

The Retirement Income Review Secretariat  
The Treasury  
Langton Crescent  
PARKES ACT 2600

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Email: [retirementincomereview@treasury.gov.au](mailto:retirementincomereview@treasury.gov.au)

Dear Sir/Madam

## **Submission: Retirement Income Review Consultation Paper November 2019**

### **Introduction**

This submission covers the Age Pension and proposes a Universal Age Pension with a claw back through the tax system for those with sufficient assets to fund their own retirement. It also contains a brief comment on SG and compulsory savings.

The Age Pension system needs to be as simple, efficient and fair without anomalies and perverse incentives.

A simpler system will promote fairness. Complex systems require retirees to spend time and money to ensure they receive what is due to them or they miss out. Put another way, unnecessarily complex systems waste community resources and/or lead to unfair outcomes. Where complexity is needed to achieve fairness, these systems should be supported or managed by universally accessible technology.

### **Necessary Conditions for Change**

Any change to the retirement system, even if fair, that has a negative impact, real or perceived, will face criticism from some quarters. So how do you implement a better and fairer system for Australians as a whole?

In my view, the critical conditions to lead to a successful and sustainable retirement policy are:

- canvass opinions widely;
- make sure it is a well-designed, holistic system;
- bi-partisan support (no matter how difficult this may be); and
- sell the benefits to the majority of Australians.

Without bi-partisan support changes can become an election issue and very difficult to make. The fact that Josh Frydenberg stated that including the family home in the assets test will never be part of the Liberal Government policy, is testament to this. Excluding the family home in the assets test is one of the key areas of unfairness in the current system. Understandably, for one political party to promote its inclusion would be political suicide. The proposed ALP changes in the recent election and the attempt by John Hewson to introduce GST are previous examples.

## The Age Pension

It is interesting to consider what fairness means as this may vary depending on the issue.

### *Fairness: Marital Status*

This is a complex issue.

Currently the age pension per individual is a function of whether they are single or part of a couple as a couple needs less to live per head than a single person. This is therefore fair based on a needs basis.

However, should marital status affect the amount of pension? Should the pension just be set as a rate per person? Does this create some barriers to people forming relationships in old age involving co-habitation? How do you distinguish two friends living together to share expenses and company from a de-facto relationship (especially of the same sex)?

### *Fairness: Same Assets*

Couples (or singles) with the same assets should have the same age pension. This means that the family home should be part of the assets test. This is one of the main areas of unfairness in the current system particularly where age pensions are paid to people living in valuable homes. It also fails to take into account whether the home is mortgaged or not.

Consider the following hypothetical couples. Each couple should be able to restructure their affairs to mirror those of any of the other couples so they should be treated the same under the age pension.

	Couple A	Couple B	Couple C	Couple D	Couple E
Home	\$1,000,000	\$1,000,000	\$1,000,000	\$0	\$0
Mortgage	\$500,000	\$500,000	\$0	\$0	\$0
Shares	\$500,000	\$0	\$0	\$1,000,000	\$0
Term Deposit	\$0	\$500,000	\$0	\$0	\$1,000,000
Total	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

There are issues that do arise. Should people living in different areas be treated differently? Should retiree's living in "expensive areas" be required to move if they can't afford to live there? It would be impractical to try to treat people differently depending on where they lived. It could also be argued that it is easier for retiree's to move to cheaper areas as they are not, generally, travelling to work. I accept there are many issues to consider such as proximity to family, health care but re-iterate that it would be too complex to try and differentiate between these circumstances in setting the age pension.

### *Fairness: Rent Assistance*

Currently rent assistance applies. If people with the same assets get the same pension then there would be no need for rent assistance.

If rent assistance is retained should it be amended?

Should it be based on an average rent rather than the actual rent (within the bounds in the table below)? That is if a person chooses to live in cheaper rental accommodation (could be due to location or quality differences) should they get less than someone in more expensive rental accommodation?

Rent Assistance If Eligible			
	Minimum Rent	Max Rent Eligible	Assistance
Single	\$122.40	\$395.33	\$137.20
Single Sharer	\$122.40	\$244.36	\$91.47
Couple combined	\$198.20	\$370.47	\$129.20

### **Universal Age Pension**

This option also has merit in my view as it would simplify the system to decide on eligibility for the age pension.

In order for this to be “cost neutral” the age pension should be “taxed” separately by taking into account the person’s taxable income and a deemed income from assets that do not generate a taxable income; in particular superannuation balances and the family home. For those with sufficient assets the net age pension will be zero.

The information needed should be readily available from the council’s rates notices (value of home) and the tax office already has superannuation balances. There would be a need to obtain the details of any mortgage as it is the net value of the home that needs to be considered.

The system could be implemented through the Tax Office (etax would be amended) and the provisional tax system would be used to limit age pension payments that would merely be repaid once the tax assessments were done.

The issue to be solved is that of people with valuable homes but little income. The solution is for them to access the equity in the home. There are already facilities for this and I would propose that individuals in these circumstances can also enter into an equity release arrangement with the Government where part of the proceeds of the home on final sale is returned to the Government. This amount would be a set

percentage of the proceeds depending on the level of age pension re-instated and determined actuarially at the time the arrangement is entered into.

### **Compulsory Savings: Superannuation Guarantee**

By re-distributing income and wealth we are protecting those who need financial assistance but also changing people's behaviour to maximize their benefits.

Checks and balances need to be in place in any social security system to avoid, as far as possible, its abuse so that the benefits are sufficient for those who need it most.

The Superannuation Guarantee (SG) is a very good policy implementation as it forces the working population to save for retirement according to their means. The issue is that the savings are available in lump sum form at retirement and hence the flexibility is given to structure affairs to maximise the level of age pension. The savings from the SG should, apart from a modest amount, be locked into the retirement system to be drawn down progressively in retirement. Most people do this in any event. The combination of the SG and the age pension then forms a sound and sustainable foundation for the basic retirement provision for the majority of Australians. Those who want to have greater savings would make additional superannuation contributions and/or invest in other assets.

I would be happy to provide further input in future on the future design of the Australian retirement system, if required.



Richard Codron FIAA  
0404800892  
[codronozzies@gmail.com](mailto:codronozzies@gmail.com)  
16 Raynes Street  
Caulfield South  
VIC 3162