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SURCHARGE
RESEARCH

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Introduction

The Government announced in the May 2005 budget that the superannuation surcharge for high income earners would be abolished from 1 July 2005.

IFSA commissioned this research to measure the likely impact of the abolition of the surcharge on high income earners' propensity to make additional contributions to super.

This report provides estimates of the level of additional contributions that will be made by high income earners in the post-surcharge taxation environment (assuming that the relevant legislation is passed by the Senate, which seems likely at least post 1 July). The estimates are based on primary research data collected via a Newspoll omnibus in the periods 3-9 June and 17-21 June.

Sample description

The research was conducted nationally among 2400 respondents aged 18 years and over. Respondents were selected by means of a stratified random sample process which included:

- a quota set for each capital city and non-capital city area. Within each of these areas a quota set for each telephone area code;
- random selection of household telephone numbers drawn from current telephone listings for each area code;
- random selection of an individual in each household by a 'last birthday' screening question.

Respondents with personal incomes greater than \$75,000 per annum were asked questions about additional contributions to superannuation in the last 12 months, awareness of the super surcharge, and intended contributions behaviour in a post-surcharge environment.

Overall, 11% of the Australian adult population have personal incomes greater than \$75,000 (5.8% \$75,000-\$90,000 and 5.6% greater than \$90,000). The base sample size for this study was

n=305¹ (with sub-samples of n=148 for personal incomes \$75,000-\$90,000 and n=157 for incomes over \$90,000 per annum).

Additional contributions in the last 12 months

About 38% of those with personal incomes over \$75,000 have made an additional contribution to super in the last 12 months, either by way of salary sacrifice, or as a personal contribution. This rises to 41% among those with personal incomes over \$90,000 per annum.

Figure 1 shows the proportion of people that have made additional contributions in the last 12 months by personal income level.

Figure 1. Additional contributions to superannuation in last 12 months by personal income (%)



The incidence of salary sacrifice contributions in the last 12 months is the same across personal income levels of \$75,000-\$90,000 and over \$90,000. A larger proportion of those with personal incomes over \$90,000 per annum made personal contributions to super in the last 12 months (27% vs 17% among those with personal incomes \$75-\$90,000per annum).

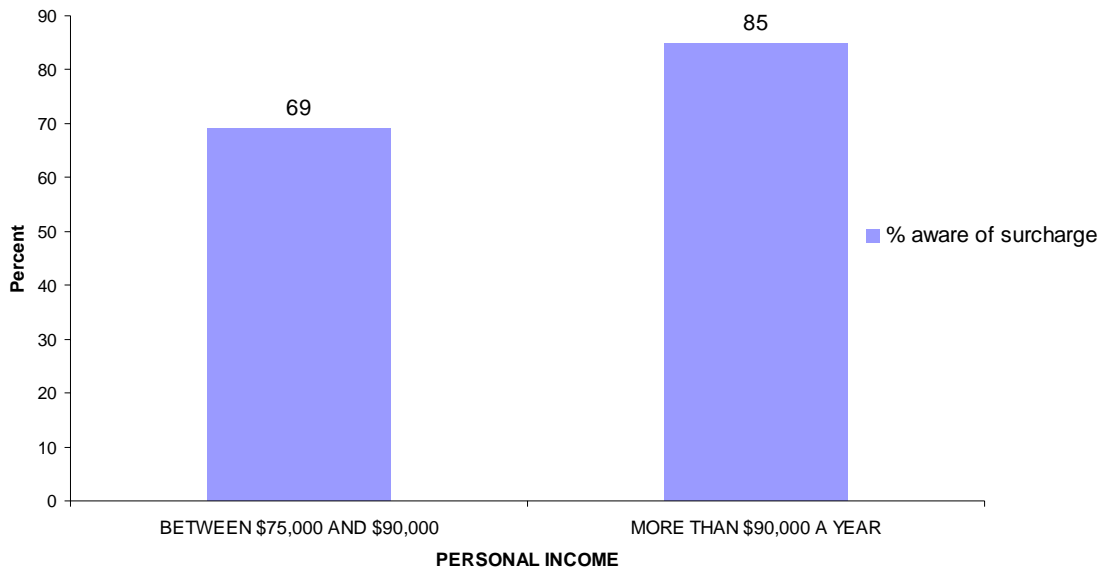
¹ A sample size of n=305 yields a 95% confidence interval of no more than approximately $\pm 5.5\%$

The average amount of additional contributions in the last 12 months was \$14,000 and the median of additional contributions was \$7,000.

Awareness of the super surcharge

Overall, 4 in 5 people with personal incomes over \$75,000 per annum are aware of the super surcharge. The level of awareness among those with personal income over \$90,000 per annum is 85%. Awareness of the surcharge by personal income is shown in figure 2 below.

Figure 2. Awareness of superannuation contributions surcharge by personal income (%)



There is a very high level of awareness of the super surcharge among those whose super contributions are subject to the tax.

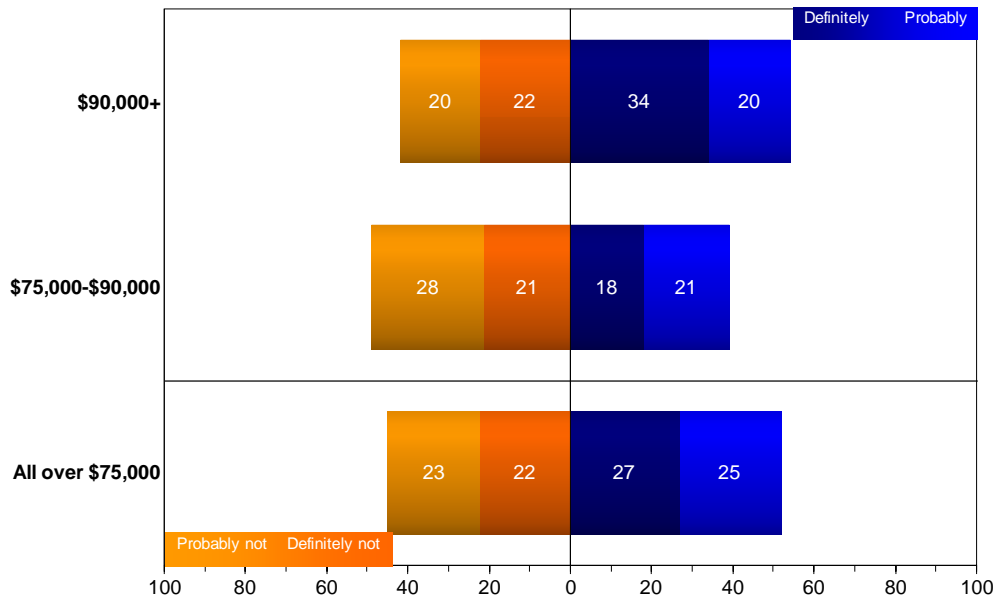
Additional contributions in the next 12 months

All respondents were told that the super surcharge will be abolished on 1 July 2005, as follows:

The government has announced the superannuation contributions surcharge will be removed entirely from 1st July 2005.

Respondents were then asked how likely it is that additional contributions will be made into their superannuation in the next 12 months. Raw responses to this question are shown in figure 3 below.

Figure 3. Likelihood that additional contributions will be made in next 12 months, by personal income (%)



Assuming that the super surcharge is in fact abolished, over half (54%) of those with personal income over \$90,000 per annum say they will probably or definitely make additional contributions to super in the next 12 months. 39% of those with personal incomes between \$75,000 and \$90,000 say they definitely or probably will make additional contributions to super in the next 12 months.

Discounting 5-point scales

So, taking these responses at face value, it would seem that the abolition of the super surcharge would lead to a substantial increase in the incidence of additional contributions to super, especially among those with personal incomes over \$90,000 per annum.

But can these figures be taken at face value? How should responses to questions such as ‘how likely are you to make a voluntary contribution?’ be interpreted? It is probable that many of those who say they ‘definitely will’ carry out a particular behaviour will in fact do so. It is also

probable that some of those who say they are ‘probably will’ carry out the same behaviour will do so. It is fair to assume that the majority of those who are unsure whether they will do something, and those who think they definitely or probably will not do something, will indeed not carry out the behaviour. So what use can be made of responses to a behavioural intention question on 5-point likelihood scales?

An intuitively appealing and frequently used rule of thumb used for discounting intention scales in market research is to take 75% of ‘definitely will’ responses, together with 25% of ‘probably will’ responses on a five point scale as a more likely level of action.

In addition, the behavioural history of the respondent may be taken into account when determining the probability of an individual’s actually making a voluntary contribution in the future. People who have made contributions in the past and say they definitely or probably will do so in the future should be treated as more likely to make contributions in the future than those who give the same answer, but have not done so in the past. As such, 100% of those who have made a contribution in the past and said they ‘definitely will’ do so in the future are counted in a weighted likelihood of contributing measure. Those who had made a voluntary contribution in the past 12 months and indicated they were ‘probably will’ in the future are weighted at 50%.

In other words, the fact that a person has made a voluntary contribution in the past is assumed to raise their probability of doing so in the future by 25% relative to a person who has not done so. This elaboration of the 75/25 rule has been used in previous forecasting work, for IFSA and for other clients in and outside the financial services area, and has proved to be robust across a sample.

Applying this rule to the current data suggests that 39% of those with personal incomes over \$90,000 per annum will make additional contributions to super in the next 12 months, assuming the surcharge is abolished. For those with personal incomes between \$75,000 and \$90,000, the figure is 27%.

The super surcharge only applies to contributions that have not already been taxed (ie it applies to salary sacrifice contributions, but not to undeducted personal contributions). Given the apparent savvy of the target audience (as indicated by the high level of awareness of the

surcharge among this group), it seems reasonable to compare the figures for salary sacrifice contributions in the last 12 months to the intended contribution estimates for the next 12 months.

The level of additional contributions in the last 12 months, and intended contributions in the next 12 months is show in figure 4.

Figure 4. Additional contributions to superannuation: last 12 months vs next 12 months (%)

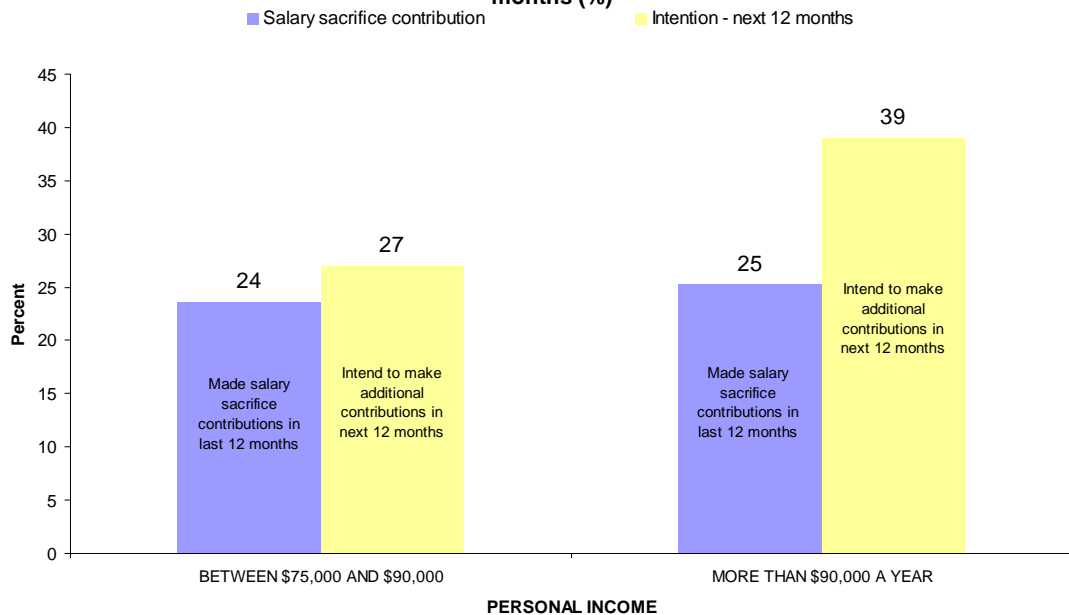


Figure 4 shows that up to 2 in 5 (39%) of those with personal incomes over \$90,000 per annum are likely to make additional contributions to super if the super surcharge is abolished. This is compared with 1 in 4 of this group (25%) that made a salary sacrifice contribution in the last 12 months.

While it is likely that some of the increase in additional contributions will take the form of undeducted personal contributions, it is nonetheless apparent that the abolition of the super surcharge will result in a significantly higher level of contributions among those on personal incomes over \$90,000 per annum.

It is also the case that the abolition of the super surcharge will lead to an increase in the proportion of those with incomes between \$75,000 and \$90,000 per annum making additional contributions to super. In other words, it seems that the abolition of the surcharge may make



super a more attractive proposition generally, not just among those that could benefit directly.

A majority of those who are likely to contribute in the next 12 months have contributed in the last 12 months. However, the abolition of the surcharge is also likely to attract many people who did not make additional contributions in the last 12 months. 15% of those that did not make additional contributions to super in the last 12 months are likely to make a contribution in the next 12 months, assuming the surcharge is abolished. That is, new contributors are likely to account for slightly less than one of third of all contributors if the surcharge is abolished.

Amount of future contributions The average estimated amount of additional contributions in the next 12 months among those likely to make additional contributions is \$12,000 and the median additional contribution is \$6,000. These figures are slightly lower than the mean and median figures for the last 12 months.

Important considerations

The data presented in this report suggest that the abolition of the super surcharge will be successful in driving additional contributions to super.

Some important issues that should be kept in mind while interpreting the data are discussed below.

AWARENESS

As already discussed, the research produced universal awareness of the abolition of the super surcharge – a necessary artifice, but one that obviously produces an over-estimate of the likely actual participation in the scheme. If communication of the abolition (which would most likely occur via a combination of marketing and third-party communication) were to produce awareness of 75% in the target population, then the maximum possible incidence of contribution would also be 75%.

No attempt has been made in this report to discount incidence estimates according to a target level of awareness. The estimates presented in this report are best interpreted as likely incidence levels among those members of the target population who are made aware of



the abolition of the surcharge. In our opinion, it would be reasonable to assume that a combination of direct Government promotion, promotion from retail and industry super funds, financial planners and accountants, and word of mouth would achieve very high awareness – perhaps as high as 80%.

Superannuation is not an issue that people think about very much in ordinary circumstances. Market research interviews necessarily focus individuals' attention on issues to which they may ordinarily give little thought. This research indicates that abolition of the super surcharge has the potential to be a very useful element in the superannuation system – as long as it can be communicated effectively.