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10 December 2019

Retirement Income Review Secretariat
The Treasury
Langton Crescent
Parkes ACT 2600
Attention: Robb Preston

Dear Panel

The Foreword to the Consultation Paper states that:
The Panel is interested in hearing views on any issues considered relevant to the Review.

In making this submission I hope my comments will be taken on their merits even if not supported by statistical or similar evidence. Generally, my contribution can be classified under the headings of Sustainability and Cohesion.

I do not represent any interest group and my views are personal.

In brief, Superannuation is not structured in its present form as a Pillar of a Retirement Income System. Superannuation is both a compulsory and a voluntary tax-preferred long-term savings vehicle. Reform as outlined below, would change superannuation into a genuine retirement income scheme.

The principal reason for taking this view is that there is no restriction on the cashing out of accumulated benefits once the preservation age is reached and thereafter in a Pension/Annuity phase. Therefore, there is no compulsory one-way road after retirement from the accumulated superannuation balance to an income stream phase in the form of pension or annuity.

I make no comment on the *Conditions of Release of Benefits* in Schedule 1 of the *SIS Regulations.* The Panel should be aware the Australian Taxation Office promotes "Access your super early".

The cashing out/withdrawal rules conflict with the 'sole purpose' test in section 62 of the *Superannuation Industry (Supervision) Act 1993* but this conflict is ignored in practice. This is an indictment against the administration of the SIS laws and the Income Tax legislation.

The Explanatory Memorandum to *Superannuation (Objective) Bill 2016* includes the following: ---

The primary objective of the superannuation system

1.9 The primary objective of the superannuation system is to provide income in retirement to substitute or supplement the age pension. ***[Section 4, subsection 5(1)]***

If Superannuation is necessary to substitute or supplement the Government provided Age Pension and this is achieved with tax incentives which reduce tax collections, this begs the question of why it is necessary to have a Government sponsored Superannuation scheme? This question taken as a proposition is not invalidated by recent changes to encourage new income retirement products.

Saving for retirement can be personal responsibility, tax neutral, with the means tested old-age safety net of retirement income paid by Federal Government at a higher level than under the existing system full of distortions.

There is anecdotal evidence the superannuation rules are "gamed" to maximise Age Pension entitlements by paying off the housing mortgage, buying a new car, expensive holidays and so on, once the preservation age is reached or is approaching. Furthermore, according to media advertising, an "industry" has developed to access superannuation balances prior to retirement age by circumventing existing rules for the release of benefits.

Separately, the tax advantaged status of superannuation may encourage some individuals to partly use superannuation for wealth accumulation and estate planning, rather than solely for retirement income purposes. (page 23 of CP).

The Panel should make an unequivocal finding whether or not the proposed section 4 of the *Superannuation (Objective) Bill* 2016 should be put into enforceable legislation.

On page 5 of the CP it is claimed that: ---

Tax concessions are provided for compulsory superannuation through a flat rate of 15 per cent tax on contributions and earnings.

The up-front 15% Contributions Tax on both compulsory and voluntary Superannuation is not a concession but rather a statutorily imposed clog on the earnings of balances and thus the accumulation of funds for retirement.

The Panel needs to recognise that without tax concessions such as quoted on page 5 plus the exemption from income tax of payments from an account-based pension, there would be no voluntary superannuation. In addition, the exemption from capital gains tax on converting from the accumulation to pension phase is a strong incentive for SMSF's to make voluntary contributions to fund the acquisition of CGT assets such as real property with the intention of cashing out at an advantageous time.

Suggested Reform

A balance needs to be struck between the objective of ensuring adequate income during retirement by preserving capital, maximising opportunities to enhance earnings and access to savings for nominated purposes. Such a policy should relieve the pressure on the funding of the Age Pension as well as protecting retirees from impecuniosity.

There is a fairness argument that retirees should be able to deal with their own money as they wish.

Ideally, there should be prohibition against lump sum withdrawals in respect of contributions and accumulated earnings which have received tax concessions (including exempt capital gains).

Pragmatically, there should be a monetary disadvantage or restriction to withdraw all or part of the accumulated balance in the superannuation or other retirement fund on reaching the preservation age rather than converting the accumulated benefits to an income stream.

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If such a reform is adopted, then integrity would be introduced into Superannuation as a Pillar of a Retirement Income System.

Yours sincerely

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