Manager
Accumulation and Savings Unit
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

4 August 2017

Email: superannuation@treasury.gov.au

Dear Manager

#### Exposure Draft – Housing related superannuation measures

IOOF Investment Management Limited (ABN 53 006 695 021 AFS Licence No. 230524) welcomes the opportunity to provide feedback to the Government on the exposure drafts of the bills to introduce housing-related superannuation measured announced in the 2017 Federal Budget.

From a policy perspective IOOF supports the proposed measures, as the reforms have been targeted at meeting the needs of the broad range of super fund members: that is the need for younger members to purchase a home and for older members to unlock equity in their houses to provide for retirement income.

We believe there are some key advantages involved with these reforms:

* Providing younger members with the opportunity to make voluntary concessional contributions and withdraw those contributions to purchase a first home, has the real potential to encourage younger members to engage with their super at an earlier age. Where members are engaged with their super, retirement outcomes improve.
* Allowing older individuals the one-off opportunity to contribute the proceeds of selling the family home into super up to $300,000 each person. Many older persons have not had the same opportunity to save into super that younger generations have had, and this provides these individuals with opportunity to unlock some housing equity for these persons.
* These reforms have been designed to have minimal additional administrative impact on super funds. Some minor systems changes will be required to implement the ability to contribute the proceeds of the home to super. Otherwise the reforms will use current infrastructure to implement and the onus will be on the ATO to set and verify the amounts involved.

That said, we are concerned that there will be some practical problems with the amounts that have determined for release from super and that social security considerations have not been taken into account for the contributions to super by older persons.

Further we are concerned that the policy of allowing voluntary contributions to be withdrawn for housing does not lead to further changes to super that do not have a retirement income purpose. Consequently we support a legislative objective for superannuation.

Our submission is attached,

Yours sincerely



Frank Lombardo

**General Manager – Client & Process**

# Submission to Treasury: Housing related superannuation measures

This submission has been prepared in response to exposure draft legislation released on 21 July 2017.

The package of draft legislation released includes:

1. Treasury Laws Amendment (Reducing Pressure of Housing Affordability) Bill 2017. This bill will:
	* introduce the first home super saver scheme; and
	* make the necessary legislative changes to allow contributions to be made to super from downsizing family home.
2. First Home Saver Tax Bill 2017
3. Treasury Instruments Spring 2017. This will change the superannuation regulations to allow contributions to be made to super after age 65 under the downsizing reforms.

**A: First home super saver scheme**

The First Home Super Saver Scheme (FHSS) provides that individuals can have voluntary contributions released from super to purchase a first home. The contributions can be concessional and/or non-concessional contributions made from 1 July 2017. However amounts will only be released after 1 July 2018.

The amount that can be released is:

* $15,000 of voluntary contributions from any one financial year, with a total cap of $30,000 in total voluntary contributions. If the contribution being released are concessional contributions, only 85% of concessional contributions can be released (to take into account the tax on contributions).
* Plus “associated earnings”. This is the shortfall interest charge which the 90 day bank bill rate plus 3%. For 2017/18 contributions, associated earnings will apply from 1 July 2017. For later years, earnings will apply from the start of the month of the actual contribution. This is because from 1 July 2018, super funds will be reporting contributions received to the ATO on a monthly basis.

The amount released will be firstly be paid from the super fund to the ATO. The ATO will include any concessional contributions plus the earnings amount in the individual’s assessable income and apply a 30% rebate. The portion which relates to non-concessional contributions will be treated as non-assessable non-exempt income. The ATO will withhold an amount to take this into account prior to paying the released amount to the individual.

**Advantages of the scheme**

* Encouraging housing ownership has a positive effect on an individual’s retirement outcomes. Although generally the super industry is averse to using superannuation assets for purposes other than retirement saving, home ownership is important for a comfortable retirement.
* Younger members, particularly if they are members of default super funds, are often disengaged with their super. Many receive only compulsory contributions into their super and do not make active investment choices. For many years the industry has struggled to engage these members with their super. Introducing an arrangement whereby younger members can make voluntary pre-tax contributions and get a foreseeable benefit – that is purchase a first home – should promote greater engagement with super. Greater engagement in turn promotes more active members leading to account consolidation and investment choice. IOOF has always been a strong supporter of active member engagement in super and choice.
* From a super fund’s perspective, the scheme utilises administration processes that have already been built for other withdrawals from super – ATO release authorities. Consequently it will be very easy to implement from an administration perspective.

**Concerns with the scheme and the legislation**

1. **Section 290-170 Notices**

The advantage of this proposal over earlier first home saver schemes is that pre-tax contributions can be used to save for a first home. Therefore we are disappointed that the exposure draft for the FHSS does not include changes to the current legislation providing for section 290-170 Notices. IOOF has long argued this are requires a full overhaul as it is old legislation that is no longer fit for purpose now that most personal super contributions will be tax deductible. It is very easy to envisage problems where a member wants to withdraw pre-tax personal contributions but does not submit a 290-170 Notice prior to the withdrawal.

1. **Adequacy**

The maximum amount contributions (gross of tax) that can be withdrawn is only $30,000. This can be compared with the previous first home saver scheme introduced by the Rudd Government whereby individuals could save up to $75,000 in first home saver accounts. When average house prices are $886,800 in NSW and $708,300 in Victoria[[1]](#footnote-1) this feature of the new scheme may not appear attractive..

1. **Contributions withdrawn are net of tax**

The amount of contributions that can be withdrawn is a maximum of $30,000 net of tax paid by the fund. The problem here is that members do not take account of fund tax is considering the amount they contribute and will expect to withdraw the full allowable contribution. Consequently if a first home buyer makes (pre-tax) personal contributions of say $10,000 a year for 3 years, they will expect to withdraw $30,000 for a deposit, not $25,500 after tax.

1. **Complexity**

At first glance the scheme appears to be complex, with a specific order for contributions that can be withdrawn. Although this appears to be complex, most of the calculations will be done by the ATO and the amount available for withdrawal will be accessible to members prior to actually purchasing a new home. Consequently we don’t believe the complexity will be a problem for members.

1. **Objective of superannuation**

The proposed legislation introducing an objective of superannuation has not yet passed through parliament. This proposed legislation would create clear framework for new legislation to ensure that superannuation law cannot be changed unless the purpose is to meet an appropriate retirement income objective. Although we support this first home super saver scheme, as home ownership in retirement is important, we are conscious that the large pool of superannuation money could be attractive to satisfy other policy agendas that are not related to retirement incomes.

## **B: Downsizer contributions.**

IOOF supports the policy to encourage older persons to contribute the proceeds of downsizing their homes to super. The implementation process will be relatively easy for super funds, however we have concerns that the take up may be impeded by not addressing social security issues. This may be addressed at some later stage with the availability new income streams that may attract social security concessions.

**Ease of implementation**

The implementation of the downsizer contribution appears to be a relatively simple task for the super industry, as whilst it is a new contribution type the acceptance of the contribution broadly follows the same requirements as the small business capital gains tax concession contributions.

The ability for the ATO to advise a fund directly of a downsizer contribution having already been claimed in relation to a member will help enforce the ‘one sale only’ intention behind the contribution, however individuals who make excess non-concessional contributions as a result of mistakenly making a second downsizer contribution will be subject to the current excess non-concessional contributions system.

Given the notional earnings calculated on any released excess non-concessional contributions commences on 1 July the year the excess is created, the earnings compound daily and can be up to $200,000, this may be seen as unfair. Given the new reporting frameworks to be implemented from 1 July 2018 (that is, the MATS and MAAS), the start date of the notional earnings for excess non-concessional contributions could be moved from 1 July in the year the excess is created to the actual date of the excess contribution. This would align the notional earnings to the same timeframes as the recently implemented transfer balance cap and be a more just approach.

**Age pension issues**

In relation to the policy backing the downsizer contribution, whilst the broad intent is positive, without a social security concession to accompany the portion of the downsize proceeds – even if only temporary – many older individuals will continue to ‘age in place’ as long as possible to maintain access to the Age Pension and associated concession card.

Based on this we would expect the contribution will be used primarily by self-funded retirees who are downsizing their property, or moving into another property they already own as there is no requirement to purchase a new property to make the contribution and as such prove an incentive for a relatively small portion of the population.

It has been prepared on behalf of IOOF Investment Management Limited (ABN 53 006 695 021, AFSL 230524) based on information that is believed to be accurate and reliable at the time of publication.

1. ABS – 6416.0 - Residential Property Price Indexes – March 2017. [↑](#footnote-ref-1)