COMPULSORY RETIREMENT HOLIDAY FUNDING

“SUPERANNUATION”

SOME SUGGESTIONS FOR SAVING THE SITUATION!!

THE PREMISE: To keep as many people as possible, for as long as possible, on their own funded superannuation.

I.e. **ALL** BECOME COMPULSORY SELF-FUNDING RETIREES—AT LEAST IN PART.

A personal dilemma: In 1992, I understood that changes to legislation would provide superannuation that would reduce, if not eliminate, the drain on the government sponsored pensions. Compulsory employer contributions were introduced, initially at about 3%, with variable voluntary employee contributions. Supposedly over a lifetime, sufficient resources would accumulate that would mean that there was sufficient for some type of adequate pension (or annuity).

It was anticipated that pensions would be almost eliminated by the early 2010’s.

But instead of people using this fund as a proper retirement fund, many, at retirement, would immediately withdraw large amounts of cash and go on extended holidays, etc. and then draw on the pension. And this personal “fund”—which had received tax incentives and advantages—was gobbled up without serving its intended purpose, as far as I could see. It was purely **a compulsory holiday fund.**

STATUTORY REQUIREMENT (suggested):

1. Regularise employer contributions at say 12% (or whatever).
2. Regularise employee contributions to say 8% (or whatever).
3. All contributions to go into government-controlled funds (directly or indirectly).
4. Employers would need to be have special regulations for compulsory superannuation for themselves.
5. **All funds are only accessible for superannuation purposes—as a pension or an annuity** (with exceptions for extenuating circumstances).
6. Retirement age to be set at, say, 65 years.
7. There should be a designated **“pension” equivalent rate** established. For example, it might be determined that a basic rate might be, say, $30,000 per annum (single amount, somewhat better than the present basic pension of about $24,000).

   Any person having sufficient funds to meet the basic requirements for at least this minimum pension ($30,000 per annum) and a fund that is greater than the cut-off of $567,250 (single pensioner home owner), may be able to negotiate an earlier retirement. **But** the ability to be self-funded must not be jeopardised, at least until 87 (or the designated actuarial limit). That is, he must be able to have in his fund, $30,000 x the number of years until 87 (if that is the designated actuarial life expectancy for a male), whether he retires at 40 or 65.

RATIONALE:

1. Attempt to avoid the majority of retirees from entering the government pension scheme—for as long as possible.
2. Those unable to comply with the full provisions, nevertheless would use a *pro rata* method to defer their access to the government pension fund (see below).

CURRENT SITUATION:

1. At the moment the single pension is about $24,000 pa.
2. The upper limit to access the pension scheme is any one (single) with assets of $567,250 (home owner). Most people in my scenario would probably be over this limit at retirement age of say 65 (if my projections of super contributions are correct), and they would be denied access to the normal pension.

METHODOLOGY:

EXAMPLE:

Taking a **minimal consideration**, where a single person earns about $60,000 pa. average.

1. Employer contribution to super: $7,200 (@ 12% of $60,000)
2. Employee contribution to super: $4,800 (@ 8% - MIN – of $60,000)
3. ANNUAL AMOUNT TO SUPER: $12,000

Taking a working life of 25-65, i.e. 40 years:

1. Cash accumulation of 40 x 12,000 = $480,000, into the super account.
2. Compounding interest for 40 years = $480,000 (approximately, or whatever, according to actuarial projections, and variable interest rates, compounding balances, etc., etc. Not at the present interest rates!!).
3. TOTAL FUND after 40 years = $960,000. (For many this will be much higher. For those under the threshold, there could be *pro rata* conditions).
4. BUT NOTE: even $660,000 would be sufficient for a basic requirement (see below).

Note: 1. This amount exceeds the cut-off amount to access the government pension ($567,250, single home owner), and **this is established for the rest of that person's life,** under most circumstances.

Note: 2. As a corollary, there would be no access to the medical benefits card. This would make an enormous reduction on the government purse as well. Some **obligatory health cover** could be explored, as part of the scheme.

Note: 3. The fund thus created is **not accessible for any other purpose than for which it was created—viz. superannuation**, that is, for a retirement pension, or perhaps, **an annuity for life** (i.e. until 87 years or whatever is the latest median age expectancy). The only alternative would be if the person has sufficient funds to be able to negotiate lump sum deductions without prejudicing his future basic provisions until 87 (see below).

Note: 4. Most people should be well above this minimal example, but there is consideration for those below the minimum, in the following.

ACCESSING THE FUND

1. At retirement the retiree will be able to nominate **the pension** amount that he desires, **but**:

2. There should be a statutory minimum of say $30,000 (i.e. more than the government single pension of $24,000, and of course it has already been established that there is no access to medical benefits card—during each $30,000 increment).
3. If the retiree has the suggested minimum—$960,000—then a pension of $30,000 will only use up (excluding CPI considerations, etc.) **22** x 30,000 = $660,000. This is using the actuarial age expectancy of 87 years (different for women), and hence 87 – 65 = **22 years**.
4. That person may then be able to **draw lump sums** from his **surplus $300,000** ($960,000 - $660,000), in a way that will not prejudice his long-term viability to maintain his pension at the base rate. This could be used to pursue holidays, or possibly any project he wishes.
5. Others may nominate to receive **an annuity** from their fund, and this could follow exactly as has occurred previously using the government determined "pension factor". In the suggested minimal case, this would be in the first year, about $45,000 (960,000 ÷ 22 = $43,600). Each successive year there would be a re-calculation as previously, using the "pension factor" as well as any accrued interest, until the fund is paid out by 87 (or whatever the year is determined to be actuarially).
6. There could also be **provision for those receiving an annuity**, **to be able to access lump sums** should they desire, provided it does not prejudice their future provisions. Circumstances change, and the desire to upgrade a home, or undertake extended holidays, or substantially help a family member, etc., should not be inhibited by draconian laws that only allow a predetermined amount to be accessed irrespective of the retiree's ability to benefit and receive enjoyment from it before being too decrepit to do so.
7. In all cases there should be appropriate CPI allowance and adjustments.
8. On average, most people would be fully funded.
9. Upon reaching the termination age that was initially set (say, 87 years) that retiree would then, **and only then**, be eligible to access the government pension—but that would be rare, and certainly an enormous reduction on the present system.
10. At death (prior to 87) – any remaining funds would revert to that person's estate.
11. There would need to be the consideration of making some allowance for non-homeowners—and rental requirements—compared to home owners.

NOTE: There should be provision for extenuating circumstances—as currently prevails—with regard to accessing superannuation at any time.

INSUFFICIENT FUNDS

1. Irrespective of the suggested minimal fund of $960,000, **all persons**, except a very small minority, should have **some super accumulated**.
2. This super could then be accessed at the minimal determined rate of say $30,000 per year.
3. There is no access to the medical benefits card, and so no drain on the public system—FOR THAT YEAR. (This aspect may be more difficult to resolve).

4. Depending on the amount of money in the fund, that retiree continues on an annual rate at the minimum ($30,000, and no access to the medical benefits card) **for as many years as his fund will permit.**
5. When this fund is exhausted, then, AND ONLY THEN, does he need to be eligible for the government pension and the health card.
6. If, for example, that retiree only had $400,000 (or any figure less than that), at $30,000 (+ CPI) he could last about 13 years ($30,000 x 13 = $390,000)—that is until he is about 78. Variations in the interest rates and CPI could mean that the person may be able to be fully self-funded for a greater period, thus minimising any access to the government funds. At least the government had been able to defer any drain for a substantial period—in this case for at least 13 years.
7. If the retiree only had, say, $90,000 at retirement, in his superannuation, then he is provided for for 3 years (at the minimal rate of $30,000), and so any drain on the government is deferred for three years—including health cover.
8. IF THERE IS **ANYTHING** IN THE RETIREMENT FUND, THEN THERE IS A DEFERRAL OF ACCESS TO THE GOVERNMENT SUPPORT UNTIL THAT FUND IS EXHAUSTED.
9. EVERY FUND IS TOTALLY DEDICATED TO SUPERANNUATION ONLY—THAT IS WHY IT WAS ESTABLISHED!!!!.
10. And it must be allowed, that proportionately, some will not even last very long (i.e. die), and will therefore not need funding anyhow, or less funding proportionately.
11. Even in this scenario, should the retiree die before exhausting his fund, the remainder would revert directly to his estate.
12. Only a small minority would be in need of any substantial government funding.

OVERALL BENEFITS:

1. Obviously there would be a greatly reduced draw on the government resources.
2. Nobody is disadvantaged—all will be protected irrespective of the fund they have generated.
3. There should be a minimal and manageable demand on the public purse.
4. The government would have access to enormous cash reserves for all manner of projects—depending on whether the super fund is directly controlled by the government or through dedicated and regulated other funds, e.g, AMP. Obviously, there would need to be very careful regulation in order to maintain public confidence in the scheme.
5. There would need to be careful public scrutiny of equitable interest rates to monies in the super funds in order for the fund to be self-generating efficiently and credibly.

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