

The Hon. Peter Costello, MP, Treasurer of the Commonwealth of Australia

ADDRESS TO THE INVESTMENT AND FINANCIAL SERVICES ASSOCIATION

Parliament House, Canberra

TUESDAY, 13 JUNE 2006

I can't believe that I was here in 1998, I don't think that I had finished school in 1998 actually Richard but if I was it has been a very long and pleasant association and as I am the coach here is my instruction to the team: always play down the right wing. I know you said you can play either right wing or left wing, you normally go out of bounds if you go down the left wing.

The importance and work of the investment and superannuation industry has been growing quite significantly since our Government was elected. In December of 1995 the size of the Australian funds management industry was \$347 billion. It is estimated that the funds management industry is now around one trillion dollars. That is, it has tripled over the course of the last ten years. This makes the Australian funds management industry of critical importance to the Australian economy. It represents the savings of a very large proportion of the Australian community. It means that this industry is important to our national prospects as well as important to the lives and particularly the retirements of so many of our citizens.

In this year's Budget on the 9th of May I announced the biggest shake up of superannuation that our country has seen in decades, perhaps at all. The goal was to make superannuation easier to understand, reward people for making additional retirement saving and encourage them to remain in the workforce longer. As you know the essence of our plan is that for a person aged 60 or over, if they receive either a lump sum or a pension from a taxed superannuation fund they will be able to take that tax free. What it means is that superannuation just got a whole lot more simple and much, much more attractive. Included in our plans is halving the age pension assets test taper rate to \$1.50 per fortnight.

This will also make the age pension assets test fairer. And retirees will be able to keep more of their age pension when they exceed the assets test free area.

An important part of our plan was to extend the co-contribution to the self employed and allow them to claim a 100 per cent deduction for all contributions. Investment advice will now focus on increasing retirement income rather than decreasing the tax paid on superannuation. And tax free superannuation benefits will encourage people to maintain their contact with the workforce longer. You will have the option to take your superannuation tax free and continue in work without your superannuation income being added to your work income and pushing you into higher tax brackets. We hope that it encourages many people of 60 years and over to maintain at least a part time association with the workforce. This is part of preparing our country for its greatest structural challenge, the challenge of the ageing of the population. These reforms will boost retirement incomes. I announced when I brought down this plan with the May Budget that we would have a three month consultation period ending on the 9th of August and I know many of you in this industry have put submissions into the Treasury as part of that consultation.

I have found as I have discussed our plan with the industry overwhelming support. Most people have as their immediate question, when are you going to produce the legislation, when are you going to put it in place and how are you going to make sure that no future government ever reverses it? But people have also raised with us some of the transitional issues which I think I can already comment on tonight and I would like to take this opportunity to do so. One of the things that has been raised with us is the \$150,000 cap on undeducted contributions.

As a result of issues that have been raised with me and consideration in discussions with the industry, I want to announce this evening that the \$150,000 cap will be subject to averaging,

that people will be able to put \$450,000 in over a three year period. I want to also announce tonight that any contribution made before Budget night will not count to the cap for the 2005 - 2006 year. This means that the \$150,000 cap can be fully utilised for contributions made between the 10th of May and 30th of June 2006. That will count as a full year for the purposes of the \$150,000 cap. In fact under proposed averaging arrangements it would be possible for a person to contribute \$450,000 of post tax contributions between the 10th of May and 30th of June 2006. That would use their three year average and mean that they had fully utilised their 2006-07 and 2007-08 entitlements. Or alternatively they could put \$150,000 in between the 10th of May and 30th of June and a further \$450,000 in 2006-07 that would utilise their 2006-07, 2007-08 entitlement and their 2008-09 entitlement.

It is proposed that the cap which can be averaged over a three year period will operate on a 'use it or lose it' basis. That is if one does not take it up in a particular year one cannot roll that entitlement into the three year average. I can also indicate that the Government has decided to allow each small business owner to contribute up to \$500,000 of capital gains into a superannuation fund in addition to contributions allowed under the cap. Further issues in relations to the cap and transitional arrangements will still be the subject of consultation between now and August but I thought having taken that decision, a decision which I believe will be welcomed tonight, was an appropriate night to make that announcement.

The second transitional issue which I can indicate the Government policy on immediately is that I am proposing to bring forward the removal of the payment rules for people aged 65 and over to the 10th of May 2006. That is to Budget night or the night after Budget night. This would allow people over 65 and no longer working - and people aged 75, to defer cashing their superannuation benefits and take advantage of the new tax regime and flexible draw down rules which were to apply from 1 July 2007. This will mean that people in that situation can continue from Budget night and will not have to have the disadvantage of taking changed decisions until the new arrangements take effect.

I just want to make a few more brief comments tonight about the proposed changes to superannuation and financial services regulation. I see I have in the audience here tonight the Assistant Treasurer, Peter Dutton and I want to thank him for the contribution that he is making in relation to superannuation policy and consultation. I also see my colleague in the audience tonight, my Parliamentary Secretary, Chris Pearce. Many of you will know that Chris has been consulting on financial services regulation. In doing the consultation on financial services regulation I can assure you our aim is not more change for the sake of change. Our aim is to ensure that there is minimal change which reduces regulatory burden on business, to ensure that consumer receive the information that they require but to iron out and get rid of the over regulatory responses which has developed to some degree. Chris Pearce has been looking at ways to reduce complexity and improve efficiency and corporate and financial services regulation. I want to pay tribute to the work he has done, the changes that he has announced and to assure you that this Government is serious about reducing the compliance burden. Not in a way which would work to the detriment of an informed market but in a way which is consistent of ensuring consumers are informed and that our markets operate on a transparent basis.

Can I say in conclusion that this has become a very, very successful part of the Australian economy. Australia is good at financial services. What we want in our country is a well balanced economy, that has a strong resource sector, a strong high tech sector, strong manufacturing base and a state of the art financial services industry. I had the privilege over the weekend of being invited to address the G8 meeting in St Petersburg, partly because I am the chairman of the world Group of 20, which brings together the developing world and the developed economies of the world but also partly in recognition that the Australian story over the last ten years has been a success story, a success story in financial services, in corporate regulation, in macro economic management. People are hungry to learn of the Australian successes. Australian successes are partly due to regulatory improvement and sound management but also to the Australian business know-how and an acumen in driving product innovation, making sure that consumers' savings are protected and ensuring that retirements are built in a way which income will give them security and peace of mind.

The announcements that I have made tonight, adding to the announcement on Budget night, of the greatest plan for superannuation reform we have seen in decades will I believe give a great deal of confidence to this industry and to Australians everywhere who are saving for their retirement, in a vehicle which will be recognised as a savings vehicle for the length of their working life and their retirement which can give them security and peace of mind. I wish you all the very best of success at this cocktail party and for the years which lie ahead, thank you very much.

Ends.