

AIR Sydney Hills Branch response to Consultation Paper

AIR Hills Secretary

airsydneyhills@gmail.com

<https://independentretirees.com.au/>

A. How Australia's retirement income system compares internationally

1.	<p>Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?</p> <ol style="list-style-type: none">The New Zealand system allows users to vary their rate of savings to suit life circumstances & is less rigid. You can stop saving and even withdraw savings, or you can save more than the prescribed amount when circumstances suit. Their system incentivises people to save more for their super As NZ contributions are tied to Tax numbers, there is no such thing as "Lost Super"Do Not disregard the benefits of the Australian System. <p>As its ranked 3rd best in the world, then surely the question is "what are the best features of the current system and how can we use that knowledge to make it the BEST in the world"</p>
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B. Purpose of the system and role of the pillars

2.	<p>Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?</p> <p>The majority view of the community is that the pension is a safety net and will ALWAYS be there for me when I retire. (So it's a disincentive)</p> <p>Less well known is the role of SG. SG is of even less importance to younger Australians.</p> <p>This is feedback from members of AIR advocacy group</p>
3.	<p>In what areas of the retirement income system is there a need to improve understanding of its operation?</p> <ol style="list-style-type: none">No people do NOT understand this aspect. They are more focused on wealth accumulation and inheritance, and this is often driven by Financial Advisors.Older Australians see a "nest egg" as good insurance for medical issues & aged care costs in later lifeIndividuals do not comprehend that the performance of the SG system is the controlled enormously by their choices. The performance is based on choices of where to invest your SG savings (Industry Fund, Bank, SMSF) and the need for professional advice.People do comprehend that the pension system is getting unsustainable and that individuals should save for their own retirement
4.	<p>What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes?</p> <ol style="list-style-type: none">Individuals require life skills to some level of Financial Literacy. This encourages them to be better managers and focuses them on the need to be better savers. This could be led by appropriate government policyThe private Employment sector can really only work within rules laid down by

	<p>government. The role of the private Investment sector is to provide safe and reliable investments and affordable and accurate Financial advice</p> <p>3. The role of Government is to</p> <ul style="list-style-type: none"> a. Incentivise individuals to save and Maximise their opportunity to save. b. Provide a better framework for good investment outcomes for individuals with lower financial literacy c. Provide a better framework for improved Superannuation returns. d. Promote Trust of the system. Constant Govt changes cause individuals to distrust the system
5.	<p>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?</p> <p>The Pension is really a safety net. These days its seen as an entitlement and people will sometimes “game the system” to achieve the pension.</p>
6.	<p>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?</p> <p>Our group sees the balance as Pillar 1 least used, Pillar 2 most used (to a sensible cap) and Pillar 3 to supplement Pillar 2 as long as there is not excess government support of Pillar 3</p> <p>Figure 4 of the discussion paper graphically illustrates this</p> <p>Retirees in the 60 Percentile group cost the Government the least in BOTH Pension payments and TAX concessions. The appropriate balance should be one that maximises the opportunities for individuals to achieve this level of retirement savings. Additional savings are achieved in Pillar 3. See our diagram in Question 19</p>

C. The changing Australian landscape

7a.	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? Unaffordable housing costs are driving younger Australians into rental, which severely impact their capacity to save for their retirement or potentially have a mortgage in retirement
7b.	To what extent is the system responsive to these trends? It does not seem responsive
7c.	<p>Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?</p> <p>Does the system adequately allow for Australians to save at different points in their life cycle, eg starting work later, working past retirement age?</p> <p>Does it allow for individuals to save more for a shorter part of their working lives, to allow for early redundancy?</p> <p>Does it allow for higher than average bursts of savings, such as asset distribution caused by relationship break down?</p> <p>Does Govt policy discourage employers from avoiding their SG responsibilities?</p>

D. Principles for assessing the system

8.	<p>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?</p> <p>Are there other principles that should be included?</p>
9.	<p>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?</p> <p>A change is needed to the minimum drawdown % for retirees in later years due to the rapidly increasing longevity of older retirees who need to more funds for a longer retirement and increasing age care costs.</p>

E. Adequacy

10.	<p>What should the Panel consider when assessing the adequacy of the retirement income system?</p> <p>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?</p> <p>Does the system require individuals to take riskier investments due to the low interest returns environment? Can the Government to give better access to Bonds, which are prohibitive to purchase in the local 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</p> <p>Returns for SMSFs have not been as good as other methods of investing. There is much evidence of retirees taking the “least effort route” in investing in Term Deposits and similar. 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)</p> <p>A retirement sector with a comfortable rate of consumption will improve the overall health of the economy</p>
11.	<p>What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income?</p> <p>Should the system be measured against whether it delivers a minimum income level in retirement? YES</p> <p>Reflects a proportion of pre-retirement income (and if so, what period of pre-retirement income);</p> <p>Or matches a certain level of expenses? comfortable standard of living as defined by ASFA</p>
12.	<p>What evidence is available to assess whether retirees have an adequate level of income?</p>

F. Equity

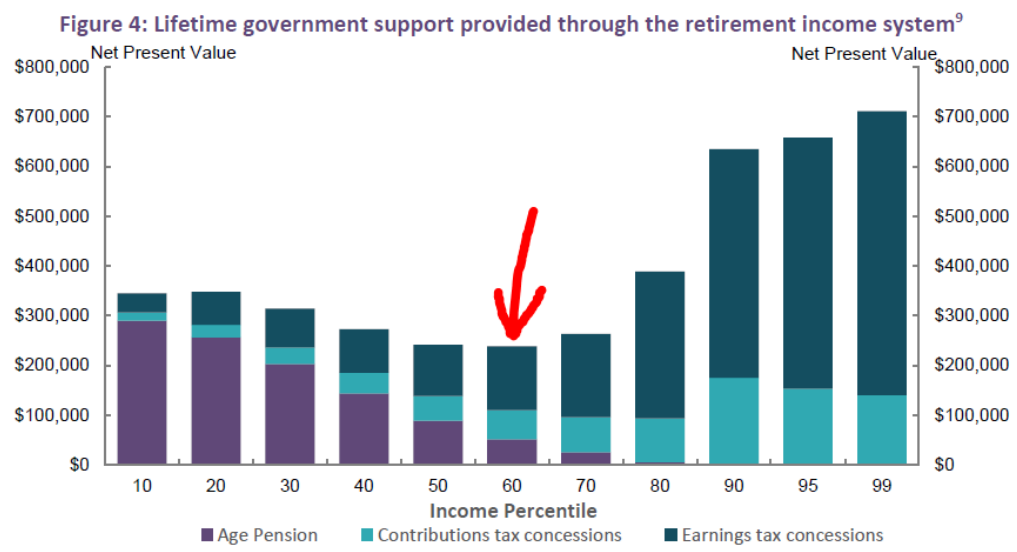
13.	<p>What should the Panel consider when assessing the equity of the retirement income system?</p> <p>The number of homeless people > 50 years of age should be a primary benchmark, particularly women > 50</p>
14.	<p>What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement?</p> <p>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.)?</p> <p>The disparity of the “single” pension trying to meet all costs, while it is easier for couples to meet costs on a “couples” pension</p> <p>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 allow more vulnerable workers to be part of the SG system</p>
15.	<p>Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age?</p> <p>No. The system is prohibitive for older Australians to make significant SG contributions.</p>
16.	<p>To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?</p> <p>Current limits are TOO FOCUSED on a SINGLE YEAR Cap limits</p> <p>The Annual CAP limits could instead be spread over a 5-year rolling window so that workers with variable income can make reasonable contributions</p> <p>AIR Policy requires that workers who are denied access to the Super system due to inequity or personal circumstances should be able to make substantial tax free deposits in order to purchase a reasonable level of Income stream product</p>
17.	<p>What are the implications of a maturing SG system for those who are not covered by compulsory superannuation? NOT GOOD</p>

G. Sustainability

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 for that level of income to be sustainable during a standard lifetime, at a comfortable rate of consumption?**

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?

a) 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 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



b) Rorts of the Age pension. Means testing needs to be improved. Our group 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.

c) 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 SMSF skills & opportunities.

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 politicians to be the total arbiters of the rules. Allow for more Community involvement in setting the rules

H. Cohesion

21.	<p>What should the Panel consider in assessing whether the retirement income system is cohesive?</p> <p>(Assume a target savings level based on ASFA) How much do the current rules limit a worker from reaching these savings goals?</p>
22.	<p>Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?</p> <p>The system does not incentivise those with a capacity to save.</p> <p>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 disincentivise 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.</p> <p>Also, to minimise tax losses, the system could allow for ACCELERATED Savings early in the workers life cycle. By the use of <i>compounding effects</i>, savings targets are reached far earlier. The Tax gathered in the accumulation phase recovers the Tax lost from the larger early SG contributions.</p>
23.	<p>What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?</p> <p>We have noted behaviour such as deliberate over investing in the family home as a means of gaining the Age Pension</p>
24.	<p>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?</p> <p>The Assoc of Independent Retirees <u>only exists</u> because the system is not well understood by Seniors. Part of our role is Financial Education</p>
25.	<p>What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?</p> <p>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 an 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</p>
26.	<p>Is there sufficient integration between the Age Pension and the superannuation system?</p>

J. Other issues/material that the Panel should take into account in establishing the fact base

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