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## RETIREMENT INCOME REVIEW CONSULTATION PAPER RESPONSE

Thank you for providing the opportunity to participate in the Review consultation process.

### Our Background

My wife and I have been fully retired for three years and are in our sixties. My wife has not yet attained pension age while I have recently have. We are fully self-funded at the present time, with superannuation retirement income accounts providing our income streams. We also have some money saved and invested in Voluntary Savings as well.

Although we've only been retired a relatively short period of time, retirement is something we regard as a very important lifestyle choice, which must be adequately funded, with the current three pillars of Australia's retirement income system complementing each other to ensure all retirees are able to afford their retirement lifestyle choices and necessities throughout their retirements.

My parents lived for many years in retirement villages, independently to begin with and then with higher levels of care when required. My mother-in-law currently lives in permanent aged care accommodation and the importance of retirement income either partly or fully funding aged care costs as much as possible (whether in an aged care facility or in-home care) cannot be overstated.

We've previously provided submissions to Treasury for Stages One and Two of the Retirement Income Framework and are happy for the Panel to consider these submissions further during this Review. We are also members of National Seniors and Your Life Choices retirement organisations.

### Key Points from our Review

- There are currently no legislated objectives for any of the current three pillars of Australia's retirement income system. This paper includes the following suggested objectives for each of these pillars for further consideration:

#### 1. Pillar One - The Age Pension

The Pension Review Report (Harmer 2009, P. 8) considered that the Age Pension should provide a "basic acceptable standard of living, accounting for prevailing community standards". The ABS website contains details regarding Selected Living Cost Indexes, Australia and we recommend these be considered further.

**Based upon these indexes, the following objective is suggested to determine Age Pension eligibility and payment amounts:**

- **"To ensure adequacy, equity and sustainability of the Age Pension, The Pensioner and Beneficiary Living Cost Index (PBLCI), Age Pensioner LCI or Self-funded Retiree LCI should be used to determine appropriate Age Pension payments to all retirees. The Age Pension must be appropriately targeted to ensure all full or part age pension payment recipients are able to afford all reasonable cost of living**

expenses, including rent, food, health and aged care costs and utilities throughout retirement”.

## 2. Pillar Two – Compulsory Superannuation

Our suggested objective for compulsory superannuation is as follows:

- “To enable all working people (including self-employed such as sole traders and small business owners and those working part-time) to accumulate sufficient retirement income to ensure the following:
  1. Retirees will be able to either fully or partly fund their retirements for as long as possible, with potentially reduced reliance upon Age Pension payments, and;
  2. Retirees have enough income to either fully or partly finance the cost of either in-home or aged care”.

To achieve this, superannuation tax concessions and other incentives must remain within the superannuation system and be appropriately targeted to those most in need. Additional options must also be made available to people returning to work after taking parental or other necessary leave to make additional catch-up voluntary superannuation contributions able to do so.

The “work test” must also be abolished for all retirees aged between 65 and 74 years inclusive and no longer in paid employment. This allows such retirees to use some of their available funds to top up their superannuation account balances regardless of value up to and including the maximum legislated account balance and potentially reduce reliance upon the Age Pension.

## 3. Pillar Three – Voluntary Savings

This should be renamed “Voluntary Savings and Investment Arrangements”. Our suggested objective for this Pillar is as follows:

- “To provide retirees with additional savings and investment options beside the Age Pension and Service Pension and Compulsory Superannuation. Within this category, such products as Comprehensive Income Products in Retirement (CIPR’s), Annuities and additional retirement stream products can be included”.

A tool must also be developed to measure the effectiveness of each of the Pillars separately and in combination to ensure as many retirees as possible do not need to live in poverty and always live with dignity and self-respect. All retirement income products must also include retirement income risk measures that are easily understood.

## RESPONSES TO CONSULTATION QUESTIONS

### How Australia’s system compares internationally

#### Consultation Question 1:

In Australia, although about 68% of retirees receive either the Age Pension or a Service Pension, the entitlement is very modest compared to other countries which have social security contributory schemes where benefits are linked to a proportion of pre-retirement earnings (CEPAR 2018a, PP 10-12). In New Zealand, Age Pension entitlements are not means-tested as they are in Australia, so everyone becomes entitled to a full Age Pension once they reach Pension Age.

Also, retirees in New Zealand are still able to work beyond Pension Age and still receive full Age Pension entitlements, and work for many more hours per week than in Australia, without any adverse impact upon full Age Pension entitlements. We recommend that the current means-testing arrangements for Age Pension entitlements be amended to allow retirees to work more hours and earn more before Age Pension entitlements are reduced, also be taxed less on their earnings.

As approximately one in four retirees receiving the Age Pension in Australia currently live near or below the poverty line, allowing retirees to earn more while working and paying less tax on their earnings, plus fairer Age Pension entitlements will significantly enable more retirees to live a more modest or comfortable lifestyle during their retirement years.

## **Purpose of the system and the role of the pillars**

### **Consultation Questions 2 and 3:**

We believe the overall objective of Australia's retirement system is not as well understood within the community as necessary, either by retirees or people still within the workforce. Clarifications around risk and funding responsibility for each retirement income system pillar must be clarified.

To improve understanding of the system, clearly legislated objectives and purposes for each pillar must be clearly stated and easily understood. We have provided draft definitions above for each pillar which hopefully will assist with this process. The interaction between the pillars must be clearly explained, including who has responsibility for funding each of these and available incentives.

### **Consultation Question 4:**

**The role of the Australian Government in enabling older Australians to achieve adequate retirement incomes should be as follows:**

- To ensure the Age Pension is adequate, equitable, affordable and sustainable for all Australians eligible for either part or full Age Pension payments, and;
- To provide the legislative, policy and advisory frameworks and contact details for websites such as Money Smart and the Department of Human Services to enable all Australians to clearly understand Government-funded arrangements and payments, including eligibility for Government-funded entitlements, whom to contact and when and how to apply for these.

**The role of the private sector (including superannuation funds) in enabling older Australians to achieve adequate retirement incomes should be as follows:**

- To provide essential arrangements and information including Product Disclosure Statements, fact sheets, guides, forms and how to obtain financial advice, enabling older Australians to contribute to the funding of their retirements as much and as for as long as is possible.

**The role of the individuals in enabling older Australians to achieve adequate retirement incomes should be as follows:**

- To ensure they are sufficiently aware of the options and incentives available to contribute to the funding of their retirements as quickly and for as long as possible;
- To ensure they acquire the necessary knowledge and confidence to contribute toward the funding of their retirements well before attaining retirement age, including reliable and accurate financial advice, either general in nature or if required, from professional advisors.

### **Consultation Question 5:**

Each pillar of Australia's retirement income system has a vital function.

- The Age Pension or Service Pension must be adequate to ensure all retirees can afford to live at least a modest but preferably comfortable lifestyle. The payment must enable retirees who live within their means to at least afford cost of living expenses, including rent and the cost of in-home care or aged care accommodation.

- Compulsory superannuation and voluntary savings should seek to deliver additional income streams for retirees to either replace or supplement the Age Pension or Service Pension for as long as possible. Compulsory superannuation, along with Voluntary Savings can also be used to either partly or fully contribute to the funding of medical, in-home and aged care arrangements. A fairer aged care means test must also be developed for all retirees.

### Consultation Question 6:

The trade-offs between the pillars are as follows:

- Government funding for the Age Pension;
- Individuals and private enterprise funding Compulsory Superannuation and Voluntary Savings.

The appropriate balance for each pillar of the system should be determined by:

- At least every five (5) years, conducting further retirement income system reviews;
- Continually monitoring the percentage of funding providing by Government, private enterprise and individuals for retirees' income streams. Suggested percentages for each pillar are listed below:
  1. The Age Pension 35 to 40%, and;
  2. The balance provided by Compulsory Superannuation and Voluntary Savings.

Ideally, when all the pillars are added together, complement each other and are sufficiently flexible, all retirees will be adequately funded to afford at least modest or preferably comfortable retirement incomes. When this occurs, the appropriate balance between the pillars is achieved. Private enterprise and individuals must be also be sufficiently informed and incentivised to enable funding toward retirement incomes for all retirees, including at least some of the cost of aged care funding.

## The changing Australian landscape

### Consultation Question 7:

The main impact of the demographic, labour market and declining rates of home ownership trends are as follows:

- Many people needing to work longer before being able to afford to retire, especially those people not in full-time employment;
- More and more people will very likely enter retirement with mortgage and personal debt, and;
- More potential reliance will be placed upon the Age Pension.

The retirement income system must sufficiently accommodate the impact of the trends that have been identified. **Something this Review must consider is that retirees also need to be able to afford either part or full in-home or aged care expenses.**

## Principles for assessing the system

### Consultation Question 8:

The principles proposed by the Panel are appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians. Further information regarding each of these principles is provided in our response to each relevant later Consultation Question.

### Consultation Question 9:

While the current settings balance each of the principles and trade-offs between the principles to some extent, more improvement is needed. Far too many retirees who live within their means are living either near or below the poverty line and this must be addressed.

The amount of the Age Pension or Service Pension must be increased for those most in need, solely or mainly rely on the Age Pension as their income stream, especially people needing to rent, also to fund necessary cost of living expenses. **It is suggested that the Panel perhaps consider the PBLCI as guidance to a more realistic Age Pension amount for people mainly or solely reliant on the Age Pension or Service Pension.**

## Adequacy

### Consultation Question 10:

To assess the adequacy of the of the retirement income system, the Panel needs to consider the following:

1. The relevant strengths and weaknesses of the Relative measures, Absolute measures and the additional issues identified in the Consultation Paper. While the Paper provides some detail, additional information must be provided such as case studies, scenarios relevant to each retirement cohort, options and advice available and/or historical data to enable more informed decision-making, and;
2. Longevity, health and aged care costs, declining home ownership and the adequacy of the Age Pension or Service Pension for each retirement cohort must also be taken into consideration.

### Consultation Question 11:

The retirement income system should be measured against one or more of the following:

1. The amount of retirement income required to fund different retirement income lifestyles, whether modest, comfortable or affluent, with clear explanations of retirement income risk measures designed to address longevity, health and aged costs and cost of living expenses for all the different retirement cohorts (e.g. single persons or homeowning couples, singles and couples who live in their own homes with mortgage debt and also retirees who need to rent as well).
2. The ABS Cost of Living indexes can be used as guidance to indicate typical cost of living expenses.

### Consultation Question 12:

If retirees have an adequate level of retirement income and live within their means, then ideally no retirees in Australia should live near or below the poverty line. When people under these circumstances are unable to afford necessary cost of living expenses including meals and accommodation, the retirement income system must recognise improvements are needed to ensure all retirees are able to afford to live with adequate income and with dignity throughout retirement.

The ABS Cost of Living indexes can be used as guidance to measure typical cost of living expenses.

## Equity

### Consultation Question 13:

The Panel needs to consider the following when measuring the equity of the retirement income system:

1. The Equity considerations stated in the Consultation Paper, and;
2. Developing scenarios and including case studies for all groups identified in the Equity considerations.
3. Because of the many different and often difficult circumstances people face during their working lives, more opportunities, options and incentives must be provided to enable people to increase their pre-retirement funding (e.g. Compulsory Superannuation and Voluntary Savings).
4. Organisations such as Money Smart or Treasury must be used to provide information such as factsheets and other publications to inform all people of the options and incentives available.

### Consultation Question 14:

The Panel needs to consider the following when examining whether the retirement income system is delivering fair outcomes in retirement:

1. How long retirees' retirement savings and income need to last;
2. The fact that people are now living longer on average;

3. Retirement income risk measures, such as those previously identified with the Retirement Income Framework, and;
4. Developing more retirement income products such as CIPR's, and;
5. As Compulsory Superannuation was introduced in 1992, many people did not contribute to any superannuation scheme prior to that date.

The current retirement income system settings do not sufficiently support fair outcomes in retirement for individuals in all circumstances. People who've had career breaks including to raise children need more opportunity to make additional catch-up voluntary contributions to Compulsory Superannuation and to Voluntary Savings when they return to the workforce and must be adequately incentivised. This also applies to self-employed people and others who don't contribute to any compulsory superannuation scheme as well.

#### **Consultation Question 15:**

Current policy settings such as the Work Bonus scheme enable eligible pensioners to remain in the workforce beyond retirement age, without reducing their age pension entitlements. However, better, more relevant, more affordable, fairer and more easily accessible training and development options need to be implemented as quickly as possible to assist older Australians wishing to remain in the workforce past retirement age. Current evidence suggests more improvement is needed in this area.

#### **Consultation Question 16:**

The current retirement income system policy settings do not sufficiently compensate people exposed to adverse circumstances entirely beyond their control, such as disability, involuntary retirement, financial hardship, lower than average life expectancy and relationship breakdowns. No person should be unreasonably and unfairly disadvantaged at any stage, either in the workforce or during retirement.

While it is acknowledged that current policy settings such as the NDIS assist eligible people, improvements need to be considered as follows:

1. People who have experienced inequities and hardships beyond their control during their working lives need more short, medium and long-term funding to ensure they are not unfairly disadvantaged, either during their time in the workforce and in retirement.
2. Measures including training, counselling and financial support (including free financial advice) must be specifically targeted to those most in need and for as long as required.

#### **Consultation Question 17:**

The implications of a maturing SG system for people not covered by compulsory superannuation are as follows:

1. Too many people potentially retiring or retiring with substantially lower retirement nest eggs than individuals covered by compulsory superannuation;
2. People outside the compulsory superannuation system need to arrange alternative options to fund their retirement savings such as voluntary superannuation and savings and investment options outside the compulsory superannuation system.
3. People not covered by compulsory superannuation such as small business owners and sole traders must be provided with ample opportunity to convert some or all these savings and investment options to superannuation arrangements before and during retirement. Also, affordable and easily accessible financial advice must always be available. This financial advice must be sufficiently comprehensive to enable people nearing or retirement to make informed financial decisions.

## **Sustainability**

#### **Consultation Questions 18 and 19:**

When assessing the sustainability of the retirement income system, the Panel needs to consider:

1. Longevity risk. Retirees are now on average living longer, meaning more money is needed to finance retirement income options. This means retirees must be sufficiently incentivised to

contribute to the funding of their own retirements for as long and as much is possible, with assistance from appropriately targeted tax concessions. However, Government also must provide the regulatory and advisory policy framework and fund Service and Age Pension payments.

2. The cost to public finances. With more taxpayers now working part-time, greater burden is placed upon more taxpayers to fund Service and Age Pensions, also tax concessions.
3. The increase of the SG to 12% and the potential or actual impact this will have on employers and businesses.
4. Declining housing affordability and the fact that an increasing number of retirees are retiring with mortgage and other debt.
5. The high amount of household debt as a percentage of annualised household disposable income.
6. The impact of low interest on retirees' savings accounts. This has resulted in some retirees transferring money into sometimes more risky investment options.
7. Public confidence in the system to continually deliver sustainable and required outcomes for retirees and Government.
8. The cost of Australian Government financial expenditure on aged care.
9. Some retirees saving more than they need to fund either a modest, comfortable or affluent retirement lifestyle. It is recommended that the Panel consider developing factsheets, case studies and calculators to inform retirees how much they need to fund their preferred retirement lifestyles. Money Smart are now redeveloping their Website, and this can provide the perfect opportunity to include appropriate and/or additional calculators, factsheets and booklets for retirees to access, as well as people nearing retirement.
10. Superannuation contribution caps. These must be amended to allow people who have savings and investments outside the compulsory superannuation system to transfer some, most or all these savings and investments into superannuation prior to and after reaching retirement age. This will enable retirees to establish retirement income accounts and enjoy the benefits of a regular retirement income.
11. Abolishing the work test. It is unfair that full-time retirees are not allowed to make additional voluntary contributions to their retirement income accounts under the current arrangements. Allowing full-time retirees to make voluntary contributions to their income accounts regardless of age or work status during the retirement phase will reduce the reliance on part or full Age Pension payments that may otherwise be necessary.

### **Consultation Question 20:**

The overall level of public confidence in the retirement income system can be assessed by:

1. Establishing either a section or division within Treasury or an independent body to assess the overall level of public confidence in the system. This can be done either by seeking public submissions in response to a discussion or consultation papers, or;
2. Regularly (annually, biennially or triennially) conducting surveys. These surveys can be organised by Treasury or via Money Smart, or perhaps via My Gov under the auspices of the Department of Human Services. The Department of Human Services could also perhaps be considered as someone to assess to overall level of public confidence in the retirement income system.

## **Cohesion**

### **Consultation Questions 21 and 22:**

In assessing whether the retirement income system is cohesive, the Panel should consider the following:

**1. The incentives built into the system – the Age Pension**

The Age Pension assets test encourages individuals to draw upon their own financial assets to fund their retirement before becoming eligible to receive taxpayer supported funding.

**The family home (regardless of value) is currently excluded from the Age Pension assets test. Under the current Aged Pension assets test to determine either full or part Age Pension eligibility, the difference between assets test limits for homeowning and non-homeowning Singles and Couples (combined) is approximately \$210,000.00. This amount does not reflect the average or realistic value of a family home in many locations, including capital cities and many regional centres as well.**

It is acknowledged that Rent Assistance and relevant Pension Supplements are provided to eligible pensioners. However, approximately one in four pensioners are now living near or below the poverty line. Therefore, either more Pension Supplements must be made available to those who genuinely require it, or a larger universal pension legislated to enable more pensioners to live at least a modest lifestyle in which they can afford all necessary cost of living expenses, including health, aged care, food and utility expenses such as telephone and Internet, gas and electricity.

- A more balanced and fair Age Pension assets test must be developed, incorporating at least some of the value of family homes in the test (e.g. a percentage of the value of family homes exceeding \$2M or \$2.5M in value).
- **As previously stated, the Pensioner and Beneficiary Living Cost Index (PBLCI), Age Pensioner LCI or Self-funded Retiree LCI should be considered to determine appropriate Age Pension payments to retirees. The Age Pension must be appropriately targeted to ensure all full or part age pension payment recipients are able to afford all reasonable cost of living expenses”, including rent, health and aged care costs and utilities throughout retirement.**

**2. The incentives built into the system – superannuation minimum drawdown rates**

For retirees, the minimum drawdown rules for superannuation retirement income accounts mandate the withdrawal of a certain percentage of assets (i.e. the minimum drawdown rates) from superannuation account-based pension accounts each year. However, the current mandated drawdown rates don't adequately ensure that superannuation is used for its intended purpose of providing income in retirement for long as possible.

**Below is a table of suggested amended minimum drawdown rates for the Panel to perhaps consider:**

Age	Annual payment as a % of retirement income account balance
55-66	4% to 5%
67-80	5% to 6%
81-90	6% to 7%
91-95	7% to 8%
96-100	8% to 9%
100+	9% to 10%



The above drawdown rates enable superannuation retirement income balances to potentially last longer. Also, retirees still have the option of drawing down more each year should they wish, either by nominating higher drawdown percentages and/or with separate drawdown payments during each year as well.

Also, this provides more potential opportunity to access new retirement income products such as CIPR's when they become available. Also, more money will potentially be available to contribute to the cost of in-home and aged care funding and medical and hospital expenses.

### Consultation Question 23:

#### Interactions between the pillars

The interactions between the pillars influences behaviour as follows:

1. The amount of time between superannuation preservation age and eligibility for either part or full Age Pension payments (e.g. a person who retires at 60 on 1 July 2023 will not be eligible for any Age Pension payments until 67). This means such retirees will need to be self-funded for seven-years. Many retirees in similar circumstances to this adopt a frugal approach when drawing down their retirement nest eggs and as often as possible, only making minimum withdrawals from their retirement savings to ensure their money lasts.

In 2015 I attended a pre-retirement seminar organised by our superannuation fund provider. Part of their advice to attendees was to ensure that as much as reasonably possible prior to reaching pension age, to minimise withdrawals from retirement income accounts to ensure the money lasts long as possible.

2. The way assets are treated under the Age Pension means test. The current taper rate of 7.8% P.A. is higher than the earnings potential of many associated financial products and assets. A taper rate of perhaps 4 or 5% P.A. will more realistically reflect the earnings potential of many of these products. It will also potentially result in a fairer taper rate and hopefully encourage more working age Australians to make additional voluntary superannuation contributions and encourage people to ensure their retirement assets last longer.
3. A more balanced and fair Age Pension assets test must be developed, incorporating at least some of the value of family homes in the test (e.g. a percentage of the value of family homes exceeding \$2M or \$2.5M in value).
4. **It is recommended that the Panel consider a single means test to determine either full or part Age Pension eligibility or ineligibility.**

### Consultation Question 24:

#### Interactions with other systems

There is much uncertainty at the present time regarding how the retirement income system interacts with other systems. To address this, the following is suggested:

1. Provide clearer and more easily accessible information about the costs to access residential aged care and the options available (e.g. the Refundable Accommodation Deposit (RAD), Refundable Accommodation Contribution (RAC), Daily Accommodation Payment (DAP), the Government Standard Resident Contribution daily charge, etc.). Also, the current aged care means test disadvantages too many people with larger value financial assets when seeking admission into aged care accommodation.
2. It is understandable the current means test to determine Age Pension eligibility or ineligibility and for aged care are different. However, no means test should unfairly discriminate against or disadvantage people who have saved and invested to fund their retirement living, including the costs of in-home care and aged care accommodation. Better and fairer means tests must be developed as quickly as possible, with incentives included to encourage additional retirement savings and investment options.

3. In 2017-2018, Australian Government expenditure on aged care was \$18.1 billion, making up around 68% of residential care providers' revenue and over 90% of home care providers' revenue (ACFA 2019). **Much of this funding assists people mainly or solely reliant on the Age Pension as the sole or main income stream. The following is suggested for further consideration:**
  - Retirees are provided with additional retirement income product options and incentives to save and invest toward the cost of aged care funding. This will potentially result in reduced reliance upon the Age Pension, reducing the cost to Government.
  - More money can then be made available to fund adequate Age Pension and Service Pension payments to those most in need.
4. The interactions between the retirement income system and the tax system is confusing for many people. To address this, we suggest the following:
  - Clear and easily understandable and accessible information regarding retirement products and how each of these is taxed. Ensuring sufficiently detailed information is made available prior to and during retirement, the better understanding people will have regarding tax concessions, tax-free withdrawals, Capital Gains Tax (CGT), etc.

### Consultation Question 25:

Considering the complexity and importance of the retirement income system, it is essential that individuals can achieve good retirement outcomes as much as possible. While formal, comprehensive, independent financial advice from professionally qualified financial advisors acting in their clients' best interests is very advantageous, it can often be very costly. Therefore, the following is suggested:

1. The information relating to general personal financial advice on the Money Smart website be significantly expanded to include as many accurate, always updated and relevant fact sheets, booklets, calculators, sample case studies, etc. Money Smart is a wonderful site already for accessing general financial information and when expanded, can provide an invaluable service to assist individuals with making many informed decisions around retirement options, arrangements and legislative requirements.
2. Financial Information Service Officers from the Department of Human Services also provide much free financial advice and run free financial seminars. It is recommended that the Panel perhaps consider providing further information including contact details for this service.

### Consultation Question 26:

At the present time, there is insufficient integration between the Age Pension and the superannuation system. A fairer, better structured Age Pension means test will assist with improved integration between these two pillars and encourage retirees to sensibly consider the benefits of each, without disadvantage.

Both the superannuation system and the Age Pension provide retirees with regular retirement income streams. While the current incentives built into the superannuation system are commendable, the tax concessions for superannuation must be appropriately targeted to benefit those most in need.

More information must be also made available (including on the Money Smart website and perhaps Treasury) to ensure as many people as possible both prior to and during retirement are aware of the interaction between the superannuation system and the Age Pension. This information must also include clear explanations of taxation requirements and arrangements including tax concessions.