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Taxation, Incentives and a Radical approach to Personal Retirement Plans

I propose a radical re-orientation of the Model of Retirement and Mature Aged Living.

Reduced Government Pension Responsibility
Increased personal Control over Retirement Funding
Reduced Ongoing contribution cost
Less Budgetary Allocation for Retirement Pensions
Normalised taxation on retirement incomes above Averaged weekly Earnings
Lifetime Funding for retirement and other lifestyle cost.
Reallocation of Baby Bonus style payments, Home Ownership incentives etc and Replacement by a single from birth lifetime Lifestyle account.
Masssive Government Stautory Fund or Funds to house these accounts until holder can rollover to fund of choice at aged 18

Present Position
The Three Pillars policy is our Australian model of Funding Retirement and Non-working income. It has grown as a good willed attempt to improved the lot of all Australian citizens. Each change has been an outcome of the recognition of the funding inadequacy to meet the needs of the bulk of middle aged Australians facing imminent retirement and the future of the nation's balance sheet.
It's successes and failures show that Australian is on the pathway but has not "solved" the problem of Retirement Incomes.
In my view there is no immediate panacea for the "right now problems" but there is a means to the future reduction in the looming costs of funding of the Retirement system. We need a combination of "hold the line" answers to the immediate problems, while we transit to a low cost future system.

My proposal is a Radical start-now approach for a future total solution.

My commentary on the Current Approach to Building Retirement Income.
The three pillars model is a high cost, high risk, low returns, unplanned and unpredictable model for funding "Non work related incomes and post-work related incomes". From its inception the model has been based on exclusion rather than universality, social stratification by wealth, rather than community lifestyles and health, and finally political convenience rather than clear, common goals for a better Australian Community.
The Current system for all retirees is inequitable and incapable of meeting the near future needs of Australia let alone providing a "Solution" to the problem.
The Keating Initiative and subsequent changes have improved the chances of reaching an adequate retirement income for some Australian workers. But any failure to contribute without interruption to Super throughout their working life leads to lowered outcomes and future costs to the Australian Government and the Citizen Taxpayer.
Government incentives and Taxation regimes now lack uniformity and continuity. They encourage postponement of funding until the contributor is too old to benefit unless they

can make large payments. Consequently current taxation and superannuation regulation is centered around the use and misuse of wealth by the wealthier 20% percent at the expense of the majority 80% who are too poor to make much contribution or who are ignore completely by the current system because they fail to earn taxable income.

The System has become loaded to enable wealthier people to access valuable taxation benefits well beyond the reasonable living standards of most Australians. Tax preferred encouragement is being used as vehicle for excessive wealth accumulation. Not only are they capable of disproportionately taking advantage of the taxation system, they resort to false manipulation of assets and income to access Government benefits.

Most people have little chance to earn enough to contribute to an adequate retirement income. They cannot contribute enough, they cannot contribute for long enough and they cannot afford to add extra to top-up their super. They certainly cannot manipulate their contributing to advantage their benefits.

Why should they unnecessarily end up as a full or part Government pensioner further adding to the unknown future funding needs of Government and the Australian Taxpayer!

<u>Terminological, historical and sociological impedimenta</u>

The terms “Superannuation, Pension, Retirement”, are steeped in historical, sociological and political baggage. Superannuation was and is still regarded by some as the prerogatives of corporate echelons and public servants. “Pension” was later the gift to the poor, infirmed or luckless. Retirement was something to which only wealthier workers could aspire.

These terms have changed in meaning over time, but the baggage they carry promotes attitudes that cloud the issues for the future lifestyles, aspirations and goals of Australian government and citizens.

I propose in this submission to exclude the Term “Pension” from Retirement Funding and apply it only to Lifestyle Funding for infirmed or otherwise needy citizens <u>before</u> they are classed as retired.

The entitlements that come with the Australian Government Pension are a Governmental Gift in recognition of poverty. The system however is creaking under the strain of failure to fund the follow on services adequately.

<u>The current standard is too low and subject to the whim of Politics.</u>

Ask any Pensioner. The current system of funding encourages the lowest quality of Retirement Lifestyle and Poor Health outcomes for the majority of pensioners. Elderly citizens often live abject lives in pain because they cannot control what treatments they can get or even if they get treatment. That should not be the future! We should promote a lifelong development of healthy living for a longer life, backed by medical and dental treatment as required.

<u>Proposal 1.</u>

<u>The Pension card and its entitlements should be available to all retirees</u>, but not all entitlements currently available should be available without a means test. Medical, Dental, Healthy Lifestyle Insurance should be encouraged for all ages and funded privately where possible, but underwritten by government policy.

Proposed Model.
Regulatory conditions and environment.

1. Governments should not directly fund Retirement incomes, but should regulate and oversight compliance.
2. Tax Preferred Retirement Funding is limited to achieving an indexed income between 50% and 200% of Average Weekly Earnings, thereafter normal taxation applies.
3. Retirees and Other Aged Citizens must fund their lifestyle from Retirement Investments and Savings.
4. Each Australian citizen must maintain oversight of their own Retirement Account (or government approved delegation of oversight).
5. Funding from Retirement Investments is to be from vested and rated, reliable sources.
6. Government should provide the minimum standards for maintaining investment quality in order for retirees to qualify for Tax Benefits.

A Radical Change To Taxation and Retirement Funding!
My investigations and modeling suggests that there is a sustainable model of Retirement and other funding under the following conditions.

Lifestyle Funding Accounts for all!
1. The Lifestyle Funding should begin at birth for all Australian Born citizens.
The Government should provide a Birth Grant not unlike the Baby Bonus should make the substantial initial contribution that will grow for 60 years.

2. Lifestyle Funding include Health Insurance, Housing and Retirement.

3. The Government must make pre-workinglife startup contributions from parents or the Account Holder tax deductible or co-payment enhanced.

4. The Monies should be held in trust by a Government Regulated Fund or Funds, until the Account Holder reaches voting age and then rolled over to Fund of choice. (or Remains if the account holder so chooses)

5. The Government should regulate the Fund’s investment choices for the prudent benefit of Taxpayers and Account holders.

6. Modified “Lifestyle Accounts”
Some existing Australian Taxpayers could be assisted to achieve Lifestyle Account status provided they are not above an actuarially determined age and income where they cannot benefit from the new system. For example immigrants who gain citizenship or any

Australian citizen who is below the age of 18 may be given a grant to assist them the gain a viable Lifestyle Funding account.

Taxation of Retirement Income Contributions.

Under the Keating model, Superannuation contributions are seen as an obligatory cost and are therefore taxed discretionally at 15%. There are many regulatory and compliance cost reductions achievable by changing the concept from contribution to the concept of product purchase.

I propose that while Retirement Funding is obligatory, the contributor owns the Retirement product and has choice in its quality or quantity. Therefore I propose Retirement Funding can be classified as a “purchased goods and service” and as such should be taxed at the GST rate of 10%.

These purchased units would be immediately paid for by the contributor or their employer to the Fund of Choice as part of the weekly wage packet, not as an intermittent retained payment by the employer. The fund would oversee the contributor and government contributions and GST tax.

Taxation of Fund Earnings is a Government Policy matter and subject to electoral choice.

Taxation of Weekly Retirement Payments should be no different from normal taxation regulation, except that a Retiree unable to reach Average Weekly Earnings should not be taxed.

Capital withdrawal from the Retirement Funding System should be taxed at normal rates including capital gains tax for any amounts that reduce the Retirement Funding account to below the levels that reduce weekly Retirement Payment below Average Weekly Earnings.

Exceptions might be made for Retirees wishing to re-enter the workforce of start a business.

Levels of Retirement Funding

Basic Retirement.

Basic Retirement equals 50% of Average Weekly Earnings.

Basic Retirement should be aimed at a weekly payment of at least 50% of Average Weekly Earnings

Funding for Basic Retirement combines

Lifestyle Funding,
Personal Contributions, and
Pension (as define above).

Taxation of weekly Retirement payments is Nil until it reaches Average Weekly Earnings.

Gifts, inheritances, one off payments in to the Basic Retirement Account should not be taxed and be entitled to Government co-contribution options.

Enhanced Retirement

Enhanced Retirement aims at a weekly payout of between 50 to 200% of Average Weekly Earnings.

Funding for Enhanced Retirement combines

Lifestyle Funding and

Personal Contributions.

Taxation of weekly Retirement Payments up to Average Weekly Earnings is Nil.
Normal Taxation Applies once the retiree receives 100% of average Weekly Earnings.
No Tax Holiday.
Major Withdrawal of excess Funds from Retirement Accounts will require further investigation.

Personal Wealth and Savings

The Retirement Funding System is not a repository for accumulated wealth beyond the requirement of Retirement Funding. Therefore contributions beyond the actuarially projected Maximum Required Final Accumulation Amount should not be allowed.

Levels of Contribution

The Current Keating Levels of contribution are in my view adequate. As life time wages and income increases so does the amount applies to Retirement Funding.
However in the earlier stages of a person's life other funding needs are directly competing with future retirement funding. At present Taxpayers receive no immediate benefit from their contributions, although eh Rudd Government Housing accounts is a move in this direction. I believe these account s could be efficiently incorporated into a fully functioning Retirement funding system as I have proposed.
The essence of the Radical scheme I propose is the extended length of contribution from birth using a larger initial capital base. My modeling shows that even reduced contributions at some stages can achieve the targeted Retirement Funding.

Regulatory Risk

At present, Government policy, Treasury priorities, and Political Views can at any time increase or reduce what is essentially a personal plan for Living after retirement from work. Taxpayers deserve clarity and certainty that they will achieve a satisfactory retirement funding but Australians cannot continue to promote unfunded liabilities that are unknowable.
The Taxpayer burden will be untenable and the system will collapse.

Reasons for Promoting this Scheme

An Incentive for Federal Government to invest better.

Present and past Government handouts such as Baby Bonus, Housing Grants and other one off feel-good payments are helpful to select groups in the short term but do not address long term savings. Nor do they promote targeted accumulated savings, which will ultimately promote reduced government outlays. There needs to be a universal approach that encourages each family and individual to actively contribute to the future welfare of the future citizens of Australia.

The proposal is that by investing a smaller amount up front for each individual, and providing a suitable incentive regime Governments will, over time, reduce their unfunded liability for pensions, health, housing and promote a better lifestyle for all.
The proposal provides Future Australian Government with a massive, ongoing, stable Taxation and Funding source and a unique opportunity to invest in Australia through national goals.
No future Australian will need to worry that they will in penury and ill health.
The fund should retain the unused government portion of Lifestyle accounts if the Accountholder dies before the Age of 18 or Changes citizenship status.
Fund surpluses should be allocated to progressively implementing recovery strategies for other strata of Australians who have not gained Lifestyle Accounts.

<u>Taxpayer benefits</u>
Gradual reduction in the cost of funding government pensions.
Streamlined system, which they control once they have reach 18yrs.
Lower Contribution rates are possible.
Greater certainty of outcomes.
Greater ranges of benefits.
Improved retirement Outcomes.

Thank for allowing my contribution.

S.J. McIntosh