

1 June 2023

Submission to Treasury re Superannuation

The Consultation Paper suggests that

“The objective of superannuation is to preserve savings to deliver income for a dignified retirement alongside government support, in an equitable and sustainable way.”

Unfortunately this is apparently drafted from the point of view of someone who is not retired, and has a governmental perspective.

I am a retiree who receives no government assistance. And I write from that perspective. I salary sacrificed large parts of my income to achieve this outcome. I am happy with the result – but sad that I am significantly penalised for doing it.

There are three fundamental errors that I have seen promulgated at various times.

Firstly - the suggestion that the balance of a Superannuation account should be run down over time. Presumably mine should run out when I die. The error is that I have no idea as to when that will be. If I think I will live to 110 and die at 80 – then not much will have been run down. Conversely if I think I will die at 80 and live till 110 – then there will be a long time after the Superannuation has expired.

Secondly is the suggestion that we need less money after we retire than we needed while working. I would like to know what cost is reduced? The only cost reduction for me was the cost of lunches. But on the other hand I now had time to travel. So my living costs increased significantly.

Thirdly – that Superannuation balances should be limited – or forceably reduced above certain limits. This is counter productive. To force retirees to reduce their income to one that makes them eligible for government assistance makes no sense at all. And as I note below \$2,000,000 for a couple is barely adequate. If the desire is to reduce the demands on the government for assistance retirees need to be able to have balances high enough to have a sustainable income in excess of government assistance limits. Otherwise the money forceably taken out it is just free spending money for the retiree and ultimately a burden on tax payers.

Similarly it is a false economy to target extra taxes on retirement balances that will eventually also result in a burden on tax payers.

Calculators of reasonable retirement incomes seem to be based on retired people sitting at home and doing very little. A more reasonable view is that we start doing the things we have wanted to do all our lives. Be that buying the motor home or spending \$40,000 on an overseas trip.

So on current day values a retiree couple needs not \$60,000 per year but more like \$100,000 per year. Based on drawing 5% per year this requires a Superannuation balance of \$2,000,000. In order to keep up with inflation of say 3% the Superannuation fund needs to earn 8%.

If retirees are responsible financial managers then the only way to ensure an adequate income for an unknown period of time is to aim to draw an income that increases with inflation without decreasing the principal.

The current superannuation regulations work against accumulating adequate funds to support such an income. The system is currently focused on supplementing the aged pension. This is not unreasonable when the system is in its early years. But in years to come people will have lived with it their entire lives, and should have accumulated funds in this range.

Under this scenario a retiree should never need to draw a government pension. The objective of Superannuation should be to provide all people that sort of retirement income.

The present system works against this. It incentivises the rapid drawdown of funds after retirement. There are two reasons for this.

Firstly - If the funds are drawn down they can be spent and then a government pension claimed. There is an incentive to sell the house, cash in the superannuation and buy the most expensive home that can be afforded. This preserves the capital and allows capital gains – tax free.

Secondly – if there are no children to leave the balance to there will be a tax on any funds left at death. There is thus a further incentive to withdraw all the funds to avoid this tax.

Note also, the treatment of the distribution of funds to beneficiaries on death is discriminatory on the basis of both sexual orientation and marital status. The treatment should comply with the anti discrimination laws.

My submission is that the role of superannuation in retirement should be much clearer. It's primary goal should be to allow wealth accumulation during the accumulation phase so that most people in retirement will have an adequate income and not be eligible for government assistance. It should clearly be a wealth accumulation strategy. The goal in retirement should be to have an income adequate to live on indefinitely without government assistance while allowing the principal to grow (or at least not decrease).

The wealth thus created should be passed on in death to the beneficiaries with no different tax for different types of beneficiaries. Perhaps with an incentive for them to add it to their Superannuation funds. After all “children” in their 50s, 60s and 70s are hardly likely to be real dependents. Allowing this to be tax free will create an incentive to keep the funds in the Superannuation Fund and take the income from it.

I agree that Superannuation should be equitable. In order to do this the differential tax treatment of beneficiaries should stop.

I agree that Superannuation should be sustainable. But it should be sustainable for the retiree. The retiree should be encouraged NOT to draw down the balance, but instead to provide a sustainable pension that precludes claiming government assistance.

The goal should NOT mention “alongside government support”. If continuing government support is a goal then Superannuation has failed. There might be a temptation to see growth in Superannuation funds as something to be taxed more. Unfortunately this creates an incentive to cash in balances and increase claims for government support. So in balance there is probably no benefit to the federal budget to increase taxes. It is perhaps unfortunate that Superannuation income (i.e. the benefits paid out) was not taxed in the normal way. However given that people have retired and rely on the current tax arrangements it would not be practical to start imposing taxes now.

The taxation system currently creates an incentive to save money in Superannuation, and an incentive to withdraw the cash after retirement. If the government wishes to increase the self sufficiency of retirees they need to increase the incentive to keep the money in the funds and not cash it in.

If government wants to minimise the cost (government assistance less taxes levied), then it should aim to make all retirees self sufficient. Self sufficiency should be the goal rather than a supplement to government assistance being the goal. Additional taxation will increase government assistance – a zero sum game.

The wording “preserve” is also inadequate. It suggests we should not be trying to ensure that our money is well invested and creating wealth. If savings are simply to be preserved – then on retirement we will simply have the accumulated contributions.

Sticking with today's figures (i.e. ignoring inflation). Someone earning \$80,000 per year will have \$8,800 contributed per year. After 40 years of being “preserved” that will be \$300,000. Whereas if it is invested to earn 8% on average the balance will be about \$2,000,000.

After inflation for 40 years \$300,000 will have the buying power the equivalent of \$90,000. That won't go very far at \$100,000 per year! So preserving savings is NOT a suitable goal.

After inflation the buying power of a \$2,000,000 balance will get close to the \$1,000,000 per person needed.

To insist that Superannuation is NOT a wealth creation vehicle is NOT appropriate.

If government wants to minimise the cost of government assistance (and here I include perceived loss of tax income), it needs to be focused on encouraging the creation of Superannuation balances large enough to support a steady and adequate retirement income and cease the current incentives to draw the funds out before death in order to minimise tax and/or maximise pension payments.

My suggestion for an objective is :

“The objective of superannuation is to provide a wealth accumulation vehicle in which to accumulate funds which in retirement will provide an adequate long term income with minimal or no government support, in an equitable and sustainable way.”

Yours sincerely

Eric Raymond