The White Paper Taskforce
Canberra

I write with some suggestions regarding Superannuation that you may like to consider.

I speak as a self-funded retiree who some might consider "wealthy" but the balance in my fund is largely attributable to having contributed between 15 and 20% of my salary to Superannuation each and every year since 1968 , some 47 years, and the prudent management of the accumulated assets. I have been a a career academic and so I have never had the benefit of a high salary or large amounts of overtime or penalty rates.

The effect of compounding fund income and earnings needs to be spelt out to everyone to dispel the myth that "large" Super balances only reflect large contributions by persons on high salaries. I have had a modest lifestyle to ensure that I saved sufficient for my old age. I am disheartened at the thought that I now may be taxed on my retirement benefits because my efforts have ensured I can now live a comfortable life style.

It is clear that the current superannuation contribution rules are generous, undoubtedly originally implemented as a carrot to encourage participation, and I offer the following for your consideration in reviewing the budget and taxation and superannuation legislation..

1. The increase in compulsory Super to 12% (15% would be more realistic) should be implemented as soon as practicable but the additional 2.5% should be an employee contribution (pre-tax) to encourage the concept of ownership and active participation rather than an employment right. It should be seen as a "matching contribution". In this way the employee, the employer and government would all be making a contribution. It should be a responsibility of individuals to prioritise their own retirement

savings. This is common in other countries around the world.

2. Any limit on the amount accumulated in a Super account should result solely from contribution limits otherwise there is a disincentive for serious investment of funds and pressure to keep management fees as low as possible. This may be achieved by setting a maximum contribution and/or limiting the amount of salary that can be considered superannuable, both of which apply in the US for example. To apply a tax to "excessive" accumulations or disbursements is counter productive and beggars belief. It is impossible to pre-determine minimum of maximum accumulation amounts that might be achieved although they certainly can be modelled. People should be encouraged to maximise the growth of their savings not penalised. If the government sets a maximum value of a fund or an allocated pension who deals with the problem if inflation devalues the buying power such that what appeared to be a reasonable amount during the accumulation phase turns out to be inadequate in 40 or 50 years in the future? The demise of the original RBL concept was a sound and logical move and it or a variant should not be reconsidered.

However, there is no doubt that the current contribution limits are excessively high when compared with other countries such as the US. I suspect such high limits initially introduced were to act as an incentive to participate, as well as recognising that the older worker did not have the "opportunity of years" for the compounding effect.
Now that the system is starting to mature it would be reasonable to limit the annual concessional contribution to say $25,000 (on the 9.5% contribution rate this would equate to an annual income of $264,000 p.a. and at 12% it would equate to a salary of aboy $280,000!).
There should be a provision to allow averaging this annual contribution maximum over, say 5 or 10 years, to allow for periods of unemployment and for periods of pregnancy or family leave, which is especially relevant in the case of women.

As the compulsory superannuation system still does not have any participant who has contributed for 35 or more years there is still a case for transitional concessional arrangements for persons currently 60 years or older so that the current concessional contribution rate for the over 60's is not unreasonable.

Non-concessional contributions should also be restricted to a similar amount, again averaged over a rolling 5 or 10 year period. The idea that small business people, farmers etc can make large deductible contributions on selling their business is laughable and unfair to the average wage earner. They should be required to pay themselves a reasonable wage as they go along with the compulsory Super contribution with a rolling 5 year average. The current non-concessional contribution rate of $150,000 a year is extremely high and this certainly offers a potential "loop-hole" which can be exploited as a generational financial planning strategy rather than as a provision for retirement (the supposed sole purpose of Super). A higher transitional contribution rate for the current cohort of over 60's is a reasonable consideration but there needs to be a reasonable and realistic contribution limit.

As an example, in round figures and assuming a 5% rate of return in a Super fund (much less than the average Super fund earning rate as published by the ATO) every $150,00 non-concessional contribution will generate and annual income of $7,500 without touching the Principal. Five years of such contributions would earn $37,500 pa and then you have, in addition, the income from many years of regular concessional contributions. People with access to large amounts clearly stand to gain much more than the average citizen.

3. I believe the concessional tax rate of 15% on accumulation phase Super Fund income is appropriate and reasonable (particularly given that any concessional funds remaining on death not going to a dependant are subject to a further tax of up to 16.5%). However, I see no logical reason for a Super fund in pension phase not to pay the same amount of tax on fund income (15%), particularly when the distributed pension income is not

taxed in the hands of the retiree.

4. By contrast, I think it is appropriate that the allocated pension received is not taxed regardless of the amount of the pension just as the government pension or part pension is not taxed. Older folk have difficulty with bills and paperwork; they worry about whether they have enough to pay tax; they get confused if they receive a tax refund; the tax raised will be minimal and the compliance costs relatively high and finally they contributed to their pension fund in an amount they thought appropriate to their intended lifestyle and aged home care. To set a tax free limit on an allocated pension strikes at the reason many people put away a bit extra to provide themselves with more leeway in their retirement and ignores the fact that income tax was paid on the funds when they were earned or contributed to the fund. Further, it recognises that many Super fund pension recipients do not have access to any of the Health Care Benefits Card benefits which apart from medical, dental (a state benefit) and pharmaceutical costs also include 50% concession on Council rates, water rates, vehicle and driver licences etc. and subsidised services in their home for cleaning, gardening etc. Self funded retirees have much higher fees payable to aged care nursing homes with no subsidy. Pensioners are limited to paying 85% of their government pension. To make self funded retirees pay these charges and a "pension tax" is pretty rough especially when those on a government pension receive a tax free pension and extensive government and community benefits that are probably worth $30,000 to $40,000, not including nursing home care.

5. To avoid stock piling of assets for the next generation rather than the provision of a pension, Super allocated pensions should have an age at which funds must start paying a pension (for example, in the US it is 74 and 1/2.). The escalator rate of pensions already helps to reduce intergenerational transfer of accumulated super funds.

6. The strange anomaly of "transition to retirement" pensions should be reviewed. It is probably one of the few real rorts of the

system that amounts to little more than money laundering with no evident benefit to the sole purpose test of the fund and every evidence of primarily providing a reduction in income tax. It is certainly legal but should not be. It does not assist in the supporting the sole purpose test.

7. Importantly, in considering revised taxation or superannuation laws there should be no retrospectivity for those of pension age or in the pension phase or, indeed, for those over say 60 and approaching retirement. This is a matter of fairness and practicality - how can a retiree or one approaching retirement adjust their entire financial plans, made in good faith and within the law, adapt to new rules without detriment? Why should the government be able to say "Oops! we screwed up on our plans, we didn't think that would happen (or we've overspent and are short of cash) lets destroy the plans of retirees who acted in good faith in order to achieve our new political or fiscal strategies." Is that fair to those who planned and saved over their lifetime?

Superannuation is like a successful company - plans and strategies are developed over a long period, investments are made over a long period and the mature phase of the operation takes many years before their is a reliable income stream. If corporate law changed as often as superannuation law the Courts would be flooded with bankruptcies. Let us not functionally "bankrupt" those who have planned best and put most of their savings at risk.

None of these suggestions are based on the amount of money the government will save or lose or benefits in taxation in the short or long term but simply on what is fair and what encourages people to maximise their retirement savings for the sole purpose of providing a pension to cover their anticipated expenses during their retirement years. Superannuation is not meant to re-engineer the social structure of our society but to help individuals take the responsibility to provide a lifestyle appropriate to their ambitions.

Thank you for your consideration

Sincerely

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