RETIREMENT INCOME REVIEW

SUBMISSION TO TREASURY

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2. INTRODUCTION

I submit that the Australian pension system is inefficient and economically unsustainable due to two key flawed assumptions:

2.1 Flawed assumption 1:

The three pillars of the current retirement system 'encourage individuals to make provisions during the working lives to support their retirement needs'.

This claim is true to a point, in so far as the superannuation system is supported by the Superannuation Guarantee and tax concessions, enabling those who were or are able to accrue substantial superannuation reserves to fund a comfortable retirement.

The third pillar, however, provides encouragement only for those who can accrue very substantial voluntary savings. The current system effectively penalises - often quite harshly - those who save voluntarily but whose savings at retirement fall within a specific range (currently between approx. $550,000 and $1.3 million for a couple).

The system also punishes those who have limited knowledge of investment and/or are risk averse. Typically, those who suffered educational disadvantage, who are ill or disabled, or who suffer anxiety, depression, PTSD or other mental illnesses fall into this category. Many are struggling to achieve an income that matches the aged pension, and are forced to drain personal savings to meet daily expenses. They may receive none of the pensioner benefits and concessions afforded to persons who saved less, despite, in many instances, having far greater capacity to save.

Deeming rates and current asset thresholds impose excessive 'tax' on retirees with savings achieving low to average return rates, while handsomely rewarding the most privileged who have the financial savvy to attain high returns.

2.2 Flawed assumption 2:

The national aged pension means testing requirements target those in greatest need.

The current system **does not** target those in greatest need, but rather those who successfully **create the impression of having need**. It is wide open to manipulation, and is grossly unfair to the most honest and responsible among the aging community. For example:

- If a person chooses to invest in a grand and expensive family home, their assets can be preserved and they can access taxpayer support and pension concessions. Their counterparts who accept modest accommodation and invest responsibly in equities, managed funds, etc. are deprived, and compelled to live off their assets, regardless that they may not have the capacity to invest in a way that yields an income even equal to the aged pension.
- If a person chooses to gift generously to offspring or grandchildren five years prior to reaching age pension qualifying age, that person is rewarded with taxpayer-funded income and concessions despite potentially having far greater wealth, had they not chosen to gift it, than the responsible and honest person who preserves their savings for their own use. In many instances, the recipients of the gift provide generously for the retiree, paying their bills for them and buying clothing, groceries etc. with no declaration to Centrelink. The current system, by heavily restricting access to the pension and concessions where a person has modest savings - no matter how hard won - encourages and generously rewards this kind of manipulative conduct, yet denies an honest pensioner the right to extend modest gifts to loved ones in need.
- If a person chooses to spend lavishly during their working life, they may be deemed 'needy' based on their savings at retirement despite the fact that they may have cruised the world, partied lavishly, and generally enjoyed a very high standard of living. Others, who live more frugally, are unfairly deemed 'less needy' because they made the sacrifices to set funds aside for future needs.
- The system ignores potential future needs when assessing need. A person who enjoys good mental and physical health and owns a relatively new home in good condition clearly has far less need than a person who faces major health challenges and/or owns an old home in need of repair. A retiree who, for example, anticipates a huge cost for dental work or eye surgery, or chooses to save to replace the roof or refurbish the kitchen, is punished harshly for setting funds aside to meet these costs, while the more affluent retiree may unnecessarily replace their car or take an overseas holiday to maintain a level of assets that enables them to receive continued taxpayer support.
- The system discourages responsible endeavour to care for aging relatives or sick or needy children or grandchildren. If a retiree chooses to delay the 'trip of a lifetime' for several years to care for an aging parent, they are deprived of pension income for those years. Yet if they dump their aging parent in aged care and flit off around the world, they receive pension benefits and concessions much sooner.

3. CONSULTATION QUESTIONS:

3.1 Are there aspects of the design of retirement income system in other countries that are relevant to Australia?

YES. Many other countries do not means-test pensions, but recognize that responsible living and honest declarations of means should be rewarded, not punished, and that senior citizens should be treated with respect.

By not applying a harsh assets test, other countries do not position retirees who may be educationally deprived, intellectually challenged, ill, or losing mental faculties to have to engage in risky and stressful investment plans in order to achieve an adequate income, and do not punish savers for living responsibly.

Eliminating means tests would save vast sums in administration and policing costs and reduce health costs by reducing stress and anxiety among retirees. It would also increase productivity and encourage saving for retirement by removing the existing penalties for honesty and responsible living. It would greatly improve social harmony. To the extent that paying pensions to people who have no need of the income imposed additional cost, a sensible system of taxing retirement incomes should eliminate that cost and negate any unfair benefit gained by wealthier retirees accessing pensions.

Retirees in other nations express shock and disgust when advised that Australians, after decades of contributing to society, are subjected to gross invasion of privacy, humiliation and fear if they need a little assistance to meet their living costs, and have to constantly monitor the value of their assets and their income to avoid harsh penalties for accidentally understating their finances. I wonder if policy makers have any concept of how humiliating and stressful it is to have to account for every asset and suffer interrogation by generously-salaried young folk who have no idea what life was or is like for older Australians, and who often are consumed with jealousy and incapable of understanding that the interviewee’s financial standing is the result of 50+ years of hard work, taxpaying, and frugal living - often under extraordinarily difficult conditions (contrary to the general public perception).

The other aspect of the Australian system that appears to differ substantially from other nations is that it is constantly changing, leaving retirees nervous and fearful and unable to plan. We need stability in the system. It is patently unfair and cruel to have retirees living in constant fear of changes to the system that may dramatically reduce their living standards or capacity to feel confident that their funds will last for the rest of their life.

3.2 Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this? In what areas of the retirement income system is there a need to improve understanding of its operation?

I think the **stated** objectives of the Australian retirement income system are broadly understood, but I think there is a great deal of resentment and anger at the unfairness of the underlying assumptions. For example, retirees hear the message repeated over and over that the system is not intended to assist wealth accumulation in order to provide for inheritances. However, it is grossly unfair that a person who chooses to spend freely can access pension and concession benefits, while a person whose choice is to make sacrifices during their working life to facilitate inheritance benefits that might enable grandchildren to, for example, access better education, is expected to spend their savings and is not permitted to exercise their choice as to their use of their earnings. While it is reasonable that people should use employer-funded and tax advantaged superannuation to live on in retirement, it is grossly unfair - and potentially economically detrimental - that a person has no reasonable freedom to determine how they wish to use savings accrued through personal sacrifice during their working life. Savings accrued through personal sacrifice should benefit the saver in whatever way the saver chooses - not be used to reduce pension income and thus benefit the taxpayer.

3.3 What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes? 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? What are the trade-offs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?

The private sector clearly has a role to play in ensuring wages and salaries are adequate not just to provide for day to day essentials, but to enable workers to save for their retirement, whether via compulsory programs or voluntarily. The private sector bears an obligation to support government initiatives and comply with legislation intended to facilitate saving for retirement. The private sector should also contribute via charitable programs that address the more extreme needs. The government has an obligation to structure a system that provides adequately for those who are genuinely unable to provide for themselves, and to encourage and reward responsible lifestyles that enable retirees to substantially provide for themselves and/or to pass on wealth to heirs to reduce the dependency of future generations on the taxpayer.

It is in examining the role of individuals that it becomes clear where the government is failing and the current system is flawed. While it is highly desirable that individuals should save for their retirement, the reality is that doing so may impose major unfair disadvantage, as detailed in the Introduction to this submission.

The extremely harsh assets test currently imposes a requirement for a retiree whose assets only moderately exceed current limits to achieve approx. 8% per annum investment return to compensate for losses of pension and concessions. While this level of return may be quite achievable for those with investment education or access to affordable and reliable advice, for many retirees it is grossly unrealistic to aspire to this level of return. (Even professionally managed superannuation funds average only 6.7% return, and thus many asset-tested pensioners are losing heavily by having assets, when clearly the assets should be yielding gain.)

Many who fall 'in the crack' between about $500,000 and $1.3 million in assessable assets (for a couple) will find themselves far worse off in income terms than if they had hundreds of thousands less. While it is valid to assert that they can supplement their income by drawing on capital, the reality is that doing so deprives them of any real benefit from having saved in the first place, and may unfairly deprive them of the ability to fund big ticket necessities later in their retirement (such as home help, home renovation, specialist optical or dental treatment, personal care, etc.). It also deprives them of the ability to leave something behind for heirs, possibly to fund a grandchild's education or to support a disabled or chronically ill heir (thus saving imposition on the taxpayer). It must be recognized that had this same retiree been in a position to gift earlier in their life, they could have accessed taxpayer support to compensate for the cost of the gift. Yet a less financially secure retiree who finds it essential to hold on to their savings until death, lest they encounter need, is denied that same taxpayer support and the right to make the gift at all. How is that fair or equitable, or, in fact, in the longer-term interests of the economy? It not only deprives the heir of an inheritance that might enable them to be financially independent, but it also removes a potentially powerful incentive to save. It encourages less responsible financial choices, manipulation and even dishonesty.

3.4 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? To what extent is the system responsive to these trends? Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?

Possibly the greatest failing of the current system is that it has been unresponsive to the challenges faced by older Australians in a changing labour market. Those currently near retirement have achieved limited benefit from compulsory superannuation schemes and may have limited assets to enable them to survive an extended period of unemployment prior to reaching retirement age. By the time they retire, their assets are all gone. Many report experiencing extreme hardship in the years prior to retirement, and complain about enforced requirements to seek employment and do voluntary or community work. Many struggle with health issues, yet cannot satisfy the criteria for a disability pension. These older Australians are suffering terribly through no fault of their own, but as a result of an apparent complete lack of empathy and appreciation of the challenges they face and the contribution they have made to the nation over decades of hard work and paying tax.

The response of the populace to changing trends in home ownership, on the other hand, has been to greatly exaggerate the challenges faced by younger Australians and even to accuse older Australians of 'greed' and 'selfishness' by holding on to their homes. These accusations are hurtful and unfounded. The reality is that the lifetime cost of a home of equal size and quality to those most older Australians settled for is far, far less than the cost older Australians bore. Also, the cost of furnishings, appliances, cars, linen, kitchenware and other household supplies has fallen dramatically (relative to incomes), and interest on loans to buy cars and appliances is a tiny fraction of the rates older Australians paid. The reality is that today's young Australian is quite well positioned to purchase a home, by comparison with their parents and grandparents, but lifestyle choices have changed. Young Australians holiday overseas, replace their cars, furniture and appliance frequently, and spend more freely on restaurants, parties, etc. Expectations have changed. The average home used to have two bedrooms, a sleepout, one bathroom and a single garage. Today the average is 4 bedrooms, two+ bathrooms, two+ living rooms, double garage, and frequently professionally landscaped yard and swimming pool. There are exceptions. Some young folk genuinely struggle, but that has always been the case. Home ownership requires discipline and sacrifice, and young Australians appear far less inclined to make the sacrifices their parents and grandparents made. Perhaps the system needs to provide stronger incentives to make those sacrifices, by reducing pension system discrimination against home owners.

The current system harshly penalises retired home owners, imposing substantially higher asset test limits and ignoring the heavy cost of rates, insurance and maintenance, while subsidising rent. While it is true that those renting often experience severe hardship, the hardship experienced by many home owners (particularly those still paying off homes) is completely ignored, with an invalid assumption that a home owner is automatically much better off than a non-homeowner.

3.5 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? 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?

The benchmarks are appropriate, but we are left to question 'what is adequate, and what is sustainable?'. We know that there is no equity in the current system. As stated above, those who saved and achieved only modest asset levels between $500,000 and $1.3 million (for a couple) are suffering gross unfairness, as are those who face extraordinary health or family challenges that are not recognized as creating 'need'.

3.6 What should the Panel consider when assessing the adequacy of the retirement income system?

Adequacy needs to be measured in terms not just of ability to meet the cost of day to day essentials, but by comparison with the living standards of younger Australians, and by assessment of the standard of living a retiree deserves, having regard to the effort and sacrifices they made to achieve comfort in retirement. An income that falls below aged pension level, paid to someone who sacrificed luxuries for decades to save for retirement, cannot be considered adequate. Adequacy, in such circumstances, requires that that retiree enjoys an income considerably higher than the highest income attainable by someone with less assets.

3.7 What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflects a proportion of pre-retirement income (and if so, what period of pre-retirement income); or matches a certain level of expenses? What evidence is available to assess whether retirees have an adequate level of income?

Assessments of adequacy should consider minimum requirements, current needs, and the living standard a retiree has earned by either or both higher levels of earning or higher levels of sacrificing to save. The current system punishes saving, forcing those who sacrificed to attain a higher standard of living in retirement to either sacrifice the lifestyle they worked so hard to attain or to draw heavily on capital and potentially run out of money well before their life ends, or have insufficient to cover the costs of home repair or renovation, health care, and aged care - despite having sacrificed to accumulate assets to cover those costs. This is patently unfair, and discourages saving and responsible lifestyle choices.

Generally speaking, the system should deliver a minimum income level in retirement, but should do so universally to all retirees, without regard to their personal endeavours and financial status, so that those who work harder and save better enjoy the benefits they earn. Naturally, retirement incomes should be fairly taxed to avoid unwarranted benefits accruing to the very well-to-do, but nobody should suffer penalty or deprivation of pension benefits for having saved responsibly, or for choosing to accrue a nest egg to meet an anticipated future heavy expense.

Assessing adequacy is impossible using broad-based criteria and generalized data. What is adequate for a healthy 80-year-old living in a modern, well-maintained home is nowhere near adequate for a 67-year-old in poor health in a home needing high maintenance, nor for a 70-year-old couple whose widowed son sends four children to spend the school holidays with grandparents, nor for the 75-year-old who needs regular physiotherapy, massage or chiropractic treatments due to a past back injury, yet has no private health cover.

People's circumstances are diverse, and their needs will vary depending on their circumstances. What is more important than determining so-called 'adequacy' is ensuring that those who save to meet their particular needs are not penalised for doing so. Currently, the most careful planning and saving may result in detriment rather than ensuring an adequate retirement income because of the appallingly harsh and unfair means tests applied to those who need a pension or part pension.

3.8 What should the Panel consider when assessing the equity of the retirement income system?

Considerations of equity should include consideration of the impact of various forms of disadvantage, including involuntary retirement, disability, etc. Currently, the system claims to target those in most need, but in fact best serves those who successfully manipulate to appear needy, and treats those who are more honest and responsible extremely unfairly. Support for non-homeowners is inequitable in so far as it ignores the plight of homeowners who bear heavy costs on limited incomes and merely assumes better financial capacity than non-homeowners. While it is true that homeowners have an asset they can borrow against, it should be recognized that they worked hard and sacrificed a great deal to acquire that asset, while, in many cases, non-homeowners enjoyed a much higher standard of living. There needs to be extreme caution in merely assuming that a non-homeowner suffers disadvantage that entitles them to a more generous income in retirement. Current policy risks discouraging workers from endeavouring to acquire a home of their own.

3.9 What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? 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.)? Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age? To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life? What are the implications of a maturing SG system for those who are not covered by compulsory superannuation?

The current system discriminates heavily against homeowners with high ownership costs and/or modest and aging homes. It discriminates heavily against those who had broken earning patterns. And it discriminates heavily against those who, despite relatively low earnings, achieved moderate levels of private savings through heavy sacrifice of lifestyle (potentially a choice made with the expectation of a more comfortable and secure retirement). It discriminates against those who have accrued modest assets but face extraordinary challenges in retirement - such as the need to support family members in crisis. It also discriminates against those who continue to work past retirement age.

It favours higher income earners and it strongly favours those who are fortunate enough to be financially educated and capable of generating high yields from investments, while it harshly punishes savers who, having accumulated a modest nest egg, are unable to generate strong investment returns or are heavily risk averse. Thus, the system generally exacerbates inequities experienced during working life. And clearly those not covered by compulsory superannuation are likely to fall among those whose disadvantage is exacerbated by the pension system, particularly if they achieve modest but not substantial levels of personal saving.

3.10 What should the Panel consider when assessing the sustainability of the retirement income system?

Sustainability is determined largely by the level of taxation imposed on those who can afford to contribute, as well as by the extent to which the system indulges persons who have not made a reasonable contribution. Strict residency requirements should be imposed to ensure that those receiving benefits are not persons who migrated to Australia seeking benefits. Sustainability also needs to consider the productivity benefits of promising a comfortable retirement. Younger Australians are asking why they should work hard and save when they cannot be confident of a comfortable retirement while still young enough to enjoy it. The government often speaks of the benefits of allowing people to keep more of their own money, but then imposes cruel means tests in retirement that deny people the right to enjoy the benefits of their work and saving. This is counterproductive. If we can't enjoy the retirement we earned, and the right to bequeath to our heirs if we worked and sacrificed to be able to do so, why should we work and be productive? There is simply no point in working and sacrificing to save if all it achieves it to reduce entitlement to income support and benefits in old age. Likewise, why strive to own a home if the cost of being a homeowner in retirement is burdensome?

Retirees are now being advised that they must expect to live on their capital and cannot hope to leave preserve anything to leave to heirs. That being the case, for vast numbers of retirees who fall in the 'gap' between the assets test threshold and approx. $650,000 per person (currently), saving more than about $300,000, or preserving excess savings (if already retired) yields no quantifiable benefit. This will make the retirement income system progressively less sustainable as more retirees see the benefit of saving less, investing more in the family home, or otherwise using, gifting or hiding assets to ensure pension eligibility. To improve sustainability, the government must reform the system to remove the disadvantage to savers who attain modest asset levels and cannot generate high returns.

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

I believe the major factors causing lack of confidence in the system are:

- the harshness and unfairness of the means tests, and the manner in which they favour the privileged and those who manipulate but punish the honest and responsible battlers, and
- the manner in which the means tests discourage and penalize long-term financial planning and saving for expected major expenses, while rewarding those who spend in a manner calculated to maximise pension entitlements.
- the instability of the system, which leaves retirees and those soon to retire confused and stressed; unable to plan, and in constant fear of further detrimental system changes.

At the same time, superannuation tax concessions cost more than the aged pension but deliver most benefit to high income earners. The high and rapidly growing cost of these concessions is often exposed as the biggest threat to the long-term sustainability of the retirement system. Sustainability cannot be achieved by depriving lower income earners to load the coffers of wealthier persons, nor by punishing honesty and responsible planning.

The superannuation system caters well to those with a substantial income and unbroken earning patterns. It does not serve lower income earners and those with broken earning patterns, or those who are forced to drain their super when health issues force early retirement. The tax concessions favour those who are able to make substantial contributions, and thus taxpayers are carrying an excessive cost of retirement for the more affluent, while battlers receive very little tax benefit from superannuation and then gain only marginal benefit from the pension system.

3.12 What should the Panel consider in assessing whether the retirement income system is cohesive?

The system is far too complex. Access to retirement income products is limited to those with substantial financial savvy or quality advisers, which, by definition, means the most educationally and financially privileged. Those who struggle to understand the system and to access retirement income products will inevitably be those in greatest **genuine** need (i.e. those who disadvantage or crisis has made risk averse; the educationally disadvantaged; the sick and disabled and those with diminishing mental capacity.)

The system provides strong incentives and rewards for premature spending and punishes planning and saving for major future expenses. To the extent that they are able, many therefore will over-invest in the family home or gift money to children with verbal agreements that children will assist with major expenses later on. However, structuring the system in this manner creates incentives to rely more heavily on taxpayer support, and disadvantages the neediest, who have poor family support or whose children face major financial challenges.

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

NO. Unless a person can attain very high levels of wealth ($1.3 million+ for a couple), or are highly financially educated, they are likely to find little or no real benefit in saving more than a fraction of that amount. Saving after retirement, to meet aged care costs and costs of home repair or renovation or heavy medical costs, is clearly disadvantageous to those on pensions or close to the pension eligibility levels.

Age is ignored in means tests, despite its relevance in assessing need. For example, a 90+-year-old would be considered quite wealthy with $500,000 in assets, yet a recent retiree with an equal amount and 30 or so more years to live has insufficient funds for future needs. Health and condition of the family home is also ignored. The assets test treats a healthy owner of a new home exactly the same as the sick or disabled owner of a tumble-down shack. And access to private medical benefits insurance is ignored, thus disadvantaging those who, due to broken earning patterns or forced early retirement, could not afford to maintain insurance and now can't afford the LHC loading, so are forced to remain uninsured. Thus, it is clearly to a retiree's advantage to spend heavily on home renovation or replacement and minimise savings, or to sell their home, spend (or hide) the proceeds, and claim rent assistance. (It is notable that many financial advisers are now saying the best place for savings is under the bed, so you don't lose more in pension benefits than you gain in investment returns.)

3.14 What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour? 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? What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?

I don't think there is much evidence at all that the system is well understood, or that Australians are able to achieve income outcomes without very expensive and hard to access formal financial advice. In fact, I think the complexity of the system is creating ill health, severe anxiety, and negative financial habits for retirees who have not enjoyed significant educational benefits, or who suffer from health challenges or are risk averse due to past hardship.

I believe forums such as 'Starts at 60' and 'Your Life Choices' provide copious evidence of both opinion and behaviour, and clearly evidence that the current system is considered grossly unfair. These forums often expose the manipulative and dishonest behaviour that maximises pension benefits, and the extreme hardships suffered by those against whom the current system unfairly discriminates. I believe decision-makers would do well to read the comments on these forums regularly. Doing so would provide insight into the REAL facts, rather than contrived evidence and theory peddled by organisations with vested interests and flawed assumptions of people who are not directly impacted by the policies.

3.15 Is there sufficient integration between the Age Pension and the superannuation system?

No. The superannuation system favours high income earners excessively, while the aged pension system favours the less responsible and the manipulative. The responsible battler, who achieves only modest or very little benefit from superannuation tax concessions, is harshly deprived by the pension system and therefore loses at both ends.

One area where integration of the systems fails dismally is in the recently introduced 'downsizing' provisions. While those with substantial assets or continuing high incomes can downsize with tax benefits, those who are most likely to **need** to downsize, because their pension income is insufficient and/or their home ownership costs are excessive, actually lose by downsizing. They incur heavy costs, and while they may place any gains in their super fund, the gains reduce their pension entitlements or extend the length of time that they are compelled to struggle to self-fund.

Another area of poor interaction was the Labor Party proposal on franking credits, which unfairly deprived those in greatest need of income while allowing pensioners and some superannuation fund members to retain the benefit. Thankfully, the proposal never passed into law, but it created a great deal of fear and anger and drove a number of self-funded retirees to abandon their efforts to remain independent. It sent a strong message to the community that striving for independence in retirement is detrimental, and reliance on a pension or part pension makes you more 'entitled' and likely substantially more affluent.

3. SUMMARY:

The system currently seeks to serve the needs of a substantial number of retirees who

- enjoyed little or no benefit from superannuation,
- worked and paid taxes for decades with an expectation - created by messages communicated in their working years and the manner in which the system supported their parents and grandparents - that the taxpayer would support their retirement and that any savings they accumulated would yield between 7 and 17% return sitting in a bank account.

With limited education and no financial education, these retirees are now suffering deep anxiety and stress, and feel unfairly blamed for current budget problems and unfairly punished for having worked hard to buy a home and to accumulate modest savings. They have a strong desire to retain their home debt-free after up to five decades of struggling with mortgage payments. They have a strong desire to bequeath something to their offspring, having saved and sacrificed for decades to be able to help their children and grandchildren to attain a higher standard of education and greater opportunities than today's retirees - many of whom left school at 15 and worked in menial and unsatisfying employment.

The current system is failing these retirees dismally, penalising them for responsible living and honest declaration of means, while rewarding manipulators and spendthrifts.

These people are not financially literate, are likely to be heavily risk averse, and typically struggle to identify good advisers (if there are any!) and to afford the hefty charges advisers impose. Advice available free is typically broad-based and non-specific, and hopelessly inadequate for the needs of people who are perplexed, angry and anxious at now facing deprivation of pension income for saving, yet seeing their savings eroded with record low interest rates.

The assumption that living costs will fall with age is flawed, because costs for necessities (food, shelter, transport, insurance, council rates, rent, housing repairs, electricity, health care, etc.) are increasing much faster than inflation. The value of pension concessions, relative to costs, is falling fast. (Rates concessions for pensioners have not increased in decades!) Aged care costs are rising at an astonishing rate. Costs only fall with aging for those who had sufficient income to engage in substantial discretionary spending, and who retain good health as they age. Most who struggled financially in early retirement will find life much harder in later retirement.

These retirees are afraid. They feel victimized and blamed by the constant reference to the rising cost of retirement and the resulting imposition on taxpayers. They are confused by the complexity of the pension system and struggling with the poor service from Centrelink, including frequent major errors in calculations and assessments and long delays in processing applications and resolving disputes. Those nearing retirement but unable to work are struggling with grossly inadequate incomes and onerous work obligations, despite significant health challenges.

Meanwhile, younger Australians are disturbed by the myths being circulated that suggest that they have less capacity to achieve home ownership than their parents (substantially untrue) and that they will never be able to retire. They believe they are paying for both their own and their parents' retirement, and that this is imposing an intolerable burden. To a large extent, they are unaware or unappreciative of the value of their superannuation and the reality that it will likely ensure they have a far better retirement than any previous generation has enjoyed.

Misleading communications suggesting Baby Boomers got free education, cheap housing, and a wealth of opportunity not accessible to later generations is creating anger and resentment, when the reality is that vast numbers of Baby Boomers got little or no education, had a horrendous struggle to pay 17.5%+ interest on home loans, and battled to buy homes on a single family income with no child care subsidies or family tax benefits to assist them.

The current retirement system has created distinct classes of retirees:

- the genuinely disadvantaged needy (a small percentage)
- those who are needy due to irresponsible lifestyles and inadequate preparation for retirement (the majority of current aged pensioners)
- those who manipulate to appear needy, despite actually being quite well to do (a large percentage of pensioners and part pensioners)
- the struggling self-funded retirees who would be better off having saved less, giving up work, or indulging in a spend-up
- the well-off self-funded retirees who enjoyed high levels of education and high incomes

The problems created by an inefficient and inequitable system are compounded by the social issues created as a result of conflicts between these classes. Sadly, politicians and advisers have deliberately compounded these social problems using the 'divide and conquer' strategy of setting one class against another to achieve political gain. A classic example of this is the Labor Party's publicity of its franking credit policy. Prompted by messages from Labor politicians, pensioners targeted self-funded retirees with hateful messages and jibes like 'franking welfare'. They failed to acknowledge that the self-funded retirees who stood to lose up to 30% of their income (potentially resulting in incomes way below the aged pension) were saving the taxpayer up to $40,000 per annum. It was also not acknowledged that those who would suffer loss had, in many cases, already lost up to $12000 per annum in the assets test change, and were faced with a potential total 50% reduction in their income, while part pensioners with incomes well in excess of those the self-funded could achieve, despite potentially having only a few dollars less in assets (or possibly far greater assets when the family home was counted) continued to receive franking credits.

Ultimately, those least adequately served by the current system are those who strive, despite significant challenges, to attain a level of financial independence. Yet Australia needs more of this type of retiree if the retirement system is to prove sustainable. The system is punishing and discouraging the growth of the sector that delivers the greatest productivity gains and taxpayer savings and rewarding and encouraging the groups that rely most heavily on taxpayer funding and impose the greatest cost on the economy.

Struggling self-funded and part-pensioner retirees often:

- complain of deep stress and anxiety at having to suddenly become investment gurus after a working life during which they may have had no experience of stock market, property or managed fund investing, but relied entirely on bank interest to gain from savings, and at a time in their life when they may be rapidly losing the mental capacity and energy to learn complex new skills and to deal with the stress of investment risk.
- express anger at the gross unfairness of a system that punishes them for saving and accepting more modest accommodation, while people who cruised the world and partied, gifted generously, and/or bought expensive retirement homes collect taxpayer-funded benefits and enjoy higher resulting incomes.
- complain that investment advisers charge hefty fees for what is often highly questionable advice, and accept no accountability (Fees are seldom a percentage of earnings, but rather are fixed fees regardless of profit or loss resulting from acting on the advice.)
- struggle with the choice of dealing with the onerous legal requirements of running a self-managed superannuation fund or allowing an organisation to control their wealth completely (Many have had very bad experiences with superannuation funds losing theirs or a loved one's money in the past or imposing unfair charges for funds transfers or changes of investment arrangements)
- withdraw from or consider withdrawing from part-time or casual work because the financial penalties are far too harsh and the benefits are grossly inadequate.

- express anger and resentment at suggestions that they should 'just spend their capital' when doing so potentially places them at risk of being unable to meet future heavy expenses, and deprives them of the benefit of having sacrificed to save. The constant harping that people should spend their capital in retirement, combined with harsh and unfair means tests, deprives the population of the right to choose how and when they spend, and acts to reward those who do not plan and save for retirement or who contrive to qualify for more pension benefits than they should need, given their working life income and opportunities. Ultimately, it counters almost all efforts to encourage saving for retirement and makes dependency the better choice for hundreds of thousands who should not need to be dependent.
- express rage that the deeming rates and assets test thresholds are set at rates that impose heavy 'taxation' on retirees, taking far more than the retiree has any reasonable capacity to earn from assets or income over and above very low limits, while the deeming rules unfairly advantage those with the capacity, due to superior past opportunity, to achieve high investment returns, and income limits are generous to those able to achieve substantial secure incomes in retirement.

Thank you for considering my submission. While I acknowledge the challenges faced by the genuinely needy, and I appreciate the difficulty of achieving a balanced system that supports the needy without disadvantaging responsible savers, I am confident there will be a great many submissions noting the challenges of those with minimal income and assets.

I believe the 'quiet majority' of retired Australians who worked hard to own a home and achieve modest savings for retirement need to be heard and have their problems and challenges acknowledged.

The assumption that harsh means tests prioritise need is deeply flawed. Current means tests actively discourage saving and responsible living and thus will, in the medium to long term, make the pension system far less sustainable than one that recognizes that people should benefit from saving, not suffer increased stress and, in many cases, substantially reduced income.

Australia should recognise the contribution retirees made through decades of work and paying tax and, like many other countries, make the pension universal for all retirees - but impose fair taxation, so that the benefit of contriving to appear needy is removed and society can enjoy real benefit from saving and adopting responsible lifestyles, plus the productivity gains from properly rewarding endeavour and ensuring retirement promises a fair reward for decades of effort.

If a universal aged pension is not practical at this point in time, then the Review Panel should recommend the abolition of the cruel and unfair assets test, which discourages saving and responsible lifestyles, and its replacement with an income/deemed income test only, which

- deems income on ALL assets (family home included) over a very generous threshold
- deems at realistic rates that match rates actually readily attainable
- applies the test at the HIGHER of deemed rates or actual income received, to eliminate unfair benefit to those who are able to achieve high investment returns, but recognizes the incapacity of the less educated and those whose past hardships made them risk averse to achieve satisfactory investment returns
- sets thresholds that
    - are age-related
    - include additional concessions for those with chronic health problems, special needs (including those who are disadvantaged through living in areas with poor public transport, excessive council rates, water shortages, etc,)
    - include additional concessions for those with specific family challenges that impose costs (e.g. widowed or separated children who rely heavily on retired grandparents for help with child care and education costs, or retirees with chronically ill or disabled family members for whom travel to assist with care or to visit in hospitals, etc is essential)

- include concessions for savings that have been ear-marked for specific high-ticket future needs
- include consideration of the special needs of retirees with family members living abroad.

Most importantly, the system needs to be simplified and stabilized. Complexity will always equal unfairness and reduced sustainability, because complexity reduced incentives to save and to earn. And the constant changes need to stop. Retirees need to be able to plan without constant fear that changes to legislation will totally ruin their plans.