I was born just before the outbreak of World War 2, and had a career as an engineer at the Overseas Telecommunications Commission. I am now in the 28th year of my retirement, and have benefited from the excellent returns on investment that were available during that period, but I recognise that they will not be available to the younger generation in the medium term future.

The current super and age pension schemes do not deliver the benefits to the budget or to the public that were anticipated, since it is not operating as a safety net, as the family home is sheltered.

Changes

Super to continue to be accessible at age 55 but only tax free up to the level of the age pension. Withdrawals above this to be taxed at 15%

Retirees can apply in extraordinary circumstances for a tax free withdrawal.

Once pension age is reached all super withdrawals will be tax free. However any withdrawal above the age pension will continue to be counted in the asset test for five years, the same as the voluntary disposal of any other asset.

Investment

It would seem to be self evident that it is the national interest that as much borrowing as possible should be sourced from domestic saving rather than from overseas.

Individuals are only going to save if they receive a real after tax return and feel that their savings are secure.

The whole super system has been greatly damaged by the recent changes, as no-one is going to lock up money for 30 years when the government can change the rules at any time.

For confidence to return superannuation legislation would have to be locked up in the same manner as the GST legislation.

As only the rich have the capacity to save, this means that most of the benefits will flow to them. However the poor will still benefit from a country that is not in thrall to overseas lenders.

If people, particularly the self-employed, feel that cannot usefully save their surplus income, they will just reduce their hours of work.

The suggestion that tax concessions on saving are a great drain on treasury suffers from the fallacy that they assume that the saving would continue if the concessions were removed.

Another way of looking at super is that there is no substantial loss to treasury at all.

This is as follows:

Generally speaking, about two thirds of super is in accumulation mode and one third in pension mode.

As accumulation mode is taxed at 15% and pension at zero this means that the overall tax rate is around 10%

All the treasury receives from overseas borrowing is the 10% withholding tax.

If it is conceded that every dollar of super replaces a dollar of overseas borrowing, this means that there is no net cost to treasury.

Age Pension

I work on the principle that it is much better to encourage than to force, and that the age pension system needs to be reformed.

My proposal needs a new attractive name, and I propose to call it “Buster”

It is called Buster because, like the famous wind, it can sweep away many of the financial hurdles facing pensioners, and also yield a considerable benefit to Treasury.

The scheme logo could be a stylised reproduction of the flag that used to fly at the GPO tower on a sweltering Sydney afternoon to announce that the Southerly Buster had reached Jervis Bay.

Membership of Buster would be entirely voluntary. As a result, it could start as soon as legislation has passed Parliament.

To be eligible to join Buster you would have to be eligible to receive the age pension under current conditions, with a family home whose pension value is more than $250,000.

The pension value will be calculated in the following manner:

> The sum of the Unimproved Capital Value (UCV) of the property, plus the average value of properties in the same postcode, less any mortgage, less any government or other debt, and less a threshold amount to be decided by government. These values are readily available from state governments and the real estate industry. The threshold would be set (possibly $300k?) so as not to affect most pensioners, leaving only those with houses in Sydney and Melbourne, plus a few in the top suburbs of the other capital cities.

As an example, consider Joe, who owns a $2m house at Chatswood. His value would be:

UCV:	$1.5 million
plus average value of houses in 2067 postcode:	$500k
less mortgage or other debt:	nil
less government threshold:	$300k
thus the net pension value would be:	$1.7 million

Once accepted into Buster, you would be a member for life, and cannot leave. If you are married, your spouse would also become a member and all loans would last until both had died.

As part of joining Buster, the applicant(s) would consent to have the pension value of their family home included in the pensions asset test.

There are two parts to Buster:

Part A , where the government would lend you up to 150% of the age pension against the family home. The loan would be for life and would incur interest at the 10 year bond rate. The banks would not be involved, with all payments through Centrelink.

Part B, where the government would lend you the cost of major financial payments, such as dental fees, medical gap payments, cataract operations etc. Essentially this would include all medical or dental payments which would be fully taxable in the hands of the recipient.

These loans would be **Interest Free**.

As in Part A, these loans would be for the life of the pensioner(s) and secured on the family home. All loans would act to reduce the pension value of the family home.

This would remove one of the chief worries of a pensioner that they could suffer from a painful hip or knee condition and be faced with the alternative of joining an enormous medicare waiting list (and having years of pain) or finding 50 or 60 thousand dollars to have it fixed privately. Even if the pensioner was living in a 2 million dollar house they wouldn't have too much ready cash, otherwise they would not qualify for the pension.

There would be a 12 month qualifying period when joining, to encourage pensioners to sign up straight away and not wait until they had a medical emergency.

The member would be able to save by dropping their private medical insurance, as all costs not already covered by medicare would be met by Buster. They may still need hospital insurance.

In the unlikely event that the pensioner lived long enough, or incurred such enormous medical expenses that the pension value of their home was reduced to zero, further loans would not be available, but they would still receive the full age pension as there would no longer be any addition to their asset test.

If the pensioner were to receive a windfall sum of money, such as from downsizing, legacy from a will, win the lottery, etc., they could choose to use some or all of it to reduce their Buster debt, and this amount would then not be included in their asset test.

Financial implications:

The loans advanced in **Part A** would be financed by 10 year loans, with the interest cost being covered by the interest received, so Treasury would benefit by the full amount of the age pension that would not have to be paid.

The loans advanced in **Part B** would have an average duration of about eight years, as they would be advanced throughout the period when the person was a pensioner, not just at the start.

The amounts would be fully taxable at around the highest tax rate, so it would be reasonable to assume that treasury would recover more than 40% of the amount shortly after the loan was made.

Let us take an example of Joe who has a hip operation and has a loan of $50k

Treasury recovers $20k in tax, leaving it $30k out of pocket.

But Treasury will recover $50k in around 8 years time, and at current interest rates the present value of this loan would be expected to be more than $30k, so Treasury could make a bit on the deal.

It is not intended that Treasury should do anything more than break even on **Part B** loans; its savings come from **Part A**. There would also be benefits to Treasury from reduced medicare costs, as more pensioners choose to go fully private. These savings would be hard to calculate, but they would exist. There would also be a benefit for the private health funds, as pensioners drop out. As the population ages this scheme could help to reduce the impact on Treasury, as well as helping the pensioner liberate some of their house's value in a efficient manner. The only losers would be the pensioner's heirs, who would receive a slightly smaller legacy from his estate.

Proper actuarial analysis would need to be done on this proposal, but I would think my rough calculations should be pretty close.

What age pensioners really want is simplicity and peace of mind. I believe that this proposal would give it to them.