Justin O'Connell
justinoconnell@bigpond.com

RETIREMENT INCOME REVIEW 2019 – PERSONAL SUBMISSION

EXECUTIVE SUMMARY

- The Treasury Review (hereafter referred to as the Review) of retirement income policy incorporates conflicting and often contradictory groundwork it has termed "pillars". Similarly so for the principles underpinning them. There is a realisation of:

  - competing ideology and values prior to outcomes

  - an assumed non-complementary process in the policy area and in the formulation of policy leading up to any review outcomes or intended policy initiatives

  - a feeling of inherent irreconcilable difficulties and a lack of a positive approach to the topic

  There is an admission of impending conflict even defeat in the Review's tone. Given what is at stake for most people approaching retirement, this is a poor start to the process.

- The issues of retirement generally, and retirement income in particular are very complicated, intricate, delicate and composite. They incorporate multiple factors which make any policy setting or direction difficult if not impossible to implement to the satisfaction of all parties. The utmost care and consideration needs to be afforded to all the issues and parties involved before any policy direction is legislated.

- Consequently, there needs to be a Federal government commitment to establish a benchmark and a guarantee that no one who is defined as poor by the standards of the Federal Government will have their material conditions worsened by any policy initiative.

- There are some very concerning patterns of inquiry and disturbing references in the Review. The Review is overly concerned with the costs of retirement policy as opposed to issues of equity and social justice which are surely at the heart of retirement policy generally.

- The so-called "pillars" of the retirement system in Australia are singularly misdiagnosed in the Review by its authors and where they are defined satisfactorily, they and the principles under-pinning them as detailed in the Review, seem to be mutually exclusive and frequently in conflict. This can only lead to cynical outcomes by people in power.

- The Review's analysis of Australia's superannuation system is brief, lacking in rigour, simplified and simplistic and unfortunately inaccurate. There is no satisfactory comparison of overseas alternatives to our superannuation system either.

- The Federal Government should attempt to improve people's lives in retirement, not just its bottom line. For people with inadequate retirement savings, non-home owners, and those in straitened circumstances, this must include continued support for the Age Pension, no increase in the eligibility age (67) and increase in the Supplements supporting the Age Pension. Lack of income and assets in retirement was identified in the Henderson Report into Poverty 1975 as a major reason for the existence of poverty in Australia and identified benchmarks for levels of poverty.

- Superannuation for employees in the government and private sectors comes about as a consequence of sacrificing immediate pay rises. Compulsory superannuation is a deferred investment and a reward in the future in lieu of wage rises in the present. As superannuation can be identified as wages foregone and a form of compulsory savings, careful consideration should be undertaken to ensure it is invested to maximise retirement income for the account holder by a variety of means and is more than just a glorified savings account. This is all the more so as it can also be identified that all the pillars of the retirement incomes system and their underlying principles are in conflict as acknowledged in the Panel’s *Foreword*.

- The Defined Contribution model that is characteristic of both Industry and Retail schemes for eligible employees, has major flaws. Preference should be directed towards a Defined Benefit Model for wage and salary earners instead.

- There is no mention in the Review of the differences between Industry and Retail Superannuation schemes. These differences are crucial and if Retail schemes are preferenced and Industry schemes prejudiced through Government legislation, final balances and retirement incomes of account holders will be impacted.

- Support for a government funded Age Pension must be continued on the basis of the realisation that many Australians will have broken work patterns, varying work arrangements, multiple employers, changed circumstances and difficulty committing to a long term investment strategy.

- The Superannuation Guarantee Charge (SGC) was introduced in 1992 with no clear goal in mind other than the accidental/incidental one of boosting national savings – like a Gold Reserve. It was not clear if compulsory superannuation was intended to eventually replace the Age Pension, to supplement or support the Age Pension in both the median to long term and what the parameters around this support would be. It was introduced during very bad economic circumstances for Australia. There was only a strategy of incremental increases over time from 3% in 1992 to 9% 9 years later. This could be delayed or deleted through changed political circumstances as happened. A goal of 9% of income or even 12%, a figure which was bandied around occasionally, set aside for superannuation, has always been considered inadequate by financial experts who have long advocated, if such a scheme or strategy were to work in the clients’ best interests, a figure of 15% would be needed and that such an amount would need to start early in one’s working life and be maintained throughout uninterrupted. This is an overly optimistic scenario for many people.

- Given the long time lag into retirement with most people planning over 10 years prior to leaving the workforce, any policy changes will have a retrospective quality to them.

- There are hints in the Review that the Federal Government may use more sticks than carrots to incentivise people to provide retirement income. Releasing equity in the family home is mentioned several times. The current Liberal National Federal Government’s hostility to Industry Super is an unseen hand in this Review and must be considered in their submissions and responses to this Review. Both of these policies – compulsory Reverse Mortgages for home owners and compulsory Retail Super for employees – will benefit business interests over employees. Investment bankers, financial advisers and shareholders among other business interests, will benefit from forced employee savings, forced employee investment products and the fees, charges and commissions that flow from this. Policies along these lines will provide and permit large scale rent seeking by the Finance sector.

- The Federal Government should do all it can not to engage in panic-driven policy and ensure that financial hardship is not structured into retirement as a matter of policy. That is, that retirement and financial hardship are not bed-fellows.

- Federal Governments of all persuasions have enacted a great deal of legislation in Parliament but have failed repeatedly to adequately enforce much of it. This is true of industrial relations, occupational health and safety, workers compensation, business and consumer affairs, banking and finance, taxation and superannuation among others. Superannuation itself has languished between some of these areas. If further changes are made with the potential to impact retirement income and regulatory and enforcement mechanisms to investigate and rectify wrongdoing are weak, the only thing that can be guaranteed is that the response of the Federal Government and its agencies will be manifestly inadequate and people either in retirement or facing retirement will suffer.

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REVIEW ASSESSMENT: – TERMS OF REFERENCE

The terms of reference are faulty. They proffer 3 "pillars" of Australia's retirement income system. Voluntary savings is one and while it is correct, it is equated and thereby conflated with home ownership. This is problematic and can lead to flawed and biased analysis and perverse conclusions.

There are goals within the terms of reference which contain contradictions and a portent of the conflicting nature of the discussion topic. A system that allows adequate retirement income (what is adequate?) may conflict with what is fiscally sustainable depending on future budget positions. This is where the rubber hits the road and an unfair application of policy will have miserable outcomes for some people. As for improving appropriate incentives for self-provision in retirement these have been problematic for many years and continue to be tinkered with by the Federal Government in respect of tax concessional caps, new investment products coming onto the market like SMSFs.

THE THREE PILLARS OF THE RETIREMENT SYSTEM

The Age Pension

The Age Pension is discussed briefly and inadequately in the Review. It is true that it is set to alleviate poverty and the destitution that comes with having no financial income or support in both Old Age and in retirement from the workforce. As such the bar is set low and it is inadequate for a comfortable retirement even for home owners with no mortgage expense.

Compulsory Superannuation

The review's account of compulsory superannuation is similarly inadequate. For the benefit of readers I have compiled a brief and hopefully accurate history of the superannuation process from 1992 to now as it applies to Federal Legislation. Planned in February 1983 just before the Hawke Labor Government was elected it provided among other things that instead of steady and high pay rises, 3% of salary initially would be directed towards a complying compulsory superannuation scheme which was to occur at some indeterminate date in the future.

The first Accord was struck in February 1983, just before the election of the Hawke government…. The Accord's social wage elements included better public health provision through Medicare, improvements to pensions and unemployment benefits, tax cuts, and – eventually – superannuation.[6]

6 The Conversation, Politics & Society, Anthony Forsyth and Carolyn Holbrook, *Australian Politics Explainer: The Prices and Incomes Accord,* 24 April, 2017.

The Accord referred to here was the Prices and Incomes Accord that the Labor leadership of Bob Hawke as shadow Prime Minister and Paul Keating as shadow Treasurer stitched up with the ACTU under their leader, Bill Kelty as part of a wide range of social reform measures with a view also to meeting certain economic objectives, namely, the limiting of inflation. This was introduced upon their election in March 1983. Of course as it was a deal with the unions it was unions and their membership or assumed membership that had to comply with the Accord's terms and conditions. There was no obligation on the part of the employers and of course no obligation to limit price rises.

At a public meeting in 1991, Keating announced 12% of salary was the goal for the new compulsory superannuation regime. This changed in 1992 when the Superannuation Guarantee Charge (SGC) was introduced for all employees not already covered under a superannuation scheme. It commenced at 3% of salary.

The level of superannuation support an employer is expected to provide will depend on the employer's annual payroll. For the 1992-93 year, employers with an annual payroll in excess of $500,000 will be expected to contribute 5 per cent of an employee's earnings base to a complying superannuation fund. This percentage will increase over the next nine years to 9 per cent. Employers with an annual payroll of $500,000 or less will be required to contribute 3 per cent, increasing on a slower transition schedule to 9 per cent.

[7]The reading of then Treasurer John Dawkins is quite clear. A figure of 9% of salary was slated for introduction. Yet this is what former Labor Treasurer under Hawke's Prime Ministership, Paul Keating said many years later upon the Liberal National Government of Tony Abbot's pegging super salary compulsory employer contributions at 9.5%:

This decision ranks with that of the former Howard government's 1996 decision to abandon the Keating government's 15 per cent Superannuation Guarantee…

[8]The figure of 15% was the goal of the Keating administration but 9% of that was to come from employers. Remembering that this defined employer contribution represents deferred consumption, lost wage rises, a legislated restricted and highly defined investment environment and opportunity cost for workers. Employees were expected to make a small co-contribution starting from 1% in 1997-98 increasing to 3% in 1999-2000. The Government would make matching co-contributions of similar rates which were to apply to the self-employed as well and they were means tested up to an annual salary of $56,000 per year and then withdrawn.

[9]These Government super co-contributions were in lieu of the LAW Tax cuts which were promised by the Keating Government and never delivered. Not only do employees have to co-contribute to their retirement savings out of their own pocket, they had to sacrifice wage rises for over 10 years and get an employer contribution to a fund realised sometime in the future and get the Government to contribute to a scheme as well out of promised tax cuts. Talk about a screw job for the employee!! To top it all off, business failures were occurring regularly and workers and creditors were left owed money with inadequate enforcement and compliance mechanisms to seek redress. Federal Governments of all persuasions have never investigated how many employees were owed money including superannuation entitlements from 1992 or previously under award systems if their employer ceased operating without paying their entitlements. Employers and business groups have always resented regular auditing and compliance involving transfer of salary to a super fund.

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7 Parliament of Australia, Committees, Hansard, Documents, Superannuation Guarantee (Administration) Bill 1992, John Dawkins, 2nd Reading, 2 April 1992.

8 ABC, The Drum, Paul Keating, This isn't their first superannuation betrayal, 3 September 2014

9 Ian Dinnison, *Australia adds to Corporate Burden,* International Tax Review, July-August 1995, pp25-26

From monthly transfers these were later wound back to 6 monthly transfers then to annual transfers. This leaves the way open to unscrupulous employers to not contribute for 1 year while they clear the decks for bankruptcy and pocket anything they can salvage from the wreckage of their businesses, leaving their employees and creditors including the ATO out of pocket.

Under the proposed SGC Act 1992, Companies with a payroll over $500,000 were expected to contribute, if they weren't already contributing under an award based super scheme, 5% of employee ordinary time earnings salary to a super scheme to rise to 9% over time and those companies with a payroll under $500,000 were expected to contribute 3% of employee ordinary time earnings super salary rising to 9% over 9 years from commencement of introduction in July 1992. This was changed by Keating in his 1995 Budget to 9% by 2002/3. Dawkins in his second reading stated that there was already extensive coverage of employee superannuation. In 1983 when Labor came to office, coverage was about 40% of employees and by 1991 that had increased to 71% so there was no seeming urgency for compulsory retirement income coverage seeing as these increases in coverage had come about under largely an award based industrial relations structure and system. Changing demographics and weak budgetary positions were given as reasons for this change in approach so over 25 years later these conditions are still present. Governments of all persuasions have a panic based approach to retirement income and retirement issues policy areas generally. Not only that but due to the politically charged nature of legislation they can be easily and readily altered. The Howard Government of 1996 to 2007 scrapped any further rises to employer contributions, pegging them at 9% in 2001 as per the 1995 Keating budget but abolished the proposed employee and Government co-contributions. The SGC remained at 9% of salary from 2002/3 till 2014 when it was raised to 9.5%.

The Review then shifts to a discussion on the desired figures for retirement income adjusted to CPI. Then the argument moves to percentage of pre-retirement salary and how this is ideally achieved. In many cases it would involve super account holders starving to make the necessary contributions which themselves are being less tax concessionally treated. In such a fluid environment there is little hope of any groundwork of facts not shifting and proper safe recommendations occurring.

Voluntary savings

The review's authors have based their analysis of the retirement income system on 3 pillars – the Age Pension, compulsory contributions and voluntary savings including home ownership. The manner of housing should not be considered income in a review of retirement income. One's home can only be realised as income through a number of vehicles and processes – for example, leasing out some of its rooms, dividing the house for rental income and taking in tenants, leasing out the land for camping or accommodation or some other economic activity like mining or agriculture or selling the property off and moving overseas to acquire cheaper property. One's home can be liquidated through sale and the money used but the former home owner/occupant of the property would then, if they are intending to continue to reside in Australia, have to purchase another property somewhere thereby negating the income generating and capital gains aspect of the sale. It would have to be assumed that the vendor in acquiring a smaller place has compromised their former lifestyle. One has to assume that if a more expensive property was purchased, for example, a larger house or a more expensive apartment in a more expensive area, then a loan would be needed, meaning that the seller now had less disposable income. Homes, however they are titled or defined, Torrens title as most houses are, or Strata titled as most home units are, can and should not be equated with income. They are a measure and a medium of security for people just as money is a medium of exchange and a measure of value for people. The fact that people have acquired a home does not of itself designate that they have "voluntarily saved" for it. The occupants or owners could have directly inherited it thereby they have not contributed fully to its acquisition and paid any money for it.

Home ownership is not voluntary savings and people have not voluntarily saved for a home as they have paid it off in various ways and by various means of a period of some considerable years. The conflation of the 2 does not account for the fact of, apart from inheritance, the utilisation of superannuation to make a one-off payment to purchase said property which happens frequently and is in fact the opposite of what the authors intend by the term voluntary savings. Does that also mean that tenants cannot voluntarily save because they cannot or do not purchase a home? And what of the role of property investors? Some of them may rent nearer to where they work and own a property they rent out at far remove from their main rented residence. If they manage to acquire their rental property they own and are renting out after years of establishing equity by their own repayments and having someone else pay it off in the form of rent, how is this voluntary savings? How is this anything else than the accumulation of capital and the acquisition of a roof over one's head through loan repayments and capital acquisition and transfer? Voluntary savings can only eventuate for these people through placing aside a portion of their income and investing it into wealth creating assets or secure deposits like a managed fund, a term deposit, a rented property where they are home owners of their principle residence in addition to renting out an investment property and saving a portion of the rental income they receive. If no portion of the rent they are receiving is saved then they are not voluntary savers and there is no voluntary savings. They are merely paying off a loan and acquiring a future home for themselves and are not even making a capital gain. They are capital acquiring only in the strict and narrow Oxford dictionary definition of the term. Home ownership is only voluntary savings when the home owner in fact owns multiple homes – not their own. This needs to be made clear from the start and the authors of the report are labouring under a misnomer or a misdemeanour if they conflate the 2 factors. This is a reprehensible way to structure the review. You can't spend or consume or eat a home. You can only live in it as one can choose to live in a tent or a bark hut or a straw house with a thatched roof. If housing is a human right then home ownership is a hair's breadth from being similarly treated. One home for a single person or a family or a couple does not constitute voluntary savings. It is a repayment for a product like a loan for a television, car or a lounge suite and is treated by the banks as such. There are some automobiles that wealthy people own outright which have a greater value than some people's homes. And what of the possessions within the family home for some people? Expensive art works? Expensive clothes and jewellery which are regularly worn? These too can have a greater value than people's homes. Did their acquisition occur through voluntary savings or were they gifted? What is the distinction made between gifts and savings?

Usually at the end of one's working life, superannuation is the only form of voluntary savings there is for those enough fortunate or unfortunate as the case may be. And under the terms of reference it can only be voluntary superannuation and not compulsory superannuation which would be constituted as voluntary savings thereby retaining the accuracy of the definitions. However this potentially confuses the issues of superannuation as a topic for discussion as much of superannuation in Australian accounts is voluntary, particularly for self-managed super funds, Retail super for self-employed and those in the workforce who don't come under the ambit of the application of compulsory superannuation. There are many in the workforce who have both Compulsory Industry Super through their employer and voluntary Retail Super contributed from their salary as after-tax personal contributions or pre-tax salary sacrifice. The review mentions the tax concessional nature of superannuation, employer contributed or own contributions. $25,000 is the annual limit for concessional tax treatment at 15% but the review fails to mention that this has been progressively reducing over the years. From an unlimited tax concessional amount, Treasurer Costello made it a tax concessional limit of $100,000 in 2007. It was then reduced to $50,000 and was further reduced again by Treasurer Swan to $35,000 for those aged 50 and over and $25,000 for those under 50. Now under Treasurer Frydenburg it is a flat $25,000 regardless. This doesn't lead to confidence in superannuation as a secure product or vehicle in which to invest. The Government has been progressively concerned about loss of tax revenue through private and self-managed superannuation as a vehicle for use in retirement but its efforts to cut back the tax concessional amounts has led to perverse outcomes as people direct their investment strategy to more tax favourable products like property. It is a bitter game and this review does not account for these important factors and doesn't even mention them. This can only lead to blinkered vision and poor conclusions.

Voluntary savings as a term of reference should have been better defined. There is no specification made as to how voluntary savings occur or interact between it and the Age Pension and superannuation. It is assumed by the Panel as including the family home which it goes on to assert:

Outright home ownership supports retirement income by reducing ongoing expenses and acts as a store of wealth that can be accessed in retirement

Voluntary savings should as a matter of course not include home ownership unless there is more than one home at issue. The term should have been fleshed out more to include deposits, assets and investments which can be readily liquidated. To include home ownership as a factor in voluntary savings as the review does leads open the daunting and open ended not to say frightening prospect of the family home being used as part of the means test for at least the Age Pension or in some other way as an instrument to reduce retirement income. Also as a structural process error on the part of the Panel in equating home ownership with retirement income it goes on to say it supports retirement income. I would have thought it can only be one or the other. Either it is retirement income or it is not and merely supports it. The above quote gives a clue to a future government strategy in the phrase "store of wealth" – Compulsory Reverse Mortgages. The Panel is treating home ownership as retirement income without detailing how it is so and is jumping to the conclusion that it is potentially retirement income and would be realised as such through a financial instrument such as a reverse mortgage.

System interactions

The Review here states a tautology.

For the retirement income system as a whole to deliver for Australians in their retirement the pillars of the system need to interact effectively and be flexible and responsive to allow individuals in diverse circumstances to achieve adequate retirement incomes.

How could such a system "deliver" in any other way than to allow individuals to "achieve adequate incomes"? Retirement income is preferenced verbally here but what really needs addressing in all of these discussions is retirement security. The Review in the next paragraph hints at the complexity in the policy area when it states it will not consider the policy areas of aged care, health and taxation in detail. This is the most accurate aspect of this Review unfortunately. It is a cynical exercise. The Figure 3: Key retirement income system interactions has a Barry Jones "Noodle (Knowledge) Nation" feel about it – referring to the ramble of ideas about a Knowledge Nation interaction sketch on butcher's paper which sunk Mark Latham's chance of Prime Ministership for the ALP in 2004. The public will react poorly to this illustration as it reflects poorly on their intelligence.

How Australia's system compares internationally

This section deserves more than the half page overview presented here. What is interesting is the comparison of publicly funded Pension schemes where it is said Australia has a flat minimum rate regardless of a person’s earnings history. This is basically telling people who didn’t earn enough in their working life that they deserved it. I think Australia can do better here but to be a fairer system Australia would need to equalise upwards. What usually occurs is the system trends downwards where everyone loses.

The second aspect or “pillar” is compulsory superannuation which the analysis says is “privately managed” but that similar schemes in other parts of the world are not compulsory. Again the analysis does not mention let alone detail the variance between Industry schemes and Retail ones which usually are backed by the 4 major banks. Retail schemes are run where investors and shareholders share in the profits. They have been given a poor assessment by independent and highly regarded finance journalists and financial analysts. They attract high fees and charges. Their returns to members are usually lower than Industry schemes. The current Federal Liberal National Government prefers these schemes over Industry schemes which are run primarily for the benefit of the members. The extent to which Australia’s super system is privately managed is open to question given these very glaring variances, given the high coverage of government sector workers in superannuation and the existence of defined benefit scheme structures. More on this later.

The Review’s analysis is accurate in describing Australia’s superannuation system as a Defined Contribution scheme. This is its primary disadvantage. It is compulsory for the employer to contribute 9.5% of salary average weekly earnings to a complying super fund. These are usually account based unit priced arrangements which earn interest at the rate of the fund. The preference if possible and which the Panel should devote some time to investigating, is the Defined Benefit model. Under the Defined Contribution model, the individual bears the risk. If markets rise they gain an increase in the value of their account and the reverse applies if the market goes down. This is not good as a model also for the fact that it implies that individual employees usually have the financial literacy to navigate the investment range of products on offer, from high risk to low risk. The Defined Benefit model is prevalent in OECD countries.

There’s also some double-speak in the statements contained in this assessment. It claims Australians have flexibility to decide to draw down their retirement savings. This is conducive on a number of key factors. It assumes that the person has ample savings. It does not indicate the manner of this withdrawal – drawdowns from account based schemes or pension for life schemes of the defined benefit model or even lump sum withdrawals. Further, it does not account for the times at which these withdrawals are made. 60? Before 60? 65? Enough to meet Age Pension requirements based on means test? Drawdowns are usually referenced with account based interest accruing market super schemes where the option of Lump sum is not taken and a draw down part payment is taken instead.

Another glaring assumption is made is this statement concerning compulsory superannuation:

…as income drawn from this pillar is backed by assets in retirement, it avoids risks of future governments reducing entitlements to address budgetary pressures that can occur in unfunded or partly funded social insurance schemes

This needs explaining. What it seems to say is that most people in Australia are lucky enough to own their homes in retirement. And that these homes as well as being assumed incorrectly as voluntary savings are now seen as “assets”. Then it hints at what a government with a bloody mind would do in the event of being confronted with payments and operations through the Defined Benefit Model – “address budgetary pressures”. There is not even the hint of a fair treatment of Defined Benefit Schemes. This provides a hint at what the Panel is viewing this topic through and the unpleasantness which will surely follow. The Review is correct in so far as it states that the Defined Benefit Model is a contributory scheme which is linked to the employee’s or individual’s pre-retirement earnings as a proportion. This is an extraordinarily brief assessment and the reason is that the authors of the Review do not want to give an insight for the readers into the benefits of this vastly superior model which existed for NSW public servants and government employees until 1992 and for Federal Government employees until 2005. Basically the Defined Benefit Model is worked out often through formulae, usually through a combination of rate of contribution and length of contributions. Such schemes have also existed for many people in private employment. In such a scheme type there are more generous employer contributions or mixes and matches of contributions between employers and employees more favourable to employees than schemes under the SGC. In essence it is a deferred liability for the employer to be met at retirement. It can take the form of many benefit methods – lump sum payments or pension for life or some varying combination of both. This is the model to which the Panel should investigate, protect for existing recipients and contributors and aspire to for current workers. The extent to which this can be broad based across the workforce is another matter but what is certain is that the current account based Defined Contribution model is not working and workers are being short-changed if not ripped off.

The assessment of the voluntary savings pillar is based again around the assumption that Australians are generally lucky enough to own their homes in retirement and don't need the preferential more high income based retirement model of OECD countries who traditionally have lower rates of home ownership. This is a biased prism to begin a review if ever I have seen one. With home ownership rates declining and mortgage repayments at an all-time high relative to income and borrowers under challenge, a strong and fair and good retirement incomes system is essential.

Purpose of the system and role of the pillars

Role of the pillars

The author's persist with the delusion that superannuation funds are private sector in basis.

…the private sector (superannuation funds and financial advisers) is responsible for ensuring individuals get the best outcomes from their savings

This ignores the reality of superannuation in Australia. There are of course self-managed super funds for largely self-employed people and those more socially and economically advantaged. For employees and individuals the main choices of product are Industry Super through their employer usually or Retail Super, occasionally offered through their employer but usually offered in addition to their employer sponsored Industry fund. The repeated assertion that superannuation is privately managed or part of the private sector is misleading. Superannuation funds are structured and administered through a Trust. This Trust comprising of a Board of Trustees who govern the scheme determine whether the scheme is an Industry (not for profit or members-only) scheme or a Retail scheme. The statement also ignores the existence of Government superannuation schemes like the Federal based CSC with its various funds and the First State Super (FSS) for State Government employees. What the authors seem to be saying is that Government agencies don't administer Super schemes. A long bow is drawn here.

The Age Pension

This is another areas where the rubber hits the road and hard. This phrase is interesting:

When it was first introduced, the Age Pension was viewed as a poverty alleviation measure for older Australians. The Age Pension continues to be means tested to serve as a safety net; however, the settings have changed over time to reflect considerations around adequacy, fairness, and sustainability.

This is true but all of these features – adequacy, fairness and sustainability – are potentially conflicting and contradictory. There could not be a more adversarial set of arrangements and factors in place for a potentially harmful policy outcome.

Compulsory superannuation

The descriptions here are also conflicting and contradictory. Concerns and statements about having enough money in retirement, people not saving enough for their retirement and achieving a higher level of retirement income leaves one with the impression that the policy was set up to do many things but will ultimately succeed at none of them. Take this phrase:

…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).

This conflicts with the earlier phrase:

One reason for the introduction of compulsory superannuation was to counter concerns that people do not voluntarily save enough for their retirement. Compulsory superannuation enables employees to achieve a higher level of retirement income compared with relying solely on the Age Pension.

This enunciates clearly the dilemma in policy setting. Regardless of social equity or social justice issues, the dichotomy presented here is retirement income versus national savings. There seems little point emphasising its national savings aspect as the purpose of superannuation is for retirement income and cannot be used for anything else. This leaves open the possibility that the government may “raid” people’s super accounts in the same way that this current Federal Government stated during the 2019 election that the Opposition Labor Party would upon election, raid the savings of pensioner and superannuation recipients receiving Franked Dividends from Imputed Shares. The phrase of government budgets, increasing national savings and ageing population leaves the impression that future Federal governments could raise revenue through tax on earning and contributions and withdrawals in superannuation accounts.

The next paragraph says:

In 2016, attempts by the Government to legislate that the objective of the superannuation system is ‘to provide income in retirement to substitute or supplement the Age Pension’ prompted further debate on what level of financial support the superannuation system should aspire to provide to individuals.

This is further confirmation of conflicting and contradictory objectives. The next sentence says a range of alternate objectives were put forward, concluding that superannuation should seek to deliver a ‘comfortable’ or ‘dignified’ standard of living or ‘adequate’ income in retirement are not even objectives but empty Motherhood statements.

What the discussion sets up is the potential for contested claims for either or both compulsory superannuation and the Age Pension. Keating will ultimately succeed in that people will have their Age Pension foregone and be made to claim a similar or even a reduced amount from their compulsorily preserved superannuation accounts paid for in reality through years and years of foregone wages. A complete circle.

Voluntary savings

The repetition that the family home constitutes voluntary savings leaves me with the impression that the Panel does not consider that people of retirement age or those in retirement have been able to save enough money, cold hard cash, independently of their own initiative to survive comfortably with compulsory superannuation and not enough to reduce the Age Pension entitlement. The phrase here:

More broadly, voluntary savings allow individuals to choose how much they save for their retirement, and the investment vehicle in which they save, providing an opportunity for Australians to tailor their retirement income plans to suit their goals and preferences.

This is vague and woolly. The real questions which the Panel does not put to itself, preferring to put its own questions 'Dorothy Dix' style, are: How are Compulsory and voluntary Superannuation schemes different or treated differently?

The changing Australian landscape

The section begins:

The retirement income system's ability to support Australians in retirement over time is impacted by broader demographic, economic, and workforce trends.

This is another way of saying that people live longer. Damn those people! It then goes on to say:

It is important to understand changes in the way Australians work and live to evaluate the system's ability to deliver now and in the future.

This is a slightly back-handed way of softening up the public for some rather nasty medicine.

Maturity of the superannuation system

This section begins in this way that it has been nearly 30 years since compulsory superannuation was introduced going from $229 billion in June 1995 to $2.9 trillion in June 2019. The Report fails to mention or emphasise that the SCG was 3% (a small insignificant figure in anyone's language that could have been better directed to those most in need at the time and there were many) and was now only 9.5% all these years later. It has been stuck at 9.5% since 2014 and stuck at 9% since 2002. As far as I am concerned this is short changing workers for the value they bring to the economy. There is no financial advisor or journalist in the world worth his or her salt who would advocate that 9.5% is a reasonable or adequate rate of salary to invest for retirement income. It then reads:

It will not be until 2042 that workers will have experienced a SG rate of at least nine per cent for 40 years of their working lives.

This is trumpeted as an achievement. It is most surely not and is comical but for the fact that, first, workers have had their pockets picked by government regulation and, twice, by unscrupulous employers who won't pay their contributions into nominated accounts and go into receivership and thirdly by government who again won't provide adequate enforcement provisions and mechanisms to get back this money owed to workers in their compulsorily preserved superannuation accounts.

Home ownership

This section starts:

Over the past 20 years, rates of home ownership have declined across all age groups.

This is the real issue here and the authors are to be applauded for mentioning it, even if it is only once unlike the times they mention that home ownership is voluntary savings, which it is not. It then goes on to say:

While older households continue to have high levels of home ownership, they are increasingly approaching retirement with mortgage debt – up from 13 per cent of households aged 5564 in 1995-96 to 40 per cent in 2017-18 (ABS 2019b).[10] *If this trend continues, a growing number of households may enter retirement as renters or while still servicing a mortgage on their home.* [9] {Household age group refers to the age of household reference person.}

This very set of circumstances threatens retirement for the future. This is the issue that is more worthy of action by government and their array of independent, or otherwise, instrumentalities.

Life expectancy and demographic trends

Life expectancy has increased significantly since the introduction of the Age Pension over 100 years ago.

Again this is touted as a bad thing. Not only do we damn people for having the gall to live longer but we are also invited by this government to curse the social reformers of all type who advocated for this reform and fought hard for it. Though there are important issues regarding demographic spread, the report cannot properly handle them any more than it can handle proper and fair analysis of superannuation in Australia and overseas comparisons. It says:

The age profile of the population has also changed. Australians aged over 65 currently make up around 16 per cent of the population, compared to around 8 per cent in 1971 (ABS 2019e). This is partly a consequence of changes in life expectancy and a historic decline in fertility rates. These trends have partly been offset by an increase in net overseas migration, as immigrants are generally of working age.

This Review can be said to be one long whinge by conservatives and bean counters. Hate people for living longer, hate social reform advocates and hate women for having fewer children. Solution? The Ponzi scheme of population growth through largely immigration to keep the working age stats lower. Immigrants who in ever greater numbers are going to get older and require a combination of social welfare or consideration for no-doubt inadequate retirement income as a consequence of the likely-planned changes to compulsory superannuation or tightening of eligibility for the Age pension.

Labour market participation

There is some useful analysis here but nothing that one could not find in a reputable daily newspaper. It says one important thing though for future policy consideration and is a telling statistic in itself:

…some older workers report being unable to retain or find employment, despite a willingness to remain in the workforce.

Broader economic trends

Unfortunately this section begins and persists with some bi-partisan government speak and spin doctoring. Take this:

109. Footnote as part of the Review quoted

The Australian economy has experienced 28 consecutive years of annual economic growth. Over this period, average economic growth has been 3.1 per cent per year and the growth in the consumer price index (CPI) has averaged 2.4 per cent per year (ABS 2019i; ABS 2019j).

What of course is not mentioned is the low rates of GDP growth and the below-forecast rates of this growth over the last 6 years. The Australian economy has some variations in its overall performance not gone into much in this review and these factors could be critical for future planning in any policy field. There is one piece of refreshing and blunt honesty in the next paragraph which says:

..wage growth in Australia, as in other advanced economies, has been subdued in recent years. Persistent low wage growth can affect the income achieved during working life as well as individuals' ability to save for retirement.

For retirement income particularly and for much of social and economic policy generally, this is the real issue above all else. Low wage growth. But how honest is the Federal Government in its concern for and assessment of low wage rises.

Further on is:

…the Australian equity market and many of its international counterparts have performed strongly over the past decade, albeit with some periods of turbulence in the past few years. Australia's superannuation funds have a relatively high exposure to growth assets by international standards.

This is crucial for retirement income discussion centring on compulsory superannuation. Most of these accounts here held by Australians, whether in Retail or Industry funds, are account based, working on unit prices, offering a range of investment options to its policy holders and earns interest accordingly to the investment strategy class where the funds are invested. This in reality makes those superannuation account holders vulnerable. There have been times such as from 1989-1994 where the share market took that long to recover to its earlier highs. From October 2007 the Australian share market hit an all-time high but after the Global Financial Crises I and II, this high has only recently been surpassed in 2019 – 12 years hence. There were 3 sporadic periods since 2007 of negative growth for superannuation accounts centred on domestic or international shares. This is worrying for policy holders and for Governments. There is also a concomitant period of low interest rates therefore little to nothing can be gained investing in more conservative cash based options. This is new territory for the money market and for the economy broadly. Hence the importance for consideration of Defined Benefit schemes which guarantee financial outcomes for their account holders. The next sentence is a tell-all:

These broader economic trends affect the outcomes delivered by the retirement income system;

This is a tacit admission that the current compulsory superannuation system is largely risky and inadequate. It cannot be seen as a replacement for the Age Pension. Low inflation and anaemic growth will impact retirement income.

Principles for assessing how the system is performing

Out come the weasel words and self-justification. Read this:

The Panel has been tasked with identifying the facts that will help improve understanding of how the retirement income system operates and the outcomes it is delivering for Australians. The terms of reference for the Review state that 'it is important that the system allows Australians to achieve adequate retirement incomes, is fiscally sustainable and provides appropriate incentives for selfprovision in retirement.'

Firstly, what will be "the facts" that they will identify? There is, as stated and demonstrated through my analysis so far, already in-built biases and frame of reference factored into such a fact based accumulation and analysis. Further this paragraph is vague, woolly, generalised and almost meaningless.

The four principles the Panel has adopted to indicate how they support the retirement income system and its "pillars" is worthy of analysis and consideration. They are:

- Adequacy
- Equity
- Sustainability
- Cohesion

The conclusion reached in this major section/chapter of the Review reads thus:

These principles… may reinforce or conflict with each other for different aspects of the system, reflecting the trade-offs that exist within the system.

You had better believe they will certainly do that. This all taken together will make a universally acceptable policy outcome a veritable impossibility. My bet, based on the current government's, and previous government's, track record is that sustainability will win out, cohesion will make a passing reference and adequacy and equity will feature somewhere to the back of the government's priorities. Cost will triumph. Bean counters usually win but there is much to work through for all concerned, particularly for those vulnerable to negative change.

ADEQUACY

Measures of adequacy

Relative measures

This section attempts to deal with the issues around adequacy. It asks then answers a lot of its own questions. It does provide yet another indication of the Panel's thinking about the bitter medicine potentially in store to make budgetary ends meet. Reading this:

A key weakness of systemwide measures of replacement rates is they need to be higher for individuals on low incomes to avoid the risk the replacement rate results in incomes associated with poverty. To avoid this outcome, a different replacement rate could be set for those on higher incomes to those on lower incomes.

Could this mean making higher incomes poor as well? There would be a huge, well-funded and tricky backlash if that happened but the Panel has their work cut out on establishing what adequacy means for retirement income. They do make succinct attempts to define it:

Relative adequacy measures estimate retirement income requirements by defining benchmark replacement rates based on an individual's income or expenses prior to retirement…. usually framed as a percentage of pre-retirement income or expenditure, they may allow individuals to calculate a retirement income goal for their own circumstances… Most benchmark replacement rates deliver a lower level of income in retirement relative to working life income.

This is actually a good start for a discussion on adequacy. Pre-retirement income. A pre-retirement income rate of 60-70% is posited as an appropriate measure for someone in retirement. Discussion in this and other sections centres around retirement income as a rate of pre-retirement income or replacement rate. Interesting stuff for a while. This paragraph is interesting:

The largely defined contribution structure of Australia’s superannuation system may also influence the ability of the system to achieve targeted replacement rates for all Australians. Recognising this challenge, the Australia’s Future Tax System Review (Henry 2009, p. 1) suggested superannuation guarantee contributions be ‘benchmarked by reference to moderate potential replacement rates for retirees with a full history of contribution at median to average earnings.’

This is good and gets to the nub of the matter of pre-retirement versus a desirable level of retirement income that could satisfy governments, employers and account holders. However again there is a major methodological error with the discussion. For contributions to match pre-retirement income, contributions rates would have to start at least 15% of salary and be maintained throughout a person’s lifetime regardless of whether that person had a job or not. This is frankly unrealistic. These days a person will find themselves with multiple jobs over a lifetime and may find themselves with employers who may do the wrong thing and change the terms and conditions of their employment or place employment contracts with super contributions provisions excised and made the responsibility of the individual. For this to succeed there would have to be major and root and branch employment law reform rather than the current “let the market rip” attitude and situation that workers find themselves in in the job market and the workplace of today.

Also such a contribution structure of compulsorily preserved defined contributions still carries with it investment risk making retirement timing something of a game of chance. Not a good situation. This section and the discussion around it reaffirms the need for the Panel to visit the concept of a Defined Benefit scheme as only this type of structure will guarantee a rate of pre-retirement earnings. Such schemes offer a range of options for withdrawal of benefit upon retirement – pension, lump sum or a combination of both – and they are preferable to the miserable draw down options of account based income streams of the defined contribution model. Further that these schemes be protected by law and have strict punitive provisions for malfeasance on the part of employers and governments. The Panel, not in its wisdom, has not considered the Defined Benefit Model as an alternative or as a factor in the retirement income mix. And for good reason. This is the Government of the same political hue which abolished the defined benefit schemes for Federal public servants in July 2005, closing them off to new members so new employees of the Federal public service have to become members of account based interest earning unit priced schemes like the PSSap. Simply put, defined Benefit schemes are more of a cost to the employer and as there are considerable numbers of Federal public servants, including Members of both houses of Federal Parliament and their ministerial offices, retention of schemes like the PSS would cost the employer, that is, the Federal Government, more money. Defined Benefit models incorporate rate of contribution times length of contribution as major factors and incorporate more generous member components with more generous employer matching components and usually have no to minimal fees and charges, unlike their defined contribution model counterparts. This is why the Panel won’t consider Defined Benefit schemes. It wishes them away for current Federal Government employees as well.

Absolute measures

The section here grapples with the notion of absolute measures of adequacy by writing it off.

It doesn’t want to place a dollar value, as distinct from a percentage, on pre-retirement earnings. It says it does not want to do this as a measure like this does not consider an individual’s pre-retirement living standards. This is true but I think the real reason is that the Panel and the Government does not wish to be tied down to a dollar figure of what an acceptable amount of adequacy should be. The Panel cops out unlike the Henderson Report into Poverty which made preliminary study findings 2 years prior to its full release in 1975 basing poverty as a measure in dollar terms centring it around social welfare benefits and a percentage or an allowance for dependents. This Review does none of this. This should be a cause for concern for those in more difficult or insecure retirement circumstances going forward.

Equity

A very interesting account ensues as to what constitutes equity. It is income that is "fair and adequate in the circumstances". This covers a multitude of sins. It should send a shudder down everyone's spine. The next bit is interesting.

Assessing whether the system is equitable

Fair and adequate outcomes

The Review repeats that the retirement income system should deliver outcomes before as well as in retirement and that these outcomes should be fair and adequate in the circumstances. We had a major problem with determining what was adequate or what was adequacy and now we are given a term that is not agreed upon by the authors from a previous section as to its meaning and running with that as though the definition and problems centring on it have been solved. This is like taking a sea voyage with faulty stabilisers and a leaky hull. Like driving a car with faulty brakes. Taking chances. This is really not good enough for senior public servants and academics to play with people's lives in such a cavalier fashion, even theoretically. The issues included and canvassed in discussion in the Review are relevant and it is good they are included but the whole tone and structure and manner of the Review is risky. Fair and adequate as terms are not defined. Simple.

The circumstances illustrated as examples are curious.

Women are more likely than men to have broken work patterns due to family responsibilities. Time out of the workforce and part-time work affect women's lifetime income levels and their ability to save for retirement. In addition, during career breaks women tend to forgo compulsory superannuation.

The Government is feigning interest in women's socio-economic status. Women's time out of the workforce can only be addressed through a generous universal European style funded paid parental leave and childcare scheme which Federal Governments of all persuasions have repeatedly baulked at introducing. There is a universal childcare scheme which federal Governments have picked at and would like to weaken and there is an inadequate paid parental leave scheme for those in the workforce whose employer does not have such a scheme. Paid parental leave schemes are by no means universal in the workforce. They are compulsory in government jobs but not so for the private sector. There is no mandatory requirement. The Government has established a weak and inadequate one for some workers who work a specified number of hours. Again it does not account for women who are casuals, work limited part time hours because that is all they can get, self-employed, contractors any others who don't meet the requirements of the government while screaming that resources are scarce but pretending all the while to be concerned around social justice issues which sees people done out of retirement based income. Hypocritical.

Secondly, time out of the workforce can harm women's career development but again this is not mentioned.

Thirdly, the Federal Government under Treasurer Wayne Swan increased the Age Pension age for men and women to 67. The Age pension age for women was increased from 60 to 65 commencing in the Hawke-Keating budgets in the 1990s until completion in 2013 when it reached 65 for both sexes. In Treasurer Joe Hockey’s 2014 budget, the proposal was to increase the Age Pension age to 70 but this has been consistently rejected all round. However its introduction into policy will ring alarm bells along with the arguments put forward in this Review about what the Government’s long term intentions are.

Fourthly, the wages gap between men and women is mentioned but there is no discussion of this issue being addressed. This sentence tell it all really:

These factors, among others, have led to women retiring with lower average superannuation balances than men (CEPAR 2018b, pp. 15-17).

I love the second point raised in this section:

While the degree to which compulsory superannuation is paid for by employees in the form of reduced take-home wages is debated..

Actually there is no debate about it. It is paid for by employees and saying that it is debatable only in degree means that the substance is correct and we know exactly the degree as well. 3%. As stated in the prices and incomes Accord and the ACTU-ALP stitch up pre-1983 election. That is the degree. It has only gone up from there. Other schemes were award based ones and operated more as Life Assurance/Savings managed fund investment plans but even they were preferable to the corporate feeding frenzy as a consequence of Compulsory Contribution Superannuation as per the 1992 SGC.

The next phrase continuing on from the previous sentence is pertinent as well:

…the policy of preservation means these resources are generally not available for needs arising during working life. Voluntary retirement savings, however, result in a direct reduction in pre-retirement consumption.

This is another factor which is scant considered. Superannuation is foregone wages. It is not a benefit on top of normal salary and normal salary increases but is a substitute for some salary increase reducing the workers take home pay which could be used for important things. The next sentence is better still:

Ideally, the retirement income system should support individuals to save enough to allow consumption smoothing over their lifetime without deferring too much consumption to their retirement at the expense of living standards during working life.

Ideally?? Should?? From academics and bureaucrats? This statement also is the stuff of pipe-dreams. There is no “ideal” in a discussion and an adversarial one at that which pits pre-retirement consumption against pre-retirement income while forcing savings measures to fund retirement. And with the investment risks attached to superannuation, it is a risky proposition in its current form which is not the case for Defined Benefit schemes in their essence.

The next point is where not only the rubber hits the road for retirement income issues but where the flesh presses against the metal. Or the knife.

Where one generation is required to fund their own retirement as well as the retirement of a previous or future generation they may view this as inequitable. Age Pension expenditure is funded from government revenue, affecting the tax impost on working Australians. Australia’s ageing population means there will be a declining number of workers for every retiree. It is therefore important the retirement income system does not place an undue fiscal burden on future generations.

This is an acknowledgement of the generational context and basis of wealth disparity in Australia today. “Where one generation is required to fund their own retirement as well as the retirement of a previous or future generation they may view this as inequitable”. The next sentence is full of excuses with phrases and words like “impost” and “undue fiscal burden”. The answer it seems is: “Screw Age pensioners”. This is the basis for the retirement income review. The Government is clearly panicked. It sees a demographic time bomb and it has many reports before it indicating something along those lines. It will punish those least able to respond. A problem is acknowledged but a realistic solution or series of measures to counteract it are not.

The next point finished with the phrase;

…in circumstances that are beyond the control of the individual such as disability, involuntary retirement, financial hardship, and lower than average life expectancy (e.g. Aboriginal and Torres Strait Islander people) there may be benefit in ensuring that individuals are not unreasonably disadvantaged in retirement.

This is a belated admission that there may be factors beyond the control of individuals as I alluded to in earlier discussions and it is strange. Individuals should not be unreasonably disadvantaged in any way let alone those facing or in retirement.

Discussion of adequacy and equity degenerates into the piecemeal matter of indexation of Age Pensions or other government income for retired people into whether it should be Wage based or CPI-indexed. Nothing of the real issues of Industry versus Retail Super or Accumulation plans/Defined contribution versus Defined Benefit schemes.

Further analysis of equity as an issue is interesting here:

The self-employed and workers earning less than $450 per month from an individual employer are not required to be paid compulsory superannuation. This can result in these individuals retiring with significantly lower levels of retirement savings than individuals covered by compulsory superannuation, even where their total lifetime earnings are the same.

It is too simplistic to suggest, as this Review constantly does, that lack of superannuation or voluntary savings equals poverty or some materially disadvantaged set of circumstances consigning it non-participants to a lifetime of deprivation. This is clearly not the case. Many people on the Age Pension, provided they own their family home, manage comfortably as they have a huge impost in the form of mortgage repayments, removed from their responsibilities, have no financial obligations and therefore have money freed up. This is the real issue at hand for governments – how to get more people into their own homes, how to provide the security people need to go into private housing, how to provide mortgage relief. Of course, there won’t be a review into that. Many small business owners don’t need superannuation to provide for their retirement as they are in business, the responsibility resides with them. Many of these small businesses are employers and it is to be hoped that they are contributing to their employee’s required Superannuation fund first. As they are businesses, they have more of the financial knowledge and material assistance given to them to negotiate financial instruments and strategies to build wealth pre and post retirement. Many of them have Trusts or SMSFs and can acquire additional property through these instruments. I would not be concerned about the financial situation of small businesses as they are responsible legally and fiducially for their own situation. It is in fact a requirement of business. It is employees who need knowledge and assistance on a grander scale. This appeal and reference to small business sounds like a familiar call to target them with compulsory superannuation obligations which, if they are going to do that, will also need to provide large scale assistance – even larger than assistance to businesses when the GST was first introduced and all the paperwork and accounting that went with that. I would also wonder why anyone would go into business to earn the same as what they could get working for an employer and it is unusual for a Review to canvass ideas and speculate as to the earning capacity of businesses and the application this has to superannuation. It is unlikely that there will be a compulsory requirement for businesses to compulsorily contribute to their own superannuation accounts, probably outside of their SMSF. Such as requirement would encourage tax evasion and perverse investment outcomes into instruments like SMSFs and Trusts.

The rest of the section dealing with Equity is a government departmental whinge about what Centrelink and the government has to offer welfare recipients and about how much all this costs.

The overall level of public support provided by the retirement income system should be targeted to those who need it most.

How often is this trotted out? What follows is interesting and a portent of things to come. There is a whinge about how high income earners are not taxed enough of their super because superannuation tax falls to 15% usually and the government can't get their hands on enough of it.

The section of the Review does canvass some of the least savoury aspects of the current superannuation system and situation in Australia at the moment.

Higher income earners generally have a greater capacity to accumulate savings preretirement and make larger superannuation contributions.

Yes this is certainly the case. I wonder why the government so used to favouring low taxation and incentives for self-funded retirement and wealth creation would suddenly canvass the idea that high income earners are potentially in the firing line for crimping their wealth creating vehicle and for higher taxation or other punitive measures on superannuation?

This can lead to higher tax concessions being provided to this group as a result of the generally flat rates of tax on superannuation contributions and earnings.

Yep that is a fact. But the following statement is curious and represents more double-speak on the topic.

The application of an additional 15 per cent tax on superannuation contributions for those with total remuneration of $250,000 or more, combined with the LISTO (which effectively refunds contributions tax for low income earners) are designed to reduce the 'gap' in tax concessions between low and high income earners. The Age Pension means test also acts to narrow the gap in retirement outcomes across groups with different levels of household wealth by targeting government support in retirement to lower wealth households. Nevertheless, cameo modelling suggests that over a lifetime, more public support may be provided to those in higher income brackets.

The first and second sentences I would not agree. The LISTO cuts out at $37,000 which means that if you earn more than that you don't get the tax paid from such a minimal amount refunded. $37,000 is not low income as such but a poverty level. If this is the standard by which the government measures its generosity then this does not augur well for how it is going to move forward with any constructive or fair measures to address the subject matter. The Age Pension does not narrow any gap in income disparity. It is a government payment provided begrudgingly to people who have met the Centrelink requirements. $37,000 is also about the amount that an Age Pension couple receives annually. Anyone earning such paltry amounts as workers or social security recipients would be much better off paying down their mortgage and acquiring their property debt free. This is the best poverty abatement measure ever. The third sentence indicates the government predicament. More public support is going to high income earners. High income earners or those who are more materially capable (let's be honest) can undertake strategic measures to receive either full or partial Age Pension like stacking their home with renovations or additions adding value to it. Acquiring property in a more expensive place is another measure as is buying a larger home. Remember the family home is not subject to the Age Pension. The Government may look to target this.

It is the next paragraph which is really interesting.

The family home is an important asset for retirement. Pensioners aged over 65 who live in their own home have much lower rates of financial hardship than those renting privately (Daley and Coates 2018). The family home can store equity for use in retirement through downsizing or a reverse mortgage. In addition, home owners with no mortgage are likely to have lower housing costs than those with mortgages and those who rent. The family home is exempt from the Age Pension means test.

Compulsory downsizing and reverse mortgages are mentioned. Age Pensioners beware. Mark these words as well:

The financial benefit of owning a home can be well in excess of the support available through Commonwealth Rent Assistance to renters.

You'd better believe it. The Review is viewed through fiduciary eyes and these will predominate. This is before we have come to the sustainability argument. This comes next and will be interesting. Pensioners will be made to live in smaller houses than they thought they would reside for some time in retirement and may be made to undertake reverse mortgages. There are a variety of situations worthy of speculating for those who may be impacted.

Sustainability

What is meant by sustainability

Sustainability considers the extent to which the system will be able to continue to deliver adequate retirement incomes in the future and the degree of public confidence in the system.

There is a natural tension between the principles of sustainability and adequacy.

Yes. So far so good but nowhere is there an indication in the discussion as to which is deemed unsustainable other than the vaguely sounding and sinister intending "Higher levels of retirement income".

The system needs to balance these two principles by providing government support to individuals that delivers a level of retirement income that is adequate and which can be maintained over the long term.

There is no definition of what is adequate here other than a reference to a previous chapter, what is inadequate and what the long term is. This is all really unusual for a government which does not consider unsustainable imputed credits on franked dividends for retirees despite no tax being paid and where the imputed tax credit is refunded. Recipients of Newstart don't get refunded any routine transport costs or education expenses.

One of the questions this Review poses to itself for consideration is:

To what degree is there public confidence that the system is delivering, and will continue to deliver, on its intended outcomes?

What are these intended outcomes and as alluded to before in great detail, aren't they all contradictory?

Justin O'Connell
justinoconnell@bigpond.com

Assessing whether the system is sustainable

Cost to public finances

The retirement income system's sustainability is influenced by its cost to taxpayers and how effectively these public resources are used.

Readers should fear that this will be the primary consideration in this Review.

The Government provides a wide range of tax concessions on compulsory superannuation and voluntary savings. In addition, it provides direct support in the form of the Age Pension and subsidies on health and aged care services.

I cannot see that the government has provided tax concessions on voluntary savings firstly. I gather from this reading that the government doesn't tax family homes. It never has for over 200 years and has never countenanced doing so until this Review. The tax concessions on compulsory superannuation were nothing more than a sweetener for superannuation contributions paid for out of worker's wages and these tax concessions have been gradually reduced over time in any case. The direct support for the Age pension is punitively means tested to the level of poverty which is what it would be in spades were it not for the fact that many recipients of said pension own their homes outright. These subsidies on health and aged care are woefully inadequate in Australia and there is a Royal Commission into Aged care in Australia as a consequence of repeated abuse of elderly people in such care and the problems with availability in the provision of aged care so I don't know why the government is trumpeting its record in this field. Just as well banking does not fall within the remit of this Review. The government is obviously comparing their record with Third World countries which have inadequate or non-existent health and aged care regimes and credits itself with the fact they don't kick people out on the street. Yet!!

Understanding future trends in these direct and indirect expenditures will help inform the sustainability of the system.

This is not promising. I can only ascertain from the reading of this Review thus far that the Federal Government is resentful of having to provide a pension to keep people out of poverty once they stop working and formally retire. It doesn't want to get the employer to provide for it as they do in many European countries and North American ones through a Defined Benefit scheme. The employer gets away with things Scott free! They get a free pass for wage rises. No need. The government had a better plan. Put it into superannuation regardless of the account holder's knowledge or willingness. The share market gets a massive artificial boost through forced savings and investment strategies. The Federal government is resentful that all of this has not translated into a retirement income similar to or better than what employees could get with the Age pension. They still have to fork out. Get this:

Superannuation earnings attract the largest superannuation-related tax concession in dollar terms, closely followed by employer superannuation contributions. The revenue forgone as a result of superannuation tax concessions is expected to continue to grow as the superannuation system matures.

The government is echoing the concerns it has shown throughout this review. No mention of the tax concessional cap being progressively limited over the years from an unlimited one to $100,000 then $50,000 then $35,000 for those over 50 and $25,000 for those under 50 to a flat $25,000 cap. The writing has been on the wall for years and so has all the problems with super which have been present from even prior to the introduction of the SGC in 1992.

The Review also pats the Federal Government on the back with this as it has repeatedly done throughout.

Tax concessions are also available on other savings vehicles; for example, the sale of the primary residence is exempt from CGT and most other assets attract a 50 per cent CGT discount if owned for 12 months or more.

The mistakes keep on coming. Home ownership is not voluntary savings or a savings vehicle as it is now redefined. As previously noted there are motor vehicles, antiques, art works, jewellery and other consumer or asset items which are routinely consumed and publicly utilised, even as a perverse reverse mortgage type situation such as collateral with insurance or investment or consumer loans. These may have been acquired over time so as they are not financial instruments or have a financial basis they are not savings. They have a value as well as a cost. There are currently at least 25 major economies of the world with no estate or inheritance taxes. Those that do have limited ones, some excepting familial descendants, some like the USA with a limit of $5.5 million estate value. Australia has had no inheritance or estate taxes since 1979 and prior to this date these were largely State Government taxes. The 50% Capital Gains Tax (CGT) was introduced in 1999 by the Howard Government and this has skewed investment towards property and away from other productive or even non-productive assets. This is not tackled by the Review either.

As if to contradict the analysis provided in the previous chapter and reflected in Figure 4 showing high government pension support for high income earners, the Review has found that over the last 20 years the proportion of the eligible population on the Age pension or a Service pension has declined from over 80% to about 68%. This has usually been brought about by a decline in the rate of full rate (100%) Age pensioner eligibility, older people extending their working lives, largely through part time work and other forms of support supplanting or supporting the Age pension. Those cunning old bastards. If they are not getting the pittance of the Age pension they are working to supplement their income, receiving income from other sources or getting other payments which are more generous or smaller payments in addition to the Age pension. This is an interesting part of analysis and nothing to criticise. But it doesn't last for long. Just a short distance on it reads:

Both the Australian Government and state and territory governments provide substantial assistance to older Australians through aged care and health services.

This, I'm afraid, is debateable. It goes on with value judgments:

In 2017-18, Australian Government expenditure on aged care was $18.1 billion, making up around 68 per cent of residential care providers' revenue and over 90 per cent of home care providers' revenue (ACFA 2019). While not formally part of the retirement income system, this assistance has implications for its adequacy and sustainability.

This is not necessary to mention and forms part of the health system. There may be other aspects of government policy including monetary policy even which can be just as relevant to retirement income but these aren't mentioned let alone canvassed like this, showing the government's resentment for having to fund Medicare and the health system. Another whinge.

Public confidence in the system

The Review talks now about public confidence in the system. A system continually undermined by the very people commissioning this report.

Justin O'Connell
justinoconnell@bigpond.com

The ability of the retirement income system to deliver on its purpose partly depends on Australians having confidence in its settings and long term sustainability… A perception of a lack of stability in the system may also have implications for community confidence.

It is clear that the government lacks confidence in the retirement system obviously because it costs dearly. The price of democracy! How do the authors and by inference, the government, measure Australians "confidence in settings"? Is the lack of stability quoted more an indication that the Review authors are pre-empting the government's position regarding their onerous fiduciary obligations?

Saving for retirement requires long term decision making. Over time, successive governments have made changes to the retirement income system.

This is indeed a problem and a contradiction. The Review then acknowledges that changes have the potential to be retrospective. There is no potential about it. People make their retirement decisions based on current laws and often foolishly so but they leave themselves open to major impact if they make decisions based on assumptions about future laws and what they might be. This promotes perverse outcomes and decision making, skewing investment in "safe" vehicles like property, putting all their eggs in this basket and even promoting apathy in retirement outcomes.

Effects on overall private savings

The Review trumpeting the achievements of superannuation never stops.

Compulsory superannuation has resulted in households on average having more wealth at retirement today than in the past (CEPAR 2018a, pp. 18-20).

This is debateable. Remembering all the time that compulsory super contributions are taken from wage rises projected. Average Household super accounts of $374,000 are hardly sufficient for retirement long term. That is less than 10 years of household (couple) Age Pension which is incidentally tax free. The trumpeting of voluntary super contributions, through I assume salary sacrifice or through after tax additional contributions to a non-Industry account, are hardly sufficient to replace the Age pension. Those not in receipt of any Age pension are those fortunate to have got sufficient private savings in any investment vehicle and it doesn't always have to be super.

The next sentence is interesting. The Review goes on to say:

Compulsory superannuation has led to more wealth on average at retirement, however, it may have also led to some households saving less through other means (Connolly 2007).

Yes this is true and it is also next to impossible to measure. One could also add that the "saving less through other means" are not spending on property which has outstripped anything the share market has produced over the last 100 plus years. The Review moves on to a discussion of household debt going from 71% of disposable household income in 1992 to 191% in June 2019. Of course due to increased mortgage debt and this is obvious. Again this is the real issue of concern for people in and not in retirement.

Reading this:

..growing household wealth at retirement has resulted in a reduction in the proportion of the eligible population receiving the Age Pension over the past two decades.

It is a source of concern and wonder that this report makes little to no attempt to analyse the components of this increased household wealth because it would provide a pointer to what the government should be attempting to reduce reliance on the Age pension. My bet would be that these components would reveal wealth disparity achieved by income disparities across economic sectors, regional wealth disparity, generational wealth disparity particularly in regard to mortgage security, tax concessions for wealthy or wealthier people such as negative gearing or dividend imputation on franked credits or Trust accounts being utilised in such a way to minimise or avoid tax, etc. There are a great many vehicles and incentives available for people who are able to use to increase wealth and avoid tax. There is no in depth discussion as to what constitutes private savings – not even property features much here in the discussion, probably because property acquisition and investment are too contentious topics for discussion to introduce into the topic of retirement income. As we have seen it doesn’t preclude other falsehoods from being presented into the discussion. Reading between the lines the Review and the government won’t be looking into these aspects of economic and social injustice but will look at ways to perhaps reduce the Age pension entitlement or tax super heavier at some point.

Changing trends and one-off shocks

There follows some pertinent and reasonable analysis here which I would not dispute or criticise. Yet the strangeness doesn’t take long to re-emerge.

Over the past ten years, returns on low risk investments such as term deposits have fallen. Some individuals nearing or in retirement may invest conservatively to reduce the risk of capital loss through fixed interest assets. Where low interest rates persist, higher total savings or increased investment in riskier assets may be needed to support the same level of income over the same time period.

I don’t think it is pertinent for anyone let alone the privileged authors of this Review with comfortable assets and investments to be dispensing advice to potential retirees as to where they should invest and how they should behave. It is irresponsible to advise people to invest in risker assets close to retirement. It makes me wonder whether the Government would countenance mandating riskier investment, taking control of it away from individual account holders? Risk should not be borne by individuals but by governments and employers who can more readily afford to take losses and know which assets to invest one would hope. The investment risk associated with account based unit priced interest accruing accumulation plans is a reason why the authors and the decision makers should strongly consider the model of Defined Benefit schemes as these are largely guaranteed irrespective of market fluctuations.

The authors also lament the low rate of interest accruing for safer, conservative, cash based investments like bonds and managed funds and saving accounts. This is unusual and seems to blame people for problems in the fiscal and monetary sectors which are the responsibility of banks and governments. The next 2 points are correct and something future governments and agency decision makers and administrators need to consider in the light of events like the GFC Marks I and II and the long and deep recessionary period of the 1990s.

Changes in labour market trends could affect the proportion of the population covered by compulsory superannuation.

Major economic crises, such as a global recession or downturn could place pressure on the retirement income system.

Regarding the first part, there has been a massive increase in the number of casualised, part time, contract and self-employed labour since really the early 1980s and something that the implementers and decision makers of the early 1990s should have realised prior to the introduction of the SGC in 1992. Unfortunately this issue is noted rather than developed. Regarding the second point some empirical data would be helpful but again the problems are noted. Bad luck if you have an account with 2, 3 or more years of negative growth or absolute years of low growth.

Individuals saving beyond their retirement income needs

At this point I have realised that this exercise is largely a joke at the reader's expense. There is no measure other than a moral one with which to determine whether a person has saved beyond their needs. There is a great deal of empirical and anecdotal evidence to prove whether someone has spent beyond their needs but that is a different topic. This argument lies in the realm of fantasy. This patronises retirees and gives an indication of where the nastiness is going to come or an area indicating where the nastiness of policy makers will come from. A straw man argument. Identify a problem that doesn't exist and build a dubious case around it.

..individuals may consume less than their savings would allow because they lack confidence in their ability to manage longevity risk; are concerned about needing to pay for aged care later in life; or wish to leave an inheritance.

Being concerned about unmet needs is a feature for all retirees and particularly for so with inferior super schemes like drawdowns from accumulation plans. The motives of retirees are also under review as inheritance is mentioned and not for the first time. These poorer superannuation recipients unlucky to not have enough of a balance and not receive the age pension will be targeted for sure to draw down more. The government would like this to happen to cut back on payments to those receiving the pension or some other government benefit. This paragraph continues the patronising of retirees. The following provides a clue to my repeated point about reverse mortgages and a portent of what is to come:

..home owners may be reluctant to release equity from their homes to supplement their retirement incomes despite public and private initiatives.

The next sentence says:

..the tax advantaged status of superannuation may encourage some individuals to partly use superannuation for wealth accumulation and estate planning, rather than solely for retirement income purposes.

The government will look to tax superannuation more on withdrawal to schemes it can change by regulation.

All of these issues and possible hinted measures will lead to a lack of confidence in the retirement income system.

The Review again poses itself Dorothy dixers.

Consultation questions:

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?

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

I think the real question is not so much the confidence in the retirement income system but in the current Federal Government and its agencies. Its hatred of Medicare is the stuff of legend and now it has aged pensioners in its sights as well. The entire Review is written with a view to undermining social welfare system overall and wants to pick away at it one piece at a time.

Cohesion

A fair question to pose. This doesn't stop the authors from some "Dorothy dixers" of their own in the Cohesion considerations Q but no A. They seem to answer their own questions in the way their questions are posed. Take this:

Whether the incentives in the system are delivering their intended outcomes.

Does the system encourage retirees to use their assets and savings to maximise their retirement income?

This is a strange question. It would seem common sense to maximise retirement income and the implication in this "question" is that the Government believes retirees or self-funded retirees in receipt of the Age pension or other government benefit or part thereof are deliberately not drawing down their "private' benefit in order to draw down the maximum government benefit. This is borne further out:

How incentives in the system interact to encourage or discourage behaviours, and the outcomes these interactions produce.

How do different eligibility ages and rules around access to superannuation and Age Pension drive outcomes?

Vagueness feature again even in the bureaucratic Dorothy dixers:

How the system interacts with other systems and the impact of this behaviour on outcomes.

What are these "other systems"? Are they cabinet/ministerial portfolios?

The remainder of the questions the Review poses to itself is all about managing expectations, ill will to retirees generally and nasty intents to reign in public expenditure:

Whether individuals understand how to achieve desired outcomes within the system and the extent to which the system is being used to achieve outcomes other than those for which it is designed.

Can individuals navigate the system simply or is financial or other advice needed to achieve good outcomes?

Do individuals have sufficient access to retirement income products that manage the level and longevity of their income?

I am perplexed as to why positing financial advice for consumers is mentioned here. I am sure any financial advice that the government mandates for superannuants will be expensive. The poor worker. Difficult enough working at a job to provide for the needs of him or her and their family now is lumbered with the task of being their own financial advisor. What financial income products mentioned could the Review's authors have in mind? Reverse mortgages. Goodbye inheritance. In all this presentation the government has not put a figure on acceptable retirement income for individuals or families. It does not mention "frugal comfort". It is as though it is individuals who have to do all the running irrespective of financial capacity. All this would be rendered largely irrelevant in a Defined Benefit scheme arrangement as the amount paid out is set by formulae based largely on length of service, income and rate of contribution with the addition of generous employer contributions and a variety of access options. There is no need for an army of parasites like financial advisors to pick away at workers' hard earned retirement superannuation savings. The Cohesion section is one not with retirees in mind but governments in mind.

Assessing whether the system is cohesive

Incentives in the system

Take this introduction:

Justin O'Connell
justinoconnell@bigpond.com

Both the Age Pension and superannuation system have rules designed to encourage retirees to draw on their savings to fund retirement where they have capacity to do so.

No mention here of Defined Benefit schemes – only the assumption of the draw down of an account based, accumulation type, interest based, unit priced account plan. These latter schemes are open to investment risk the cost of which is borne by the employee. The assumption in this section is that superannuation is solely account based Defined Contribution schemes. Read this:

Minimum drawdown rules for superannuation mandate the withdrawal of a certain percentage of assets from superannuation each year.

Further arguments are made to justify future 'slugs':

..the Age Pension income test, including the Work Bonus, incentivises older Australians to continue in part-time paid employment where they have capacity to do so.

The Report is second-guessing the government's intentions here. Increasing the eligibility for the Age pension, perhaps to 70 years as was its policy until 2018. Improving or restricting the Work Bonus. The Review's authors would perhaps also like to consider that many 'older' Australians may not feel like or be capable of working much past their 'retirement' age, whenever that might be, after years in the workforce. What seems clear is that the government's priorities as reflected in the Review's authors are to reduce its expenditure when and where it can and get away with politically, encourage more person's to draw down their private individual superannuation accounts to facilitate the afore mentioned cost reducing measure, tighten eligibility requirements for access to age pension and the like – particularly at the higher end of part pensioner recipients, increased age eligibility requirements for pension and super? All seems to be in the mix. This is alluded to in the following sections.

Interactions between the pillars

This is where the rubber hits the road - the relationship between the Age pension and its eligibility requirements for superannuation eligibility, voluntary savings and the family home. Scary stuff.

There are a number of areas where the interactions between superannuation, the Age Pension and voluntary savings may drive behaviour. These include:

The difference in the age at which superannuation and the Age Pension can be accessed. This may affect decision making around when to retire, and how heavily new retirees draw on superannuation to fund retirement ahead of meeting the age requirements for the Age Pension.

The way assets are treated under the Age Pension means test. Some stakeholders suggest that the current assets test taper rate creates high effective marginal tax rates on savings… this may discourage working age Australians from making superannuation contributions and encourage retirees to dissipate their assets in retirement.

The way the family home is treated under the Age Pension means test. There has been debate about whether the exclusion of the value of an owned primary residence from the Age Pension means test may result in Australians overinvesting in their family home (Senate Standing Committee on Economics 2015, p. 198). Footnote 1. In the Treasury Review. There is an implicit value of an owned primary residence of around $210,000 incorporated in the lower assets test thresholds of home owners compared to non-home owners.

Firstly, let's be clear. The majority of people now can access their superannuation at preservation age which is 60 for people born after June 30 1964. The overwhelming people now can access the Age pension or are eligible for the Age pension when they reach 67 years of age. This is a huge difference and can skew investment accordingly and lead to a variety of workforce decisions. I think it impertinent to give the government ideas about what it could do to stop people from accessing the Age pension but the government has alluded to and tried to implement various policies already and doesn't need the input of private concerned citizens to speculate on the depths to which it could go to improve its finances at the expense of possibly those who can least afford it.

Of course anything the government could do to improve the livelihood of people would be welcome. Secondly, the assets test taper rate is something worthy of further investigation. It is a perverse arrangement that the rate at which a person loses a dollar value to their pension is so draconically linked to the amount at which they earn over a cut off limit. Some relaxation for those at the bottom would be welcome but successive governments have been loath to lose taxation revenue from this so they persist with the low threshold cut off limits which, in addition to levying high marginal rates of tax on those who work and receive the age pension, disincentives people of pensionable age or entitlement to work more. This is going to be a very interesting juggling act.

Thirdly this section alludes to the possibility of a value on the family home as part of the assets test. An arbitrary amount may be set. So instead of reverse mortgages there might be compulsory downsizing. There are many variables here not just in this 3rd part regarding family homes but in the whole 3 options or issues discussed in this section. There are also interesting possibilities for the market. Government policy here can induce market behaviour it may or may not want to encourage.

The last section deals with some pertinent issues in respect of individual choice. Cynical but pertinent:

How individuals engage with the system

Research shows that most Australians do not actively engage with their superannuation or in long term retirement planning (Productivity Commission 2018, p. 248).

There are good reasons for this and I am surprised the Review does not countenance many of them.

Continuing:

Once Australians reach retirement, the complexity of how the pillars interact – including how different assets, income, and personal circumstances are treated by the system – can make it difficult for individuals to determine how to efficiently maximise their retirement income.

This is because maximising retirement income can come at the expense of assets and savings. Retirees want to protect their assets and savings first. The Review authors don't account for the fact that property as a source of capital gain and wealth accumulation invariably increases at the rate of many times that of Average Weekly Ordinary Time Earnings (AWOTE) annualised. To tinker with the system too much would be to force people to make income or capital losses. I love this:

Financial advice may assist retirees in navigating the retirement income system. A range of financial advice options are available to help individuals understand their entitlements and their potential retirement income. These range from comprehensive personal advice from a financial adviser, through to general information through resources such as the Australian Securities and Investments Commission's (ASIC) MoneySmart website.

These next sentences in the Review reads:

These arrangements provide everyone with access to a level of financial information or advice, regardless of their means or the complexity of their financial affairs. Superannuation funds are also an important source of information and advice for many Australians, particularly as they approach *retirement. It is however not clear the system is sufficiently simple to navigate without resorting to some form of financial advice, or that there is sufficient support provided to ensure individuals feel confident making financial decisions about their retirement.*

Hilarious. Compulsory financial advice for elderly people in or approaching retirement reduced to a Mickey Mouse stock standard Government website. FAQs anybody. Why not a PowerPoint presentation for good measure and good humour? How about a voicemail presentation by phone like a politician's robocall during election time? Financial advice for people in later years nearing the end of their working life or in retirement has not ended well in many cases. Anxious, concerned and yes, greedy susceptible people have fallen victim to con-jobs or persuasive sales pitches with investment schemes which have turned out to be dodgy or at best, risky. These people too were concerned about the adequacy and sustainability of their retirement income. Financial advice may "assist" but it can also be costly and inadequate and poor. Such advice can and has in many cases cost the family home.

There is the case of Timbercorp.[5]

Who could forget the case of Great Southern that went under owing $1.8 billion to creditors?
[11]

There is the case of Westpoint which owed $312 million in lost investors' money. Billions more were lost by the company. [12] Founded in 1989 it was defunct in 2006. It had a focus on property investment and development specifically. This should sound alarm bells:

The debts total $312 million, including $3.5 million in unpaid super.
[13]

Storm Financial was another large financial collapse of an investment company. A finance company with over 13,000 investors it went broke in 2009 spectacularly owing $3 billion. It invested its branded Storm Financial investment products into non-branded ones like Colonial First State and Challenger.
[14]Marked by excessive fees, commissions of various types and in a depressed investment market worldwide the losses were horrific and many people, several thousand, lost their life savings.

Corporate collapses in Australia where the company owed clients millions of dollars is the stuff of legend. Poor performers in the finance and investment field are the stuff of even bigger legend. The Review authors would be aware there is a Royal Commission into Banking and the Finance Industry including Superannuation. This has been brought about by repeated illegal and unconscionable behaviour by banks and those finance and investment companies with their priorities in finance and investment products and services like superannuation. All the big 4 banks have been hauled reluctantly before the Commission and asked to explain their poor behaviour.

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11 5 ABC News, Victims of collapsed agribusiness investments still pursuing financial advisor over losses, July 16, 2015.

Parliament of Australia, PARLIAMENTARY BUSINESS.COMMITTEES. SENATE COMMITTEES. SENATE STANDING COMMITTEES ON ECONOMICS. FORESTRY MANAGED INVESTMENT SCHEMES. REPORT. CHAPTER 2. 11 MARCH 2016.

12 https://en.wikipedia.org/wiki/Westpoint_Corporation. 1 Oct. 2019

13 Ibid.

14 https://en.wikipedia.org/wiki/Storm_Financial. 7 Dec. 2019

Like aggressive cold-calling sales and marketing techniques over the phone to mentally disabled people. Like charging account fees to dead people. Like trailing commissions. Fee for no service. Loan books from smaller lenders taken over by the larger banks without the knowledge of the account holders who are then unable to seek refinancing elsewhere with terms of the initial loan re-negotiated or loans called in. Caution needs to be exercised in the financial advice and investment industry. There is no such caution issued in this Review and this no doubt reflects the current government's *laissez faire* attitude to markets generally.

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Concluding comment and summary analysis on the Retirement Income Review main work

The poor Australian worker. Their whole lives working making other people rich and building up their country with a government using every means and excuse they can muster to chisel them out of their entitlements. Having foregone wage rises in the 1980s to make the Labor administrations of Hawke and Keating look good, their reward was a paltry non-guaranteed investment risk-prone compulsory superannuation account. If they were lucky. Many businesses small to large who filed for bankruptcy, went out of business quietly or abruptly or went into administration, owed many of its workforce varying sums of superannuation money which were never able to be retrieved. Therefore these people lost out doubly. No wage rise and no superannuation account to show for it. The small amount in super being a glorified savings account still would have been handy for those fortunate enough to have one once they ceased employment for whatever reason. The response of many employers to this government imposed wage freeze which had the backing of the ACTU in stitching up their own workforce was to outsource labour to piece rates which is happening now *en masse* with the gig economy. Taxi drivers. Uber drivers. Delivery drivers. Hospitality workers often delivering food orders by their own vehicles. Agricultural labourers. Other tactics have been to import workforces from overseas on temporary work contracts as in agriculture to a great extent. Outsourcing which is shifting production overseas is one sure way to avoid superannuation obligations to employees. The construction industry and the transport industry have such casualised labour often contracted out by labour hire companies. This negates the need to pay superannuation via the SGC. All the while the real issues at stake, namely the high cost of housing since the late 1990s and the low level of wage increases since late 2013, go unaddressed while the government is looking at ways and means to trim its retirement welfare budget. So we have a tidal wave of wage freezes imposed arbitrarily from 1982-83 and from 1989-1993, wage stagnation from 1983-1988, compulsory superannuation instead but not guaranteed as it is compulsory Defined contribution not Defined Benefit, no tax cuts as they were scheduled to be used for super contributions instead again paid for by the employee (Keating's LAW tax cuts of the 1990s), the Howard Government's GST of 2000, insecure employment throughout the 1980s and 1990s and the 2000s, WorkChoices in 2005 giving employers the complete upper hand in wages and conditions negotiations and workplace bargaining, the Rudd and Gillard Government's Fair Work Act (read WorkChoices lite), no increase in superannuation contributions much beyond 9% of salary since 2002, stagnant wage rises and no living standard increases - effectively a wage freeze - delivered stealthily by varying conservative administrations since 2014 and we wonder why there is a problem with retirement income. To top it all off the current Government wants to force these same people to take out reverse mortgages, downsize their home, forego wage increases and be their own accountant. To be sure there were regular and substantial wage increases for employees from 1998-2013 but this in no way kept pace with the increase in property acquisition or rent for those not in their own home. Rent is a small part of the Consumer Price Index (CPI) and house prices don't form part of the CPI at all yet constitute so much a part of living expenses. This is a glaring anomaly of the system for measuring cost of living. If this is the only commodity going up in value yet it is not measured in the inflation figures there is something very unfair in the way the economy is measured and assessed. In 1974 wages increased by 27% but there was something to measure that against. Inflation of 17% thereabouts. Oil prices quadrupling from 1973-74 before settling down to triple their pre-1973 price. Property prices increased four-fold from 1996-2005 yet this is not even measured in the official CPI figures! And wage rises occurred in single digit figures each year, usually around 3-4%. No wonder there is such a crisis under way for people approaching retirement. The Review isn't considering the crises in these macro-economic areas and if the government and its agencies does commission or undertake reports itself into these macro-economic areas I have mentioned in this Review I surmise they won't seek community consultation or public input.

One other area of superannuation as it applies to the SGC I will mention, and I have been remiss in my analysis of it thus far, is the perverse outcomes it has produced. The SGC set a very low bar as the initial compulsory rate was 3% of salary. As award or non-award coverage of super for employees was in excess of 70% there was no real problem with coverage. The Federal Government used the excuse that it wanted to ensure complete coverage of the workforce so that no missed out ostensibly. This from the Government that was more than happy to enforce wage stagnation from 1983-88 and kept Malcolm Fraser's wage freeze of 1982 going for the year 1983 and imposed another wage freeze again in 1989 and kept that going till 1993 when it came up with the concept of workplace bargaining when unemployment was 11.3%. This was the same government that imposed the Wages Accord as per the above arrangements for years yet prosecuted unions such as the Confectioners Union and the Builders Labourers Federation and the Building Workers Industrial Union deregistering them if they dared go outside the strict guidelines of that accord – even using up and coming Liberal Treasurer-to-be Peter Costello to take them to the Arbitration Commission on behalf of Dollar Sweets and penalise them for daring to seek fair rise in wages seeing as prices were not bound by this accord. Suddenly PM Keating brings in this 3% SGC and suddenly all of the employers who resented paying 5% or more of salary to a complying superannuation fund, had a pathway legally to pay their employees less. Certainly the Liberal National Government of NSW thought so they introduced their First State Superannuation (FSS) Fund for new State Government Employees. Previously NSW State Superannuation schemes were Defined Benefit ones offering generous retirement payments to employees but this SGC meant that the NSW Government in 1992 could close off these existing Defined Benefit schemes like State First for new members, retain them for existing members and put all new employees into FSS. The SGC was introduced at a time when unemployment was rising to over 11%, when the unions were weak industrially, were compliant with the Federal Government of the time and lacked independence, were restricted in what action they could take and were bound by the Accord with the Labor Government.

The global coverage of workers in Australia was a myth as well because it did not apply to casuals, had limited efficacy for part timers, did not apply to self-employed who were growing in number in economic sectors and occupations through the use of sham contracting and did not stop the widespread outsourcing that was occurring in manufacturing and service sectors.

CONCLUDING REMARKS AND RECOMMENDATIONS

The Review has insurmountable problems such that its value as a document to guide a community consultation process and a thorough investigation into the issue of and issues surrounding Retirement Income is seriously called into question. The text appears as a "rush job". Hurried. Leaving more to be desired. A "pat" job.

Justin O'Connell
justinoconnell@bigpond.com

The pillars are poorly developed as concepts and reek of corporate speak. The underlying principles are just inventions and many more could be added or substituted. I notice that words like integrity or honesty don't form integral parts of the lexicon in this Review. A worrying sign. Stability and security would be welcome too as underlying principles or retirement objectives. Their absence from the text leaves one with the impression that life in retirement will be a never-ending cycle of nasty surprises. Fat chance of fairness darkening the door of the Review panel in its considerations unless it is forced down their throats.

There are many omissions of facts and issues in the analysis of the Review. There are repeated falsehoods. The main falsehood is the repeated assertion that home ownership – chiefly the family home – constitutes voluntary savings. This is done so to fit in with the "theories" inherent in the Review and which form the basis of it.

The main theoretical basis of the Review is that is that the retirement income system is built on 3 "pillars" (a buzz word if ever there was one) and that questioning the basis of one of them into falsehood, irrelevance or neutrality undermines the thrust and basis of this Review. Unfortunately the voluntary savings component or pillar is not the only area of analytical deficiency in the report. The pillars referred to here can only be referenced to the pillar of salt in Biblical folklore as they have just as much foundational strength. The analysis of superannuation is brief and not very accurate.

The family home is not voluntary savings *per se*. The family home is or can be a purchase via a loan. It is a commercial exchange, vehicle or instrument. When and if it is paid off it is a loan pure and simple and no different to the purchase of a car, boat, furniture item or electronic consumer or a capital good for business if the process for acquisition, that is, a loan, is the same. The family home can be inherited outright, 'gifted'. There is no distinction made between voluntary saving and gifting. There is no accounting for the fluid nature of property investment. There is no accounting for the high value – gifted or purchased – of high end consumer items or capital goods which can be valued more than property. The definition as per this Review also precludes renters as capable of voluntary savings – even for purposes other than saving for purchase of a home. They don't own their home so they are *ipso facto* not voluntary savers. What rubbish!! The Review panel is reading from a script with all the subtlety of a Mumbai call centre harassing the unsuspecting recipient of their unwanted calls to change internet providers because there is a (non-existent) fault with the current provider.

On the basis of this definition of voluntary savings, does superannuation deserve the ignominious title of involuntary savings?

Superannuation is similarly dealt with dishonestly. There is no differentiation made between Industry and Retail Super schemes. This is significant and a gross error on the part of the Review and its authors. Industry schemes are non-profit schemes, attract less fees and charges and are stated to run for the primary benefit of their members. Sometimes they are called members-only because they are specific to an Industry or occupation. Retail Super schemes are for-profit schemes, attract higher fees and charges and are run for the benefit of account holders as well and often behind that of shareholders, executives and the profitability of the Company.

There is no thorough analysis made and no differentiation made between Defined Contribution schemes and Defined Benefit schemes. Defined Contribution schemes are Industry or Retail Super schemes. These are market based, work on unit pricing and earn interest at the rate of the investment strategy option within the fund. They are funded by the account holder. They offer some investment choice for the account holder but also market risk. They are commonly called accumulation schemes. Defined Benefit schemes are Industry or, sometimes, occupation-specific, schemes where the benefit is assessed and paid on retirement. These are based on formulae incorporating super salary, age, rate of contribution, length of contribution and offers a choice of payout – lump sum, pension for life or a combination. The fund earns interest at the default rate and they are unfunded. It is strictly speaking a deferred liability for the employer. These schemes have tended to be more costly for the employer and there are far less of them than there were even 20 years ago. They are a superior option and they are in frequent use in Europe, the UK and in North America to some extent.

The introduction of the SGC in 1992 was clumsy and unnecessary. Businesses who weren't paying into an award or non-award based fund and resented paying it, did all they could to avoid doing so.

The amount of contributions was a paltry 3% of salary rising to 9% after 9 years all things being equal which they never are in economics or politics. These are utterly inadequate amounts for personal investment opportunities and retirement income.

Its (the SGC's) introduction was delayed repeatedly.

The 3% was for wage rises foregone earlier yet much more than 3% of salary was foregone in the decade leading up to its introduction in 1992 and more salary was foregone after this date as well.

For the SGC to work better than it has for members, it should have been introduced soon post the 1982-83 recession. Roughly introduced at the same time as Medicare would be ideal.

The 3% of salary set a low benchmark for business, usually unscrupulous ones, to aim for, particularly those struggling in the poor economic environment of the 1990s. They couldn't not pay back the bank with rates ranging from 16-22% for business loans unless bankruptcy was the only feasible option, which it was for several notable cases, but it was much easier to cut labour costs. Inferior super schemes were obvious choices. Even NSW Inc., i.e., the NSW State Government adopted this path. Such a path also encouraged the Federal Government to close off the PSS defined benefit scheme to new members from 1 July 2005. As a consequence, most super account holders now are hostage to market risk. In a 730 Report interview on ABC late 2019, former Liberal Treasurer from 1996-2007, Peter Costello, stated that superannuation is a good investment when the market is going well but in his trademark smarmy manner, pointed out that there was risk, uncertainty and bad times ahead when the share market collapses and it is in the Australian share market where most superannuation money is invested. Of course, Peter Costello did not suggest any ideas or solution to this problem other than to point out the obvious unlike Keating who thinks all is rosy with the administration of millions of superannuation account holders.

Superannuation is too much imbedded into industrial relations policy that it is a risk for employees.

Most super account holders lack the necessary knowledge of markets and financial products to guide them through a wise, prudent and profitable investment path. These combination of factors are difficult if not impossible to achieve even for experienced, reputable financial consultants.

The rules behind superannuation have changed and were changing even before the introduction of the SGC in 1992. The complexity and uncertainly has only multiplied since.

There are ever-changing tax concessional limits making it an investment nightmare.

Superannuation is a financial product like any other – insurance, a managed fund, a term deposit or a share portfolio. It is indistinguishable from other financial products except for the fact it is mandated leaving it open to rorting and abuse by financial institutions who have a captive market.

Justin O'Connell
justinoconnell@bigpond.com

The Keating Government's strategy through the 1990s incorporating greater onus on employees to contribute to their own super – through foregone wage rises and reneged promised tax cuts – was overturned by the election of the Howard Liberal Government in March 1996 and only the 9% employer contributions plan was enforced and legislated and even this was delayed till 2002/3 budget and held at this level till 2014 where it shot up to the staggering rate of 9.5%! Politics is a factor.

There are billions in lost super accounts which would be better sloshing through the economy. There are billions more in inactive super accounts usually with a low balance. These are problems not even mentioned in this Review. Outrageous!

Businesses had worked out many strategies to avoid compliance with the SGC just as surely as many of them had worked out how to pay less than their pre-1992 contributions to an award based super scheme that the Hawke and the Keating governments said were broke.

Enforcement mechanisms for superannuation theft are manifestly weak.

The only resolution to the problem of superannuation is a universally applied and vigorously enforced Defined Benefit Scheme on a per Industry Fund basis.

The Age Pension is set at poverty or subsistence level and it is only a poverty alleviation measure if the recipient is debt free and owns their own home outright. As more than 40% of people retiring do so with some mortgage owing, there is a real concern here. **The Age pension should not be weakened** as many people will either not receive super at all or receive inadequate amounts of it.

The real issues for the topic must incorporate rates of home ownership, mortgage stress, home equity and other forms of indebtedness like student loans on the one hand and Wage rises and living standards on the other. Homes and Income. These should be the focus of community consultations not a retirement incomes policy which the authors have stated will not focus on other areas which impact on retirement incomes like health, housing, aged care, industrial relations and so forth which constitute the foundations for individual retirement standard of living.

The real beneficiaries of the superannuation system particularly exemplified in the SGC are the large banking, finance and investment companies. CBA, NAB, ANZ, Westpac, AMP, Colonial First State, MLC. They are the beneficiaries in a captive savings and investment market taken out of the pockets of wage earners. These and the share market are the real winners of Keating's super bonanza to the big end of town for which they extract healthy fees, charges and commissions. Any changes to make it hard for people to access the Age pension or any measure to compel people to invest more into super will see the Finance sector become a larger rent seeker than the private health insurance industry ever was with the introduction in 2000 of Lifetime Health Insurance cover (the stick) and the 30% Tax Rebate for membership (the carrot). People need to be wary and suspicious of governments in the area of retirement income.

The Review is laden with tautology and overall provides bureaucratic and patronising assault on working people. **An entirely new review needs to be commenced with direct public input first**.