independence matters

Association of Independent Retirees

Submission to

Retirement Income Review

Comments and responses to the Consultation Paper

February 2020

Further Information:

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Introduction

Who is the Association of Independent Retirees (AIR)?

The Association of Independent Retirees (AIR) Limited is the national peak body representing current and future partly and fully self-funded retirees. AIR works to advance and protect the interests and independent lifestyle of Australians in or approaching retirement.

AIR seeks to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

AIR supports the Retirement Income Review.

The members of AIR in nearly 40 branches across every state of Australia appreciate the opportunity to make a submission on behalf of Australia's self-funded retirees to this review.

This submission is built on member inspired feedback to the consultation paper together with relevant research and evidence. The experiences and opinions of hundreds of retirees and their associates are reflected in the responses to the questions posed by the review.

General concerns and context for AIR feedback on the consultation report

AIR remains committed to a view that any changes to superannuation, retirement savings and pension arrangements must not disadvantage current retirees and those about to retire. Future changes must include grandfathering and transitionary provisions to protect those retirees whose retirement income is based on the current rules.

AIR represents retirees and those approaching retirement who partly or fully fund their retirement. Our membership is not a 'rich' group. The majority are living on a controlled budget. Of members not receiving a part Aged Pension, a significant proportion is just outside the assets tests for a part pension. Many lost their part pensions when the tests were tightened a couple of years ago.

Most partly or fully self-funded retirees, whether through personal means or through their superannuation assets, rely on a diverse mix of interest income, dividends from Australian shares and/or rents from property investments. All of these retirement income sources are under pressure.

We understand and assist those retirees who due to their age have not had the full benefit of the Superannuation Guarantee system during their working life.

We assist women who have been disadvantaged by less superannuation participation and contributions due to time out of the workforce, gender wage inequality and working in the home.

We advocate for a retirement income system that recognises contractors and small business owners who participate in the Retirement Income System

Retirement planning has not only become more complex, but current volatile market conditions and low interest rates are making it harder for many to develop a retirement plan that's will last for the longer term.

We value the exempt status of the family home and recommend that it is not used by retirees to reduce their investment outside the family home to qualify for the age pension.

Comments & Responses to Questions

How Australia’s system compares internationally

Q1. Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?

The Australian system compares favourably to most OECD countries systems. It ranked 3rd best in the 2019 Mercer Global Pension 2019 Index. This index compares retirement income system using three criteria of Adequacy, Sustainability and Integrity.[1]

Australia’s score was lower than Denmark and Netherlands due to lower scores in Adequacy and Sustainability. Two key measures in the Mercer Index contributed to this. They were ‘net (after tax) replacement rate of at least 70% at retirement for a full-time worker on an average income’ and ‘Labour force participation rate of at least 70% for those aged 55-64‘. It is debatable whether Australian workers see those two measures as a priority over other design features.

Age pension and superannuation schemes seem to vary considerably around the world. While overseas systems may seem more attractive than those in Australia, they often they have at their core two key elements. The first is a publicly funded pension usually residency and age-based, means tested but not related to previous employment and/or secondly, an employment based contributory scheme.

Historically, contributory retirement schemes provided a defined benefit pension that was based on a combination of salary and/or length of employment. These defined benefit schemes were well received by retirees as they usually provided a life-time pension to the principal recipient and their surviving spouse. Unfortunately, around 30 years if was that large scale defined benefit pensions had grown very large un-funded liabilities. This has led to the phasing out of defined benefit pensions in favour of defined contribution schemes. This desire for a life time pension is very apparent in Australia as retirees often go to considerable effort to meet eligibility for the Australian government age pension which is a life-time pension.

Workers and Retirees regularly complain that there is too much complexity in the Australia superannuation system. Our members and branches have made reference to New Zealand and Canada as countries worthy of comparison.

The Australian and New Zealand retirement systems both feature public pensions and private superannuation. New Zealand’s system seems simpler to navigate and offers more freedom.
The New Zealand Government pension (confusing called NZ Super) is payable to all people of pensionable age regardless of income or assets. There is no part pension, so people don’t need to game the system to maximise their pension and the government has lower administration costs. The age pension is taxable but there are no tax offsets (like SAPTO) to reduce taxable income. Pension recipients can work/earn income as much as they want while receiving the pension. The pension income is just added to the other income, your tax threshold will increase, more tax is therefore due and your pension is reduced according. It could be argued that with the Australian pension being means tested for income and assets is more targeted at those with greater need.[2]

In New Zealand, superannuation saving for retirement is not compulsory, so those on low incomes are not forced to make contributions.. The New Zealand superannuation system (called KiwiSaver) is also more straightforward when it comes to taxation and administration. Employees can contribute from 3-10% of

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[1] Melbourne Mercer Global Pension 2019 Report Highlights, Monash Centre for Financial Studies
[2] Ross Guest & Kirsten MacDonald, Griffith University, Queensland

their earnings, Employers must contribute 3% less tax and the Government contributes up to $500 per annum.

The New Zealand system allows employees to increase their rate of savings, stop saving and even withdraw savings for housing and other purposes. As all super contributions go to KiwiSuper via Tax numbers and invested, there is no such thing as “Lost Super”.

In Canada, their Retirement Income System consists of Old Age Security (OAS), the Canada Pension Plan (CPP), Employer Pension Plans and Registered Retirement Savings Plans (RRSP).[3] The Old Age Security is similar to the Australian Age Pension funded from general tax revenue. The Canada Pension Plan is a mandatory contributory pension scheme with a defined benefit of a set percentage (currently 25%) of the worker’s lifetime average annual earnings. Contributions are shared between employers and employees at prescribed portion (5.25% each) from a maximum of $CAN58,700 annual earnings and is administered by government.

Employer Pension Plans in Canada are available with some employers and can be either defined benefit or defined contribution schemes. A Canadian Registered Retirement Savings Plan (RRSP) is an optional retirement savings and investment vehicle for employees and the self-employed in Canada. Pre-tax money is placed into an RRSP and grows tax-free until withdrawal, at which time it is taxed at the recipient’s marginal tax rate. Both Defined Benefit Employer Pension plans and RRSP’s must be wound up by age 71. Registered Retirement Savings Plans have many features in common with 401(k) plans in the United States and Voluntary Superannuation in Australia.

The Canadian Pension Plan has a standard access age of 65, but has flexible access at a reduced rate from age 60 or an increased rate from age 70. This flexibility might suit Australians who find themselves retrenched, unemployed or suffering ill-health just prior to age pension eligibility.

Retirement income systems in many countries take a different approach to taxation than in Australia. In many countries no tax is deducted during the accumulation phase and the tax is levied during the drawdown retirement phase. In Australia we do the opposite. Tax is levied on super during the accumulation phase and then in retirement phase is tax free, subject to a balance cap.

Overseas comparison around the fees paid to Superannuation Fund managers is also an area that the Retirement Income Review should include in the review. Work has been done in this area by the Productivity Commission [4] and internationally by the International Organisation of Pension Supervisors [5].

Overall, the conclusion of the members and branches of the Association of Independent Retirees is that lessons can be learned from overseas that may assist in the fine tuning of our system, rather than a complete re-engineering.

Purpose of the system and role of the pillars

Q2. Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?

Q.3 In what areas of the retirement income system is there a need to improve understanding of its operation?

It is the considered view of the members of the Association of Independent Retirees that the objectives of the Australian Retirement Savings and Income System are not well understood in the general community.

A summary of our member comments on the level of understanding of the retirement income system includes the following:

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[3] https://www.canada.ca/en/services/taxes/savings-and-pension-plans.html

[4] Productivity Commission Report on Superannuation Effectiveness and Efficiency

[5] 2018 Update on IOPS work on Fees and charges

- The definitions of the Three Pillars would be news to many people
- There is no concept of the workings of the Pillars by the general public or their interaction
- The general population only has regard for retirement income either through a means tested Aged Pension or a Superannuation pension.
- People do NOT understand the concept of a retirement income system, they are more focused on wealth accumulation and inheritance, and this is often driven by Financial Advisors.
- Pensions and superannuation are not widely understood particularly role and purpose of superannuation and access or lack of access to pensions.
- the role of Super Guarantee Contributions (SG) is not well known
- SG seems to be even less importance to younger Australians
- There are few people of working age who really understand the current retirement system
- It is complex, there have been too many changes to the components of the system in recent years
- The changes has confused many, and angered many others, who feel they have been "singled out" for "punishment".
- Retirees need 'certainty'. It is very difficult to understand a system that is constantly changing
- There is a greater need for certainty to enable people to plan for the future.
- People do comprehend that the pension system is getting unsustainable and that individuals should save for their own retirement
- Many people do not take an interest in their Super during their working lifetime
- People must be willing to seek information – some don't bother.
- It is well understood that I paid tax and therefore, I am entitled to the age pension
- In newspapers and in conversation, people say they paid their taxes all their working life and are entitled to a age pension but do not realise that their income taxes have not been put away somewhere to pay for their aged pension
- Retired people often seem unaware of how superannuation or pensions work
- The third pillar is complex, there is little or no discussion about it and is not well understood.
- Older Australians don't see a "nest egg" as providing retirement income but good insurance for medical issues & aged care costs in later life
- Many prefer taking a lump sum on retirement to spend as they wish, not to generate an income, while others see their superannuation on retirement as something not really connected to the whole retirement income system.
- The commentary by media, press and financial advisors seems to emphasize return on individual investments rather than the opportunities across the retirement income system.
- The retirement system, the objectives and operation of compulsory superannuation is not understood by young people entering the work force.
- The aged pension is not widely understood by many working people.
- Many are confused between income in retirement vs. wealth generation

These comments received from members of our association across Australia highlight a low level of financial literacy. This issue has also been identified in many studies both in Australia and internationally.[6]

There was also feedback from members on how they believe this lack of understanding has been acerbated:

- Media organisations do not seem to fully understand the whole Retirement Income System
- Unfortunately, political parties have used super and retiree incomes as 'political footballs', often spreading incorrect analysis
- Some welfare organisations have adopted a 'class warfare' approach in their advocacy to Government that has diluted the message of self-reliance in retirement

[6] World Economic Forum, White Paper – We'll Live to 100 – How can we Afford it?, 2017, Chapter 3

On a more positive note, here are some other comments that provide some level of understanding of the issues:

- Better education may help.
- System is not understood by many, but our evidence is that more people are taking an interest.
- The Centrelink website and ATO website have good information
- Newspapers have various information sections including age pension categories and income/asset limits
- Commentators and Advisors publish regular columns
- The longer term issue is for people to do something positive and to start planning and saving for their own retirement at an earlier age than they do now.
- The pension is well understood and the networking among its recipients is a credit to them.
- The objective is to have people understand their options and it would appear that some people do understand the system reasonably well.
- More people need to be able to provide for themselves and be less of a burden on the welfare system.

The following opportunities for improved financial literacy were identified by our members:

- An information program to explain expenditure areas where tax revenue is spent and in what percentages
- People are consuming their Superannuation in order to access the age pension due to the belief the benefits the pension offers seam to outweigh the negatives.
- We understand there is training available but not well promoted
- There are seminars put on by 'vested interest' advisors which may be biased
- Education in responsible money management including budgeting
- Education in superannuation seems obscure and many young and older people appear to have little interest and no expectation that they have any control over it
- There is evidence that a percentage of people in the workforce, particularly young people do not understand the importance of Superannuation Contributions (both employer and employee)
- Retirement income systems education should be included senior level education programs
- Every new employee should be given by their employer using a standard government provided "work book" covering the whole system to assist participants in their understanding the options available:
    - the Centrelink pension options and limitations
    - the actual controls and limitations on the superannuation system
    - Opportunities for wealth creation and management of lifetime achievement beyond both pensions and superannuation.
- Individuals do not comprehend that the performance of the SG system is the influenced heavily by their choices of where to invest your SG savings (Industry Fund, Bank, SMSF) and the need for professional advice.
- Those relying on their life-time savings and superannuation need assurance that their financial needs can be assured for their lifetime
- There are still a lot of Australian working people multiple small superannuation accounts where their value is being eaten away by fees
- Many working people lack interest in superannuation and simply think it is managed by the employer.
- There is confusion as to who is "paying" the superannuation contributions – the employee or the employer.
- As the compulsory superannuation is paid by the employer, a majority of employees do not realize superannuation is part of their income package.
- Employees do not see superannuation as an addition to their income but a deduction as a payment into their Superannuation account.

- Constant reminders and education that people need to save over their working life if they want a decent retirement income because the age pension is mainly to support the very basics of living costs
- Retirees need assurances that the goal posts will not change. Grandfathering of existing legislation when changes occur would help them regain confidence in the system.
- The effect of compounding interest on investments is not well understood by a lot of people.

Q.4 What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes?

AIR members have identified the following roles for the Federal Government:

- To provide stable leadership and policy certainty
- Incentivise individuals to save and maximise their opportunity to save.
- Provide a better framework for retirement income system by:
    - Ensuring good superannuation returns and outcomes especially for individuals with lower financial literacy
    - Promote trust of the retirement income system. Constant government changes cause individuals to distrust the system.
    - Provide clear legislation to prevent loopholes, and is not subject to fiscal expediency and political vagaries.
- Regulate where necessary to provide fairness
- Educate the general public
- Provide appropriate taxation environment including incentives where needed
- Provide an aged pension as a 'Safety Net' for those who cannot or have not made adequate provision for retirement years.
- We currently have a highly sophisticated system which generally delivers good outcomes. However, some of our members warn the government should not be taken in by private sector promises they will protect the interests of retirees.
- The Federal Government has the ability through the ATO to monitor workers who are paying tax and ensure that SG contributions are being made to their superannuation fund accounts. In this way, small business employers who struggle to make the compulsory superannuation contributions to employee accounts and use this cash flow to run the business are identified
- Human Services operate many hundreds of Centrelink service facilities around Australia with considerable effort in administering the Age Pension Scheme. For retirees, Centrelink are the key information source and arbiter of whether a person can receive a pension, part pension, no pension or will be self funded and this involves many tens of thousands of retirees each year.
- Centrelink guidance and public seminars are worthwhile and relevant but could be broader in the information they offer.
- Another role for government is to oversight superannuation and to encourage this as the preferred strategy for income in retirement.
- The Self-Managed Super Fund sector should be nurtured and supported by Government. This sector provides a vital alternative investment vehicle for small business and financially literate individuals. Through sound management, SMSF's can achieve management costs much lower than the private sector retail funds.

The following roles were identified by AIR members for the private sector:

- to effectively and efficiently manage/administer/invest superannuation schemes that provide competition to government and industry funds
- to provide safe and reliable investments
- to provide various types of income streams such as annuities and account based pensions

- to provide financial, taxation, accounting, auditing, fund administration and specialist advise to superannuation fund members both before and after retirement.

It was noted that the private sector could improve its services:

- if financial advice was available at a much lower cost.
- if superannuation companies did not set over ambitious targets for final accumulation amounts for the average wage earner
- When large super funds promise lower fees due to economies of scale but then is evidence that their fees remain excessive
- if they offered new lifetime income streams that enables older Australians to better manage their income
- if all pay slips were redesigned to show the gross income with the superannuation contributions deducted before tax is deducted along with YTD totals. This might generate more interest in superannuation by employees who wonder "where is my money going."

According to AIR members, Individuals have a role to play in:

- Acquiring life skills with some level of Financial Literacy. This would encourage them to be better money managers and focuses them on the need to be better savers. This could be led and supported by appropriate government policy.
- taking an interest in all components of the retirement income system
- being aware it is <u>their</u> <u>future wellbeing</u> that is at stake
- better managing their super contributions during the accumulation phase to reduce the amount lost in super accounts.
- having some incentive to save for their future/retirement even when they are part time, casual employees or contractors. They need to be aware that this reduce the cost of the pension and welfare as the casual workforce in Australia continues to rise.

Finally, non-profit groups such as the Association of Independent Retirees (AIR) provide a forum for people in or approaching on retirement to hear from specialist speakers providing information on pensions, superannuation and government regulations and rules.

Q.5 The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom?

Age Pension

The Association of Independent Retirees believes the majority view of the community is that government age pension is a safety net and should always be available to those you need it. This is important for those people who historically have had limited or no access to superannuation in their working life. Those relying on the pension should receive sufficient income and benefits to cover minimum basic living expenses.

We recognise that as time moves on, more people will have superannuation and the reliance on the age pension will reduce. However, we also recognise that with a guaranteed safety net, its existence is also a disincentive to save. Unfortunately, as mentioned in Question 2, it is seen as an entitlement and people will "game the system" to achieve the full or part pension.

Self-reliance and independence are core values of the Association of Independent Retirees, so we encourage people where possible to save for their retirement. We support the principle that retirees that have more resources should have the age pension reduced until they reach a certain level where they should support themselves in retirement.

Currently approximately 70% of the population over 65 years of age rely on some amount of government income support. Given compulsory superannuation has been operating for 28 years, the members of AIR would have anticipated that more retirees would fully or partly self funded by now. With forecasts showing that 60% will still be receiving the full or part age pension in 20 years, more must be done to encourage of high level of self reliance.

Compulsory Superannuation

The members of the Association of Independent Retirees are of the view that compulsory superannuation contributions made by workers earning average weekly earning throughout their work life should provide a adequate income in retirement. At current levels of SG contributions of 9.5%, it is anticipated that this will not be achieved. We support the legislated increase of the compulsory superannuation contributions to 12%.

For those workers on less than average weekly earnings during their working life, we anticipate they will need to make additional voluntary contributions to superannuation or accumulate voluntary savings outside superannuation.

While compulsory superannuation is good for those who receive it, our members have seen evidence that many working people are not receiving it. Changes to the structure of the workforce in recent years in the hospitality, retail, resources and other industries mean there is a higher proportion of part time, casual and contract employees than ever before and not all workers are receiving superannuation payments from their employers.

It has been suggested that the federal government through the ATO should identify this underpayment and take enforceable action to rectify the situation.

Voluntary Savings

The Association of Independent Retirees supports the use of voluntary contributions to superannuation to boost retirement savings. These voluntary contributions could take the form of salary sacrifice contributions or tax deductible personal concessional superannuation contributions. We acknowledge and support the introduction of these measures which ensures that workers can supplement their SG contributions up to the available concessional contributions cap. This is particularly useful when workers are approaching their 50s and the children have left school and mortgage commitments have reduced.

However, in the past few years, higher concessional contribution caps have been significantly reduced for over 50's. To encourage more voluntary contributions, we advocate that for over 50's with low superannuation balances (eg. $500,000) the Government should consider doubling the concessional contribution limit from $25,000 to $50,000. These additional voluntary contributions should not be considered a reduction to government revenue but an investment in more self funded retirees and future savings to the age pension cost. As with other superannuation contributions, these voluntary contributions are preserved in the superannuation system until a condition of release has been attained. This ensures no leakage of concessional taxed savings until retirement. More promotion of the benefits of voluntary superannuation contributions should be implemented by the federal government and superannuation funds.

The introduction of the Transfer Balance Cap and Total Super Balance (for non concessional contributions) at $1.6M has ensured that excessive voluntary superannuation contributions can not longer occur. This also limits the amount of tax concessions that voluntary super contributions can utilize.

Many older retirees could not contribute to superannuation until late in their working life or not at all. As a result, they have low or no super balances. They may have accumulated assets through inheritance or private savings during their working life. Once they reached retirement age, but can not make contributions to superannuation due to the work test. For retirees up to age 75 with less than $500,000 in superannuation, they should be able to contribute to super within current contribution limits without satisfying the work test.

Q.6 What are the trade-offs between the pillars and how should the appropriate balance between the roles of each pillar in the system be determined?

The Association of Independent Retirees anticipates that a reasonable proportion of retirees, for the foreseeable future will participate in the three pillars.

Balance

In terms of balance between the pillars, our members feel that encouraging contributions to superannuation is highest priority to ensure it is a major contributor to retirement income and self reliance for retirees in the future. Voluntary contributions to super (within appropriate caps) should also be further encouraged. The Age Pension should be retained as a 'safety net' for those who do not have the resources to support themselves in retirement, but with appropriate checks to ensure it is not exploited through manipulation of eligibly rules.

It is important that government seeks to manage carefully those retirees that are in the borders between qualifying and not qualifying for the aged pension and other benefits such as the Commonwealth Seniors Health Card.

The family home and the pension assets test

The Treasury analysis that accompanies the Review Consultation Paper (and in previous research papers incl. Michael Rice etc) seem to treat the family home in purely financial terms and as such considered it part of voluntary savings (ie. the third pillar). The family home should be depicted more holistically and not just valued in dollar terms.

Many of the members of AIR consider the family home is not just a financial asset and could be considered as the **'fourth pillar'** of retirement savings. For the vast majority of retirees, their family home is the cornerstone for maintaining an independent lifestyle and psychological well-being. Retirees do not consider their home as a financial asset to be just bought and sold like 'investments'.

To most retirees their home is their last bastion of independence. As age progresses, retirees rely heavily on remaining in their home to maintain their independence. Their home and its environment are part of their 'memory map'. There is considerable evidence that older people do not cope well with change. Forcing old people to sell (downsize) their family home in order to fund their retirement has major negative psychological effects such as causing depression, loneliness and lack of confidence. It could even push some into aged care prematurely.

Many A.I.R. members support the continued exclusion of the family home from means test for in the aged pension or retirement benefits. While analysts point out that retiree's family homes may now be quite valuable in dollar terms, their older occupants do not consider their home in those terms. Their family homes have more intrinsic value as a familiar place to live surrounded by friends and family. The Review Panel should consider the important concept of 'age in place'.

The value of the family home does not necessarily indicate financial wealth as it can not be readily realised. Many older home owners have owned their homes for decades. There are many examples of home owners who paid very little in 'real terms' for their home. They may be living in a home that they would never have afforded to buy in current markets.

A home in an inner suburb of Sydney or Melbourne may have been purchased in 1970's by the current owners for less than $50,000. The cost at that time was just several times annual income and it is now 20 times annual average income. In 'real money' terms properties in major cities have increased significantly in value over time. What was once considered 'cheap' real estate is now expensive in real terms. This was out of control of the home owner and selling is often not even up for consideration.

We recognise and our members are familiar with situations where some retirees are 'overinvesting or upsizing' in their family home. Rather than including the family income in the pension assets test for everyone, it would be more effective to apply limits to additional capital expenditure invested their principal place of residence in the previous 5 or 10 years in a similar way to the application of 'gifting rules'.

It should be recognised that when the maintenance of the family home becomes too much for the retiree, they do in fact choose to downsize or move into a Retirement Village. It should be noted that utilisation of the family home supports the government's desire to improve the value and delivery of aged care through the provision of home care packages.

Age Pension Asset test and the Taper rate

Inequities can and have arisen where governments have 'moved the goal posts'. Several years ago, the pension asset tests were tightened and many receiving part pensions lost their pension. These changes should be have been phased in and better managed to avoid hardship.

There needs to be a better balance in part pension asset test. From the 1 January 2017 when the taper rate was increased from $1.50 per fortnight for every $1,000 over the full age pension asset limit, to $3 per fortnight.

This new taper rate has created an incentive for those on a part-pension to reorganise their assets to meet full age pension eligibility or increase their part-pension payments.

Deeming rates

Deming rates were originally set based on actual achievable rates of return available in the financial markets and were designed to stop people 'gaming the rates of return' for retirement assets. Deeming rates are now well above any risk free returns on investment such as term deposits. The government is asking retirees to seek a rate of return not available without taking on significantly higher risk. There is a need to review the deeming rates used to calculate a person's deemed income from financial assets and to establish a benchmark which adjusts this rate periodically

Super Funds – Legacy Issue of high value accounts

As reported in the Consultation Paper there are examples of high net value super fund accounts in excess of any measure required to live on in retirement. These large value accounts are a legacy of times when strict caps on super fund contributions were not applicable.

As the holders of these high value superannuation accounts pass away, their fund balances will be wound up and returned to the normal tax system. Under the present strict capped contribution limits, it is no longer possible to accumulate such a large super fund account. There is also a significant number of Public Service Pension recipients when Governments provided lifetime defined benefit pensions. These have been largely migrated to the Future Fund. As the recipients pass away these pension structures will disappear.

To ensure that legacy high value superannuation accounts and government lifetime defined benefit do not distort future modelling of the retirement income system, the government could legislate to cap total superannuation balances at a level that would support a genuine retirement income (say. 4 or 5 mill).

If that is not done, then data sets and analysts should always ensure that these legacy superannuation accounts and public service defined benefit pensions are excluded in any analysis for future regulation.

The changing Australian landscape

Q7 a. Demographic, labour market, and home ownership trends affect the operation of the retirement income system now and into the future. What are the main impacts of these trends?
b. To what extent is the system responsive to these trends?

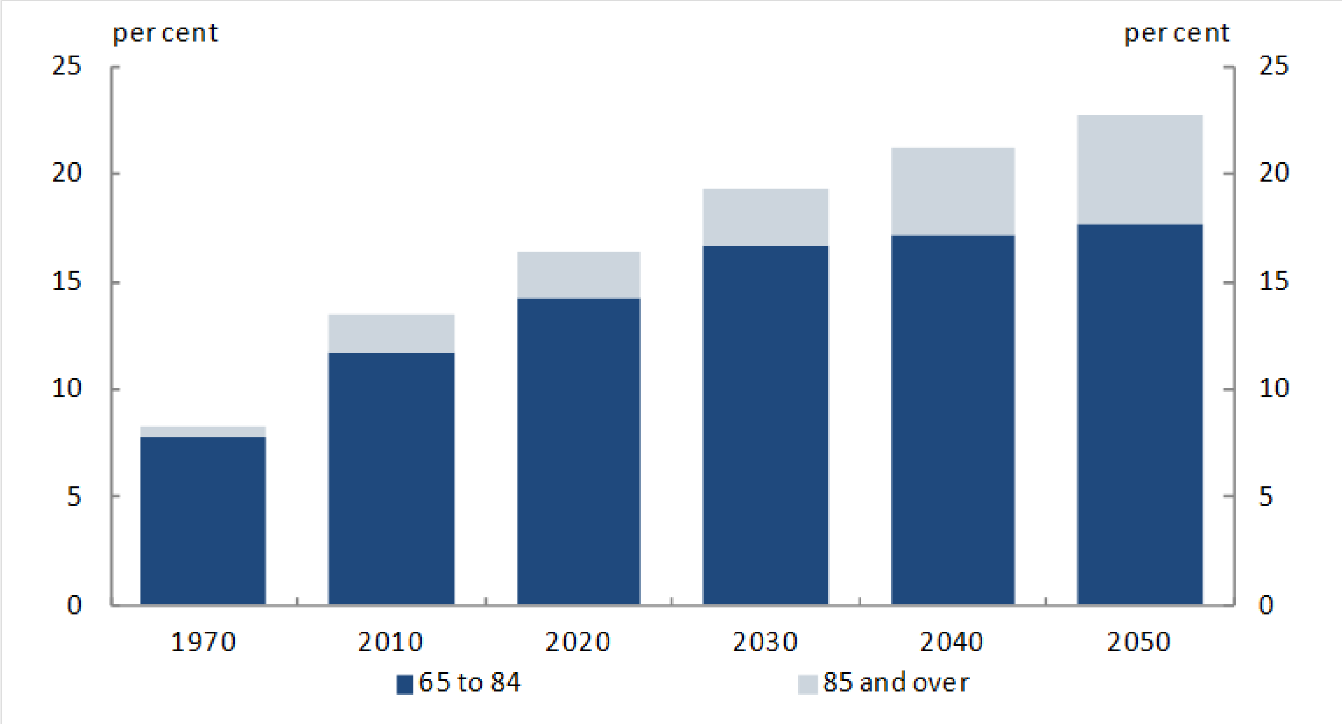
c. Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?

Demographic Trends
Since the age pension was introduced in 1908, life expectancies for both men and women have increased dramatically as well as the proportion of the population over 65 years old.

In 1910, approximately 5% of the population were 65 or older. In the chart below, it can be seen that now approximately 17% of the population is 65 or older.[7] Furthermore, in 1910 the expected time on the age pension for a male was slight more than 11 years, while today it is closer to 20 years.

These factors have resulted in a significant larger proportion of the population receiving the age pension and for a considerably longer period. Thus a rapidly increasing cost of funding the age pension for the Federal government.

Proportion of the population that is 65 or older



If (hypothetically) the age pension eligibility age had been adjusted so that it was today the same number of years before life expectancy as it was in 1910 (ie. 11 years) then a male would not receive the age pension until they were approximately 77 years old. This would certainly encourage more people to save for their own retirement.

The increased use of aged care facilities should be looked as a significant trend for retirees into the future and the resultant additional significant costs they will bear.

In the past, people saved efficiently through assets/superannuation and purchasing their own house have usually forgone or delayed consumption of new motor cars, expensive furniture, overseas trips and devices etc. until later in life when they reach a reasonable financial situation. This approach needs to be extended to the younger generation so they know how to build wealth over a long period.

[7] https://www.ncoa.gov.au/report/appendix-volume-1/9-1-age-pension

A major trend affecting retirees is the burgeoning cost of aged care. This is particularly affecting older retirees and is very difficult to plan for. Due to mandatory drawdown requirements superannuation may be depleted before reaching very old age when the funds are needed to pay for aged care.

Labour Market
Members of AIR have commented that the Australian labour market is weak with low wage growth and high youth unemployment particularly in the regional areas and this will not change for the foreseeable future. These factors put low skilled and youth employees at risk in the areas such as superannuation contributions and job security.

With a tendency for people to change employment more frequently than in the past, Superannuation monies are being deposited in different funds for people. Unless they make the effort to pool those funds the accumulation of funds from which to draw their retirement income is reduced.

Australia is also going through a period of more part time and casual labour with less full time employment in various industries. This does not instil confidence in planning a workable retirement income plan.

When the compulsory Superannuation system was introduced in the early 1990s the intention was that when Australians retired they would be in a position to either fully or partly self-fund their retirement.

Superannuation is perceived to be a broken system by our youth and they no longer have any confidence in it. Superannuation was designed for the fantasy world of full time work and the gig economy remains outside its purview.

Home Ownership
This is becoming more difficult each year in Australia as property prices continue to rise, particularly in the major cities. Unaffordable housing costs are driving younger Australians into rental, which severely impact their capacity to save for their retirement or potentially they will still have a mortgage in retirement. The increase of casual labour is introducing difficulties in obtaining housing loans from banks and other lending institutions.

Anecdotal evidence suggests that some of the schemes to assist young people to get into the housing have actually driven up the cost of housing in the various markets. Going forward, analysts will need to monitor the percentage of people who own their own house and have a reasonable amount of superannuation at retirement to determine whether these factors are impacting each other.

Retirees who do not own their own home are struggling to pay rent out of their pensions or retirement incomes. There is little low cost government housing available in some areas of the country now. In Australia the trend is for the major cities to continue to grow larger and the regional towns and centres to continue to decline in terms of population, infrastructure, services and job opportunities. Health experts regularly comment on less than desirable health outcomes and life expectancy in remote and regional areas.

Migrants rarely live outside of cities due to family connections, job and educational opportunities for their children and simply the ability to live in a close knit society where you do not have to drive 15 or 20 kilometres to a supermarket. The city v country divide needs to be addressed and a number of issues are affected by this. There is a lack of incentives to have people move away from the major cities so that cities end up having a perceived monopoly on services. A bit more decentralization in Australia would be a good thing for a lot of reasons.

Impact of trends
Members of AIR have observed that the trends are causing the following impacts:

- Rising house prices cause less private savings
- Potential higher aged care pensions

- Changing demographics cause conflict between those who contribute taxes to pay pensions and those who receive pensions
- Compulsory Superannuation Contributions are impacting private savings

Responsiveness

To our members, the system does not or can not respond fully to these trends. It is anticipated that government legislation or initiatives in taxation, etc could be necessary.

They have raised the following questions around responsiveness for the Retirement Income Review to explore:

- Does the system adequately allow for Australians to save at different points in their life cycle, eg starting work later, working past retirement age?
- Does it allow for individuals to save more for a shorter part of their working lives, to allow for early redundancy?
- Does it allow for higher than average bursts of savings, such as asset distribution caused by relationship break down?
- Does Govt policy discourage employers from avoiding their SG responsibilities?

Interaction between changes in superannuation rules, health care costs, Aged Care rules and costs and Aged Pension rules and payments need to be considered carefully.

There are not only purely financial considerations. There are also psychological health and welfare considerations because retirees are often more vulnerable and less astute as they age. Older retirees have made their contribution over a working life and deserve consideration as they may have limited capacity to cope with change.

Additional Trends

With so many people now funding their own retirement, they will need to manage substantial amounts of capital to maintain their income to the day they pass. This could result be larger amounts being passed on to their children.

So, to encourage superannuation contributions, AIR members identified the following changes may be needed to facilitate enable the change behaviour:

- Have an aim of super to get people off the pension and if this means changing the contribution limits, so be it.
- Change the contribution limits to accommodate larger sums of money
- If the large concessional amount is to be placed into a Superannuation accounts, some income taxation will be foregone
- Review the use of Lump sum draw down provisions
- One of the trends that is now starting to come into focus is people in retirement and on the pension, who have been divorced. As a result, lump sum withdrawals could result in their income being well less that their lifestyle requires

The compulsory part of the system requires the employer to contribute a percentage of the employee's salary or wage into a Superannuation Fund so that employee to have a "nest egg' on retirement from which they can draw an income in retirement. However, they may also withdraw the total savings for whatever purpose they choose.

Principles for assessing the system

Q.8 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 now and in the future?

Are there other principles that should be included?

A fifth principle should also be considered, Certainty.

Certainty
The Association of Independent Retirees (A.I.R.) has always argued that any changes to Government policy affecting retiree incomes should be 'grandfathered'. The single most important point for A.I.R. and our members is certainty. This can be achieved by the 'grandfathering' of changes to existing legislation both in the short time and in the future for all existing retirees and for those approaching their retirement.

A firm system with certainty will allow retirees to establish a budget and to ensure they live within that budget. There should be no retrospective changes that affect existing retirees. Changes to the system should contain 'grandfathering provisions' to ensure that the adequacy of existing retiree incomes is not compromised. Reward those who have saved for their retirement by grandfathering any changes rather than affecting those who have followed the advice in planning long-term for their retirement savings.

The Retirement Income system has been in a constant state of change since the 1990's when the Super guarantee was introduced. Overlap this with the changes in employment trends and world economic factors and it is clear that the Retirement Income system will need further redefinition in the years ahead.

In recent years self-funded and partly self-funded retirees have suffered a loss of living standards due to changes in government policy and general economic conditions. There has been increases in tax on super, reductions in pension access and lowering of interest rates not offset by lowering of deeming rates.

Retirees would like Governments to implement policies to ensure that they are protected from the seemingly constant changes to policies affecting their retirement incomes. We hope this Panel Review will highlight the need for consistency and certainty in Government Policy settings for existing retirees.

Retirees embark on their retirement with a plan based on their available financial resources within the Government's existing legislative framework. It is fair and reasonable for retirees to expect that the rules for them will not change in a negative way during their retirement.

Grandfathering changes is not an unreasonable expectation and it has been used many times in introducing changes to tax and other regulations. Governments should plan for the long term, just like retirees, and be able to manage and implement change over a suitable time frame to avoid placing hardship on those negatively affected. The superannuation system should be planned and managed over longer time frames than other government policies.

There are not only purely financial considerations. There are also psychological health and welfare considerations because retirees are often more vulnerable and less astute than younger members of the community. Older retirees have made their contribution over a working life and deserve consideration as they may have limited capacity to cope with change.

The government needs to determine the Adequacy of the Pension Only. In using the term equity, "fairness" should be emphasized

Q.9 How does the system balance each of the principles and the trade-offs between principles (e.g. sustainability and adequacy) under current settings? What is the evidence to support whether the current balance is appropriate?

A change is needed to reduce the minimum drawdown % for retirees in later years. This is due to the rapidly increasing longevity of older retirees who need to more funds for a longer retirement and increasing age care costs.

The current cut-offs between the full pension, part pension, superannuation and private wealth beyond tax concessions need be more clearly specified and communicated.

Our members indicate that balancing between principles will prove difficult, if not impossible. Currently, there appears to be a reasonable balance, but this probably depends where an individual sits within the system.

For example, if you are a "struggling" pensioner renting a home, then you would probably see someone with an owned home but receiving a full pension as inequitable. Conversely, those who have made private savings over their lifetime through careful living, and thus do not receive a full pension, could well consider a full pension being paid to a "spendthrift" as inequitable also.

How can there be equity within the current system when a couple can have $3.2M in a super fund and yet pay no tax on their income? Is this sustainable?

They suggest the best that Government can do is:

- provide reasonable incentives to people to gather private savings
- provide a "backstop" in pensions & benefits to those less fortunate for whatever reason
- set a reasonable % of Government taxation that will be applied to retirement pensions & benefits
- Include Aged Care accommodation costs in this balance as they are very significant and will occur generally when an individual has utilised their assets in living costs (outside the home value).

Evidence is supported by the percentage of retirees who own their own house and have adequate super and/or only access a part-pension.

There are anomalies that take a lot of balancing to be fair to all – different groups have different interests. The burden or impact of taxation is critical in considering sustainability and adequacy not only for current settings but going into the future.

The current system is heavily in favour of the adequacy side of the equation. The evidence that the system may not be sustainable is rises in the age eligibility that you can access retirement income. This indicates the system is under pressure and may not be sustainable.

Adequacy

Q.10 What should the Panel consider when assessing the adequacy of the retirement income system?

Beyond the very basic essentials of life, to some extent Adequacy is best determined by the consumer of retirement income.

Depending on your expectation of lifestyle, your measure of Adequacy will change.

The sorts of questions the members of AIR would like the Panel to consider include the following:

- Does the system allow individuals to accumulate enough to provide a comfortable standard of living as defined by ASFA?
- Does the system provide enough for that level of income to be sustainable?
- Does the system constrain the individual from achieving these goals?
- Does the system require individuals to take riskier investments due to the low interest returns environment?

- Can the Government to give better access to whole fixed interest investments, which are prohibitive to purchase in the retail market but form a high proportion of investments overseas due to low entry barriers.
- Can the Govt provide create Infrastructure bonds as alternatives to term deposits
- Could the Govt provide access to the Future Fund for retirees, as a <u>trusted</u>, <u>low cost</u>, <u>higher return</u> investment (or create a similar entity for that purpose)?

There is much evidence of retirees taking the "least effort route" in investing in Term Deposits and similar.

A retirement sector with a comfortable rate of consumption will improve the overall health of the economy

The following process has been suggested:

- The definition of an adequate liveable income stream derived from superannuation only should be established
- The definitions for age pension entitlement & wealth without tax concessions should then be defined
- This should be looked at in relation to calculations of "poverty" levels; with consideration given to pre-retirement income to arrive at a "fair" outcome.

Poverty is in many cases 'relative" to a given benchmark – there are many benchmarks used. Proper and funded research is needed to create one "benchmark", based on fairness, equity, and recognition of Gov't support provided.

A very significant issue in "fairness" between individuals with lower or higher level income and/or assets and the consideration of taxation paid vs. taxation concessions given over the working life time.

In recent years self-funded and partly self-funded retirees have suffered a loss of living standards due to changes in government policy and general economic conditions. Adequacy should firstly allow the retiree to plan based on a known set of rules.

A high level principle should be to encourage all people to fund their retirement to the best of their ability.

First consideration is what can be afforded; then fairness to all, so that some tax-payers do not have an unfair burden to meet ambitious targets.

AIR members have noted that adequacy of retirement income depends very much on home ownership. If the home is owned, from experience from our parents, the full aged pension could be seen as a basic adequate base. Any additional income by way of investments and/or Superannuation would improve the standard of living. Adequacy needs also to address health and medical costs which continually rise. Many retirees opt to plan their finances so that they can access a Health Card.

Superannuation should be used for retirement, if a person earns enough money, they can have other investments to do whatever they like in life as well having their super money to retire on.

To ensure an adequate retirement income, some members have suggested that all individuals (apart from those receiving SG through their employer) who are earning wages and paying taxes to be required to make contributions to a fund/superannuation from which they will derive all or part of their income in retirement.

The panel should consider the effect of the low interest environment and the risks associated with pension funds being invested in equities.

Q.11 [a] What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income?

[b] Should the system be measured against whether it delivers a minimum income level in retirement?

[c] Reflects a proportion of pre-retirement income (and if so, what period of pre-retirement income);

[d] Or matches a certain level of expenses?

Many members of the Association of Independent Retirees believe that the retirement income system does allow Australians to achieve an adequate retirement to the comfortable standard of living as defined by ASFA.

Other members suggest the measures should be against a "basket" of OECD countries with similar demographics to Australia, not comparisons between various demographics in Australia.

The remainder believe the government the Government should not seek to be too prescriptive. Every individual will have their own perceived level of adequate retirement income.

They mostly thought the system that we have now generally works well. The aged pension provides the safety net for a minimum income level for those with modest savings and those partly or fully self-funding have some freedom to live their chosen lifestyle according to their savings and budget.

It was felt that the measures used by the Panel should be based on whether retirees owned their family home and have adequate super/assets at start of their retirement. To support this, it was suggested that the census should collect information about the amount of savings for each age category (60-69, 70-79, 80-100).

There was no support for adequate retirement income to be a set proportion of pre-retirement income.

Q.12 What evidence is available to assess whether retirees have an adequate level of income?

For self-funded retirees and full age pensioners living in their own home the evidence suggests that incomes are generally adequate if strict budgeting was applied.

It was noted by some members that there were some examples in the media of retirees living in poverty. These were generally thought not to be common and mostly involve those who are renting. Cost of living increases above increases in pension rates are often shown to be the cause of financial distress.

Increases in energy prices (electricity and gas) have been a huge cost of living pressure for retirees and it was felt governments should maintain and even consider increasing energy supplements.

When the simple measure of the CPI has been used to assess increases to aged pension and other benefits our members felt it was not fit for purpose. Retirees have many measures to determine whether they are receiving adequate retirement income. Adequacy issues usually arise when a large unplanned expense occurs like health. It was felt that most retirees are fairly resilient and will adjust to their circumstances.

Equity

Q.13 What should the Panel consider when assessing the equity of the retirement income system?

The members of the Association of Independent Retirees support the concept of equity whereby individuals in similar circumstances should have similar outcomes in retirement.

This doesn't mean that individuals that earn the same income throughout their work life should necessarily have the same income in retirement. With a system of compulsory superannuation contributions at the same percentage of their income, the outcomes are often dependent on choices made by the individual.

For example, we have choice in the superannuation fund to which they decide to contribute to. This choice can lead to significant difference in fund performance over a working life time and in retirement and therefore lead different retirement outcomes. This is unfortunate but not in-equitable when individual have the same choices available.

Individuals on the same annual wage can choose to make voluntary contributions to superannuation at different levels or at different times or not at all. Some workers defer consumption in accumulation to provide more funds for retirement savings. This deferred consumption will likely yield a higher retirement income but it is not inequitable to those you chose not to make voluntary contribution to superannuation.

Public Support to Retirement Incomes – potential issues with Figure 4.
We refer to the graph labelled figure 4 in the Consultation Paper. While we acknowledge that the calculation are drawn from a hypothetical model, but we do question the applicability of the graph as a realistic representation of the 'Lifetime Government support provided through the retirement income system'.

We have previously referred to legacy very large superannuation fund balances. These funds should be removed from the calculations incorporated in the graph as they do not reflect the longer term reflection of contribution and earning tax concessions especially if the government legislates to remove them from the system.

This graph also doesn't represent a broader tax payment perspective by not including tax amounts paid by individuals during their working lifetime. The graph makes no consideration of Tax collected. Tax concessions are carefully targeted and are reductions in tax assessed not removal of tax liability.

We suggest that if this graph is reworked as described above it might yield a different result.

To have an informed discussion about tax concessions for superannuation relative to the cost of the age pension, then it is important to provide a breakdown of relevant tax concessions so they may be prioritized if they are determined to be unsustainable. These tax concessions might include others such as:

- Tax free superannuation income after age 60
- Tax free earnings on superannuation balances in pension mode

Some members have suggested that those workers who chose to save outside of superannuation should receive the same tax concessional treatment for retirement savings as those who saved inside the superannuation system. It is said that this is inequitable, but those who contribute savings to super cannot access their savings until retirement.

Equity has to balance incomes during working life, incentives for saving and whether the current superannuation system is working. Independent retirees who control spending during a lifetime and save for retirement need to be rewarded not penalized.

Q.14 [a] What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement?

[**b] 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.)?**

The pension rental assistance payment needs review to take account of the higher rental amounts in larger cities compared to country towns.

The increasing number of employers who are avoiding their SG obligations by reclassifying workers as "part time" or by making their employees works as "contractors". These rules could be modified to ensure that more vulnerable workers are part of the SG system.

Women who have not been able to work (raising family, etc) for extended periods of time, need additional consideration for superannuation contributions with catch-up contributions as a good example.

To examine whether the retirement income system is delivering fair outcomes in retirement, the number of homeless seniors and/or those seeking emergency assistance or support for normal living costs could be monitored.

Q.15 Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age?

There are a number of ways older Australians are supported to remain in the workforce. There is the pension bonus scheme and workers can continue to make concessional contributions to superannuation.

For those on the age pension there is an income test on earnings before the pension is affected. Older self-funded retirees can earn up to the SAPTO threshold before paying tax.

More assistance needed to help displaced older workers into new employment channels.

A work test does apply if older workers wish to contribute to super. This work test needs to be abolished if Government wishes to encourage older Australians to participate in the work force.

Q.16 To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?

Workers who did not have the opportunity to make sufficient contributions to super are restricted from making contributions after 65 unless they satisfy the work test. This can limit their retirement income significantly. The work test needs to be abolished if Government wishes to encourage older Australians to contribute to superannuation.

The annual contribution limits could instead be spread over a 5-year rolling window so that workers with variable income can make reasonable contributions.

There is a need to compensate where people did not contribute sufficient superannuation during their working life.

Contribution limits could be raised for those with low value super as they approach retirement. For someone in their 60's with less than say $500,000 in Super the Government could consider doubling the pre-tax (salary sacrifice) contribution limit from $25,000 to $50,000.

Q.17 What are the implications of a maturing SG system for those who are not covered by compulsory superannuation?

Everyone receiving an annual income should be included in the SG system. Low income workers should be excluded.

There will always be a need for a 'safety net' which provides an aged pension and other benefits to those without super. Although as the superannuation system matures this should be a decreasing percentage of the population receiving the pension.

The Panel should note that many workers covered by compulsory superannuation are not receiving their employer contributions. Employers large and small are often being caught out not paying or underpaying compulsory super guarantee contributions.

It is pleasing that the government has introduced stronger regulations. However, it appears that more can be done. The Australian Tax Office could better administer the payment of super contributions. The ATO's single touch payroll system could be strengthened to ensure small business compliance.

A significant proportion of workers are not saving sufficient for their retirement so are most likely to rely on full age pension upon retirement age

There are disadvantages in the tax system for people outside the superannuation system. Retirees outside super may incur substantial tax liability when realising the sale of a major asset. Some are affected more than others. Taxation issues however may be offset by freedom to be free of all the regulations applying to the superannuation system.

Sustainability

Q.18 What should the Panel consider when assessing the sustainability of the retirement income system?

Assuming the individual accumulated enough to provide a comfortable standard of living as defined by ASFA, does the system provide enough capacity for that level of income to be sustainable during a standard lifetime, at a comfortable rate of consumption?

Factors that need consideration:

- What % of GDP should be allocated to the retirement income system
- Fair distribution across all income groups
- Level of indexation for benefits
- Higher level of compulsory superannuation contributions needed
- Level of taxation concessions needed to encourage individuals to contribute to their own retirement provision
- Understanding expectations of individuals (often unrealistic) and educating them on realistic expectations.
- Gov't should not "tinker" with system as a means of raising revenue, or to penalize any particular demographic

The costs to Government in maintaining the Aged Pension and other benefits are considerable. Government should therefore ensure that self-funded retirees are encouraged and supported so that more retirees remain as self-funded rather than being pushed onto pensions.

Looking forward the government could manage age pension expenditure by having set targets for total recipients to make it sustainable for the future. Targets could be set, say 40% of retirees on the pension by 2025, 30% by 2030 and 20% by 2040.

Continue to review Age Pension eligibility age.

Life Expectancy.

Provide good support to those who have saved and are only accessing part of the their Super and/or are only accessing a part pension

Firstly—what can the country afford. The sharing of entitlements requires consideration of the needs of various sectors of the population. Part of the problem is controlling expenses. Excessive charges from health providers, age care homes, financial institutions and other providers all need some form of

Government supervision and Governments at all levels have to be active with legislation and administration.

Parts of the current superannuation system are out of date. Since inception, the average life-span has increased by about 10years. Compulsory draw downs on super funds exceeding 8% are eroding available funds and forcing people onto the pension at a time when meeting rising health costs are at a premium. This is exacerbated by the current low interest environment.

The pension needs to remain as a backup for those who need it most - the current system is not sustainable. The idea of a pension as an entitlement must cease. The aged pension remains the largest single welfare budget item and very few are aware of this.

There is concern about the government's ability to generate sufficient revenue to fund the age pension into the future based on the projected numbers coming into the system

The government's policies and strategy to encourage people to be self-funding

In the Superannuation Pillar the regulator should have a strategy if one or more of the funds fail.

Who and how are they going to pick up the pieces (Throughout our history we have had many failures is financial business and superannuation wont necessarily be no exception)

The super funds are now worrying as the number of new members drop and those in the draw down phase rises. Where is the cash coming from to pay the retirement incomes?

Allow people on the pension to increase their work hours.

Q.19 What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?

The member of AIR have suggested a range of considerations to make the retirement income system more sustainable:

- Running costs are a major factor, both pension cost and tax burden (Life time Govt support). Figure 4 of the discussion paper graphically illustrates that retirees in the 60 income percentile group cost the Government the LEAST in Pension payments AND Tax concessions.

- An appropriate system should be one that maximises the opportunities for individuals to achieve this 60 percentile income level. This allows for individuals to be self-funded, without the cost burden to the Government of a pension or excess Tax concessions. Higher savings should be encouraged with some smaller tax concessions, otherwise people won't be incentivised. Additional savings are achieved in Pillar 3

- Means testing of the age pension needs to be improved. Our group of members has much evidence of retirees gaming the system by moving their savings into areas like the family home, in order to qualify for a pension.

- Expand our excellent & unique system of "Not for Profit" Industry Funds into Non-Union controlled entities. Our members distrust union control but struggle to match their performance with their own skills and opportunities.

- One issue that needs review is the increasing levels of compulsory drawdown levels in superannuation pensions for ageing people. Due to the changes in life expectancy, it is quite possible for some to exhaust their capital in superannuation. In any event, the higher levels well exceed the likely income returns from investments, thus forcing capital reduction.

- Variety of factors—some concerns that large industry and retail super funds may have the capacity to distort stock exchange or property prices.

- Our members are concerned that the "death tax"—that is the 15% payable by self sufficient adult beneficiaries receiving funds from a parent is an unfortunate imposition. They are wary that a Government looking for revenue may wish to increase this percentage or otherwise change superannuation rules to deny tax exemptions for allocated pensions and so on.

- The wisdom of the 3 year contribution cap should be questioned. There should be ways for people to contribute as they can afford and, in the event, they have a windfall (e.g. inheritance etc.) they should be able to place enough into super the aim to get them off the pension.

- It has been suggested, that with superannuation and voluntary savings you should only get **one** tax break. Currently you pay no tax when in super draw down mode and if you have money out side of superannuation you get $18000 tax threshold. If you take up the Superannuation Tax free option you should not get the $18000 tax threshold outside super.

- It is anticipated that the pension would have the greatest impact on sustainability followed by tax concessions within the superannuation pillar.

- Having no tax on an account with 1.6M and earning 80000 at 5% yield is a bit generous when his grandson starts paying tax after 19000

- A point for consideration is whether allowing the gifting of 10000 a year to a maximum of 3 years on the pension is also a bit too generous.

- Insurance within superannuation accounts should go – it should be opt out not in. Insurance today what else tomorrow?

- There are many examples of generosity for one who is on part pension that one would question for example:
    - Getting rental assistance if on part pension if in an over 50 retirement village where they are only renting Land
    - someone places their money in annuity and get the value reduced to 60% of its value then being able to meet the asset test or increase their pension payments. These payments need to be grand fathered and wound back over time to make the system more sustainable

Q.20 How can the overall level of public confidence be assessed? What evidence is available to demonstrate the level of confidence in the system?

Frequent Govt changes cause individuals to distrust the system. Remove the distrust by not allowing anymore changes without grandfathering.

There can be great uncertainties for Retirees brought on by Governments who continue to 'review' and make changes.

Public need to be assured from time to time that system is fair and working. There is a general acceptance that it is.

To assess confidence, there needs to be set of outcomes by which it can be assessed. The system seems to be delivering satisfactory outcomes, however every time there is changes to superannuation the level of confidence drops in that area

Cohesion

Q.21 What should the Panel consider in assessing whether the retirement income system is cohesive?

Discover by research how knowledgeable the public is about “cohesion” between the retirement income system and other systems – it is probable that the majority only obtain this knowledge over time as they come up against the various systems through milestones including:

- Commencing compulsory superannuation contributions (young).
- When children are self sufficient financially in a family, and parents can consider private savings/investments.
- as they reach/near retirement age (middle age).
- When contemplating “downsizing” from family home (older).
- When aged care looms (old).

Consideration of the “whole of adult life” cycle is necessary for people to understand how all systems interact. This means more comprehensive public education is needed.

It is general knowledge from many media and other reports that our super system needs better control mechanisms as many young people change jobs frequently. They are shifted to other funds which do not perform due to high fees and do not survive. It appears that this situation has been recognized and something is being done to alleviate this. However, for many at that early life working stage the system needs controls to assist those with little understanding of superannuation.

The long term performance of superannuation funds apparently varies considerably and this will obviously affect final retirement outcomes. There could be a minimum standard set annually by the Government to eradicate poor performing funds by compulsory transfer to nominated better performing funds with acceptable fee structures.

It seems obvious the super fund industry is in need of independent oversight to protect the uninformed from those that would benefit themselves rather than their members/clients. Those improved individual outcomes would benefit Government pension liability as well as the individual superannuants.

The retirement income system is relatively cohesive however the Panel should consider the management of ‘cross over’ points in the system as follows:
Those in the ‘cross over’ margin between full and part pension and those in the ‘cross over’ margin between part pension and no pension are often treated without equity. Taper rates and income and asset tests need careful scrutiny to avoid penalising those in these cross over points. It must be recognised that aged pensioners receive significant fringe benefits which are not available to non-pensioners.

Expand the CSHC
The Commonwealth Seniors Health Card (CSHC) provides some benefits to those just outside the tests to receive an aged pension. In order to provide better cohesion this card should be reviewed to provide a wider range of benefits than just health. The card could be renamed as the Commonwealth Seniors Card and provide access to a wider range of benefits to those who pass its income test.

Try to increase the level of understanding of whole system by the general public.

Getting some cohesion with major political parties and media to promote rather than denigrate is needed. The fact that Governments during the last 10 years have made adjustments to Superannuation creates uncertainty. The Panel needs to convince Governments to abstain from meddling

In general the income of retirees needs to be balanced so that there is seen to be fairness between retirees receiving an aged pension and retirees that are self funded.

Most self funded retirees have worked extremely hard during their work life to achieve goals they have set for themselves and the system should not be allowed to bring all retirees back to a common denominator.

The interaction between the aged care system and retirement income in general is not well understood for example, house included in aged health assessment not included in pension assessment. Overall the rules and regulations that support aged pension, retirement, aged health and Superannuation are overly complex and can be very difficult for the average retiree and/or member of the public to understand.

Q.22 Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?

The system does not incentivise those with a capacity to save.

Current models are too complex and too limiting. They assume we all have a similar capacity to save, and that our saving opportunities are EQUAL every year, rather than the reality of having periods of higher and lower capacity in our lives**.** Example, annual caps on concessional contributions disincentives savings at periods of high savings opportunity and DON'T balance out the periods of lower savings opportunity. Explore the use of Rolling Caps, rather than Annual Caps to SG contributions.

Also, to minimise tax concessions, the system could allow for ACCELERATED savings early in the workers life cycle. By the use of *compounding effects,* savings targets are reached far earlier. The Tax gathered in the accumulation phase recovers the Tax lost from the larger early SG contributions.

There may well be a big difference as to how different demographics are incentivised. Clearly a low income earner will feel he they could never be financially self sufficient, therefore why bother seeking to save rather than spend? Conversely, someone on higher earnings would likely think more about saving for the future, and incentives to do this are feasible

The Superannuation system is not yet 'mature' but a reasonably high proportion of people do engage and attempt to implement planning for retirement. The growth in the self-managed super sector is evidence that people recognise the need for effective financial planning for retirement. There are also many who 'salary sacrifice' into super particularly in the years approaching retirement. However, there is an increasing knowledge gap as the government has not engaged in recent times as much as it did during the early years of the introduction of the SG system

The fact that many people do not save for retirement means there is room for improvement.

I believe it does not incentivise enough. Witness the rise of After Pay options and the high personal debt levels of many Australians. Currently 68% of retirees receive the pension despite compulsory super being introduced in 1992. It is an easy option to spend money you don't have all your life and then rely on the pension.

The system can't cover the range of variables that may occur to people in their lifetime; e.g.those now retired find the returns on cash investments (Interest rates) the lowest they have been in their lifetimes but 30 years ago they were then in the 17% -18% range. Such conditions don't at this point in time provide the incentive to save.

People go through phases in their life and its only to the end of their working life do they get serious about their retirement income.

Young people after getting an education, then need to get a job, pay off their HECS debt, save for a home, start a family and then think about saving for retirement.
The way the current superannuation system is set up it's always some other person who oversees my money - the system should be changed in respect to knowing how much superannuation contributions you have had set aside for you. The onus on this point should lie with the individual.

An example of disincentivizing is moving assets into superannuation and having to pay capital gains tax on the sale before the transfer. (The aim should always to get the individual off the pension and not collect capital gains tax)

If we lock up too much money up in the early years then we risk of having a stagnant economy. We might have 100000 in super but can't afford to buy a house at the age of 30.

Today with the disruptive environment we live in, counting on a voluntary nest egg should go and be replaced with mandatory superannuation. (if you pay tax you have a superannuation account).

To support the superannuation system, there should be no lump sum draw downs and you should have to use up all your superannuation and voluntary income before getting the pension (this should be done over say a 10 year period)

People have had almost 30 years to get their act together. Often the reason they have not got their act together is the system has allowed them not to.

Q.23 What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?

We have noted behaviour such as deliberate over investing in the family home as a means of gaining the Age Pension

Ours is a good system as it allows each individual make their own choices of what they do with their retirement savings

People with a modest level of superannuation modify their behaviour greatly when there are any changes to the superannuation pillar which as we know is often.

While there is no bi-partisan support for the superannuation system there will always be swings and every time there is a swing some will get hurt and the result, they will default to the pension.

Q.24 What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?

Aged Care (both in the private home and in Aged Care Homes) has become both complex and costly.

For many people, it will become their biggest single cost when their health deteriorates.

Government need to somehow take this into consideration when planning for the future retirement income system.

The Association of Independent Retirees continues to provide support to our members because the system is not well understood by. Part of our role is Financial Literacy.

Anecdotal evidence suggests the ”average” person does not understand the interaction. Education needs to more focused rather than generalized.

Experience with the Aged Care system is that most people don’t understand it until they become involved with it. Expenses are very much an individual choice. There needs to be more public education and advice on the interaction between Aged Care (in private home or Aged Care Home) and the 3 Pillars of retirement income.

Unfortunately, the bureaucracy of the aged care system and its relationship to retirement incomes is not well understood. For example, Centrelink’s long and complicated forms to enter residential aged care are onerous and information requested overlaps greatly with information already held by government departments.

Government could look at pre-filling the forms. Our members report great difficulty in understanding and dealing with the process. We note that there are now Solicitors and Financial Advisors who offer services specialising in dealing with the complex government forms and the contracts issued by residential aged care providers.

Evidence shows that retirees spend a higher proportion of their living expenses on health care than any other group, in particular, when they enter the aged care system.

Aged Pensioners (including holders of the Commonwealth Seniors Health Card) do receive assistance in meeting health care costs and a limited number of in-home aged care packages are available to all retirees once they have been ‘assessed’.

However, although the government has recently funded more in-home aged care packages, there is still more than 100,000 people on the waiting list to receive their assessed level of care package.

Costs for entering residential aged care are also means tested and generally self-funded retirees pay the highest rate. There is a complex set of 4 fees payable when entering residential aged care;

1. Basic daily care fee (BDF) –
2. Means Tested Care Fee (MTCF) –
3. Accommodation Payment Or Refundable Accommodation Deposit (RAD)
4. Extra Services and/or additional service fees

Overlaying these fees are lifetime caps and other regulations and provisions. All of which create a complex structure. Similarly, the provision of in-home care packages is governed by a complex system which is often better understood by the service providers who can charge apparently excessive admin fees.

We note that the aged care fee ‘safety net’ annual and lifetime caps were recommended to be removed in the Tune Report, Legislated Review of Aged Care, July 2017. This Report was presented to the Hon Ken Wyatt AM, MP, the then Minister for Senior Australians and Aged Care, Minister for Indigenous Health. We strongly urge the Government <u>not to remove these caps</u> as this would have a dramatic financial impact on those needing long term care and also significantly impact on their partners and family.

It should be noted that when older retirees reach a point that they require aged care they of course prefer to remain in their own home. The government should continue to support this and release more in-home care packages. This is a cheaper and more cost-effective option for both government and the retiree.

It is well known that retirees can struggle with dealing with government to obtain correct information and in completing long forms and contracts to obtain access to aged care benefits. In particular, self-funded retirees, find difficulty in ‘form filling’ and understanding the process of paying for high costs. Many rely on their adult children to act on their behalf.

Q.25 What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?

Surveys within our own organisation (A.I.R.) indicate a large percentage of members do NOT use financial advisors as they have found them to be too costly and inadequate. Others simply use Industry Funds, and leave all the decisions up to those funds. There is a definitely a role for better financial education.

Many individuals do not seek financial advice. Employment retirement payouts often determine whether advice is sought or not. Some manage well without paid advice, but this may represent a small % of total population.

Increasing complexity forces some to seek advice. If outcomes for "whole of life" are required then extremely few can navigate without professional assistance.

Gov't should encourage people getting financial advice, and provide suitable regulation to keep the cost down.

There is so much regulation and legislation surrounding super, aged care and other factors relating to retirement. There is a continuing need for the average Australian to seek formal advice. This has the danger of leading 'unsophisticated investors' into high risk and unsuitable investment products during their retirement.

There is a role for Government to ensure that information is readily available and easily understood.

There are plenty of books available, some print newspapers include regular sections for retirees, and internet sites also offer information.

Majority of Australians do not pay for financial advice---some to their detriment, but most maintain a satisfactory lifestyle. It is clearly not essential for most people to consult and pay a financial adviser. Those with more assets are in the minority.

Q.26 Is there sufficient integration between the Age Pension and the superannuation system?

There is sufficient integration but, until the compulsory superannuation system reaches maturity, it is hard to say definitively. However, the structures in place should achieve this goal, provided flexibility in the system is maintained to cover "loopholes", major economic downturns, changes in lifestyles, changes in retirement age, etc.

In my opinion there is too much we should wind back the part pension in order to make the full pension more sustainable in the long term.

We should sharpen peoples focus on their choices in the retirement income system.

Productivity commission recommendations contained in report on superannuation effectiveness and efficiency

AIR recommends that the current Retirement Income recognises that the Productivity Commission Report recommendations on Superannuation and that they are not overlooked so that the recommendations are being addressed by respective Government Departments.

AIR supports the recommendations as follows:

1. Improve management of Superannuation Accounts (Recs 1 & 5)
2. Provide better transparency on Superannuation Fund performance
3. Provide those with Superannuation accounts the ability to benchmark their own account against the industry average and top decile performance including MySuper (Recs 2 & 3)
4. Institute outcome tests for all APRA regulated Super Funds with clear benchmarking for MySuper (Rec 4)
5. Implement a user friendly dashboard for all products offered and communicate dashboard (Rec 6 & 7)
6. Amend Corporations Act for clearer definition of “advice” to be “personal advice”(Rec 8)
7. Evaluate the cost benefit of financial literacy (Rec 9)
8. Reassess the need for a Retirement income Covenant (Rec 10)
9. More useful information to be provided to pre-retirees (Rec 11)
10. Provide stronger safeguards on SMSF advice (Rec 13)
11. Limit all fees to cost recovery and ban trailing commissions (Rec 14)
12. Provide for only Opt-in insurance for young and inactive members and provide code of conduct and improved reporting for those members holding insurance (Recs 15, 16 & 17)
13. Conduct independent inquiry into insurance in Super (Rec 18)
14. Improve standards for trustees of Super Funds (Rec 19)
15. Ensure disclosure of super Fund merger activity (Rec 20)
16. Legislate Superannuation Fund relief from CGT liabilities in the event of mergers and transfer events (Rec 21)
17. Provide a clearer articulation of the definition of “best interests” for a trustee (Rec 22)
18. Strengthen and clarify roles of APRA and ASIC on industry surveillance activity and conduct an ongoing review of the performance of the Superannuation System (Recs 23, 24, 25, 26 & 27)
19. Establish a Superannuation Data Working Group (Rec 27)
20. The Government fund a Super member’s independent advisory and assistance body (Rec 28)
21. Establish a Steering Committee to oversee implementation of the Productivity Commission Report recommendations (Rec 31)

Note that Recommendation No 13 (Super Funds receiving Bank information) is not included in the above as it may not be in the interest of AIR members.