Retirement Income Review

Submission on behalf of Bunbury Branch of Association of Independent Retirees

1.Introduction

This submission is to be presented both to AIR national body & directly to the review panel mainly because a couple of the suggestions do not align with current AIR policy.

All the information that has been received (consultation paper, AIR summary of the consultation paper& suggested AIR response template) were circulated to all 48 members of our branch & from this a small 4 person committee was formed to discuss in details the response.

We largely followed the template to try & give some sort of structure to the presentation but apologise in advance for the sometimes disjointed nature of the response.

The consultation paper clearly states that

-government, private sector & individuals have a shared responsibility in delivering retirement outcomes

-there is a steadily increasing longevity & therefore a longer period of time that any private savings are expected to last

- and there are steadily increasing health & aged care costs coming

Therefore many of our discussions were based around these premises

2. Main headings

-are there aspects of the design of income in other countries that are relevant?

Our committee was unanimous that the current structure in Australia was quite adequate & opposed models such as New Zealand & the USA. In fact it was felt that the Australia rating of 3rd behind Denmark & the Netherlands was possibly too high to be sustainable. Therefore consensus was not to change

Purpose and role of the pillars?

It was felt that most employees in Australia do not take an active interest in their superannuation.

Our committee strongly recommends that secondary school education in financial literacy be introduced as a matter of urgency. This should include an understanding of superannuation, use of credit cards & how to fill out tax forms etc.

In relation to the roles of government, private sector & individuals it was felt that individual savings should be the primary focus.

Our committee agreed that too many Australians “expect” to receive a pension & that this should be a safety net only.

From this we discussed & believe that the asset test for receiving a full or part pension is set too high & that more serious attempts should be made to reduce or preferably eliminate the ridiculous early withdrawals of super. We recognise that some attempts are being made to move the age limit up from 57 to 60 but why should it not be the retirement age itself. This early withdrawal only leads to more drag on the sustainability of the budget by increased pensions

The changing landscape

With the dropping rate of home ownership & the degree of outstanding mortgages on retirement it is felt that there should be a system (we could not come up with one) where there is a limit on the value of the asset free value of the home.

Principles for assessing the system

The 4 principles are OK but need to be supplemented with a 5th one that includes personal responsibility!

To balance the system better government needs to provide incentive for people to provide for themselves more especially in areas of health. The 2013 effective reduction in the health insurance rebate has obviously been a fundamental driver of people away from private health insurance which is putting increased demand on the already over stretched public hospital system. The 40% rebate should be re-introduced.

Adequacy

Our committee was again unanimous with regard to being measured against a minimum level of income, reflecting a proportion of pre retirement income & also to match a level of expenses.

Again it was agreed that adequacy could be measured against either an increase or decrease in total assets as assessed by the ATO on an annualised basis.

Equity

Our committee thought that individuals who had disability, lower life expectancy financial hardship, involuntary retirement, career breaks & relationship breakdowns were well catered for by different agencies & should not be a part of the retirement incomes review.

With many people (particularly the self employed such as farmers or small businesses) staying in the workforce way past the official retiring age there should be a mechanism to allow both bulk contributions into super at a later stage.

It was strongly felt that this particular sector was severely disadvantaged relative to the employees.

The deeming rate used by Centrelink to assess income on assets should be aligned to the cash rate to maintain equity. The fact that the deeming rate for assets above $86200 (which is far from wealthy)is set at 3% while term deposits are well below 2% is ridiculous. At the same time the cash rate has dropped to 0.75%. A far more realistic deeming rate is 2%.

One good comment made was “the world is not equal & the government cannot make it even”

Sustainability questions

There is a huge disparity between the levels of super available to ordinary employees currently set at 9.5% & that available to public servants & politicians who commonly get over 15%. If the SG level is to increase from 9.5% up to 12% any increase should definitely NOT be passed onto these already over compensated section of society. This very generous superannuation levels is quite pervasive & more equity needs to be established.

It should also not be a norm for ANYONE who voluntarily retires early to receive a pension or be able to receive early superannuation until they reach full retirement age.

In addition politicians who leave office early & go into other lucrative pursuits should not be able to also receive their parliamentary pension until they also reach retirement age.

It was also agreed that the asset test for receiving at least a part pension is not sustainable & should be reduced as well as the taper rate.

While we agreed that current AIR policy with regard to capital gains tax & dividend imputation credits be maintained we think that some ceiling on negative gearing should be introduced as this is obviously a “legal but immoral” form of tax avoidance. There are many people (including politicians) who have multiple negatively geared properties & the prevalence of this should be restricted.

From a sustainability question the savings that could be generated from the suggestions above should be primarily put towards more funding for the aged care sector.

Our committee was strongly of the opinion that superannuation accounts were being “protected” because of the unknown longevity & also the future levels of aged care required.

Our committee agreed that the current caps of 1.6M for a single & 3.2 M for a couple is quite adequate & should be maintained.

Cohesion questions

Our committee thought that the retirement income system encourages spending & not saving.

We also thought that with the current level of distrust in the financial sector that many people are steering away from seeking formal financial advice. Some of the changes that have been made with respect to financial advisers are good but would eventually be less necessary if one of our primary recommendations for education at secondary school was adopted.

Interactions between the pillars

As published in the consultation paper many retirees are concerned that with there ever increasing longevity that there is a substantial unknown in their future aged care needs. Much more money needs to be put towards achieving a satisfactory

level of service in this regard & this can be done without affecting overall budget sustainability.
Because of this uncertainty & our increasing longevity the drawdown rate should be urgently reviewed as per the following table

Current drawdown age	current %	change age to	proposed new %
Under 65	4%	under 65	4%
65-74	5%	65-79	5%
75-79	6%	80-90	6%
80-84	7%	90-95	7%
85-89	9%	95 & over	10%
90-94	11%		
95 or older	14%		

This change would also mean that there would be less reliance on the age pension because of this unnecessary high drawdown.
The excess to requirements drawdown is also exacerbated by the exceedingly low returns on safe investments such as term deposits.

The level of equity in the family home should be capped from an exemption point of view.
The difference in age at which superannuation & the aged pension can be accessed should be eliminated. This applies particularly to both state & federal public servants

Summary of primary recommendations (not necessarily in order of importance)

1. Retain the current structure of the retirement income system
2. Introduce a course in financial literacy into all secondary schools
3. Introduce a mandatory age of 65(67) before superannuation can be accessed
4. Limit the value of the asset free value of the family home
5. Include "personal responsibility" as a 5th principle for assessment of the system
6. Re-introduce the 40% private health insurance rebate
7. Allow bulk contributions into superannuation at a later age
8. Instigate an alignment between the deeming rate & the cash rate.
9. Do not increase the already over generous SG to public servants
10. Restrict the ability of politicians & public servants to access early superannuation
11. Reduce the asset test for receiving the full or part pension
12. Change the current drawdown regime from superannuation to better reflect our increasing longevity & unknown future health needs