

The retirement income system

In regard to the Questions of the Discussion Paper

Q1.1 In considering the future of Australia's retirement income system, which objectives are relevant in setting retirement income policy? Does the current system of the Age Pension and compulsory and voluntary savings meet these objectives? If not, how should the system be changed to meet these objectives?

Response – the current 3 tiered approach is a practical solution to the objectives – the AP should provide a minimum of the poverty amount – recognizing that Australia desires that all can have at least this amount.

The SG component should be aimed to provide a reasonable (around 75%) replacement level of income for the median percentile income level of the population.

Voluntary contributions should enable this to be able to be increased for the higher paid workers who opt to forego current consumption to spread their income into future periods.

A broad and adequate retirement income system

Q2.1 As the SG system matures, it will become a greater part of an employee's retirement income. What are the implications for individuals partially or fully excluded from the mature SG system (the self-employed, individuals with broken work patterns such as carers, women and migrants), and how can the retirement income system best accommodate these groups?

Response – These people will fall within 2 camps – those at the top end who will not rely on the SG to be their complete savings vehicle., and those (eg refugees) who may have no other savings.. Provided the AP continues to provide the minimum poverty level income then -whilst not the ultimate – there is no real issue. So even when the SG is mature there still needs to be a safety net.

Q2.2 Noting that the adequacy of the Age Pension is being considered by the Pension Review, what is an appropriate concept of adequacy for the retirement income system? Should it be to ensure there is a minimum level of income in retirement, to replace a proportion of income earned prior to retirement, or some other alternative?

Response – The AP should NOT try to maintain an “income replacement” rather the AP should maintain a decent adequacy relative to a poverty measure. To do otherwise undermines the saving savings for oneself and the future. This however would require some changes to ensure the SG and additional contributions were both AVAILABLE

across all groups (eg parents looking after children so not in the workforce, and that divorce settlements required adjustments if only one had super)

Q2.3 What should the role of the government be in assisting individuals to meet their retirement income expectations in relation to the support provided by the Age Pension, the level of compulsory savings and incentives to make additional savings? Should the role of government change as an individual's income increases over their working life?

Response – This should be to provide a vehicle to encourage all to have a “funded” Retirement. The level of Retirement Income that is “targeted” should be that that is adequate for a person on up to around 2 or 3 times Average Earnings. However it seems the current rules are grossly biased towards the higher income scales.

Ideally it would be simpler if everyone qualified for the AP and that income generated by the RIS was added to this and then taxed in total. – It seems grossly inequitable that if you put money into super rather than invest in a different vehicle outside super that the proceeds are taxed differently. Eg some 80 year olds retired before superannuation was universal and so had no super but had saved and so currently are self funded but their income is fully taxed compared to super annuitants.

An acceptable retirement income system

Q3.1 Do the settings of the retirement income system, such as the level of SG and access to concessions, adequately consider the needs and preferences of individuals both before and after retirement?

Response – The SG level needs to either be raised or the contributions tax removed (or both). It should be required for ALL Australian residents without the current exemptions.

Currently the concessions do not adequately provide for the large portion of Casual workers who may have some level of employer SG and this then precludes them from claiming deductible contributions. This seems at odds with the desired outcomes as many people who have been out of the full time paid workforce (eg parents returning to work) spend considerable time in casual work. Salary sacrifice is not practical for these workers due to the fluctuating amounts they are paid, higher net worth individuals are more likely to be able to negotiate salary sacrifice deals

Q3.2 Is the current level of superannuation income tax concessions appropriate and sustainable into the future? Are the current concessions properly targeted, and if not, how should they be reformed?

Response – The current concessions significantly favor the higher income. There seems little concessions available to the lower income group.

The concessions are poorly targeted. The lower rate of tax on earnings only favors the high end recipients. The ability to salary sacrifice also favors the high end. Contributions should be paid from AFTER tax amounts and then a Govt Co Contribution at a rate of (say 30%) should apply this will increase lower paid SG accounts (as they may only have been subject to 15% tax, make the majority effectively pay no tax and reduce the subsidy to HNW and so be more equitable.) There could also be a maximum dollar cap on the co-contribution if required).

A robust retirement income system

Q4.1 At what age should an individual be able to access their superannuation and at what age should they become eligible for the Age Pension?

Response – The AP entitlement should be set based on the Life Expectation so it is not seen as a whim of the (intending) govt. The male life expectancy did not reach 65 until after WWII. At this time a person reaching 65 had a further expectancy of 12 years (or roughly 15% of their expected life on reaching the “original expectation). Applying this same proportion on the current tables would suggest the AP should not start until around 70 when there is still a 14 year expectation.

However many people will wish to retire or transition into retirement (as opposed to access the AP) or be subject to ill health and so should be able to access at least a portion of their retirement from an earlier age.

Q4.2 What is the role of individuals in dealing with investment and longevity risk in accumulating and drawing down their retirement income? Do financial markets provide the means to deal with these risks? If not, is there a role for government to address these shortcomings?

Response – Many individuals have no idea of investment risks or strategy as seen by the numbers who are continually caught up in the Bridgepoint and Storm and equivalent scandals. It is disingenuous for IFSA etc to produce surveys showing people are happy with their Financial Planners. (Or rather why would you stay with someone you are not happy with unless there were serious penalties?). Behavioral finance suggests that we reinforce our decisions until it is too late.

Government should act to ensure that there are investment that satisfy the needs for the superfunds – Ideally this would be a supply of long dated inflation linked fixed interest, but even just a supply of long dated bonds (that are not required to be held by APRA ADTI's) would be better than the current system. A side effect of issuing these would be the financial pressure on the Govt to restrain inflation - if this was supplemented with indexed tax bands then there would be greater confidence that the goals of all parties were aligned.

Longevity risk is one that is currently poorly covered by the market. To a large extent this currently “reinsured” via the AP to cover the shortcomings. I do not see this as an

extreme problem. The “reinsurance” should only kick in at advanced ages when (excluding health costs) the financial needs are likely to be lower than “average”.

Currently many retirees greatest asset is their family home. It is not obvious that the market has yet developed a product that enables the retiree to access the value of this asset. Many existing products have shortcomings (either in product design or via the sales process).

A simple and approachable retirement income system

Q5.1 In what ways does the retirement income system impose undue complexity and cost on retirees and workers? How could this complexity be reduced?

Response – The current rules post vesting are difficult to apply with the concepts of “permanent retirement”, transition to retirement, lump sum withdrawals and income withdrawals and recontributions all having to be considered. Again those with high amounts will have access to better advice and so get most out of the system.

For the super fund the requirement to have Exempt and Normal assets depending on the state of the member benefits and the need to change products as a person retires / goes back to work , transitions seems significantly over complicated.

A sustainable retirement income system

Q6.1 The Age Pension serves two roles, as a safety-net for individuals who are unable to sufficiently save for their retirement and as an income supplement for many individuals who do save. What should be the role for the Age Pension and means testing in a future retirement income system and what impact does this have on its sustainability into the future?

Response – The AP as a safeguard is important. However having dual tax and Social security runoffs does cause anomalies in the marginal rate that need to be resolved. It may be possible to include a tax credit – rather than a “means test” to enhance the income and overcome this. Some forms of offsetting would need to be included to adjust for the difference between the “annual” tax view and the “weekly” DOSS view. However establishing a “loan account” based on the AP amount that is then adjusted when the annual tax return is done may be able to reconcile this.

Q6.2 In what ways does retirement income policy affect workforce participation decisions and what, if any, changes might reduce disincentives to work? Does the

sustainability and cost of the retirement income system affect the workforce decisions of younger generations of workers?

Response – This will operate in 2 ways – for some baby boomers it will advance retirement but this in itself may not be a bad thing as it will increase the pool of resources for the many volunteering positions that are currently not being filled by the younger generations

However the need to maintain a lifestyle will mean these also reenter the workforce for periods – ie it is not going to be once out always out.

For others they will try to stay in the workforce as long as possible to increase their retirement kittys.

(note it is not always possible to stay in the workforce despite anti discrimination laws and the "cry" for qualified people – there still is age discrimination)

Q6.3 What impact could financial intermediation have on the effectiveness of retirement income policy?

Response – it may be a force for either good or evil. I have more faith in the industry funds having seen 2 of my sons accounts disappear into the ether because the employers do not advise that his casual employment ceased and their fees ate all his benefits. – until this can be resolved many (product providers excluded) will not get any benefit from the SG.

Yours
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