Retirement Income Review Secretariat
The Treasury
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PARKES ACT 2600

Retirement Income Review Submission 2020

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

Yes, the concept of reward for effort is imbedded in the Australian culture and the current system does not respect or provide for this. New Zealand, Norway, Denmark and the Netherlands have a fairer system in my opinion however to cut over to any of these systems in whole or part would take a long and slow transition. Due to the sensitivities of this very important national issue I feel it should only be addressed via a referendum during an election process.

Example (1): A young couple both working in average paying public sector jobs decide to live up to and beyond their means all their working life. New cars, latest technology, overseas holidays, lavish expensive gifts and a large mortgage in Sydney as a place of preference to live and achieve tax free capital growth. On reaching 55 years of age they decide to retire and live off their accumulated earnings until pension age. Both working for the public service they have been able to salary sacrifice their super, very large mortgage, new motor vehicles and utility charges all their working life. On reaching 60 they decide to sell their Sydney residence for say $2.0 million and relocate to the Gold Coast where they purchase a penthouse as primary residency for $2.0 million. They have enough funds in super to live the high life until age 67 at which time they have a super balance of $394,500 which they convert to an annuity. They have a 7-year-old low KM, BMW X5 in the garage and flash but not new expensive furniture, jewellery and clothing. From here on they collect the full pension (including all benefits) plus the annuity income and live into their early eighties. On death they leave their $2.0 million penthouse plus 20 years of high capital gain to their children tax free.

This is not reward for effort and is grossly inequitable, yet many public servants including most politicians play the system this way.

Example (2): A young couple both hard working in award paying private sector jobs decide to live a modest lifestyle and live within their means all their working life. They live in regional Queensland with limited services and professional support. Second-hand cars, modest housing and limited holidays are the norm (expensive connecting flight costs limit cost effective overseas travel opportunities). Education expenses are high for their children especially when attending and boarding at university in Brisbane. Non the less they struggle through paying full price for their mortgage, car loan and utilities (no salary sacrifice). They cannot retire at 55 because they have not been able to accumulate enough funds (no salary sacrifice) so work until they reach age 67. At this point they have a second-hand Toyota car, a house worth $350,000 and some modest furniture and personal belongings. Their combined super amounts to $394,500 and they qualify for the pension.

They live to their late seventies (life expectancy is lower in regional areas) and on death leave their $350,000 home plus minimal capital gain if any to their children tax free.

Q1. Who has the taxpayer clearly funded the most?

Q2. Who is better off throughout life and on their death bed?

Q3. Who has been provided the best taxpayer funded health, education, transport and entertainment opportunities throughout life?

Q4. Whose children will benefit the most from the Australian taxpayer.

Both examples have delivered the same levels of productivity to the country, yet the first example has received the lion's share of taxpayer assistance.

This is not a fair go and is one of the reasons that regional and remote Australia is being deserted.

Q. Consultation questions: What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes? The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom? What are the trade-offs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?

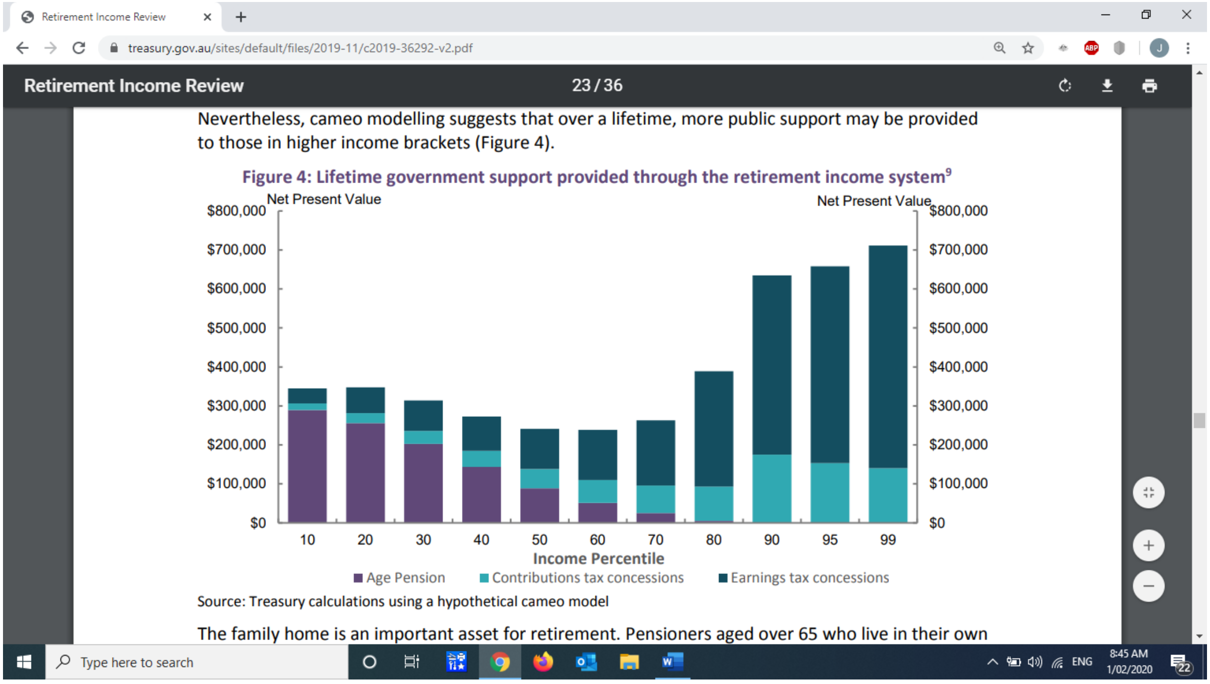
The pillars are heavily biased in favour of the public sector employee and the ability to accumulate wealth through salary sacrifice and the two speed wages system in Australia. Private sector wage growth is stalling (1%) while public sector wage growth continues unabated (2.5%). The total benefit difference between the public sector and private wage earner is large and increasing daily. As a disproportionately high percentage of workers in regional and remote Australia are private sector employees this imbalance is severely impacting these communities. On top of the day to day disadvantages experienced in regional and remote Australia we then have the significant disadvantage on retirement.

Q. Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future? Are there other principles that should be included? How does the system balance each of the principles and the trade-offs between principles (e.g. sustainability and adequacy) under current settings? What is the evidence to support whether the current balance is appropriate?

Short answer 'No', equity is not delivered or possible with the current system. There is little point in pouting equity when you have the inequality between the public and private sector wages and benefits. If someone works hard all their life in the private sector they contribute just as much productivity as someone who works hard all their life in the public sector, yet the public sector is rewarded much more from the public purse. New Zealand addresses this issue by not placing an asset means test on the pension, but rather taxes pension income. Combine this approach with a flat rate tax incentive for investing in super and many of the abusers of the system at the top end including the public sector would change their approach. All salary sacrifice provisions for the family home, cars and utilities should be removed so that all employees play on the same level playing field. Salary sacrificing the family home is no different to negative gearing the family home yet generally only benefits the over privileged public sector.

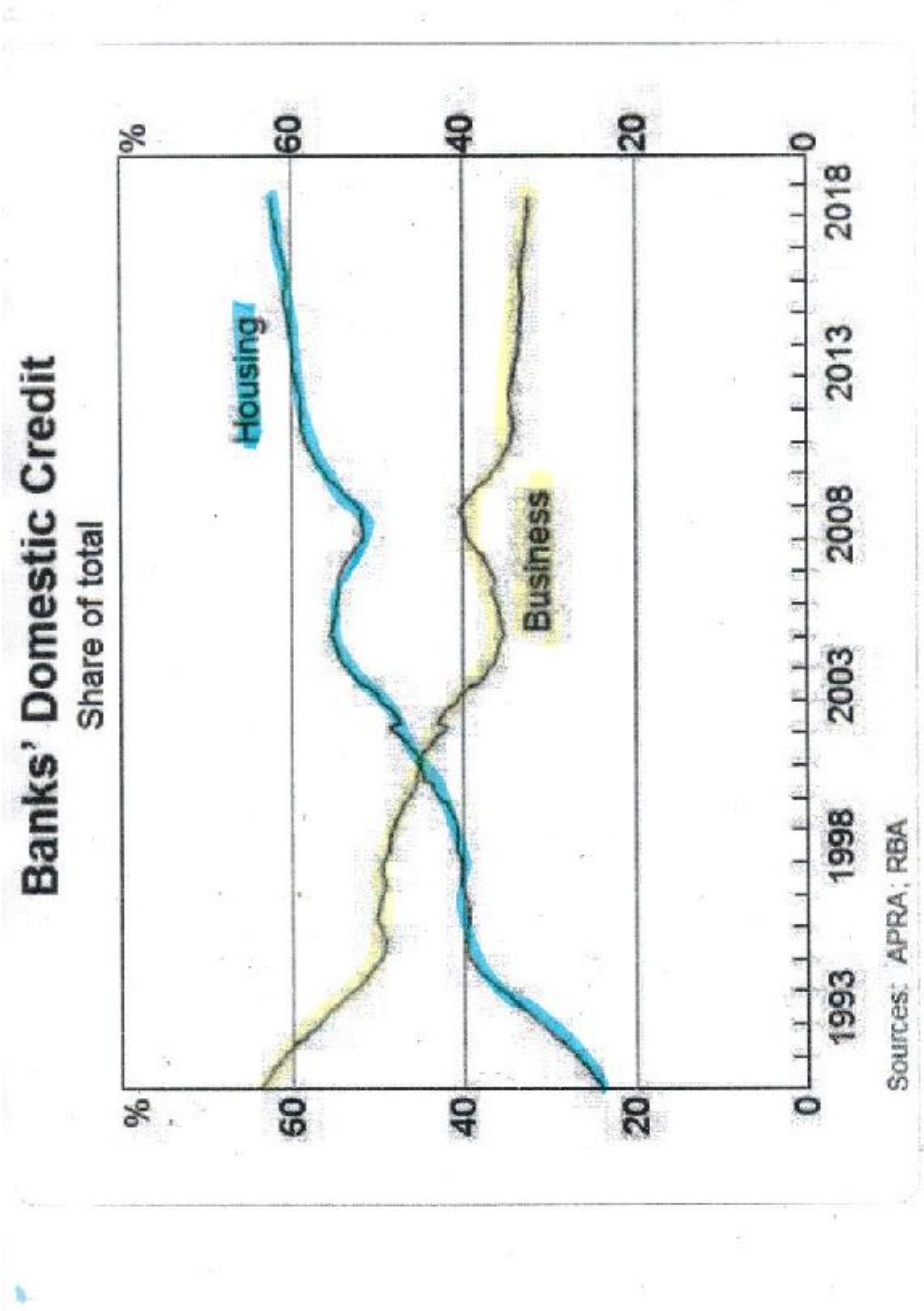
Q. What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflects a proportion of pre-retirement income (and if so, what period of pre-retirement income); or matches a certain level of expenses? What evidence is available to assess whether retirees have an adequate level of income?

A novel approach that is more equitable is to link pension benefit from the public purse to productivity and not earnings as would be the case if determined on pre-retirement income. Many in the public service can score a high paying job just before retirement and this would bolster their benefit if pre-retirement income was the basis for the pension allowance. Having worked in the public sector for 38 years I have witnessed collusion in this area between good mates helping one another push their payout in particular taking advantage of the defined benefit scheme. The problem with earnings is that many employees are not paid what they are worth but rather what they have been able to negotiate with industrial muscle. This is also demonstrated with controlled and regulated overpriced professional service employees. One could argue that a motor mechanic is just as important to Australia as a high-priced lawyer or doctor. Another example is the Vet industry where vet surgeon receives an average of $75,000 per year and yet a human surgeon receives on average $138,000 per year. One could argue that the Vet surgeon has a broader range of skills and patient types and therefore should command a higher pay rate. As an Australian taxpayer I am not concerned about someone's payrate or taxes paid but rather their contribution to this country through their productivity and willingness to invest in job creating active assets. Therefore, I propose that the pension be determined on lifetime productivity. For example, someone who has been productive > 90% of their life would get the max pension and someone who has been on unemployment benefit >30% of their working life would only receive the minimum allowance with a taper in between regardless of their profession. I would consider a stay at home mum productive as would be the case also for bonafide health challenged individuals. Combine this with the NZ approach of everyone receiving the taxed pension, a flat rate of tax benefit on super contributions and the removal of salary sacrifice provisions for the family home, car and utilities and the game changes.



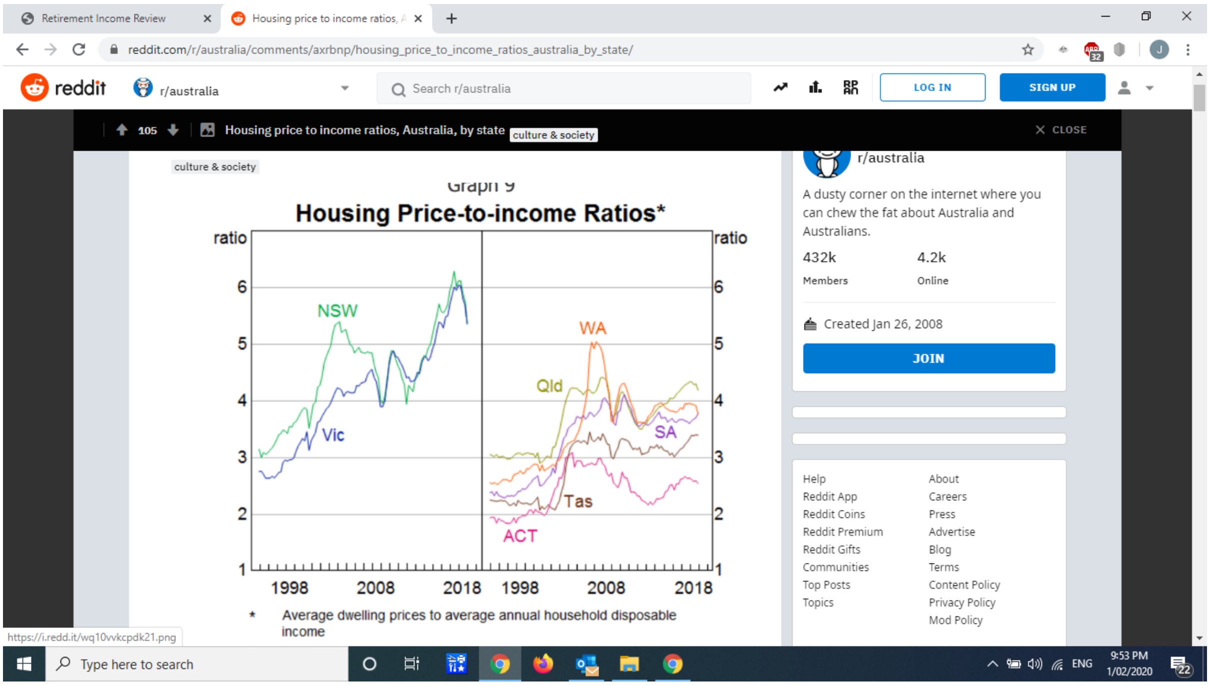
Q. What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (e.g. women, renters, etc.)? Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age? To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life? What are the implications of a maturing SG system for those who are not covered by compulsory superannuation?

The graph above demonstrates that the average hard-working person who has a go is losing out. It should not be that an employee who works harder is worse off overall. The graph should taper from left to right on a gradual rise with no dips. Many average hard-working people are becoming pension capped by assets and not income with the low interest rate environment and this is directing assets investment into passive assets rather than active assets. As this trend is likely to continue in the medium term, I suggest that the asset cap be removed altogether, and the NZ approach be adopted to concessionally tax income from all sources while paying the pension to everyone over the eligibility age. This approach would allow for changes in return on investment as the market moves and ensure a fairer, more equitable and much simpler outcome. Those who chose to live the high life on the back of the Australian taxpayer can do so but they pay their fair share of tax accordingly. Removing the asset cap puts all forms of asset on a level playing field in that some may choose to have assets tied up in passive assets and others in active assets. Those that want a higher standard of living can invest their money in active assets and receive a balanced growth and income return. This investment spread may change over their retirement lifetime as circumstances change. There should be more incentives to invest in active investments rather than passive non-productive assets such as an overpriced primary residence. Sydney has some of the highest priced housing in the world at around 9 times average household income, this is unsustainable and reflects international and local speculative investment rather than rational long-term residency investment and should be treated as such. High levels of debt secured by passive assets are a one trick pony and do little to generate sustained long-term jobs and prosperity for our country.



<u>This is our problem, the one trick pony</u>

Alternatively, one size does not fit all and genuine primary residence assets in all other towns and cities other than Melbourne and Sydney should be treated as they currently are as they are not and generally do not experience excessive growth rates. Housing assets in Melbourne and Sydney should not be in or out of the assets test but rather treated proportionally based on a multiple of average household income. For example, the first part, say up to six times (Australian average multiple) average household income would be asset assessment free and the remainder would be asset assessed. In other words, split the asset into residential and investment trenches for means testing. Everyone knows that **new purchases** in Sydney and Melbourne are driven by investment growth prospects. Renting or leasing is the more attractive option based on the gross rental returns achieved in these cities when ignoring growth. This approach would lead to more affordable rational house prices in Sydney and Melbourne over time if international investment was effectively managed as has happened recently in New Zealand. Ultimately one would hope that the means test would prove to be temporary ion nature and only have impact until the house price in Sydney and Melbourne return to rational values. A win, win outcome for the home buyer and internal revenue.



I don't support the older Australian remaining in the workforce as this simply holds out a new young employee. Youth unemployment is very high in many parts of Australia, this is unhealthy and will impact severely on Australia's productivity and business competitiveness due to low levels of real work competency in our youth going forward. Encouraging retirement transition and the creation of a mentor structure that allows the gradual introduction and transition from old to young should be perused if this competency shortage is to be avoided.

Q. Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes? What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour? What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood? What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice? Is there sufficient integration between the Age Pension and the superannuation system?

Short answer 'Absolutely not' the current system is heavily biased and exploited by the public sector and the seriously wealthy. There is no incentive for most private sector employees to progress to the middle-income percentile as demonstrated by the bar graph above. Why would someone choose to save extra to effectively lose money at retirement? It is hard enough to encourage the current generation to work harder or stop spending money on toys and overseas holidays let alone encourage them to put good money after bad and loose at retirement. If you can't see yourself ever achieving the 90th income percentile, rationally why would you even try? Opportunity expenses such as home/car loan interest and credit card costs are a better investment than superannuation for the low and middle-income family (Grattan Institute). The problem is that most will not use the money wisely, rather go on holidays, upgrade their toys, buy a bigger house or boat etc and still be 100% reliant on social security throughout life. So, superannuation is an effective means of forced saving for these people. My father once said to me that farming was just a job with a process of enforced saving, and he was correct. Farming successfully requires hard self-disciplined work and continual investment until retirement. Weather and commodity prices are very humbling and force rational thinking that encourages planning and living within ones means.

A new analysis by Dr Cameron Murray a Sydney University economist has found that the age pension is over 20 times more efficient at delivering retirement incomes than superannuation.

Q. Should the federal government take over the funds under management and manage them as is the case with KiwiSaver, would this be more efficient?

In summary the problem is not the systems themselves but rather the ability of some sectors to exploit the process and achieve unreasonable benefit from the taxpayer's purse, this is what needs fixing. Another even bigger issue is how we incentivise individuals to be more responsible for their own outcomes rather than adopt very selfish strategies of self-reliance on social security as a backstop throughout life.

This issue is very sensitive and impacts many people so it is my firm belief that any major change to the current arrangements must be taken to an election and not implemented by stealth.

Kind Regards
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