Here are my submissions in relation to the Retirement Income Consultation Paper.

Q5.9 In what ways does the retirement income system impose undue complexity and cost on retirees and workers? How could this complexity be reduced?

There needs to be reform around account based pensions especially when an account based pension is taken out in the name of the husband, and he nominates the wife as the reversionery beneficiary.

The main disadvantages of an automatic reversionary nomination are:

- the reversionary nomination is made before the pension commences and normally cannot be changed for the duration of the pension;
- the annual deductible amount for social security purposes is calculated on the longest life expectancy of the pensioner and the reversionary beneficiary and does not change upon the death of the pensioner.

I would like to see some flexibility so that the reversionary nomination can be changed every 3 years just like it can be currently done when an individual makes a death binding nomination within the superannuation environment.

Disadvantage - Deductible Amount for Centrelink purposes

<u>Example</u>

John, aged 65, commences an account-based pension of $500,000. He elects to receive annual income of $35,000 which he wishes to take at the beginning of each quarter ($8750 per quarter). His social security Income Test based on his life expectancy of 17.70 will be:

$35,000 - $28,249 = $6,751 annually.

If John established his pension with a reversionary nomination to his wife, Ella, aged 57, (life expectancy 28.10) a different social security income assessment would apply of $17,206 (35,000 - 17,794) per annum. This would provide an increase in his Centrelink assessable income of $402 per fortnight which, even if he has no other income, would provide for significantly lower Age Pension entitlements.

Note: Please be aware that if a client wishes to change from a binding nomination to a reversionary nomination or change their reversionary beneficiaries, this will normally require a new pension contact. Consequently, the pensioner's minimum income payment will need to be recalculated.

<u>Example</u>

Referring to first example above, if John wishes to change his nomination to a reversionary to his wife on the 1 February, under the trust deed he would need to commence a new pension and his minimum pension payments will be recalculated. For the period, he has already received three quarters of payments equating to $26,250. Assuming his account balance on the 1 February is still $500,000, his new minimum for the remainder of the period will be:

150/365 * (500,000*0.05) = 10,274

This means that John has to withdraw $1,524 above his annual required pension income.

A reversionary nomination more certainty that their benefits will be received by their intended beneficiaries, but they must be aware of the social security Income Test assessment and potential affects on any future changes to nominations.

Something needs to be done to rectify this injustice. In John's case, if he decides to nominate Ella as his reversionary beneficary, the deductible amount for Centrelink should be calcuated on his life expectancy of

17.70 only, and after his death it should automatically revert to his wife based on the original purchase price and life expectancy of the contract.

So many women are disadvantaged by this injustice and it needs to be reviewed and Governments are not doing anything about this.

2. There needs to be reform concerning question 5.6

Q5.5 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?

We know that for working individuals under the age of 40 and for low income earners that there are no tax concessions for contributions made into superannuation. I would like to propose a major review of how salary sacrifice contributions are taxed for under 40 year olds and income earners who earn between than $30,342 and to $60,342 as per the current co-contribution thresholds.

Employee salary sacrifice contributions should be tax free for these individuals and the earnings on these contributions should also be tax free. We really have to provide individuals with a real incentive to plan for their retirement

Q5.6 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?

The current level of tax concessions within superannuation are currently inadequate and not sustainable. Senator Nick Sherry is arguing to cut fees and trail commissions within superannuation so that the average Management Expense Ratio (MER) falls from 1.25% to around 1.00%. The amount of taxation that is inbuilt with a superannuation account is the real villain here and not the trail commissions of around 0.6% in a typical balanced fund with a MER of 1.95%.

When an employer makes a Superannuation Guarantee payment these contributions are taxed at 15%, and when a member salary sacrifices into superannuation there is a 15% tax on that concessional contribution. Furthermore, there is a 15% tax on earnings for both the employer contribution and for the employee contribution.

Furthermore, superannuation funds pay capital gains tax at the rate of 15% where the asset is held for less than 12 months, and where the asset is held for more than 12 months, there is a one-third capital gains tax discount meaning there is a tax rate of 10% upon disposing the asset.

I'm hoping the government will eliminate all taxes within superannuation and that would mean that retirement incomes would be greatly boosted, so that would result in little or no reliance on the government age pension. Governments see superannuation as a big asset base and billions of dollars are leaking out of the system due to taxation. We know that based on current life expectancies, a pensioner could live for 20 plus years after age pension age and this is expected to increase with increasing life expectancies.

I'm proposing a reduction on all superannuation taxes from 15% to 10% within the next 5 years. If the government is really serious about addressing the retirement savings gap and providing an incentive for individuals at all income levels to invest into superannuation, there should be a reduction of the level of tax levied on employers and on employees who make contributions into superannuation from 15% to a minimum of 10%. The 15% rate of tax on superannuation earnings on these contributions by employers and employees should also be reduced from 15% to a minimum of 10%. Finally, the Capital Gains Tax (CGT tax) levied upon the sale of an asset held within a superannuation fund should also be reduced from 15% to 10% and the CGT discount should be increased from the one third discount to a fifty per cent discount where an asset is held for more than 12 months within superannuation.

Thanks for listening to my submission and I look forward to a successful outcome for the income consultation paper.

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