national savings. This pool of savings provides the capital needed to create jobs, services and infrastructure. Long-term economic advantages include a reduced need to rely on overseas borrowing and greater stability for Australia's economic and social future through a decreasing reliance on the aged pension.

Definitions

Accumulation funds: funds where the benefit a member receives is the total of specifically defined contributions to the fund, plus earnings on those contributions, minus expenses and tax. In accumulation funds, members carry the investment risk. Most new superannuation funds are accumulation funds, including almost all industry funds.

Defined benefit funds: funds where the retirement benefits paid out are calculated using a formula specified in terms of years of service with the employer and average salary level during the last few years prior to retirement. The employer-sponsor of a defined benefit fund carries the investment risk, so the defined benefits that the members of the fund receive do not depend on the investment performance of the fund.

Self-managed superannuation funds: funds with fewer than five members where:

- each individual trustee of the fund (or director if a corporate trustee) is a fund member;
- each member of the fund is a trustee (or director);
- no member of the fund is an employee of another member of the fund, unless those members are related; and
- no trustee of the fund receives any remuneration for his or her services as a trustee.

There are special rules for single member funds.

Why superannuation needs to be provided

The introduction of superannuation was important for a range of social and economic reasons. The effects of an ageing population, accompanied by a decline in population growth, meant that future governments would find it increasingly difficult to sustain the payment of the age pension at current levels. By 2051, it is projected that 24% of the Australian population will be aged 65 and older, compared to 12% in 1997.

This increase in the proportion of the population who are aged 65 and older is occurring for two main reasons: people are living longer—in 1996, life expectancy at birth was 75 years for males and 81 years for females, an increase of 20 and 22 years respectively since 1901–10; and people are

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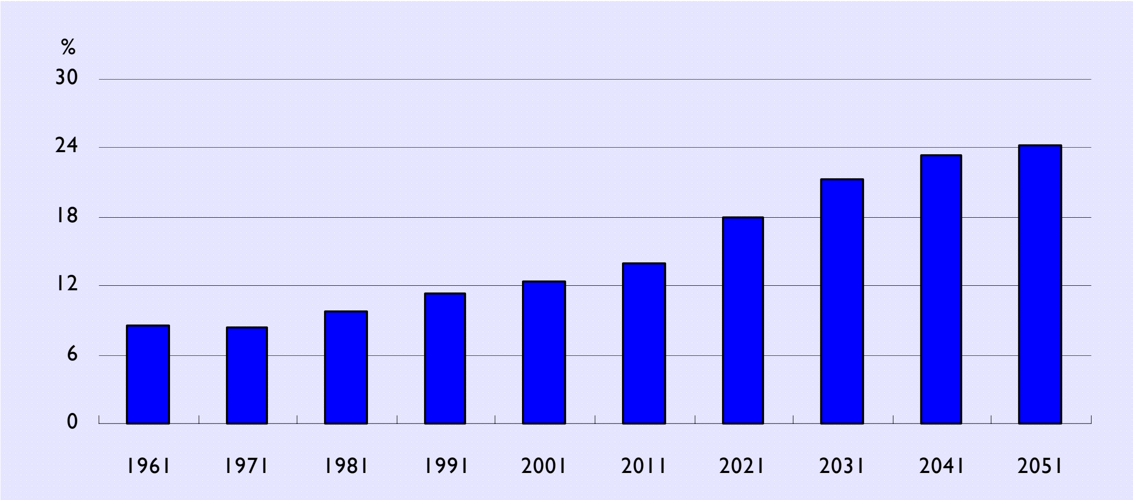
Figure 9.1: Proportion of the population aged 65 and older



Source: Australian Bureau of Statistics, Estimated Resident Population by Sex and Age: States and Territories of Australia, Cat No. 3201.0; Population Projections, 1997 to 2051, Cat No. 3222.0, Series II.

having fewer children. As a result, the potential pool of people available to work, compared to those retired, is decreasing.

What is the superannuation guarantee?

In the 1991–92 Budget, the federal government announced its intention to introduce compulsory employer superannuation contributions effective from 1 July 1992. The government implemented this decision by enacting the *Superannuation Guarantee (Administration) Act 1992*.

The superannuation guarantee scheme is administered by the ATO. It requires employers to provide a minimum level of superannuation support to a complying superannuation fund or retirement savings account for each employee. The only exemptions are for:

- those who earn less than $450 per month;
- those under the age of 18 and working less than 30 hours a week;
- those aged between 65 and 70 who are working less than 10 hours a week; and
- those aged 70 and older.

Prior to the superannuation guarantee, a 3% award-based superannuation scheme was the only compulsory superannuation requirement. The guarantee was introduced because voluntary superannuation provisions, supported by tax incentives, were not increasing the coverage, level or rate of growth of superannuation savings. The guarantee reflects the government's retirement income policy objective by providing greater coverage to employees, an efficient method of encouraging employers to comply and an orderly mechanism by which the level of support can increase over time. The combined efforts of award-based superannuation and the guarantee have resulted in a substantial increase in the level of superannuation coverage.

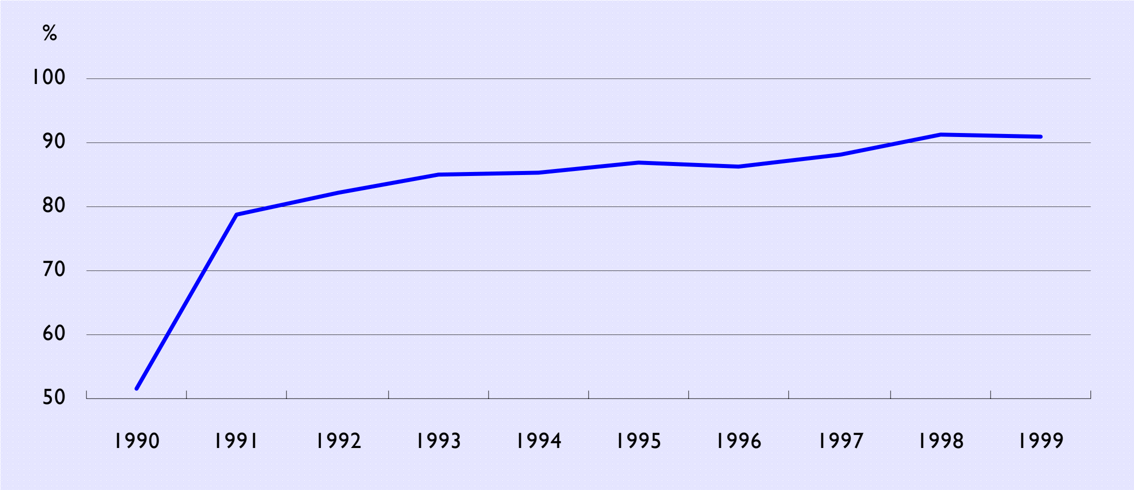
In 1988, a total of 41% of employees had superannuation. By 1991, after the introduction of compulsory award-based superannuation, 79% of employees had superannuation. In August 1999, 91% of employees had some form of superannuation coverage.

In 1999–2000, the minimum level of superannuation support was 7% of each employee's earnings. This increased to 8% from 1 July 2000 and will increase to 9% for 2002–03 and subsequent years.

The Australian Prudential Regulation Authority (APRA) governs the operations of superannuation funds, with the exception of self-managed superannuation funds that are regulated by the ATO.

For the 1999–2000 year, the Australian Prudential Regulation Authority reported that superannuation contributions up until the end of June 2000 were $45.2 billion, a decrease of 4.5% over the previous year (due mainly to one-off contributions made by public sector employers in June 1999).

Figure 9.2: Employee superannuation coverage



Source: Australian Bureau of Statistics, Weekly Earnings of Employees (Distribution), Cat. No. 6310.0; Trade Union Membership, Cat. No. 6325.0; Employee Benefits Australia, Cat. No. 6334.0.

The tax incentives available contributed to total superannuation assets reaching $477.4 billion in June 2000. This represents growth of 17% for the 1999–2000 year, and growth of 189% since the introduction of the superannuation guarantee in July 1992.

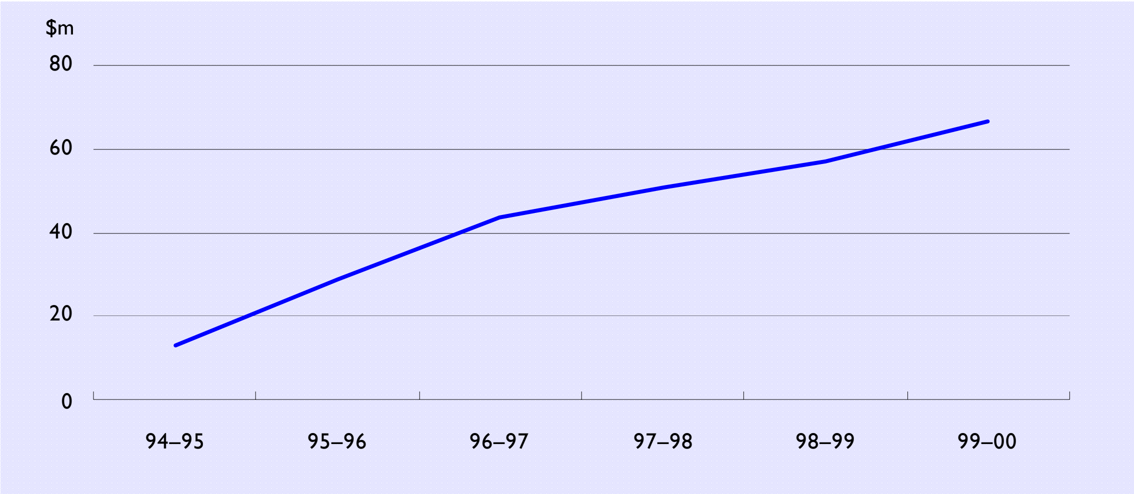
Superannuation guarantee charge

Employers who fail to provide a minimum level of support are liable to pay the superannuation guarantee charge. This charge is equal to the amount of the shortfall in the superannuation guarantee, plus an interest component and an administrative charge. The ATO collects payments for the superannuation guarantee charge.

In 1999–2000, there were 16 205 assessments for the superannuation guarantee charge. These were valued at $79.7 million. Nearly half of these (49%) related to the 1999–2000 year of assessment. The remaining assessments lodged in 1999–2000 were related to superannuation guarantee shortfalls for previous years.

Between 1998–99 and 1999–2000, revenue received from the superannuation guarantee charge increased by only 8%, which was the lowest annual increase recorded. This is partly due to increased compliance by employers—that is they pay their contributions directly to a fund instead of the ATO.

Figure 9.3: Superannuation guarantee revenue received



Superannuation guarantee vouchers

When the ATO receives a superannuation guarantee shortfall payment from an employer, the employee is issued with a voucher for the amount of the shortfall and the interest penalty. The employee can then present the voucher to a complying superannuation fund or the retirement savings account of their choice, which will credit it to the employee's account.

Table 9.1: Total superannuation guarantee vouchers issued[1]

	Vouchers	Value
	no.	$m
Vouchers issued and claimed	324 256	129.0
Vouchers issued and unclaimed	366 802	91.7
Total	**691 058**	**220.7**

1. At 1 July 2000.

At 1 July 2000, a total of 691 058 vouchers had been issued. These vouchers were valued at $221 million. Nearly half of these (47%), valued at $129 million, had been redeemed. In 1999–2000, a total of $32 million worth of vouchers were redeemed, compared to $36 million in 1998–99.

At 1 July 2000, there were 366 796 unclaimed superannuation vouchers. Half of these (50%) were valued between $21 and $100. Whilst only 13% of vouchers had a value of more than $500, they represented 59% of the total value of unclaimed vouchers.

Superannuation holding account reserve

In response to the large proportion of unclaimed vouchers, the ATO instituted a range of projects to ensure that these monies became invested with a superannuation fund. Because a large proportion of these unclaimed vouchers have a value of less than $500, it was deemed likely that these small amounts were being rejected by superannuation funds. To resolve this problem, it is now possible to deposit them in a superannuation holding account reserve, which is administered by the ATO.

This reserve is distinct from a superannuation fund in that it is a holding mechanism that allows individuals to consolidate their small contributions from employers. Once an individual's funds are consolidated and large enough to be self sufficient, namely not eroded by administration costs, they can request that account balances be transferred to a superannuation fund or retirement savings account provider.

At 1 July 2000, the balance of the superannuation holding account reserve was $34.9 million—representing a $10 million (40%) increase over the previous year. There were 200 102 individual accounts with an average value of $246. There were also 58 146 accounts with a zero balance. This refers to the account balances that have been transferred to a superannuation fund or paid out to the individual.

Withdrawals from a superannuation holding account reserve can be made to a superannuation fund or retirement savings account nominated by the individual; to the individual or legal representative in cases of disability, death, non-residency; or claimed on turning age 65. Account balances of less than $200 can be cashed on request upon ceasing employment. In 1999–2000, withdrawals from the superannuation holding account reserve totalled $6.7 million, consisting of 4819 account balances with a value of $1.3 million paid to individuals, and 2697 account balances with a value of $5.4 million paid to superannuation funds.

Table 9.2: Individual value of unclaimed superannuation guarantee vouchers[1]

Value of voucher	Vouchers		Value	
	no.	%	$m	%
$0–$20	10 071	2.7	0	0
$21–$100	183 970	50.2	8.9	9.7
$101–$500	126 967	34.6	28.8	31.4
$501–$1 000	26 988	7.4	19.0	20.7
$1 001 & more	18 800	5.1	35.0	38.2
Total	**366 796**	**100.0**	**91.7**	**100.0**

1. At 1 July 2000.

Table 9.3: Individual account balances held in a superannuation holding account reserve[1]

Value of individual account balance	Number	Value	Average value
	no.	$m	$
$0	58 146	0	0
$1–$100	65 697	3.4	52
$101–$500	58 252	13.3	228
$501–$1 000	12 175	8.4	690
$1 001 & greater	5 830	9.8	1 681
Total[2]	**200 102**	**34.9**	**246**

1. At 1 July 2000.
2. Zero balances have been excluded from the average value calculations.

Lost members register

Since the introduction of the superannuation guarantee, the number of employees covered by superannuation has increased substantially. This is particularly true for casual and part-time employees. The increasing number of people who are accumulating superannuation, particularly itinerant and casual workers, has also resulted in an increase in the number of people losing track of their entitlements. As a result, the government introduced a register to assist fund members to keep track of their superannuation entitlements.

Superannuation funds report their lost members to the ATO every six months. Generally, a member is taken to be lost if they cannot be contacted. The lost members register is a database with search facilities, allowing ATO staff to conduct a search on behalf of clients. If a possible match is found, the ATO provides the client with fund details and encourages them to contact the fund directly.

During 1999–2000 year, the ATO had answered 115 681 enquiries. The percentage of enquiries received, which resulted in a possible match, increased during the year from 22% to 49%.

Reasonable benefit limits

Reasonable benefit limits are the maximum amount of retirement and termination of employment benefits that a person can receive over their lifetime at concessional rates of tax. Benefits taken in excess of a person's limit do not receive tax concessions.

There are two types of reasonable benefit limits—those that apply to people receiving mostly lump sums and those that apply to people receiving mostly pensions. The limits are indexed annually according to movement in the average weekly ordinary time earnings published by the Australian Bureau of Statistics. For the financial year ended 30 June 2000, the lump sum limit was $485 492 and the pension limit was $971 382. Higher (transitional) limits may apply in some circumstances.

The main objective of the reasonable benefit limits regime is to determine whether benefits—superannuation pensions, annuities and eligible termination payments—are within or in excess of a person's reasonable benefit limit. If a lump sum benefit is in excess of the person's limit, tax is payable on the amount of excess at the highest personal income tax rate (currently 47% plus Medicare levy). If all or part of a superannuation pension or annuity is in excess of the person's limit, it will be subject to a reduced pension rebate.

Funds advise the ATO when members qualify for a reasonable benefit limits assessment. Funds report only when the benefits are paid out or, in the case of pensions or annuities, when the payments commence. Where necessary, the ATO sends a reasonable benefit limits assessment to the fund member to inform them that their superannuation entitlements have exceeded the limit, and that the excess benefits will be taxed at the higher rates.

In 1999-2000, 408 776 people received eligible termination payments. These payments were worth $8.7 billion—an average of $21 322 per person. A further 43 366 people received benefits in the form of pensions or annuities.

Between 1995–96 and 1999–2000, the value of excessive components increased from $82 million to $121 million.

Table 9.4: Eligible termination payments received

Aspect		1995-96[3]	1996-97[3]	1997-98[3]	1998-99[3]	1999-2000
Individuals receiving eligible termination payments	no.	686 504	687 242	508 589	491 690	408 776
Payments paid	no.	908 767	919 162	705 698	672 275	543 370
Total value of payments[1]	$m	8 394	9 788	9 658	10 099	8 716
Value per person	$	12 227	14 242	18 989	20 539	21 322
Clients receiving benefits in the form of pensions and annuities[2]	no.	29 021	41 290	59 039	58 707	43 366

1. Excludes eligible termination payments of less than $5000.

2. Includes purchased pensions and purchased annuities as well as superannuation pensions.

3. Previous years' figures were recalculated on 31 October 2000 to include late benefits reported. For this reason, the figures vary from previous editions' figures for the same years.

Superannuation contributions surcharge

In August 1996, the government introduced the superannuation contribution surcharge. This surcharge is intended to limit the concessionality of employer and deductible personal superannuation contributions for high income earners. The surcharge is an extra charge on superannuation contributions above the existing 15% tax on contributions.

The surcharge applies to the surchargeable contributions of fund members whose adjusted taxable income exceeds the surcharge threshold. The threshold is indexed each year. The surcharge liability is assessed to the holder of the surchargeable contributions. The holder may be a superannuation provider, an individual or the trustee/beneficiary of a deceased estate.

The surcharge rate for 1999–2000 increased by 1% on contributions for every $1118 of income greater than $78 208, up to a maximum of 15% on contributions for incomes of $94 966 and more. A person's tax file number is used to link surchargeable contributions with their taxable income from their tax return. If a person does not quote a tax file number to the provider, the legislation imposes the surcharge at the top rate of 15%, subject to certain conditions. However, a surcharge assessment can be amended if the tax file number is later provided.

During the 1999–2000 year, around 900 000 assessments were issued. The revenue collected relating to the 1999–2000 income year was $589.3 million.

Government initiatives

On 12 May 1998, the government announced that the ATO would become the new regulatory authority for self-managed superannuation funds previously known as excluded funds. The ATO took on this role from 8 October 1999 from the Australian Prudential Regulation Authority.

Superannuation funds with fewer than five members now have the opportunity to be truly self-managing. All such members are now obligated to be involved in the decision-making process of the fund and share responsibility with the other trustees for the protection and appropriate investment of the members' retirement benefits.

The ATO is encouraging self-management, self-regulation and self-assessment amongst these funds. The ATO's aim is to achieve further compliance improvement, mainly through education and client service, to help self-managed superannuation funds to self-regulate. Practical materials to assist trustees to better understand their responsibilities are also being developed.

Where non-compliance is identified, the ATO will initially encourage, through targeted education, trustees to change their behaviour and comply. This pro-active approach by the ATO aims to encourage self-regulation and enable the trustees to quickly address any compliance breaches.