Submission to the

Retirement Income Review

in response to the Consultation Paper

Prepared by
COTA Australia

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About COTA Australia

COTA Australia is the national consumer peak body for older Australians. Its members include State and Territory COTAs (Councils on the Ageing) in each of the eight States and Territories of Australia. COTA Australia and the State and Territory COTAs have around 40,000 individual members and supporters and more than 1,000 seniors' organisation members, which jointly directly represent over 500,000 older Australians.

COTA Australia's focus is on national policy issues from the perspective of all older Australians as citizens and consumers and we seek to promote, improve and protect the circumstances and wellbeing of older people in Australia. Information about, and the views of, our constituents and members are gathered through a wide variety of consultative and engagement mechanisms and processes.

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Preface

The structure of this submission is organised around individual questions or groups of questions from the Review's Consultation Paper. That has created a significant degree of duplication of content in different sections about some issues, and also some separation of discussion about some matters when different aspects of them needed to be discussed in separate sections of questions. For logical coherence of narrative, we would rewrite the submission around our key themes. However the Review may be collating responses to each question and the current structure of the submission, while at times repetitive, is probably helpful.

Introduction

COTA Australia welcomes the opportunity to provide input into the Retirement Income Review. The Review will consider both the three pillars of our retirement incomes system (the age pension, compulsory superannuation and private savings), and their interactions; and will consider the extent to which the system as a whole:

- enables all Australians to achieve adequate retirement incomes;
- is fiscally sustainable; and
- provides appropriate incentives for self-provision in retirement

COTA Australia has long called for a Review of this kind which will for the first time consider not only the individual components of Retirement Income policy but will also look holistically at all three retirement income pillars and how the three pillars interact and do or do not complement each other.

We envisage a system that is simple, adequate, fair and fiscally sustainable. Our view is that there are a number of ways to improve the current system to achieve this vision. This submission explores the key issues.

Our Retirement Income System should unequivocally prevent poverty among older Australians.

No one should have to live in poverty in a country with the wealth of Australia. At any age, we should all have the dignity and security of a roof over our head, food on the table, timely access to support and care when needed, and the capacity to be socially connected. Changes to the labour force, the housing market, the rate of wage growth and market behaviour and performance can create higher risks of poverty and inequality. Australians value a strong safety net, paired with social services designed to address underlying inequalities – from a strong health system, to adequate income support for when people need help to get by. These should be among the highest of priorities of what our taxes are supposed to pay for, and what government budgets should prioritise.

Retirement Income policy is about income in retirement, not a savings plan for other purposes

COTA is concerned by any and varied suggestions that superannuation should not be for the ***exclusive*** purpose of generating retirement incomes. The suggestion that superannuation can be accessed throughout an individual's lifetime for other purposes diminishes the importance of the need to provide a better quality of life in retirement than the age pension alone will provide on current settings. While saving for a home deposit, or provisioning for other major life events, are important issues worthy of the full force of Government's policy levers, accessing and diminishing compulsory superannuation accumulations is not the answer.

We note that mechanisms such as the First Home Super Saver (FHSS) scheme which require voluntary savings but provide access to tax concession advantaged benefits on the same basis as superannuation, but without reduction in the Superannuation Guarantee, are a legitimate subsidy that do not compromise retirement incomes, whether or not they prove to work.

Consumers are asking for a simple, sensible, fair and stable retirement income system.

Our experience is that the complexity of the system leaves room for improvement. The system is overly-complex with complicated, poorly targeted concessions, some of which lead to perverse outcomes. Consumers largely have no active interest and engagement in their retirement income components until they come closer to needing them. There is a need for the retirement income system to be structured and communicated so that people are better able to understand and navigate the system to plan and access optimum and appropriate benefits. Among those people who do consciously plan and provide for their retirement there is a constant fear that the "rules will change" in ways that will negatively impact on them. It is hoped that this Review can result in changes that will create greater confidence and clarity for older people who have carefully planned their retirement incomes.

Every dollar of wages earned deserves the same amount of superannuation paid, no matter the relationship and status under which you are employed, or your age.

Whether you're a casual worker under the age of 18, or an employee over the age of 75, you deserve the same rights to entitlements as your colleagues between the ages of 18 and 75. Yet those above 75 or below 18 do not have the same rights to compulsory superannuation, and in the case of those over 75, to voluntary super. We submit that's an issue of fairness that should be considered by the Review.

Similarly, people who work for several employers and earn less than $450 per month from any one employer, but overall earn more than $450 per month, do not have a right to compulsory superannuation. COTA believes everyone should have the same entitlements to superannuation and every dollar earned should attract and receive 9.5 cents in superannuation, without any lower limit.

Perhaps more complex is the issue of 'contractors' and the self-employed. The increased 'gig-economy' type contractor, is not the same as the small business shop owner who might retire with a nest egg by selling their bricks and mortar shop. Why should a person engaged as a contractor not be entitled to the same retirement income contribution as a person engaged as an employee? COTA would submit the Review must investigate why this situation should be allowed to continue. Similarly, we believe serious consideration should be given to requiring self-employed people to make superannuation contributions as if they were employees. We should regard super contributions as an integral part of the cost of doing business.

COTA submits that in a modern Australia, every dollar earned from work should include an equitable amount of superannuation.

Government spending should be fair and equitable, not just for the financially advantaged

The Review's consultation paper clearly indicates that there will be higher levels of foregone revenue through tax concessions for superannuation contributions and earnings than will be spent on the age pension, if the current tax concession provisions continue. COTA believes it is critical the Review consider a range of alternative policy settings to the current tax concession arrangements. Such an approach should include modelling changes to current superannuation tax concession arrangements so that everyone receives an equitable discount off their marginal tax rate (including topping up the super of low-income earners who don't currently pay tax).

Purpose of the system and the role of the pillars

Question 2: Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?

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

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

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

Question 6: 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 purpose of the system

There is ongoing debate about the purpose of the system. Recognising that this is a complex area, COTA Australia's experience is that most of the community has an expectation that the system will deliver poverty alleviation, and ***also*** in addition that those who have worked hard and saved hard deserve to have a comfortable retirement – although what is considered comfortable is subjective (*see: Adequacy*).

COTA Australia agrees with the Consultation Paper's statement that the overall goal of the retirement income system is generating income to support consumption during retirement*,* although we would formally phrase it as "*to generate **optimum** income to support consumption during retirement"* to emphasise the need for the system to be as efficient and effective as possible.

COTA Australia agrees that the purpose of the system is **not** tax minimisation or inheritance protection. While we recognise bequests may play an important role in meeting the needs of dependents, which may include surviving spouses, and adult children with disabilities, it is important to distinguish that it is not the role of Government or the superannuation and pension system to specifically deliver such a personal objective.

While not being in a position to provide quantitative evidence to the Review, COTA does not believe the role of the system as a whole is well understood by the community at large. There are a number of layers to the concept of "understanding". It includes, for example:

- The degree to which people understand in the sense of feeling confident they know how the retirement income system works and what it's for.
- But at another layer the degree to which people understand at a deeper level; meaning that they actually accept the purpose of the retirement income system and the implications and expectations of behaviour that flow from that?

In regard to the latter the concept that people accumulate tax advantaged superannuation and after retiring utilize all or a substantive part of that capital, plus earnings, in creating an income stream to give themselves a comfortable retirement, faces significant challenges. This is illustrated by the number of retirees who either (i) try to live only off the interest earned on their lump sums, an increasingly difficult goal; or (ii) draw down on the super only the minimum they are required to do, often resulting in an increase in their capital over their retirement when earnings exceed drawdowns.

The "Three Pillars" – or Four or Five?

In discussing the pillars of the retirement income system with the members of COTA's Consumer-Focused Retirement Income Roundtable (CFRIR), prior to the release of the consultation paper, members of the roundtable expressed a range of views as to whether there should be 3, 4 or 5 pillars of the retirement income system. The Roundtable agreed the same first and second pillars as this Review. It determined that the third and final pillar should be voluntary superannuation. It noted that *other income* could be derived for retirement purposes from part time or casual employment, income from savings outside super, income generated by equity release from the family home, and income from insurance products purchased earlier protecting risks such as longevity, health or long term care.

The rationale for the Roundtable's classification was that the Age Pension, the Superannuation Guarantee and tax concessions for additional voluntary super are all deliberate and policy tools to explicitly provide for retirement income. The other income sources can provide retirement income but are not explicitly tailored for that purpose (although some insurance products, such as annuity , are).

However, COTA strongly supports the Review examining how those "other income" sources contribute to and interact with the pension and superannuation, whether they are part of the Third Pillar or are better seen as a Fourth, or indeed Fifth Pillar.

In this regard we note that owning your own home or not in retirement is a key determinant as to whether or not you will have a good retirement for most people in our current housing context. COTA has come to think of *affordable, stable and appropriate* housing as the Fourth Pillar of retirement income, since it is so fundamental to well-being and to the adequacy of the incomes of the vast majority of retirees. We address some of the policy issues later.

If affordable, stable and appropriate housing is the Fourth Pillar, then income from part time or casual employment, income from savings outside super, income generated by equity release from the family home, and income from insurance products purchased earlier protecting risks such as longevity, health or long term care are the Fifth Pillar. These raise a variety of policy issues and share the characteristic that they will never all be universally utilised (unless government introduce compulsory retirement annuities. We address the key policy issues later.

Pillar 1: Age Pension

COTA Australia supports the position developed by our Consumer-Focused Retirement Income Roundtable in relation to the objective of the Age Pension. We note the importance of looking at the totality of government benefits (including rent assistance) in providing a critical safety net designed to ensure that no Australian lives in poverty.

> *The objective of* ***the age pension*** *and other Government benefits (or the safety net) is to provide a modest level of income and housing security to those who have attained a certain age and do not have a sufficient level of financial resources to provide a minimum*

standard of living during retirement. That is, the level of the pension and the related benefits should ensure no older Australian lives in poverty[1]. The operation of the means tests represents an important policy in determining the distribution of the pension as well as its relationship with superannuation and other savings.

Pillar 2: Compulsory Superannuation

Government has to date adopted the view of the Financial System Inquiry[2] (FSI), that the primary objective of superannuation should be to "substitute or supplement the aged pension". While that is a technically and functionally correct statement it is probably not the most informative or aspirational about what superannuation can and should achieve. The definition developed by our Consumer-Focused Retirement Income Roundtable was that:

> *The objective of **compulsory superannuation** is to ensure that all working Australians set aside a proportion of their current income for retirement. Over a full working career, compulsory superannuation contributions should be sufficient to provide a level of retirement income, together with any age pension, that enables a living standard to be maintained throughout retirement that is broadly equivalent to their "average living standard" during their working years when contributions were made.*

Most compulsory superannuation receives significant taxation concessions although this varies across income quintiles and is not the case at lowest quintiles. The concessions are at the contribution stage (15% tax), investment earnings stage (15% tax) and on income streams (nil tax). The contribution and earnings phase concessions are clearly not an incentive as the employer paid Superannuation Guarantee is compulsory. The policy rationale is as compensation for the deferred access to one's savings. The tax free status of income streams from super is an incentive to use the super in that way.

Pillar 3: Voluntary savings

As discussed above this "Third Pillar" in the Review's terms is actually a collection of quite different components with important and significant differences. We refer to each in turn.

Pillar 3.1 (or Pillar 3): Voluntary Superannuation

COTA's Consumer-Focused Retirement Income Roundtable described the purpose of voluntary superannuation as:

> *The objective of **voluntary superannuation** is to provide flexibility for individuals to make additional contributions (as may be appropriate) that can improve their retirement lifestyle, including by people who do not benefit from compulsory superannuation.*

Voluntary superannuation attracts similar taxation concessions as compulsory superannuation, except that the amount that can attract the contributions concession is capped as $25,000 pa and the after tax contribution that attracts only earnings and income concessions is also capped at 100,000 pa. It is an interesting question whether a greater level of voluntary super might be saved if there was a positive taxation incentive to save, greater than that offered for compulsory super (and

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1 It is acknowledged that poverty is a relative topic and there is no absolute measure. However, using international comparisons, an age pension between 25% and 30% of the average wage is reasonable, supported by appropriate rental assistance, where needed.

2 See 2014 'Financial System Inquiry Final Report', available at https://treasury.gov.au/publication/c2014-fsi-final-report

as a corollary, whether tax concession on compulsory super might be higher than necessary). There are of course other issues about concession that we discuss later.

Pillar 3.2 (or Pillar 4): The Home

As noted earlier the role of the family home needs very detailed and explicit discussion as part of this Review. There are complex considerations, including:

- Owning your own home outright at the point of retirement, without the additional costs of a mortgage, or rent if a house is not owned, is a key determinant of reduced financial pressure in retirement.
    - First the cost of housing is less, so available income can be used on other consumption.
    - Second the house is usually an asset of significant value which can be utilised to create additional retirement capital or income (or indeed in some situations, superannuation) by selling it and then purchasing a lower value house.
    - Third the value of the house can be accessed, especially later in retirement, through equity release to generate capital, income or potentially both.
    - The house is also a form of insurance in regard to having sufficient assets to access residential aged care of choice, if needed.
- There is an increasing trend for people to enter retirement with an outstanding mortgage balance. Where this is due to issues that diminish assets and /or income, such as family breakdown/separation or mature age unemployment, paying the mortgage out of super is on the one hand positive, in that it’s better to own your house than not, and on the other hand reduces the capacity to pay for other consumption.
- However, the deliberately forward-planned use of superannuation to pay off a mortgage, in the sense that it can only be done by utilising the super, raises interesting public policy questions. It means that tax concessional super is not being used for its intended purpose of providing a retirement income but to accumulate wealth in the most tax concessional of assets, while the Age Pension is being relied upon for retirement income.

Pillar 3.3 (or Pillar 5): Other sources of retirement income

As discussed earlier this can include income from a variety of sources which themselves raise different issues for public policy.

Part time or casual employment

This is an increasing source of retirement income as more people choose to and are able to work beyond becoming eligible for the age pension or commencing superannuation access. There are many reasons to support this, including its contribution to retirement income adequacy and research showing that continued workforce engagement can be positive for physical and mental health. As workforce shortages increase it could be an important addition to supply. At the same time we need to note the continuation of active age discrimination among many employers which mitigates against mature age employment, often from well before pension age.

The age pension work bonus is designed to encourage part-time, casual or seasonal work by age pension recipients. Since its initial introduction it has been significantly liberalised, but there are continued suggestions that its limits be increased.

The other public policy consideration to support this income source is actually tackling age discrimination, which current legislation does not do. COTA has made proposals to government designed strengthen action against age discrimination.

Savings outside super

These can include anything from cash, term deposits, bonds, shares, other forms of equity, real estate, trusts, or even valuable possessions/collections. The broad nature of voluntary savings envisaged by the consultation paper means that it is difficult to know the degree to which they have an intended purpose of boosting retirement incomes.

A key issue for many retirees has been the decline in interest rates on savings accounts and term deposits over recent years, significantly reducing the income realisable from these savings compared to historical levels. It seems likely that this will be the case for a significant period of time. A cohort of retirees are reluctant to save other than through term deposits due to a fear of risk.

E*quity release from the family home*

This is an underutilised source of income in Australia, which has a very underdeveloped, almost non-existent market that offers a limited range of relatively expensive products, whether lump sum (reverse mortgage) or income stream in nature. The significantly expanded Commonwealth Pension Loan Scheme is the very recent exception to that situation. COTA was very pleased that the government agreed to our recommendation to introduce this scheme as part of our co-designed *More Choices for Longer Life* package in the 2018 Federal Budget. However, the scheme has not been effectively promoted and its interest rate is a disincentive to many, even though it is cheaper than the commercial market.

Insurance products protecting risks such as longevity, health or long term care

These products are potential investments by retirees of part of their savings, usually as a part of a retirement income strategy. The main products available in Australia are annuities, there is effectively no market for long term care products.

Annuities can be lifetime, fixed term, or deferred. Their take up rate is not great but there is a real and probably growing market for them as people retire with higher balances, affording them more flexibility in the mix of income strategies.

As part of the More Choices for a Longer Life 2018 Budget package, from 1 July 2019, new Age Pension means testing rules were introduced for pooled lifetime income streams. The rules assess a fixed 60% of all pooled lifetime product payments as income, and 60% of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30% for the rest of the person's life. This change creates a bigger incentive for their use.

Also as part of the More Choices for a Longer Life package was a commitment to the introduction of a Retirement Income Covenant in the Superannuation Industry (Supervision) Act 1993, requiring trustees to develop a strategy that would help members achieve their retirement income objectives. The covenant will require trustees to offer Comprehensive Income Products for Retirement (CIPRs):

products that provide individuals income for life, no matter how long they live. The government proposed to legislate the covenant by July 1, 2019, for commencement from July 1, 2020 but funds do not have to offer a CIPR until July 1, 2022. The Covenant has still not been legislated and should be as a matter of highest priority.

In the meantime APRA Superannuation Prudential Standard SPS 515 requires super funds, from 1 January 2020, to design and undertake the first ever 'member outcomes' assessment and set strategic objectives to improve those outcomes. In APRA's view, relying solely on net returns as a measure of outcomes, whether on a relative or absolute basis, is not sufficient. Funds will be expected to take a multi-faceted approach, incorporating both financial and non-financial outcomes for different cohorts, and considering both historic and forward-looking analysis. COTA hopes this will move superannuation funds toward the same destination as the proposed Covenant. However the Covenant remains a high priority for COTA and the government should enact it ASAP, rather than continuing to drag its feet.

Interactions and trade-offs between pillars

From COTA's perspective the principal interaction and trade-off between the Pillars is to be found in means testing arrangements. There have been many changes over the last 112 years to Age Pension eligibility, means testing, indexation and the basic rate[3]. The coverage and value of the pension has gone through ebbs and flows of growth and contraction in scope and increases and contractions in value. The approach to means testing has been a key part of those ebbs and flows.

The other key variable has been the rate and frequency of indexation. Once the pension's indexation was a year by year Federal budget decision, and highly politically contentious. The indexation of the pension today is as robust as it has ever been, now being indexed six monthly by the greater of the movement in the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI), and then 'benchmarked' against a percentage of Male Total Average Weekly Earnings (MTAWE). The combined couple rate is benchmarked to 41.76% of MTAWE; the single rate of pension is set at 66.33% of the combined couple rate (which is equal to around 27.7% of MTAWE).

'Benchmarked' means that after it has been indexed, the combined couple rate is checked to see whether it is equal to or higher than 41.76% of MTAWE. If the rate is lower than this percentage, the rates are increased to the appropriate benchmark level. If the rate is higher it is not adjusted down. The last attempt to change the indexation was the 2014 Budget when the new Coalition Government legislated to change it to CPI only. COTA lead a campaign (Hands Off the Pension) to prevent this happening, which attracted widespread stakeholder, public and cross bench support, and the legislation stalled in the Senate.

COTA believes the Review should not lead to any change in the indexation of the pension.

With regard to means testing, the pension has been the subject of varied approaches over the years, again as summarised in the footnoted paper by Michael Rice, ranging from a period in the 1970s when the means test was removed first for over 75s then over 70s, and then the assets test was

[3] See for example a headline table of most changes pn page 15 of https://www.actuaries.asn.au/Library/Events/Insights/2018/MichaelRicePaper.pdf

removed, to more commonly for most of the time, either an income and an assets test, or for periods, a combined test.

The income test taper rate has varied over time from a maximum of dollar for dollar (a 100% taper), to down to a low of 40 cents in the dollar. In the 2009 reforms following the Harmer Review it was increased from 40 cents to 50 cents in the dollar in order to help pay overtime for the $30 per week increase in the single rate, the revised indexation, and other changes. Transition arrangements were put in place for current pensioners who would have been disadvantaged by the tape rate change.

A major means testing issue is the pension asset test taper rate. Noting that this has also changed in various ways over time, we will refer only to more recent history. The taper rate on the asset test was set at 7.8% ($3.00 per $1000 of assets over the allowed amount) until 2007, when it was changed to 3.9% ($1.50 per $1000 of assets) in the last Howard Government Budget. The Greens opposed this change in the Senate, but it was supported by Labor.

In 2015, following the Abbott Government's failure to get its pension indexation changes passed by the Senate, then new Social Services Minister, Scott Morrison, abandoned the indexation proposal and on advice from his Department and ACOSS proposed a reversion to the pre-2007 taper rate, but with a higher asset threshold that meant over 90,000 part pensioners became full pensioners. COTA worked with the Greens to obtain the government's agreement to add a review of retirement income policy to the Tax White Paper process, in exchange for the Green's support on the legislation. The change was passed in the Senate with Greens support in July 2015 to come into effect from 1 January 2017.

Since then the change back to the higher taper rate has received significant criticism, initially and obviously because it meant that although some 93,000 part rate pensioners became full rate pensioners, another 300,000 ceased to be part pensioners due to their assets. Since then the critique has focused more on the disincentive to save that the taper rate is said to create between about 300,000 and 700,000 in savings because of its impact on net income – the trade-off between investment income and pension income.

There is an active debate about the actual savings effect of the current taper rate, and this was the case when the change was being discussed in the first half of 2015. Some argue that there is a clear disincentive to save and leads to people overinvesting in the family home, or gifting to family members, or engaging in major discretionary expenditure that they would not otherwise have done. This is something about which the Review needs to gather as much data as possible.

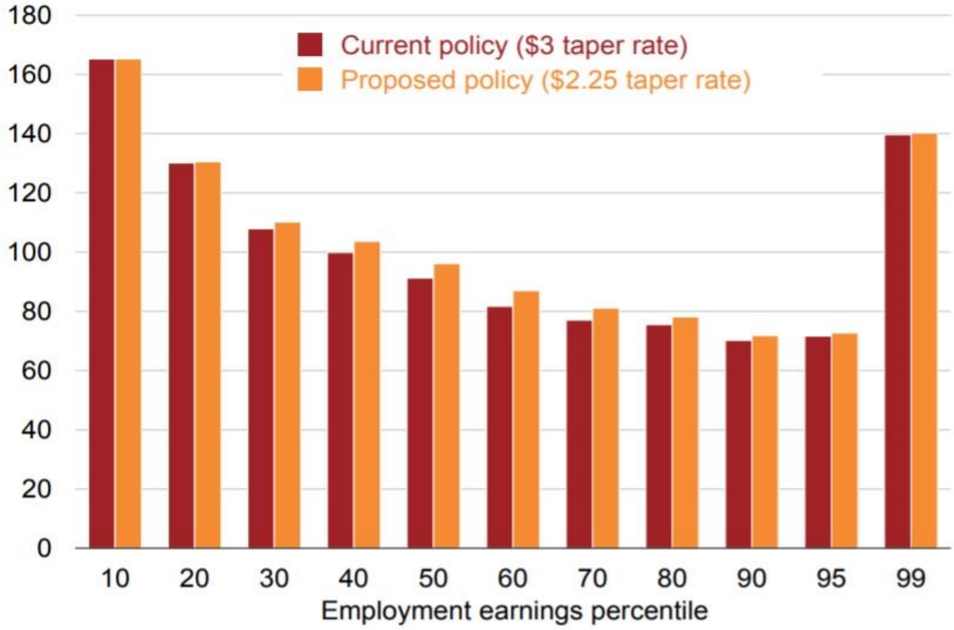
We note that the Actuaries Institute, Rice Warner and the Grattan Institute are all calling for the taper rate to be reassessed and softened, whereas CEPAR has suggested it should be maintained at the current level.

The Grattan Institute recommend that the Age Pension be withdrawn at a rate of $2.25 per fortnight for each $1,000 of assets above the 'asset free' area[4]. As calculated by Grattan in the chart below, lowering the assets taper rate would boost the replacement rates for middle-income earners,

[4] Daley J & Coates B, 2018. *Money in retirement: more than enough*. Grattan Institute.

thereby reducing disincentives to increase personal savings. COTA notes that Industry Super Australia and the Australian Council of Trade Unions have called for it be reduced to $2.00 while others have been in between these two areas. COTA encourages the Review to model a number of options and report the impact on current and future older Australians in retirement if the taper rate were amended.

Figure 8.1: Lowering the assets test taper rate boosts replacement rates for middle-income earners
Whole of retirement/last 5 years of working life replacement rate, by employment earnings percentile, CPI deflated



Source: Daley J & Coates B, 2018. *Money in retirement: more than enough*. Grattan Institute.

We have already referred to the change to the means testing rules for pooled lifetime income streams introduced as part of More Choices for a Longer Life. That has changed the interaction between the pension and those products into the future. The impact of this change needs to be monitored and the settings adjusted if necessary.

The roles of individuals, industry and government

Government, industry, and individuals have shared responsibilities in securing optimal retirement outcomes for older Australians.

COTA supports individuals exercising choice and control over their retirement to the greatest extent possible. We recognise the important role of Government and industry in creating conditions which maximise outcomes for consumers, including Government ensuring industry acts in the best interests of consumers at all times. Government must provide a balanced regulatory environment, improve financial literacy, and provide the conditions and regulations for affordable, sound and professional advice.

We discuss the roles of each below in more detail. COTA believes such roles should be viewed as complementary rather than competing, each delivering a necessary balance to the other.

Government

Government is responsible for providing a safety net, for system design and for a regulatory regime and environment that is consistent, provides strong consumer safeguards, and ensures the retirement income system is optimally focused on achieving its objectives in which the interests of the consumers are paramount.

Government must also play a role in education and community financial literacy, so that all individuals can make informed decisions around retirement planning, given that a key component of the system is compulsory savings. This does not mean that government has to itself do the education and awareness, but it needs to require and facilitate it. Some can be done by requirements on superannuation funds; some has to be done by government itself (e.g. promotion of the Pension Loan Scheme); and some government needs to mandate and fund as independent consumer based advice and advocacy, as super funds all have a self-interest conflict.

Government is also responsible for ensuring there is a strong regulator with effective and proportionate powers to enforce all the rules, the scope of which we have not covered here, but include all those in the SIS Act, ASIC Act and more. Consumers find the current regulatory regime pretty remote, opaque and inaccessible. Having two regulators creates confusion and neither have a good interface with direct consumers and while ASIC has made good efforts to have a positive interaction with the organised consumer movement, APRA has almost no organised interface with the consumer movement. The Review must consider the appropriate roles of APRA and ASIC in this context.

Individuals

Individuals have a responsibility to save and plan for their own retirement, with due regard to their means and personal circumstances. In reality, due to poor financial literacy, system safeguards must continue to be in place to ensure optimal outcomes where a consumer does not develop an individualised retirement plan.

The level of financial literacy required for older people to effectively manage their financial security has become greater in recent years. This is due to factors such as the growth in online financial services and reduction in face-to-face services; more people now having a more complex mix of age pension and superannuation; and the common poor standards of consumer engagement and service provision by financial services institutions.

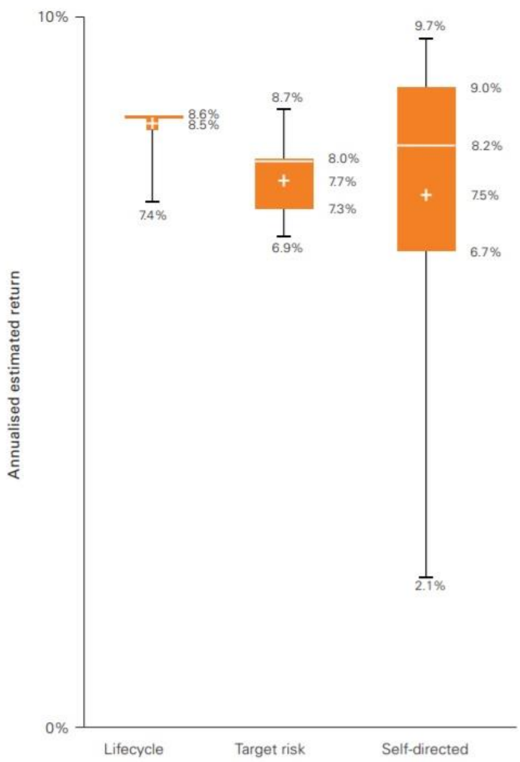
The Australian superannuation system is one of the most sustainable in the world. However, it achieves this in part by placing much of the risks to retirement income adequacy (e.g. longevity risk, investment risk) on superannuants themselves. Government makes it compulsory for almost all to contribute to their superannuation but provides almost no support to people to understand the system and its opportunities and risks.

We are also now in an era of low growth and low investment return for traditional retirement investments held by individuals, such as term deposits. This adds to the pressures on many retirees living standards, and faces them with the dilemma of whether to put their savings in higher earning investments, such as equities and managed funds, which they have no experience with and have almost no knowledge about how you do this on a sound and lower risk basis.

Where a person opts for a Self-Managed Super Fund (SMSF), or more flexible product choices, consumers have a responsibility to ensure they are making wise investment decisions – which is no easy feat in the current environment. The growth of SMSFs is in large part due to consumers wishing to exercise choice and control. It is entirely reasonable that people would want to manage their retirement in a way that works for them. However, this comes with larger risks.

As the figure below demonstrates, greater consumer direction has historically led to more variable, and often sub-optimal investment returns[5]. This suggests that there is a strong social imperative to increase the role of Government in improving financial literacy and putting in place a stronger consumer protection framework over the retirement income system.

Figure 6. Distribution of 3-year estimated total returns by investor type (as of 30 June 2018)



Notes: Based on 588,000 observations for lifecycle, 765,000 observations for diversified, and 192,000 observations for self-directed members.
Past performance is not a reliable indication of future performance.
Source: Vanguard using First State Super, Sunsuper and VicSuper data, 2019.

It is clear that the current programs aimed at improving the financial literacy of Australians are not sufficient. As per a recommendation of the Productivity Commission, the Australian Government should comprehensively and systematically evaluate the programs it funds that aim to improve the financial literacy of Australians, including through but not limited to a review of the National Financial Capability Strategy[6].

There is a key role for Government to assist all consumers understand, navigate, plan and manage finances in the current financial environment. This is particularly important for individuals on low

[5] Geysen A, Zhu C & Yating NS, 2019. *Benchmarking Australia's Superannuation Industry*. Vanguard Research
[6] Productivity Commission 2018, Superannuation: Assessing Efficiency and Competitiveness, Report no. 91, Canberra.

and modest incomes, but not restricted to them, as middle and even some higher income consumers have little experience with how to optimally manage this system in their interest.

COTA Australia also notes the findings of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry,* which found that much of the professional advice obtained by consumers in regard to SMSFs was very poor. Specifically, there are concerns about SMSF borrowing arrangements being utilised by members that lack the requisite financial literacy to properly understand the risks associated with them (or for whom such arrangements are unsuitable for other reasons). This must be dealt with through measures to improve the quality of professional advice, and potentially revisiting the Murray Inquiry's recommendations on limits to SMSF investments.

Industry

The role of superannuation funds must be to act in the best financial interest of their members. This has historically been interpreted as yielding the best possible investment return for the beneficiaries (s0mehting that many have not achieved!), to act fairly and in accordance with the law, and to act impartially between beneficiaries. There is a duty to exercise care, diligence and skill - always in the best interests of the members.

However, funds have not historically given priority to the situation of their members in retirement phase. For many years funds focused their attention almost exclusively on the accumulation phase and just assumed members who retire would either take a lump sum or an allocated pension, or a combination. Furthermore, funds have focused their members attention solely on the accumulation of a sum of money, not on the income that the member could expect in retirement, and indeed how that could be increased by additional contributions. That has started to happen now after substantial pressure on the industry, but only in a small number of funds so far.

COTA strongly supports the introduction of a Retirement Income Covenant to improve the focus on member benefits in the retirement phase, rather than the historical focus only on member investment returns during the accumulation phase. Across the industry there must be a range of products to stimulate the competition required to improve returns, and lower fees and costs.

A key issue from COTA's consumer-based perspective is the engagement of members of superannuation funds in understanding and making decisions about matters affecting their retirement income. Historically most funds have taken the view that members are happy to leave everything up to their fund. However some funds advise us that higher value members have a significant tendency to take their funds on retirement and set up an SMSF. Why? – because they want more engagement and control. Funds should be innovating to provide members with greater engagement with their retirement income decisions, and research evidence (e.g. from CEPAR) supports the value of doing so.

We recognise also the crucial role Industry plays in risk management, which is important to retirees who have less opportunity to recover from market losses than younger fund members. Products that address inflation risk, investment risk and longevity risk should be accessible to provide the best options for an individual to choose from. We note however concerns raised that the cost of 'mandating' such products may outweigh the benefits they offer to the individuals who suit the products designed.

The Productivity Commission's 2019, *Superannuation: Measuring Efficiency and Competitiveness*[7], highlighted some of the way the roles and responsibilities of industry have not been met in the past. Examples include stark differences in fund performances, unintended multiple accounts and entrenched underperformance in some funds.

The Productivity Commission report highlighted that the previous balance of self-regulation and a less interventionalist approach from regulators has failed to protect consumers. The PC report recommendations, of which a part of this Review was one, recommended a range of solutions that could protect consumers and repair the relationship into the future. This included changes to the powers of APRA and ASIC which are currently subject of much discussion. We suggest the Review consider these recommendations when modelling future options for consumer protections built into the system.

Question 1: Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?

Lessons learnt from overseas retirement income systems

There are major differences between the Australian and various overseas systems. However the Australian system is now established and despite weaknesses it has many strengths and we do not envisage this Review resulting in a major upheaval or recasting of our retirement income policy. In that context there are four key questions we think are relevant to the future of the Australian system from an international perspective.

First, as we understand it, we are one of few if not the only comparable country that has dual asset and income tests, rather than a unified means test. This question is also raised by the history of means testing in Australia, to which we have referred earlier, as the Australian system has had both, each for significant periods. COTA does not have a firm view on this, but consumers do find a dual means test complex. We also note that the Henry Review recommended a unified test. The Review should explore options for a unified test and the advantages and disadvantages of both approaches.

Secondly, the question of whether the Age Pension should be a universal or targeted/means tested payment, or some combination of these, is raised by the fact that full and part universal schemes operate elsewhere. We note that there are differing views on this for Australia by "experts" who have provided responses to the Consultation Paper. For a period during the mid-1990s COTA (then ACOTA) had a formal policy position of support for a universal pension, as proposed throughout that period by the Actuaries Institute. That was quite soon after the introduction of the Superannuation Guarantee.

While not agreeing with everything in the Mercer submission on the Consultation Paper, the so-called "radical alternative" is worthy of serious consideration and econometric modelling.

Thirdly, the taxation treatment of retirement incomes also varies considerably. We will not discuss alternative approaches. We will note that in our current arrangements the fact that most retirees now pay no tax does create clearly perceived and increasingly discussed issues of intergenerational equity. When retirees and working age people receive the same gross income and if the retiree's income is derived from the pension and/or superannuation they pay no tax, while the working age person, often with dependants and a mortgage, pays tax. This is an issue the Review should consider

[7] Productivity Commission 2018, Superannuation: Assessing Efficiency and Competitiveness, Report no. 91, Canberra.

in terms of the longer term political and social sustainability of the current retirement income system.

Fourthly, and perhaps most importantly, the Australian system is as we understand it unique or almost unique in not requiring that people use their superannuation in whole or in substantive part, as an income stream. That is passing strange when it is a key pillar of a ***retirement income*** system! While not perceived as a substantive system wide issue during the formative period of the SG system it will become more and more a substantive policy question as the super system matures.

If indeed the purpose of the retirement income system is "*to generate **optimum** income to support consumption during retirement*", then why does policy allow it to be equally used for other purposes? The lack of any requirement for at least a proportion to be used to generate retirement income means there is no disincentive to deliberately use it to pay a mortgage which the person could have paid off earlier; or to make provisions for inheritance; or to use precipitously in full knowledge that the age pension will remain available.

The Review needs to seriously consider and suggest options for new policy on this issue.

The changing Australian landscape

Question 7: 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?

There is no doubt that demographic, labour market and home ownership trends will impact the operation of the retirement incomes system. COTA Australia looks forward to the findings of the 2020 Intergenerational Report (IGR) when released in July 2020. The findings of the Retirement Incomes Review should be considered in combination with the findings of the Intergenerational Report with respect to any future changes to the system. In particular, we urge the Review to consider the IGR's insights into the future labour market and the impact of home ownership trends.

While not purporting to be experts, COTA Australia does wish to comment on the following key topics from the consumer's perspective.

Home ownership trends

Australia's retirement income system has for a long time incorporated the assumption that the vast majority of retirees would be outright homeowners, with supplementary rental assistance being available for those who were not. Recent trends indicate that this assumption will need to be reconsidered. Today an increasing number of retiree homeowners are reaching retirement not owning their home outright, but with an outstanding mortgage, and reaching retirement no owning a home at all, and home ownership in lower ages has dropped and is trending lower.

Across the population as a whole reductions in home ownership are led by young households of all incomes and middle-aged households with low incomes[8]. It is outside the scope of this Review to

[8] CEPAR, 2014. *Age Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation*

determine the causes and drivers of dropping home ownership, but it is likely in part due to declining affordability from both cyclical and structural factors, including higher and still rising housing prices and greater allocation of credit to investors (supported through negative gearing and capital gains tax discounts).

We understand also that home ownership for some is being delayed until later in life in part due to the increased portion of annual salaries required to both save a deposit and to service a mortgage compared with previous decades. However, the delay in home ownership is also broadly consistent with delays in other life course events, such as delays in the median age of finishing education, getting a first job, getting married and having children.

We note that lifetime homeownership rates are in decline according to most projections, with some projections suggesting that by 2056 only just over half of retirees would own their own homes. However, the "delay" factor may mean that the decline will not be as dramatic as some predict. The Review must consider the probabilities and options and the impact this will have on the costs of retirement.

Consideration must also be given to the role of low-deposit and low-interest loan packages aimed at lower income households, in providing security of tenure in later life. *BuyAssist,* as a wholly owned subsidiary of the National Affordable Housing Consortium (NAHC), assists people on low and middle incomes to purchase a dwelling by providing up to 25% of the purchase price[9]. *BuyAssist* could be expanded to include products explicitly targeted to older people in the private rental market[10], or potentially be used to progressively purchase the entry contribution to a retirement living setting (e.g. a retirement village, land-lease or lifestyle village)[11].

COTA Australia notes that there are successful co-ownership models at a state and territory level including Key Start in WA, HomesVIC in Victoria and the Shared Equity Scheme in the ACT. A co-ownership model would provide security of tenure and facilitate access to a pool of equity later in life to low-income individuals. Strong consideration should be given to the implementation of a program similar to the UK's *Older People's Share Ownership* program, designed for over 55-year-olds[12].

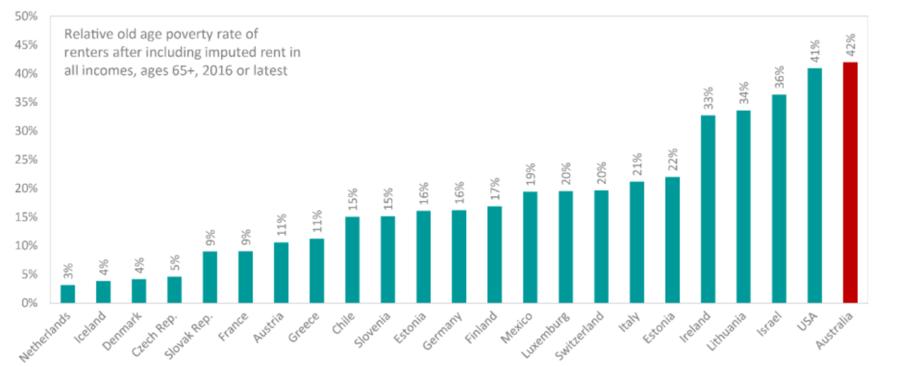
There have been public suggestions that people should be allowed to use superannuation funds to meet the deposit requirements to purchase a home. The issue of housing affordability is a complex one, outside of the scope of the Review. As we have argued earlier, the purpose of superannuation should be exclusively to provide income in retirement. It should not be used as a substitute for measures that address underlying issues of housing affordability, at the cost of future retirement incomes. The government has created special accounts to enable first home buyers to save for a deposit with the same tax advantages as superannuation savings, and we support that as a better approach to this issue.

[9] https://www.buyassistaustralia.com.au/info/
[10] CEPAR 2014, Age Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation
[11] Australian Human Rights Commission, 2019. *Older Women's Risk of Homelessness: Background Paper*
[12] https://www.ownyourhome.gov.uk/scheme/opso/

Earlier in this submission we noted and explored the suggestion that home ownership should be separated from the 'other savings' pillar and formalised as a standalone pillar of Australia's retirement incomes system, because of its critical importance to retirement well-being.

Rental stress and risk of homelessness

There will always some Australians who will remain financially out of reach of buying a home (including through a co-ownership model). There will also be those who benefit from the flexibility of renting, or whose circumstances are better suited to renting. The retirement income system, including government income support, must be designed with a view to assisting the growing number of older renters to age in place. This must include measures to increase security of tenure. Options to secure tenure may involve abolition of no-ground terminations of leases and offering public subsidies to landlords that allow five-year leases (or more) to eligible tenants.
Greater numbers of people renting in retirement necessitates a strong safety net to protect older people from poverty, housing affordability stress, and, in the extreme case, homelessness. Indeed, renters aged 65+ have some of the highest rates of relative poverty in the OECD[13].



Source: CEPAR 2014, Age Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation

Anglicare Australia's 2019 Rental Affordability Snapshot[14] explored rental stress in older people who find themselves in expensive and insecure rentals, at a time in their lives where stability is more important than ever. It found that less than one percent of properties across the country were suitable and affordable for a single person on the Age Pension. It also found that older people in insecure tenancies may find it difficult to get approval for appropriate home modifications, leading to premature moves into residential aged care.

COTA Australia strongly supports that one element of improving retirement incomes is to ensure that rent assistance keeps pace with the current rental market, including a one-off immediate increase to catch up on lost relativity. Accordingly, we support the Grattan Institute's call for the maximum rate of Commonwealth Rental Assistance to be increased by 40% and support measures to more appropriately index any increases in the future.

[13] CEPAR, 2014. *Age Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation*
[14] Anglicare Australia, 2019. *Rental Affordability Snapshot 2019.*

We note that the Commonwealth Rent Assistance is currently indexed to the CPI. Nationally, CPI has increased by 31%, whilst the rent index rose by 54% in the same period[15]. The divergence between Commonwealth Rent Assistance and CPI is particularly stark in geographic areas that have experienced a boom in rental prices.

It is clear that the current method of CPI indexation must be reviewed to make it fit-for-purpose moving forward. We note that there are a range of views on the most appropriate form of indexation. The report by the Grattan institute suggests that the CRA be benchmarked to rents paid by the poorest 40% of renters. Other suggestions from groups such as the Australian Council of Social Service suggest a dual indexation between national median rents and CPI. While COTA does not have a firm view on the most appropriate indexation and benchmarking methodology, we note that the significant disparity between CPI and the Australian Rental Index means that the current approach is inadequate.

We note historical proposals from other organisations, such as the Australian Council of Social Service, to only raise the maximum rate by 30%, whereas more recent modelling such as that by Grattan has identified for the purposes of ensuring a good retirement, some people may require rent assistance at a rate higher than this.

Labour market changes

The labour market is changing. In the period 2012–2017, the proportion of part-time employees grew from 29.7% to 31.7% with increases recorded in the proportion of both casual employees and the self-employed. Previously stable industries are now increasingly tenuous due to factors such as automation, changing terms and nature of international trade, lower levels of industry protection and wider technological change. Technological change has increased the productivity of high-skilled workers relative to low-skilled workers. This is because low-skilled workers would be released from the import-competing industries, therefore reducing low-skilled wages and encouraging low-skilled employment in other sectors.[16][17]. The long-term jobs decline in some sectors, such as manufacturing, is projected to continue.

Many people who work part time or casually on low wages find themselves excluded from entitlement to the Superannuation Guarantee because their gross pay for any one employer is less than $450 per month, yet they hold several jobs that collectively are much more. The SG should be paid to everyone. As a matter of equity for part-time low-paid workers, the lower minimum income hurdle for Superannuation Guarantee contributions (currently set at AU$450 per month from a single employer) must be abolished. In 2012 this was estimated to positively impact some 250,000 people, predominantly women, at a low cost to government.

Self-employment

The number of self-employed Australians has risen over the past two to three decades; from around 890,000 in 1991 to 1.3 million in 2018, although as seen in the figure below, there has been a slight

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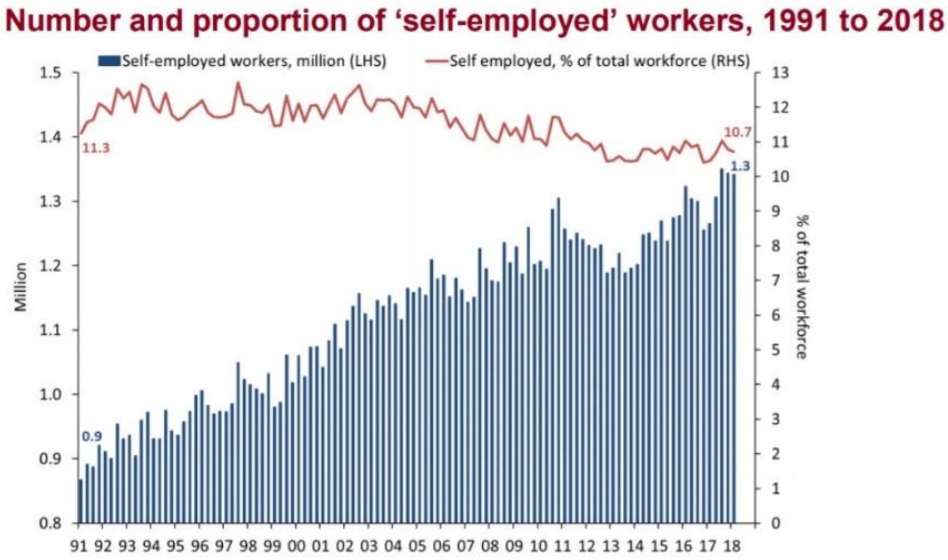
[15] Reference Group on Welfare Reform to the Minister for Social Services. February 2015. *A New system for better Employment and Social Outcomes: Final Report*.
[16] Rozenbes D & Mowbray M 2009. *Changes in the industrial and skill composition of employment*, Australian Fair Pay Commissions Secretariat, Research Report No. 9/09
[17] Wheatley T, 2009. *Labour market outcomes for low-skilled people in Australia*, Australian Fair Pay Commission Secretariat, Research Report No. 9/09

decrease in the portion of the population who are self-employed. Without compulsory superannuation, individuals must make their own arrangements for their retirement income.



Sources: ABS *characteristics of employment*; *Labour Force Australia, Detailed Quarterly*.

Most self-employed people have little or no superannuation, and only a small minority make contributions on a regular basis – and this poses a significant question for public policy. In 2012 around 29% of the self-employed had no superannuation, with men more likely them women to have none; and the self-employed tend to have significantly lower balances[18]. The latter may have changed more recently but we understand it is still low. It is also not true that self-employed people have put their retirement savings into assets other than superannuation. Instead, around 50% of the self-employed do not have significant business or other financial assets[19]. The evidence available indicates that many self-employed people are not financially prepared for retirement.

Whilst the 2017 changes incentivised voluntary contributions to superannuation, this may not result in a substantial increase in self-employed people voluntarily saving for retirement. Many tax incentives have a limited effect, if any, on the decision to make salary sacrifice arrangements[20]. This is in part due to the limited incentive on low and middle incomes, the complexity of the retirement income system overall, or, simply, that individuals feel that they cannot afford to invest long-term if they are struggling with costs of living right now. The inability to access the funds when voluntarily put into superannuation makes it less attractive compared to other investment options for many self-employed people. Put simply, it brings self- employed people comfort to know they could easily access their nest egg if personal circumstances change, even if in the longer run they may be disadvantaged.

To that end, COTA Australia urges the Review to consider the modelling on the future predicted wealth of self-employed people. In principle we believe that the Superannuation Guarantee should

18 Clare R, 2012. *Equity and superannuation: the real issues.* ASFA
19 Clare R, 2012. *Equity and superannuation: the real issues.* ASFA
20 Feng J, 2014. *The Effect of Superannuation Tax Incentives on Salary Sacrifice Participation*. Economic Record, 90, 59–73.

be compulsory for all, including self-employed people, for the same reason it is compulsory for wage and salary earners – to ensure an adequate retirement income.

Ageism in Employment

Many of the unique barriers faced in paid employment settings were highlighted in the Australian Human Rights Commission 2016 Willing to Work report[21]. The report highlighted that age discrimination affects the workers across the employment journey, from recruitment, to access to promotion, and to redundancy. This can include the assumption that older workers are more appropriate for non-voluntary redundancies or that older workers entering a new industry later in life are not appropriate for entry level work in some sectors.

There is a strong economic and social argument for supporting older workers to work for as long as they wish and are able, including well beyond the age at which they are eligible for the Age Pension. 2015 research from Deloitte Access Economics found the flow-on effects of a longer work life can mean increased retirement savings, reduced welfare costs for future governments, better social inclusion and improved health outcomes over time[22].

The 2016 Golden Age index by PwC found that if Australia's employment rate for workers aged 55 years plus (52%) was to increase to Swedish levels (74%), the potential gains to the Australian economy could be about $69 billion. Of that, $57 billion could be achieved by increasing employment participation for people age 55-64[23].

Once an older person becomes unemployed they find it much more difficult to re-enter employment than younger people. People aged 55–64 years spend on average 36 weeks looking for work until they find employment, compared to 14 weeks for all age groups[24]. For some, the barriers are insurmountable and despite their best job seeking efforts, mature age Australians suffer whilst waiting to be eligible for the Age Pension.

A national prevalence survey of age discrimination in the workplace indicated at least a 27% of the workers over 50 experienced age discrimination on at least one occasion in the workplace in the two years prior to the survey[25]. Indeed, around 30% of employers indicated that their organisation has an age above which they are reluctant to recruit workers. Of those organisations, 68% expressed unwillingness to hire workers over the age of 50[26].

Disincentives to work later in life must be removed. The pension work bonus must also be expanded. Further to this, restrictions on superannuation contributions in later life must be reviewed. Specifically, COTA Australia can see no reason, other than ageism, that Superannuation Guarantee Contributions should not be compulsory for employees over the age of 75. Self-Managed Superannuation Funds also stop accepting contributions after age 75. Concessional rates on

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[21]Australian Human Rights Commission, 2016. *Willing to work: National Inquiry into Employment Discrimination Against Older Australians and Australians with a Disability*.
[22]Australian Human Rights Commission, 2016. *Willing to work: National Inquiry into Employment Discrimination Against Older Australians and Australians with a Disability*.
[23] PwC, 2016. *PwC Golden Age Index: How well are OECD economies harnessing the power of an older workforce?* Australian edition.
[24] Australian Bureau of Statistics, December 2018. Labour Force, Australia., cat. no. 6291.0
[25] Australian Human Rights Commission, 2016. *Willing to work: National Inquiry into Employment Discrimination Against Older Australians and Australians with a Disability*.
[26] Australian HR Institute. October 2018. *Employing Older Workers Research Report*. Prepared for the Australian Human Rights Commission.

voluntary superannuation contributions cease after age 75. Why – many people are still working hard at 75, but are denied aright all younger employees have.

In the interests of fairness, there is no reason why their hard-earned superannuation contributions should be considered differently. If people choose to work after the age of 75, they should be entitled to the same benefits and concessions as their younger colleagues. Age-based restrictions to superannuation concessions should be abolished.

Additional principles for assessing the system

Question 8: Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future? Are there other principles that should be included?

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

COTA supports the principles proposed by the Panel, but suggests the Review consider the inclusion of the following additional principles, containing considerations which we believe are not adequately addressed in the four existing principles. These may be additional principles, or our concerns could be incorporated into revised versions of the proposed principles.

- **Certainty** – Australians need to feel confident about their retirement planning. Certainty means the reassurance that they can plan and provision knowing that their retirement income goals will not be undermined by unforeseen, unexpected and sometimes contradictory changes, and that if there are policy changes they are undertaken in a planned way with sound, evidence based reasoning and provide people with plenty of time to adjust their plans. This issue becomes more acute for those nearing or in retirement as they have fewer options and less time available to them (for example, to increase contributions or remain in the workforce longer).

- **Simplicity** – The general concepts and core workings of superannuation must be sufficiently clear for an ordinary person to understand, particularly in light of the fact that superannuation is compulsory. Reforms to the Retirement Income System need to be easy for Australians to understand. Interactions between different parts of the system should be translatable into a single easy to understand concept for Australians with basic financial literacy.

- **Fairness** – Government contributions to retirement incomes will be made across the life cycle – through both the concessional treatment of superannuation and through Age Pension payments and supplements in retirement. The superannuation system should not be a generous tax concession vehicle in which to store capital for other purposes. Beyond a certain point, people do not need the same proportion of taxpayer assistance to build adequate retirement savings. The use of superannuation tax concessions for wealth creation beyond that reasonable level needed for adequate retirement income, and for estate planning is not fair and undermines the system.

Adequacy

Question 10: What should the Panel consider when assessing the adequacy of the retirement income system?

Question 11: 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 Retirement Income proportion of pre-retirement income (and if so, what period of pre-retirement income); or matches a certain level of expenses?

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

The Review should consider proposing a benchmark or benchmarks for adequate retirement incomes. This is not an easy task. We need both a minimum and an optimum benchmark. The minimum is a level below which no-one should live, a safety net below which no none is allowed to fall; and a minimum that reflects that we are one of the wealthiest countries in the world and it should therefore be genuinely adequate and sustaining. The optimum is what the retirement income system as a whole should ensure all Australians can aspire to if they have access to all three pillars (or all five).

As a safety net, the Age Pension should be set at a societally acceptable standard of adequacy; and it should recognise and provide for different sets of circumstance, including, fundamentally, one level of support for the homeowner and another for the renter in retirement. Income drawn from the other Pillars should provide an appreciably better quality of life in retirement than this minimum standard. We discuss below the factors involved in assessing what that is.

Setting a minimum standard of adequacy

At its very basic, retirement income should enable a person to live their life without experiencing chronic and ongoing poverty. There are a number of indices that point to what that level should be, including the Henderson Poverty line and the 'ASFA modest' benchmark. Two important international benchmarks are the OECD poverty line which is defined as 50% of median income, and the European Union (EU) poverty line which is 60% of median income. The single Age pension is a little below the 50% measure and substantially lower than the 60% measure.

In our view it is important that any benchmark is transparent and is adjusted in relation to both CPI and wage growth to ensure the minimum reflects both cost increases and community living standards over time. All the benchmarks referred to above indicate that the current level of the Age Pension is likely a little low to ensure that no full pensioner lives in poverty.

COTA supports the Review articulating the method for developing a minimum standard of adequacy that all retirement incomes must be above, regardless of life experiences.

This minimum, as we have noted, relates to a pensioner who is a homeowner. There must be a different level for renters. That is the purpose of Commonwealth Rent Assistance (CRA). As we have noted and argued elsewhere in this submission, the current maximum level of CRA is considerably inadequate. This has been recognised for more than a decade and was pointed to by the Harmer

Report. Today there is widespread agreement that the most effective policy measure the government could take to address poverty is to increase the maximum CRA and index it. Think Tanks that vociferously disagree on other issues agree on this.

Measuring an aspirational standard of adequacy for the retirement income system

Older people are not homogenous in their lifestyle, circumstance or spending habits. Costs of living also vary based on geographical location. Retirement incomes drawn from superannuation and private savings will reflect differences in these variables during working life and savings accumulation and also differing expectations of and needs in retirement (e.g. caring responsibilities, health, location, etc). Fixed standards such the ASFA "Comfortable" measure do not accommodate or reflect this diversity. Similarly, the fixed minimum wage or living wage may also not meet the needs or expectations of someone living in a high-cost area.

COTA Australia is attracted to the proposal of a 70% replacement rate as a general standard that the system should aspire to deliver for most people to have an adequate and comfortable retirement. However this cannot be a comprehensive measure. For example:

- People retiring off Newstart or other benefits need a replacement rate well over 100% of their recent income, which is way below the poverty line, however you measure it, and will mean they have been running done other assets in order to survive.
- The same applies to people who have been in part time, casual or intermittent work in the years prior to "retirement".
- At the other end of the scale we do not need the system to ensure that very high income earners have the same replacement rate as most retirees. It is up to higher income people as to how they have provisioned for their retirement above what is adequate for the vast majority of the population.

In relation to the first two points above, COTA is concerned that modelling a replacement rate based on the past 10-15 years of working life will not take into account the adverse impacts of that period on older people who have experienced discrimination in the workplace later in life. Not being able to get work from age 50 because of automation of your career, or the physical pressures on your body due to the manual labour nature of your work, should not result in modelling estimating you need less in retirement. The same applies to people, predominantly older women, who find they have no choice to leave or substantially reduce work in order to be carers for a family member – spouse, partner, parent or adult child. Accordingly we would encourage the Review to consider the statistical impact of age-based discrimination in employment from age 45 onwards, and the situation of family cares (predominantly women) when considering the appropriate replacement rate to develop a 'comfortable' standard of retirement.

Decumulation / Consumption

The rest of this section of our comments on "Adequacy" could also be included in the "Cohesion" section. As we observe the following is actually central to the Review and relevant to achieved Adequacy, to Cohesion and to Sustainability.

Accumulated superannuation should be used to generate an income to fund consumption in retirement. That's the public policy point of superannuation. It is for this sole reason that policy-based incentives are provided to encourage the voluntary and reward forced savings to be used for deferred consumption in retirement.

However it appears that given estate balances transferred to the next generation, a portion of which either come directly from superannuation, or which come from assets in the estate paid for from superannuation, the current system is commonly used to accumulate financial resources beyond what is necessary to consume in retirement. The remaining assets are passed down in a form of bequests, which disproportionately benefit middle to upper income earners and their heirs.

Generally, older people take a frugal approach to their retirement. In COTA's State of the (Older) Nation report[27] we found that 82% of people agree with the statement "Before I buy something I carefully consider whether I can afford it" while less than 1 in 5 agree "I find it more satisfying to spend money than to save it for the longer term". Other research reconfirms these findings with actual consumption reported as low compared to ASFA retirement measures, even for wealthier households[28]. Consumption declines with age, instead of increasing in line with expectations of rising medical costs[29].

Anecdotally, but consistently for many years in significant numbers, COTA receives representations from retirees who express concern or distress about the difficulty of living off the earnings from their retirement lump sums. The suggestion that they should be drawing down on the lump sum to improve their income is strongly resisted, even when they are of an advanced age and have a significant lump sum. The suggestion that those invested fully or primarily in cash vehicles like term deposits should take advice on placing some of their assets in investment vehicles that provide a higher return is also resisted, especially by those who lost significant funds in the 2008 GFC and either capitalised those losses or were not in a position to recoup them.

We are not aware of research that fully illuminates why many people resist drawing down on their retirement lump sums to generate a more adequate income. From anecdotal evidence we are conscious of the following reasons:

a. Throughout their lives until retirement people are encouraged, incentivised and to a degree frightened into believing it is vital for their well-being that they accumulate as large an amount of assets as possible. Yet on retirement we are expected to reverse that, by then ingrained, instinct and plan to run those assets down, in a superannuation system in which the risks fall on the individual or couple – the longevity risk (will I run out of money?), health and aged care cost risk, and indeed investment risk (what if there's another crash?).

b. That "culture of saving" has been reinforced by superannuation funds that have focused both the image they project of their own strength and success, and their communication of their value proposition to members, on the size of their investments and the size of the member's lump sum[30]. It is only recently that a few funds have started to communicate regularly with their members about the retirement income they can expect. It is not clear

[27] See Page 54, https://www.cota.org.au/wp-content/uploads/2018/12/COTA-State-of-the-Older-Nation-Report-2018-FINAL-Online.pdf

[28] CEPAR 2014, Age Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation

[29] Asher A, Meyricke R, Thorp S & Wu S, 2017. *Age pensioner decumulation: Responses to incentives, uncertainty and family need*. Australian Journal of Management, 42(4):583–607

[30] For example, the most common and long running advertisement by industry super funds comparing themselves with retail funds is all about the size of your lump sum on retirement, not about what your income will be.

that this yet incudes explaining how generating an optimal retirement income necessarily involves a planned draw down beyond the legal minima required.

c. Our superannuation rules currently do not require that the tax advantaged asset we generate at retirement must be used to produce a retirement income, so people can take it as a lump sum, which they then protect and try and live from the earnings on it (plus a part pension in most cases).

d. If people do take all or part of their superannuation savings as an account based pension, or as an annuity using superannuation, the minimum required drawdown is quite low in the early years of retirement and indeed in recent years for people taking only the minimum, and having their balance remain invested in a Balanced type product, their balance will have grown rather than fallen. This of course may change into the future. Ironically the minimum drawdown rises significantly in later years, when one's income requirement generally decreases.

e. With the focus of superannuation policy, regulation, public attention and communication having been on the accumulation phase for the bulk of the last quarter century, we have not seen much focus on the retirement phase and on product development and innovation for it. That has changed recently but only marginally to date, and the government has dragged its feet and is well behind its own announced schedule on the development of CIPRs and the Retirement Income Covenant, diluting the signals they are designed to send to the funds.

f. While in principle people should understand that they have substantial longevity insurance available to them in the form of the Age Pension this does not seem to be understood by more retirees than one would expect. While living only off the age pension may not seem an attractive prospect to many people when commencing retirement, at later years when income requirements tend to be lower, it is often quite sufficient, depending on provision to meet care costs.

g. Obviously some people do protect their balances because they wish to bequeath the funds to children or grandchildren. When they do this with assets they have acquired outside of superannuation that is properly entirely their call. When they are doing that with tax advantaged superannuation the degree to which that should be possible is a public policy question.

This issue is fundamental to the purpose and tasks of the Review. It goes to Adequacy, Cohesion and Sustainability. The Review has nominated it as part of its Cohesion questions but it is also part of the Adequacy debate because the sense in the community that many people do not have an adequate or desirable level of income is an important factor in both pressure for changes that may be unnecessary and for confidence in the system, and therefore also impacting on its Sustainability.

The Review must consider ways in which optimal decumulation to generate an optimal income can be achieved to a much greater degree, whether through education, incentive or compulsion or a combination of these. There is a variety of approaches to this issue and we explore some of these below.

Super pension minimum drawdown rates

One consideration is the spending signal conveyed by the Government's 'minimum drawdown' rules. We suggest that in the absence of personalised financial advice consumers take these amounts as an implicit recommendation that they should only seek to spend that level of their asset each year, rather than planning to utilise their capital fully or almost in its entirety to provide them with higher income.

This issue is discussed in a significant paper presented to the 2019 Actuaries Institute 'Actuaries Summit' in June 2109.[31] The paper considers the use of the minimum drawdown and other options for achieving an optimum retirement income. The paper concludes that:

> *Above all, we believe that our paper has identified that the most widely used reference, the statutory minimum drawdown rules, is generally too low to yield anything close to optimal utility. Individuals would be better advised to spend more, especially in the younger years of retirement.*

The paper presents a number of guides to achieving a more optimal income, from a basic "Rule of Thumb" to more sophisticated versions for financially sophisticated retirees and for financial planners. The "Rule of Thumb" version involves (our wording):

- draw down a baseline rate, as a percentage, that is the first digit of their age (i.e. if 67 its 6%);
- add 2% if their account balance is between $250,000 and $500,000;
- apply the statutory minimum if it exceeds the amount calculated by the preceding.

This and the other more sophisticated options all deliver significantly greater income well beyond most life expectancies.

So, options that the Review should consider include:

a. a higher rate of draw-down could be encouraged by an appropriately indexed 'recommended rate' that sits alongside the legislated minimum; or

b. a higher rate of draw-down could be mandated in place of the current inadequate rates. We would favour this.

However, there are other options to consider also. We explore these below.

Annuity products

Annuity products are defined as a fixed sum of money paid to someone on a regular basis, either for the rest of their lives, or for a fixed term. Private annuity products have been widely underutilised in Australia, although they are nevertheless a significant part of the retirement income landscape, especially for people who have taken financial advice.

Whilst recognising that annuity products are not suitable for all, the products can provide protection against longevity risk and underpin a smooth rate of consumption over a lifetime. Annuities can either be taken as an immediate income stream or as a deferred payment at a certain p0int into the

[31] De Ravin J, Liu E, van Rooyan R, Scully P & Wu S, 2019. *Spend your decennial age*. Actuaries Institute. Presentation to the 2019 Actuaries Summit. NOTE THAT THIS PAPER IS COPYRIGHT THE AUTHORS.

future. The latter can provide assurance of an income later in retirement than will cover living costs and potential health or aged care needs, so it then frees a retiree up to know that their other assets can be safely drawn down between now and the annuity commencing.

The Review should consider the reasons that relatively few Australians choose annuity products later in life to support ongoing smooth consumption through retirement and consider whether there are any policy levers that should be considered by Government to increase the consideration of these products. We acknowledge that the means testing of deferred annuities was relaxed in accordance with COTA representations, in a measure included in the 2018 *More Choices for a Longer Life* package. This only came into effect in the middle of 2019.

Reasons for low adoption of annuity products could be due to the complexity of existing products available in the market, the relatively high initial cost of the products and, of course, low interest rates. This last issue being because at time of commencing an immediate annuity you are generally locked in at the current interest rate for the duration of the annuity. Consumers may also believe that the money will be better invested in their hands, and that having more direct and flexible control will improve their financial security.

Another consideration is the 'framing effect'[32]. It may be that presenting annuities as an investment decision reduces their appeal as consumers will compare the outcomes with other investment options, whereas presenting them as guaranteed income makes them more attractive[33][34].

There are of course attitudinal issues about annuities for many people. With a lifetime (or rest of life) payment there is no risk of outliving the payment, but there is always a risk of dying earlier than expected and "not getting the full benefit". For the provider the risks are of course pooled and there is a reliance that actuarially early deaths will balance out those who live longer. Products are available that revert to a partner or include a repayable residual, but they are of course more expensive or provide a lower income.

Should the Review determine that society should increase its focus on consumption / decumulation, the Review may recommend further behavioural economics exploration of these issues than can be conducted within the timeframe of the current Review.

It may be that the best option on annuities is to allow time for recent changes to the regulatory environment to flow through to innovative products, and that the market for annuities products will strengthen without intervention.

Increasing the take up of retirement income streams

We have touched several times on our view that the purpose of superannuation is, in conjunction with the Age Pension, to provide for the optimum retirement income, but we have noted that this is not a formal requirement of the system.

[32] CEPAR, 2018. *Learning to Value Annuities: the Role of Information and Engagement*: Working Paper 2018/17.
[33] McGowan F, Lunn P & Robertson D, 2018. *The framing of options for retirement: Experimental tests for policy*. ESRI Working Paper, No. 604, The Economic and Social Research Institute (ESRI), Dublin
[34] Brown, J, Jeffrey R, Kling r, Mullainathan S, Wiens G & Wrobel M, 2008b. *Framing, Reference Points, and Preferences for Life Annuities*. TIAA-CREF Institute Research Dialogue.

We note that the Australian superannuation system is far from mature and that low balances do not generate substantial income streams. However, it is worth reflecting that a balance of $100,000 can today produce an annuity of around $5,000 pa which would be a 20% increase in income for a full age pensioner, which is a significant uplift.

COTA notes that a range of people have called for either hard or soft options to compel individuals to take up income stream products (whether allocated pensions or annuities) as a mechanism to increase retirement incomes through the decumulation of retirement assets. We have suggested earlier that the Review should consider a higher level of minimum drawdown on allocated pensions in the earlier years, which is relevant to this discussion.

Hard options

The “hard option” is to make the purchase of an income stream compulsory for all individuals who meet a predetermined threshold level of superannuation.

In its most severe form this would include removing the option to take a lump sum payment at point of retirement (presumably above a certain basic threshold balance).

In a less severe form this option would require that above a certain (higher) balance it would be compulsory to convert accumulated superannuation into an income stream.

The inability to withdraw any lump sum would disadvantage those who enter retirement with debts or in need of a major purchase (such as a new car) – remembering that a significant proportion of people “retire” earlier than they planned due to ill health or redundancy or caring responsibilities. There will also be people nearing retirement now who have earmarked the lump sum for planned one-off major expenses post-retirement, so at least a grandparenting provision would need to be part of transition arrangements.

Another hard option would actually be to tighten the means test for the Age Pension to effectively force retirees to use up most of their superannuation before they can be eligible for the pension. COTA does not support this option as the construct of the current system creates an interaction between the pension and superannuation based income streams that can produce a much more optimum level of income across retirement than using the two pillars as alternates.

Soft Options

An alternative approach would be to consider a ‘soft option’, which allows for greater flexibility. One such ‘soft option’ is the creation of default retirement income products, whereby people in MySuper default funds would be defaulted into an account-based ‘My Retirement’ product, which may also include a deferred lifetime annuity, on an opt-out basis.

There is a risk that this kind of option may mean people are less likely shop around for the best rate or product to meet their needs. Data from the UK suggests that only one in three people shop around for the best annuity rate, despite a potential difference in retirement incomes by up to 20%[35]. Any move to increase uptake of annuitisation must be combined with appropriate consumer safeguards, and efforts to increase consumer financial literacy more widely.

[35] National Association of Pension Funds (UK), 2010. *Removing the requirement to annuitise by age 75*. The NAPF response to HM Treasury’s consultation, September 2010.

Another proposal, suggested in the Actuaries Institute Green Paper, would be a mechanism by which older people in receipt of a part pension could 'purchase' an indexed portion of the Age Pension to which they are not otherwise entitled. It would create a short-term cash flow bonus for government, and directly target the middle wealth holders. This would allow a growth private market for upper wealth holders, which would still allow private industry to provide competitive and innovative products, whilst providing direct benefit to those who may be encouraged to rapidly draw down their assets to meet the full pension entitlements[36].

Equity

Question 13: What should the Panel consider when assessing the equity of the retirement income system?

Question 14: 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.)?

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

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

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

As noted earlier, COTA Australia has proposed an additional principle of "fairness". We acknowledge that there is a lot of overlap between the two concepts. While the term 'equality' often signifies the attempt to treat everyone the same, the term 'equity' understands that sometimes individuals need different treatment to achieve comparable outcomes. In this context, COTA's raising of the concept of "fairness" is an attempt to establish a principle about the public's view of retirement income policies as to whether they are perceived as fair, which perception impacts on confidence and active participation in the system.

For example, COTA would argue, topping up low-income superannuation balances can be seen as delivering on the principle of equity. However we recognise that it would be contested as to whether using taxpayer funds to top up low-income superannuation would be seen as 'fair' by some. On the other hand, while current contribution tax concessions are seen by some as meeting the concept of equality, as everyone receives the same 15% rate, it would not meet the principles of equity or fairness - as high income earners get a considerably better tax concession than lower income earners when comparing marginal tax rates with the flat 15% tax rates within superannuation. COTA strongly supports the principle of equity and submits that the inclusion of 'and fairness' within that principle

[36] Actuaries Institute, 2019. *Options for an Improved and Integrated System of Retirement*. Green Paper.

will assist in the design of and confidence in the system. (For clarity of record, COTA does support topping up low superannuation balances from general revenue).

Addressing gender imbalance

There has rightly been a significant focus in recent years on the persistent gender pay gap in Australia, and the gap in super balances between most men and women. This may be due to periods where they have been out of the formal workforce undertaking unpaid care giving roles for children or parents (or both) , and/or the effect of the gender pay gap in many industries, which has persistently undermined women's financial security.

CEPAR research in 2018 found that the median superannuation balance for women aged 55 was approximately $50,000, whereas the median balance for men aged 55 was estimated at $120,000.[37] . On the other hand, figures from the ATO cited in the Review's Consultation Paper showed a median balance for women of $122,848 compared to $154,453 for men in the years immediately preceding retirement (60-64 years) in 2016-17. Neither is acceptable, but the question is how to tackle it.

The retirement income system cannot by itself resolve the gender gap in retirement incomes, which must ultimately be addressed by measures to remove the gender pay gap and better support carer roles and have them shared more equitably between genders. However the Review should model and make observations about the potential impact of paying compulsory SG supplements on Parental Leave payments (both government and private) and on Pensions (other than Age Pension), Benefits and Allowances and consider other measures that might have a positive impact on this issue. Particular regard should be paid to the situation of family carers who disadvantage themselves but in the process save government and the taxpayer from extra costs.

The social and economic circumstance of many older women lends itself to being particularly vulnerable to unemployment, disruption, and ultimately housing crisis. Older women are particularly vulnerable to experiencing insecure housing when they have not been able to build up substantial savings or superannuation and are in insecure employment. This all clearly impacts on quality of life in retirement. This vulnerability lends itself to preventive and remedial measures that could be quite short term if delivered in a timely fashion; and are a separate social policy issue than dealing with long term homelessness. The Review should consider observations on this which government might then pursue.

Commonwealth Seniors Healthcare Card

A key hesitation for people in drawing down on their retirement savings to create more adequate income streams is concern around future unexpected health care and aged care costs. These fears are not unfounded. In 2016–17, around $3.0 billion was paid for out-of-pocket[38] health care expenses, some of course discretionary but many unavoidable. Indeed, 570,000 people aged 55 years and over spend more than 10% of their income on health, while about 250,000 spend over 20%.

Access to the Commonwealth Seniors Health Card may provide access to cheaper pharmaceuticals (for those listed on the Pharmaceuticals Benefits) and medical care (such as bulk billing). While

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[37] CEPAR, 2018. *Retirement incomes in Australia; Part III – Private Resources*; section: Super Balances – Median balances by gender

[38] Australian Institute of Health and Welfare 2018. *Patients' out-of-pocket spending on Medicare services*, 2016–17. Cat. no. HPF 35. Canberra: AIHW.

recognising there is not empirical evidence of the exact numbers concerned about the cost of health care, COTA receives a steady stream of representations from older Australians who believe despite not receiving a pension, they should be provided with access to more affordable health care through the Commonwealth Seniors Healthcare Card. This correlates with COTA's 'State of the (Older) Nation' report[39] identifying broad concerns with cost of living pressures including that half of older Australians felt that the cost of living is increasing at a rate that is leaving them behind (53%) This was more prevalent among women (55% vs 50% of men), people who are renting (71%) and those living with a disability (65%).

COTA believes that there is an incentive for retirees to arrange their affairs in such a manner that causes them to fall below the cut off threshold for eligibility for the Seniors Health Care and thus have access to the benefits it provides. A number of possible alternative to this incentive would be:

a. to provide the Commonwealth Seniors Health Card to all people who are of Age Pension age; or

b. to provide it to people over the age of 74 years (aligning with eligibility for the comprehensive health assessment for people 75 and over); or

c. increase the means test threshold to a higher level.

Elder abuse

Elder abuse is a growing concern worldwide, and a threat to the financial security of older people. Indeed, financial abuse is identified as the fastest growing type of abuse. There is limited information available about the prevalence of elder abuse in Australia. Internationally it is estimated that up to 15.7% of people aged 60 and older are subjected to abuse[40]; and that these prevalence rates are likely to be underestimates as many cases of elder abuse are not reported. In 2019, the Attorney-General's Department released the *National Plan to Respond to the Abuse of Older Australians (Elder Abuse) 2019-2023*[41], to increase efforts to identify and prevent elder abuse. This includes Australia's first prevalence study.

The solutions to elder abuse are varied and complex. There are challenges with reporting and responding to elder abuse that are outside of the scope of this Review. However, the Review must consider elder abuse as a risk factor for older people's financial security. Government must continue to work with the consumer sector, financial counsellors, elder abuse prevention agencies and the financial services industry to improve the ways in which elder financial abuse is identified and reported, and to ensure retirement incomes products are required to have sensible consumer safeguards to protect older people. This must include the implementation of harmonised Powers of Attorney legislation and regulations across all States and Territories – or hand them over to the Commonwealth and then implementation of a national Powers of Attorney Register.

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[39] Available from www.stateoftheoldernation.org.au

[40] Yon Y, Mikton CR, Gassoumis ZD & Wilber KH. *Elder abuse prevalence in community settings: a systematic Review and meta-analysis*.
Lancet Glob Health. 2017 Feb;5(2):e147-e156.

[41] Commonwealth Government, Attorney-General's Department. *National Plan to Respond to the Abuse of Older Australians (Elder Abuse) 2019-2023*

Newstart Allowance

The Newstart Allowance (soon to be renamed the 'Jobseeker payment') should be an important safety net, but its current level is totally inadequate to meet the basic costs required to stay afloat and re-enter the workforce, so it cannot be described as a safety net, or if it is, the holes are too big. As part of the widespread coalition of organisations that is the *Raise the Rate* campaign COTA Australia has strongly supported calls to raise the single maximum rate of Newstart by $75 per week. We note that ACOSS has recently raised the claim to $95 per week, representing the current value of the original claim. We would welcome the government conceding $75 per week and indexing the payment properly.

Around a quarter (24.6%) of Newstart recipients are over the age of 50[42]. The current rules require individuals to essentially fund their own unemployment for period of time, at the cost of their long-term financial sustainability into older age. The so called Liquid Assets Test requires people to run down their savings according to a formula over a period of time, before they can be eligible for Newstart. This does not require jobseekers to dip into their actual superannuation accounts (provided they are under Pension Age), but the current rules do not have any leeway for quarantining other assets intended to fund retirement but held outside of superannuation. These assets are often planned savings for retirement. Indeed, it is reasonable to assume that those who are approaching age pension age intend for these funds to be used during retirement years.

Recommendation 88 of the Henry Tax Review recommended abolishing the Liquid Assets Test, as it reduces the fairness of the system and creates incentives to hold wealth in particular types of assets[43]. We believe the Review should consider the impact of this test on the mature age long-term unemployed in relation to their retirement incomes, because the requirement to diminish any non-superannuation based retirement incomes is counter-productive to supporting self provision for retirement.

Concessions

The taxation concessions on superannuation contributions, earnings and derived income are also relevant to considerations of equity. We have dealt substantively with the concession in other sections of the submission and refer to that text, which we are not repeating here.

[42] Department of Social Services, July 2019. *Labour Market and Related Payments: a monthly profile*.
[43] Henry K, Harmer J, Piggott J, Ridout H, Smith G. 2009. *Australia's future tax system: report to the treasurer.* Canberra: Commonwealth of Australia

Sustainability

Question 18: What should the Panel consider when assessing the sustainability of the retirement income system?

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

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

Means testing

Means testing is a key factor in the sustainability of the Age Pension from a fiscal management perspective, but of course the sustainability of the Retirement Income System as a whole depends on the overall cost of the Age Pension, superannuation concessions and tax treatment of other assets and income. The projected cost of the Age Pension to revenue has been substantially mitigated by the operation of the means test in conjunction with the growth of superannuation balances and incomes derived from these. However, what is the cost of the concessions on superannuation? What level should the Superannuation Guarantee be set at? We discuss these below.

We note that we have discussed more detailed aspects of means testing, that are not so linked to sustainability, elsewhere in this submission, including the pension asset test taper rate, the issue of whether we should have a unified pension means test and the relationship between the pension means test and consumer behaviour.

The "family home" or principal residence in the means test?

We note that the Government has already ruled out including the family home in the Age Pension means test. Nevertheless, we expect there to be commentary on this in submissions to the Review, and it is a legitimate subject for the Review to examine and model options about.

In principle the value of the principal residence should be included in a means test, though not necessarily on the assumption that its value should be fully expended on retirement income. And it could only be included if there were more robust, equitable and acceptable ways to access and utilise home equity, which if it was including the home in the means test the government should either provide or subsidise.

Politically this is regarded as a "no go zone" by the major and most of the minor political parties, which is why the government has already ruled it out. Yet COTA's experience is that there is a greater willingness to discuss this issue among our constituency than political wisdom would indicate.

While there is little support for inclusion of the full value of the residence in the means test, views on whether some or all of the value above median house prices (overall or geographically moderated) should be taken into account. In two successive surveys of our constituency for Federal Elections we have found support and opposition to that proposition fairly evenly divided in the forty plus percent's, with the rest undecided.

This is supported anecdotally by older people who make representations to us that when two retirees have the same value of assets, one having made financial provision toward their retirement income, and therefore not eligible for the pension; while the other over-invested in the home for inheritance purposes and receives a full or part pension; this is an unfair outcome. There is also strong feeling among some that very high net worth homeowners should be required to utilise that equity for retirement income, while not being forced to move unwillingly. This would require access to good equity release products.

COTA offers no firm position on this issue but would not be concerned if the Review were to model some options and/or were to provide data about the wealth accumulation outcomes of the complete exclusion of the principal residence from means testing, and any observations about behaviours it incentivises that may not be optimal in terms of retirement income policy.

We note for the record that COTA does have a strong and regularly articulated policy position, in our own right and as a leading member of the National Aged Care Alliance and the Aged Care Sector Committee, in support of the inclusion of the principal residence in aged care means testing, on a much more robust and progressive way than at present (the current residential means test include the home in a most regressive manner).

Other sections in this submission cover issues such as right-sizing, and equity release, that should be considered alongside this debate.

The future of the Superannuation Guarantee

Since the introduction of compulsory superannuation there has been debate about the appropriate final level of the Superannuation Guarantee, and its rate of increase. Continually wrapped up within that ongoing debate is the need to ensure poorer Australians have sufficient income in both the pre-retirement and retirement phases of their life, and the trade-off between superannuation and wage growth.

Grattan Institute modelling suggests that 80c of every dollar that goes into superannuation is money that would otherwise be paid to the employee in the form of wages. This figure has also been given weight recently by the Reserve Bank. There is, however, no guarantee that if the SG does not go up that the equivalent money will be paid to employees as wages. The McKell Institute, which disagrees with Grattan's findings, notes that if workers' superannuation does not rise 2.5% (from the current 9.5% to the legislated 12%), there is no evidence to suggest that they would actually receive an equivalent amount in additional wages over the period 2021 to 2025[44].

Put simply, a delay in the increase in the Superannuation Guarantee may or may not increase take-home wages today but would assuredly reduce future retirement savings and total lifetime income. The Australia Institute's Centre for Future Work also disputes Grattan's view that increasing the Superannuation Guarantee would slow wage growth. TAI's modelling suggests that, on average, wages were more likely to accelerate and grow at a faster rate when the superannuation guarantee

[44] Taylor K, 2019. *Does higher superannuation reduce workers' wages?* The McKell Institute.

rate was increased[45]. Rather than delaying a rise in the superannuation guarantee rate, TAI suggests that weak wage growth should be tackled with direct, wage-boosting policies.

It is not the effect of superannuation that has stalled wage growth in recent times. The major causes of the slowdown in wage growth cited by both the Reserve Bank of Australia (RBA) and Treasury include excess capacity in the labour market; a steady decline in inflation and inflationary expectations; and a decline in the terms of trade since the end of the mining boom[46]. Protracted collective bargaining processes, a shift in employees covered by collective agreements and low levels of industrial disputation have also impacted wage growth[47]. The question of how to stimulate wage growth, which is after all very much in the interests of people's optimum retirement income, is a separate debate.[48]

There are also concerns that raising the Superannuation Guarantee would lead to 'over saving'. If the appropriate drawdown incentives are put in place (*see: decumulation*) there is no reason to fear over saving. Some have suggested a middle ground, in the form of mechanisms that would allow the Superannuation Guarantee to be varied with individual circumstances. Similarly, others have proposed an 'opt out' model. We do not support these.

COTA Australia is not an economic think tank, but we note that the economists disagree significantly on this issue. From the consumer perspective of a prospective retiree however, there are clear benefits in accumulating an additional 2.5% into people's superannuation accounts. There is no sense in further delaying the legislated increase to the Superannuation Guarantee if it is not guaranteed to result in a commensurate increase in take-home pay.

Further, we know that the current super system does not work well for all population groups among retirees. This Review will hopefully address a number of those issues and government may act to resolve them. But in the meantime their impact will persist for some time and the increase to 12% will have a positive effect for most of those groups.

A key issue however in the increase to 12% is for government to address the inequitable level of tax concession going to different income quintiles and because of the excess at higher levels, incurring significant forgone revenue. We need a level playing field and incentives for lower income earners to self provide.

COTA Australia's position at this point is to support the scheduled rise in superannuation continuing on the current timeline but conjointly we forcefully urge the introduction of a revised set of arrangements for tax concessions that will ensure a more appropriate and equitable outcome for low and middle income earners and restrain the excess outcomes and costs involved in the current level of concessions to the highest income earners, when the incentive is not required at anywhere near that level. Our position on the 12% target is subject to review if this Review produces information and data that gives us cause to do so.

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45 Stanford J, 2019. *The Relationship Between Superannuation Contributions and Wages in Australia.* The Centre for Future Work.

46 Department of Parliamentary Services, 2019. The extent and causes of the wage growth slowdown in Australia. Research Paper Series 2018-19.

47 Department of Parliamentary Services, 2019. The extent and causes of the wage growth slowdown in Australia. Research Paper Series 2018-19.

48 For example: Stanford J & Hardy T, 2018. *The Wages Crisis in Australia: What it is and what to do about it* (A. Stewart (ed.)). University of Adelaide Press.

Cohesion

Question 21: What should the Panel consider in assessing whether the retirement income system is cohesive?

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

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

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

Question 26: Is there sufficient integration between the Age Pension and the superannuation system?

COTA's 'State of the (Older) Nation' report in 2018 found that 48% of older people agreed with the statement "It's difficult for me to understand the changing rules around retirement income and superannuation". Those more likely to have difficulties understanding changing rules around superannuation include those still in the workforce (54% vs retirees 43%), those in their 50s (56%), and/or residents of the Northern Territory (63%). When generally discussing recent Government changes to Superannuation rules and Australian Government Aged Pension, around 3 in 5 older people felt negative about the perceived impact of changes, in particular those who rated their sense of financial security poorly. Should the information within our 'Financial Security and Cost of Living'[49] data of a representative sample of older Australians, weighted to the national average be of interest to the Review, we would be happy to provide it in greater granularity.

Superannuation concessions

Australia relies more heavily on tax concessions for private superannuation saving than any other OECD country.[50] In 2017, Treasury estimated revenue foregone from superannuation tax concessions as $35 billion. As demonstrated in the chart below[51], superannuation taxation concessions primarily benefit the highest income earners, with the top 20% of income earners accounting for 58% of superannuation tax concessions. This is an equity concern, equally illustrated by the table in the Review's Consultation Paper on page18 demonstrating the lifetime value of government/taxpayer support by income quintiles.

The policy purposes of these concessions are twofold:

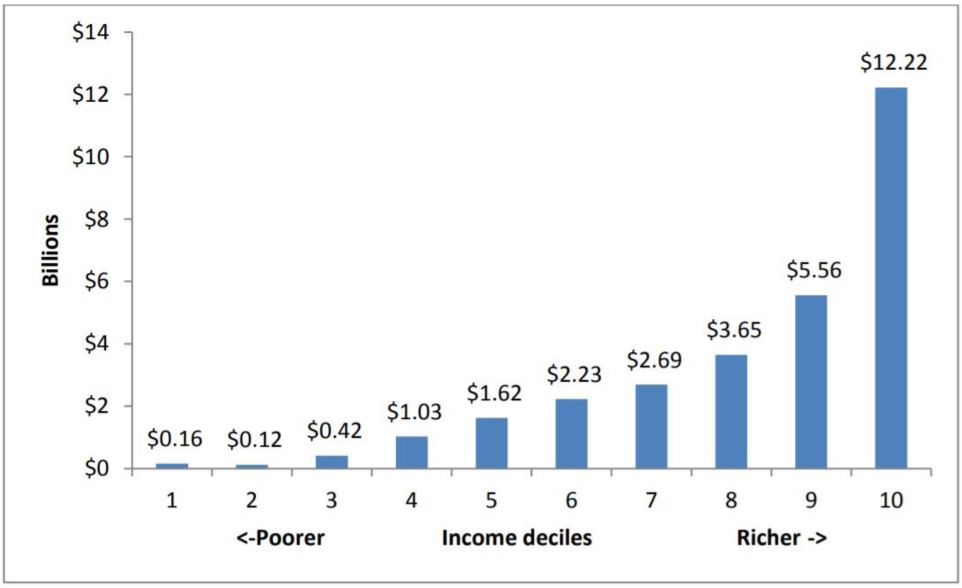
a. to compensate superannuants for being required to put aside funds that could be otherwise used on current consumption, to provide for consumption within retirement, on the basis that funds that cannot be accessed should attract a lower rate of taxation. That is fair enough, but COTA believes, as do many others, that the compensation should be, and be seen to be, fair and equitable. It should not as it now does favour the highest income

[49] COTA Australia, 2018 'State of the Older Nation', p 49-55, Canberra. Available at: https://www.cota.org.au/wp-content/uploads/2018/12/COTA-State-of-the-Older-Nation-Report-2018-FINAL-Online.pdf
[50] The OECD estimates that these tax concessions cost 3% of GDP in 2007, well above the next highest 'spender' on retirement income tax concessions, Canada at 2.2%. OECD Social expenditure data base.
[51] The Australia Institute, 2015. *A Super Waste of Money: redesigning super tax concessions*.

earners disproportionately and hardly favour low income earners at all. The latter are arguably making a greater sacrifice in that many spend all, or more than all, they earn on day to day consumption;

b. to incentivise saving above and beyond the compulsory Superannuation Guarantee. Research evidence on the effectiveness of tax concessions is at best mixed and clearly varies among different groups in the population. There is in fact little if any incentive for lower income earners as the incentives are minimal if they exist at all. It is also arguable that higher income earners would make provision for their retirement whether or not they have tax incentives to do so, although it is likely that the availability of the concessions does influence them to direct significant savings into super rather than to other investments that are not as incentivised. However the degree of incentive for the higher income earners is excessive and disproportionate to any incentive required, and is inequitable and costly to revenue.

Distribution of super tax concession benefits by household income



Source: NATSEM, ABS Employment Arrangements and Superannuation CURF, 2007

Superannuation concessions must be restructured to make them fairer, more equitable, more effective with lower and middle income earners, and less costly to tax revenue by capping them at higher income levels. However we do not support removing concessions altogether as some have advocated.

One proposal for restructure is that all public subsidies for superannuation contributions would be replaced by an annual, two-tiered rebate on all contributions (regardless of source), paid by the ATO to the nominated superannuation account at the end of each financial year. For example, it could match contributions dollar for dollar up to a low annual contribution level (for example 0.5% of average earnings or around $350) and then apply at a lower rate (such as 20% reduction off your individual marginal tax rate) to additional contributions up to the concessional contributions cap[52].

Means Test

The Review asks about what impact current means testing has on consumer behaviours. We note that it is widely held, and anecdotally supported with many examples, that current means testing arrangements encourage individuals who are close to the eligibility criteria for receiving the means-tested Age Pension seek advice so as to be able to organise their assets so they will receive the pension. It is also a widely held view that with or without advice some people do deliberately over-invest in their principal residence for that purpose and again there are many anecdotal examples of this. The latter is clearly attractive if there is an assets test issue and there is opportunity for modifications or extensions to the principal residence that would both increase amenity and add to its resale value later.

These behaviours make rational sense, and it is obvious that someone close to pension eligibility would look to arrange their resources to achieve that. However the quantum and proportion of such behaviour among near retirees is unclear. COTA understands that the data does not indicate a clustering of people who would fit those criteria, yet arranging your affairs so you qualify for the Age Pension has been described as "a national sport". We hope the Review can shed some light on this issue or recommend future detailed research to do so.

Another topic often raised by consumers in regard to means testing is deeming rates. Deeming was introduced for variety of reasons:

- to remove the need for people to report frequent changes in actual income earned from liquid investments, and to save the government the cost involved in receiving and recording those changes and recalculating and changing pension levels;
- to stop a practice that had developed in which people deposited substantial savings in special accounts provided by the banks that attracted no interest so that the depositor remained eligible for the pension under the income test; and
- to encourage prospective and current retirees to look for opportunities to obtain income in excess of the deeming rate, including for example upping their investment in superannuation, and in general to "shop around", as income above the deeming rate is "free money" to the retiree.

When deeming was introduced it was not difficult to find earnings above the higher deeming rate level, including from term deposits; and most banks offered basic accounts paying the lower rate. That is no longer the case as a general rule. The real issue is the higher rate, which it is difficult (but not impossible) to match from a term deposit or other secure instrument. However the dilemma for government is that the vast majority of the 25% of pensioners affected by deeming are actually receiving income higher than the upper deeming rate, because their assets are in superannuation, or shares or managed funds.

[52] Australian Council of Social Services, 2012. *Building super on a fair foundation: reform of the taxation of superannuation contributions*. ACOSS Paper 185.

Some have argued quite vociferously that the deeming rate should be related to the Reserve Bank cash rate because of the term deposits issue. While COTA would have no objection to this as it would mean more pension income for up to three quarters of those affected who are earning in excess, we recognise that government is resistant because of the cost; and COTA would actually prefer that quantum of funds be used towards increasing Newstart and removing the Liquid Assets Test.

There has been discussion about removing deeming and reverting to actual earned income, which would be much easier today because of the many ways in which the ATO can access income information from all sources, so it would be largely automated. If that happens a lot of part pensioners would have a reduction in their pension because they earn more than deeming assumes.

COTA has argued to government that deeming rates should be set by a much more transparent process than now. They should be required to be reviewed every six months when the pension rate is reviewed and adjusted, and there should be at least an indicative basket of income vehicles that are considered in terms of movements in income generated.

Government might also consider allowing pensioners who are earning less than the upper deeming rate, in a mainstream product (e.g. not a zero interest account for that purpose) to be able to declare that income online and not be deemed.

Leveraging housing as an income stream

Home equity release schemes have historically played a minimal role in the retirement income system and releasing home equity is often not people's first choice but takes place as a result of an adverse event or crisis.

Whilst home ownership rates are dropping gradually, they are still high for retirees and house values are at historical highs in many parts of Australia, so leveraging housing as an income stream can still play an important role for those with most of their wealth tied up in their home. The potential is much greater than its utlisation at present.

However there is effectively only an infant equity release market in Australia. None of the 'Big 4' banks offers a current product because they cost as much to process as regular mortgage but generate less income, limited capital can be used for other purposes, and allegedly products create 'reputational risk' with inheritors (something that could be easily solved). Bendigo Bank offers a co-ownership product that is in demand but only available in parts of Sydney and Melbourne and has limited funding. Otherwise there are only small boutique providers, in contrast to the UK where the market is much more robust and products cheaper.

Current providers say the government needs to create a 'for purpose' regulatory environment for these products and consider how it might facilitate the development of financial capacity to develop a market to a level that would be self-sustaining. We will not discuss that further here but are happy to do so in follow up.

The creation of the revised Pension Loan Scheme underwritten and administered by the Federal Government is a major positive development that has the potential to 'change the game' in equity release. It is currently conservatively geared, it is not being promoted – which is frankly bemusing – and its interest rate is too high to create an inventive for many potential users. What we really need is what COTA has previously described as a "later life HECS" that is capital rather than income based.

The Productivity Commission showed that 76% of homeowners aged 60 and over wanted to see out their retirement in their current home (i.e. did not want to move or downsize) and 71% saw their home as a financial safety net. Of these older Australians, 44% identified a bequest motive as their key priority, only 40% saw their home as a potential retirement asset and 40% were uncomfortable with the idea of having a 'mortgage' in retirement[53].

Home equity release schemes could significantly help lower wealth groups, who are most likely to have their wealth tied in their home equity. As a percentage of their current wealth, home equity is: 66% for 25th percentile, 48% for 50th percentile and 37% for 75th percentile[54]. Note that this will fall as younger cohorts have a greater percentage of wealth in superannuation, and as rates of home ownership at the point of retirement reduced (either through permanent deferral of home ownership, or retiring with a greater mortgage remaining on the property).

COTA notes evidence that lump-sum reverse mortgages are more profitable and less risky to providers than income stream products, which could explain why the former dominate most of the limited retail market.[55] We note proposals[56] that the introduction of partial protection (up to a cap) from the Age Pension means test for amounts released under home equity release schemes or downsizing may increase the attractiveness of such products.

Removing friction costs such as stamp duty could facilitate an increase in right-sizing, though COTA notes the earlier mentioned evidence that only 1 in 4 people may be attracted to such a proposal. Older Australians often wish to remain a part of their community; there may not be suitable housing stock in the vicinity of the family home to right-size into. The Henry Review proposed replacing conveyancing stamp duty with the more efficient land tax[57]. Such a change and other stamp duty options could be considered by the Review, along with whether incentives such as stamp duty relief could be applied to sales of retirees' properties to reduce transaction friction costs[58]. It is also worth noting that the exemption of the principal residence from the assets test also discourages right-sizing, as the proceeds become subject to means testing.

The more wealth is in one's home, the more optimal it is to annuitise the remaining wealth since home equity acts as a form of precautionary savings to cover healthcare and aged care expenditure and as a bequest[59]

Interactions between the retirement income system and the aged care system

The interaction between the retirement incomes system and the aged care system is not well understood. At least half of men and two thirds of women aged 65 will need some form of formal aged care in their remaining lifetime, but the actual costs of aged care are not well understood[60]. It is possible that pensioners would be less cautious if they could access insurance against aged care, or if they could at least estimate future care costs accurately[61]. There are sector-wide issues in aged care

[53] Actuaries Institute, 2016. *Unlocking Housing Wealth; options to meet retirement needs*. Green Paper.
[54] Actuaries Institute, 2016. *For Richer For Poorer: Retirement Incomes*. White Paper.
[55] CEPAR, 2014. Age *Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation*
[56] Actuaries Institute, 2019. *Pre-budget submission* 2019/20.
[57] Henry K, Harmer J, Piggott J, Ridout H & Smith G, 2009. *Australia's future tax system: report to the treasurer.* Canberra: Commonwealth of Australia
[58] Actuaries Institute, 2016. *For Richer For Poorer: Retirement Incomes*. White Paper.
[59] CEPAR, 2014. *Age Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation*
[60] CEPAR, 2014. *Aged care in Australia: Part 1*..CEPAR research brief 2014/01 p10
[61] CEPAR, 2014. *Aged care in Australia: Part 1*..CEPAR research brief 2014/01 p10

financing, including challenges around transparency of services and fees. Refundable Accommodation Deposits (RADs) are widely misunderstood.

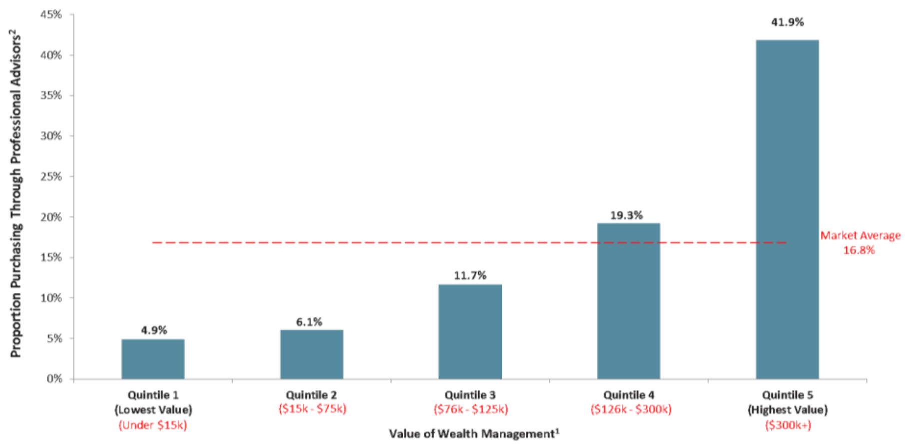
In addition, long waiting lists for Home Care Packages may force people to draw down on their assets while they wait for assistance. Nobody should have to draw down on their retirement assets as a substitute for timely, appropriate and means-tested home care packages.

Some of the issues around Aged Care financing, and its interactions with all assets (including the superannuation and retirement incomes system) are under consideration by the Royal Commission into Aged Care Quality and Safety. COTA may have further comment in relation to aged care following the release of any discussion of future financing and funding of the aged care system by the Royal Commission.

Formal financial advice

The retirement incomes system is notoriously complex. Consumers who wish to maximise their retirement incomes by making optimal investment choices strongly benefit from the advice of a professional who understands the system, provided that they are genuinely independent and acting only in their client's interest.

A 2018 study by Roy Morgan found that people holding up to $125,000 in wealth management are very unlikely to have used a professional advisor to purchase their funds (4.9% in the lowest quintile compared to 41.9% in the highest quintile[62].



12 months ended October 2018, n = 50,359. *Source: Roy Morgan Single Source (Australia), 2018.*

An additional consideration is the lack of public confidence in the financial advice sector. As focused upon by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the financial advice industry has for many years caused financial harm to clients, misled consumers, provided incomplete or inappropriate or conflicted advice, and has damaged public confidence in the value of financial advice[63]. The Final Report raised concerns around 'fees for

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[62] Roy Morgan Single Source (Australia), 2018.

[63] Commonwealth, 2019. Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*

no service' conduct, and excessive upfront and trailing commissions. This reputational risk damage to the sector may also lead to a drop in uptake of financial advice[64].

The Royal Commission was of course the last in a long line of exposures of the failings and conflicted interests of the financial planning sector that led to the Future of Financial Advice (FOFA) reforms under the last Labor Government. Attempts to dilute these reforms in 2015 after the Coalition came to power were strongly resisted by consumer organisations, largely successfully. The reforms have since been supported, implemented and more recently strengthened by the government after the Royal Commission.

Anecdotally, receiving affordable, reliable and trustworthy advice remains a challenge for low to middle income earners. Instead, consumers are left to take what they can from their own research, which may lead to suboptimal investment choices. The upfront costs of seeking the advice is out of reach for those who are already on low incomes. However with the current complexities, there is a clear need for affordable advice especially for lower income people at the point of retirement and in planning for retirement. Current regulatory regimes for qualifications around different retirement products can increase the cost of the advice and thus result in lower income people not accessing the advice.

Discussions in COTA's Consumer Focused Retirement Income Roundtable and in other forums recently have also focused on the need to agree ways to provide people with something between Personal Financial Advice that has to be licensed and involves material costs, and General Advice. This in particular needs to be explored in regard to the opportunities for and limits of well-prepared intra-fund advice on member options. We are sure others will have included suggestions on this in their submissions and urge the Review to give this matter substantial attention. We would be happy to be involved in discussion of options.

COTA suggests the Review consider all opportunities to secure additional cost-effective advice that may lead to increased provision of relevant and timely financial advice for retirement planning and decision-making.

Conclusion

COTA Australia welcomes the Retirement Income Review, for which we called, and the quite comprehensive Consultation Paper to which this submission responds. We have raised a considerable number of issues in this submission for consideration and examination by the Review, with a view to seeing areas for potential improvement of the Retirement Income System identified and explained by the Review, for later consideration by government, subsequent discussion with the community, and finally decision by Government and Parliament.

The Australian Retirement Income System is basically sound and pretty robust and achieves a good retirement income for most retires and is steadily increasing the numbers who retire in a better financial position than ever before. However a detailed and segmented examination of the characteristics, outputs and outcomes of the current system by the Review will, we believe, show that:

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[64] Commonwealth, 2019. Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*

- there are uneven outcomes that result in inequities for some population groups compared to others, (e.g. women, lower income earners) for which levers are available to government to address; which is exacerbated by concessional incentives
- there is a lack of clarity in the community about the purpose of the retirement income system, which we say is solely *to provide optimum retirement income for all*, which means that how the system is used is not always consistent with its purpose in various ways; for example:
    - there is a reluctance by many to utilise retirement savings to produce optimum income, resulting in retirement living standards being lower than they should be, retirement income not being expended in the consumption economy, and funds being preserved rather than utilised for the purpose they were accumulated;
    - there is deliberate use of the system for wealth management and inheritance protection, which some of the system's settings facilitate;
    - the absence of an unequivocal focus on the purpose of the system means that increasing numbers of people are maintaining consumption levels in pre-retirement by deferring capital expenditure to retirement and paying for it with the accumulated retirement savings
- there has been too much focus by superannuation funds, regulators, government and indeed the media and community, on the accumulation phase of superannuation and far too little attention to the retirement consumption phase, including:
    - how the Age Pension and superannuation optimally interact;
    - what income the system is going to produce for retirees rather than the lump sum;
    - what products might be introduced to help retirees manage longevity risk, investment risk and late life health and aged care costs; and
    - how retires are better informed about all this and enabled to make well informed and considered decisions in their interest

  This needs to be urgently addressed, with government taking the lead by implementing its long delayed Retirement Income Covenant.
- In the absence of the inclusion of the principal residence in the Age Pension means test for the foreseeable future, consideration needs to be given to how the incentive to overinvest in that residence for asset test manipulation and inheritance protection purposes can be de-incentivised.
- Considerable work and intellectual and policy effort need to go into the development of an effective and efficient equity release market in Australia that will enable and facilitate retirees being able to and confident in accessing their accumulated housing wealth to provide for a more comfortable retirement. At the same time the Federal Government needs to "get real" with its commendable initiative to revise and hugely expand the scope of the Pension Loan Scheme by heavily promoting it and lowering the interest rate on borrowings to make it more attractive to those who need it.

- If the purpose of the Age Pension component on the system is to provide a modest level of retirement income that ensures no retirees need to live in poverty in 21st Century Australia, then government will need to do the following:
    - Reassess the basic level of the Age Pension and consider which measure of poverty it will ensure the pension does not fall below, noting the European Community (EU) measure is 60% of median wages;
    - Increase Commonwealth Rent Assistance substantially to remove from poverty pensioners living in the private rental market – noting evidence that the maximum rate should increase by 40% and the indexation be changed to track rental prices
    - Increase Newstart by at least $75 per week and abolish the Liquid Assets Means test either completely or at least for people over 50 years

There are many other issues and potential initiatives that we have pointed to in the submission but the above are in our view quite pivotal from a consumer interest viewpoint and some of which may not have been raised as strongly by submissions from non-consumer perspectives.

Some people may suggest that the issues we have raised require either a total rethink of the current retirement income system in Australia, or major surgery. COTA does not agree with such suggestions. As we have said earlier in the submission "the Australian system is now established and despite weaknesses it has many strengths and we do not envisage this Review resulting in a major upheaval or recasting of our retirement income policy."

What we have drawn attention to as issues can be responded to by adjustments to the current system. We are not opposed, as we also noted in the submission, to some more "radical" options, but the point is that that is not required in order to address these issues.

COTA is keen to be involved on behalf of and with consumers in further dialogue about these issue and their resolution.

Ian Yates AM
Chief Executive

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