# SUBMISSION ONE

# AUSTRALIAN GOVERNMENT

# RETIREMENT INCOMES REVIEW

# KEY ISSUES

**ROBERT E REID**
**3 February 2020**

**‘The retirement you get is the retirement you plan for’. (Bernard salt, *The Australian)***

**If only it were so easy.**

This submission has been prepared to highlight key issues confronting the Australian retirement income system. Additional information and supporting evidence on the issues raised, with references, is provided in *SUBMISSION 2 – CONSIDERATION OF THE CONSULTATION PAPER.*

## TERMS OF REFERENCE

The Review ToR state ‘The Review will establish a fact base of the current retirement income system that will improve understanding of its operation and the outcomes it is delivering for Australians’.

The Consultation Paper ignores a main component of the operation of the superannuation system where we have industry, retail and self managed superannuation funds which provide contributions-based pensions together with defined benefit pensions which are generally final salary based. Any review of the retirement income system needs to consider the appropriateness of these.

## PURPOSE OF THE RETIREMENT INCOME SYSTEM

The purpose of Australia’s retirement income system as presented in the consultation paper considers only adequacy of retirement income and sustainability. These factors cover but two of the five objectives for retirement incomes listed in the Henry report.

The superannuation system where employer contributions will fund or part-fund retirement has been judged as acceptable by most workers to date.

The robustness of the superannuation system has not really been tested thoroughly though it withstood the Global Financial Crisis. A similar or larger crisis as the system matures may reduce confidence in the system. Individuals may be ill equipped to manage the investment risk they carry through selection of investment options.

The superannuation system is not simple. As at the end of September 2019, there were over 200 corporate, industry, public sector, and retail superannuation funds and individuals have little straightforward information to assist informed choices of fund or investment options.

**AGE PENSION**

The Age Pension is put forward as a safety net and a protection against longevity risk yet is fails to provide those on a full pension with a ‘modest’ standard of living as defined by the Association of Superannuation Funds of Australia Retirement Standard. I have examined the detailed budget underpinning this ASFA standard and believe it provides for a standard of living that should be considered the minimum for older Australians.

**The Age Pension should be increased to provide for a modest lifestyle as measured by ASFA and it should be indexed to the ASFA standard or a similar measure of retirement living costs.**

**ADEQUACY**

An absolute measure of adequacy is suitable to establish the minimum retirement income for Australians to be provided by the government through the Age Pension but the retirement income system should assist Australians who have the financial resources to save to achieve the retirement income they aspire to within reasonable limits.

Current indications are that the Transfer Balance Cap puts an appropriate constraint on the amount that can be used to fund a tax advantaged superannuation pension during retirement. Nevertheless, the TBC has only been in place since 1 July 2017 and investment markets have risen more or less continuously since then. If investment markets crash or investment returns fall dramatically, the government may need to review the application of the TBC, particularly to recently retired individuals.

Limits on the amounts individuals can have in accumulation accounts after they have commenced pensions with accounts with amounts at or below the TBC may be required. A limit of 50% of the TBC in an accumulation account may be sufficient to provide a buffer against major downturns. Income on this amount would be taxed at 15% in the fund.

The Australian Government apparently sees housing as an important component of private savings to produce retirement income. I believe that most Australians view owner-occupied dwellings as secure retirement accommodation at lower cost than rentals, and as an important capital asset that can be used to help fund the transition to accommodation where higher care can be provided. The Australian community does not generally see owner-occupied homes as a source of funds to support living expense throughout retirement. Thus, attitudinal change is needed if the asset value of a home is to be drawn down for day-to-day retirement living expenses.

**EQUITY**

The Age Pension is equitable in that the full rate delivers the same outcomes to all who are in need of that safety net.

The compulsory superannuation system in inequitable in that the only way two individuals who have identical work and superannuation contribution histories (to the day and dollar) will achieve the same or even similar outcomes from compulsory superannuation is if they both choose the same fund and exactly the same investment options at all times. There appear to be some 10,000 accumulation investment options and a similar number in retirement. Many individuals are ill equipped to make informed choices so fare badly from the system.

The SMSF sector is one where participants should be (but may not always be) well equipped to make their own investment decisions and accept the investment risks.

In addition, we have the general defined contribution system running in parallel with defined benefit schemes. There is severe inequity here because contributors carry investment risks in defined contribution schemes while employers carry the risks with defined benefit schemes.

I believe that defined benefit schemes should be phased out immediately because of the inequitable, risk free, benefits they provide to those able to participate.

Judith Sloan (*The Australian* 1-2 February 2020) notes that there is a case to include the Future Fund as a Default superannuation option and this would have merit because those who chose it would be confident that fund managers are acting in the best interests of contributors.

There is also a case to have the Future Fund as the sole defined contribution superannuation system service provider. This would involve closing all other funds so is unlikley to be acceptable. Also there would be risks that Government appointments to the Board of Trustees would be made to promote interests of the government of the day.

Figure 4 in the Consultation Paper is grossly misleading. The 'percentiles' used on the x axis start out as deciles, go to 5% then to 1%. For example, first glance suggests that huge amounts of revenue would flow to government if earnings tax concessions were cut for those covered by the right hand (99%) bar. When the figure is examined in detail, it is apparent that revenue gain is likely to be small because of the small number of people involved. The life expectancies and times in the workforce used in the modelling do not appear realistic.

**SUSTAINABILITY**

Figure 5 in the Consultation Paper shows that the proportion of eligible people receiving a pension is declining over time as people’s superannuation balances at retirement increase. This trend will continue (barring a financial meltdown) and the rate of decline will increase as new retirees have increasing periods of higher employer superannuation contributions.

Information in Figure 4 of the Consultation Paper does highlight two issues. Firstly, government support through the Age Pension extends into the $80^{th}$ income percentile. Data on income percentiles is not readily available though one report, apparently using 2016 data gives median household income as $84,032 per year.

Secondly, support given to the $10^{th}$ income percentile through the Age Pension is roughly equivalent to support given to the $80^{h}$ income percentile through (presumably superannuation) earnings tax concessions. A conclusion may be that those above the $80^{h}$ income percentile are receiving undeserved support from public finances but this is tentative until it is clear how the TBC and the TSB have been dealt with in the modelling and what other pension-associated benefits have been included (health card etc).

There is $2,870 billion dollars held as assets in the superannuation system and benefits paid in the year to June 2019 were $76 billion. The value of assets supporting superannuation pensions is unknown but will be substantial and growing as the system matures. I believe that the income generated by these assets is becoming too great to remain outside the taxation system.

Any tax applied to the income side of superannuation should be fair and apply to all receiving a superannuation pension including those on defined benefit pensions.

Options for a flat rate (5%, 7.5% or possibly 10%) tax on earnings in the fund supporting superannuation pensions or options for a similar flat rate tax on pensions or lump sum withdrawals during retirement when paid by the superannuation fund should be considered. The flat rate tax on pension payments would have an advantage because it would apply to defined benefit pensions. Mechanisms would need to be put in place to ensure that those receiving a part Age Pension are no worse off. People who are receiving percent-of-balance pensions could increase the percentage withdrawn if necessary though this would result in a rundown in savings and eligiblity for a part Age Pension earlier than at present.

The proposal before the last election to change the basis for refund of franking credits was unfair on two counts.

Firstly, it impacted disproportionately on Self Managed Superannuation Funds paying pensions and self-funded retirees with income outside the superannuation system because they were unlikely to have sufficient tax payable on other income to receive refund of franking credits. Tax is paid on a fund basis so larger funds receiving concessional contributions can use franking credits to offset tax payable on contributions.

Secondly, the proposal would have had people unable to receive franking credit refunds getting a substantially lower return for exactly the same investment risk as those able to receive refunds.

Some tax on pensions or income from funds supporting pension is needed from equity and sustainability perspectives, care needs to be taken to ensure that the rates imposed do not serve as a disincentive for private savings within or outside the superannuation system.

A number of people have used the superannuation system to save to provide incomes well beyond those needed to fund their desired retirement lifestyles so there should be limits on amounts individuals can accumulate in the tax-advantaged system.

My opinion is that the current Transfer Balance Cap is at about the right level to allow those who can to use superannuation pensions to fund retirement living but I am not familiar enough with limits associated with the Total Superannuation Balance to know whether they are effective in preventing individuals from accumulating superannuation well in excess of their needs.

Minimum draw down rates help ensure that superannuation is used for its intended purpose, not as a savings vehicle, but there is a case for maximum draw down rates to ensure that superannuation assets are used efficiently over time. I recognise that individuals may need to use superannuation to pay off debts early in retirement or to fund a move to a higher care facility so there would need to be flexibility in a system that limited maximum withdrawals.

Some six million Australians had multiple superannuation accounts in June 2018 and most were probably paying unnecessary fees and charges. It appears that a significant proportion of the workforce does not engage with the retirement income system, at least until they approach retirement.

**OTHER ISSUES**

The increasing power of retail and industry superannuation funds over the Australian investment pool gets scant consideration and is important for the future of the nation as well as for superannuation returns. These funds hold around $1,400 billion in assets and investment mis-steps could do irreparable harm to individual companies, even large companies and may impact on the Australian economy.

Also, some funds have made direct or indirect donations to political parties. It is entirely inappropriate that superannuation funds are able to be used in this manner.

Recent press reports and rough spreadsheet calculations indicate that the legislated increases to compulsory superannuation contributions may not be necessary, or may only be partly required. One option would be to use part of the proposed increases to fund a National Natural Disaster Insurance Scheme but there would need to ensure that the self-employed contributed their share.

# SUBMISSION TWO

# AUSTRALIAN GOVERNMENT

# RETIREMENT INCOMES REVIEW

## CONSIDERATION OF CONSULTATION PAPER

**ROBERT E REID**
**3 February 2020**

**The retirement you get is the retirement you plan for (Bernard Salt, *The Australian*)**

**Page 2 – Terms of reference** – Voluntary superannuation contributions should be identified within the Voluntary savings pillar on this page as well as on Page 4.

The Terms of References state that 'The Review will establish a fact base of the current retirement income system that will improve understanding of its operation and the outcomes it is delivering for Australians.' Thus, the Review and the Consultation Paper should consider the roles of Industry Funds, Retail Funds, Self Managed Superannuation Funds and Defined Benefit schemes and appropriateness of each within the retirement income system.

**Page 3 – Foreword from the Panel** – Modelling of the way the system has performed to date may be straightforward but modelling of how the system will perform in the future needs to include a range of cases with different assumptions regarding issues such as returns, a financial crisis early in retirement, taxation changes, and fee changes. If modelling is to be used to evaluate possible changes to the system, then it needs to be well stress tested to determine sensitivity to changes in inputs.

The bases of modelling and the data and assumptions underpinning it need to be clear to readers of the review report.

**Page 4 – Age Pension – A safety net including longevity risk protection**.
The longevity risk protection provided by the age pension is acknowledged. Nevertheless, the level of protection provided means that individuals may be forced to cope with drastically reduced financial circumstances if their superannuation and other financial resources become depleted just as they are requiring greater care and support.

The Association of Superannuation Funds of Australia Retirement Standard for the September Quarter of 2019 is:

- Couple – Comfortable lifestyle $61,786 per annum, Modest lifestyle $40,194 per annum; 85 and over – Comfortable lifestyle $57,696 per annum, Modest lifestyle $37,676 per annum (Age Pension $36,600 per annum)
- Single – Comfortable lifestyle $43,787 per annum, Modest lifestyle $27,913 per annum; 85 and over – Comfortable lifestyle $41,613 per annum, Modest lifestyle $26,240 per annum (Age Pension $24,300 per annum)

https://www.superannuation.asn.au/resources/retirement-standard

**It could be argued that the Age Pension is inadequate given the amounts required for a Modest lifestyle.** Nevertheless, the Pension provides rental assistance for non-home owners and is indexed to male total average weekly earnings.

**Page 5 – Compulsory Superannuation** – Note that the median superannuation balances given for those aged 60 to 64 years and approaching retirement ($122,848 for women, $154,453 for men) are of little relevance when looking to the future because:

- The current pension eligibility age (and thus notional retirement age) is 66 and set to rise to 67 by 2023 https://www.humanservices.gov.au/individuals/services/centrelink/age-pension/who-can-get-it
- Those now approaching retirement have had only 27 years of compulsory superannuation, not a working life of over 40 years
- The compulsory employer superannuation contribution rate commences at 3% in 1992 and increased gradually to reach the current rate of 9.5% in 2014. Thus, median balances for those approaching retirement will show very substantial increase with time because of higher contribution rates for longer periods. https://en.wikipedia.org/wiki/Superannuation_in_Australia

The statement 'Earnings and income from superannuation are generally tax-exempt if aged 60 years or older' can only be described as misleading as it assumes that the earnings are from assets supporting a superannuation pension and that the withdrawals are taken as pensions, not lump sums, where some components may be taxed.

**Pages 5 and 6 – Voluntary Savings** – The tax treatment of compulsory superannuation is summarised in the first half of page six so the taxation of pre-tax and post-tax voluntary contributions should be dealt with. Also, it needs to be noted that, outside owner-occupied dwellings, income and (discounted) capital gains from other financial assets are taxed at the individual's marginal rate.

It should be noted that, on sale of small business assets, up to $500,000 may be able to be contributed to superannuation without capital gains tax and outside non-concessional contribution limits.

The statement 'As demonstrated by Figure 2, most household wealth for individuals aged 65 and over is held outside the superannuation system, with owner-occupied dwellings the largest asset for these cohorts' applies to all age cohorts from 25 to 34 onwards so the relevance of the statement to the retirement income review must be questioned. The proportion of household wealth held within the superannuation system is likely to increase as younger cohorts age and have longer compulsory contribution periods at higher rates.

**Page 6 – System interactions** – Perusal of ABS information shows that the proportion of households with investment or superannuation as their main sources of income has risen from 6.9% in 2009-2010, just after the global financial crisis, to 9.7% in 2017-2018. If it is assumed that most of those relying on investment or superannuation are older Australians, then the nation is making appreciable progress in increasing financial independence in old age.
https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2017-18~Main%20Features~Spotlight%20-%20Superannuation%20and%20Investments%20as%20Main%20Source%20of%20Household%20Income~12

It needs to be recognised that failure by individuals to spend their full superannuation pension results in a transfer of assets from what is generally a tax free superannuation environment to a taxed personal investment environment.

**Page 6 – Figure 3 – Housing** – Figure 3 makes it clear that the Australian Government sees housing as an important component of private savings to produce retirement income. I contend that most Australians view owner-occupied dwellings as secure retirement accommodation at lower cost than rentals, and as an important capital asset that can be used to fund the transition to accommodation where higher care can be provided. The Australian community does not generally see owner-occupied homes as a source of funds to support living expense throughout retirement. Thus, attitudinal change is needed if the asset value of a home is to be drawn down for day-to-day retirement living expenses.

**Page 7 – How Australia's system compares internationally** – The current high current Pension coverage (around 68% of retirees) in Australia will decrease with time until workers have been making compulsory superannuation contributions throughout their careers at whatever the final rate becomes. Thus, this statistic is of little relevance. Modelling of how this the Pension coverage will change should be undertaken.

The most recent Mercer Global Pension Index rates the Australian overall retirement pension system at fourth out of the 34 countries considered, behind the Netherlands, Denmark, and Finland.
https://www.mercer.com.au/our-thinking/mmgpi-2018.html

The pension systems in the Netherlands, Denmark and Finland all include public and occupational pension elements and the Netherlands system where part of the system is funded by worker contributions.
https://www.pensionfundsonline.co.uk/content/country-profiles/the-netherlands
https://www.pensionfundsonline.co.uk/content/country-profiles/denmark
https://www.pensionfundsonline.co.uk/content/country-profiles/finland

The Netherlands public pension appears to be funded by a levy on income.

Australia's retirement income system has been evolving in a direction established in 1992. It rates well in comparison with the systems of other nations. There may be aspects of the systems from other countries like funding the public pension from a levy on income, as in the Netherlands, that could be incorporated in the Australian system. Incorporating such major changes now would be extremely difficult.

The Mercer study considers adequacy, sustainability and integrity and finds that the Australian system scores lowest on adequacy. Though the Australian system rates well, suggestions for improvement are to:

- Moderate the assets test on the Age Pension
- Raise household savings and reduce debt
- Require part of accumulated superannuation to be taken as an income stream on retirement
- Increase participation of older people in the labour force
- Increase the pension age as life expectancies increase.

Current interest rates as controlled by the Reserve Bank of Australia discourage savings and encourage debt.

One strategy to require part of accumulated superannuation to be taken as an income stream would to allow a percentage of superannuation balance on retirement (for example 30%) to be taken as a one-off lump sum payment and then set minimum and maximum pension factors as applied to the Allocated Pensions available up till about 2007.
https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?page=34

Workforce participation by older Australians has increased since about 2004 and 13% of Australians 65 years and older are still in the workforce.
https://www.aihw.gov.au/reports/older-people/older-australia-at-a-glance/contents/social-and-economic-engagement/employment-and-economic-participation
Workforce participation by older Australians is dependent on health, willingness to participate and availability of suitable employment. Those working in business and the professions, and those in unskilled work that is not physically demanding may find it easy to keep working in their current roles as they age. Those in physically demanding work may have to move to less demanding jobs as they age and may find they are competing with younger people with lower skill levels.

As noted in relation to compulsory superannuation, the Age Pension age increased from 65 to 66 years on 1 July 2019 and is to increase to 67 years by 1 July 2023.

**Page 8 – Purpose of the retirement income system** – The purpose of Australia's retirement income system as presented in the consultation paper considers only adequacy of retirement income and sustainability. These factors cover but two of the five objectives for retirement incomes listed in the Henry report.

https://treasury.gov.au/sites/default/files/2019-10/afts_retirement_income_report_20090515.pdf
The other three objectives listed by Henry deal with acceptability, robustness and simplicity.

Acceptability considers income needs before and after retirement and implies that individuals should be able to fund their retirements without undue income sacrifice before retirement. Compulsory contributions are made by employers and, in theory, are not part of wage or salary income though low income earners may see the contributions made on their behalf as having appreciable impacts on their current lifestyles.

Robustness considers management of investment, inflation and longevity risk. The robustness of the superannuation system has not really been tested thoroughly though it withstood the Global Financial Crisis. A similar or larger crisis as the system matures may result reduce confidence in the system. Success in navigating investment risks depends very much on the decisions made by individuals in relation to choice of fund(s) and choice of investment options within funds.

Simplicity considers the ease with which individuals can make decisions in their own best interests. As at the end of September 2019, there were over 200 corporate, industry, public sector and retail superannuation funds.
https://www.superannuation.asn.au/resources/superannuation-statistics
These are defined contribution funds, with different fee structures. There appear to be approximately 20,000 investment options available to members in the accumulation phase and a similar number for the income phase.
https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf

The number of industry and retail funds and investment options provides so much complexity that it an impossible task for Australians to make decisions in their best long-term interests. This deficiency has been highlighted in the recent banking royal commission where the poor financial literacy of Australians was noted.
https://thewest.com.au/opinion/shane-wright/shocking-state-of-australias-financial-literacy-makes-us-all-fools-ng-b88922492z

Self Managed Superannuation Funds require individuals to take direct responsibility for making decisions in their own best interests.

The issues of acceptability, robustness and simplicity do not receive sufficient attention in the Consultation Paper.

The Transfer Balance Cap and contribution limits under the Total Superannuation Balance should be listed as parts of the policy settings that discourage wealth accumulation in order to provide for inheritances because they are important components of these policy settings.

Most retired people of my acquaintance see the superannuation system as one of the mechanisms to manage savings to facilitate their retirement lifestyle. Any 'nest egg' they accumulate is seen as a buffer so they will not be entirely dependent on the public purse in the event of unforeseen financial hardship,

**Page 8 – The Age Pension** – I have mentioned this issue mentioned previously. The pension should be a safety net for those who are unable to accumulate sufficient capital in the compulsory superannuation system or in voluntary savings to fund their own retirement.

I am aware that some people currently retired made a considered decision to rely compulsory superannuation and the pension with no attempt at voluntary savings before retirement. Such behaviour should be discouraged.

The base Age Pension rate should be increased to provide a modest retirement lifestyle as assessed by the Association of Superannuation Funds of Australia or similar.
https://www.superannuation.asn.au/resources/retirement-standard
Pension increases should then be tied to that measure or a similar measure, of the amount required to fund a modest retirement livestyle.

**Page 8 – Compulsory superannuation** – The objective of the compulsory superannuation system 'to provide income in retirement to substitute or supplement the Age Pension' is too narrow. A more appropriate definition would be 'to ensure that the majority of Australian's who have worked for (say) 90% of the time from age 21 to age 65 finance their own retirements, independent of the Age Pension'. Any definition of compulsory superannuation should include a reminder of personal responsibility.

**Page 9 – Voluntary savings** – Voluntary saving inside or outside the superannuation system are important in assisting individuals save for their retirement. Subject to Total Superannuation Balance and any other similar restrictions, voluntary savings inside the superannuation system should be encouraged because they are set aside until retirement.

As stated earlier, the value in family homes owned by retirees is seen more as a nest egg to fund entry into other accommodation where more support is provided rather than as an asset that should be drawn upon to fund general retirement expenses.

**Page 10 – The changing Australian Landscape – Maturity of the superannuation system** – Spreadsheet calculations with 10% employer contributions, 5% real growth during accumulation and 3% real growth in the pension phase (available on request) suggest that a majority of individuals should be able to fund an Association of Superannuation Funds of Australia Retirement Standard comfortable lifestyle to around age 90 if they are in the workforce from age 21 to age 65. This appears to cover the expected life span of most males and females.
https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

It may not be necessary to increase compulsory employer superannuation contributions to 12% as planned.

**Page 11 – Broader economic trends –** Increasing workforce participation should reduce reliance on the Age Pension.

Five percent real growth during accumulation and 3% real growth during pension phase (see above) are considered conservative but a severe economic downturn soon after retirement could drastically reduce retirement incomes for those who experience it.

**Page 12 – Principles for assessing how the system is performing – Adequacy –** Absolute measures of adequacy are appropriate for establishing the minimum incomes that the retirement income system should be delivering through the Age Pension.

Perusal of the detailed budget breakdowns given for a modest lifestyle by ASFA indicate that they provide an appropriate minimum that should be met through the full Age Pension or a combination of Superannuation and Age Pensions.
https://www.superannuation.asn.au/ArticleDocuments/269/ASFA-RetirementStandard-Budgets-Sep2019.pdf.aspx?Embed=Y

Those who have the financial resources should be encouraged and supported to save more to fund the retirement lifestyle they aspire to within limits. The Transfer Balance Cap puts an appropriate constraint on the amount that can be used to fund a superannuation pension during retirement. Nevertheless, the TBC may need to be reviewed for recently retired people if investment markets crash or investment returns fall dramatically.

The Total Superannuation Balance and higher tax on concessional contributions for those earning over $250,000 impose limits on contributions to some extent. As I am retired and do not wish to contribute to superannuation, I have not fully investigated the way these limits apply and their likely impacts.

It should be noted that all retirees with superannuation balances currently have the option to draw pension amounts to fund whatever lifestyles they aspire to provided that they are prepared to except that they may become reliant on the Age Pension if their superannuation and other savings are exhausted before they die.

**The Age Pension should be set to provide a modest lifestyle as determined by ASFA and adjusted to keep pace with this measure or a similar measure of the cost of maintaining a modest lifestyle in retirement.**

As noted in the Consultation Paper, patterns of expenditure will vary during retirement. Our expectation is that we will have an active retirement early retirement with higher expenditure, followed by a less active and lower expenditure middle retirement, and, in all probability, a period in late retirement where health and age care expenses require quite high expenditure.

**Page 16 – Equity –** The Age Pension component of the retirement income is equitable in that it delivers the same retirement outcome to all who have been unable (or in a few cases unwilling) to save to fund their own retirements. As noted previously the Age Pension rate should be sufficient to allow a modest retirement lifestyle.

**Page 16 – Fair and adequate outcomes –** The system generally delivers fair and adequate outcomes within the constraints of a complex society and workforce but there is room for improvement.

One option may be for the government to make superannuation contributions of a fixed amount and for a maximum number of years on behalf of those out of the workforce to rear children.

The compulsory superannuation system should allow individuals who have been in the workforce for most of their working lives (say 90%) to self-fund at least a comfortable lifestyle to their life expectancy.

The retirement income system should not be expected to compensate for all life events and circumstances but a case can be made that where individuals are reliant on government payments as a result of disability or similar, they should not have payments reduced when they reach retirement age.

**Page 17 – Individuals in similar circumstances achieve similar outcomes** – The only way two individuals who have identical work and superannuation contribution histories (to the day and dollar) will achieve the same or even similar outcomes from compulsory superannuation is if they both choose the same fund and exactly the same investment options at all times.

As at the end of September 2019, there were over 200 corporate, industry, public sector and retail superannuation funds.
https://www.superannuation.asn.au/resources/superannuation-statistics
These are defined contribution funds, with different fee structures. There appear to be approximately 20,000 investment options available to members in the accumulation phase and a similar number for the income phase.
https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf

Funds with less than five members, almost exclusively self managed superannuation funds, totalled 600,365 (ASFA, 2019).
https://www.superannuation.asn.au/resources/superannuation-statistics

In addition, there are some 84 exempt public sector superannuation schemes listed in the *Superannuation Industry Supervision Regulations (1994)* registered 8 January 2020.
https://www.legislation.gov.au/Details/F2020C00008

These 84 funds appear to be defined benefit funds. Some are ‘legacy’ funds and some are available to new members in certain job categories such as the judiciary.

**Except for defined benefit funds, each of these funds and investment options will yield different outcomes depending on fees, investment returns, and the ways taxation is managed in the fund. The best word I can use to describe this situation is ludicrous.**

**Individuals carry investment and other risks in defined contribution superannuation funds but employers (generally) carry the risks in defined benefit funds. For reasons of equity, one or other fund type should be phased out.**

Judith Sloan (*The Australian* 1-2 February 2020) notes that there is a case to include the Future Fund as a Default superannuation option and this would have merit because those who chose it would be confident that fund managers are acting in the best interests of contributors.

**Page 18 – Public support is appropriately targeted** – Figure 4 is grossly misleading. The ‘percentiles’ used on the x axis start out as deciles, go to 5% then to 1%. For example, first glance suggests that huge amounts of revenue would flow to government if earnings tax concessions were cut for those covered by the right hand (99%) bar. When the figure is examined in detail, it is apparent that revenue gain is likely to be small because of the small number of people involved. Also, there is no indication whether other benefits available to lower income retirees such as those associated with a government health card are considered.

The modelling used to create Figure 4 assumes a life expectancy of 92 years. Current life expectancy for 65 year olds is approximately 85 years for males and 87 years for females. Life expectancy for those born 2015 to 2017 is less than 84 years so lifetime government support is over-estimated by a considerable amount.
https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy
Reducing life expectancies to more realistic levels should result in similar percentage reductions in lifetime government support but the dollar value of the support will decrease most for higher income earners.

Also, the assumptions that people only start work at age 27 is inaccurate when government data (Figure 2 in link below) shows that over 50% of 15 to 19 year olds were in the workforce in March 2018.
https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1718/Quick_Guides/LabourForce

Other government data (Table 6.1 in link below) shows that in 2015-2017, males aged 15 to 25 could expect to live to around age 81 years while females of the same age could expect to live to age around 85 years.
https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

Thus, the 92 year life expectancy used is demonstrably wrong.

The assumptions listed in the footnote to Figure 4 in the Consultation Paper make no mention of recent legislative changes such as the Transfer Balance Cap and the Total Superannuation Balance and how or whether they have been accounted for in the modelling.

**Page 20 – Cost to public finances** – This section contains the statement 'OECD analysis (2017, p. 143) shows that Australia's public expenditure on cash benefits for old-age pensions and survivor benefits as a percentage of GDP is lower than the OECD average' that implies that Australia is being parsimonious in relation to pension payments. This is not necessarily the case as it is noted on page 142 of the document referred to that 'Spending also tends to be low in countries with favourable demographics, such as Australia, Canada, Ireland and New Zealand'.

In addition, Figure 5 in the Consultation Paper shows that the proportion of eligible people receiving a pension is declining over time as people's superannuation balances at retirement increase. This trend will continue (barring a financial meltdown) and the rate of decline will increase as new retirees have increasing periods of higher employer superannuation contributions.

Figure 4 in the Consultation Paper is misleading in a number of ways and key assumptions underlying the modelling used to produce it are unknown but the Figure may highlight two important issues.

Firstly, government support through the Age Pension extends into the 80th income percentile. Data on income percentiles is not readily available though one report, apparently using 2016 data gives median household income as $84,032 per year.
https://www.smh.com.au/money/planning-and-budgeting/how-wealthy-are-you-compared-with-other-australians-20180410-p4z8s4.html
This is well above the amount of $61,786 required for a couple to have a comfortable lifestyle previously quoted. I believe that the data in Figure 4 may indicate that Age Pension benefits are extending too far up the retirement income scale.

Secondly, support given to the 10th income percentile through the Age Pension is roughly equivalent to support given to the 80 h income percentile through (presumably superannuation) earnings tax concessions. A conclusion may be that those above the 80 h income percentile are receiving undeserved support from public finances but this is tentative until it is clear how the TBC and the TSB have been dealt with in the modelling.

There is $2,870 billion dollars held as assets in the superannuation system and benefits paid in the year to June 2019 were $76 billion.
https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-july-2019
The value of assets supporting superannuation pensions is unknown but will be substantial and growing as the system matures. I believe that the income generated by these assets is becoming too great to remain outside the taxation system. Nevertheless, any tax applied should be fair and apply to all receiving a superannuation pension including to those on defined benefit

pensions. Risks associated with applying the 15% tax on earnings to earnings from assets supporting pensions or having superannuation pension income taxed at the individual's marginal rate is that such taxes would be considerable disincentives to save for retirement in the superannuation system.

I contend that options for a flat rate (5%, 7.5% or possibly 10%) tax on earnings in the fund supporting superannuation pensions or for a similar flat rate tax on pensions or lump sum withdrawals during retirement when paid by the superannuation fund should be considered. The flat rate tax on pension payments would have an advantage because it would apply to defined benefit pensions. Mechanisms would need to be put in place to ensure that those receiving a part Age Pension are no worse off. People who are receiving percent-of-balance pensions could increase the percentage withdrawn if necessary though this would result in a rundown in savings and eligiblity for a part Age Pension earlier than at present.

Income from superannuation pension income that is not spent on retirement living expenses becomes part of the recipient's taxable income under current legislation.

The 15% and medicare levy payable on taking the taxable portion of savings out of the superannuation system other than as a pension is noted.

The proposal before the last election to change the basis for refund of franking credits was unfair on two counts.

Firstly, it impacted disproportionately on Self Managed Superannuation Funds paying pensions and self-funded retirees with income outside the superannuation system because they were unlikely to have sufficient tax payable on other income to receive refund of franking credits. Tax is paid on a fund basis so larger funds receiving concessional contributions can use franking credits to offset tax payable on contributions.

Secondly, the proposal would have had people unable to receive franking credit refunds getting a substantially lower return for exactly the same investment risk as those able to receive refunds.

**Page 22 – Effects on private savings –** While I believe that some tax on pensions or income from funds supporting pension is needed from equity and sustainability perspectives, care needs to be taken to ensure that the rates imposed do not serve as a disincentive for private savings within or outside the superannuation system.

**Page 22 – Changing trends and one-off shocks –** Individuals outside the defined benefit superannuation system are carrying the investment risks associate with funding for their own retirements. Large falls in investment markets, particularly around the time of retirement pose a substantial risk for all but the highest net worth individuals. This risk is hard to avoid in anything other than a government guaranteed system. The Age Pension does provide a safety net but at a cost to the broader community.

**Page 23 – Individuals saving beyond their retirement income needs –** A number of people have used the superannuation system to save to provide incomes well beyond those needed to fund their desired retirement lifestyles. There should be limits on amounts individuals can accumulate in the tax-advantaged superannuation system.

My opinion is that the current Transfer Balance Cap is at about the right level to allow those who can to use superannuation pensions to fund retirement living.

I am not familiar enough with limits associated with the Total Superannuation Balance to know whether they are effective in preventing individuals from accumulating superannuation well in excess of their needs.

**Page 24 – Cohesion – Assessing whether the system is cohesive –** Minimum draw down rates help ensure that superannuation is used for its intended purpose, not as a savings vehicle, but there is a case for maximum draw down rates to ensure that superannuation assets are used efficiently over time. I recognise that individuals may need to use superannuation to pay off debts early in retirement or to fund a move to a higher care facility so there would need to be flexibility in a system that limited maximum withdrawals.

**Page 26 – How individuals engage with the system –** Some six million Australians had multiple superannuation accounts in June 2018 and most were probably paying unnecessary fees and charges. It appears that a significant proportion of the workforce does not engage with the retirement income system, at least until they approach retirement.
https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Multiple-super-accounts-data/
This poor engagement probably relates to poor financial literacy in Australia and means that many people are unlikely to choose the superannuation option that best suits.
https://thewest.com.au/opinion/shane-wright/shocking-state-of-australias-financial-literacy-makes-us-all-fools-ng-b88922492z
Users of financial planners are usually high net worth individuals so the less well off are missing opportunities to make best use of the retirement income system through lack of engagement.
http://www.roymorgan.com/findings/7655-nearly-two-million-australians-use-a-financial-planner-or-advisor-worth-703b-201807160015