Retirement Income Review

Comments on Consultation Questions

Summary

I would like to thank the Retirement Incomes Review panel for the opportunity to make this submission in relation to their Consultation Paper.

I make this submission as a retiree with an interest in improving the retirement incomes framework in Australia and ensuring that any government assistance provided to assist older Australians in their retirement is directed to those older Australians most in need of that assistance.

In addressing the consultation questions, I have come to the understanding that the way government assists retirees is many faceted. I have also come to an understanding that in considering support for retirees the treatment of direct government payments, such as the age pension, are treated in a completely different manner to support which is provided by way of taxation concessions, deductions and benefits.

It is clear that, whichever way support and assistance is provided to retirees, it should be considered within a similar policy framework and similar rules and provisions should be applied to ensure that government funding, either direct expenditure, or revenue foregone, is directed to those most in need.

While I have provided detailed responses in relation to each of the consultation questions put by the panel, I would like to provide the following summary remarks.

1. There is a clear need to benchmark our retirement system against that of some other countries. In particular our system should be, as a minimum, benchmarked against the system operating in NZ.
2. Our system requires a considerable degree of financial literacy on behalf of both workers and retirees if they are to gain the most from it. The consequence of this is that many are disadvantaged.
3. While accepting the three pillars approach, the assessment I have undertaken highlights that
    - there is a lack of cohesion in how the pillars work together due to a complex interaction of differing policy approaches applying to each pillar;
    - each pillar is buttressed by additional measures to improve its adequacy; and
    - each pillar is undermined by a range of events that limit its effectiveness in supporting our retirement income system.
4. There is a need for a comprehensive data set on retirement incomes in Australia which:
    - highlights how retirees fund their retirement and the mix of such funding across various sources of income;
    - details their expenditure patterns during retirement; and
    - transparently assesses the costs to government of not only direct expenditures, but also the forgone revenue associated with the wide number of taxation concessions, deductions and benefits applied to various elements of the retirement income system.

5. The cost to government of the current retirement income system is high and is likely to increase rapidly over coming years as the open-ended nature of the SG arrangements lead to accelerating taxation expenditures.
6. The retirement income system has created a large funds management industry that is under performing and charging excessive fees relative to that performance.
7. Retirees bear most of the risk of the system as there a few options available that guarantee an acceptable and adequate income in retirement.
8. The retirement income system is highly regressive with
   - the level of support provided by government increasing substantially for higher income cohorts;
   - means testing, with very high effective rates of taxation, against income and assets, being applied to the lower income cohorts, while support is largely not means tested for higher income cohorts; and
   - savings incentives increased for higher income cohorts.
9. The operation of the SG arrangements, in themselves, do not reduce reliance upon, or the cost of, the age pension to government. What predominately affects the cost of the age pension is the income cohort from which a retiree came, and the savings incentive provided by the SG arrangements.
10. The operation of the system is exacerbating, rather than adjusting to, changes in the Australian landscape:
    - those who have had access to the SG arrangements for a considerable portion of their working life are receiving, in effect, an un-capped and low-means tested retirement benefit when compared to those dependent on the age pension;
    - increasingly more retirees do not own their own home outright and go into retirement either with a mortgage or dependent upon rental accommodation;
    - more Australians are facing a disrupted work history which is not supported by the arrangements of the system; and
    - working beyond the age pension age is increasing and income and asset testing is applied more aggressively against lower income cohorts.
11. Is the role of government to support the provision of a minimum adequate level of income in retirement or is it government's role to support a level of retirement income reflective of pre-retirement income is a threshold question for the Panel.
12. The existing welfare system in Australia generally offers support that cuts out rapidly as incomes and assets increase. In contrast the retirement incomes system offers greater incentives to those who are more able to support their own retirement plans.
13. The retirement income system creates many inequities.
14. Direct budget payments, such as the expense of the age pension, which support retirees are well understood, closely monitored and subject to frequent debate. However, support provided by way of taxation expenditures (taxation concessions, deductions and benefits) are far less transparent, less subject to scrutiny, frequently more open ended in their cost and subject to minimal means testing.
15. The retirement incomes system is on an unsustainable pathway as the largely open-ended cost of the SG arrangements will increase substantially in coming years and grow considerably faster than any savings in age pension expenses.

In conclusion our retirement income system is not delivering the best outcomes either for retirees, nor for the rapidly increasing cost to government. It is however, providing effective support to Australia's funds management industry through the provision of a very tax effective and guaranteed savings stream.

As a result of this deficiency of the system and the lack of understanding of the system generally, any substantial changes will be extremely difficult for government to implement.

Addressing the Consultation Questions

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

It is considered that Australia's retirement income system should be benchmarked against systems in other countries which are much simpler to administrate and also universal. The system operating in NZ could be seen as one such system.

While many countries operate pension systems which are related to a person's pre-retirement earnings, perhaps systems where pensions are reflective of what is required to provide a minimum adequate level of income in retirement may be more appropriate. It would seem that the role of Government is to ensure all retirees have access to this defined minimum adequate level of income. For those in society who wish to have a higher level of retirement income it may be better for the individual to make their own arrangements. Such arrangements should perhaps be independent of Government compulsion and favourable tax treatment (or tax expenditures) such as the processes related to our superannuation guarantee (SG) levy, payroll taxes or other similar measures.

In this regard a standard or universal pension could be considered as a form of retirement income insurance and funded from either consolidated revenue or via a levy similar to the Medicare levy over a person's working life.

As noted in the Consultation Paper our system of privately managed superannuation investment is very distinct. While providing retirees with considerable flexibility in how retirement savings are created and drawn down, this flexibility must be off-set against the considerable uncertainty retirees face in regard to the future earnings of their particular investment option and the on-going and rapidly increasing cost to Government associated with the generous taxation concessions (taxation expenditures) associated with our SG arrangements.

At present the cost to Government of these arrangements is poorly understood, especially when compared to the direct costs of funding the age pension. As a consequence these taxation expenditures should be reported in the budget annually in the same way that the cost of the age pension is reported, given both are important, and very significant, pillars of our retirement income system.

The arrangements applying to fund balances upon death should also be considered against arrangements applying in other countries, particularly the carry-over tax concessions which may have accrued during a fund's life, but which have not been applied to a person's retirement income stream.

Our SG arrangements require a substantial degree of financial literacy on behalf of both employees and retirees given:

- the very substantial number of investment and savings options available;
- the widely varying investment returns between funds in any given year;
- the varying administration charges levied by funds;
- the skills required to define and achieve an adequate level of income in retirement; and

- the administrative overheads incurred by Government and employers in managing the scheme.

While the third pillar of our system is considered to be the family home, with:

- declining home-ownership rates;
- an increasing number of persons reaching retirement and still servicing a mortgage; and
- rent increases outpacing rental assistance,

the on-going relevance of this pillar must be carefully assessed by the Panel during its deliberations.

Purpose of the system and role of the pillars

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

The objective of Australia's retirement income system is poorly understood and can often appear quite contradictory given the many faceted approach taken in Australia.

While the underlying objective would appear to be the provision of an adequate income in retirement at the most efficient cost, it would appear that this objective is not necessarily being met.

Our retirement income system lacks comprehensive data on what income retirees actually receive from all sources, and few analyses I have read fully account for the complex interaction that occurs between alternative sources of retirement income and the operation of our taxation system.

It is a very complex system.

As an example, it may be stated that the objective of the SG arrangements is to reduce the reliance of retirees on the age pension.

However, while there is limited offsetting occurring between pension payments and superannuation fund balances and drawdowns, there is little recognition of the actual cost savings to the public purse.

The age pension imposes a direct cost on the Commonwealth budget which is in the region of $47 billion annually. Access to the age pension is governed by income and asset tests which constrain this spending to those within the community who have limited means in respect to both income and savings. The taper rate (which is really an implied income/asset tax on persons in receipt of the age pension) is in effect the highest tax rate applying within the taxation system.

For income above the threshold the effective rate of tax applying to the age pension is 50%. This is a rate that is not even applied to those in our community who earn the highest incomes. Similarly, the effective marginal rate of tax applied under the assets test is also very high. At a time when the deeming rate is set at 1% for the first $51,800 of assets held and 3% thereafter, the asset test imposes an effective marginal tax rate of 100% on an assumed marginal investment return of 7.8%. Where the assets may be subject to deeming, such as in the case of funds held in a SG account based pension account, the effective tax rate increases to 100% on an investment return of 9.3%. Such a rate of return is higher than the long term return a person may expect from a risky share market investment and it would seem highly inappropriate to apply a 100% tax, particularly when the long term cash flow associated with the investment is likely to be much lower.

Australia's SG arrangements incur a taxation expenditure of somewhere between $35 and $42 billion according to data reported regularly. That the cost of these arrangements is not as well documented as the cost of the age pension should immediately give rise to concern. At the present level of funds under management, around $2.7 trillion, the average fund balance is insufficient to make a significant impact on age pension payments. It is understood that the savings to the age pension from the current level of SG balances is only around $7 billion annually.

The aggregate SG fund balance is projected to increase to around $7 trillion over coming decade. Such an increase will be accompanied by a similar increase in the tax expenditures associated with the SG. It is estimated that the cost to government of the scheme will escalate substantially to between $120 and $130 billion annually.

These expenditures are largely uncapped and not subjected to any means testing of other income and assets. As data in the Consultation paper shows the major benefits from the SG arrangements accrue to those on higher incomes, a situation that will only worsen over time.

For taxpayers on the lowest marginal tax rate, and arguably those most in need, the SG arrangements provide a benefit of just 4 cents in the dollar for each dollar invested in superannuation. In contrast for those taxpayers facing the highest marginal tax rates, and perhaps least in need of assistance from the public purse for their retirement, the benefit received is over 30 cents for each dollar invested. These higher income taxpayers also have a higher level of aggregate investment further skewing the distribution of tax expenditures.

If the objective of a key pillar of our retirement income system is to reduce reliance on the age pension then this objective may be being met progressively over time as fund balances increase, but this comes at a cost.

The cost of the system to the public purse is poorly documented (and certainly not highlighted to the same extent as age pension payments in the annual budget cycle) and the system has few constraints upon it to limit expenditure of public funds (through taxation expenditures as opposed to direct budget outlays) to those most in need.

In fact, and as illustrated in the Consultation Paper, the reverse is happening and those with the greatest capacity to support themselves in retirement receive the greatest benefit from the arrangements, both for each dollar invested and in aggregate over their lifetime.

If the third pillar of the system is considered, then the waters around the understanding of our retirement incomes system become even murkier.

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

The most critical area where there is a need to improve the understanding of how the system works is in the area of transparency. The following elements of the system need to become more transparent.

Firstly, Australia needs a comprehensive data set on retirement incomes. This data set would include data on:

- the level of retirement income being received by retirees; and

- how this retirement income is constituted.

For example what proportion (across income deciles) is comprised of the age pension, superannuation income (from both defined benefit schemes and SG drawdowns) and other sources of income (including dividends, returns from other investments such as real estate, capital liquidations including sale of shares and property, trust disbursements and other sources of income such as part-time work, fees for services and interest income).

Without understanding clearly how retirees finance their retirement through access to the above data any analysis of the system will be significantly constrained. This was highlighted at the recent election where a lack of data created confusion around who would be impacted by changes to dividend imputation arrangements and also to what extent they would have been impacted.

Secondly, there is a need to clearly understand the expenditure patterns of retiree cohorts across decile ranges. Our current system is still largely based upon the underlying assumption of a couple living in a fully owned family home. This assumption is rapidly falling apart with more single person households becoming the norm in retirement and more people reaching the pension age with either a mortgage or needing rental accommodation. At lower income levels retirees also experience a situation where fixed expenditure dominates and these fixed expenditures can be subjected to price rises in excess of accepted CPI levels.

Thirdly, our retirement system transparency must include data on the support provided via the public purse. Part of this support, and the element most frequently highlighted at budget time, is provided directly by way of payments such as the age pension.

However, and perhaps more importantly because the costs are largely hidden and spread across both time and many expenditure areas of both State and Commonwealth governments, the indirect benefits that retirees receive by way of concessions, deductions and other benefits which operate via a complex interaction of taxation arrangements are likely to be poorly directed to those most in need.

Complete transparency in these three areas would go a long way towards providing a data set that would allow the testing of various hypotheses around the objective of our retirement income system. In particular this data would allow assessment of the extent to which:

- the system is providing, as a minimum, an adequate level of income in retirement to meet fundamental living expenses to ensure retirees have an acceptable standard of living;
- the system is delivering such an outcome at an acceptable overall cost to the public purse, both now and into the future; and
- those public expenditures are targeted to those most in need.

In developing a more transparent system of retirement incomes, the policy framework must reflect both the longitudinal costs and benefits received by given cohorts over both their working life and during retirement and the cross-section costs and benefits across cohorts during any single year.

Without such assessment, issues around adequacy, sustainability, equity and fairness will be difficult to assess.

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

Assessing the current system would tend to indicate that the respective roles of Government, the private sector and individuals in enabling older Australians to achieve adequate retirement incomes is as follows:

a) Government

Governments role is to set the overall rules of the arrangements and to provide support to those arrangements. In the Australian context this is reflected by the compulsory nature of the SG arrangements, the tax concessions that apply to these arrangements, the rules pertaining to the operation of both funds and self-managed schemes, the requirements placed upon individual funds during the accumulation and draw-down phases and the tax treatment applied to fund balances upon death.

Government also has a critical role in supporting the provision of the age pension and ensuring its adequacy for those members of the community who, upon retirement, have limited financial means.

Given the funding provided to both the SG arrangements (via a wide range of concessions, deductions and benefits) and the funding of the age pension it is questionable whether or not there are many, if indeed any, self-funded retirees in Australia. The vast majority of, if not all, retirees in this country receive substantial support from the Government in one form or another to support their retirement needs.

Indeed, while on one hand we have an age pension scheme modelled on a welfare model with stringent criteria placed around the level of benefit received, on the other hand we have SG arrangements which, apart from limited constraints, are largely open-ended in their cost to the public purse and where the benefits from the public purse are highly skewed towards higher earning individuals as shown in the Consultation Paper.

Under such arrangements Government's role would appear highly conflicted.

b) The private sector

The private sector is, potentially, the major beneficiary of Australia's retirement income arrangements.

The compulsory nature of the SG has led to the development of a significant funds management industry within Australia that has the role of managing the $2.7 trillion currently held in superannuation funds. In managing these funds, the private sector faces little risk. As has been evidenced by the Royal Commission and the Productivity Commission and numerous other investigations and reports the management of Australia's superannuation asset is:

- subject to widely varying rates of return between funds;
- characterised by a bewildering range of investment options which are difficult to assess and compare;
- subjected to excessive fee structures given the level of risk faced by the fund manager; and
- frequently mis-managed by the application of fees for no service that result in the level of individual balances being eroded completely.

There is no requirement for the private sector to meet performance criteria given its preferential access to the compulsory contributions made by employees during their working life. As a minimum a fund should be expected to achieve the underlying market rate of return net of fees. Anything less than this return implies that the active management of the fund is performing worse than had the fund been invested in a very low-cost market linked investment.

For an individual, a proportion of the concessional tax benefits flowing to their superannuation investment are transferred to the fund manager by way of fees which are recognised as high when compared internationally due to the oligopolistic nature of the funds management industry in Australia. As such funds, and their operations as outlined above are being directly supported by the range of government concessions applied under the SG arrangements in Australia.

Is this an objective of the Government's policy position? I doubt it! But it may well be the case, but an unwritten objective.

c) Individuals

Given the complexity and multi-faceted nature of Australia's retirement incomes system, the role for the individual is perhaps the most complex and risky.

An individual's retirement income is supported by the safety net of the age pension, which barely meets the Henderson Poverty line. However, beyond that it is subjected to income and assets tests which apply excessively high effective marginal tax rates, and which rapidly erode the benefit of the age pension.

Also given the highly variable nature of investment returns, under the SG arrangements individuals are frequently advised to take a conservative approach to the choice of investments they make post retirement to minimise the risk of the fund exhausting more rapidly than expected. Specific superannuation products make such trade-offs for individuals.

Individuals also need to navigate the complex tax arrangements that exist between the age pension, SG fund draw-downs and other income.

As such the risk of the system is largely placed on the individual. Given their limited financial knowledge and understanding, the system is likely under-performing overall for both the government and individual retirees.

5. The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom?

The three pillars framework, while a good illustration at a high level of Australia's retirement income system, tends to gloss over the complexity and inter-relatedness of our system.

Each of the pillars on their own is unable to provide an effective retirement income and each pillar must be buttressed by supporting elements. Furthermore, the strength of each pillar is subject to substantial erosion and undermining by a range of conflicting policies and practices.

Each pillar is discussed below.

a) Pillar 1 – The age pension

By itself the age pension struggles to provide a retiree with an adequate income stream.

The age pension only provides a safety net for older Australians as they exit the workforce. Its level of payment is based upon the assumption that retirees own their own home and as such their direct cash costs of shelter are minimal. This assumption is increasingly untrue in modern Australia.

Net of rental assistance the age pension for a couple provides an income which is just 14% above the Henderson poverty line and just 41% of the average household disposable income for a couple in Australia For the increasing number of singles on the age pension it provides an income that is just 7% above the poverty line and just 54% of the average household disposable income for a single person household. [1]

At these levels the age pension, on its own, falls short in providing retirees with what could be considered an adequate level of retirement income. Experience has shown that those retirees on the age pension alone must budget tightly and they have a very limited financial buffer if subjected to any significant unexpected expense.

The age pension is also supplemented and supported by a number of elements.

For those renting there is rent assistance. However, the level of rent assistance is failing to keep track with the rapidly escalating rents in Australia as house prices reach higher and higher levels. Similarly, those on the age pension receive a health care card which assists in offsetting a range of health-related costs. However, without private health insurance retirees with a health care card tend to sit for extended periods on waiting lists while their health status and mobility decline and social isolation potentially increases. This outcome has the potential to impose substantially increased longer term costs for all levels of government.

Being on the age pension also opens up a range of additional Commonwealth and state concessions and discounts such as cheaper public transport, concessions on rates and some energy products and reduced motor vehicle taxes amongst other things.

These additional supports supplement the age pension and make its real value to a retiree slightly higher than it would otherwise be without these supports.

But the value of the age pension over time is also being eroded by many elements.

The age pension is indexed by the greater of the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI) and then benchmarked against male total average weekly earnings (MTAWE). However, this indexation does not reflect the nature of cost increases faced by low income earners. Low income earners experience aggregate cost increases well beyond the CPI for the range of goods and services they must purchase, and these goods are a large proportion of the basket of goods they purchase. At the same time these low income earners do not benefit from other elements of the standard CPI which place substantial downward pressure on the rate of change in the CPI. In this regard, indexation, while better than it was, is leading to an erosion of the age pension over time.

The age pension is also subject to a means test which imposes an extremely high effective rate of taxation on recipients of the age pension. For persons in the workforce on income

---

[1] Source: https://melbourneinstitute.unimelb.edu.au/publications/poverty-lines, June Quarter 2019.

levels similar to the age pension the marginal income tax rate is just 19 cents. Once a pensioner reaches a pre-determined amount of additional income the pension is reduced by 50 cents for each additional dollar of earnings, a rate higher than for any other taxpayer. At the point where additional earnings result in the pension being cut completely the effective rate of tax exceeds 100% as other benefits which support the pension are also withdrawn.

The age pension is also subject to an assets test. This test reduces the age pension by a minimum of $78 per annum for each additional $1000 of assets once a limit is reached. Where these assets are deemed to return a given level of income the effective reduction approaches $93 for every $1000 of assets above a given level. To place this test in context, it is equivalent to applying a 100% marginal rate of tax on an asset earning a marginal return of 9.3%.

As a safety net for retirees, the age pension provides a minimal level of support and it is subjected to substantial erosion where pensioners seek additional income to support their well-being or have assets to assist them in their retirement.

With more retirees reaching the age pension age and still having a mortgage, the lack of support for mortgage payments impacts significantly for this cohort of retirees.

One final point in relation to the age pension is that its payment is highly transparent, and as such, subject to considerable oversight.

One issue raised recently was that the family home was not included as part of the assets test. The discussion around this issue highlighted that many persons in receipt of the age pension had homes valued at in excess of $1 million. Suggestions were subsequently made that at some given level the value of the family home, or some portion of its value, should be included within the assets test for the age pension.

Without debating the merits or otherwise of such suggestions, it must be noted that there was no discussion relating to reducing the support being provided, via taxation expenditures, to those retirees who received benefits under the SG arrangements. These retirees may well be in receipt of substantial taxation expenditures via a range of measures including concessional tax arrangements on their investments in super and a zero income tax on all income from their SG account based pension fund. These concessions and benefits may match or exceed the level of age pension that less well-off older Australians receive, yet are not subject to any means testing.

The question must therefore be asked whether the largely open ended and non-means tested support those retirees receive via taxation expenditures should not also be subjected to a means test similar to that applied to the direct budget expenditures related to the age pension.

This is a considerably negative aspect of the age pension for those at the lowest end of our wealth scale when compared to the taxation expenditure benefits provided to retirees under SG arrangements.

b) Pillar 2 – Compulsory superannuation

The Consultation paper outlines the second pillar of Australia’s retirement incomes system as the superannuation guarantee (SG) arrangements. Based upon the information contained in the paper the average fund balance for people approaching retirement age is $122,848 for women and $154,453 for men.

While for many people such sums reflect a considerable amount of money, their value in delivering a sustainable retirement income is limited. A SG account based pension fund with these levels of investment at retirement and earning 10% per annum after fees would generate income generated of $12,200 per annum ($470 per fortnight) for women and $15,500 ($596 per fortnight) for men. This income is tax free and would not erode the capital in the fund.

Funds held in a SG account based pension fund are subject to the age pension income and assets test. At these average levels of fund balance a retiree would still be eligible to receive a full age pension as neither the deemed income from the fund, nor the level of assets held in the fund, would trigger a reduction in the amount of age pension received. This will be the case for all funds with a balance of less than $263,250 held by an single pensioner and a combined balance of $394,500 in the case of a couple.

This situation would be compounded where a retiree was to make a tax free withdrawal from the SG fund upon retirement to pay off a mortgage or undertake household maintenance. Such a tax free withdrawal would have the effect of lowering the on-going costs of maintaining a house and reducing direct cash expenses in the early years of retirement. It would also reduce the impact of the income and assets test upon their entitlement to an age pension.

Assessing the benefit of the SG arrangements to an individual is difficult. Broadly three approaches could be taken:

1) The assumption could be made that the individual makes no contribution to their retirement savings, and irrespective of their income level, any savings in the age pension expense would be offset against the taxation expenditures associated with the SG arrangements. This is considered to be an unlikely assumption for two reasons. Firstly, it is unlikely that across all income cohorts individuals will not save in order to supplement their retirement income. It is more likely that individuals will save at differential rates and that those rates are largely correlated with income levels. Secondly, the SG arrangements are suggested to encourage savings and such an analysis would give little understanding of the savings incentive that the arrangements provide.

2) It could be assumed that the individual makes the same contribution to their retirement savings without the presence of the SG arrangements. While, perhaps more valid than option 1) above, this approach would not assess the full taxation benefit provided by the SG arrangements. The impact of taxation on both contributions and fund earnings will substantially lower the level of savings available at the point of retirement in the absence of the SG arrangements under this approach and assessing the savings incentive, the retirement income stream and age pension impacts will be complex to unravel.

3) A third approach is to determine what level of savings would be required to provide the same level of retirement income as is provided by the SG arrangements. This approach more accurately assesses the taxation benefit associated with accumulating a retirement fund and also provides a direct assessment of the savings incentive provided by the SG arrangements. A benefit of this approach is that there will be no direct age pension impacts due to the operation of the SG arrangements. Reductions in age pension expenses will become a direct function of income cohorts and the savings incentive.

The tables below show the outcome of two simulations. Table 1 shows the effect of the SG arrangements on a 40 year old person who began contributing in 1992 and retired in 2018. Table 2 shows the effect for a 21 year old person entering the workforce in 2018.

Table 1
Impact of the SG Arrangements on a 40 year old worker who began contributing in 1992

1992 Income	Income at Retirement	SG Fund Balance at Retirement	Fees Paid	Savings Incentive	Taxation Savings
55,000	84,942	262,888	55,664	3.40%	61,345
100,000	154,440	477,978	101,207	4.60%	151,186
150,000	231,660	716,966	151,810	6.30%	318,082

1) 0.25% annual real increase in income and 1.5% annual inflation

2) investment return is assumed to be 7.5% per annum

Assuming the fund continues to earn 7.5% during the retirement phase this 40 year old worker could withdraw 10% of the fund balance each year until they are 83 or 84. This would amount to around $1,000 a fortnight for the individual earning $55,000 in 1992, $1,800 per fortnight for the individual on $100,000 and $2,750 for the high income employee on $150,000 in 1992.

Applying the age pension income and assets tests the individual on $55,000 would still be eligible for an age pension around $23,000 per annum at the point of retirement. By their early 70s they would be eligible for the full age pension as their SG fund reduced in value. Similarly, the individual on $100,000 would be eligible for a part age pension of $3,000 on retirement, increasing to a full age pension by the time they were in their late 70s. Finally the high income earner would be ineligible for an age pension on retirement, but by the time they were 70 they would have access to a part age pension and a full age pension at 80.

The effect of the SG arrangements for these three individuals is to provide a significant increase in the incentive to save as income increases. At an income level of $55,000 the additional savings required to provide the same balance as the SG arrangements at retirement is just 3.4%. However, at the highest income level of $125,000 the Sg arrangements provide an outcome in terms of the fund balance equivalent to saving 6.3% more of their income each year.

This is quite regressive, with those having more disposable income being given greater incentives to save. This regressive nature of the SG arrangements is further evidenced in the final column which shows the taxation benefit to be increasing at a faster rate than the change in income.

The data in this table highlights how the SG arrangements result in the government providing more support to those who are better off in both aggregate and relative terms.

Table 2
Impact of the SG Arrangements on a 21 year old worker who began contributing in 2018

2018 Income	Real Income at Retirement	SG Fund Balance at Retirement	Fees Paid	Savings Incentive	Taxation Savings
30,000	33,567	351,885	93,715	1.00%	35,382
50,000	55,946	586,475	156,192	5.50%	142,429
75,000	83,919	879,712	234,288	5.50%	248,495
100,000	118,892	1,172,949	312,384	7.60%	404,004
125,000	139,864	1,466,187	390,480	7.60%	534,019

1) 0.25% annual real increase in income

2) investment return is assumed to be 6% real rate of return per annum

Table 2 shows results consistent with those in Table 1. However, in this scenario the impact of the SG arrangements applying over an individual's working life at differing starting salaries is modelled.

Again this scenario highlights the highly regressive nature of the SG arrangements and the increasing benefits provided to higher income individuals. It also highlights the substantial savings incentive available to higher income earners. Of particular interest is that for low income earners there is virtually no savings incentive provided at the lowest income level modelled.

These results tend to confirm the data provided in the Consultation Paper and highlight:

- the cost of the SG arrangements to government;
- the fact that savings in age pension expenses are more related to what income cohort a person belongs rather than the presence or absence of the SG arrangements;
- the limited benefits the SG arrangements provide for lower income retirees;
- that as incomes increase the savings incentive provided by the SG arrangements increases; and
- the benefits, in terms of the level of taxation savings, from the scheme are significantly skewed towards higher income earners.

Therefore, if the purpose of the SG arrangements is to reduce reliance upon the age pension, it is coming at a considerable cost to government and indirectly via the savings incentive. As this savings incentive is lower for lower income individuals, and these are persons most likely to rely upon the age pension it is clear that the SG arrangements do not maximise the benefits that could be available to governments by reducing age pension expenses.

As highlighted earlier the current cost of the SG arrangements is approaching the cost of the age pension in aggregate terms and will rapidly increase to surpass the cost of the age pension over the coming decade. It is estimated that for each dollar spent on supporting the SG arrangements in aggregate each year through tax concessions, around 25 cents in aged pension payments are saved.

As a final point, the fees paid to manage the fund are considerable, and amount to around 20 to 25% of the fund balance at retirement.

Given the above simple analysis it could be suggested that the SG pillar is a very expensive way to save a limited amount on age pension payments. The projected cost which is likely to be in excess of $120 billion in a few years' time must be compared to a cost of around $70 to 80 billion were every retiree to be provided with a non-means tested retirement income of say $30,000.

A positive aspect of the SG arrangements is that it has incentivised the creation of a considerable savings fund within the Australian economy as a result of its compulsory nature. But many studies have shown that these savings have come from foregone income which would have reduced current consumption levels for households in Australia. Has this trade-off been worth it? What has been the broader economic cost of this fore-gone consumption for the Australian economy? These are questions the Review panel should clearly consider.

The effectiveness of the SG arrangements are undermined by a number of factors. A sustained work history is critical if an acceptable fund is to be created prior to retirement. This works against women who have a differing pattern of work to men. Already this is being highlighted with women being worse of in retirement than men of a similar age cohort.

The SG arrangements are also undermined by the fact that the draw-down is not taken as a life annuity by a retiree. As a result, the fund can be managed in a way that significantly increases the cost to the Commonwealth government where retirees have taken the appropriate financial advice.

Finally, for those retirees with large SG fund balances on retirement it is likely that the fund will not be exhausted at the time of death. As a result, there will be considerable balances which have been created in a highly tax effective manner that are available to be included within ones estate and passed to the next generation. I doubt the purpose of the SG arrangements is to, in any way, support the provision of tax effective bequests and this needs to be addressed.

One such way of addressing this could be to track the tax benefits a fund receives over its life and any un-used benefits could be refunded to government upon death from the estate. This may look like a kind of death tax, but in reality the tax benefits applied under the SG arrangements are there to support a person's retirement income, not to create a bequest for the next generation.

The above analysis indicates that the SG arrangements are not effectively delivering on the objective of providing an adequate income stream in retirement.

They are costly to both government and the individual retiree and have created a funds management industry that is not subjected to sufficient rigor to deliver the returns required to effectively support retirement incomes. In this regard it is note-worthy that the best performing retirement fund is the Future Fund that has been created to support the payment of defined benefit pensions for retired Commonwealth public servants. Reports indicate the Future Fund is providing a long term return which is around 1% per annum higher than the best performing SG funds.

c) Pillar 3 – Voluntary Savings

The third pillar of our retirement incomes system can be considered to be voluntary savings. In addition to savings which may be drawn down over the period of retirement, retirees also undertake part-time work and gain income from a range of investments that may well be outside of their superannuation such as real estate and shares.

These voluntary savings may well be managed inside family trust structures which, while offering protection to the assets, also provide a tax effective vehicle to distribute earnings and income.

As the chart on page 5 of the consultation paper shows the major form of voluntary savings for Australian households is the family home. In the past a fundamental aspect of our retirement income system was a fully owned family home. This is no longer the case with more retirees reaching the age pension age while still holding a mortgage or even renting.

For those retirees who still maintain a modest mortgage at retirement, this can be offset by a tax-free lump sum withdrawal from their SG fund. This has two effects. Firstly, household cash expenses can be reduced, and secondly, the reduction in the fund balance provides access to an increased age pension.

As such the purchase of the family home becomes even more tax effective than it otherwise would have been had the mortgage been fully serviced from after tax incomes.

Similarly, family trusts can be used as tax effective vehicles to provide improved access to the age pension, while maintaining assets within the family trust structure and gaining use of those assets, while not necessarily having control or ownership of them.

While the Consultation paper provides data on household wealth by age group, and this data shows a significant decline in wealth during retirement (post 64), the Consultation paper does not identify how voluntary savings accumulated up to the age of 64 are disbursed in subsequent years to support a person's retirement.

As indicated above there is a need for a comprehensive data set on retirement incomes that is able to answer these questions.

For those retirees that do not own their own home and are dependent upon renting, our current retirement incomes system is poorly attuned to the rapidly increasing cost of housing. Even for those retirees who own their own homes there are considerable, and rapidly increasing, costs associated with ownership including rates, utilities, insurance and maintenance which are not necessarily reflected in indexation arrangements for pensions.

The ability of voluntary savings to effectively contribute to retirement incomes is also constrained by the low interest rates currently prevailing within Australia.

It has been said that the value of a retiree's property can be unlocked through the use of reverse mortgage products.

There are two particular issues associated with reverse mortgages. Firstly, the use of a reverse mortgage results in compound interest working against a retiree, with the total debt accumulating at an increasing rate over time. Secondly, a reverse mortgage is a highly regressive product. Given two retirees with a similar reverse mortgage, the retiree with the higher value home will lose less of their wealth over a given time period than the retiree with the lower value home. Given a loose correlation of household value and income, this would suggest that reverse mortgages work against lower income retirees more so than against higher income retirees.

Compounding the problem of reverse mortgages are the interest rates applied to such products.

The Pension Loan Scheme is an example. It offers what looks like an attractive product to a retiree by permitting up to 150% of the age pension to be withdrawn from their family home asset each year without impacting upon their age pension entitlement. However, when looking at the scheme's FAQ the last one relates to the costs of the scheme and outlines an interest rate of 4.5% per annum. With mortgage products readily available for half this cost and given the high security of this product the excessive interest rate must be questioned.

In the past voluntary savings were the primary vehicle for supplementing a person's retirement income. However, with the advent of the SG arrangements voluntary savings have been replaced. This has occurred due to two factors. The SG arrangements have suppressed incomes by the amount going into compulsory super leaving less income available for saving. Secondly, the SG arrangements have created a tax effective savings vehicle for those who have surplus income and a savings focus. It is highly likely that a significant portion of voluntary savings have ended up with SG funds as voluntary payments which are very tax effective.

Again, the SG arrangements have delivered an outcome which is highly regressive when this pillar is considered.

6. 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 key trade-offs between each pillar, in my view, are:

- the cost to government (through administrative costs, direct budget outlays and foregone tax revenue or taxation expenditures) associated with each pillar;
- the extent to which that cost to government supports a retiree's income; and
- the distributional effects of the cost to government between differing income cohorts in terms of their total aggregate retirement income before tax effects.

I consider that government support to retirees should focus on those retirees in most need.

However, as shown above, and also highlighted within the Consultation Paper, support from Government is highly regressive across the three pillars with considerable government support extended to higher income cohorts.

The distributional impacts of government support is not transparent and the way it is recorded makes analysis difficult and complex.

The changing Australian landscape

7. Demographic, labour market, and home ownership trends affect the operation of the retirement income system now and into the future.

What are the main impacts of these trends?

The three trends highlighted have a significant impact on the operation of Australia's retirement incomes system.

a) Demographic Trends

Demographic trends which are highlighted with an increasing proportion of older Australians and a less proportion of younger Australians is a significant issue. Older Australians who are currently retired, or approaching retirement, have had limited access to the Superannuation Guarantee arrangements. This is evidenced by the low balances held by this cohort. As a result, the extent to which this second pillar is supporting their retirement income is limited and this cohort is more dependent upon the support provided by the first and third pillars.

As indicated above the first pillar – the age pension – is subjected to very high effective taxation rates. This has the effect of limiting the ability of those in this cohort to supplementing their retirement income through part-time work. For this cohort the third pillar is likely to play a more significant role in providing for their retirement than for younger Australians. For many of these people the voluntary savings they may tap into have been accrued from after tax income. The asset means test will therefore have elements of double taxation when applied to such assets. This effect is compounded by the fact that the asset means test, in effect, imposes a marginal rate of taxation equal to 100% on a presumed marginal return of 7.8%.

In contrast, younger Australians will have had access to the SG arrangements for the majority of their working life. This provides them with a tax effective form of savings which was not previously available.

This should make them less dependent upon the age pension in their retirement.

However, the rules around the SG arrangements permit those with the knowledge, or access to good advisors, to make withdrawals from their funds and improve the likelihood that they may access a full or part age pension. There is also evidence that those higher income younger Australians will be receiving a more proportionate benefit from the SG arrangements, increasing the regressive nature of our retirement income system.

With the cost of the SG arrangements being largely uncapped, and with no income tax applied to the benefit an individual receives via those arrangements, as younger Australians approach retirement they will not be subjected to the same scrutiny that is applied to those in receipt of the age pension, even though the tax expenditures associated with their SG income are likely to be significantly greater that the direct budget outlays an age pensioner may be receiving.

As an example, Figure 4 in the Consultation Paper shows that the lifetime support provided to the top 10% of income earners is around $650,000 on present value terms. The actual cash benefit, before discounting would be significantly higher. Given a 20-year period in retirement – from 67 to 87 – this discounted benefit represents an annual benefit from the public purse during retirement of around $32,500 per annum. This benefit is provided in addition to any draw down of their SG fund. That drawdown is not subjected to any income tax, despite the significant support already provided.

It is however noted that the age pension income test (applied via deeming arrangements) and asset tests are applied to a SG fund's balance and that such application can reduce a retiree's entitlement to the age pension. However, given current average fund balances these tests have little if any impact on the level of age pension entitlement. As SG fund balances increase the entitlement to the age pension is eroded, however, as demonstrated earlier the cost of the SG arrangements to government are increasing significantly more rapidly than the rate at which access to the age pension is being eroded and access to the entitlements available under the SG arrangements are subject to very limited constraint..

This discussion highlights both the highly regressive nature of the SG arrangements and also the regressive nature of the retirement incomes system in general. Those who have had access to the SG arrangements for a considerable portion of their working life are receiving, in effect, an un-capped and low-means test benefit when compared to those dependent on the age pension.

b) Labour Market Trends

Labour market trends have been highlighted in a number of reports looking into the operation of the SG arrangements. These trends, which are dominated by less secure employment and more job changes over a person's working life and periods outside the workforce for many, including women, will result in the SG arrangements having a highly variable impact on a person's retirement income.

Already this is clearly highlighted in the balances of men as compared to women. As the future unfolds those with secure employment and higher incomes will have an accelerating benefit from the SG arrangements as a result of a number of issues.

Firstly, compound interest will be working to their benefit. Secondly, they are less likely to have their SG contributions spread over a number of funds charging varying fees and delivering differing rates of return. Thirdly they will more likely be on higher incomes and have higher contributions. Finally, the support they receive from the government will be substantially higher.

These issues again reflect that, by introducing the SG arrangements in the manner we have, we have created a system which is highly regressive and provides maximum support to those least in need, while reducing support and focusing administrative efforts on those most in need.

As the current labour market trends exacerbate this outcome will become magnified.

With the support to the SG arrangements predicted to rise to $120 to $130 billion, government will find a greater proportion of cost being applied to the wealthier proportion of the population and its ability to support those most in need reduced.

c) Home Ownership Trends

With home ownership declining and more people still paying off a mortgage as they enter retirement, or not owning a home at all and being dependent upon the rental market, the third pillar of our retirement income system is being significantly eroded.

The rapid increase in rents as a result of rapid increases in house prices and reducing housing affordability exacerbates this trend.

As the system is currently structured these trends in home ownership again add to the regressive nature of the system. Those who own their own home, whether they be in receipt of the age pension or receiving a benefit via their SG fund, are becoming relatively better off.

The age pension makes no allowance for the payment of a mortgage and under the SG arrangements those with sufficient funds can make tax free withdrawals to reduce the level of their mortgage.

For those retirees in the rental market, the support provided by rental assistance is rapidly declining in real terms as it fails to keep pace with rising rental costs due to rapidly increasing house prices.

As a result the nature of the retirement income system exacerbates a regressive trend and is failing to provide support to those most in need, while providing relative benefits to those in lesser need.

To what extent is the system responsive to these trends?

As illustrated above the current system is not responsive to these trends.

In fact, the way the system is developing it is exacerbating these trends as decisions are made which reinforce the regressive nature of the system.

Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?

A key trend which must be highlighted is the differing manner in which government treats taxation expenditures as opposed to direct budget outlays.

As highlighted above in this submission direct budget outlays tend to be focussed and subject to stringent criteria and means tested. In contrast, the largely hidden nature of taxation expenditures, means:

- they do not receive the budget focus they deserve;
- that they are largely un-capped;
- and are not subject to the stringent oversight and means testing applying to the age pension.

With SG fund balances increasing, an increasing proportion of the population is becoming dependent upon the support provided by the SG arrangements. Past experience indicates that it is far easier to control budget expenditures which are provided explicitly, such as the age pension and that it is much harder to control budget expenditures funded by way of taxation expenditures.

In particular, and as evidenced in the Consultation paper, where taxation expenditures are flowing in a highly regressive manner, the potential for lobbying will make change that much more difficult.

Another trend, which is an adjunct to Australia's increasing dependence upon the SG arrangements, is the dominant position being taken by fund managers within the Australian economy. With fund balances expected to approach $7 trillion and with these funds invested in Australia's financial markets, the market and lobbying power of a few fund managers will become substantial. With fund aggregation occurring there is a real risk that SG funds will skew the operation of our financial markets and weaken the government's options when it comes to applying its economic policy levers in response to issues.

Furthermore, and as already evidenced by the excessive fees being applied by fund managers already, industry consolidation will only aggravate this problem.

Principles for assessing the system

8. Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future?

The principles proposed appear to be appropriate benchmarks. From the information provided on page 12 of the Consultation Paper the descriptions for each principle appear sufficient except for in relation to the comments below.

The description of the equity principle talks about fair outcomes for different groups. Such wording would make it very difficult to assess whether or not the equity principle is being met. The wording is not sufficient in respect to what is meant by the word 'fair' nor does it give sufficient definition around the word 'group'. These issues will be discussed further below.

In respect to the sustainability principle there is a need to include wording relating to the financial sustainability of the system, in addition to wording relating to meeting objectives and maintaining broad community support. Again, how this principle is applied will be discussed further below.

Are there other principles that should be included?

It would be inappropriate to consider more than 4 principles when assessing Australia's retirement income system and its operation. There will necessarily be trade-offs between the principles and as the number of principles is increased the assessment of trade-offs becomes hard by a significant factor as additional principles are added.

I would suggest that the Adequacy and the Cohesion principle could be combined. In effect they are both assessing the capability of the system to deliver an adequate standard of living through the way the three pillars interact, both before and during retirement. As such the Cohesion principle could well be collapsed into the Adequacy principle and that principle assessed both in the extent the system provides an adequate level of retirement income and the extent to which the pillars reinforce one-another in delivering this level of retirement income.

9. How does the system balance each of the principles and the trade-offs between principles (e.g. sustainability and adequacy) under current settings?

As Australia's existing retirement system is structured, I consider there is a belief that the three pillars are working to reinforce one-another across each principle. This underlying belief is that the age pension provides the sustainable safety net ensuring that even in the worst-case scenario retirees will have a minimum level adequate income as determined by the age pension and its add-ons such as rent assistance and the health care card.

This belief is further reinforced by the operation of the SG arrangements which are considered to reduce reliance upon the age pension and deliver greater savings for retirement across a person's working life to provide a retirement income in excess of what could be provided via the direct budget payments of the age pension. This could be considered to improve the sustainability of the system as costs are shifted from direct budget payments to the working-life savings of a retiree as a result of the SG arrangements being compulsory.

Furthermore, the SG arrangements seek to provide retirees with a retirement income directly related to their pre-retirement earnings.

In addition, the third pillar of voluntary savings permits each individual to undertake voluntary activities which further support their retirement income and through means testing of the age pension against incomes and assets the system should avoid double dipping.

As outlined in the above paragraphs, on the surface, it would seem that the three pillars operate in a manner which reinforce one-another and provide appropriate trade-offs between the principles by promoting self-reliance across a persons' working life.

However, what I have just outlined above is a belief.

It is not the reality of how Australia's retirement income system works.

In reality, and as I have outlined above in earlier sections of this submission, the age pension is barely a safety net and delivers an outcome for those on low incomes, and with limited assets, an income in retirement that is inadequate to support a reasonable standard of living. Where a retiree still has a mortgage or where they are renting the age pension is severely eroded and additional assistance is not keeping pace with changes in housing costs, a significant cost element for retired persons. Furthermore, should a retiree dependent upon the age pension suffer any unexpected expense they are placed in a very difficult personal and financial situation.

The very high effective marginal tax rates associated with the age pension means tests further work against those on low incomes. Whereas their marginal income tax rate may be 19 cents in the dollar, the marginal tax rate imposed via means testing is 50 cents in the dollar and rises to over 100% at the point a person become ineligible for the age pension. The effective rates of tax related to the age pension assets test are even higher as discussed earlier.

In this regard the arrangements applying to the age pension are highly regressive as they operate to discourage a person to seek additional income beyond a certain minimal point and hold any significant level of assets.

Under the retirement income system beliefs outlined in the start of this section, the SG arrangements are supposedly designed to reduce reliance upon the age pension, improve the sustainability of the system and deliver an income in retirement that is an improvement on the age pension.

For low income earners the taxation expenditure support provided is minimal, especially when compared to high income earners. Furthermore, for those on low incomes it is extremely difficult to generate a fund of sufficient size to substantially reduce reliance upon the age pension.

For those on low incomes the fees and charges levied under the SG arrangements can severely erode savings, particularly where a person has a working life structured around part-time work or a number of different part-time jobs. Under such conditions there is a high likelihood that a person will accumulate multiple small SG funds incurring multiple minimum fees and insurances. Unless such a person has a high level of financial literacy, they may well be unaware of how the system can best work for them.

In contrast, the taxation expenditures are focused on those with high incomes.

This is evidenced by data contained in the Consultation Paper and my analysis outlined above. The data in the consultation paper shows that for high income individuals the life time taxation expenditures well exceed the lifetime direct budget expenditures for a person dependent upon the age pension. Furthermore, while someone in receipt of the age pension is subject to means testing with very high effective marginal tax rates, the taxation expenditures received by those on high incomes under the SG arrangements are not subjected to means testing.

This is a highly regressive arrangement with effective government funding tilted strongly towards those on the highest incomes.

Adding to the regressive nature of the SG arrangements is the fact that they provide a greater incentive for a high income earner to save, with low income earners being given a far lesser incentive to save for their retirement.

The open-ended nature of the taxation expenditures under the SG arrangements means that any savings in age pension expenditures will be more than offset by higher taxation expenditures to support the SG arrangements. Data I have seen indicates that at current levels of funds under management the $35 to $42 billion cost of the SG arrangements is saving around $7 billion in age pension payments. My own analysis outlined earlier would tend to support this outcome.

The sustainability of this arrangement must be questioned as the aggregate level of savings within SG funds accelerates to $7 trillion and the associated taxation expenditures rise to in excess of $120 billion per annum.

The final pillar, voluntary savings, again favours those who are most well off and permits them to supplement their retirement income to the greatest extent. Furthermore, by using tax effective arrangements, such as trusts and prudent financial advice, those retirees who have the most wealth under this third pillar will again receive effective support from the Government far in excess of the support provided to those who are least well off and dependent upon the age pension.

These tax effective arrangements are also not covered by any means testing.

In summary, while the belief on the surface may be that the principles balance each other and the pillars act to reinforce and provide a comprehensive retirement income system, the opposite is the more likely outcome.

The system is highly regressive with government support flowing disproportionately towards those on higher incomes. This government support is largely hidden from direct view as it is delivered by way of a wide range of taxation concessions, deductions and benefits.

What is the evidence to support whether the current balance is appropriate?

As outlined above the current balance is far from appropriate.

This will be further outlined in addressing each principle below.

Adequacy

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

Assessing income adequacy in retirement should be restricted to ensuring that the minimum retirement income which retirees receive is adequate to provide effective well-being during retirement. This may well mean that some retirees may have to lower their expectations in retirement where they have made insufficient provision during their working life to maintain a level of income to support a lifestyle similar to what they had when working.

Whether it is the role of Government to provide support to people to ensure that in retirement their income levels are maintained at a level reflective of their prior earnings is a threshold question the Review panel will need to consider. In particular the Panel will need to assess whether those on higher incomes should be given greater incentives to save relative to those on lower incomes.

If consideration is given to how our welfare system works, we can see that support offered by Government cuts out rapidly (with very high effective rates of taxation) as a person's level of income or assets increase above some defined minimum level.

Support for retirement incomes should, perhaps be considered in the same context, whether that support comes by way of the age pension, a direct payment from government, via the concessions (taxation expenditures) available under the SG arrangements or via benefits etc that may be associated with various forms of voluntary savings.

As such, the extent to which retirement incomes are reflective of pre-retirement incomes or the extent to which they are supplemented by income from other sources should be of little concern to government, provided retires have access to an adequate level of income to provide effective well-being.

Those retirees who may have been on higher incomes while working could be expected to make provision during their working life to support a higher level of well-being during retirement, if that is their desire. Whether or not this desire for a higher level of income above some base adequate level should be the subject of accelerating support from government for higher income cohorts is again a threshold question for the panel.

It is my view that those in higher income cohorts do not have an entitlement to a substantially higher level of government support relative to those in low income cohorts irrespective of how that support is delivered.

Indeed, the regressive nature of Australia's retirement income system, which has been a theme of this submission, will ensure that those who are less dependent on the age pension for their retirement needs are likely to be progressively better off, in terms of the effective level of support they receive from government, as their retirement income increases.

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

In assessing the adequacy of the minimum retirement income, I consider the key measures that should be considered are as follows:

- the relationship between this income level and the poverty line as represented by the most recent Henderson Poverty line information;
- the extent to which the minimum level of income covers the cost of the basket of goods included in the Pensioner and Beneficiary Living Cost Index (PBLCI);
- the indexation applied to this minimum level of income to ensure that it maintains its relativity with both cost increases and underlying increases in wage levels within the economy;
- the extent to which this minimum level is supplemented to ensure retirees are able to afford adequate housing where they do not own their own home outright and either have a mortgage they are paying down or are renting;
- the ability of a retiree to meet an unexpected expense;
- the length of time retirees must wait to receive required medical needs;
- the length of time retirees must wait for home care assistance; and
- the effective rates of taxation that are applied to any supplemental income received by those on the minimum retirement income.

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

The current minimum level of retirement income, the age pension, can be assessed against each of the points outlined above.

It is barely above the Henderson Poverty Line. It is indexed by the greater of the CPI and the PBLCI and benchmarked against Male Total Average weekly Earnings (MATWE). In relation to these points it may be considered adequate.

However, as the additional points are considered its adequacy must come into question. Firstly, supplemental housing assistance is only available to those retirees who rent, and this assistance is failing to keep up with rapidly increasing housing costs. For those who retire with a mortgage the age pension provides insufficient income to cover these expenses as it is based on the premise of a house being fully owned.

It is well recognised that retirees on the age pension are unable to adequately meet an unexpected expense. For those who own their own home, there is the opportunity to draw down on the household equity, but such a draw down can prove very expensive indeed as compound interest, at high rates relative to general market interest rates, eats away the remaining equity at an accelerating rate if such drawdowns are not repaid in a timely manner.

This accelerating eating away of the equity held in the family home for those on the lowest retirement income levels is yet another example of the regressive nature of Australia's retirement income system. For those on higher retirement incomes there is an increasing ability to repay any emergency drawdowns of equity and thereby avoid further loss of equity due to the effects of compound interest.

For those retirees without private health insurance the waiting list for medical procedures can be extremely long. Over the time they are waiting their conditions can deteriorate further reducing their well-being. This is an inadequate outcome for these retirees. As their well-being deteriorates there will be an increased likelihood that many could die on the waiting list for procedures. Had such procedures been provided in a timely fashion the retiree may have been able to have an extended and active life.

A similar outcome awaits retirees assessed as in need of home care assistance. There are over 100,000 older Australians assessed as eligible for home care assistance and many of these people are waiting for up to 18 months, or indeed longer for those with the highest assessed level of need, to receive assistance. This is totally unacceptable and significantly reduces the well-being of these older Australians.

Significantly, while waiting for assistance these older Australians may well require additional interventions which are a direct result of the failure to provide assistance in a timely manner.

Finally, the application of means testing to the age pension and the extremely high effective rate of taxation applied to the income and asset means tests is highly regressive for those at the lowest income levels. Means testing with such high effective tax rates limits the ability of those on the age pension to effectively supplement the income they receive and thereby improve the adequacy of their retirement income.

While the above assessment is descriptive, there is considerable data available which the Review Panel can use to quantify the extent to which the measure I have outlined are met.

Perhaps the greatest need in assessing the adequacy of retirement incomes in Australia is the lack of an accurate dataset relating to retirement income from all sources and how that retirement income is supported by the wide range of government programs which are accessed by retirees either directly via government payments or indirectly via a range of taxation expenditures associated with concessions, deductions and benefits.

Of interest in this regard is the chart on page 18 of the Consultation Paper which shows that Government support for retirees is highest for those on high incomes but declines across the lower half of the income distribution.

Equity

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

Within the retirement income system the main consideration in assessing the equity of the system should be the allocation of the aggregate support provided by government, both direct expenditures and indirect expenditures provided via taxation concessions, deductions and benefits, to differing retiree cohorts. Underlying this allocation would be an assessment as to whether or not it is equitable for the level of support provided via the various arrangements to be proportional to the level of pre-retirement income and assets held.

Figure 4 on page 18 of the Consultation Paper highlights how support is provided across income cohorts. This highlights the regressive nature of the existing system and I would suggest that this figure does not include the benefits available to people as a result of the way voluntary savings can be structured financially to maximise taxation benefits beyond the more obvious benefits provided by the operation of the age pension and the SG arrangements.

14. What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (e.g. women, renters, etc)?

In assessing equity, the Panel should not differentiate between how much is provided to a retiree by way of a direct payment such as the age pension or how much support is provided via taxation expenditures and other concessions or benefits retirees may receive.

The Panel should also give consideration to how direct and effective rates of taxation are applied to differing types of retirement income. For example the effective rate of taxation on additional earnings when a retiree is in receipt of the age pension is 50 cents in the dollar, once quite modest levels of addition income have been received. For a retiree with a SG account based pension fund there is no means test applied where additional income is received, and the full zero tax benefit applies up to an income of $18,000 irrespective of the amount of additional income provided from a SG account based pension fund. This year where a fund may be earning 15% or more a couple could be receiving an income of in excess of $500,000 completely tax free, and still not have any means test applied to any additional income they earn.

Furthermore should a person seek to supplement income via accessing value locked up in the family home, once a certain level is reached, (I believe it is around $55,000 pa) it is assessed as income, despite all the negative impacts associated with loss of capital and the high interest rates applied to reverse mortgages from what is otherwise an exempt asset.

For those retirees in receipt of a defined benefit pension the amount of personal after tax payments they may offset against the age pension income test is constrained to a maximum of 10% of their pension even though the tax paid on these payments is double that paid on contributions into a SG fund. Furthermore, those on a defined benefit pension are charged the full rate of income tax on any unfunded portion of their pensions. This is in contrast to what happens within a SG fund where both contributions and earnings are untaxed.

While the balance of a SG account based pension fund is included in the age pension assets test and will result in retirees with substantial fund balances being excluded from accessing the age pension, for retirees with lower fund balances the very high effective tax rates applied under the assets test will again raise questions around the equity of that test.

These few examples show that across the range of retirement income options available to, and used by, retirees there are widely varying provisions and the extent to which these provisions vary introduce inequities into the system.

Evidence indicates these inequities result in a very regressive system. As a result, the benefits and support to the retirement income provided by Governments flow at higher rates to the highest income cohorts.

There will also be issues associated with the difference between longitudinal benefits which are provided over a person's working life when compared to the cross-sectional benefits which are provided within a given period, such as a financial year. For example, the full cost of the age pension payment provided to a retiree in a given year is explicitly identified in the annual commonwealth budget. In contrast, the cost to the budget associated with a retiree drawing down their SG fund involves not only taxation revenue foregone at the time the fund is drawn down, but also includes a proportion of the accumulated taxation expenditures over the life of fund.

How these two should be compared is complex, but attempts should be made.

For those retirees on a defined benefit pension there are a number of arrangements (outlined above) that specifically consider how personal contributions and the unfunded portion of their retirement incomes are treated at the time the defined benefit pension is paid to ensure that the cost to the public purse from these schemes is minimised and the appropriate level of tax is levied.

As already identified in this submission there are large cohorts of lower income retirees who are significantly disadvantaged by the operation of the current system. This significantly impacts on the equity of the current system, particularly:

- people with an uneven work record;
- people who do not fully own their own home;
- people who seek to undertake part time work;
- people who work more than one job;
- women, who exhibit a number of these traits due to cultural norms;
- people with a disability who miss out on the NDIS due to age; and
- people injured in the workplace beyond the age of 65

The list above of who is disadvantaged is long and incomplete. It highlights how many are disadvantage and when considered in light of the information provided in figure 4 of the Consultation Paper it highlights how the system imposes stringent constraints and oversights on those less well off.

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

To an extent the system supports work in retirement.

For those with low incomes and limited assets and whose predominant form of retirement income is the age pension the system provides a limited opportunity for supplementing their retirement income.

Working against this group is the means testing of the age pension and its high marginal effective rate of tax. A retiree on the age pension will pay an effective marginal rate of tax on 50 cents in the dollar once they begin earning more than $12,324 per annum ($174 per fortnight exempted income under the income test plus the limit of $7500 per annum under the Work Bonus), However, once a person reaches a point where their retirement income is not dependent upon the age pension the situation changes.

A person with a SG account based pension fund does not have any tax applied to the earnings or withdrawals from that fund and normal income tax only is applied to any additional earnings. These retirees gain not only the tax-free status from their account-based pension, but also gain the $18,000 per annum tax free amount under the normal taxation arrangements.

Furthermore, irrespective of the earnings of the fund or the withdrawals made, there is no reduction in the benefit (taxation expenditures) they receive. There is no means testing to their benefit.

For those retirees who receive a DB pension, any additional earnings are added to the level of their taxable DB pension and taxed at the appropriate marginal tax rate. This highlights both the complexity and inequities that exist across the range of retirement income sources.

The equity of these varying arrangements must be considered by the Panel.

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

As partially covered above the system fails, almost completely, to offset inequities experienced during a person's working life.

Where inequities are experienced, a retiree will tend to fall back onto the safety net of the age pension and its associated limits and constraints which are enforced with considerable vigour by Government.

For those who don't experience these inequities and setbacks during their working life the largely open ended and unconstrained benefits of the SG arrangements support them in retirement. In contrast to the provisions of the age pension these benefits are free of the intrusive oversight of Government on their week by week earnings.

There are very limited opportunities for people to catch up or compensate for lost work opportunities and employment setbacks.

As a result, the regressive nature of the current system exacerbates any of life's inequities and those who do not face such problems are significantly over compensated, by way of very generous taxation expenditures, under the current system.

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

The focus of Government administration is on the direct payments made through the budget process. Indirect payments provided via taxation expenditures are subject to less rigorous oversight and are far less transparent in the context of annual government outlays and expenditures. Therefore, as the SG arrangements mature those retirees fully dependent, or significantly dependent upon the age pension will be considerably worse off relative to those drawing down a SG account based pension fund.

As highlighted above their access to work in retirement will impact more harshly on the level of retirement income they can achieve due to the application of means testing, while those drawing down a SG account based pension fund are not subjected to any means testing (in relation to the taxation benefits they may have accrued during their working life, or the on-going taxation benefits they receive annual while drawing down the SG fund) of any work they may do and will not have the earnings or drawings from this fund included within their accessible income.

Sustainability

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

There are two elements to the sustainability question when considering retirement incomes.

First, and most obvious is the level of Government support provided to the system.

Each year there is on-going questioning around the level of funding being directed to the age pension. There are debates around the impact of its indexation on the budget. Its cost is not insubstantial, and the Consultation Paper costs it at $47 billion (page 21). This is an easily identifiable cost in the context of the annual Commonwealth budget. Furthermore, the Consultation paper provides data on how many of those eligible for the age pension receive either a full or part pension. Quite accurate data can be provided at any point in time as to how much any individual cohort of the population is costing.

Less well understood though is the cost, both over time and at a point in time of the SG arrangements. Indeed, how should it be costed is a fundamental issue.

Current estimates are that the aggregate level of taxation expenditures associated with the current SG arrangements are between $35 and $42 billion. This cost is associated with what would be considered to be a very limited average SG fund balance of $122,848 for women and $154,453 for men, or around $2.7 trillion in aggregate. With fund balances at these levels there is a limited ability for a SG account based pension fund to reduce reliance upon the age pension, a finding of a number of recent studies which highlight that a substantial proportion of the eligible population will still be on either a full or part pension 30 years into the future.

However, by that time the aggregate fund balance is expected to be in excess of $7 trillion and the annual taxation expenditures associated with the SG arrangements can be expected to be around $120 billion annually.

The taxation expenditures associated with the SG arrangements are less well known. They are not reported in the annual Commonwealth budget with the same rigour as the age pension costs. The distribution of these costs amongst income cohorts is even fuzzier, as is the level of draw down made by retirees.

So can the Commonwealth budget support this level of expenditure, when the current level of expenditure is estimated to save less than $10 billion annually?

Secondly, the sustainability of the system must be assessed in terms of how well this funding is ensuring retirees have access to an adequate level of income to meet their basic needs over the period of their retirement.

In the case of the age pension it is clear it provides the most basic level of support and there is limited opportunity for pensioners to supplement their income to improve their well-being without facing the very high effective marginal tax rates associated with the means testing of the pension. It does however provide this support until death. The impact of indexation will determine the extent to which the age pension is able to provide this support across a person's retirement

Similarly, the SG arrangements to date, and likely into the future, are currently providing only limited support to the lower 50% of income cohorts. Within these cohorts this level of income is under considerable risk. Lower interest rates and the possibility of a recession at any time during a person's life will severely erode the sustainability of support provided under the SG arrangements over a person's remaining life.

In contrast, those on higher incomes are more likely to be able to provide a retirement income that is reflective of their current higher level of well-being. And the higher up the income cohort you look the more likely that the SG arrangements, together with voluntary savings are providing effective support. For many higher income individuals, the SG arrangements simply result in savings being placed in a tax effective savings and draw down vehicle, where before such savings would have been made voluntarily.

Also under the SG arrangements, higher income cohorts can seek to either draw down their fund more rapidly in the early stages of retirement and perhaps use the fall back of the age pension during the latter stages of their life, particularly given the associated benefits of being on a full or part pension that are associated with accessing concessions, medical treatment and aged care. In effect this is a form of double dipping.

Alternatively, these higher income cohorts could decide to have a frugal retirement and leave a larger tax effective bequest to future generations. Again, this could be seen as double dipping given that the concessions applying under the SG arrangements are supposed to support one's retirement, not future generations.

Under each of the scenarios listed above for those of the age pension, the lower 50% of income cohorts and even for higher income cohorts it is again questionable if the system is sustainable.

Consideration should also be given to the extent that the SG arrangements are taking funds away from current consumption and suppressing incomes with resultant GDP impacts when assessing the sustainability of the system.

19. What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?

Consideration should be given to adopting some kind of means testing to the SG arrangements. As so clearly highlighted in figure 4 most of the benefits flow to those higher income cohorts and those least in need of support. Given the presence of a means test which is applied against the age pension, and that the funding provided by government directly to the age pension is no different to the taxation expenditures applied to support the SG arrangements it is clear that the largely open ended nature of the benefits available under the SG arrangements are impacting upon the sustainability of the system.

Similarly, the high rate of effective marginal tax applied under the age pension means tests also reduce the ability of the system to support an adequate level of well-being for lower income cohorts.

Fixing the regressive nature of the system should be a high priority for Government. A number of solutions could be adopted.

The effective marginal tax rate for the age pension means test could be adjusted to be equal to the marginal tax rate applying under the normal income tax schedules. While adding a cost to government in providing for the age pension, such an arrangement may well improve the overall well-being of those on the pension by improving the incentive for them to engage in part-time work during retirement.

Similarly, a SG account based pension fund could have income tax applied once the pension being taken exceeded the rate of the age pension. Such an approach would recognise that during a person's working life a considerable taxation expenditure has been associated with the build up of the fund and that each and every retiree should receive a similar absolute benefit from the Government during their retirement.

Such an arrangement would be little different to that experienced by defined benefit pensioners whose DB pension has a number of components reflecting the contributions made by the individual during their working life, the taxed contributions made by the employer into a fund to cover the DB pension and the untaxed element of the DB pension payment made annually to make up any shortfall.

Consideration should also be given to recouping all remaining taxation concessions applied to a SG fund that have not been applied to a person's retirement income during their life. The purpose of the scheme is, after all, to provide for an income in retirement, not a bequest to future generations.

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

At present there is considerable confidence in the SG arrangements. This is particularly the case during a period of high share market returns where the majority of SG participants are seeing an acceleration in their fund balances.

Retirees on the other hand are less confident in the system. Pensioners face the quick awakening of the fragile state of their well-being if they face rent increases, need a new car, experience a major illness or incur major household expenses. Similarly, once retired lower income earners face the reality that, even though they may have a considerable amount of money in their SG fund, the secure earnings potential of the fund is limited and continued exposure to the share market becomes too risky.

As the aggregate level of SG funds increases, the taxation expenditures associated with these balances will increase, the regressive nature of these taxation expenditures will become better understood and SG beneficiaries will become more aware of the costs associated with fund management relative to the benefits received. It is therefore likely people will begin to question the continued open ended subsidisation of these arrangements. Recent changes to the maximum level of funds held concessionally are evidence of this change.

Within the voluntary savings pillar issues such as negative gearing, dividend imputation and the appropriate treatment of the family home will continue to be issues. Again, each of these arrangements has a regressive element with the benefits flowing mostly to those in higher income cohorts. Eventually a government will be forced to ensure more equitable treatment in relation to such issues, particularly once the costs to the budget and the distribution of those costs amongst varying income cohorts become more transparent.

Only through increased transparency across the three pillars as to how well they operate to support incomes in retirement and how much they are costing governments across various income cohorts can the sustainability of the system be determined.

Cohesion

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

Cohesion must relate to how the three pillars support one another and the extent to which each pillar operates within a framework that is consistent with the framework of the other two pillars.

As the system currently operates this is not the case.

In the Consultation Paper it is stated:

"The Age Pension assets test encourages individuals to draw on their own assets to fund their retirement before calling on taxpayer funds for support. The rate of Age Pension paid to an individual decreases as their capacity for self-support increases."

Similarly, the age pension income test operates on the same basis.

However, there are two significant concerns with these presumptions. Firstly, the rate at which the age pension is reduced results in an extremely high effective rate of taxation on both income and assets. In relation to additional income the age pension is subjected to an effective rate of tax equal to 50 cents in the dollar once income exceeds $4,524 per annum or $174 per week. In relation to assets the pension declines by $78 per annum for every $1000 in assets above the minimum level of $263,250. Given current interest rates, the desire of pensioners to keep some of their assets highly liquid to cover unforeseen expenses and the need to be protective of assets once you have retired, the effective rate of tax on the asset test would likely exceed 100% for many of those on the age pension.

In contrast those retirees who gain their retirement income by way of a SG account based pension are not subject to any means testing. It would seem that there is some mis-understanding that these retirees are not in receipt of a government payment.

However, they are.

At the point of retirement, they have received an effective lump sum payment equivalent to the total value of tax concessions received during their working life. From that point on they receive an annual benefit from the government due to the tax-exempt status of their pension withdrawals and the concessional treatment of the tax applied to their SG fund earnings.

These concessional arrangements could, in some instances exceed the value of the age pension. For example, a couple with the maximum super balance of $1.6 million each and drawing $100,000 each per annum from their account based pension fund pay no tax. Had normal income tax arrangements applied to this income they would have had a tax bill of in excess of $50,000. Similarly, if the fund was earning 10% per annum it would be increasing by $320,000 per annum and no tax is applied to this income the fund is earning.

Should this couple have assets outside of super, and also be earning additional income they only pay tax under the income tax arrangements. Should those assets not be earning any income then no tax is payable, if they are negatively geared no tax is payable, if they get franked dividends they get additional payments for the imputation credits and if they earn income they pay tax only at the marginal rate. And if the assets and income are held within a trust, the arrangements of the trust may well minimise tax further.

Such a couple is very well off when compared to a retiree on the age pension. However, the benefits they receive under the SG arrangements are unaffected by additional assets and income.

This does not promote cohesion within the system and results in a system which is highly regressive and, at the end of the day, very expensive for the Government.

The Consultation Paper also states:

"Minimum drawdown rules for superannuation mandate the withdrawal of a certain percentage of assets from superannuation each year. These rates increase as a retiree ages and are designed to ensure that superannuation is used for its intended purpose of providing income in retirement."

While this statement is true, the balance of the fund upon death may well include considerable taxation benefits which have not been applied to the purpose for which those concessions were provided – supporting the retiree in retirement.

While there are limited procedures in place to impose a tax on the balance of the fund at death, such taxes do not fully recoup the concessions provided, making a SG fund a tax effective vehicle for creating bequests for future generations. The ability to do this increases as the size of the fund increases, again delivering a highly regressive outcome.

It is clear from the examples provided above, and elsewhere in these comments on the Consultation Paper, that persons on the age pension are subjected to quite onerous provisions which significantly decrease the value of the age pension relative to both SG arrangements and voluntary savings. This is not in the best interests of a cohesive system and the regressive nature of the system overall will impose substantial additional costs on Government.

Taking a simple back of the envelope calculation the costs of the current system of age pension and SG arrangements is close to $90 billion per annum. This cost is likely to increase to over $170 billion as SG fund balances grow and age pension payments are indexed.

For around $70 to $80 billion annually every retiree could be provided with a retirement income of around $30,000 per annum. With the removal of all the current concessional arrangements the savings in tax expenditures could be applied to meet the difference between current age pension expenses and the figure outlined above. Any earnings from investments and additional work would then be subjected to standard treatment under existing income tax legislation.

Administration of such a system would be significantly streamlined where no means test applied to this higher universal age pension payment. The complexity of the current arrangements would be reduced considerably and retirees would have an income that provided a more reasonable level of support over their retirement.

This is similar to the approach taken in NZ.

The three pillars would remain, but the regressive nature of the current system would be removed and people would be less inclined to make decisions leading up to, and during, retirement that can be quite perverse as they seek to maximise the taxation benefits available, and hence the cost to government, under the current arrangements for the three pillars.

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

The regressive nature of the current system does not effectively incentivise savings for individuals and households across their lifetime.

As the system operates those on low incomes receive very little incentive to place their limited savings in a SG fund. At the lowest marginal tax rate the incentive is just 4 cents in the dollar and the likelihood of the fund balance being sufficient to meet an adequate lifetime retirement income is small. In contrast for those on high incomes the incentive to place savings in a SG fund is very high and in some cases may be in excess of 30 cents in the dollar. This encourages over investment in a SG fund relative to the savings and investments that would be otherwise made and increases the cost to Government.

I have also estimated that where a SG fund operates over a persons full working life the system provides a significantly greater incentive to invest for high income earners than those on lower incomes. At low income levels of around $30,000 per annum the benefit provided by the SG arrangements equate to increasing savings by just 1% above the mandated SG rates. However, at income levels of $100,000 plus savings would have to be increase by over 7.5% above SG rates to generate similar levels of funds at retirement.

The rules around draw downs and lump sum withdrawals further disincentivise savings over a person's lifetime. For those on low incomes at the point of retirement a lump sum may be taken from a SG fund to pay off a mortgage, buy a new car or do house repairs. The use of funds in this manner increases their access to the age pension, even though significant concessions have been applied to the fund over their working life that had the objective of minimising their dependence upon the age pension.

For higher income individuals there is nothing to stop them rapidly drawing down their SG balance over the first years of retirement to a level where they become eligible for a full or part pension. Such actions again do not incentivise saving over a lifetime and are undertaken at a high cost to government.

And for those of very limited means, who only see a retirement on a full age pension there are no incentives to save. This is particularly the case for older unemployed people on Newstart. For these persons, reaching the age of eligibility for the age pension is a time where income security improves considerably.

As the system is designed it incentives access to government concessions and benefits across the income spectrum at a huge and increasing cost to Government.

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

The examples outlined above illustrate how the different provisions applying to each pillar influence behaviour across the income cohorts.

24. What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?

The system is overly complex with differing rules applying at different points within a person's working life and to differing elements of the retirement system. That high wealth individuals utilise the services of knowledgeable accounts, lawyers and fund managers to create a portfolio that maximises access to concessions, benefits and deductions while still providing an adequate income in retirement is well known.

Such services, which are costly, are not as readily available to lower income cohorts and consequently they become impacted as a result of the system's complexity. This reinforces the regressive nature of the system.

To fully understand the system a retiree must understand the income tax legislation, the social security legislation, the rules that wapply to their fund, how the fund is managed and the risk associated with that management. They must understand how returns are calculated, they must be able to make a choice between many hundreds of products available in the market which are very difficult to compare.

To expect any individual to fully comprehend all this complexity is beyond reason.

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

To understand if Australians are able to achieve their desired retirement outcomes would require a data set which encompasses both what these outcomes are, the sources of income retirees have and the extent to which the income they receive in retirement supports the outcomes they desire.

To seek to do this would be in interesting academic treatise, but would not necessarily assist policy development around retirement incomes.

A more positive approach to retirement incomes would be to ensure that each retiree has access to sufficient minimum income to support an appropriate level of well-being through retirement.

Any demands that a retiree has in addition to this minimum level of adequacy should be up to the individual to provide independent of government funding.

The more the retirement income system seeks to meet the broader objective of supporting the retirement objectives across the income cohorts the more regressive the system becomes as additional support is provided to individuals who are otherwise capable of supporting their retirement independent of additional government support.

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

No, for all the reasons outlined above in the replies to the questions posed in the consultation paper.