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Retirement Income Review Secretariat  
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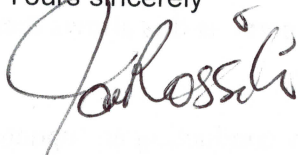
Dear Sir/Madam,

## **Re: Retirement Income Review**

Please find as follows my personal submission to the Retirement Income Review.

I may not have answered all consultation questions in the order on the Consultation Paper, but have cherry picked a number of questions that are of relevance to me. In addition, I have not attempted to re-produce statistics to which the Review Panel already has access.

Yours sincerely



Janis A. Rossiter

### **Consulation Questions and Answers**

- **Question: Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?**

Answer: I understand the UK has a system of compulsory public pensions with contributions linked to employment income; whereby payments to the Government pension system are deducted automatically from every working person's wages. When a person retires, their payments are used to calculate the amount of pension they automatically receive. This system has some merit in that it encourages workforce participation as retirees have an assured pension they can rely upon.

I understand, Australia had a similar system a number of years ago, but an earlier government in its wisdom, cancelled the system and transferred the accumulated reserves to the government coffers. This was a retrograde step.

### **Principles for assessing the system**

- **Question: Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians? Are there other principles that should be included?**

Answer: Before considering the named principles, I consider one savings measure in particular is vitally important from both an emotional and financial nature and needs to be addressed as a matter of urgency:

**Superannuation:** It doesn't matter what the principles proposed are, if many ordinary Australians are unable to contribute to superannuation. Not all workers belong to large organisations such as banks and the public sector where superannuation has been compulsory since 1992.

In many instances failure to contribute to superannuation is due to the nature of employment in Australia. Many workers work part time, often for a number of employers and do not work the hours required for their employers to contribute to superannuation.

Women especially experience broken terms of employment due to time spent out of the work force while raising children or looking after family members. They therefore do not contribute to superannuation over the full term of their working lives.

Deficits in superannuation contribution could also be due to the type of industry in which some Australians are employed, eg hospitality and fitness. In these industries Australians are often employed as sub-contractors and it is dependant on the individual whether superannuation contributions are made.

When savings are not automatically deducted from an employee's pay, lower paid workers will, of financial necessity, fail to contribute. Therefore the superannuation scheme is manifestly inadequate.

### **Adequacy**

- **Question: Should the system be measured against whether it delivers a minimum income level in retirement; reflects a proportion of pre-retirement income or matches a certain level of expenses?**

Answer: The Government has data that calculates the amount required to live comfortably in retirement in Australia. The present aged pension does not meet the indicated level. The recognised level should be the amount of the aged pension available to all retirees and subject to a means test and should be no less than the minimum working wage.

### **Measures affecting the ability of Australians to provide for themselves in Retirement:**

**Franking Credits:** It is heartening to learn that the Labor Party has recently decided to drop their opposition to franking credits. Many pensioners use the stock market and rely on franking credits to supplement their savings.

Interest rates of 1% or lower may be designed to stimulate the economy by making it easier for home owners and business to borrow money, but present interest levels do not provide an adequate return on investment.

Interest paid on savings accounts and term deposits is well below the level of inflation and retirees are forced to seek other avenues to ensure their limited funds keep up with inflation.

**Gifting:** Retirees are penalised should they wish to assist family members with cost of living expenses. The reason given by the Government is that retirees are deliberately "running down" their savings so they can obtain the aged pension.

Any person with financial expertise would know this is spurious reasoning as total reliance on the age pension is insufficient to achieve a decent standard of living.

**Savings affecting pension rate:** Relatively recent changes to the aged pension scheme have reduced the amount of savings that a retiree may hold before the pension is affected.

The savings threshold amount is far too low and many retirees are justifiably concerned their savings will run out before their death. This places mental stress on retirees who do not want to be forced onto the inadequate aged pension much late in life.

**Changing the goal posts:** Over recent years there has been far too much swapping and changing when it comes to pension entitlements, retirement age, the superannuation system, aged care requirements, etc. This has caused unnecessary stress and confusion for many retirees.

As retirees age, they may be less likely to be able to deal mentally with the changes made to any system, causing stress and worry and opening the door to elder abuse as the opportunity to prey on the defenceless is increased.

Retirement should be the period when older Australians can relax, secure in the knowledge financial decisions made pre-retirement will not be changed due to the whims of later Governments. There is much to be said for "Grandfathering".

- **Question: What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income?**

**Pension = Minimum Wage:** The present aged pension is well below the minimum wage. If the minimum wage is considered a requirement for younger persons, why should older Australians be financially disadvantaged by being paid a lesser amount?

It must also be taken into account that costs of living in retirement can often increase due to medical and housing expenses; not decrease as is sometimes believed.

An amount equal to the minimum wage to allow every retired Australian to live an acceptable standard of living in retirement should be instituted by law and subject to increases in annual cost of living adjustment, so that the aged pension maintains parity with accepted Australian standards.

## Equity

- **Question: What should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (e.g. women, renters, etc.)?**

Answer: The Government is in possession of data that advises the number of Australians in receipt of an aged pension. This data can be broken down by category, eg for women, renters, etc.

Retirees would not be receiving the pension if they had not passed the Government's aged pension means test.

Independent bodies that support Australians in retirement have been advising the Government for a number of years that the present level of aged pension is inadequate. These bodies should be listened to and the data they have accumulated and data already available from Government studies used to raise the pension rate.

Many workers now reaching retirement age were members of the workforce prior to the introduction of superannuation. Their superannuation reserves are therefore not of a level sufficient to achieve independence in retirement. The age pension is not sufficient to maintain the same standard of living as enjoyed during workforce participation.

Government data is readily available that supports the evidence that special groups, eg women and renters have financial needs that differ from other groups within the community.

Women are most in danger of experiencing interrupted work histories due to child rearing, family responsibilities, marriage breakup, etc. These women do not have sufficient superannuation or other savings to be able to support themselves independently in retirement.

Government statistics indicate that the above cohorts are also subject to high levels of homelessness in retirement because they cannot afford rental prices on the aged pension.

In addition, personal savings accumulated over time are problematic for lower paid workers, single parents and those on long term benefits, ie disabled, unemployed, etc. Australians in the above categories are unable to set aside a "nest egg" and must rely on the aged pension in their later years to exist.

**Grandfathering** has been used many times by Government to ensure "fairness" when changes are made to legislation. This measure should be used in the case of retirees.

Grandfathering is an efficient means of ensuring that changes do not affect those who made decisions when certain rules were in place, then disadvantaged when the rules are later changed.

Once an individual retires from the workforce he/she no longer has access to additional finance, nor can they be assured of being able to earn further savings. Their saving are finite and changes to the "rules" can result in unnecessary hardship, both emotionally and financially.

- **Question: Does the current system encourage and support older Australians who wish to remain in the workforce past retirement age?**

Answer: Not all workers are able either mentally or physically to remain in the workforce after retirement age. This is especially true of those who have done hard manual work over the course of their working lives. Their bodies are no longer able to sustain the level of physicality required to perform their jobs.

Due to ageism and even though the compulsory retirement age has officially been abolished, the current system works against older Australians who wish to and are physically and mentally capable of remaining in the workforce. Many employers regard any worker over the age of 55 as "too old".

Some employers are reluctant to re-skill older workers thinking erroneously that they would be unable to learn new skills or they will not remain in the workforce for long. In fact the opposite is true.

Government statistics have shown that older workers bring valuable life skills, an in-depth knowledge base, a work ethic and a willingness to learn that may be lacking in younger workers. Older workers also bring job stability in that they are less likely to change jobs as frequently as younger workers. In addition, statistics reveal older workers do not access as many sick days as younger workers; this could be due to less demands on family time

Government data illustrates the number of older Australians still of working age, ie too young to be eligible for the aged pension, who are forced onto Newstart allowance because of redundancy, business closures, etc. These workers experience extreme difficulty in obtaining another job and can be on Newstart for a number of years. Newstart, like the aged pension is well below the agreed minimum wage.

Programs are required to assist older workers to obtain meaningful employment and further efforts must be made to convince employers that older workers are valuable employees who should be first in line for hiring.

## **Sustainability**

Sustainability requires that government expenditure on the retirement income system through the age pension and superannuation tax concessions must be affordable over the long term. Changes to retirement income policy must contribute to fiscal sustainability by incentivising self-sufficiency.

- **Question: What should the Panel consider when assessing the sustainability of the retirement income system?**

Answer: The Government is concerned there will not be enough workers in the workforce to be able to support older retired Australians. Successive Governments have known of the existence of this looming problem for a number of years and have done little to alleviate the matter.

The more Australians receiving benefits, the greater the impact on Government sustainability. It is of no benefit to the Australian economy if the Government does not take care of all Australians.

Not all workers have had access to sufficient levels of superannuation, so many retirees will be forced to exist on the age pension. This brings with it other costs such as increased use of public health systems, reliance on government housing and homelessness.

Until such time as all workers have been able to contribute to superannuation during the full course of their working lives, the Government will need to increase the level of the aged pension to adequately support older workers in retirement.

Over the long term, in order to reduce increased aged pension costs, steps need to be taken to actively encourage employers to hire older workers who wish and have the ability to remain in employment.

Steps also need to be undertaken to protect the savings of older Australians by ensuring that interest levels remain above the rate of inflation. This will enable more retirees to live independently without being forced to rely on the aged pension.

The "Deeming Rate" imposed on all savings must be raised in line with inflation. This is a further measure that presently actively discriminates against retired Australians.

It is for the present government to institute reforms designed to ensure that all Australians are able to adequately care for themselves during their retirement years, thus easing reliance on the aged pension.

## Cohesion

- **Question: What should the Panel consider in assessing whether the retirement income system is cohesive?**

Answer: The panel has indicated that cohesion is concerned with a number of factors such as using savings and assets to maximise retirement income and support individuals to achieve outcomes that are right for them.

Achieving incomes in retirement that are right for individuals is a complex matter as income levels depend on the standard of living expected by individual retirees, their savings and life expectancy. In some cases, living standards may need to be adjusted downwards as savings are depleted and the aged pension is relied on,

Life expectancy cannot be factored in to any individual's financial program as very few individuals can say with any certainty when they will die. It is known that Australians are living longer and healthier, so a higher level of savings is considered necessary to adequately cater for retirement.

Many retirees are concerned that funds will be required to enable them to enter residential aged care. The majority of these centres are privately owned and seek to maximise profits for their shareholders. They can be quite expensive to enter. Aged care centres also vary widely in the facilities they offer and the standard of care available.

The residential aged care sector is very complex and finding the right facility for an individual requires a mental capacity sometimes beyond the grasp of retirees. Without expert advice, decisions not in the best interests of the retiree can easily be made. A better system needs to be put in place, so that information is readily available and comparisons can be easily made.

As the life expectancy of Australians increases, so does the need to maintain savings or assets to ensure a higher standard of living than provided by the aged pension.

In an effort to ensure their savings do not run out before they do, data reveals that many retirees depart this world while still maintaining a healthy level of savings. Such frugality is to be applauded.

- **Question: How do interactions between the pillars of the retirement income system influence retirees' behaviour?**

<b>Pension</b>	<b>Superannuation</b>	<b>Private Savings</b>
<b>Incl. Part Pension</b>	<b>Incl. SMSF, Industry &amp; Retail Funds</b>	<b>Incl. Investments Bank Deposits &amp; Family Home</b>

Answer: The suspicion by some analysts that retirees deliberately set themselves up to disperse their assets so that they can obtain the aged pension is a dangerous fallacy.

The majority of aged Australians would not deliberately set themselves up to exist on the present inadequate aged pension; personal circumstances require them to apply for the pension. Life circumstances mean those that apply for the aged pension do so because they have not been able to save adequately for retirement.

Under the present pension regime, the aged pension is assessed by a means test. Savings, investments and superannuation are taken into account when assessing the level of pension provided.

The primary place of residence is not assessable and should remain this way. Unfortunately, due to rising costs in housing prices, many Australians no longer have the ability to own their home and rely on the Government providing rental assistance; an added cost to the pension scheme.

Retirees who have been able to save over the course of their working lives to buy a home can be better off financially in retirement than those in rental accommodation. This is because it can be more cost effective to own than to rent.

Data indicates that a number of retirees choose to "downsize" to take advantage of the financial benefits of buying a cheaper home. The additional savings sometimes gained through the sale of the home are used to enable a better standard of living than would have been possible on the age pension.

The pension is not considered by many in the finance community (nor by retirees) as sufficient to allow an acceptable living standard. Therefore superannuation, investments and private savings are necessarily accessed by retirees for living expenses.

The Government has data that indicates a small percentage of older Australians are able to achieve their desired income levels without needing to resort to the aged pension or part thereof. In many instances these retirees have worked hard and gone without in an effort to ensure they have provided well for themselves in retirement.

These older Australians should not be penalised because the Government is seeking to maximise tax receipts from those considered to be more fortunate Australians. Instead of being victimized, they should be congratulated for their hard work and effort.

**Question: What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?**

Answer: The Government has data from the investment industry that indicates the very low percentage of Australians who seek formal investment advice.

Data indicates those who seek retirement advice earlier in their working lives make better investment decisions when it comes to ensuring they are financially better able to deal with retirement.

Programs need to be developed to ensure younger Australians, even during high school years and from very early in their working lives, learn about and take steps to implement the benefits of the various methods of saving for retirement.

- **Question: Is there sufficient integration between the Age Pension and the superannuation system?**

Answer: There is no need to integrate the two; both are separate systems. As previously discussed, it is access to Superannuation that is the problem as not all workers are able to contribute to the scheme.