

07.02.2020

Retirement Income Review

retirementincomereview@treasury.gov.au

Thank you



Brian S Paull

Managing Director

Authorised Representative 279844

Money Farms Pty Ltd
ABN 75 001 358 434

E: planning@moneyfarms.com.au
A: 13 Crown Road Queenscliff NSW 2096

P: (02) 9938 3145

F: (02) 8003 9060

www.moneyfarms.com.au

Intro

Thank you for opportunity to give concepts and ideas to help create a better Retirement Funding and Income System for Australians.

Brian Paull
Managing Director
Money Farms Pty Ltd

Peter Graham
Managing Director
Redefining Retirement Pty Ltd

Active in Insurance Broking & the Financial Planning Industry for over 40 Years.

Active in Insurance, Financial Planning and Retirement Advice for over 40 Years.

Prior Submissions:

- Personal Presentation to Superannuation Liaison Officer, Assistant Treasurers Office, Canberra
- Several Senate Select Committee Enquiries
- Cooper, Murray and other reviews
- Discussion Paper 253KB204KB - Purposes and Objectives of Superannuation

All to make Superannuation and Retirement Income simpler, easier and stronger for consumers, and cheaper and more beneficial to Government.

Our initial submission showed how just 2 very simple rules, by their interaction made over 15 very complex rules obsolete and unnecessary. Later submissions expanded this simplicity and immediate understanding for even more streamlined benefit designs.

It's very important that you are reviewing the Pillars and other issues of the system however I don't believe it's possible to achieve a solution by simply adjusting the present system with its myriad of complexities, confusions, inequalities and endless interference.

I am passionate about simplifying the system and would be happy to discuss further.

Note: We are only answering the questions on which we can accurately answer and /or where we have supporting data to give evidence to our answers.

Purpose of the system (and role of the pillars)

Q. 2 & 3 – So little understanding

There is very little understanding of the Pension System (see following Survey results), and the endless questions of 'how much do I need? regularly in surveys and media etc)

Q 2. Every area of the three pillars need urgent simplification and new fresh approaches to explanation and community understanding to enable widespread acceptance, involvement and adoption, for themselves and their family and friends.

Foundation for many of our comments come from results of extensive research by many groups:

SunSuper; AustralianSuper; VicSuper; ASFA; Mercer; Deloitte; Cooper Review; Financial Planning Standards Board; REST; Club Plus Super; ISN; Media groups etc

All report statistics that are very concerning, showing the levels of confusion, lack of awareness and misconceptions with today's Super.

- 84% are not confident to meet Retirement goals.
- 74% not making additional contributions to achieve target.
- How advice is currently delivered, is not how many Australians want it delivered.
- 88% don't know Pension entitlement (if any).
- 68% lack confidence and trust in ever changing system.
- 55% expect a lower lifestyle in retirement.

Research we have conducted with over 2400 has shown

- Only 3 in every 100 knew accurately how much they were spending on the Living Necessities and Enjoyments' of today's lifestyle'... so they can't know 'how much they need to continue their lifestyle in Retirement'...
This means they don't know how much to fund for, or whether their present arrangements will provide adequate, insufficient (or excess)
- Many calculators... ASFA, MoneySmart, Super Funds etc... are complicated, or give inappropriate results if not sure of assumptions, and how they apply to you as you investigate the calculator.

Purpose cont'd

Q 3. Above Statistics show there is an extreme need to improve understanding of ALL Retirement components, from Superannuation Income Streams to the Government Pension.

68% of Australians on the Age Pension and a large number who don't qualify (for a period) don't have enough for the Retirement they want, or expect, (even if not promised to them)

Age Pensioners, and especially the many who want it to be made more generous, don't know that for the large percentage on the Full Government Age Pension, the payments every 11 years are 'greater than all the income tax they have ever paid throughout their working life'.

Pension reduction due to the Assets and Income tests is 50c \$, the highest 'Tax' of any investment programme. The deeming system is a very good arrangement, however adding non income producing assets seems illogical.

Q 4. The Government needs to **simplify** the ever-changing rules around Superannuation. To provide a true and comprehensive solution to all the needs and 'objectives' of super requires a Totally New Approach and an 'all of life' involvement for all people. It requires a system with such simplicity, that understanding is immediate, and Australians are encouraged to become actively involved in long term savings for their retirement incomes.

There is much 'inherited confusion' and poor perceptions of the system from many years ago.

When Hawke-Keating created Super Guarantee, there were changes to rules every 2 months for 2 ½ years. And changes still continue and has resulted in major distrust of a system that is not understood at all by the people it is meant to be helping!!

This does not encourage community engagement, nor help Retirement Planning.

Some early design faults have enabled numerous funds to develop, some 200 Industry Funds, over 460,000 SMSFs and many Retail funds. A vast oversupply and many gross inefficiencies.

The enormous amounts of 'lost super' shows the widespread apathy and disassociation.

There are so many of our community ill prepared for Retirement.

Single mothers on low incomes, small business owners exposed to significant mortgages, Business debts, Public Liability issues and the risks and expenses of employing others.

Many small and medium business owners expect the sale of their business to provide the funds for their retirement, and often avoid contributing to Super, or have inappropriate SMSFs and at or near Retirement find their business has NIL or very little sale value.

Simplicity and Understanding should be the two major Purposes of this review.

The community needs to be informed in language that they understand and given the tools needed to assess their financial needs for a comfortable and secure Retirement.

The widespread belief that the system cannot be trusted needs to be reversed and instead, they need to be encouraged to look at Superannuation and the Pension, to be the funding for 'a quarter of the years they will live!'

Q 5 & 6 – the role of the pillars in the retirement income system

The three pillars are working together now, superannuation savings can supplement the age pension for those who have managed to have some savings left after paying off a mortgage and preparing for retirement, possibly replacing a car etc, and home ownership reduces the cost of living c/w renting, but in the future, with an aging population and the stress that puts on the country's economy and the decrease in home ownership due to inflated housing costs, Superannuation will provide the only dignified retirement for Australians!

Today's Superannuation system grew out of the Industrial Relations world. It needs to be removed from just 'work related' to be 'income and Lifestyle' related and sourced

Superannuation should be considered, embraced and understood to be the 'Nucleus' of Personal and Family Savings.

Employees need to be more involved their Superannuation and take more interest in the investment in their and their family's future (currently most people think of it as an afterthought)

The self employed need to embrace it as a tax-deductible and tax effective investment in, and for, their future!

People's perception of their Retirement needs to change so they will prepare better for it as their '20 year holiday'... their Reward for 40 years of working.

This requires big changes... a whole new simple super system with more emphasis on education and community acceptance. Not a series of ever changing rules that only the people who make those rules understand, apart from rules to ensure the systems are secure and not dilute.

I propose and please consider, that all restrictions are removed e.g. the work test, age limits, and remove it from being work & employment only, so anyone can contribute, at any time and at any age, for any person.

Use of Home Equity should be made simpler and added to the system for own, family and beneficiaries future Retirement.

Note: Some Equity Release Products (which are not Reverse Mortgages) are very dangerous and the 'reimbursement amount' can be up to 65% of the future value of the house. In many cases this equates to a notional 'interest rate' of 19 – 22%, vastly more than Reverse Mortgages. People should be warned about such 'schemes'.

Principles for assessing the system

Q8. Are there other principles that should be included?

Yes – Simplicity, and eliminate endless changes.

Both need much rethinking and removal of any rule, that after forensic analysis has no use, or could have a much simpler arrangement.

Please consider:

- Adopt community knowledge, and compare segmentation to that knowledge. One simple approach would be to harness what people already know e.g. most know how to open and maintain a bank savings account, and know the taxes that apply to its earnings and withdrawals!

Apply this knowledge to Super... but show how Super has (or could have) taxes at HALF the personal savings or investment rate.

This can be so easy, and have immediate understanding by all, and encouragement for involvement and responsibility.

- Another for present involvement and future retirement security, and reduction on future Welfare dependence, would be to allow moneys still in Super at death be allowed to transfer to Beneficiaries' Super Funds (Tax free)

This would give extended preservation, long term compounding and possibly eliminate need for additional contributions above SG for many.

This gives Beneficiaries (need not be next of kin) more to spend on taxable items such as mortgage, children's growth etc so helping the economy!

Q 9. The statistics in Q2. show it is obvious the current balance is inappropriate.

Adequacy

Q10, 11, 12, 13, 14 - Your review seeks clarity on what is 'adequate'.

In my opinion, Retirement should be a period of 'Reward', not a lesser or minimalist period – unless by choice.

There is only one gauge / amount that is 'adequate', which is... **the amount needed to continue today's lifestyle, plus allowance for any extra spending due to the extra hours Retirees have available.**

You analyse well the failings of the ASFA 'Absolute Measures' choices of 'modest' or 'comfortable'. Both have almost NIL association to real people, and I believe the many advisers, journalists and other groups promoting or relying on their figures as giving 'delinquent advice!'

The only amount of any relevance is the spending needed to continue each person's or couple's Lifestyle of Today, plus any extras for the additional leisure time, and pursuits.

Some of ASFA's approach is well intentional and has parallels to some people, but most Australians have no idea how much they are spending on their Lifestyle and the Necessities and Enjoyments that they'll continue in all, or part, for all their life.

We've asked over 2000 Australians "do you know how much you spend a year on your Living Necessities and Enjoyments?"... and only 3 out of 100 know!

So 97 out of 100 don't know!

Two mortgage officers at NAB Dee Why (Sydney) also confirmed to me that only approximately 2/100 know.

So 'Absolutes' like ASFA, or other calculation amounts, percentages, or guesses, ignore this lack of understanding, so how can people know if amounts relate to them?

A colleague recently stated ASFA's 'comfortable' figure to clients, and they asked... "is that each?"

Reaching Retirement, with vastly inadequate Super and not knowing how long it needs to last, creates and continues 'future stress' and many negative investment decisions.

People need to know their Retirement Income Targets and estimates of achievement, including all resources, plus Age Pension entitlements, at least 20 years before retirement, to enable them to achieve the Lifestyle they require.

So if not on target they can make choices to adjust their Retirement savings activities.

It should never be left as late as many people have left it.

If voluntary contributions are made easier, beneficial, secure, this may help. The Pension should also have some extra security to alleviate Longevity Risk so retirees don't minimise too much.

Equity

Q13, 14

There are 3 great 'cries' about the equity of the System

1. "It doesn't help the lower earners" and should give them much more... take it off the wealthy!
2. It doesn't help women sufficiently
3. The Rich manipulate the System & get more than they need, and especially tax deductions.

There is some truth in the above and great errors, as well as falsity and misdirected and misinterpreted understandings...

- 3 The higher earners do not benefit more, as they pay far more tax than others. ('Is the statistic that 65% of all income tax comes from the top 10% of earners?')
- 2 A very serious problem and help for single women is needed.
- 1 Lower earners usually receive Full Age Pension. They usually pay NIL Net income tax with the many offsets. However, the full Pension for singles is punishing and no one can live on an annual income of \$22,000

Q 15 Currently the government offers support for older Australians on the Age Pension who wish to remain in the workforce past retirement with the \$300 work bonus and tax breaks, which make it worthwhile for retirees to carry on working as long as they can. This needs to be encouraged as it also gives them the opportunity to keep building their Super. However

Q 16 Currently the income system doesn't seem to recognise inequities experienced during working life.

As SG matures, the younger members, with many years of compounding and planning may be reasonably catered for.

The older 'boomers' group however, who've had less time in the System may need to be supported and a 2 Teir system created.

Single women, who may have come out of a marriage after not working & have not had time to accumulate Superannuation are left to try to survive on the single Pension, some with a mortgage, and some renting. According to the Australian Human Rights Commission's - Older Women's Risk of Homelessness: Background Paper - Exploring a

growing problem April 2019... 'the number of older homeless women in Australia increased by over 30% between 2011 and 2016 to nearly 7,000. We have an ageing population, a high cost of housing, and a significant gap in wealth accumulation between men and women across their lifetimes'.

Q 17 Another shortfall in the current System to consider is the many **self employed** who are not included (and not engaged) in SG. See

These make a very large number. Again their resistance, distrust, perceptions and lack of understandings need to be overcome so they embrace the superannuation system.

Sustainability

Q 18, 19 – Please consider... simplicity, fairness and security to more readily meet the Purposes and Objectives of Superannuation for all Australians with:

- Immediate understanding by adapting what people already know and do every day when saving for Life Purchases and Events
- Education and financial self-assessing tools provided to the community so unless they require more specific advice they do not need to see a Financial Adviser
- processes and rules to be seen as ... 'obvious'
- universally fair because everyone is equal, same rules to apply to all
- Legislative changes become unnecessary... it's flexible 'same rule' structure automatically adjusts to changes in the economy, incomes, lifestyles, tax rates etc;
- Only the Maximum Allowed Amount need be adjusted every 3 years by an Average Growth rate
- a No Changes Structure to reintroduce Trust in Super
- Intergenerational Retirement Funding facilitated and encouraged, reducing future welfare dependence
- Targeted Education to help people to calculate Own Target Amounts so guesses by others are replaced, giving more control
- a system that is easy to implement and administer
- Cost reductions from simplified structures for industry members and Government;
- New Retirement products, strategies and structures, including possible adjustments to the Age Pension to assist longevity risk can be developed.

The most appropriate Taxes and Tax Deductions and Processes can be determined when the Government stipulates the revenue they require.

Cohesion

Q 25 The Financial Planning Industry has not been successful (or competent) in overall penetration in helping the majority of Australians.

AT most they only cater to the top 20% and a percentage of those could have done without the experience. The endless rules and complexities imposed by AASIC and others make the delivery of their advices and services very expensive.

Appropriate advice and planning may only take an hour or so. Research and verification several hours, but the process of documenting and reams of paper brings simple advice cases to well over 20 hours per client.

A ridiculous position if widespread advice from this source is required, unless the process is streamlined and simplified.