Dear Sir

My wife and I are the users of a Self-Managed Superannuation Fund. We believe in the Australia Model (having immigrated from UK [removed for privacy reasons] years ago) and are very supportive of the need for self-reliance in retirement saving. Indeed, the UK virtually copied the Australian model some years ago. I worked in the Pensions and Investment industry for 15 years in UK and have a fairly comprehensive knowledge of the advantages and disadvantages of many pension systems. There is no doubt, in my mind, that the Australian system leads the world in relieving governments of the burden of making provision for the majority of people retiring from the workforce, in as fair and equitable a manner as is possible. It goes without saying, that there will always be a need to cater for a very small minority who are unable to make any provision themselves.

We have recently been alarmed to read that the Henry Tax Review is considering recommendations to either remove, or significantly change the current dividend imputation scheme. To make such an change would be a retrograde step and severely limit investment choice, increase investment risk and help encourage people to invest for capital gain - the consequences of which we are currently suffering. It has always been a long-held tenet of investment that you invest for income, not for growth. Many of our current problems are the result of chasing capital growth and failing to invest in companies which are prudently managed and which reward shareholders for their loyalty by distributing profits earned.

Any sensible retiree will invest for income. The system encourages the philosophy and indeed commits a retiree to withdrawing a percentage amount each year to provide such an income. Invested prudently for income, it is a fairly sure way of retaining most of the value of capital which would enable the individual to guard against an unforeseen expenditure later in life. Investors sensibly select companies which provide a secure and sustainable dividend as a major part of their portfolio.

Should this change go ahead - it will have an adverse effect on many prudently managed companies as there will no longer be any benefit to invest in them, as investors will seek the lure of instant capital gain. Sound well-managed companies will then be deprived of investor support, brokers will encourage the chasing of capital gains and, surprisingly will be delighted at the increase in commissions from constantly changing investor sentiment. All of which are sound reasons to leave well alone!

As we saw the London Stock Market drop approximately 75% in the 1973-4 crash, we believe we speak from experience that a sound long-term investment is the best way of providing the majority of income needs in retirement. To encourage people to chase capital gains is not a prudent way to invest for the long term and only serves to increase costs and increase investment risk. Most investors would be better served by being given sound advice to invest in companies that provide regular, sustainable incomes, rather than being penalised for being prudent and investing in sound companies.

Please reward prudence, common-sense and stability in retirement. Is it your intention to have pensioners chasing the market, racking up dealing costs and suffering anxiety in the pursuit of an income to live on? Surely this goes against all sensible advice investors have been given over the ages?

Please consider withdrawing any suggestion to limit or change the dividend imputation scheme. We feel so strongly about it that it would be a major consideration when voting at the next Federal Election.

Yours faithfully

Brian and Mary Nesbitt
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