SUBMISSION TO THE RETIREMENT INCOME SYSTEM

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This submission is made on the basis of my experience with saving for retirement since arriving in Australia in [removed for privacy reasons] until retirement in [removed for privacy reasons].

During this time I have observed the saving habits of a large number of people; friends, relatives and work colleges who earned widely different levels of income.

Introduction

The average worker hopes to have sufficient funds saved to live comfortably in retirement. A number of them are deprived of achieving this objective because of circumstances beyond their control; people with broken work patterns, older migrants, the disabled and carers.

Some people provide for retirement through contributions to private superannuation funds, others add to their superannuation with private savings in various investment vehicles and still others rely on the superannuation guarantee (SG) to supplement the Age Pension.

As for those people who cannot save for retirement due to extensive periods of unemployment, the Age Pension seems the only option. If the government were to make some arrangement for this group to receive the equivalent of the SG as a contribution towards a superannuation fund during the periods of unemployment, the government would not achieve any benefit, as the contributions made would probably equate to the proportion of Age Pension received at retirement.

Superannuation only available as a income stream

Superannuation is designed to enable people to accumulate a certain amount of funds to pay for their living costs retirement. To this end superannuation is taxed concessionally.

Whilst contributions to private superannuation funds are at the discretion of each person, employers make SG contributions. It has been presumed that if employers do not pay the SG, workers salaries or allowances would be increased by the same amount. However, if the government had not made it a mandatory requirement I doubt very much if this would have occurred.

For this and other reasons and to achieve the government's aim ofpeople providing for their own retirement, superannuation should not be available as a lump sum. Some ofthe private superannuation with accumulated interest may be accessed at retirement. The percentage should be determined by taking into consideration the circumstances ofeach retiree. This should also apply to the Federal Public Service, which has two schemes. One where superannuation is taken as a pension and the other as a lump sum. Ofcourse, any changes to the current schemes would be resisted by members and their organizations and in any case it would have to be implemented gradually over time.

One ofthe practices I have noticed is ofpeople spending the whole or part oftheir superannuation at retirement in order to qualify for the Age Pension. This practice would cease when people are aware that superannuation is only available as an income stream at retirement. It is agreed that some people may need funds at retirement to settle outstanding debts and for travel. This could be overcome by encouraging the use ofother saving schemes by providing incentives or tax relieffor particular saving plans which mature at retirement.

The intention must be to ensure that individuals accept responsibility for their financial situation, where possible, and not perpetuate societies reliance on welfare.

Superannuation only available at 60 years ofage when permanently retired

Superannuation should not be available for people below the age of60 years and then only when retired. Otherwise, the rationale for the superannuation system is inconsistent with its intended purpose i.e. to provide an income for people in retirement.

The current Transition to Retirement rules allow people to access their superannuation from the age of55 years as an income stream without the need to retire. This will gradually increase to 60 years by 2024.

The idea behind this policy is to assist individuals in their transition from work to retirement to use their superannuation to partly fund their move from full-time to part-time work. Whilst the idea is commendable, the reality is that people will seek employment in occupations for which they are qualified or experienced in, which would rarely be available on a part-time basis.

Making access to superannuation only available at 60 years and when retired would remove this anomaly and also lengthen the draw down period, which is particularly important given the increase in the life expectancy ofretirees.

The change could be implemented by raising the age when superannuation can be assessed from 55 years in 2013 and reaching 60 years by 2018.

Government Bonds as an additional superannuation option

Contributing superannuation funds that invest in the stock market has benefits whilst the stock market is providing positive returns and thereby creating wealth to be used in retirement. But, as in the current downturn in the economy, this process has been reversed with disastrous results, particularly for those nearing retirement.

The government should consider initiating an additional avenue for superannuation investments by the issue of government bonds with a stated return, ego a set percentage either above the CPI or the average of term deposits offered by the major banks.

Some of the funds raised could be used for national infrastructure projects and the balance invested in an investment scheme similar to the futures fund, where funds are invested in more conservative products with lower risks than many of the products offered by retail funds.

This would also mean the government would not have to borrow from overseas agencies to fund some of these projects which would help with national savings and consequently interest payments on the loans obtained for this purpose.

Encourage private savings above superannuation guarantee contributions

The government provides incentives for people to save for retirement through income tax concessions. Many workers through ignore these incentives and prefer to use their income on current consumption in preference to waiting for benefits from additional income in retirement.

To address this short-sightedness individuals must be made to accept that they are the primary cause of any shortfall in their income in retirement. We must endeavour to imbued a culture of responsibility into the community.

This is a big ask but can be achieved to some extent with a properly targeted educational campaign, which leads to my next recommendation.

Of course, further concessions in addition to those currently available would also help in this regard.

Government to educate workers on the benefits of superannuation

People find it difficult to make decisions regarding investment that would affect their retirement income many years ahead. Financial markets offer a large number of investment products some of which are very complex. Because individuals cannot fully understand the details of the products recommended by fund managers and financial advisers and they are not prepared to, or unable to, carry out the necessary research, they usually tend to choose the default option of a fund.

Investment advisers who provide information on the products they recommend have very optimistic projections of expected returns. Financial reports that appear in popular newspapers are based on surveys, which estimate that retirees require a higher level of income in retirement than that which is achievable by the average workers through contributions to superannuation and other private savings. Also the information they provide is of a general nature and mainly covers their own area of expertise.

The government should develop information and charts that are simple and easy to understand with realistic projections of future returns on the more popular products and on its own government bonds.

The most efficient means of distributing the information should be canvassed widely and provided to the workforce on a regular basis. Where assumptions are made this should be clearly stated.

Another way of improving consumer awareness is by providing superannuation fund performance ratings. At present Super Ratings publishes a limited listing of the ratings with the more detailed version only available on a subscriber basis. It would be ideal if the government could publish the ratings on each superannuation funds performance, update the information regularly and ensure that workers receive this information.

A suitable agency for this operation could be the Australian Prudential Regulation Authority.

The expenditure on both packages should be amply recompensed by the additional tax on the expected increased superannuation contributions. The government would also benefit from workers increasing their private savings.

Medicare levy not applied to senior retirees

Many people who are of Age Pension age and permantly retired are required to pay the Medicare levy. They are the very people who have been able to live within their means and to save for retirement. They have paid high taxes and the Medicare levy during their working lives.

Their retirement income has not been received as an inheritance but rather accumulated by long and hard work and being careful with their expenditure. They have not necessarily earned any more income than retirees of their age who are not liable to pay the Medicare levy.

For these reasons the Medicare levy should not be charged to people of Age Pension age who are permanently retired regardless of their income. It does not make sense to penalize retirees who have looked after themselves. It conveys a negative message to those in the workforce.

Encourage self-employed to contribute to superannuation

The self-employed can claim a deduction on their superannuation contributions and receive the same tax concessions on the contributions as other superannuation contributors.

Providing further encouragement to those who do not avail themselves of the existing concessions to contribute does not appear to be the solution. Reducing the tax on superannuation contributions and earnings from 15% to 10% would help greatly and result in an increased superannuation return. For a lower tax on superannuation to be revenue neutral it would require about one third more funds to be invested than at present and this is a likely outcome.

The proposal that the government inform all workers including the self-employed of the benefits of saving for retirement would, at the very least, make them aware of the funds required to provide a certain standard of living in retirement that is higher than could be expected if relying solely on the Age Pension.

For those averse to taking risks with retail superannuation funds, the proposed government bonds would be an attractive alternative.

Issue pensioners concession card to self-funded retirees

As would be appreciated older Australian need a high level ofhealth related services and the Pensioners Concession Cared would greatly help in this regard.

It would be argued by pensioner organizations and welfare groups that the social security system is designed to assist those most in need, and rightly so, but it would be another disincentive to people from endeavouring to fund and sustain their own retirement through private savings and superannuation if self-funded retirees were excluded from receiving this card.

It gives them a sense ofbeing discriminated against because oftheir hard work, significant sacrifices and frugality in planning for their financial independence in retirement.

The existing income test applied to self-funded retirees for issue ofthe Commonwealth Seniors Health Card (C.S.H.C.) could be used to determine eligibility for the Pensioners Concession Card and use ofthe C.S.H.C. discontinued.

A name would have to be coined to cover both groups, maybe the Seniors Concession Card.

Ease complicity oftax system for Age Pension age retirees and Centrelink income and assets test documentation.

Retired people ofAge Pension age who are required to submit a tax return find it very difficult to determine ifthey are eligible for, and the extent to which they are entitled to receive, a reduction on their tax liability. They are expected to work out or let the ATO calculate the Pensioner Tax Offset, the Senior Australian Tax offset and the Low Income Tax Offset.

There are a multiplicity ofconditions under which these offsets are calculated. It would seem more practical to cover these offsets under one rule.

With regard to the income and assets test requirements for establishing eligibility for the Age Pension it requires completing very complex forms, particularly ifthe applicant has modest investments spread over many asset classes. These forms could quite easily be simplified.

Summary

The many recommendations made, if adopted, go some way towards encouraging workers to accept that there are avenues for achieving a decent quality oflife in retirement by practicing thrift and following a fmancial plan.

Sherlock de Hoedt

The introduction of government bonds would ensure that workers would receive a predictable return on their superannuation contributions and this should encourage workers and the self-employed to contribute to superannuation.

The educational information would assist workers to understand to some extent what funds are required in retirement and to aim for this goal. Financial independence in retirement would be made more attractive if self-funded retirees were eligible for the Pensioners Concessions Card.

Raising the age where superannuation could be accessed and making superannuation only available as an income stream would help to reduce the welfare budget.

Reducing the tax on superannuation contribution and interest to 10% would be a big inducement for workers to save, as they would envisage having a larger net egg in retirement than under the existing tax rate of 15%.

The recommendations are:

- Superannuation should only be available as an income stream;
- Superannuation should only be available at 60 years of age and when permanently retired;
- The Government should issue Bonds as an additional superannuation option;
- The Government should encourage private savings about SG contributions;
- The Government should educate workers on the benefits of superannuation;
- The Government should not apply the Medicare levy to all retirees of Age Pension age;
- The Government should encourage the self-employed to contribute to superannuation;
- The Pensioner Concession Card should be issued to self-funded retirees; and
- Ease the complexity of the tax system for Age Pension age retirees and the Centrelink income and assets test documentation.

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Note: Where the term Government has been used it refers to the Commonwealth Government.