

Retirement Income Revue

We wish to have our submission included in the Retirement Income Revue. Our comments are on each consultation question in the order as shown in the Retirement Income Revue consultation paper, November 2019.

We are in the 75 years plus age demographic & self funded retirees who can foresee the inability of the Federal Government to finance the future pension burden without a major change in the way Australians provide for themselves.



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Consultation Question:

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

That Australia has 68% coverage of pensions as compared to an OECD average of 30% indicates that the Australian system is over generous & with an ageing population & is not sustainable financially. A coverage of 50% should be the absolute maximum to avoid a long term budget catastrophe. This folly is further displayed by the Melbourne Mercer Pension Index ranking third behind The Netherlands & Denmark – we cannot afford to rank this highly.

Consultation Question:

Is the objective of the Australian retirement income system well understood within the community?

The short answer is NO. This is demonstrated by the published information that a huge number of employees take absolutely zero interest in their superannuation – leaving it in default settings, when for many people it is their biggest asset.

Consultation Question:

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

Schools should include ‘financial literacy’ as a compulsory subject for all secondary students. The topics covered should at least include the importance of saving, credit card interest pitfalls, preparing a tax return & the benefits of compound interest on savings etc.

Consultation Question:

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

The roles as shown in the question: 1. Government 2. Private Sector 3. Individual, is totally the reverse of what it should be. These should be:

- 1 Individual
- 2 Private Sector
- 3 Government

reflecting that it is essential that everyone takes responsibility for their own welfare & not to assume they will be looked after.

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Consultation Question:

The panel has been asked to identify the role of each of the pillars in the retirement income system & what each pillar should seek to deliver & for whom?

More emphasis should be placed on the need to provide for yourself, not rely on a handout. Penalise those who don't save. The current system rewards those who spend & waste throughout their working lives.

Consultation Question:

What are the tradeoffs between the pillars & how should the appropriate balance between the roles of each pillar in the system be determined?

Any variation of the pension system should always be done with a view to ensuring that the age pension should be a subsistence measure, *not* an aspiration.

Consultation Question:

Demographic, labour market & home ownership trends affect the operation of the retirement income system now & into the future. What are the main impacts of these trends?

Home ownership has historically been the aspiration of Australian life, but has now been superseded by a culture of lifestyle in preference to home ownership, largely encouraged by the various governments who are of the opinion that spending stimulates the economy.

Consultation Question:

To what extent is the system responsive to these trends?

Banking has transformed to allow mortgage debt to carry on after retirement, under the assumption that superannuation will pay. By using superannuation to pay down debt in this way, it is paying off pre retirement debt rather than funding the retirement years. This has encouraged the purchase of a house not realistically affordable.

Consultation Question:

Are the principles proposed by the panel (adequacy, equity, sustainability & cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now & in the future? Are there other principles that should be included?

The system must change the order of examinations to sustainability, equity, adequacy & cohesion – if there is no sustainability all the other principles are of no consequence!

Consultation Question:

How does the system balance each of the principles & the tradeoffs between principles (eg: sustainability & adequacy) under the current settings? What is the evidence to support whether the current balance is appropriate?

Sustainability is already under stress & getting worse as our population lives longer & draws on Government retirement payments for longer. (Not only this, but also enormous population growth from rampant immigration, which causes the community dollar to be stretched even further.)

Consultation Question:

What should the panel consider when assessing the adequacy of the retirement income system?

Despite the increasing rate of employer contributions to the retirement funds of individuals, it will be many years before the system reaches maturity & even then there will be a huge proportion of the population who through long term unemployment, under employment or absence from the workforce will not have sufficient funds in superannuation for their retirement, causing an ever increasing burden on the public purse. Therefore, any consideration on adequacy & increase in the amount of the pension should be tempered by the ability of the Government to actually fund its pension commitments. Current pensions should be calculated taking into account the future burden of a shrinking contributing proportion of the population, from whom the funds originate.

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Consultation Question:

What measure should the panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income?

Firstly, define “adequate” ???????

By using the pillars of 1. Individual, 2. Private Sector & 3. Government, the panel should recommend that the onus on retirement is the responsibility of each individual, & the government provided pension is based on subsistence. Personal responsibility must provide for any improvement in lifestyle that the individual aspires to.

Consultation Question:

What should the panel consider when assessing the equity of the retirement income system?

Firstly, define “equity” ???????

Equity can never be achieved in retirement because there is no correlation between the spending & saving pattern of individuals during their working life. The Aesop’s fable of the ant & the grasshopper demonstrates the difference is personalities & the value of providing for one’s future.

Consultation Question:

What factors & information should the panel consider when examining whether the retirement income system is delivering fair outcomes in retirement?

Unfortunately, life is not fair & equitable. There is no way that the Government can make it so.

Consultation Question:

What factors should be considered in assessing how the current settings of the retirement income system affect its fiscal sustainability? Which elements of the system have the greatest impact on its long term sustainability?

There is a culture within Centrelink – at least at the local level – to encourage greed. There is a culture of encouraging people to spend – new car, holiday etc. after retirement so as to reduce the assessable asset base, enabling access to a Government pension. There is, as is known, a policy of Centrelink to add back gifts of over \$10,000 per year. This should also be included in the superannuation legislation. There are known instances of retirees withdrawing large sums from superannuation to fund holidays, cars &

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extravagant spending in order to reduce their assets sufficiently to draw a pension. The panel should recommend that large withdrawals from superannuation be treated in the same way as gifts for Centrelink purposes & added back if there is any claim for a pension.

Consultation Question:

What should the panel consider when assessing whether the retirement income system is cohesive?

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

NO. The present system facilitates the ability to access superannuation before retirement (perhaps unwisely) & then approach retirement relying on a Government age pension which is totally contrary to the intention of superannuation. Eg: Blow your superannuation, then ask for a handout.

To discourage the waste of superannuation with large withdrawals, there should be an upper percentage limit on withdrawals – the exception being for aged care & health care – after which there is a penalty of either taxing the excess as assessable income or treating it in the same way as gifts when assessing eligibility for a Government age pension.

Other items for the panel to consider:

The totally unrealistic superannuation system for politicians, both as to the percentage of employer contribution & time of access. Their superannuation should only be accessible after reaching normal retirement age as applicable to the balance of the population, not on retirement from parliament or loss of seat at an election.