1 December 2019

Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Re: Retirement Income Review Submission

To the Panel Members,

I have prepared this submission in response your invitation for public submissions with regard to the independent review of the retirement income system.

This submission is prepared based on my experience from one of my businesses, The Wealth Navigator (https://www.thewealthnavigator.com.au/) which is focused on helping ordinary Australians improve the health of their wealth so they can get off the treadmill of working till they drop.

My submission is detailed in Appendix 1 attached.

If the Panel or anyone else has a question about the submissions, please feel free to contact me by phone on 0412 227 052 or by email at wayne@thewealthnavigator.com.au

Yours Sincerely

Wayne Wanders
The Wealth Navigator
0412 227 052
www.thewealthnavogator.com.au
wayne@thewealthnavigator.com.au.

Introduction

The terms of reference for the Retirement Income Review refers to the statement that "It is important that the (retirement) system allows Australians to achieve adequate retirement incomes, is fiscally sustainable and provides appropriate incentives for self-provision in retirement".

The area I want to consider in this submission is the issue the equity of the retirement system and whether:
- the retirement system provides appropriate incentives for self-provision in retirement; and,
- individuals in similar circumstances achieve similar outcomes.

Specifically, the consultation questions I want address relate are:
13. What should the Panel consider when assessing the equity of the retirement income system?
14. What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement?

Equity in the Retirement Income System

In response to these questions, I believe that the current pension system in Australia is not equitable, as it rewards spending over saving.

Rewarding spending over saving fails to deliver similar outcomes for individuals who have the same lifetime income.

And to demonstrate this I want to introduce Dennis, Jeff and Lennie. Three blokes who met at university in Sydney in the early 1970's when they were studying engineering.

After university all three had very similar careers and generally all three men earnt about the same amount of money each year.

Each of them married and had children of similar ages. In terms of their partners income, there was no significant difference in their pay, even though they worked in different jobs.

So, for over 40 years, they had pretty much the same lifetime income.

But when it came the pension, only Dennis and Lennie qualified.

Jeff failed the assets test and was ineligible for the pension.

But what set Dennis and Lennie apart from Jeff? Why, when all three had very similar incomes over their working lives, could Dennis and Lennie qualify for the pension, but Jeff could not?

The only difference was their spending habits.

So, let's have a look at the spending habits of Dennis, Jeff and Lennie.

Dennis

Dennis and his wife were into snow skiing. And they soon tired of Australian ski fields and spent a lot of time and money skiing in New Zealand, Europe and North America. They would spend most Christmas holidays somewhere in the Northern Hemisphere skiing. On top of that they loved their toys. They had a new car every couple of years. They had the jet skis, the dirt bikes, the big televisions in every room. You name it they had it.

So Dennis and his family spent most of their money after the mortgage and other living expenses on toys and travel. In fact they spend more than they earned so when they stopped working they had credit card debts of $40,000 and still owed $200,000 on their home as they kept increasing their home loan every 5 or so years.

So after cashing in their super balance of $425,000, and paying off this debt, they had their house (worth about $800,000 in Western Sydney) and less than $200,000 in super. Based on this, they were eligible for the pension.

Lennie

Lennie and his wife were more into a big McMansion. With the triple garage, swimming pool, media room etc. And instead of living in Western Sydney they lived on the northern beaches of Sydney in a much more expensive house. So their mortgage took up a large chunk of their incomes. And on top of this the kids went to expensive private schools.

By the time they wanted to retire, they still owed over $400,000 on their mortgage and needed all of their super to pay this off. So after paying this off, they had their house (worth about $1.6 million) and very little cash left. So based on this, they too qualified for the pension.

Jeff

Now let's look at Jeff. Jeff and his family lived simply in western suburbs of Sydney, just around the corner from Dennis. They often had camping holidays in Australia and the kids went to the local public schools. Instead of spending money on toys like Dennis, or on a big house and private school fees like Lennie, they bought a positively geared investment property and worked hard to pay off the debt.

So when Jeff and his wife retired, they had, on top of their home worth $800,000, about $425,000 in super and an investment property worth $750,000. And because of this, they did not qualify for the pension

What was the difference?

The only real difference between getting the pension for Dennis and Lennie and Jeff not getting the pension was their spending habits, not their income.

So right now, I believe we have a pension means test that rewards spending, not saving.

A high income earner like Dennis and Lennie, can spend all their money and get the same pension as a low income worker who never had the chance to properly save for their retirement.

What is the alternative?

To deliver fair and equitable outcomes in the retirement income system, I believe it is time to start to have a means test that focuses on getting people to save for their own retirement.

And whilst I am no policy expert or behavioural economist, the only way I can see that we can develop a fairer means test is to base access to the pension on your earnings pre-retirement.

For example, if your average income for say the last 10 years before applying for the pension, was below the current pension rate, you are entitled to 100% of the pension.

For every dollar of average income above the base pension, you start to lose entitlement to the pension.

And as a safety net, there is a review board, (similar to where people ask for early access to their super) to consider people who have experienced hardship and whether they should get access to the pension.

Maybe this type of pension means test will start to “nudge” people to focus on saving for their own retirement, rather than spending so they get the pension.

Summary

The situation where people with similar lifetime incomes have different retirement outcomes because of their spending habits is neither fair or equitable.

It is not fair on the low income worker who never had the chance to properly save for their retirement.

It is not fair on the high income earner who has delayed consumption before retirement in preparation for their retirement, to have their taxes effectively fund the pre-retirement consumption of their peers.

The Retirement Income Review Panel when looking at the equity of the retirement income system should consider whether the incentives for self-provision in retirement need to change to start delivering fair outcomes in retirement.