

Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir / Madam,

RE: THE BENEFICIARY PENSION SUBMISSION

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17 December 2019

Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir / Madam,

RE: THE BENEFICIARY PENSION

The Beneficiary Pensions will complement existing Account Based Pension income streams by offering retirees additional income options. Certainly, they make Annuities almost redundant in the current low interest rate environment.

Please note John Maroney (SMSF Association) and Jordan George (Treasury Superannuation) are aware of the basics of the Beneficiary Pension.

My background is 39 years continuous involvement in Superannuation and Retirement Planning.

Background

Between 2000 and 2004 Complying Lifetime Annuities / Pensions were available. A 100% assets test exemption was available.

Self-Managed Super Funds developed Complying Lifetime Pensions.

Comparison

As we know when a complying lifetime annuity life insured dies, there is generally NIL residual capital value.

However, when the complying lifetime pension recipient paid from a SMSF dies, normally a capital value remains.

The complying lifetime pensions paid from a SMSF were based on actuarial assumptions of life expectancy at the time. For example, an average income stream for a 65 year old was about 6% of the purchase price, life expectancy 16 years thereabouts in 2002.

Most good super funds have returned in the 6-8% range the last 10-15 years; thus, the beneficiaries capital base grew, compared to NIL return from an annuity.

All of our lifetime pension recipients currently have balances about 25% higher than the original purchase price 15-19 years earlier.

On death the residual capital value was allocated to the superannuation accounts of the beneficiary, to remain in accumulation until their retirement. Please note Appendix B.

Outcome

- (1) Beneficiaries received this part of their inheritance as superannuation, the earnings of which are taxed. Extra revenue for Treasury
- (2) Beneficiaries additional wealth results in reduced age pension benefits. Extra savings for Treasury.

Problem

At the same time between 2000 – 2004 NON Complying Pensions were available. They were not assets test exempt but the capital was accessible. In essence, a lovely tax haven.

In September 2004, Complying lifetime Pensions and Annuities ceased, replaced by 50% exempt Term Allocated Pensions / Market Linked Pensions.

The Decision

The basis to cease lifetime pensions from SMSF was flawed.

Treasury claimed passing on the balance to the beneficiary was estate planning.

The Truth

At that time, as today, a retiree funds some or all retirement income from an Allocated / Account Based Pension and on death the balance passes to the estate or nominated beneficiary.

The Lifetime Pension was also used to fund retirement income, and on death passed on to the beneficiaries. The only difference was the beneficiaries received their inheritance in the form of superannuation as a trade-off for the assets test exemption.

The Treasury claim was baseless, and set back Australian Retirement system 15 years. Note, my submission to the 2004 Superannuation review. It was made clear then, any Fund Manager could have offered what is now the BENEFICIARY PENSION 15 years ago.

PART A – BENEFICIARY PENSION CENTRELINK OPTION
MAXIMUM CONTRIBUTION \$500,000, MAXIMUM ASSETS EXEMPTION \$200,000

Annuity v Beneficiary Pension
40% Assets Test Exempt

Challenger Life Annuity - SINGLE

Purchase price - \$100,000
Male – Age 69
Annual Income - \$6,085
Withdrawal period – 16 years
Reducing Death Benefit after 8 years
Potential payout on death – NIL

Challenger Life Annuity - REVERSIONARY

Purchase price - \$100,000
Female – Age 66 Reversionary Annuitant
Annual Income - \$5,411
Withdrawal period – 16 years
Reducing Death Benefit after 8 years
Potential payout on death – NIL

Important – these rates are subject to change from time to time.

Beneficiary Pension

Investment earnings tax exempt same as for all retirement pensions
Purchase price - \$100,000
Male – any age over 60
Female – any age over 60
Assumed annual income - \$5,411 or \$6,085

DESIGN FEATURES

- Minimum age 60
- Annual income is flexible 4.0% to 7.0%
- Income may be funded from earnings or capital depending on investment returns
- Indexing options available, may be added or reduced on any anniversary date
- One withdrawal offer period to 20% of the fund balance
- Death Benefit equal to fund balance
- Death Benefit must be transferred to superannuation accounts of the beneficiaries and remain in their superannuation accounts until they retire.
- Maximum Contribution - \$500,000
- Maximum Centrelink exemption - \$200,000 (40%)
- Exempt from lump sum tax on death
- Withdrawals by beneficiaries from accumulation accounts to be recorded as a lifetime asset if withdrawn prior to commencing a new beneficiary pension.
- Non Super Access (ie personal contributions) – to beneficiary pensions, are bound by the same rules as superannuation beneficiary pensions. No age limit.

Results

- (1) Tax is paid on the accumulation accounts of the beneficiaries until their retirement compared to NIL extra revenue from the Challenger annuity which ceases on death.
- (2) Age pension entitlements on retirement reduced due to additional inheritance from the beneficiary pension. The long awaited transfer of wealth to the next generation, helping the nation fund its age pension obligations.

Fifteen years ago Treasury called this estate planning. How narrow was that focus with such potential lost until now?

Overview

Most super funds have returned in excess of 6.0% over the last ten years, the better ones closer to 8.0%. The potential therefore, is the amount passing through to the beneficiaries superannuation accounts likely to be more than the purchase price.

The income flexibility (4.0% - 7.0%) provides the option for equal or higher annual income than the 5.411% or the 6.08% from Challenger.

PART B – BENEFICIARY PENSION – NON CENTRELINK

The major difference here is the maximum contribution is raised to \$1,000,000 and it is exempt from the \$1.6 million cap. Many clients express a wish to leave all or part of their inheritance to their children at retirement age.

DESIGN FEATURES

- Minimum age 60
- Annual income is flexible 4.0% to 7.0%
- Income may be funded from earnings or capital depending on investment returns
- Indexing options available, may be added or reduced on any anniversary date
- One withdrawal offer period to 20% of the fund balance
- Death Benefit equal to fund balance
- Death Benefit must be transferred to superannuation accounts of the beneficiaries and remain in their superannuation accounts until they retire.
- Exempt from the \$1.6million cap
- Exempt from lump sum tax on death
- Withdrawals by beneficiaries from accumulation accounts to be recorded as a lifetime asset if withdrawn prior to commencing a new beneficiary pension.
- Non Super Access (ie personal contributions) – to beneficiary pensions, are bound by the same rules as superannuation beneficiary pensions. No age limit.

PART C – BENEFICIARY PENSION – PHILANTHROPIC OPTION

Beneficiary Pension – Medical Research/ Environmental Research

Some retirees may not have beneficiaries, or beneficiaries they wish to nominate. They may, however, like the option of a gift on their death to Australian Medical Research Foundation, or the Australian Environmental Research Foundation. This foundation would focus on agriculture, energy and water. An incredible opportunity to build a massive pool of funds available for medical and environmental grants.

DESIGN FEATURES

- Minimum Age 60
- No Maximum Contribution
- Maximum Centrelink exemption - \$200,000 (40%)
- Exempt from the \$1.6million cap
- Exempt from lump sum tax on death
- Non Super Access (ie personal contributions) – to beneficiary pension also available. No age Limit.

PART D - BENEFICIARY PENSION UPDATE

The recently announced life expectancy figures combined with historically low interest rates make traditional lifetime annuities irrelevant.

A significant attraction of the Beneficiary Pension is the minimum drawdown of 4.0% of the capital balance each year. Combined with the 40% Assets Test exemption the overall return grosses up to above 7.0% pa.

Only drawing 4.0% pa gives the account balance the chance to grow each year. Based on historical returns (6.0%-8.0%) the value may grow in excess of inflation.

This will be increasingly important later in life. You may live beyond life expectancy or require funds for medical expenses later in life.

The design allows the addition of indexing at any time, plus maximum withdrawal of 20% of the pension balance at any time. In addition the Centrelink component of income provides an additional 40% income indexed annually.

PART E – BENEFICIARY PENSION CONCLUSION

The current low interest rate environment significantly impacts the ability of annuity providers to provide products which are in the best interest of consumers, apart from those who require a capital guarantee on their income,

The Beneficiary Pension is obvious and does not rely on actuarial assumptions. These pensions can be offered by industry funds, fund managers and self managed super funds, with the resultant development of new investment products more attuned to the objectives of the investor. For example, these funds would almost certainly have greater exposure to direct property and infrastructure investments.

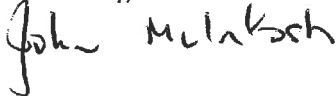
Summary

The Beneficiary Pension is a major step forward for this nation, the medical and environmental research options bringing philanthropy to the attention of nearly every retiree in Australia. It has the potential to make Australia a world leader in medical and environmental research.

With nearly 40 years specialising in superannuation and retirement planning, I would appreciate being kept informed of any developments. It is important that the design features are optimised.

With thanks.

Yours faithfully,

A handwritten signature in black ink that reads "John McIntosh". The signature is written in a cursive, slightly slanted style.

John McIntosh SMSF Associate SMSF specialist Dip FP
(email – jmac45@gmail.com & mobile 0412 420 352)

APPENDIX A

For your interest please find enclosed a submission to the Treasury Review of Superannuation in 2004. A number of issues remain unresolved.

Note Item (1)

The new 40% assets test exempt annuity are still percentage based rather than a specified amount. Note, I have specified \$500,000 maximum contribution, exemption \$200,000 for the Centrelink option, \$1,000,000 maximum contribution for the non-Centrelink option.

Note Item (4)

These beneficiary type pensions could easily have been duplicated by the funds management industry fifteen years ago.

Note Item (5)

Beneficiary Pensions pass on wealth to the next generation, collect tax on earnings and then result in reduced Centrelink entitlements. Why would you change that?

Note Item (6)

Host Plus has broken new ground by opening up its retirement funds to SMSF and infrastructure assets. New products will be developed.

Note CSS Pensions

The Victorian Government offer provided a win win situation. An actuarial analysis of CSS along the same lines may produce the same result.

Unfortunately the issues of fifteen years ago remain widely unresolved. Perhaps this time some of the more informed will help to get it right.

26 August 2004

General Manager
Superannuation, Retirement & Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

Re: Self Managed Super Fund Defined Benefit Pensions

ISSUES

(1) We TOTALLY agree with the reduction in assets test exemption for complying pensions. The first problem for you to address is that 50% exemption reflected a lack of understanding of the issue. The exemption should be on a flat dollar amount, eg \$300,000.

The flat dollar amount is a lot better for those at the lower end of the scale, and eliminates further the higher net worth retirees. Do the numbers and you will understand why the flat dollar amount should replace the 50% amount.

(2) CENTRELINK

The assets test exemption for a Self Managed Super Fund pension is LESS than for an annuity or the new TAPS, because of the deprived asset situation.

In addition the investment earnings of TAPS and Annuities are tax exempt. where as the investment earnings of Self Managed Super Fund pensions are PARTLY TAXED.

A SMSF pension with less assets test exemption than other options, and paying tax where others do not is banned. This reflects the lack of understanding in Canberra on retirement issues.

Excess Centrelink benefits have been addressed by reducing the exempt amount by 50%, but it should be changed to a flat dollar exemption.

(3) RBL VALUTATION

It was always a dubious practice to use valuation factors to measure SMSF pensions and your own CSS pensions.

The same assessment rules should apply for all, eg current lump sum and pension RBL limits.

(4) ESTATE PLANNING

Anyone with \$200,000 plus could establish a SMSF and pay a pension. To therefore claim these pensions are not available to other superannuation fund members is quite wrong.

You can give the community the choice of establishing SMSF Pensions in retirement where it is highly likely if the investment structure is half correct, that the retiree will be paid a pension for life, rather than life expectancy plus five as proposed by TAPS.

As Alan Kohler suggested it appears the government doesn't want retirees to live too long.

With the SMSF pension, lets not forget tax on earnings is paid annually, and on death any residual balance can be passed through to other family members as superannuation.

What a wonderful idea, nearly every recipient of such a residual SMSF residual pension balance will inherit increased wealth and be less likely to be a future social security recipient.

If the entire community and government understood this issue, all would have SMSF pensions, with all the wealth passing through to their children. We would potentially end up with the majority of the next generation self funded, and ineligible for social security benefits.

These benefits of SMSF pensions could easily be duplicated by the funds management industry. eg Lifetime Pension minimum income set at 6% with variation, obviously any residual balance passed to other family members as superannuation.

(5) DESIGN FEATURES

Because of the additional actuarial flexibility necessary due to the small number of members pooling this risk, this is how we are able to pass on the wealth to the next generation, and you collect tax on investment earnings along the way. Why would you change that?

(6) INVESTMENT

The great majority of Australian retirees are with fund managers in balanced fund Allocated Pensions via master trusts, or in the future combined with TAPS.

It is important to understand this is a DISASTER waiting to happen. The standard balanced fund has a neutral asset allocation benchmark of 65% Australian International shares.

Between 1970 and 1974, the Australian All Ordinaries Index lost 56% of its value. Should this happen again, as well it may, this would be a disaster for Australian retirees and the multiplier effect on our economy cataclysmic.

Our clients SMSF in retirement have approximately 45% of portfolio in three superb unlisted property funds with national tenants on long leases, 5% exposure to AMP Guaranteed China, 5% exposure to Macquarie Global Infrastructure etc etc.

The point is SMSF provide Australians with the widest choice of investment options to structure portfolios with maximum returns relative to risk. For this reason it is imperative their use is encouraged, because when the big bear market occurs, most retirees will suffer a massive loss of wealth.

(7) QUESTION?

Why must a retiree have super to buy assets test exempt TAPS, when he doesn't need super to buy assets test exempt annuities?

In other words, why are TAPS exclusive to ETPS? Why shouldn't a 78 or 82 year old selling their home, moving to a nursing home, be also able to buy a TAP rather than a life office annuity with rates bordering on fraudulent.

(8) UNDEDUCTED CONTRIBUTIONS MAJOR RETIREMENT ISSUE

This is the major retirement issue. They should be limited along the following lines.

Fund Value + U/c = Pension RBL

(9) SMSF PENSIONS MAXIMUM CONTRIBUTIONS

Centrelink - Limit \$300,000
RBL - Pension RBL minus Lump Super RBL

(10) MEDICAL ISSUES

Approximately 80% of total medical expenses occur during the last five years of life, about the time allocated pensions and TAPS are almost expired. Surely super pensions in current form help offset this problem.

An ability to comprehend these issues will result in a fairer retirement system for all. Please call regarding any queries.

Yours faithfully

John McIntosh
Director & Representative
McIntosh Financial Planning Pty Ltd

PS CSS PENSIONS

A few years ago the Victorian Government offered lump sum commuted to everyone with a state government funded superannuation pension.

One day treasury will examine the same concept for CSS members, with a rollover option to a SMSF pension and/or similar option obviously attractive to many. A big win for the government and a majority of members.

APENDIX B

Lump Sum Cap

1.6 Million Each, surely there should be a higher figure for a single retiree? EG 70% of \$3.200,000.

Complying Pension Reserve

It's time to remove the \$25,000.00 concessional cap on transfers from reserve account to superannuation account of beneficiaries.

Doing so will enable those who purchase these pensions in good faith to transfer complying pension asset/reserves on death, to their beneficiaries without the retrospective restriction imposed years after implementation.

Alternatively, an amount of up to \$500,000.00 in current complying lifetime pension or market link pensions should be able to be rolled over to the beneficiary pension and access to 40% asset test exemption.

Any additional balance up to another million dollars to be eligible to be rolled over to the Non-Centrelink Beneficiary Pension.

Superannuation Asset Test Exemption

Where one retiree is of pension age and the other under pension age the ability to plan to optimise superannuation contributions on the younger life and optimise Centrelink entitlements is overly generous and an unnecessary cost of the budget.

The assets should be accessed and not remain exempt in these situations.

The alternative is to allow the 40 % exemption within the confines of the beneficiary pension from age 60 onwards.