



Submission

To

Treasury Retirement Income Review Panel

February 2020

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7 February, 2020



Contents

1	Introduction and Summary	6
1.1	Introduction	6
1.2	Structure.....	6
1.3	Recommendation summary.....	6
1.4	Commentary summary.....	8
1.5	Mutual Pensions Pty Ltd	8
2	The three pillars commentary	9
3	Discussion supporting recommendations	12
3.1	Retirement age	12
3.1.1	General.....	12
3.1.2	Survival to pension age.....	12
3.1.3	Survival after pension age.....	14
3.1.4	Population proportion.....	16
3.1.5	Recommendation.....	16
3.1.6	Physically demanding jobs	17
3.1.7	Under employment of older workers	18
3.2	Treatment of the family home	18
3.2.1	Background.....	18
3.2.2	Mortgage debt.....	19
3.2.3	Exclusion from the assets test.....	19



3.2.4	Suggested structure.....	19
3.3	Out of purpose funding – the need for longevity protection.....	20
3.3.1	General.....	20
3.3.2	Extent of wastage.....	21
3.3.3	Benefits to dependents.....	22
3.3.4	Solution.....	24
3.4	Downsizing housing.....	26
3.4.1	General.....	26
3.4.2	Solution.....	26
3.4.3	Alternative solution.....	27
3.5	Pensioner concession card eligibility.....	27
3.6	Working beyond retirement age.....	27
4	Issues of concern commentary.....	28
4.1	Home owners and renters.....	28
4.2	Sequencing risk.....	28
4.3	Reliance on immigration.....	28
4.4	Liquidity.....	28
4.5	Concentration of superannuation funds.....	29
5	Satisfactory issues commentary.....	29
5.1	Assets test runoff rate.....	29
5.2	Deeming rates.....	30



5.3	Gender issues	30
5.4	Adequacy of SG contribution rates	31
5.5	Tax support	35
5.6	Insurance.....	35
5.7	Superannuation fund governance	35
6	Consultation questions.....	36
6.1	The retirement income system	36
6.1.1	Question 1.....	36
6.2	Purpose of the system and role of the pillars	36
6.2.1	Question 2.....	36
6.2.2	Question 3.....	37
6.2.3	Question 4.....	37
6.2.4	Question 5.....	38
6.2.5	Question 6.....	38
6.3	The changing Australian landscape	39
6.3.1	Question 7.....	39
6.4	Principles for assessing the system	40
6.4.1	Question 8.....	40
6.4.2	Question 9.....	41
6.5	Adequacy	42
6.5.1	Question 10	42



6.5.2	Question 11	42
6.5.3	Question 12	44
6.6	Equity	44
6.6.1	Question 13	44
6.6.2	Question 14	45
6.6.3	Question 15	45
6.6.4	Question 16	46
6.6.5	Question 17	46
6.7	Sustainability	47
6.7.1	Question 18	47
6.7.2	Question 19	48
6.7.3	Question 20	49
6.8	Cohesion	49
6.8.1	Question 21	49
6.8.2	Question 22	50
6.8.3	Question 23	50
6.8.4	Question 24	51
6.8.5	Question 25	51
6.8.6	Question 26	51
7	Conclusion	52



1 INTRODUCTION AND SUMMARY

1.1 Introduction

1. Mutual Pensions Pty Ltd (MPPL) welcomes the opportunity to make a submission in response to the November 2019 consultation paper (the Paper) issued by the Retirement Income Review Panel appointed by the Treasurer on 27 September 2019 (the Panel).

1.2 Structure

2. This submission contains: -

- a. a brief description of MPPL;
- b. comments and recommendations by MPPL about areas where it considers significant change is necessary;
- c. comments by MPPL on other superannuation issues in the public domain separated into: -
 - i. concerns where MPPL thinks change should be considered and
 - ii. the remainder which MPPL thinks is operating satisfactorily and
- d. responses to each question posed by the Panel in the Paper.

1.3 Recommendation summary

3. MPPL recommends: -

- a. legislation to increase the Age Pension (AP) commencement age to 67 years and four months for those born in 1959 or earlier, increasing by four months for each year of birth after 1959, with increases ceasing only when a future Parliament so decides (sub section 3.13.1 elaborates);
- b. legislating to address the exclusion of the family home from the assets test by-



- i.** establishing a shadow assets test including a proportion (say 50% rising by 5% per year) of the excess of the value of the home over the median value in the relevant region,
- ii.** determining the excess of the actual AP over that which would have applied under the shadow assets test,
- iii.** accumulating such excess until the death of last of the pensioner and any spouse and
- iv.** recovery of the accumulated excess from the estate of the pensioner (sub section 3.2 elaborates);
- c.** legislating to require that starting four years hence, 20% rising by 5% per year to 75% of superannuation funds be committed to a Longevity Protected Product meeting the Comprehensive Income Product (Retirement) (CIPR) standards (sub section 3.3 elaborates);
- d.** legislating to allow mortgage debt on the family home to be subtracted from assets for the assets test (sub section 3.2.2 elaborates);
- e.** legislating to quarantine the proceeds of downsizing a family home from the assets and income test with a similar shadow assets and income test to ensure ultimate recovery of the excess of AP pension paid over what would have been paid under the shadow test (sub section 3.4 elaborates);
- f.** legislating to allow people in physically demanding jobs to commence an AP at 80% of the normal level five years early (sub section 3.1.6 elaborates);
- g.** legislating to allow Transition To Retirement pensions to commence five years before Preservation Age for those who have been unemployed for a year or more (sub section 3.1.7 elaborates);
- h.** legislating that the Pensioner Concession Card (PCC), once granted to an Age Pensioner, cannot be revoked (section 3.5 elaborates) and



- i. legislating to change the Work Bonus component of the income test to be equivalent to 30 hours per fortnight at the minimum wage (sub section 3.6 elaborates).

1.4 Commentary summary

4. Other aspects of the retirement income system which worry MPPL are discussed without making specific recommendations. These include: -

- a. the balance struck between home owners and renters;
- b. sequencing risk;
- c. reliance on immigration;
- d. liquidity risks and
- e. concentration of superannuation funds.

5. MPPL also comments on some aspects of the system that MPPL considers satisfactory. These include: -

- a. the assets test taper;
- b. deeming rates;
- c. gender issues;
- d. the SG rate;
- e. tax support;
- f. insurance and
- g. superannuation fund governance.

1.5 Mutual Pensions Pty Ltd

6. MPPL was established to develop, market and manage a product to address the waste of government support inherent in the use of superannuation for inter



generational transfer of funds. The product that it has developed is a Mutual Pension® overlay. The product is essentially a Group Self Annuitisation (GSA) arrangement, complying with the Assets Tested Income Stream requirements of the Social Security legislation and eligible to be used as a CIPR as currently under government consideration.

7. While this submission recommends changes that would increase the demand for Mutual Pensions®, it is important to stress that Mutual Pensions® are not products seeking a public policy problem which they can solve. Quite the reverse. They are products designed to address a public policy problem whose time for solution has now arrived.

2 THREE PILLARS COMMENTARY

8. The three pillars referred to in page 4 of the Paper are reflected in other areas of public policy (albeit with the boundaries somewhat blurred). One can define the pillars as: -

- a. government provided – a basic level of service available to all who need it;
- b. government assisted – a more expensive service partly funded by users and partly by government and
- c. government ignored - a further level of service entirely funded by users.

9. The table below sets out some examples of three pillars in action.

Item	Education	Health	Child care	Retirement income
Government provided				
Provider/ product	State governments	Public hospitals	Private operators	AP adjusted for income and assets test



Item	Education	Health	Child care	Retirement income
Funding	State governments	State governments	Federal subsidy paid to provider – balance by parents ¹	Federal government
Government assisted				
Provider	Independent schools	Public or private hospitals	Private operators	Superannuation funds
Funding	Partly parents and partly federal “needs based” using a Socio Economic Status Score	Individuals and health insurers from premiums which attract an income tested and age tested federal government rebate	The subsidy phases out when family income reaches \$350k and families can choose centres which charge more than the maximum,	Tax concessions, SGC contributions, Other concessional contributions and non concessional contributions. Contribution limits apply and pension phase tax concessions are limited
Government ignored				
Provider	Independent schools	Private hospitals	Private operators	Individuals



Item	Education	Health	Child care	Retirement income
Funding	Partly parents and partly federal "needs based using a Socio Economic Status Score ²	Individuals and health insurers from premiums which attract no rebate for young high income earners and uninsured people who choose private care	Parents with income over \$350k	Own resources

- 1 This is not exactly fully government provided as the subsidy does not exceed 85% of the lesser of actual fees and the maximum rate.
- 2 There is no government ignored portion of the education sector as even the most expensive schools derive some funding from government.

10. The purpose of the three pillars concept is to: -

- a.** deliver adequate services or results at the government provided level;
- b.** deliver somewhat more expensive services at reasonable cost to both user and government at the government assisted level while
- c.** not committing scarce government resources to very expensive outcomes for which the users can pay.



11. The delivery should be efficient, and the funding used to achieve the stated purpose. Generally, MPPL thinks that, except for funding vanity schools the system works well in areas other than retirement income provision.

12. The Panel may wish to consider whether the current description of AP adequately reflects the “fall back” or “safety net” nature of that pillar.

3 DISCUSSION SUPPORTING RECOMMENDATIONS

3.1 Retirement age

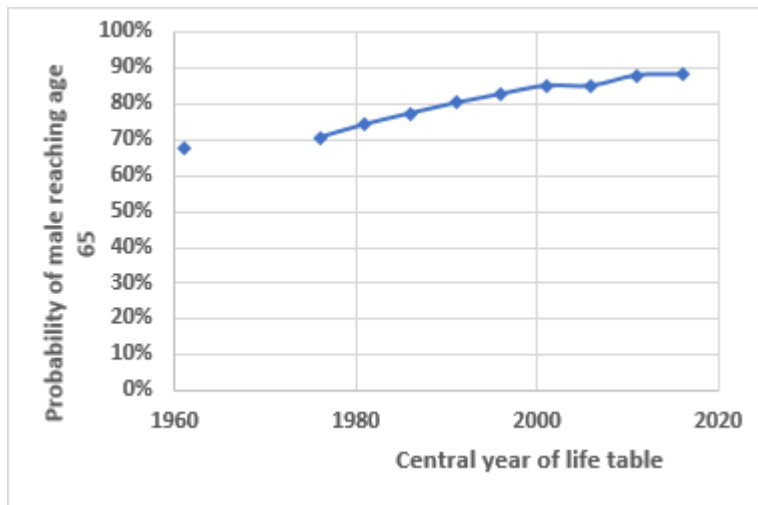
3.1.1 General

13. MPPL notes that, using data from the 1881-90 Australian Life Tables (ALT) as published in more recent ALTs, the “average” member of the cohort of males that reached age 65 when the AP was introduced in 1909, those born in 1844, had by then, been dead for eighteen years. This implies a probability of this cohort reaching pension age was much less than 50%.

3.1.2 Survival to pension age

14. The earliest ALT with individual year mortality rates that MPPL has available is ALT61 relating to 1960-62. On these tables, the probability of a male reaching age 65 was 68%. The probability, on the latest ALT16 (2015-17), of a male reaching the now contemplated final pension age of 67 is 87%.

15. The following chart shows the probabilities of males reaching age 65 where known.



16. The following table shows the ages reached with various probabilities under the available life tables.

Central year of life table	60%	65%	70%	75%	80%	85%
1961	69	67	64	62	59	55
1976	70	68	66	63	60	56
1981	72	70	68	65	62	58
1986	73	71	69	67	64	60
1991	75	73	71	68	66	62
1996	76	74	72	70	67	64
2001	78	76	74	72	69	66
2006	80	78	76	74	71	67
2011	81	79	77	75	72	69



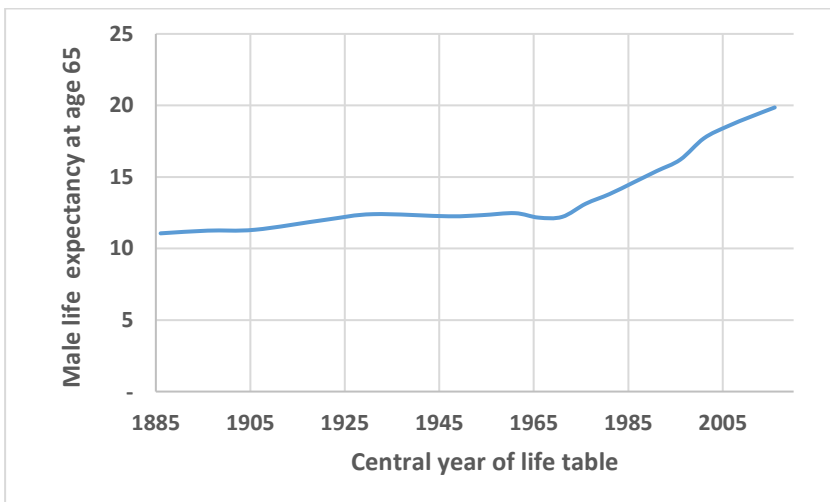
Central year of life table	60%	65%	70%	75%	80%	85%
2016	82	80	78	76	73	69

17. In order to preserve the 1961 probability of surviving to pension age, the pension age now would need to be 78 years.

3.1.3 Survival after pension age

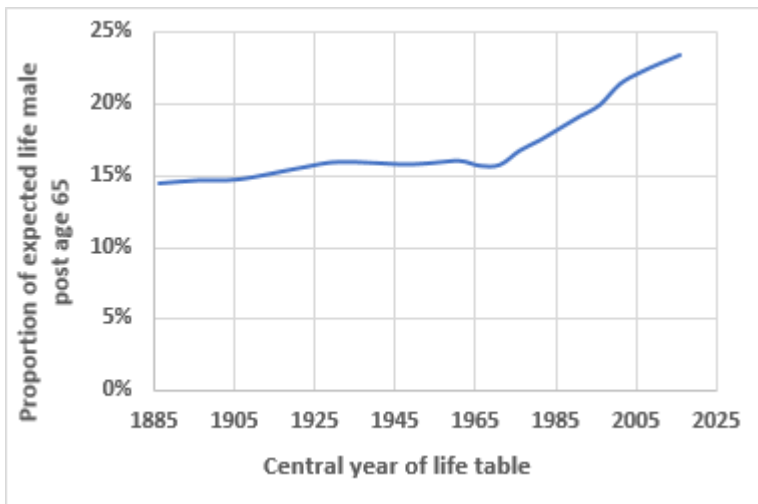
18. While recognising that the pension age is now not 65, MPPL has performed some calculations on the simplifying assumption that it is still 65.

19. The following chart shows that male life expectancy at age 65 increased by 1.2 years from the 1881-90 ALT to the first of the quinquennially published ALTs (1965-67). Thereafter, the chart shows it increased, each year by an average 0.15 years. This is equivalent to 3 hours 40 minutes every day.





20. Members of the first AP cohort who reached age 65 would have expected to spend 14.5% of their lifetime drawing the pension. The latest ALT (2015-17) implies a male now age 65 can expect to spend 23.4% of his lifetime after that age. The following chart shows the proportion of total life expected after age 65 based on all ALTs. The increase over the last 50 years is marked.



21. The following table shows the proportions of lifetimes spent after various ages by those who survive to the age under the more recent lifetables.

Age	1996	2001	2006	2011	2016
65	20.0%	21.4%	22.2%	22.8%	23.4%
66	19.0%	20.4%	21.2%	21.8%	22.4%
67	18.1%	19.5%	20.2%	20.8%	21.4%
68	17.2%	18.5%	19.3%	19.9%	20.4%
69	16.3%	17.6%	18.3%	18.9%	19.5%



Age	1996	2001	2006	2011	2016
70	15.5%	16.7%	17.4%	17.9%	18.5%
71	14.6%	15.9%	16.5%	17.0%	17.6%
72	13.8%	15.0%	15.6%	16.1%	16.7%
73	13.1%	14.2%	14.8%	15.2%	15.8%
74	12.3%	13.4%	13.9%	14.4%	14.9%
75	11.6%	12.7%	13.1%	13.5%	14.0%

22. To replicate the situation at 1909, of 14.5% of lifetime spent in retirement for males who reach retirement, the pension age would need to be about 74 years.

3.1.4 Population proportion

23. Another measure that could be used to establish the appropriate pension age would be to examine the proportion of the population over pension age at various times and decide on an acceptable proportion. Having decided this, the appropriate pension age would be the age that achieves this proportion. This would, of course, be dependent on the migration intake.

3.1.5 Recommendation

24. The neglect of keeping the pension age up to date for the past fifty years can only be realistically addressed by a long progression of small increases. The end of the process of rectification is far in the future. Demographic changes by the end of the rectification period will probably warrant further increases.

25. In the light of the above and to remove the politicisation of the retirement age, MPPL submits that the pension age should be legislatively set at 67 years and four months for those born in 1959, increasing by four months per year until a future Parliament decides to halt the process.



26. The linkage of pension age to year of birth, MPPL considers, is easier for people to understand than eighteen month windows of pension emergence dates. Essentially, MPPL's recommendation is a continuation of the current rate of increase.

27. MPPL considers that, if further changes are to be made to the pension age, they should be reflected in: -

- a.** the Preservation Age (say 7 years less than pension age) and
- b.** the ages for which the contribution work test applies (say pension age to pension age plus 10 years).

3.1.6 Physically demanding jobs

28. The announcement of the increase in the pension age to 67 generated comment to the effect that it is hard to do physical labour at that age. Similar comments could be expected if the age were to be further increased. In MPPL's submission, some of this concern is justified. This view is even though machinery has made many blue collar jobs less physically taxing.

29. It is simple to determine an actuarial formula to derive the level of earlier commenced pension that has the same present value as a normal pension. However, if one takes the view that the AP represents a standard below which the community does not want anyone to fall, it is illogical to offer reduced early pensions which remain forever less than the minimum.

30. There is some logic in offering reduced early pensions if they revert to normal at pension age. MPPL submits that it is open to the Panel to recommend reduced pensions (perhaps 80%) should be available from five years before pension age to people meeting stringent conditions about the physicality of their work.

31. The age of 65 is chosen because that, for many years, was the age to which people expected to have to work.



3.1.7 Under employment of older workers

32. On page 11 of the Paper, the Panel wrote “Nevertheless, some older workers report being unable to retain or find employment, despite a willingness to remain in the workforce.” The Panel gave this matter no further attention. MPPL agrees that the difficulties of securing employment at both ends of a working life have been well canvassed elsewhere.

33. Addressing those difficulties is relevant to retirement income policy to the extent that: -

- a.** it affects the amount that can be accumulated and
- b.** it may provoke earlier commencement of account based pensions than would otherwise be the case.

34. The contrast between the hardship of the New Start life and the comfort than is available after reaching the Preservation Age is, for some, significant. MPPL suggests that consideration be given to easing the conditions of release to allow the commencement of a Transition To Retirement (TTR) pension say 5 or even more years before Preservation Age for those unemployed for a long period, perhaps a year.

3.2 Treatment of the family home

3.2.1 Background

35. Housing prices in Australia are high by international standards. The sixteenth annual Demographia International Housing Affordability Survey revealed Sydney remains third least affordable major city in the world based on its median house price to median household. Melbourne is fourth least affordable on the same measure.

36. MPPL submits that it makes no sense to have an assets test and then exclude the major asset class of household wealth from the test. Before addressing this, however, MPPL submits that if the family home is to remain assets test free, the situation of the increasing proportion of people retiring with a housing loan needs to be addressed.



3.2.2 Mortgage debt

37. The rational course on retirement with a housing loan is to clear the loan using superannuation funds. This reduces assets tested. It seems unfair that people who are unaware of this option and fail to make a simple change should suffer a lower AP than those who manipulate their affairs in this way.

38. If the assets test were amended to allow reduction by the outstanding home loan, the person who did not clear the loan would be subject to the same assets test, but would have larger financial assets and hence deemed income. Such a person would also have more financial flexibility.

39. MPPL submits that such a change should be made.

3.2.3 Exclusion from the assets test

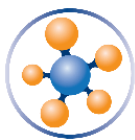
40. MPPL argues that the exclusion of the family home from the assets test should be addressed.

41. Not only does the exclusion of the principal residence ensure wealthy people are unnecessarily drawing on the taxpayer, but it is inhibiting efficient usage of the nation's housing stock. The reason is that people fear the effect on their pension of the capital released if they sell the large family home and move to smaller accommodation.

42. As indicated on page 18 of the Paper, home owners with mortgages have higher housing costs than those without. This counsels, if the assets test is changed to include the home, the relevant variable should be home equity, net of debts secured on the property.

3.2.4 Suggested structure

43. It is MPPL's suggestion that, after a suitable number of years notice, a "Housing Shadow" assets test be introduced. This would involve pensioners assessed on their conventional assets and a proportion of the excess of the value of their home equity over a multiple of a region specific median housing value (for example half of the excess over 100% of the median increasing by 5% per year).



44. The excess of the conventionally determined AP over the Housing Shadow based AP, called in this document the Housing Adjustment Accrual (HAA), should be accumulated and ultimately recouped.

45. The HAA recoupment could occur on sale (or transfer on death) of the property, but might need to be delayed if the proceeds of the sale are used to fund a Refundable Accommodation Deposit (RAD) and the amount to be recouped is more than the excess of the proceeds of sale over the RAD. In such cases the recoupment would occur from the refund of the RAD.

46. A further complication may exist if accommodation is needed for a financially dependent child. The underlying principle would be that the recoupment would occur from funds freed up when accommodation is no longer needed.

47. The HAA could be a significant amount. If required, it could be protected by a caveat on the title of the homes. Such an action may, however, be considered an unnecessary imposition on pensioners with little practical gain.

48. MPPL contends that it is not beyond the wit of Treasury and the Office of Parliamentary Counsel to sort the details, which would include: -

- a.** region identification;
- b.** valuation method;
- c.** frequency of adjustment and
- d.** security of the HAA.

3.3 Out of purpose funding – the need for longevity protection

3.3.1 General

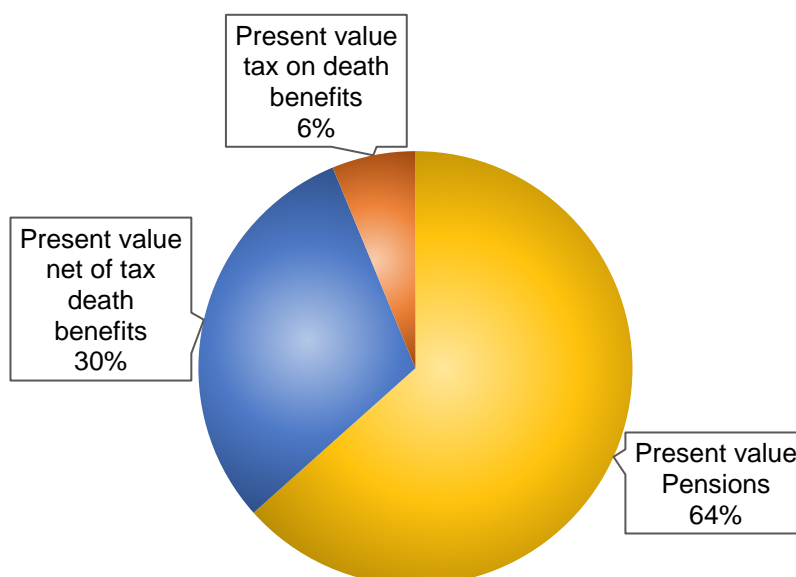
49. The Panel wrote on page 8 of the Paper, *“The retirement income system is not intended To assist with wealth accumulation in order to provide for inheritances.”* MPPL agrees and considers the purpose of the retirement income system is to provide income in retirement. The current system generally does this well, but it also provides a vehicle to provide tax advantaged intergenerational funds transfer.



3.3.2 Extent of wastage

50. The following chart shows the present values of the usage of funds committed to the superannuation system. It assumes: -

- a. a male aged 67 experiences the mortality of the 2010-12 ALT (ALT11) with improvements from those tables for 25 years then no further improvement;
- b. 6% per annum earnings net of fees and
- c. minimum account based pension drawdowns.



51. The chart potentially overstates the tax on death benefit and understates the net of tax death benefits. This is because people with terminal illnesses can arrange withdrawal from the superannuation system so no tax is paid by their non financial dependents.

52. The chart shows that, on the assumptions used, nearly a third of the taxpayer subsidised superannuation funds provide a legacy, not retirement income.



3.3.3 Benefits to dependents

53. An alternative measure of the inefficiency of the current system is the benefit that it confers on a family. To measure this, one can compare the ultimate results delivered by: -

- a.** a dollar of pre tax salary concessionaly contributed to superannuation then passing through the pension phase and, ultimately, to the member's estate and
- b.** a dollar being taken as taxable income and invested in the normal tax environment.

54. The following calculation assumes: -

- a.** a transaction occurring 10 years before retirement;
- b.** a retirement lasting 20 years;
- c.** a marginal tax rate before retirement of 47%;
- d.** a marginal tax rate in retirement of 50% of that before retirement;
- e.** investment yielding 2.5% capital growth and a 4% dividend fully franked at 30% and
- f.** no administrative expenses.

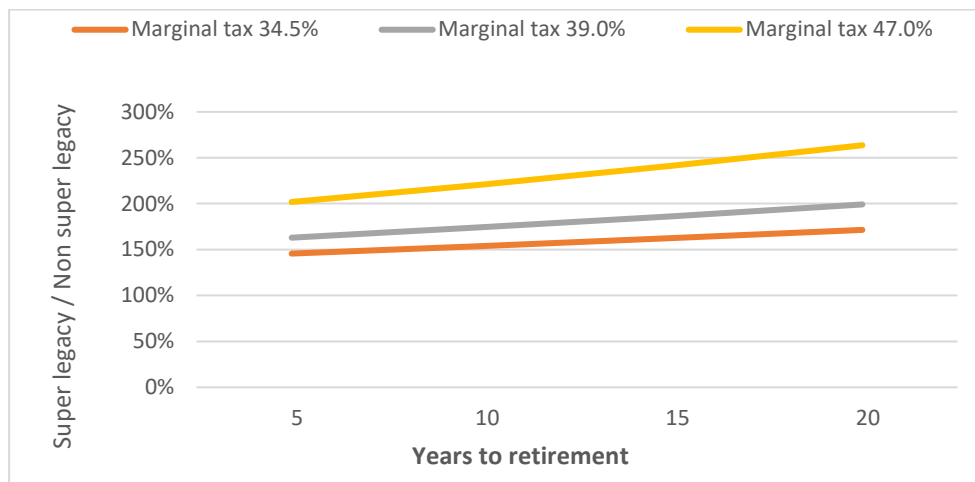
	Super	Non super
Committed	\$1	\$1
Tax pre retirement	\$0.15	\$0.47
Net committed	\$0.85	\$0.53
After tax dividend rate	4.86%	3.03%
Initial year dividend	\$0.04	\$0.02
Total dividends paid to retirement allowing for growth in dividends	\$0.22	\$0.08
Accumulation at retirement	\$1.21	\$0.69



	Super	Non super
Capital gain at retirement	\$0.15	\$0.08
Tax rate post retirement	0.00%	23.50%
After tax dividend rate	5.71%	4.37%
Total earning rate	8.21%	6.87%
Retirement start after tax dividends	\$0.07	\$0.03
Total dividends paid to retirement allowing for growth in dividends	\$1.77	\$0.77
Grand total dividends	\$1.99	\$0.86
Accumulation at end of retirement	\$5.88	\$2.62
Capital gains end of retirement	\$3.04	\$1.23
Capital gains tax	\$0.00	\$0.14
Net before exit tax	\$5.88	\$2.48
Tax on final balance	15%	-
After tax final balance	\$5.00	\$2.48
Ratio super final balance to non super final balance	202%	

55. The following table and chart show the same information for different pre retirement durations and marginal tax rates retaining the same retirement duration.

Years to retirement	Marginal tax 34.5%	Marginal tax 39.0%	Marginal tax 47.0%
5	146%	163%	202%
10	154%	174%	221%
15	162%	186%	241%
20	171%	199%	264%



3.3.4 Solution

56. The wastage illustrated above can be removed by requiring that all benefits be taken in the form of a pension with no residual value. This can be either a guaranteed annuity or a GSA. Such a requirement would be politically impracticable. The question then becomes *“What blend of conventional account based pensions and no residual benefits is applicable?”*.

57. In answering this question, the following should be considered: -

- a.** many Australians are now entering retirement with outstanding debt on their houses. Often, they use part of their superannuation to clear this;
- b.** it is important in all respects with superannuation, for changes to be introduced slowly and with notice;
- c.** other countries allow and the former government employees pensions schemes in Australia allowed a degree of commutation of pensions to lump sums. For example, 25% applies in the United Kingdom and
- d.** through the government’s CIPR and Asset Tested Income Streams processes, a consensus has emerged as to the minimum degree of forfeiture required to render a CIPR compliant. This minimum is no forfeiture for half of the life expectancy at purchase and, thereafter, forfeiture that scales from



50% of purchase price at half of the life expectancy to full forfeiture at the life expectancy.

58. Taking the above into consideration, MPPL submits that the legislation should be amended to require the commitment of a minimum proportion of any superannuation funds be committed to a Longevity Protected Product meeting the requirements of an Asset Tested Income Stream before a lump sum can be withdrawn or funds transferred to the Pension Phase. MPPL submits that the minimum proportions should be: -

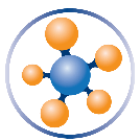
- a.** for the first four years after announcement, nil;
- b.** at the beginning of the July fourth following announcement, 20%; thereafter increasing at 5% per year until
- c.** 75% is reached at the beginning of the July fifteen years after announcement.

59. Such a system would have to be able to deal with: -

- a.** contributions after pensions commenced;
- b.** multiple pensions and
- c.** small short falls.

60. The detailed mechanism would need to be developed, but the starting point could be: -

- a.** initial calculation of a Longevity Protected Ratio being the ratio of funds committed to Longevity Protected Product to the Total Superannuation Balance at the end of the previous financial year (Start TSB);
- b.** recalculation of the Longevity Protected Ratio every time a lump sum withdrawal or transfer to Pension Phase occurs as the ratio of the sum of all funds committed to Longevity Protected Products to the sum of the Start TSB and all contributions made since the establishment of the Start TSB;



c. requiring additional funds be committed to Longevity Protected Products to ensure the individual's Longevity Protected Ratio at the time of a proposed withdrawal is at least the minimum applicable at that time but

d. not insisting on additional funds being committed to Longevity Protection Products if the amount of those funds is less than a threshold of \$5 or \$10 thousand.

61. While the minimum Longevity Protected Ratio would not start for four years, the calculation of individuals' Longevity Protected Ratio should start immediately and should, if practicable, recognise Longevity Protected Products already in force.

3.4 Downsizing housing

3.4.1 General

62. The current law allows contributions to superannuation on downsizing one's home. It does not address the effect on the AP. This, together with the below mentioned aversion to loss of the Pensioner Concession Card (PCC) inhibits efficient use of housing resources. It is also likely that the costs to government of assisting elderly people to stay on in their family home are greater than the costs to government of supporting those people in smaller or specialised retirement accommodation.

3.4.2 Solution

63. To address this, MPPL submits that consideration be given to establishment of a Downsizing Gap asset class. This would comprise the excess of the proceeds of sale of the former family home, net of selling costs, over the cost of the new home, gross of purchasing cost and duties.

64. This asset class could be progressively included in the assets test as to say 10% per year. The exact mechanism would be to record the gap and apply a reduction of 90% of the gap from normally calculated assets in the first year 80% thereof in the next and so on.



65. Whether the Downsizing Gap could be established a reasonable period before pension age would need to be determined. MPPL suggests a logical possible start date is the relevant Preservation Age.

3.4.3 Alternative solution

66. An alternative would be to reduce tested assets by the Downsizing Gap but include the Downsizing Gap in the Housing Shadow referred to in sub section 3.2.4 above.

67. Inclusion of the Downsizing Gap in the Housing Shadow would make recoupment of the HAA less certain. Some protection may be afforded by a new requirement that superannuation funds could not pay death benefits to non dependents until they receive clearance that the HAA is recouped. This might also be extended to payment of lump sums, but the benefits of doing so need to be examined against the complexity created.

3.5 Pensioner concession card eligibility

68. Many people significantly over estimate the value of the PCC. This means, while they might be happy to downsize their home, and receive less or no AP, they irrationally fear loss of the PCC.

69. MPPL suggests that the law be amended to provide that a PCC, once granted, cannot be revoked.

3.6 Working beyond retirement age

70. The current law allows people working beyond retirement age to continue contributing to superannuation subject to the work test up to age 75 and for SG to be paid for them beyond that. MPPL does not think change to this is necessary.

71. The law also allows the exclusion of up to \$300 per fortnight employment income from the income test. When one considers that the income test operates as a 50% marginal tax rate and that the allowed amount represents roundly 15 hours per fortnight at the minimum hourly rate, it is clear, MPPL submits, that the “work bonus” is better described as a “pottering bonus” and should be set to allow at least two days work per week.



4 ISSUES OF CONCERN COMMENTARY

4.1 Home owners and renters

72. MPPL notes that a non homeowner couple is better off than a corresponding home owner if the rent paid less savings in building insurances, rates and taxes is less than roundly \$380 per week. This figure reflects the different assets test thresholds and the exitance of rent assistance. MPPL suggests that the Panel may wish to test the fairness of this.

4.2 Sequencing risk

73. The Paper is silent on sequencing risk. With local and foreign stock markets near their highest, this risk is growing.

74. Most superannuation funds seem to address this by suggesting lower volatility investment options, without offering “protected” products. The fact that Allianz and Perennial, amongst others, offer degrees of protected products in other contexts suggests that it can be done.

75. MPPL urges the Panel to explore the impediments to superannuation funds offering such products and make recommendations to remove those blockages.

4.3 Reliance on immigration

76. The Paper mentions that increasing net immigration affects the age composition of the population. MPPL warns that reliance on immigration to reduce the proportion of retired people is Ponzian.

4.4 Liquidity

77. Conventional wisdom holds that the reason for the outperformance of industry superannuation funds lies in their fees and higher proportion of illiquid investments. MPPL urges the Panel to consider the fate of WestScheme, which merged with Australian Super in 2011 and read between the lines of two sentences in the West Australian’s report on the merger announcement, namely: -



a. *“In a hastily convened press conference this morning, the pair announced this morning the merger would take effect on June 30, after the completion of due diligence”* and

b. *“It comes after Westscheme has been criticised for poor returns in recent years.”*

78. Individuals with a long term to retirement can afford illiquid investments. Funds subject to redemptions at call need to recognise the effect of such investments if redemptions occur faster than planned. IN MPPL’s opinion, this is a matter that is getting insufficient regulatory attention.

4.5 Concentration of superannuation funds

79. In 2009, the twenty largest superannuation funds accounted for just over 50% of all assets of APRA regulated funds. Now that number of funds command three quarters of the assets. The proportion of assets held by the ten largest funds has risen from slightly less than 40% to slightly less than 60%.

80. Superannuation has not reached the concentration levels seen in the banking industry. Nevertheless, the possibility of some funds becoming too big to be allowed to fail should be considered. This should happen and the rules should be announced well before the problem emerges.

81. The concentration of the industry has been compounded by the concentration of investment management. The trend for superannuation funds to manage their investments internally with less reliance on external managers also brings added risk. MPPL urges the Panel to consider this added level of risk.

5 SATISFACTORY ISSUES COMMENTARY

5.1 Assets test runoff rate

82. There is a view that the 7.8% per annum reduction implicit in the assets test is too harsh. MPPL suggests that the Panel remind its readers that the assets test is founded on the assumption that people will use their capital to fund their retirement if necessary. Not having an assets test would provide a subsidy from the taxpayers to the children of current wealthy retirees with significant assets.



5.2 Deeming rates

83. There is also a view that the deeming rate is too high. This misrepresents the reality of the deeming provisions.

84. MPPL suggests that the Panel take the opportunity to remind its readers that the deeming regime has two components: -

- a.** a low rate (implicitly that which can be earned on cash and short term assets) and
- b.** a higher rate (for long term investments).

85. The higher rate needs to be seen in the context that the annual yield, after franking credits, of the stock market is roundly 6%.

5.3 Gender issues

86. As a matter of legal fact, one's superannuation balance is a personal asset. In practice, it is a family asset. People enter retirement: -

- a.** as a part of a couple (de facto or de jure) noting that superannuation benefits have long recognised same sex relationships;
- b.** widowed;
- c.** never partnered and
- d.** divorced or separated.

87. For the first two of the groups listed above, the subtleties of career breaks and gender differences in balances are irrelevant. The couple's superannuation balances are used to support the couple and, on the first death, support the survivor. This is not to say that the existence of career breaks should be ignored in the setting of the appropriate SG contribution level. It is to say, however that the catch up provisions and superannuation splitting provisions render no further allowance necessary.

88. Career breaks for the never partnered are also not relevant unless they have made a lifestyle choice of single parenthood.



89. Clearly, people who are divorced or separated have a lower standard of living ceteris paribus than those who are not. After separation, one needs to rebuild assets and adjust expenditure patterns. If the Family law system is working correctly the burden of these changes should fall equally on the parties.

90. Particularly difficult is the housing adjustment. At most, one of a couple keeps the former matrimonial home. The change from home owner to non-home owner is significant in the context of the adequacy of retirement income. MPPL submits that this is best dealt with in consideration of rental assistance and the divergence of the home owner, / non home owner assets test thresholds.

91. While recognising the difficulties that people of both genders suffer on separation before or during retirement, MPPL suggests that to make special provision for such cases would create moral hazard.

5.4 Adequacy of SG contribution rates

92. The basic calculation of the replacement multiple inherent in a given level of SG contribution involves assumptions of: -

- a.** length of contribution period;
- b.** length of retirement period;
- c.** contributions tax and
- d.** the excess of investment earnings over inflation.

93. Refinements to such calculations include: -

- a.** allowance for periods of no or lesser accumulation;
- b.** insurance premiums taken from superannuation;
- c.** the fact that pre retirement income is taxed and
- d.** for lower income people, the AP is available.

94. MPPL suggests use of an income dependent SG rate would not be practicable.



95. The Panel will no doubt do its own more detailed modelling, but the chart and table below suggest that an SG rate of 12% is not unreasonable. They show the after tax replacement rate, for salaries of various proportions of AWOTE, assuming in a base case: -

- a.** 12% SG contributions;
- b.** the subject person-
 - i.** Is a female,
 - ii.** starts SG contributions at age 25,
 - iii.** spends 8 years from at age 30 working 50% of normal hours,
 - iv.** retires at age 67 and
 - v.** requires superannuation and the AP to support her to the 80th percentile of survival assuming the latest ALT 2016 mortality rate with the application of 25 years of the improvement shown in the table (This age is 95);
- c.** AWOTE indexation of all AP parameters
- d.** AWOTE indexation of all income tax parameters;
- e.** real earnings before superannuation tax of 2.5% per annum and
- f.** charging of the Australian Super default insurance premiums.

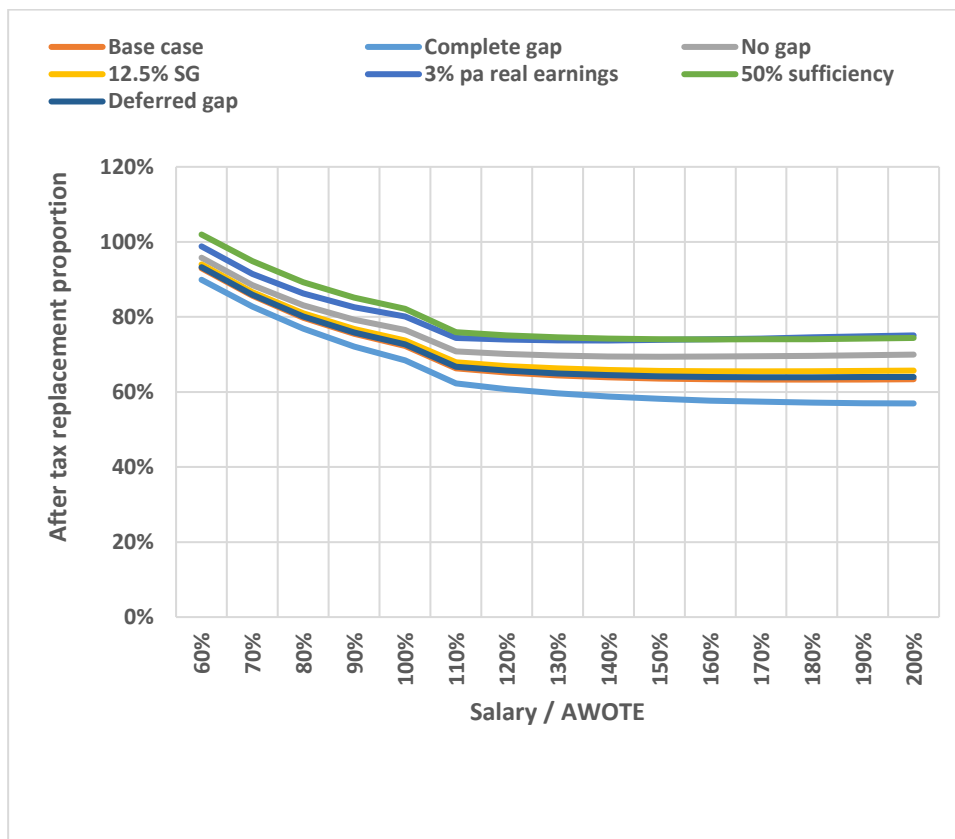
and alternative cases: -

- a.** assuming no earnings in the gap in employment (“Complete gap”)
- b.** no break in employment (“No gap”);
- c.** 12.5% SG contribution;
- d.** 3% real earnings;



- e. assuming retirement ends at the 50th percentile of survivorship (“50% sufficiency”) and
- f. deferring the gap five years (“Deferred gap”).

Salary / AWOTE	Base case	Complete gap	No gap	12.5% SG	3% pa real earnings	50% sufficiency	Deferred gap
60%	93%	90%	96%	94%	99%	102%	93%
70%	86%	83%	88%	87%	91%	95%	86%
80%	80%	77%	83%	81%	86%	89%	80%
90%	75%	72%	79%	77%	83%	85%	76%
100%	72%	68%	77%	74%	80%	82%	73%
110%	66%	62%	71%	68%	74%	76%	67%
120%	65%	61%	70%	67%	74%	75%	66%
130%	64%	60%	70%	66%	74%	75%	65%
140%	64%	59%	69%	66%	74%	74%	64%
150%	64%	58%	69%	66%	74%	74%	64%
160%	63%	58%	69%	66%	74%	74%	64%
170%	63%	57%	70%	65%	74%	74%	64%
180%	63%	57%	70%	66%	75%	74%	64%
190%	63%	57%	70%	66%	75%	74%	64%
200%	63%	57%	70%	66%	75%	74%	64%



96. Arising from the above, one can note that: -

- a. the effect of a 0.5% increase in the real earning rate is much more than (about three times) that of a similar increase in the SG rate;
- b. the extent of breaks in employment as to both duration and level of reduction is more important than the timing of employment breaks;
- c. mandating use of Longevity Protected Products improves the replacement ratio to the extent that retirees would otherwise aim for a greater degree of sufficiency and substantial or any increases in the SG rate appear unjustified.



5.5 Tax support

97. Figure 4 on page 18 of the Paper shows government support provided through the retirement income system for each decile and the 95th and 99th percentiles of household income. This support should not be considered in isolation. The Panel needs to consider that estimates of the proportion of Australian households paying no net tax after benefits and negative gearing range from 33 to 60%. The groups which receive the higher retirement income support probably pay a higher proportion of tax.

5.6 Insurance

98. MPPL's view is that insurance is part of provision for retirement albeit early if occasioned by disability. Death cover is also important. The benefits of group policies outweigh the fact that some individuals (often younger) need no death cover.

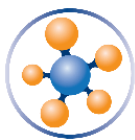
99. Commentary that implies superannuation funds are using insurance to exploit their members is misinformed in the case of industry funds and exaggerated in other cases. Most industry funds hold experience sharing insurance policies issued by third party insurers. Premiums are spent on claims, reinsurance and administration.

100. MPPL acknowledges that the Hayne Royal Commission found examples of trustees of retail superannuation funds selecting related insurers. This is less likely to be the case in future as the conflict is now in the public domain. In all other respects, insurance is not a source of profit for superannuation funds.

5.7 Superannuation fund governance

101. The debate about independent directors and conflicts of interest needs to be given some perspective. In particular, the Panel's readers need to be reminded that: -

- a.** superannuation fund board resolutions must be approved by 60% of board members;



- b.** often the payment of members' board fees to their sponsoring organisation reflects the fact that such memberships are part of the "day job" of both union secretaries and industry association executives;
- c.** entities such as the manager of the Industry Super Property Trust are owned by funds and have been established to efficiently provide services that can be better provided on a larger scale;
- d.** while superannuation fund directors who also direct such cooperative organisations are dealing with "associated" entities both entities are working in the best interests of superannuation fund members.

6 CONSULTATION QUESTIONS

6.1 The retirement income system

6.1.1 Question 1

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

102. The problems experienced by defined benefit pension schemes in other jurisdictions counsel continuing the defined contribution nature of occupational superannuation. These problems occur both at a corporate and national level (for example the Greek and, more recently, French national systems).

6.2 Purpose of the system and role of the pillars

6.2.1 Question 2

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

103. Parts of the community view the AP as a basic right, rather than a safety net and occupational superannuation as a vehicle for saving and intergenerational transfer.



104. Countering the former without demonising and antagonising age pensioners is difficult. MPPL's suggestion of the Longevity Protected Proportion would address the second.

105. The Dawkins quote on page 8 of the Paper,

"When first introduced, compulsory superannuation was also seen as an important mechanism for increasing national savings and improving the flexibility of future government budgets in the face of an ageing population (Dawkins 1992)."

remains true today.

106. Many commentators who opine on the value of the system to individual cohorts forget that its purpose was not to enhance the wellbeing of individuals, it was and is to stave off a budgetary crisis. The extent that that purpose is met is the measure of the efficacy of the system.

6.2.2 Question 3

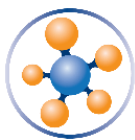
In what areas of the retirement income system is there a need to improve understanding of its operation?

107. MPPL considers that the system is generally reasonably well understood. There is a general feeling that superannuation is changed too frequently.

108. Criticism of the severity of the assets test cut back highlights an area of misunderstanding. To argue, correctly, that earning 7.8% on one's capital is difficult to achieve is to ignore the fact that the means test is intended to ensure that support is provided only to those who need it. The system does not exist to ensure unreduced transmission of assets to heirs.

6.2.3 Question 4

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



109. MPPL's view is that the Government, through the AP, should provide a safety net or floor acceptable to the community. The private sector, individuals or their employers, can use compulsory or voluntary superannuation as significant top up. Because occupational superannuation (compulsory or otherwise) is tax advantaged, it should be limited, as it currently is.

110. Beyond that individuals can make additional saving to further enhance their lifestyle. Private saving is just that - private. Private saving is reflected in the assets test rightly in all areas except home ownership.

111. As indicated in the discussion of the pillars above (section 2 above), this is a common arrangement in which: -

- a. the Government provides basics;
- b. the Government provides some assistance (in this case largely compulsory) to those who want to pay more for what they perceive as better and
- c. the Government ignores the remainder.

6.2.4 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?

112. This was answered with the previous question.

6.2.5 Question 6

What are the tradeoffs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?

113. The trade-offs involved in balancing the roles of the pillars are in setting the appropriate levels of government support. At present, MPPL submits the balance is generally right subject to addressing several issues, most importantly: -

- a. the family home in the means test;



- b. the wastage of transmission of superannuation to financial non dependents and
- c. the cost of not increasing the pension age.

6.3 The changing Australian landscape

6.3.1 Question 7

Demographic, labor 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?

114. Clearly the increase in life expectancy after the conventional age of retirement has been significant. While the problem is most manifest with the AP, it flows through the Preservation Ages to increase the cost to the taxpayer of retirement income. This needs to be urgently, but not precipitately addressed.

115. The problems of long term unemployment at either end of working lives are difficult. It is unfair to put resources unequally into solving either end. Ensuring more school leavers can read and write will partially fix the young end of the problem. Such an improvement would shift the burden to the old end, for which retraining and attitude change are the best possible solutions.

116. Extending retirement ages reduces the opportunity for middle and then younger aged workers to progress the promotion ladder.

117. The fact that increasing numbers of people will enter retirement renting counsels consideration of rent assistance and the difference in the assets tests of home owners and others.

118. Increasingly, people reach retirement with housing debt. MPPL suggests in sub section 3.2.2 above that this should be reflected in the means test.



119. A trend not mentioned in the Paper is the nexus between investment dividend yields and interest rates. In the past, one could obtain a higher yield on cash and fixed interest investments than on the share market. This is no longer the case even before one allows for franking credits. Allowing for franking credits exacerbates this.

120. Australian superannuation funds already have an internationally high proportion of assets in share markets. MPPL considers that the need for yield may drive investment to higher risk asset classes. As mentioned in sub section 4.2 above, MPPL urges more attention to sequencing risk and protected investment products.

121. The drive for yield may direct companies to higher payout ratios. Higher payout ratios, MPPL contends do not starve the economy of investment. They simply make investment more disciplined. Companies can raise capital through dividend reinvestments plans and floats.

122. The fact that more people now hold multiple jobs mean that more people are at risk of not reaching the SG threshold on at least some of their jobs.

123. MPPL understands that much of the “gig economy” is conducted by people who are contractors and SG would be paid to them if they are contracted to corporates.

124. MPPL suggests that the rise of the “gig economy” may be relevant. It suspects that much on going work would be covered by the SG inclusion of contractors. Gig economy participants doing one off jobs for households differ only from those of an earlier time in how they find their customers and can be regarded as self employed.

6.4 Principles for assessing the system

6.4.1 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?*



125. MPPL suggests efficiency should be included in the assessment criteria. It also notes that “Cohesion” while accurately reflects the need for the parts of the system to work together has connotations of social cohesion. A better word might be “Integration”.

6.4.2 Question 9

*How does the system balance each of the principles and the tradeoffs between principles (e.g. sustainability and adequacy) under current settings?
What is the evidence to support whether the current balance is appropriate?*

126. The adequacy of the system, MPPL submits, is reasonable. This is evidenced by the base pension rates and the replacement ratios that the mature system will produce.

127. Sustainability of the AP has two dimensions: -

- a.** quantum and
- b.** duration.

128. In MPPL’s opinion quantum is reasonable. The multigenerational failure to increase the pension age has rendered duration a problem.

129. The same dimensions apply to the occupational superannuation scheme, modified to the extent that duration effects the required level of contribution in two ways: -

- a.** a longer accumulation period reduces the required annual funding and
- b.** a shorter drawdown reduces the quantum to fund retirement

and hence tax support rather than direct pension outflow. For this reason, the key ages of the system, preservation, work test and contribution cessation need to move with the AP commencement age.



6.5 Adequacy

6.5.1 Question 10

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

130. MPPL considers that in assessing the adequacy of the system the Panel should be concerned with the absolute level of income that it produces at the lower end of the income scale (i.e. the AP portion). As income levels rise, the Panel's concern should move to relative measures.

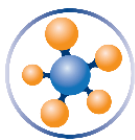
6.5.2 Question 11

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 proportion of preretirement income (and if so, what period of preretirement income); or matches a certain level of expenses?

131. In MPPL's opinion the test of the adequacy of the AP component of the system is whether it delivers a minimum income level in retirement. In respect of the superannuation and AP components combined, the appropriate measure is the proportion of pre retirement expenditure. The proportion will be higher for lower expenditure households.

132. MPPL suggests the use of pre retirement expenditure, rather than income because, often, the last years of work involve accelerated superannuation contributions. It is, MPPL submits, more appropriate to base measures on expenditure on the last three to five years of normal employment, rather than any lifetime based measures. For simplicity, the calculations underlying sub section 5.4 above are based on post tax income.

133. If expenditure is not used, it must be recognised that superannuation drawings are tax free and the AP is not taxable in the absence of other taxable income. This counsels after tax comparisons of pre and post retirement income.



134. For simplicity, the calculations underlying section 5 above are based on post tax income.

135. The appropriate proportion will depend on conjugal status as some household costs are fixed while others depend on the number of people in the household.

136. MPPL agrees that adequacy is a function of factors listed on page 15 of the Paper . MPPL submits that the key determinant of adequacy is whether a home is owned freehold.

137. One would expect different genders to experience different levels of adequacy. This may be in part due to failures of the Family Law System. If that system is working well, gender and marital status should not influence retirement income adequacy if a relationship ended on the eve of retirement. This is discussed in sub section 5.3 above

138. Longevity does not affect the adequacy of the AP. MPPL submits that adequacy in respect of superannuation should be based on life expectations and not seek to ensure adequacy for those who live far into old age.

139. MPPL submits that greater use of CIPRs would decrease the need for individuals to seek protection against a very long life and hence the importance of longevity.

140. Anecdotally, most people assume that the capital costs of aged care will be met from the sale of the family home. It is relevant that the existence of the Daily Accommodation Payment (DAP) as an alternative to the RAD has reduced the capital cash flow implications of aged care. The fact that there is a choice between the use of RAD and DAP means that access to capital for aged care is not important if income is enough. MPPL's CIPR product recognises this and ensures funds are available for DAPs.

141. In MPPL's opinion, issues of aged care costs are best treated as additions to and supplementary to retirement income provision. MPPL notes that, while residential age care has significant costs, other expenditures decline when one enters an aged care facility.



6.5.3 Question 12

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

142. Evidence to assess whether retirees have adequate levels of income may be found in the Australian Bureau of Statistics (ABS) household income and expenditure surveys.

6.6 Equity

6.6.1 Question 13

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

143. MPPL submits that the considerations listed in page 16 of the Paper are generally appropriate. It considers the likely areas where results may be less equitable will be those affected by involuntary retirement. Career break effects should only be relevant for single people or to couples who both choose to have such breaks. If the Family Law system is working well there should not be any disparity in outcomes for both members of a couple.

144. The more egregious effects of late life divorce may need to be considered in the context of the different AP treatment of homeowners and non home owners.

145. With one exception (see paragraph 149 below), MPPL does not see the question of similarity of outcome for the same lifetime income and wealth as important. The AP ensures a minimum standard.

146. The existence of tax concessions for contributions means that everyone can take advantage of superannuation. Those who do not choose to do so arguably place a greater AP burden on the taxpayer than those within the superannuation system. This group however receives less tax relief for contributions during their working lives.

147. Those who choose to hold wealth outside of superannuation presumably do so for liquidity reasons.



148. MPPL sees no need to be concerned about employees whose employers do not meet SG obligations. These should be identified by ATO data matching and not long persist.

149. The exception referred to above is that MPPL sees it unfair that the proportion of one's wealth held in housing significantly influences the Government support of one's retirement income. Sub section 3.1.7 above refers.

6.6.2 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.)?

150. MPPL submits that the Panel should consider absolute and relative income for major cohorts such as those mentioned and those who suffer unemployment later in life.

151. The system is not yet mature. Assessments of fairness should, MPPL contends, involve examining the projected situation of people who retire from the mature system. The situation in respect of people who will emerge from an immature accumulation phase is what it is. It is expensive to remedy past problems too quickly. The existence of the SG system and the Panel is evidence that Australia is moving to address fairness as quickly as practicable.

152. The system is being used by some as an intergenerational transfer mechanism. This is done by minimising Account Based Pension (ABP) drawings. This leads to the waste of tax concessions. MPPL was established to deal with this and made its recommendations in sub section 3.3 above

6.6.3 Question 15

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



153. The absence of serious contribution hurdles until age 75 does permit older Australians to remain in the workforce past retirement age. However as mentioned in sub section 3.1.7 above, the work bonus in the AP means test is derisory.

6.6.4 Question 16

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

154. The system, once mature, will be more or less linear in respect of middle income earners to the extent that retirement income will be proportionate to pre retirement income. At the lower incomes, the system will reduce inequities (the AP exceeds Newstart). At the other extreme, contribution caps and the Transfer Balance cap act to take the edge off the advantage of the higher earners. Thus, the system slightly compensates for earlier inequalities.

6.6.5 Question 17

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

155. While compulsory superannuation has only existed since 1992, superannuation, employer sponsored superannuation has existed for longer than the AP. At least as early as 1956, personal contributions to superannuation funds were tax deductible. Part of the genesis of the Association of Superannuation Funds of Australia was opposition to the imposition of investment restrictions in return for continuation of tax freedom of funds which existed at least as early as the 1960s. In the light of this, it is hard to sympathise with the sometimes expressed view that *"Superannuation was not available to me during my working life"*.

156. Clearly, had the progress of the SG levy to 12% not been interrupted, the system would have matured sooner.

157. Those not covered by the SG system comprise: -

- a.** those earning less than the SG thresholds and



- b. the self employed.

158. The former group retain access to the AP and the SG system is irrelevant to them. The latter group can make tax deductible provision to public offer superannuation funds. That is a matter for them to choose. From the chart at page 18 of the Paper , for some, a decision not to avail themselves of superannuation tax deductions and rely on the AP may be advantageous to the taxpayer.

159. It is also relevant that many self employed are in fact employed by companies they own. To the extent that those companies pay the owners as employees, the SG contribution is required.

6.7 Sustainability

6.7.1 Question 18

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

160. MPPL agrees with the list of considerations on page 20 of the Paper.

161. Anecdotally, there are young people who take the view that the AP will not be available to them. The fact that this concentrates their minds on saving is an indication that there is confidence in the whole retirement income system.

162. There is a section of the public which views the frequency of changes in superannuation law as a reason for distrust of the system. For this reason, change should be slow, limited to essentials, embedded in legislation and announced well in advance if practicable.

163. There is a view that the Panel has been created to prepare the public to an interruption or termination of planned increases in the SG rate. That this view exists demonstrates the public cynicism towards superannuation. The benefit of the certainty of having the increases in SG mapped in legislation has been eroded by the now prevailing uncertainty that the map will stand unchanged.



164. The system has demonstrated an inability to adjust to demographic trends due to political reluctance to make hard decisions. Had the 2014 policy of increasing the AP age to 70 been legislated at the same time as the first stage of the increase, the political pain would, by now, have been absorbed. It is for this reason that MPPPL is suggesting, in sub section 3.1 above, legislating a continual rise in the AP age until a succeeding Parliament actively votes to turn off the increase. This is not unreasonable as the life of a parliament will only see a one year increase in the AP age. It will need several parliamentary lives to get the AP age to a reasonable level.

165. Likewise, MPPL suggests, in sub section 3 above, that the timetable for imposing Longevity Protection Proportions be set in advance and enshrined in law.

166. MPPL suggests that one off shocks are likely to come in the occupational superannuation area, rather than the AP. A failure of a major fund is possible, but very unlikely. The effects of such a failure can be mitigated by ensuring diversity of funds and investment management and avoiding over concentration of the industry.

167. It is noteworthy that the system weathered the global financial crisis.

6.7.2 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?

168. The elements of the system that are hardest to change will have the greatest effect on the stability of the system in the face of adverse trends. Although MPPL believes frequent change is a detractor to confidence, the tax concessions are likely easier to change at the margin than the parameters of the AP. For example, the introduction of the Transfer Balance Cap relatively politically painlessly removed some currently overgenerous tax concessions. More importantly that change capped future concessions which would have become expensive as the system matures.



6.7.3 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?

169. The overall level of confidence can be assessed by surveys. There are undoubtedly surveys conducted by market researchers either of their own volition or at the behest of industry participants.

6.8 Cohesion

6.8.1 Question 21

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

170. A key test of the cohesiveness of the system in the sense of its integration of its parts (as distinct from its effect on social cohesion) is the absence of discontinuities in outcomes. One could argue that the 50% income and 7.8% asset test cut outs are inimical to integration as they provide sharp changes in benefits with relatively small changes in means. However, these rates are acceptable to the community and in place. To ease them would be to further tinker with the system to the expense of the taxpayer.

171. The extent to which the different eligibility ages for superannuation access and age pension matter depends on the level of superannuation or private savings. If the AP is not a relatively major part of retirement income, there is little concern about the different ages.

172. MPPL does not see the different ages as a problem per se. It would however suggest that the relationship between the rates be preserved. For example, the age 75 limit on the work test should move to 77. This is recommended in paragraph 27 above.

173. MPPL notes however, that the fact that superannuation assets are not assessed under the assets test until pension emerges leads to some gaming of the system where one member of a couple is eligible for the AP and the other is not.



174. Except for asset allocation and level of insurance decisions, it is easy for people to navigate the system with limited advice. Even with asset allocation decisions, the fund's defaults are usually appropriate.

175. The subtleties of the co contribution, superannuation splitting and death benefits nominations are unknown to many. This ignorance, however, is of little consequence.

6.8.2 Question 22

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

176. The system incentivises savings in the later years of working lives as people try to take advantage of the concessional contribution cap to increase their superannuation balances. The primary purpose of this is often to increase the superannuation balance, not to take advantage of the associated tax concessions.

177. At younger ages, the system produces savings, but, being compulsory, does not need to incentivise.

6.8.3 Question 23

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

178. Anecdotal evidence suggests that people are protective of their entitlement to the PCC.

179. As indicated in paragraph 176 above, the desire to top up superannuation dominates the tax concessions. Anecdotally, people are prepared to eat into their superannuation balances at the expense of their heirs more so that they wish to touch private savings.

180. Anecdotal evidence suggests that while in good health, there is little appetite of people who, if they moved funds from superannuation to private savings, would suffer no income tax to make that switch. This is despite it being rational to do so in the light of the ultimate tax on non dependent beneficiaries.



6.8.4 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?

181. Very little, but MPPL thinks the interactions are overstated.

6.8.5 Question 25

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

182. Given the existence of defaults, compulsory nature and, on maturity, the adequacy of the occupational superannuation, MPPL considers there is limited need for formal financial advice for most people. Such advice should generally be limited to: -

- a.** asset allocation both before and after retirement and
- b.** insurances.

6.8.6 Question 26

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

183. Yes.



7 CONCLUSION

184. MPPL thanks the panel for the opportunity to make this submission and would welcome discussion with the Panel.

Dennis E Barton FIAA

Director