



# Superannuation reform package

Submission by UniSuper

16 September 2016



## About UniSuper

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UniSuper<sup>1</sup> is the superannuation fund dedicated to people working in Australia's higher education and research sector. With approximately 400,000 members and around \$57 billion in net assets under management, UniSuper is one of Australia's largest superannuation funds and has one of the very few open defined benefit schemes.

UniSuper Management Pty Ltd would welcome the opportunity to discuss the submission further and to provide additional information in respect of the comments made in this submission. Should you have further queries, please contact Benedict Davies on (03) 8831 6670 or [benedict.davies@unisuper.com.au](mailto:benedict.davies@unisuper.com.au)

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<sup>1</sup> This submission has been prepared by UniSuper Management Pty Ltd (ABN 91 006 961 799), which acts as the administrator of the Trustee, UniSuper Limited (ABN 54 006 027 121).

## Comments on the package

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- UniSuper supports the primary Objective of superannuation to provide retirement income which substitutes or supplements the Age Pension. In our submission to Treasury's earlier consultation, we suggested a more flexible phraseology for the Objective:

*"To encourage Australians to take retirement benefits predominantly in the form of income streams, with those income streams targeting a percentage of pre-retirement income which varies depending on the level of their pre-retirement income"*

- An Objective along these lines would help create a climate for the development of innovative retirement income streams, which would be a positive outcome.
- Our submission also encouraged consideration of a regime whereby all future reforms would be assessed for compatibility with the objectives. We welcome the proposed requirement that a statement of compatibility with the primary objective must be prepared for a Bill or regulation relating to superannuation.
- While we support the measure to simplify the arrangements for deducting personal contributions, we suggest an alternative way to exempt some defined benefit schemes (see below). Our proposal would ensure that voluntary compliance continues for all defined benefit schemes.
- An increase to the income threshold for eligibility for the superannuation spouse contribution tax offset is to be welcomed.
- We have long been a supporter of measures to address the anomaly of low income earners facing a higher tax rate on their contributions than both their average and marginal tax rates. The proposed Low Income Superannuation Tax Offset (LISTO) addresses this and it is to be welcomed.
- We also welcome changes to the regulations that would increase the upper age at which spouse contributions are permitted. The existing rules are inconsistent with other age-based rules in the contribution standards making for confusion. We welcome the simplifying measure.

## Additional comments on deducting personal contributions

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While we support the measure to simplify the arrangements for deducting personal contributions, we suggest an alternative way to exempt some defined benefit schemes. While most, if not all, of our members have access to salary sacrifice arrangements, we do see potential issues with allowing deductions for personal contributions to defined benefit schemes, particularly where a member does not have an associated accumulation account to pay the “contributions tax” that results from claiming the personal deduction.

By way of example, many of our defined benefit members make a “standard” member after-tax contribution to the defined benefit division of 7% of their salary. As an alternative, members can choose to make an 8.25% before-tax contribution via salary sacrifice. The additional amount (1.25%) represents the “contributions tax” paid on concessional contributions by UniSuper when they are included in the assessable income of the fund.

Currently, defined members are not permitted to claim a tax deduction for personal contributions paid into the defined benefit division because they would only have paid a standard contribution, for example, 7% after tax and there would be no way to pay the additional 1.25% contributions tax.

Many other defined benefit schemes would face similar challenges.

We would like to see a continuation of voluntary compliance with deducting personal contributions and our proposal would ensure that voluntary compliance continues. Our proposal would also ensure that funds have more flexibility so that in the future they may subsequently offer this feature to their members, for example, by way of additional top-up contributions or using accumulation monies to pay the additional tax.

It is proposed in the exposure draft to prescribe certain funds or types of funds in the regulations. We are concerned that this process could be cumbersome. For example, once a fund or a type of fund is prescribed there is no clear process to become un-prescribed. Also, there are likely to be complications with hybrid schemes who might choose to allow only those defined benefit members with associated accumulation accounts the ability to deduct personal contributions while restricting those who do not have an accumulation account or sufficient funds in that account to meet any “contributions tax” bill.

Consequently, we submit that there should be an additional exemption under proposed section 290-155(1) as follows:

*(d) a scheme in which you have a \*defined benefit interest and the trustee is unable to accept such contributions in respect to a class of members based on the scheme’s rules and benefit calculations in accordance with its governing rules.*

We believe that this additional exemption would offer defined benefit schemes more flexibility while avoiding the costs schemes would face if they had to restructure their rules and benefits to allow *all* members to make tax deductible personal contributions.