John Stafford

Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

Please find below my submission for the retirement income policy.

My name is John Stafford. I am a retiree with superannuation, This submission applies to all types of super fund. I was previously employed as an Agricultural Scientist.

I think superannuation is a good thing for three reasons.

1. It supplies people with a more comfortable living in retirement than would otherwise be the case.
2. It reduces the age pension bill for the Government
3. It provides an income for the population that is not dependent on labour.

    Population income comes from 3 sources – Salaries/wages, Government and capital returns.

    Most comes from salaries/wages. The amount of money the population gets determines the amount of spending which in turn determines the state of the economy. Thus it is essential to maintain the overall wealth of the spending population.

    The amount of money coming to the population from salaries/wages is under threat. Many people are unable to get full time jobs and the proportion of well paying jobs is reducing while the number lower paying jobs is increasing. Much of this is due to mechanisation replacing workers, and indications are that this trend will continue.

    To maintain the overall wealth of the population more income needs to come from the other two sources. While the money put into superannuation still comes from salaries/wages the earnings come from capital return. Thus the superannuation system has resulted in a substantial income increase to the population from capital earnings, and this is reflected in the overall health of the economy.

    I consider this last point as important as the other two.

What do I think is wrong with the present Superannuation system?

It seems to me that it favours the people with large super amounts. The more money you have the more you get subsidised by tax concessions. This isn’t all wrong, after all, many of those who have large amounts have lived modestly in order to maintain a comfortable lifestyle in retirement. However the income from super at the top end is more than that I would call a comfortable living and I find it inequitable that the government gives concessions to very rich people. The LNP has made some improvement by limiting the amount of superanuation earning tax free income to $1.6 million dollars, but this is not very equitable because it does not take into account the difference in earnings from different investment forms. People in retirement phase are usually advised to use safe (i.e. fixed term debentures) investments which have a very low yield.

What do I want?

1. A retirement income scheme that gives all a comfortable living with an opportunity to increase it without undue penalty
2. A retirement income scheme where taxation is related to that the rest of the population pays.
3. A retirement income scheme that encourages all people to supplement their income from investment, and so stabilises the economy compared with that that would occur if everyone was dependent on wages.

How do I think this could be achieved?

The following scheme I think could achieve these aims. It is based on giving us all a universal Basic Pension. Since savings on the pension is the main reason given for superannuation tax deductions the justification for tax deductions on superannuation is very much reduced.

1. Give everyone over the age of 65 a basic pension at a similar or more equitable rate to at present.
2. Maintain the compulsory Superannuation income deduction system from salaries.
3. Maintain the 15% taxation on savings in superannuation.(or 30% for high income individuals)
4. All taxation to be as for the present accumulation phase. Ie 15/30% as in #3 above.
5. Allocate imputation credits for all tax paid, and accumulate it together with all imputation credits received for investments.
6. Maintain Tax free and taxable streams.
7. On withdrawal, money from tax free streams is not and should not be taxed. Money from the tax free stream may be withdrawn at any time.
8. Remove all controls on the amount of money entering Superannuation.
9. Money may only be withdrawn from the taxable stream when work life is ceased or on reaching the age of 65.
10. On withdrawal, money from taxable stream is added to taxable income along with imputation credits. Imputation credits are treated in the usual way.
    Taxable income of retirees will consist of:-
    a. Universal Pension
    b. Earnings from work
    c. Income from investments
    d. Withdrawals from superannuation taxable stream
    e. Imputation credits

Less

imputation Credits.(from tax)

11. On death inherited taxable funds and associated imputation credits may go directly to an inheritor's taxable superannuation, or to the inheritor's taxable income.

Notes on points above.

1. Instead of reducing pension for means and income, the use of taxation is very much more gradual than at present. The costs and efforts of maintaining a means test are removed. So are the costs of maintaining compliance.
2. It is absolutely imperative that the superannuation scheme be retained for all three reasons outlined above. An increase to 12% deductions will be a long term plus for the economy.
3. 15% is likely to be similar to the taxation rate people on superannuation will pay in retirement. It also serves as an encouragement for people to save for retirement. Perhaps it should be the lowest taxation rate -currently 19 cents.

4. Because the pension is universal there would be no justification for carrying on the tax free status of moneys earned during the pension phase.
5. At the final reckoning account has to be taken of tax already paid. Records are kept of tax paid and imputation credits should be allocated in the same way as they are for company tax paid in businesses. Rather than cashing the imputation credits from businesses, they could be accumulated with the ones from fund taxation.
6. Tax free streams consist of money put into superannuation after tax has been paid on it, and money earned during the pension phase. In the first place full tax has already been paid, while in the second any effort to recoup the tax would be regarded as retrospective taxation. Superannuants should be able to designate which stream withdrawals come from.
7. See 6.
8. Since there is no longer a big tax advantage for superannuation, these controls are redundant. They disadvantage people who derive their retirement nest egg from inheritance.
9. The intention of Superannuation is retirement income. The 15% tax is based on probable retirement income being lower than working income. There may be some good reasons to access funds (such as paying off one's house) that could be taken into account.
10. In the long run the taxation paid by retirees would be similar to that paid by everyday workers, with the lower paid workers getting a reasonable living and all getting some recognition for saving. This seems equitable to me
11. The person that inherits the money gets the same terms as the retiree. Tax is dependent on the inheritor's income.

    Other notes.

    1. There are occasions, such as to purchase or pay off a house, that large sums of money may need to be withdrawn. This would incur higher taxation than normal. Tax averaging similar to that done for primary production may be required. This would also be necessary for inheritors.
    2. I think that this system is comparable in money spent to the present system, but if it isn't , a further modification would be to apply accelerated taxation to the pension part of the taxable income. This could be done by dividing the taxable income by a fraction, down to the maximum taxation rate.
       For example, if the maximum taxation rate is 50% and the pension is $15000 the taxable income from the pension would be $15000 /0.5= 30000. At this taxation level the taxation on the pension would be 50% of 30000 or $15000, equal to the pension received. Using a lower fraction would result in a negative return from the pension for these people so should be avoided. A higher fraction gives a lesser effect. This should be used with caution as it may well be inequitable for lower income earners.
    3. For the majority of disabled people extra payment should be given depending on the extra cost of living imposed by the disability. This would satisfactorily be achieved by allocating disabled people to categories which receive a defined extra payment. Some special cases would need an individual assessment.
    4. The importance of inheritance for establishing sufficient superannuation funds for the next generation should be valued. Many people would not have sufficient funds if it wasn't for inheritance. A superannuation scheme funded by inheritance achieves the same objectives as one funded by savings and is sustainable over generations. Superannuation investments that span generations can be regarded as long term investments and so be invested in more volatile and higher returning investments.
    5. The main difficulty I can see with this scheme is changing over from the present scheme. With the looming spectre of taxation on withdrawals there would be a rush to withdraw funds by people whose taxation rate would be greater than covered by the accumulated

imputation credits. People would be able to withdraw money with no tax before the change, and then put it back in the tax free stream or other investments. Of course imputation credits shouldn't be given for funds that have been withdrawn before the start but there may still be a problem.

Summary,

The system proposed above is simple and similar to present practice in other areas of taxation. Thus, changing to it would result in very little accounting cost since most of the procedures are already used elsewhere. It is simple and could be handled by most people with a minimal knowledge of accounting procedures.

It equitable in that it applies taxation in a way similar to that of the working population and of much the same magnitude, yet ensures that people have a reward for saving and helps to provide a reasonable retirement lifestyle.

Much of the support of retirees through superannuation comes from capital earnings which, for the population as a whole augments the falling population income that is coming from salaries and wages.