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Director
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

Subject: Retirement income covenant Position Paper 19 July 2021 - Feedback

Dear Director et al,

As the Trustee of GMS Superannuation Fund I take interest in the development of obligations trustees may have in the future.

In response to the Retirement income covenant position paper please find my feedback below for your consideration.

Preamble

It is recognised that retirees form a significant economic factor when spending their superannuation savings rather than leaving it to their estate. This also can be seen in several European countries where the income of retirees is based on a generational contract. They are considered a big spending power to the economy. The retirement income they receive based on the generational contract is free from the risk of investment failures and as such it appears not to be necessary to make provisions against investments that may go wrong.

Who has foreseen the demise of Nortel or that the Telstra share today is 50% of the T2 float price or the value development AMP has taken?

However, to avoid falling short of funds whilst still alive requires a certain financial buffer which almost inevitable will form part of a bequest by the member of a Superannuation Fund (Fund). And as long as the member of the Fund does not bequeath his assets to an illegal organisation, it should be entirely up to the member whom to bequeath his assets to. Whether the beneficiary is Vladimir Putin, the Pope or the boy next door who brought the member his daily milk in his frail days is completely irrelevant.

The statement in the Consultation Paper "Because retirees struggle to develop effective retirement income strategies on their own, much of the savings accrued by members through the superannuation system are not used to provide retirement income. Rather, they remain unspent and become part of the person's bequest when they die." Is a rather generic one and I am almost offended by it. In particular if somebody took the step to set up an SMSF, this already would be enough evidence that a lot of consideration had gone into retirement and how to comfortably live through it.

Considerations and Conclusions

Considering that

- a member is under no obligation to provide information to the Fund or the trustee about their financial situation
- a member also does not need to share with the Fund whether the member has income streams other than those from the Fund
- a member also does not need to share with the Fund whether or not the member owns their house and whether or not there is a mortgage on it
- a member however can instruct the Fund respectively the trustee what income the member wants to draw i.e. \$ 2,500.- a month as an account based pension indexed with CPI leaving the trustee with no other option than to follow this instruction until the member changes its mind dies or the funds are exhausted
- a member also can instruct the Fund respectively the trustee that the member does not want to receive any insurance offers ever, for reasons the member does not need to disclose to the Fund respectively the trustee
- a member also can instruct the Fund respectively the trustee that the member does not want to receive assistance how to maximise retirement income
- the use of broad demographic data is a useful means for trustees of sizeable funds with a high number of members, applying this data on an SMSF with one member is almost a guaranteed recipe for failure

It is concluded that

- a trustee of a Fund may not have sufficient insight into the financial situation of a member and
- a trustee of a Fund may also not be able to use broad demographic data in a meaningful way due to the limited number of members of the Fund i.e 1,2,,
- a trustee may have received instructions from the member not to provide any assistance to the member regarding their retirement income and
- if trustees, who are not required to consider other sources of income - and these other sources of income are a substantial portion of the members retirement income - produce a retirement income strategy, then will produce a strategy that will be doomed to fail and not worth the paper it is written on or at best have a questionable merit

and recommendation forwarded is as follows

Recommendation

I would respectively recommend that Trustees of SMSF be exempted from developing a retirement income strategy if so instructed by their member.

I thank you for the opportunity to provide my thoughts and feedback and remain with best regards

Gunter Stipek

PS.: I received advice from my member, that my member runs extensive spreadsheet modelling of his own retirement income strategy and situation. The member has asked me to leave him alone. Albeit the words chosen by the member were different, however not suitable for publishing.