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HEADLINE: Who Saves The Self-employed?

BYLINE: **Helen Cronin**

BODY:

One group with a particularly bad savings record has hardly rated a mention in the discussion on retirement savings.

Since 1992, the superannuation guarantee has meant that workers will have some level of retirement savings.

However, unincorporated sole traders or partnerships are not covered by the SG legislation, so they do not have to contribute to super. About 10 per cent of private-sector workers outside the agriculture industry are self-employed.

The Association of Superannuation Funds of Australia (ASFA) estimates that nearly two-thirds of these people have no super or are not contributing. The lack of tax incentives is usually blamed for the poor level of savings.

A 35-year-old worker can contribute up to \$11,912 this financial year, through SG and salary-sacrifice contributions, and the employer can claim the lot as a tax deduction. But a self-employed worker can claim only \$3000 as a full tax deduction and 75 per cent of the rest.

The cap will rise to \$5000 from July 1, but will it encourage people to save more?

The aim of the SG legislation is to reduce reliance on government-funded pensions by ensuring that people fund at least part of their retirement. So it seems an oversight that a substantial portion of the working population is left out.

There is disagreement within government and industry as to the solution, or whether the different rules are a problem.

"It's crap," says Phil Dunkley, an accountant in Melbourne's south-eastern suburbs. Of his 20 self-employed clients, only four make any contributions to super, and three of them contribute only to the \$3000 cap.

"Many are young and think they are immortal. They think they can worry about it later," he says. "The lack of compulsion is part of the problem. If they don't have to, they don't."

Liberal Senator John Watson is chairman of the Senate select committee on superannuation that is examining the adequacy of retirement savings. He sees a problem of definition, rather than one of saving.

"The low level (of saving) in Australia is due to the definition of the statistics," he says. "Housing is not included in the figures, and neither is the value of small businesses, which act as retirement savings."

Generous capital-gains tax provisions apply to the rolling over of business assets for retirement, he says.

The shadow minister for retirement incomes and savings, Senator Nick Sherry, concedes there is an argument against compulsory contributions, because self-employed people need to retain capital.

But he questions the effectiveness of the CGT concessions on rolling over business assets. He says many self-employed people's businesses go bankrupt, and there are no funds to roll over.

ASFA chief executive Philippa Smith agrees. The self-employed plough all their money into their small business. If the business falls, so do the retirement savings. Smith says relying on a business for retirement savings goes against good investment strategy, which diversifies investments.

It is a concern that Bureau of Statistics data seem to support. Although specific statistics on self-employing businesses are not available, the most recent figures for those with fewer than 20 employees suggest business assets do not make reliable retirement savings.

Within five years of being established, 27 per cent of businesses close. The figure is nearly 44 per cent for 10-year-old businesses and 52 per cent for 15-year-old businesses.

There is a good chance that a business will not be around when the proprietor retires. So concessions on CGT might be available to only a few.

Senator Sherry says any policy that does not cater for the self-employed does not cater for a substantial part of the population, and the issue must be tackled.

Disagreement persists over how it might be done, but there are three main schools of thought. The first is some form of compulsion, similar to SG legislation, although no one pushes this as a stand-alone solution. Improving tax incentives is more popular.

Senator Watson says the increase in the fully deductible threshold from \$3000 to \$5000 is a big improvement. Senator Sherry counters that the increase is merely indexation.

ASFA is calling for the removal of the cap. "We have never been able to get a clear explanation as to why the \$3000 cap," Smith says. "It seems to be a revenue issue. We don't think it has any other basis."

Dunkley agrees that the solution is full tax deductibility of contributions. But some organisations are wary of pushing that line, even though they acknowledge the issue.

"CPA Australia always recognises that we must balance the need for incentive with budget and revenue implications," says Jane Barrett, the accountancy body's superannuation policy adviser. "We are not going to make a song and dance if (the government) can't afford it."

Others suggest that education rather than legislation is the solution.

Legislating to make people save is the easiest but not the best way, says financial planner Mark Ryan, business support and development manager for Australian Financial Services.

He sees age-based limits on contributions as a bigger disincentive to saving than anomalies in tax concessions.

ASFA also supports broader community education on retirement savings.

It recently commissioned research into people's expectations for retirement. That showed a large number of people thought their savings would be enough to support their desired lifestyle in retirement, when they were clearly short.

Smith points to New Zealand's attempt to boost savings through education rather than compulsion. It was a disaster, she says. Education is needed, but so is compulsory saving.

According to Smith, the Federal Government's Retirement Income Modelling (RIM) taskforce estimates that the existing level of SG is saving the government about \$2 billion a year.