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AUSTRALIA + NEW ZEALAND

3 February 2020

Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Submitted via email - retirementincomereview@treasury.gov.au

Dear Sir/Madam

Submission – Retirement Income Review (RIR) Consultation Paper

Chartered Accountants Australia and New Zealand welcomes the RIR panel members' invitation to make a submission on the above consultation paper.

We would be pleased to discuss any aspect of our submission.

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

Our submission includes the following key observations:

1. The Australian retirement income system has seven pillars not the three preferred by the review panel
2. The superannuation system is shockingly complex and is not well integrated with the tax system, social security or age care systems
3. This complexity adds significantly to the cost for all involved but especially individuals who need to employ professionals to safely navigate their way around the system
4. Increasing national savings was one key reason Australia's compulsory super system was put in place; we believe it is essential to determine if this objective has been met and if it remains relevant
5. The age pension asset test actively discourages savings and inequitably penalises those who do not own their own home

Our submission does not answer all the consultation questions.

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The retirement income system

Replace the three pillars of Australia's retirement income system with seven pillars

We do not agree with the RIR panel's view that Australia has a three pillar retirement income system. We prefer a seven pillar description to fully capture retirement funding:

1. Government funded age pension
2. Compulsory superannuation – savings generated by, primarily, Superannuation Guarantee but also potentially industrial award or agreement or employment contract or legislated contributions; in a minority of cases employees, as a condition of employment, must contribute to their super
3. Voluntary savings – initiated by the individual; includes privately held investments and home equity access loan products/transactions
4. Non-financial arrangements – formal social programs such as pensioner discounts
5. The home
6. Labour force participation
7. Private intergenerational transfers

Why do we think more "pillars" to the system is more appropriate than the three pillars used by the RIR? Retirees do not look at their income needs in the three or four pillar approach favoured by academics and economists. We think there is great merit in looking at this issue in the way retirees practically approach solving their income need requirements because the three pillar model misses important components or downplays other considerations. For example:

1. Non-financial arrangements. These often include discounts provided by various levels of government or their instrumentalities (for example, discounted medicines, vehicle registration and public transport) and by private enterprise (for example, utility companies). For many current retirees these are important components in them satisfying their retirement income needs.

2. The home. Home ownership is a key component to financial well-being for many Australians especially older age cohorts. Studies show that overall retirees are not only happier than non-homeowners, and are also likely to be more financially secure than those who do not own their own home.

3. Labour force participation. Government and business policy can effectively entrench early retirement by actively dissuading retirees from working, seeking work or retraining. Retirees may seek re-entry into the workforce for economic or personal reasons. Any income earned is part of an aged person's total resources.

4. Private intergenerational transfers. Typically intergenerational transfers will occur by older cohorts gifting money and other assets to their surviving relatives which then form part of the recipients' total resources (it has been estimated that $20 billion will be transferred over the next 20 years[1]). Less spoken about is that younger generations will sometimes support older generations by voluntarily transferring resources to them although research shows most retirees do not want to be dependent on their families[2].

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

[1] McCrindle Research; *Wealth Transfer Report*; p. 7; August 2017
[2] https://go.mbs.edu/orford/clkn/https/1.mbs.edu/-/media/PDF/Research/Orford-Initiative_Survey-report.ashx

There most certainly are. For example:

1. New Zealand provides a universal aged pension to most retired residents regardless of a retiree's income or assets. As a result retirees have no need to spend considerable amounts of money on an ongoing basis seeking to maximise their government benefit entitlements.

   It is clearly not the task of the RIR panel to formally recommend to government that such a policy should be implemented in Australia. However of particular interest would be a comparison between the administration and implementation costs of both systems for government, individuals and other organisations (for example, financial services organisations). We believe such a comparison – presumably performed on a per capita basis – is appropriate because the costs Australian policy currently imposes on everyone have never been adequately analysed or assessed to determine if they are appropriate. It would also be helpful to know if such a change were made in Australia what pension rates would likely be payable.

2. In the United Kingdom the *Pensions Act 2014* provides for a regular review of the State Pension age – for Australia the most comparable payment is the age pension – at least once every five years. The review assumes that people should be able to spend a certain proportion of their adult life drawing a government provided retirement pension. The first review was completed in 2017[3]. The review considers a range of factors including life expectancy factors. Any changes would need to be legislated.

Purpose of the system and role of the pillars

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

The RIR paper makes the following claim: "the retirement income system is not intended to boost private savings per se, nor is it intended to be a source of savings for the purchase of large assets during an individual's life (such as housing), or to assist with wealth accumulation in order to provide for inheritances. This is reflected in policy settings such as the restricted access to superannuation before preservation age, minimum drawdown rules for superannuation, and the means testing of the Age Pension".

In response we make the following points:

1. Not intended to boost private savings: it is essential to look at the purpose of the retirement income system from a macro and micro perspective:

   - Macro – one of the reasons compulsory super was introduced was to increase national saving[4]. We do not know if this objective has been met and we would encourage the RIR to work it out and to put in place a process to enable a regular reassessment to take place. Another reason for compulsory super's introduction was to reduce the number of retirees accessing the government's age pension as the population aged (on any objective assessment we suspect this objective has only partially been met).
   - Micro – the majority of consumers tend to look at their savings in totality. This does not mean

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630065/state-pension-age-review-final-report.pdf
[4] *Security in Retirement, Planning for tomorrow today*, Commonwealth Treasurer John Dawkins, Canberra, June 1992

that particular investments do not have a purpose but these evolve as personal circumstances change.

2. Source of savings for the purchase of large assets during an individual's life (such as housing) – this is not how the retirement income system works for a number of individuals. For example:

    - Previous governments and the current government have allowed individuals to access monies saved in a super fund to be used for the purchase of a first home
    - It is possible for SME businesses and some individuals to use the current super laws to own the business' workplace and also allows some super funds to hold residential real estate which then becomes the super fund member's principal place of residence in retirement

3. Assist with wealth accumulation in order to provide for inheritances – less than 16% of Self-Managed Super Funds (SMSFs) have more than $2 million in assets (less than 1% of SMSFs have more than $10 million of assets). Less than 1% of members in APRA regulated super funds have more than $1 million in assets in their super fund accounts. It is highly likely those with higher account balances will never us all their money in the super system to provide a retirement income.

    In addition one of the reasons for the long-term unpopularity of lifetime annuities with no residual capital value in Australia shows that consumers do not favour denying themselves or their beneficiaries on death access to the capital they have accumulated during their lives. This is brought out in Orford Initiative research[5] which shows 45% of retirees want to leave an inheritance to their family.

    In short, most Australians do not support the proposition that their retirement savings would not be passed onto the next generation.

With the greatest of respect to the review panellists and government staff on secondment to the review, the above points show that the RIR statement is inaccurate for a range of individuals due to various policy settings.

We consider that the objective of the Australian retirement income system is not understood by the majority of the community simply because successive governments have done next to nothing to make this objective known. Further, it would be fair to say that one reason for this is that successive Parliaments have failed to agree on what the objective should be in relation to the retirement income system and have enacted policy changes in a piecemeal fashion often without showing how particular changes fit into a bigger retirement income system framework.

Whilst we support, in principle, creating an overall objective of the system we believe that this objective should not be solely focused on government outcomes.

Amongst the community there is widespread knowledge about the ageing of the population and the need for the community to prepare for this. But to a large extent this is where the community's knowledge ends.

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

Australia's retirement income system is absurdly complex (which reflects poorly on successive

[5] https://go.mbs.edu/orford/clkn/https/1.mbs.edu/-/media/PDF/Research/Orford-Initiative_Survey-report.ashx

governments) and all areas of this system need to be better understood not only by the community but also by many participants in the sector.

However before any effort is made to improve the system perhaps it might be better to simplify it and then explain this revised system.

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

The RIR Consultation Paper says that the role of the government is to design “a system that generates the right incentives, contains appropriate default settings that still allow for choice, and provides a safety net”.

On the face of it this is a reasonably comprehensive list however it misses some important elements. The success or failure of Australia’s retirement income system depends on its main components including the following:

1. Contributions made to the system – has the government put in place reasonable and clear rules that allow contributions to be made? Are penalties that apply for breaches appropriate or excessive?
2. Transfers within the system – what restrictions/incentives has the government imposed to limit the ability for system participants to move their money to another provider?
3. Investment landscape – a key component in the success or failure of Australia’s retirement income system is access to quality investments. The government’s major role here involves creating an environment that encourages businesses to invest and employ workers, as well as open and transparent investment markets. Important elements here are tax policy settings and company regulatory policies.
4. Taxes – tax policy settings need to be appropriate and must be simple and therefore easy to administer and are flexible.
5. Accessing money held in the system – the government need to set clear, concise and simple rules that determine when a person can gain access to their money held by the super system.

We also add that the government’s regulatory settings (for example financial services licensee supervision and product disclosure requirements) for the retirement income system need to be appropriate.

Finally given the government has, in many cases, mandated that individuals use some or all components of the retirement income system then surely it is the government’s moral and ethical duty to ensure those individuals have access to appropriate unbiased knowledge and information to ensure adequate levels of financial literacy. (It is quite clear that given the community’s low levels of financial literacy the government and its agencies have failed in this respect.)

The RIR Consultation says that the private sector (superannuation funds and financial advisers) are “responsible for ensuring individuals get the best outcomes from their saving”. This comment misses some important points. The private sector (effectively all those involved in super other than government and its regulatory agencies) would not be involved in the retirement income system unless it can make even a modest financial return out of the system. There is no easy answer to the tension between the profit making motive and the ideal of ensuring individuals obtain the absolute best outcomes. Secondly, in nearly all cases super funds are trusts and governed by a trust deed. This document can say whatever the trustees of a fund wish as long as the rules contained in the deed do not allow a breach of government operational rules. At a practical level this means the deed could provide harsher rules than demanded by government. Thirdly, financial advisers need to be properly trained and operate ethically to help achieve “best outcomes” for their clients.

The RIR Consultation also says individuals are “ultimately responsible for managing their financial affairs to deliver their desired outcomes in retirement, (sic) including through voluntary saving”. At a conceptual level this is indeed true however as noted above it is incumbent on government to provide suitable information to individuals to ensure they can successfully access and use the system.

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?

We answer this question taking into account our preferred description of seven pillars:

1. Government funded age pension

   This is a guaranteed income stream for older ages and is currently designed to provide income for eligible recipients who have either insufficient personal income or assets to support themselves when they have ceased work and no longer earn an income. Ideally this pillar should not discourage older Australians from continuing to work or remaining in work. It is reasonable to assume retirees will structure their affairs to maximise their government entitlements (this is likely to arise anyway but especially if the income and assets tests are too harsh).

   When the Commonwealth government’s age pension was first introduced in 1910 it was paid to males aged 65 and females aged 60 with tight eligibility criteria. At the time new born females had a 62% chance of reaching 60 years of age and 47% of new born males had the chance of reaching age 65.

   At present the age pension is paid to males and females both aged at least 66. Under the 2015/17 Australian Life Tables a new born female has a 92% chance of reaching this age and new born males an 86.5% chance.[6]

   These are dramatic and welcome improvements. However, 65 year old females are now expected to live an additional 9.6 years and males 8.5 years compared to people of the same age 100 years ago.

   Clearly on average more Australians are reaching older ages and once they reach these ages they are also living much longer than their ancestors.

2. Compulsory superannuation

   These are savings generated primarily by Superannuation Guarantee contributions but also potentially industrial award or agreement or employment contract or legislation contributions. In a minority of cases employees, as a condition of employment, must also contribute to their super fund.

   Employer contributions are a formal part of an employee’s total remuneration package. The primary purpose of this component may be to add to national savings. The secondary purpose depends on access rules for government provided aged pension:

[6] If we applied the same criteria as the original qualification rules then the age pension would not be paid today until a person is roughly 85 years of age.

- If access to the government's aged pension is tightly restricted then the purpose of compulsory super might be to ensure fewer retirees receive this benefit to limit overall costs of this benefit as the population ages. If this is the case, then this policy should not force lower income earners to save for their retirement if it is highly likely they will receive the maximum government age pension.
- If access to the government's aged pension is open to all then the purpose of compulsory super is less obvious unless its principal (and perhaps sole) purpose is to add to national savings.

3. Voluntary savings
   Individuals will save if they can determine a purpose. In many cases individuals have no specific objective when saving money – the purpose is often nothing more than building their wealth.

4. Non-financial arrangements
   When government provides these benefits (for example, subsidized medicine, health care or transport) then these costs are simply additional aged pension costs delivered via non-monetary, less direct means. Any discounts provided by private enterprise are additional remuneration.

5. Home
   The role of a family home is well known and doesn't need to be explained in detail here. Ideally the family home would not be used as a place to shelter assets from the age pension assets test and moving from one residence to another would not incur too many transaction costs such as stamp duty or other costs, thereby making it easier for retirees to downsize and potentially access some of their wealth stored in the asset to assist in funding their retirement.

6. Labour force participation
   If older Australians have the health, interest and ability to remain in the workforce then there should be no financial disincentive[7] from doing so as this adds to the productive capacity of the economy. At present, many older workers continue to work but in a voluntary capacity or 'cash-in-hand/kind' arrangements for family and friends.

7. Private intergenerational transfers
   At present, it appears that such transfers (where the younger generation support the older generation) typically occurs when an older person needs for form of financial assistance. Examples include urgent medical care not readily available via Medicare or to fund aged care costs such as accommodation costs.

The changing Australian landscape

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?

In 1989, the Australian Bureau of Statistics (ABS) most aggressive population estimate was that by 2021 there would be just over 24 million people living in Australia. Of that population, 15.5% would be

[7] At present there is significant financial disincentives for a retiree to continue working once they are eligible for the aged pension because only the first $7,800 of income from work is exempt from the income test. This equates to about 15 hours work each week for someone on the minimum wage (although someone with very modest savings may be able to work full-time and receive a part age pension whilst receiving the minimum wage).

aged at least 65 and older compared with just 11% of the population in 1989.

However by 2017 the ABS said Australia had 24.5 million permanent residents – that is, a larger population four years earlier than the original 1989 ABS "upper" estimates. Of this 2017 population, 15.4% are aged at least 65 (up from 11% in 1989 as already noted).

In 2018, the ABS' most aggressive estimate for 2066 was that Australia's population will have grown to just under 50 million with about 11 million (or about 21.7%) aged over 65.

In mid-2019 the ABS estimated the then population was 25.3 million.

Overall Australia is getting older – the proportion of older Australians aged at least 65 is expected to double over the 77 year period between 2066 and 1989.

It is therefore tempting to argue that this change in Australia's demographic structure will cause a financial black hole.

We think these problems need to be kept in perspective. By 2019 the Australian economy was 2.4 times larger – as measured by real GDP – than it was in 1989. If the same were to occur between 2019 and 2066[8], that is, the economy was 2.4 times larger in 2066 than it is in 2019, then by 2066 the economy at that time would be almost 6.2 times larger than in had been 1989.

With good solid real economic growth[9] over the long term it would appear that Australia can financially cope with the ageing of its population from an age pension perspective. Whether it can afford the associated increases in health and age care expenditure is another matter.

Adequacy

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

An adequate retirement income system would surely mean that retirees had sufficient income to pay their expenses as and when they fall due and that retirees living standards remain comparable with the rest of the community.

That is, increasing retiree income by consumer inflation is often inadequate because it means retiree living standards remain constant but do not reflect improvements in living standards brought about by economic growth. A good proxy for these living standard improvements is often average wage increases.

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?

Government, academia and other interested bodies have performed excellent work at determining an appropriate poverty line.

[8] That is over 47 years rather than 30 years.

[9] The three main components of economic growth – population, participation and productivity – will therefore be vital.

However a poverty line measure is irrelevant for determining an adequate retirement income for all except the poor.

We do not subscribe to the use of specific levels of retirement income based on theoretical spending patterns and are suspicious of pre-retiree estimates of how much they will need in retirement income because very few have accurate knowledge of how much they spend on their living costs at any point in time and as a result most over-estimate how much income they think they will need in retirement.

We are also suspicious of the suitability of replacing a percentage of pre-retirement earnings.

We believe this is an area that requires significantly more research and needs to be looked at from a consumer's perspective.

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

In our view very little quantitative and qualitative research has been conducted on what an adequate level of income is required by retirees including analysing actual retiree spending patterns. We believe the review panel should assess "the extent to which the system delivers fair and adequate outcomes for different individuals and groups". We also believe a process should be put in place for this research can be repeated regularly[10] so that changes that occur overtime can be quickly identified.

Equity

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

We believe the equity considerations proposed by the RIR panel are an appropriate starting point for determining if the retirement income system is equitable.

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.)?

We believe for most cohorts there is scant knowledge about retirement income outcomes and their fairness. For example:

Women

As we have pointed out to the government in other submissions, female retirement savings are often less than men and the accepted wisdom is that some action should be taken to address this imbalance. There are many reasons for these differences (for example, broken work patterns around having and raising at least one child and caring for elderly relatives).

To that end we think it's important to look at this issue in its totality. It is very common to see this issue addressed solely from the point of view of average account balances by gender.

The reality is that:

- most of us live as couples (for example, the latest Household Income and Labour

[10] Ideally at least annually.

Dynamics in Australia Survey shows that 65% of individuals, aged at least 65, live in a household with their spouse, who is also aged at least 65; for younger age cohorts the percentage of couple households is higher than that applying to 65 year old couples)

- most couples share resources including retirement savings and income (the government's age pension assessment recognises the reality of resource sharing by assessing single people and couples using different thresholds for both the income and asset tests)
- when relationships fail, all assets of the relationship, including superannuation assets, are considered when a property split is finalised.

The ATO has good quality superannuation data collated by individual Tax File Numbers and can easily match couples via individual tax returns (given this data must be supplied on these tax returns).

The Tax Office already produces a report of superannuation savings by individuals by age and gender. This report should continue to be published for single people.

The Tax Office should produce an additional report that details superannuation savings for couples.

Both the "single superannuation savings report" and the "couple superannuation savings report" should contain dissected information in as many different ways as possible – for example, age, State/Territory, postcode, Federal electorate, etc. It should report average and median values by the above examples of dissected information.

Once we have these two reports the nation will have a much better picture of the retirement savings problem and work can then be undertaken on appropriate solutions.

Non-home owner retirees

This group does not receive an equitable outcome on two levels:

- The assumed value of the home in Centrelink's and Veteran Affairs' asset test. Those <u>without</u> a family home are permitted to have an additional $210,500 in assets before their pension begins to fall due to the assets test. However according to the latest ABS statistics the median value of houses and apartments are higher than this amount in all Australian capital cities and nearly all non-capital city areas of the nation for attached dwellings.
- If they are forced to rent privately, median private rental costs throughout Australia are significantly higher than the maximum rent assistance paid.

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

Once an older Australian becomes eligible for the age pension based on their age we believe there is little encouragement for older Australians to remain in the workforce. Not only is there unspoken ageism amongst employers there is the lack of financial incentives for retirees not to cease work. Those who cease work potentially receive the following – the age pension, tax concessions via income tax offsets, subsidised health care and medicines and other concessions/discounts.

Older workers often find their later work years provide excess cashflow compared to earlier life stages for the following reasons:

- adjustments to lifestyle to reduce expenditure; and

- lower expenses as debts are paid off and child rearing expenses typically fall.

However the retirement income system perversely discourages adequate retirement saving with the following measures:

- restricting superannuation contributions based on annual contribution thresholds (on the incorrect assumption that many of us save for retirement at a constant and consistent rate throughout our working life)
- restricting the ability of older Australians to make superannuation contributions
- having a particularly harsh age pension asset test taper rate

The age pension asset test perversely encourages retirees to spend some of their savings on holidays or home improvements in order to maximise age pension entitlements.

The harsh age pension test taper rate also discourages older Australians from down-sizing because any money extracted from selling the family home for retirement living costs will be counted as an asset. The earnings or deemed earnings on these extracted funds might also impact the age pension incomes test.

In short, the system often has perverse impacts and many friction points that have been included at random points in time. Overall, the policy patchwork makes little sense because it has been developed without an overall understanding of what a particular change might have in another area.

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

We have discussed many of the inequities in our answers to previous questions.

Despite many of our noted concerns with the inequities, it is true that overall the retirement income system does cater for those who, for whatever reason, have not been able to accumulate sufficient retirement assets for themselves or their spouse throughout their working life.

Sustainability

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

It is common to quote future government costs as a percentage of an economy's gross domestic product without any adequate acknowledgement that the size of the economy will also be significantly larger in those future years and hence there will be greater capacity to cope with increased costs.

Obviously if the economy does not continue to expand for a sustained period of time then different and harsher realities would have to be addressed. A "burning bridge" may be the catalyst for reforms not just in the retirement incomes area, but also in other key areas of government policy such as the tax system.

For the time being however, sustainability of the system must be determined in a more nuanced way.

And sustainability should not only apply from a government perspective. In our view, sustainability should be considered from the point of view of all participants in the sector especially older Australian individuals and couples. For example, what would be the point in having a system that is:

- horrendously complex
- discourages voluntary savings
- aggressively penalises those who have just a few dollars in savings or income more than an arbitrary government determined threshold figures, and
- as a result, encourages older Australians to spend considerable sums of money to maximise their entitlements?

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?

It is appropriate to ask why only ask this question solely focusing on a government budgetary perspective and no acknowledgement about the cost current settings have on individuals who and organisations which must engage with it?

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

It is our view that there is little public confidence in the system. This attitude arises because the retirement income system is far too complex for almost anyone to fully understand without seeking professional assistance and guidance. In addition, by saving too much retirees are subject to restrictions, constraints and harsh tax penalties. The perverse outcome is that it appears an easier option not to save anything other than that mandated by government via compulsory super contributions and the tax advantaged family home.

Cohesion

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

Ideally the retirement income system would not only be cohesive but also simple for individuals to understand and navigate around.

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

For higher wealth cohorts the system does incentivise savings across lifetimes (given many higher net wealth individuals will probably not be eligible for the aged pension they have no choice but to save for their retirement years).

For all other cohorts the retirement income system only ‘incentivises’ saving via compulsory employer super contributions and the family home (via CGT and age pension assessment concessions). In all other respects the retirement income system disincentivises savings by individual households across their lifetimes.

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

In reality the only definite evidence would come from reviewing actual transaction data of older Australians over a period of time and conducting appropriate qualitative research. To the best of our knowledge to date very little research has been conducted in this area.

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?

There is no evidence that the outcomes the retirement income system delivers and its interactions with other areas are well understood.

The reverse is the commonly accepted wisdom. Just ask those individuals who have recently had to deal with these matters (often in relation to their ageing parents) and one quickly senses the level of bewilderment.

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

The retirement income system is too complicated and changes too frequently for an ordinary consumer to ensure they have achieved a suitable outcome (let alone an optimal outcome) from the system. If this occurs, then it is more good luck than deliberate design.

In 2019 ASIC research revealed that only 27% of the Australian population had received personal financial advice. The barriers to accessing advice included the cost of that advice, lack of trust and confidence in the advice sector and many consumers believing their financial circumstances and assets may not warrant seeking advice.

Many potential financial advice providers are dissuaded from offering advice to some segments of the population because of complex, costly inefficient regulatory frameworks. Instead, they seek out clients who are already wealthy. In addition multiple regulatory regimes together with regulator behaviour has been forcing many professional advisers (accountants and financial advisers) to question whether they should continue to provide advisory services.

It is sometimes thought that two strategies might potentially help solve the inability of consumers to obtain financial advice – general information provided via digital platforms and robo-advice.

In a forthcoming publication on the future of advice to consumers about their finances, our market research found that only 10% of consumers make use of digital platforms including ASIC's MoneySmart website.

Further, our upcoming report will show that only 12% of consumers had heard of robo-advice (that is, using computing programs to create customised financial advice based on information about an individual's financial situation by utilizing algorithms and technology in place of a human financial adviser or as a part of the financial advice process). The main attraction of this option is that it may reduce the cost of providing advice and allow more widespread access. But it appears only a minority of people would consider using this service – only 24% of our market research consumer responses said that they would use this option.

The majority of consumers are saying they want to receive financial advice from another human being who can factor into the advice the many personal, family and financial considerations relevant to the circumstances. This means reform of this area is essential and urgent. Together with other industry associations we have been working on a new regulatory regime.

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

We believe there has no deliberately designed integration between the age pension and the super system and any that does exist has occurred by accident.

Summary

We believe there is dire need of an all-encompassing review and we encourage the RIR panel to commence this work for the government so that everyone can benefit from a simpler system.

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Should you wish to discuss the contents of this submission, please contact me on +612 8078 5404 or tony.negline@charteredaccountantsanz.com.

Yours faithfully,

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Advocacy, Professional Standing and International