SENIORS, PENSIONS AND SUPER – THE NEED FOR SELF FUNDED RETIREES

In 2015, there needs to be a more sympathetic picture presented for Seniors who are facing a perfect storm following Federal and State double whammy nightmare Budgets that directly affect large numbers of self-funded retirees. Seniors entitled to be angry at recent horror Budgets.

There are many other important points that needed to be made on this topic against a background of calls to increase taxes on Super. Some commentators have called for increases in Super taxes. I would like to put the case for not taxing Super further as the Federal Government cannot afford to have more people on the pension in years to come. The current compulsory rate of the Superannuation Guarantee (9.5 per cent) is barely enough to allow most people to build enough retirement savings to fund a comfortable retirement. Raiding these savings through higher taxes is short sighted at a time when more certainty is required in restoring confidence in Superannuation.

It is individuals savings – NOT income to be taxed at the whim of Governments.

Tax, from 15% up to normal marginal tax rates, has been paid on all super contributions already. Tax breaks to encourage balances of up to $1million must be maintained. The pay back to Federal governments of the future will be a lower Pensions Budget expenditure.

The earlier you start saving for your retirement, the more you benefit from returns and compound interest. This works in reverse when it comes to taking money out of super in the form of taxes and fees.

Higher fees and taxes means individuals will fall substantially short of the retirement savings they need to live with comfort and dignity in retirement.

Drawing down on super balances leads to worse retirement outcomes. Proposals to tax retirement savings have the capacity to have a drastic impact on retirement outcomes.

Australia's compulsory super contribution rate is not high enough to enable more taxes.

According to ASFA, a single person will need a superannuation balance of around $450,000 to live a comfortable lifestyle in retirement. Couples need approximately $900,000. A single 30-year-old person on an average salary of $60,000 per year is likely to accumulate this much over a lifetime – in the future. If taxes were to reduce this by say $20,000 over the working life, by age 67, they will have $54,000 less in their superannuation account, or a total balance of $364,000. This means they will fall substantially short of the retirement savings they need to live with comfort and dignity in retirement. However, most individuals facing retirement now have average balances much less than the minimums required above.

The great majority of Australians require more Super at retirement than present average balances indicate. Average superannuation balances are not high enough to support more taxes. Average balances are still relatively low. For those in the 30 to 34 age group, the average balance for males is around $33,000, and for females it is $23,000.

Higher taxes on Super are not equitable. There are significant equity issues when it comes to negative gearing compared to concessionally taxed superannuation. In addition, these negative gearing tax concessions would not deliver any lower Age Pension expenditure in the future, whereas Super concessions boost Super balances further, saving on Pensions expenditure in future.

The voice of reason would say:

1/ **Super represents personal savings** - it is taxpayers own money, not new income that should be taxed further. Large Super balances indicate years of saving and in many cases paying tax rates much higher than today's rates. The 1992/93 tax rate on salaries above $36,000 was 46% plus Medicare Levy. Home loan interest rates were much higher too back then - all hindering the ability to save for retirement.

2/ **You cannot access your Super until you need it** – when you retire. This is many decades away for many Australians. They should have certainty that they will be able to access it all in full when it is needed by them in the future – not eroded by taxes.

3/ **Today's low interest rates are a double-edged sword** - great for mortgage holders but bad news for self-funded retirees who depend on reasonable rates of return on their savings to stay off the pension.

4/ **The income of self funded retirees is not indexed for inflation**, unlike most salary earners who have received pay increases exceeding inflation for many years. Inflation further erodes the spending power of retirees savings.

5/ **Government is still granting salary increases well above the inflation rate**, and at almost double the rate of increase for private industry employees. The gap between working in private industry or working in a government job is more than two to one when it comes to receiving wage increases - and WA is the worst State in Australia for this gap – see attached graph, Attachment 1.

6/ **This leads directly to increases in State rates and taxes at well above the inflation rate**. State rates and taxes are outstripping inflation and most peoples pay increases, resulting in lower living standards.
So I am speaking for all those taxpayers who have paid personal income taxes for 40 or 45 years or more. How about a thought for those who can't get a job now because they are "too old" or cannot work because their bodies have given out. They are trying to plan for retirement under ever-changing superannuation rules that some commentators "assume" should be changed again to rob Peter (Superannuants) to pay Paul (to subsidise those using Negative Geared investments).

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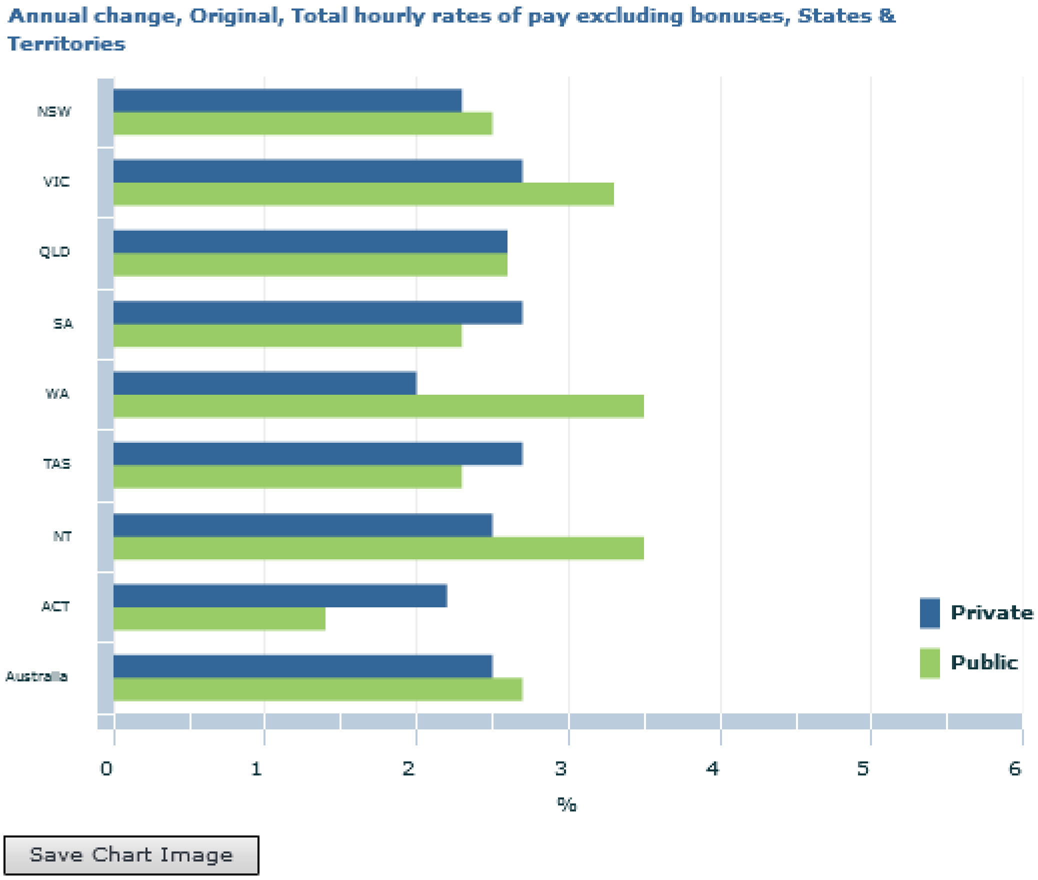
ATTACHMENT 1



Australian Bureau of Statistics