Retirement Incomes

Instead of tinkering around the edges as both major political parties have so far suggested, my proposal attempts to make significant inroads into the huge expenditures and taxes forgone that the current settings allow.

My proposal centres on the significance of the figure of $1M. For low to middle income earners, having a million dollars of assets at ones disposal is still a far-fetched ideal. It's an amount that I think most Australian would say is a reasonable point at which tax concessions and/or benefits should start to be scaled back. So the amount of $1M is the centrepiece of my retirement incomes proposal as set out below.

Superannuation – Accumulation Phase

My proposal is:

- increase the super-guarantee rate to 15% as soon as is reasonable;
- keep all the current contribution limits and tax concessions in place so that every superannuant is able to grow their balance as fast as possible;
- **once a superannuant's total account(s) net balance reaches $1M, no further contributions in any form (including super-guarantee contributions) are to be made (unless in a later year the account balance drops to say $0.9M e.g. if the market has a substantial fall);**
- note that most low income earners would still not reach the $1M amount by retirement (based on the current super guarantee increments);
- the superannuant would need to include in his tax return the total account(s) net balance which should be an easy process since all super funds must report the balance as of June 30 each year to their members;
- the tax office would notice that the amount is over $1M and would then write to the superannuant's employer(s) and advise them that no further super guarantee amounts are to be deducted and sent to super fund and that the employer(s) would need to increase the employee's wages by the super guarantee amount and take out PAYE tax at the appropriate rate;
- the tax office would also send a letter to the superannuant stating that they must not make any other forms of super contributions;
- in the period between reaching an account balance of $1M and retirement, the account balance would continue to grow in a tax effective environment but without any further contributions;
- the superannuant is free to continue to save for retirement from the increase in wages (minus PAYG tax) in any of the many investment options available but not within super;
- the superannuant could also decide to spend the extra wages.

Superannuation - Pension Phase

My proposal is:

- if the account balance is under $1M and the person is 60 years old or older, no tax is paid on growth, withdrawals or pension payments (the current situation);
- **if the account balance is over $1M a tax of 15% is payable on all growth in the account on the amount above $1M (as the assets are over $0.823M, no age pension would be payable with or without home ownership).**

Aged Pension

My proposal is:

- given that it is part of the Australian culture to aim for and cherish the idea of owning your own home (although for many young people this is almost becoming an impossible dream), allow the first $1M in net value of the couple's owner occupied home to be exempt from the age pension assets test;
- **all of the net value of the couple's owner occupied home above the $1M mark would be included in the aged pension assets test;**
- this would mean that the full pension would start to taper downward at the $1M mark and if the current LNP proposal in adopted then the pension would drop to $0 when a house reaches a net value of $1.823M assuming no other assets;
- to supplement their income back to what is was before this possible change, an age pensioner couple with a house of net value of $1.823M could:
  - take out a modest reverse mortgage (the value of the house could easily still increase over time but not by as much); or
  - downsize; or
  - make any other decision of their choosing.

Summary

By concentrating on the amount of $1M as being a level that most Australians would agree is a reasonable (and fair) amount at which benefits are tapered or additional taxes are paid, the overall impact on the budget bottom line would be significant and much higher than what either political party is currently offering. Yet the impact on superannuants and retirees is fair.