

SUBMISSION TO THE REVIEW OF RETIREMENT INCOMES - 2020

Firstly, let me congratulate the government on ensuring that a spokesperson for the SMSF sector has been included on the panel conducting this evaluation. I believe that the operation of SMSFs can be improved to ensure not only self sufficiency of the current generation of retirees, but intergenerational self sufficiency in certain cases.

THE OPERATION OF SELF MANAGED SUPERANNUATION FUNDS

Set a limit and set them free.

The concessional tax treatment of superannuation funds should be retained to provide an incentive for people to establish them, and build them to an amount which can sustain them in their retirement. However, preferential tax treatment should not be unlimited.

The current limit of \$ 1.6 million per person seems reasonable, but once a limit has been set, then free up other regulations surrounding the accumulation of assets and the distribution of pensions.

GROUNDS

Our family established a self managed superannuation fund in 2000 on the advice of our accountant. As a result, we are now fully self funded retirees who neither claim any age pension nor health card concession.

Our Superannuation fund also has the potential to fund the retirement of our only child. However, this is at risk due to the regulations around pension drawdown and threatened increased regulation around asset "diversity".

We have personally managed the Investment strategy of our fund for 19 years with the only input from our accountants being the annual preparation of financial accounts and tax return, and organisation of the annual audit as required by the ATO.

BACKGROUND

Our self managed superannuation fund (SMSF) was established in 2000 after we had just sold a business and were able to place our proceeds into our Superannuation Fund as an alternative to paying capital gains tax. Compulsory superannuation contributions have comprised a minimal part of our accumulation as we have both been self employed for the duration of the establishment of our fund and, like many small business operators did not have sufficient cash flow to pay ourselves salaries of any significance. Our asset accumulation has largely been as a result of the proceeds of the sale of our businesses, and from "down sizing" from an expensive house to a much cheaper house at the onset of our retirement.

On a minor matter, whilst doing some casual work as a tutor at Griffith University, I was forced to have my superannuation put into UNI Super as part of the prevailing industrial arrangements. By the time I had finished the work, and was able to get it rolled over into my own superfund, a large proportion had been taken in fees of one type or another.

However, my primary submissions are on other matters; that is the amount which is required to be paid out from self managed superannuation funds to members on an annual basis, the proposed interference of government organisations on the investment strategies of SMFs and the treatment of the family home.

Because we are under 65, the current minimum amount required to be paid is 4% of the assets being managed. Whilst we are fine with this, I am concerned that as I get older I will be legally required to pay a great proportion of the assets being managed by our fund and that this will negatively impact the operation of fund. Current legislation around superannuation aims to exhaust super fund balances by the end of life. Why is this necessarily the best approach? Surely a good objective would be to live off the investment returns whilst preserving as much of the capital as possible for the retirement income of the next generation? Remaining balances could be “preserved” for the retirement incomes of children, either as a single sum, or allocated to specific children.

This is our situation.

We have invested in commercial and residential property which is returning an average net yield of around 8%. This is a return many commercial fund managers would be proud of and consequently we are able to live comfortably on our current drawings. We invested in property as we feel it is lower risk than the stock market and managed funds, and our daughter, who is now twenty years of age (but is on the autism spectrum) is a member of the fund and will be able to benefit from it in her retirement or upon our death.

We are confident that neither ourselves, nor our daughter will ever have to apply for the age pension given current yield of our superannuation fund assets which will naturally adjust for inflation.

However, if we live into our nineties, which is highly likely given our family histories and good health, we will be legally required to pay ourselves upwards of 10% of the value of assets under management. Under these circumstances, we would have to sell one of the properties, which would diminish consequent future returns available to our daughter.

We understand our current legal obligation as Trustees is to ensure we will be liquid enough to do this, so will strata title the properties and sell them as required. However, this is a situation which needs to be contrived only to comply with the current regulations and is not in the best interests of any of the beneficiaries of our SMFS. If we are not forced to sell down our assets to pay ourselves larger pensions, our SMSF will be able to provide for the future generations of our family, thus eliminating the need for them to apply for any age or disability pension.

The ATO would argue, that if our assets were “diversified” into property plus equities, this would not be an issue.

However, property has by far been the best performing asset class in our portfolio. We believe that equities are too risky for our portfolio with any class of business now being threatened by digital disruption. We have a diverse property portfolio, but all our assets are in property, which (as previously noted) provides a handsome return for us.

We are not naïve fund managers and submit that given our successful record of fund management, should not be forced to vary our investment strategy according to what the ATO thinks is best.

We also submit that complying self managed funds should have the option of determining their own level of annual distribution, rather than having to comply with a level determined by government which may be detrimental to the long term sustainability of the fund.

Also, bureaucratic compliance measures such as an “annual” review of the fund’s investment strategy should be made less onerous and more meaningful. That is, an investment strategy review on a three year basis, or when a change in strategy is contemplated.

THE TREATMENT OF THE FAMILY HOME

Whilst the government has ruled out including the family home in the assets test for the purposes of qualifying for the Age Pension – there is a more sensible way of treating the family home with regard to retirement incomes.

It seems nonsensical for someone to be living in a \$ 3 million asset and scraping by on the Age Pension but people should not be forced to move out of their homes if they don't want to. However, people are often ready to down size at retirement, and the government could encourage voluntary downsizing and the voluntary conversion of most people's largest asset into a retirement income stream.

A better way to treat the family home is to encourage people to free up liquidity from this asset. This can be done by allowing a one off contribution to the superannuation fund of any amount up to the limit of \$ 1.6 million per person from the proceeds of the sale of the family home.

We adopted a deliberate strategy to down size from our large family home and invest the money in our superannuation fund. That is we decided to live off our assets rather than in them. We were lucky in that we were able to make the \$ 540,000 contribution per person, just prior to this limit being abolished. The proceeds from the sale of our home doubled the amount in our super fund and meant it was large enough to produce a sufficient income stream for us to enjoy a comfortable retirement.

Although the government has now permitted \$ 500,000 of proceeds from the sale of the family home to be deposited into superannuation accounts, why limit it to this? Let people deposit as much as they can, up to the limit of \$ 1.6 million. After all, the bigger the balance in their super account, the closer they will be to a self funded retirement.

The accumulation of capital gain via the purchase of a family home is an Australian tradition. The ability to convert this life time of savings into a retirement account to supplement the compulsory superannuation system should be a natural part of the financial planning process. The ability to make a large "end of work" contribution means that compulsory contributions could remain at around 10% of salary without the need to increase to 12%, thus keeping more money circulating in the economy.

Furthermore, if people know that the unclaimed balance of their superfund can be preserved as a retirement income for following generations, family resistance to the sale of the home will be diminished.

It is the government's role and responsibility to provide the settings to encourage (rather than force) people to do this, to relieve pressure on the long term budgetary cost of the Age Pension system.

Yours sincerely

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