Australian Government

A more flexible and adaptable retirement income system

A more flexible and adaptable retirement income system

ISBN 0 642 74231 6

Contents

The Retirement Income System

The Government's retirement income policy is designed to provide incentives, flexibility and security. Retirement income policy should encourage people to achieve a higher standard of living in retirement than would be possible from the age pension alone, while ensuring that all Australians have security and dignity in retirement. Australia's ageing population also highlights the need for retirement income policy to be fiscally sustainable in the longer term.

The World Bank has broadly endorsed Australia's three-pillar approach to providing retirement incomes. This is based on:

- a taxpayer funded means-tested age pension for people who are unable to fully support themselves in retirement;
- a minimum level of compulsory employer superannuation contributions made in respect of those in the workforce; and
- voluntary private superannuation and other savings.

The three pillars

The age pension has been the cornerstone of Australia's retirement income system since 1909. The age pension provides a modest retirement for those people who are unable to fully support themselves. It is not designed to provide a replacement for income achieved over a working life. The age pension will continue to support living standards for the majority of people in retirement.

The maximum single rate age pension is currently $11,772 per year ($19,656 for a couple)[1]. The actual amount a person receives depends on their other income and assets. The means test underpins the sustainability of the age pension. Under the means test, people who have significant resources must draw on them before calling on the community for assistance through the age pension. These arrangements maintain an equitable, affordable and sustainable age pension. Without the means test, current age and service pension expenses would increase by between $6 billion and $7 billion a year.

1 Based on pension rates effective from 20 September 2003.

Pensioners also receive the Pensioner Concession Card which entitles them to cheaper pharmaceuticals and a range of State/Territory and local government concessions, including transport concessions and discounts on utility bills, council rates and vehicle registrations.

Retirees ineligible for the age pension can receive a Commonwealth Seniors Health Card if their taxable income is below $50,000 per year (single) or $80,000 per year (couples). This card offers the same concessions on pharmaceuticals as the Pensioner Concession Card as well as a telephone allowance.

The Government has legislated to set the maximum single rate age pension to at least 25 per cent of Male Total Average Weekly Earnings, with proportional increases to the partnered pension rate. This guarantees pensioners will continue to share in improvements in general community living standards, as measured by wages.

Compulsory employer superannuation contributions comprise the second pillar of the retirement income system. The Superannuation Guarantee was introduced in 1992 and the ten-year phase in of the Superannuation Guarantee minimum contribution rate was completed on 1 July 2002 with the rate now at 9 per cent. The coverage of superannuation in Australia has grown significantly as a result of the introduction of the Superannuation Guarantee system. The latest estimates show that 98 per cent of employees with leave entitlements and 72 per cent of casual employees are covered by superannuation. [2]

The Superannuation Guarantee directs some of an employee's current remuneration into improving their standard of living in retirement. The current rate of 9 per cent provides a balance between employees forgoing current consumption for increases in living standards after retirement. On this basis the Government is not inclined to increase the rate. Increasing the rate would impact most on lower income earners through a reduction in the possible growth in their real take-home pay.

The Government believes that individuals should be able to choose whether they wish to make additional savings over and above the Superannuation Guarantee. The Government supports this approach by providing tax concessions for voluntary saving both within and outside of superannuation. This constitutes the third pillar of the retirement income system. Around 27 per cent of employees already receive employer contributions (including salary sacrifice) greater than the Superannuation Guarantee level, while 20 per cent of all employees make voluntary post-tax contributions. [3]

The Government appreciates that some people prefer to save for retirement outside superannuation. For example, the self-employed who own businesses may choose to save for retirement by building up the value of their business, in addition to or instead of contributing to superannuation. In recognition of this the Government provides capital gains tax relief for people who invest the proceeds from the sale of their business into superannuation.

The Superannuation Guarantee and other retirement savings will allow Australians to retire with higher living standards than previously. The age or service pension will still remain an important part of these higher living standards. However the number of people receiving a full rate pension will fall. Around 54 per cent of people of age pension age currently receive a full rate pension; another 28 per cent receive a part-rate pension; and 18 per cent do not receive a pension. By 2050, all employees will retire after having received the full 9 per cent Superannuation Guarantee over their working life. This is expected to result in the proportion of people aged 65 and over receiving a full rate pension falling to around one third, and the proportion of people not receiving the pension to rise to around 25 per cent. The proportion of people receiving a part-rate pension is expected to increase to around 40 per cent. [4]

2 Australian Bureau of Statistics, Survey of Employment Arrangements and Superannuation, Australia 6361.0

3 Bingham, C. 'Impact of private saving and longer careers on retirement incomes', Paper to the Eleventh Annual Colloquium of Superannuation Researchers, University of New South Wales, July 2003

4 Submission by the Commonwealth Treasury, 'Inquiry into superannuation and standards of living in retirement', Senate Select Committee on Superannuation, July 2002

Impact of demographic change

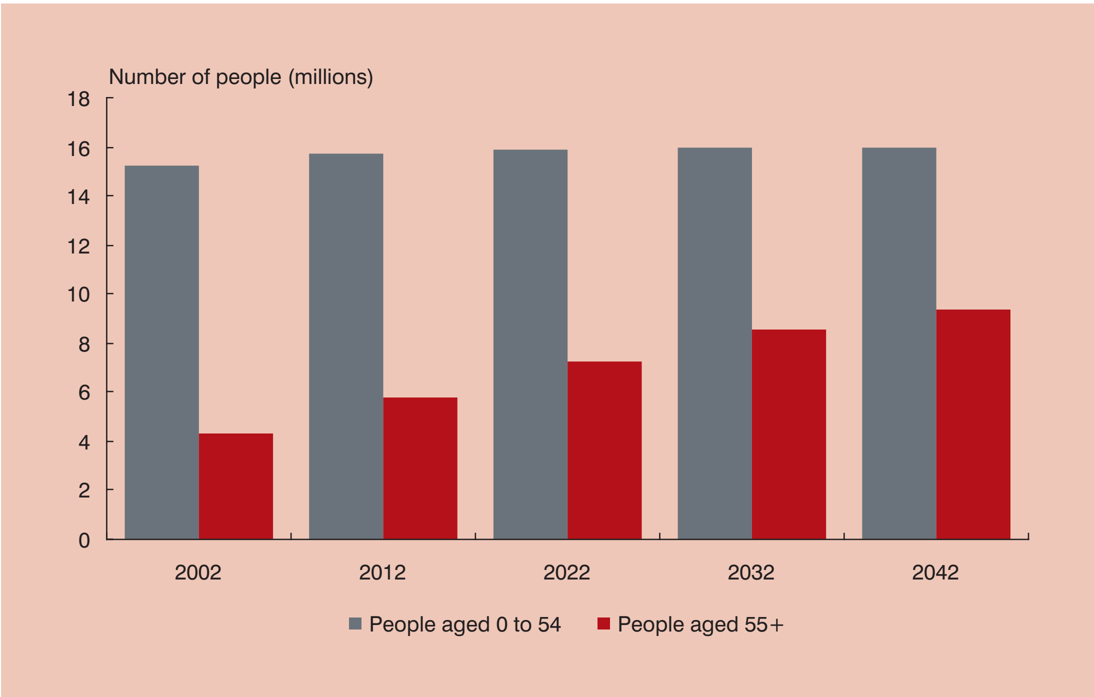
Over the next 40 years, Australia's population will go through a major shift. A greater proportion of the population will be older because people are living longer and birth rates have declined over many years. There will be increasing numbers of older people to support, and fewer people of workforce age to provide that support.

By 2042, Australia's population is projected to increase by around 30 per cent, to over 25 million. The number of people aged 55 and over will grow faster than the number aged under 55 (Chart 1).

This will mean substantially fewer Australians of workforce age (15 to 64) compared to people aged 65 and over. Currently, for every person aged 65 and over, there are about 5.3 people of workforce age. By 2043, this will decrease to about 2.5 people of workforce age. This reduction in the proportion of workers has obvious implications for the Government's ability to raise revenues and provide services like health and pension benefits in the future.

Australians' life expectancies also are among the highest of the Organisation for Economic Co-operation and Development (OECD) countries and this is expected to continue. In the past 40 years, Australians' life expectancies at birth have increased by more than 8.3 years for men and 7.6 years for women. Life expectancies are projected to increase an additional 5.3 years for men and 4.9 years for women over the next 40 years (Table 1).

Chart 1: Projected population size for selected age ranges



Source: Treasury projections, Intergenerational Report 2002-03 (2002-03 Budget Paper No. 5)

Table 1: Australians' projected life expectancy at birth (in years)

	2002	2012	2022	2032	2042
Males	77.2	79.3	80.7	81.7	82.5
Females	82.6	84.4	85.7	86.7	87.5

Source: Treasury projections, Intergenerational Report 2002-03 (2002-03 Budget Paper No. 5)

The combination of an ageing population and increased life expectancy will see pension expenses grow significantly. Age and service pension expenses are projected to increase from $20.8 billion or 2.9 per cent of Gross Domestic Product (GDP) in 2001-02 to around $80 billion (in 2001-02 dollars) or 4.6 per cent of GDP in 2041-42. Although this represents a significant increase, Australia is well placed compared with other OECD countries in relation to meeting its age pension obligations. The Government is not considering reducing the real value of the age pension or increasing the age pension age, as is happening in some other countries.

The ageing of the population will have other impacts on expenditure such as health and aged care services. A description of the economic implications of an ageing population and the choices for the Government is included in the discussion paper Australia's demographic challenges.

Workforce participation and retirement incomes

A person's standard of living in retirement is directly affected by the number of years spent in the workforce. Workforce participation builds Superannuation Guarantee savings and gives people income to support voluntary savings for retirement.

People also can improve their standard of living in retirement by deferring their retirement from the workforce. This increases their superannuation savings and delays the need to start drawing down on retirement savings. For example, a single woman aged 62 earning around $35,000 (median earnings) could increase her superannuation savings by around $30,000 by working an additional three years and retiring at 65[5].

The earlier retirees access their superannuation, the lower their ultimate retirement income. This is because their superannuation savings have to support them for a longer period. This is particularly important as increased life expectancy means that people will spend more time in retirement.

5 Modelling by Treasury's Retirement and Income Modelling Unit (RIM Unit). This estimate is based on a single woman who is aged 62 in 2029 but chooses to work until 2032 when she is 65. The $30,000 consists of $10,200 of additional Superannuation Guarantee contributions and $19,800 of additional investment earnings from total contributions. All RIMU projections used in this paper assume current income is indexed at 4% pa, net earnings of 7% pa and inflation of 2.5% pa.

The importance of planning for retirement

People should develop realistic expectations and plans for retirement. The age pension will ensure that those who have not been able to save will not be left in need. But many people will want a higher level of retirement income than the age pension and compulsory superannuation provides. People who have higher retirement income expectations need to develop plans to achieve them.

As a first step, people should consider their financial goals for retirement and likely expenses.

Many retirees have a lower gross income in retirement than in their last few years in the workforce, but find their day-to-day spending needs are also lower. For example, fully retired people face lower expenses for clothing and transport than while they were working, while the major costs of raising children and paying off the mortgage generally are in the past. Tax bills also are generally lower, not just because incomes are lower, but also due to Government policies such as the Senior Australians' Tax Offset, which reduces the tax paid by Australians of age pension age.

The second step is to consider the likely level of retirement income based on current saving levels and other circumstances. Retirement income can include a mixture of a full or part-rate age pension, superannuation, income from non-superannuation investments, and any employment income.

The Superannuation Guarantee system in conjunction with the age pension will provide a single male on median earnings (approximately $35,000) with a spending replacement rate of 76 per cent after 30 years of contributions, or 85 per cent after 40 years of contributions. Spending replacement rates compare a person's spending power in retirement with that before retirement. [6]

6 Treasury's RIM Unit projections. Based on a single male who retires in 2034 after 30 years of contributions and retires in 2044 after 40 years of contributions.

The third step is to consider whether the expected level of retirement income based on current circumstances will be enough to satisfy the goals identified in step one. If not, then people will need to consider making changes to their circumstances in order to bridge the gap between retirement expectations and likely retirement incomes. These changes could include making additional savings or deferring retirement.

The Government co-contribution for low and middle income earners enacted in 2003 will significantly benefit eligible low and middle income earners who make additional contributions to superannuation. Under this measure, the Government will provide a matching co-contribution of up to $1,000 per year towards the superannuation savings of eligible people who make personal contributions to superannuation. A contribution of $1,000 a year would require a saving of $20 a week. However, it can substantially increase a person's standard of living in retirement.

As an example of the value of the co-contribution, a single male with a current income level (for co-contribution purposes) of $32,500 who makes voluntary post-tax contributions of $1,000 per annum over a 30-year working career can improve his projected replacement rate from 79 per cent to 86 per cent. [7]

Another option may be to have an employer pay part of a pay rise into a superannuation fund. It is estimated that an average wage earner who salary sacrifices 1 per cent of a pay rise would have an additional $23,000 in their superannuation balance after 30 years. [8]

Individuals not wanting to remain in full-time employment may choose to gradually withdraw from the workforce through working part time. This means they would defer having to draw down on more of their retirement savings.

People should go through these steps on a regular basis to monitor whether their likely retirement income matches their retirement income expectations. They could do this around their birthday or when they receive their superannuation or other financial statement.

---

7 Single male, assumed to retire in 2034 at age 65, with a 30-year working career. The minimum taper point of the co-contribution is assumed to be indexed at 4% pa from 2007/08 onwards.

8 Assumes a person diverts 1% of a 4% increase in wages. Salary sacrifice contributions do not qualify for a co-contribution as they are made by an employer. However, a person on average earnings would have to pay tax of 30% if they took the money as cash. If the money is paid as a contribution to a superannuation fund it will only be taxed at 15%.

Government initiatives

The Government has significantly improved the retirement income system since being elected in 1996. Relevant Government initiatives are outlined at Attachment B. With the ageing of the population, the retirement income system needs to be more flexible and adaptable. The following enhancements to the retirement income system will further broaden the availability of superannuation, provide more choices in financing retirement income, make superannuation more adaptable to changing work arrangements and improve the integrity of the system.

Removing the work test for superannuation contributions before age 65

Historically, superannuation has been aimed at providing working people with a vehicle to save for their retirement. Accordingly, only people who are, or recently have been in the workforce can make superannuation contributions. The general rule is that to make superannuation contributions, a person below age 65 must have worked at least 10 hours in a week sometime in the past two years.

Because superannuation assists Australians to achieve their retirement income goals, the Government is making superannuation available to more Australians. Policies such as allowing contributions on behalf of low-income spouses and introducing child accounts have provided more people with the opportunity to share in the benefits of superannuation for the first time. Also, when a marriage breaks down, superannuation can be split enabling non-working spouses to hold superannuation in their own name.

Every Australian should be able to save for their retirement in a prudentially supervised and concessionally taxed environment. Therefore, from 1 July 2004, the work test on who can contribute to superannuation will be removed for anyone under the age of 65. This also will simplify an important part of the superannuation system.

People who become eligible to contribute to superannuation as a result of this measure also may be able to claim a tax deduction for their contributions. To ensure this opportunity is not abused, people under 18 must satisfy a work test in the year they contribute to qualify for a deduction.

Simplifying the work test rules for those aged over 65

Additional work rules apply to people aged 65 and over. The work test is consistent with superannuation's intended role as a retirement income vehicle. The rules apply to when a person can make superannuation contributions and when a superannuation fund must pay out benefits. People aged 65 to 74 must work at least 10 hours in each week to be eligible to make contributions; a superannuation fund must also pay out a member's benefits if they fail this test.

Work opportunities for people over 65 are likely to increase as the population ages. However, the current weekly work test is too stringent and does not accommodate more flexible working arrangements, such as seasonal and irregular part-time work. It also imposes an administrative burden on individuals and superannuation funds.

From 1 July 2004 the Government will change the contribution and cashing rules for people aged 65 to 74 to an annual work test so these rules are consistent with current and future work trends. The Government will consult with the industry and community on an appropriate work test.

Superannuation benefits for people over 75

Substantial tax concessions are provided to superannuation to encourage people to save for their retirement. People can now make superannuation contributions until they turn 75, allowing them to take advantage of the superannuation tax concessions to accumulate more for their retirement. These concessions assume people will draw down on their superannuation benefits later in their lives.

People aged 75 and over cannot contribute to superannuation unless an award requires it. However, a person who works at least 30 hours a week can keep their benefits in a superannuation fund past this age. This means they may not have to access their accumulated superannuation benefits at all during their lives.

The current rule could allow superannuation to be used specifically for estate planning rather than retirement income purposes, which is inconsistent with the purpose of providing tax concessions to superannuation. To ensure people do access their superannuation, the law will be amended so superannuation funds start paying benefits to a person, as soon as practicable after they reach age 75 either as a lump sum or an income stream. This will not apply to people over 75 who still receive superannuation contributions under an industrial award. This measure will commence on 1 July 2004.

Increased choice and competition in the income streams market

As people live longer, they are likely to spend more years in retirement. Given the significant tax concessions provided to superannuation, it is important that superannuation benefits are used to support living standards in retirement. Taking benefits as an income stream is a good way to achieve this support.

There are a number of tax and social security concessions to encourage people to purchase an income stream. Different concessions apply to different types of income streams based on their characteristics. For example:

- Complying income streams attract both a social security assets test exemption and tax concessions (including the higher pension reasonable benefit limit). These concessions are provided because these income streams require an orderly draw down of capital over a person's lifetime or life expectancy. The person must forgo access to their capital in exchange for the income stream. This means the person cannot access the capital supporting the income stream as a lump sum (ie, they are non-commutable).
- Allocated income streams are more flexible than complying income streams: a person can commute the income stream at any time and determine their annual income within a defined range. As allocated pensions do not require an orderly drawdown of capital throughout retirement, they do not qualify for the social security exemption or the higher pension reasonable benefit limit. However, like complying income streams, they receive a 15 per cent tax offset.

People should have choices about how they invest their superannuation benefits in retirement. Therefore the current approach of providing incentives to encourage people to purchase an income stream remains appropriate. However, the Government has reviewed the nature of these concessions and the restrictions on complying income streams.

The Government will extend complying status to new market-linked income stream products which require an orderly draw down of capital over a person's life expectancy. These products will be non-commutable and will restrict payments to a set proportion of the account balance. Allocated income streams do not have these characteristics. These characteristics are regarded as necessary for a product to be given complying status.

Unlike existing complying income streams, market linked products will not provide a guaranteed income stream for the term of the product. The amount of income each year can rise or fall depending on the value of the investments supporting the pension. As the income stream is not guaranteed, some superannuation funds will be able to provide complying income streams for the first time, increasing both choice and competition within the complying income streams market.

The higher pension reasonable benefit limit and a 50 per cent assets test exemption will apply to these products purchased on or after 20 September 2004. This will allow industry time to develop and have these products on the market.

Change to assets test exemption for complying income streams

The social security means test consists of separate income and assets tests. These tests help keep the age pension affordable and sustainable by requiring people with significant resources to draw on them before calling on the community for assistance through the age pension. The assets test aims to restrict wealthier individuals from accessing the age and service pensions. The assets test has generous free areas and cut-out points. A home-owning couple is still eligible for some age pension under the assets test if they have up to $466,500 in assessable assets (in addition to their home).

The current assets test exemption for complying income streams is a very generous concession. It enables wealthy individuals with assets substantially above the assets test thresholds to obtain an age pension. This is inconsistent with the intended role of the age pension to provide retirement income for people who have not been able to fully save for their retirement.

To better balance the objectives of the age pension with the need for incentives to purchase particular income streams, the Government will reduce the current 100 per cent exemption for purchased complying income streams to a 50 per cent assets test exemption for products purchased on or after 20 September 2004. A 50 per cent assets test exemption is still a generous concession. Complying income streams purchased before this date will not be affected by this change and will continue to qualify for a 100 per cent assets test exemption. This means that no person will have their current age or service pension reduced on the introduction of this change.

Making it easier for individuals in the transition to retirement

A person below age 65 must retire or leave employment before they can access their superannuation benefits. This rule may lead to people deciding to retire prematurely just so they can access their superannuation. The rule does not adequately cater for more flexible workplace arrangements where people may choose to reduce their work hours as they get older. Such arrangements are likely to become more prevalent.

As the population ages, the need for people to retain a connection with the workforce will become increasingly important. The skills and experience of older Australians will make them valuable employees with much to contribute. In recognition of this, people who have not retired will be able to access their superannuation as a non-commutable income stream once they reach their superannuation preservation age.

This measure will provide people with more flexibility in developing strategies in their transition to retirement. For example, a person might choose to continue to work with their employer on a part-time basis, and use part of their superannuation to supplement their income instead of leaving the workforce altogether.

This policy will commence on 1 July 2005. This timing will allow for consultation with the superannuation industry and community about the characteristics of the non-commutable income streams and for the industry to develop and have these products on the market. Other aspects of the policy, including whether there is a need for limits on the amount a person can access will also need to be settled during consultation.

Preservation of rolled-over employer eligible termination payments

A person generally cannot access their superannuation benefits unless they have reached their preservation age and have retired. Since 1 July 1999, all new contributions to superannuation have been preserved to ensure superannuation savings are used for their intended purpose of supporting retirement income.

The general rule relating to the preservation of contributions does not apply to employer eligible termination payments that have been rolled over into a superannuation fund (for example, a redundancy benefit paid by an employer). As a result, such benefits can be withdrawn from a superannuation fund before preservation age, despite the fact they benefit from tax concessions which are intended to support their use for retirement income purposes.

The Government will remove this anomaly so that all employer eligible termination payments which are rolled over into superannuation from 1 July 2004 are preserved. The change will not affect employer eligible termination payments rolled over before that date.

Actuarial certificates for account based income streams

Superannuation funds receive a tax exemption on the income they receive from assets supporting their current pension liabilities. To qualify for this tax exemption the fund must obtain an actuarial certificate stating that the assets are needed to meet the fund's pension liabilities. This certificate ensures that funds do not overstate the value of assets supporting current pensions to receive a tax advantage.

Superannuation funds which only pay allocated pensions also must obtain an actuarial certificate to qualify for the tax exemption. Unlike traditional defined benefit pensions (for example pensions payable for life), allocated pensions are similar to a bank account with the amount of income that can be drawn depending on the amount of assets in the account. Where a fund only pays an allocated pension and holds no other pension assets, an actuarial certificate is not needed as the fund's entire pension assets are being used to support pensions.

The Government will remove the requirement for a superannuation fund to obtain an actuarial certificate for assets supporting allocated pensions, and the new complying market-linked pensions, from the 2004-05 financial year. This will reduce compliance costs for pension providers.

Simplifying the superannuation guarantee notional earnings bases

The Superannuation Guarantee requires employers to provide superannuation support for their employees. The minimum support required is 9 per cent of an employee's notional earnings base. For most employees, the notional earnings base is remuneration earned in their normal working hours (without payments for overtime). This is commonly referred to as ordinary time earnings.

The Superannuation Guarantee legislation allows some employers to pay superannuation on an earnings base that existed back in 1991 before the Superannuation Guarantee was introduced. This means an employee can be paid lower superannuation contributions than another employee in similar circumstances. This can have a significant impact on this person's standard of living in retirement.

To ensure all employees are treated in a consistent manner for Superannuation Guarantee purposes, the Government will remove these lower earnings bases. Ordinary time earnings will be the earnings base for determining SG liability for all employees. Employers affected by this change will have until 1 July 2010 to meet this requirement.

Attachment A:

Impact on underlying cash balance of the retirement income initiatives ($m)

	2003-04	2004-05	2005-06	2006-07	2007-08
Expense measures					
Reduce assets test exemption for complying income streams to 50 per cent and allow market-linked complying pensions	-1.1	-2.3	28.1	59.4	96.4
Revenue measures					
Allow market-linked complying pensions	-	-0.1	-0.2	-0.4	-0.5
Remove work test for those below age 65	-	12.8	-34.5	-40.1	-45.9
Simplify work test for those aged between 65 and 75	-	..	..	..	..
Require compulsory cashing of benefits at age 75	-	-1.3	3.3	3.1	3.3
Remove requirement for actuarial certificates for allocated pensions	-	-	-	-	-
Preserve employer ETPs which are rolled over into a superannuation fund	-	*	*	*	*
Transition to retirement	-	-	*	*	*
Simplifying SG notional earnings base provisions	-	-10.0	-15.0	-21.0	-24.0
TOTAL	**-1.1**	**-0.9**	**-18.3**	**1.0**	**29.3**

* The nature of this measure is such that a reliable estimate cannot be provided.
.. Not zero but rounded to zero.
\- Nil.

Attachment B:

Government improvements to the retirement income system since being elected in 1996

The age pension and other benefits

In 1997 the Government legislated for the age pension to be maintained to at least 25 per cent of male total average weekly earnings. Under this policy the real value of the age pension has grown on average by around 1.2 per cent per year since 1996, and this growth is expected to continue.

When the new tax system was introduced in July 2000, the Government further boosted the real value of the pension by providing a 2 per cent supplement on top of increases already provided. The Government also eased the income test withdrawal rate from 50 cents in the dollar to 40 cents in the dollar, and provided a special increase in the means test 'free areas'. This made the age pension more accessible to self-funded retirees and improved incentives for self-provision in retirement.

In recognition of self-funded retirees' efforts to save during their working lives, the Government significantly increased the income limits for Commonwealth Seniors Health Card eligibility. Singles with taxable incomes up to $50,000 and couples with incomes up to $80,000 are now eligible for the card.

The Government has significantly reduced the amount of tax paid by self-funded retirees of age pension age. Prior to the Coalition coming into Government, a single self-funded retiree could only earn up to $6,150 before paying tax (including the effect of the low income tax offset). In 1996, the Government legislated to ensure that both self-funded retirees and pensioners could earn up to $11,185 before paying tax. From 1 July 2000, the Government, through the Senior Australians Tax Offset (SATO), further reduced the amount of tax senior Australians of age pension age pay. The SATO, together with the low income tax offset, now allows eligible single senior Australians to earn up to $20,500 without paying income tax. The benefits of the SATO phase out from $20,500 to $38,340 for singles and from $33,612 to $59,244 for couples.

The Government also introduced the Pension Bonus Scheme in 1998 which provides a tax free lump sum to people who continue to work past age pension age and defer claiming an age pension.

The Superannuation Guarantee

The Government increased the maximum age for eligibility for Superannuation Guarantee contributions from 65 to 70 from 1 July 1997.

The Government also acted to improve the effectiveness of the Superannuation Guarantee system. Since 1 July 2003, employers have been required to make at least quarterly Superannuation Guarantee contributions on behalf of their employees. More frequent superannuation contributions benefit employees in a number of ways, including:

- higher superannuation benefits, owing to increased interest earnings;
- lower exposure to the loss of superannuation benefits in the event of bankruptcy or insolvency; and
- more timely evidence of non-compliance, which in turn facilitates earlier intervention by the ATO.

Voluntary savings

Recent Government initiatives to increase the attractiveness of superannuation have included:

- raising the tax deductible threshold for contributions by the self-employed from $3,000 to $5,000;
- providing a rebate for contributions made on behalf of a low-income spouse;
- ensuring that the effective tax rate on the excessive component of an eligible termination payment from a superannuation fund does not exceed 47 per cent;
- a Government co-contribution of up to $1,000 per year to match eligible personal superannuation contributions by lower and middle income earners; and
- reducing the superannuation surcharge rate from 15 per cent to 12.5 per cent over three years.

The Government has also introduced legislation into the Parliament which will allow a person to split their superannuation with their spouse, thereby giving them access to two eligible termination payment tax free thresholds and two reasonable benefit limits. This legislation has yet to pass the Parliament.

The Government co-contribution policy will provide significant encouragement for low and middle-income earners to save for their retirement. Under this measure, the Government will provide a matching co-contribution of up to $1,000 a year towards the superannuation savings of qualifying people who make eligible personal contributions to superannuation. Individuals with incomes of up to $27,500 will be eligible to receive the full co-contribution of $1,000. A reduced co-contribution will be available for those on incomes between $27,500 and $40,000.

The Government has moved to make superannuation more accessible by:

- allowing people who are still working to make superannuation contributions up to the age of 75;
- allowing contributions for a non-working spouse;
- allowing contributions on behalf of a child; and
- allowing contributions by people who receive the first child tax offset.

The Government amended the *Family Law Act 1975* to allow superannuation benefits to be split between couples on their separation. This will benefit women who may not have accumulated significant amounts of superannuation during their marriage.

The Government also recognises that some people may prefer to save for retirement outside superannuation. Many self-employed persons who own a small business choose to save for their retirement by building up the value of their business in addition to or instead of contributing to superannuation. In recognition of this, the Government has implemented a number of initiatives to allow small businesses meeting the eligibility criteria to significantly reduce, or eliminate, their capital gains tax liability when selling a small business or part of a business. For example, a small business can disregard a capital gain when an active asset that has been held continuously for 15 years is sold. Furthermore, a small business can disregard a capital gain where the proceeds of the sale of an asset are used for retirement (up to a lifetime limit of $500,000).

The Government also reformed the capital gains tax rules so only 50 per cent of capital gains on assets held for a year or more are included in a person's taxable income. This measure recognises that more Australian households are investing in assets such as shares, and encourages such investments. The effective tax rate for capital gains of superannuation funds was also reduced to 10 per cent where the assets are held for at least one year.

Another initiative allows people to claim unused imputation credits. This also provides an incentive for people to invest in shares.

Increased choice and competition in the retirement income system

The Government has increased the number of options available to Australians to save for their retirement.

In 1997, the Government allowed banks, building societies, credit unions and life insurance companies to offer retirement savings accounts. Retirement savings accounts receive the same tax concessions as superannuation funds, but are capital guaranteed and expand the range of options to people who are risk averse.

In 1998, the Government extended the income streams qualifying as complying pensions and annuities to include non-commutable income streams that pay a guaranteed income for a person's life expectancy. This increased competition in the complying income stream market and choice in how people can invest their benefits after they retire.