SUBMISSION TO THE GOVERNMENT
REVIEW OF THE RETIREMENT INCOME SYSTEM

By Stanley M Condy
[removed for privacy reasons]

I am a private individual. I have a self managed superannuation fund of which I and another are trustees. The accounts are kept by and advice on legal requirements is provided by a specialist superannuation advisory service company. Currently, all of my superannuation is in the allocated pension phase.

In my working career I rose to the position of managing director of a large concern, thus I have experience across a spectrum of age and salary levels, starting at modest levels, working upwards.

Being retired, I am not necessarily in the information stream, and just learnt today that submissions close, so I will be limited to some key issues, but unfortunately time does not allow me to organise them succinctly into the categories you prefer. I would hope that not withstanding this, the issues I raise will be seriously considered.

My first point would be that the rules for superannuation were for many years stable, and one could plan for retirement believing there was certainty. Sadly that state of affairs was not to last. The rules are constantly and rapidly changing, and in my particular case I have been unlucky to have encountered the most unfavourable rules at each particular time events occurred. This has resulted in paying tax on some contributions in excess of the personal marginal tax rate. Partly because some records of supporting RBL limits could not be found, but nonetheless due to certain rules being in place for a short window of time which was unfortunate for myself. Due to changing rules some had more advantage than others.

At the current time the recent changes to the superannuation system have introduced some equity. **The point I am making is that if the public is to be expected to plan for their retirement, they need to be confident that the rules will not continually change** and that access to benefits will not be subject to government treasury requirements and/or policy changes. I remain to this day highly sceptical that I can rely on the rules remaining as per the last round of changes introduced by the previous liberal government. I speculate on a daily basis as to whether my superannuation is secure or would be better in more predictable arrangements (although less tax effective). The fear is that the government may restrict access or introduce new taxes.

My first submission is that whatever is decided is that persons who have retired or are to retire in the reasonably short term future (say 5 years) be given the option to continue with the current arrangements until their demise or to adopt the new arrangements.

My second proposal is that whatever is decided, that it be certain and not change every two or three years. Superannuation/retirement Income requires long term planning, and unless individuals can trust the government to not keep changing the rules, they cannot be confident that their long term objectives and plans will be fulfilled.

Certainty / Security
Currently superannuation contributions are compulsory, but the individuals are left to the whims of the market. Most people are confused and uncertain about how to invest their funds, whether it be about selection from investment types or categories offered by superannuation fund providers or their own portfolio of investments in a SMSF fund. The average contributor relies on the advice of others who generally know no better than themselves or financial advisers whose advice I have found time and time again to be biased towards better commission paying products. The superannuation subscriber must select from a range of market based products, almost all of which are risky in varying degrees. **The government no longer offers bonds,** which means that superannuation investors cannot choose to accept a modest return which is secure. Over the years economic boom and bust times have come and gone. Each time a “bust” occurs, those moving into retirement or in retirement suffer, with the converse true in “boom” times. **Only government can provide a vehicle for evening the peaks and troughs. If the government wants it to be compulsory for us to provide for our own retirement and exercise a levy for that purpose, then it is only equitable that it provides investment products with guaranteed predictable returns, with the funds guaranteed and secure. This could be bonds or other pension mechanisms.**

For example, an alternative mechanism would be a pension which pays, say, 75% of the average of the last two or three years income, such a scheme being funded by a percentage levy on gross income similar to the Medicare Levy arrangements. In effect, as all are paying the levy it is equitable for all high and low income earners and allows a provision of levy reductions for low income earners and hardship cases, as is now done in the Medicare system. This of course needs to be combined with appropriate health care and utility concessions. Of all the systems this seems to be the most predictable and fair.

An alternative is to have a fixed pension which everybody receives, regardless of their income or assets. This pension should be a subsistence pension, in other words, an amount sufficient for people to survive, but not necessarily in luxury. In other words, it is a safety net for those who have not saved or have been unable to save for genuine reasons. It could again be funded by a Medicare type levy, which can be adjusted at the lower end to take care of social issues. The levy should be capped at a fair level so that high income earners are in effect paying to provide for this pension, but not necessarily paying ad infinitum to subsidise lower income earners. For those who wish to save for their retirement to provide a better standard of living, a system offering taxation concessions, somewhat similar to the present one, could be available. **Care should however be taken not to penalise those who do save for their future.** I find that the current arrangements penalise those who have provided for themselves, because unless one has provided to have a large superannuation pool, they are equalised and brought down to the level of those who have spent every penny they have earned and so obtain a full pension. The saver/self provider not only misses out on the pension, but also the health care card which is of even more value (in older age), as well as a number of utility and other concessions. Private health insurance and private medical treatment is expensive, but also reduces the load on the community.

Just a short note on the current means testing of pensions: I am often called upon to help other people who are receiving the basic pension. These people are subject to continued harassment which seems to occur in many cases on a six monthly basis, where their assets and income are continually reassessed. The cases known to me are full pension pensioners, not part pensioners. The stress on them in their later years is quite significant. I wonder if anyone has actually estimated the cost of administering and policing the means test to see if the cost is significantly less than the money actually saved. **In any case, it is unfair on the so called middle Australian who has saved a couple of hundred thousand in his superannuation because he is little better off than someone who has saved nothing**.

A recommendation for the current arrangements is to permanently reduce the minimum annual draw down so that the pool can be made to last longer if the funds are sufficient. Very large superannuation pools left at the demise of the individual will most often not go to a dependent, but will have tax paid on them in any case.

There has been a lot of reference to higher income earners obtaining higher tax advantage from the superannuation scheme. However I do not think it is as clear cut as it may first appear. Whilst there is a **very small percentage of the very wealthy, the vast majority of high income earners are in their later years**, the reasons are twofold: in early years most of us start on lower incomes and work their way up, some obtaining higher income levels than others. Secondly, additional contributions are not able to be made by people with young families, as all of the income goes in rearing and educating the children. In any case it is not the nature of young people to be focused on old age and retirement and to some extent it might be better young people contribute at lower rates while they bring up families and higher rates in later life when more affordable. The net result is that most of the additional contributions to superannuation are made by people in their later years to make up for the payments they couldn't make in earlier years. The statistics quoted that older and higher income individuals tend to make salary sacrifice contributions more than others is quite logical as they are usually the same individual. One is the other. In either case, the taxpayer is protected from needing to support the retirement of these people. **Although obtaining higher tax leverage, higher income earners who contribute extra to superannuation do not get health cards or other pension concessions. As your submission suggests, they also live longer and will need more income. It sort of evens itself out, and the complex rules to cater for a**

very few individuals incurs more stress and costs than any savings which may result.

Just as a comment I resent the assertion the older generation is bludging off the younger generation. For the most part we paid our taxes believing that they were also funding retirement incomes. That governments have squandered these funds and not preserved appropriate accruals to support future retirement is an indictment on government. Although there is no reference to it in the historical notes, I seem to recall as a youngster in the 1950s that there was a separate payment made to provide pensions, and that the then government led by Robert Menzies, eliminated these separate payments, incorporating them into general revenue on the basis the government would provide pensions from general revenue. I cannot confirm the accuracy of this recollection, but I believe I remember it accurately.

I have heard that suggestions have been made that trustees for SMSFs should undergo special training courses. I believe this to be a grab by the financial consultant and superannuation industry to create barriers for those of us who can manage our own affairs. I do appreciate the need for a knowledge of specialised legislation and strict adherence to a number of requirements. Similarly however, as the managing director of a large company, I did not do the accounting, nor was I a CPA but I did know of the requirements and ensured these were attended to by competent staff and consultants. Do boards of directors and managing directors have to be qualified in taxation accounting and corporate governance? I think not. If it is genuinely felt that some provision is necessary, then the trustee should be exempt on the basis he has the accounts prepared and audited by and receives advice by competent personnel or firms qualified to do so. That protects the system and the community without putting undue stress on the SMSF trustee.