Superannuation Consultation Submission

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Introduction

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I have read through the Consultation Paper and am quite anxious to see some of the retirement income issues resolved. However I wanted to comment on one section of the Paper: Consultation Questions on p. 13, specifically: "Where can government and industry reduce complexity in the retirement income system, and provide simpler consumer experience?"

I would like to point out three of the most complex, most expensive aspects of the SMSF account-based pension system.

1. The annual tax return process
2. The limited investment options for SMSFs
3. The minimum drawdown

Complexities within the SMSF Account-Based Pension System

1. The annual tax return process

Although our SMSF earnings are not taxed, we must file a tax return every year. To do this, we collect and organize all investment-related documents (CHESS statements, company periodic and tax statements, exit statements, dividend and trust distribution statements, term deposit certificates and statements, bank account statements, the CommSec Annual Financial Summary, and anything else the accountant requests). Beginning in July each year, many of the companies that are classified as trusts (including ETFs) begin sending us a stream of "MIS Periodic Statements," "Company Annual Tax Statements" and other reports, which we collect and organize for the accountant, who cannot prepare our return until all of these statements have been received. Some companies do not provide their year-end (30 Jun) statements until December (we just received one from an ETF on 4 December). This means that if we are expecting a tax refund (which we usually are because of franking credits), we cannot even file until the end of the calendar year.

Once our accountant prepares our SMSF tax return, she presents us with an invoice which we must pay before she will lodge the return. Because of the mountain of paperwork she needs to produce on our behalf, she charges us over $3,000 each year, and the amount rises faster than inflation.

My comments regarding this process are:

- Since the SMSF fund does not need to pay taxes, why is it necessary to so carefully document every transaction, every dividend or interest payment, and all the associated details for the equity and bank portfolios? Can't Commonwealth Bank and the individual banks that hold our cash simply report these to the ATO, saving all 1M+ SMSF investors thousands of dollars a year?
- Why is CommSec permitted to continue to print and post CHESS statements on paper? The cost for doing this, both on the side of the registry they pay to create and process all the printed forms, and on the end users (account holder and accountant) who have to organize, scan or post the forms each year, must be astronomical, and must in turn contribute to the brokerage and accountancy fees. This is not to mention the damage it must do to the environment to create these millions of pieces of paper each year.
- Why isn't there a legislated deadline by which all trusts (including ETFs) must get their year-end statements to the investors so that they can lodge their returns in a reasonable timeframe?

2. The limited investment options for SMSFs

My wife and I have always maintained a savings portfolio that was a mix of “safe” investments (such as cash and term deposits) and “risky” investments such as equities and managed funds. As we have aged and moved through the “transition to retirement” and now “account-based pension” phases of our financial life, we have gradually changed the mixture, placing a growing amount of the portfolio into “safe” investments and a shrinking proportion into the “risky” ones.

CommSec, or any of the other online brokers we have researched, makes it easy to buy and sell equities, including ETFs and indexed funds on the ASX. These “risky” investments fluctuate with the market, which moves due largely to events outside of our control.

The difficult part is the “safe” investments. Many banks offer term deposit products but few make them available to businesses, and even fewer make them available to SMSFs. The few that do make their term deposits available to SMSFs either pay less interest than they pay to individual-owned accounts, or they make it nearly impossible to open a term deposit in the name of the SMSF.

Not to name names, but we have found that only Suncorp, via their term deposits and “Flexirates” offers a relatively easy way for an SMSF account holder to open and close these types of accounts. Other banks like AMP and Macquarie, two of the highest interest paying banks in Australia, make it so difficult to open a deposit account, or to open subsequent accounts once one has been established, that we have had to place all of our SMSF cash into a single bank. This is both dangerous (since only deposits up to $250K are federally insured) and anti-competitive.

My comments regarding investment options for SMSFs are:

- Why can't the government simplify reporting and regulations regarding bank accounts held in the name of SMSFs?
- Should the banks that don't offer deposit products for SMSFs, or make the account opening process unbearably difficult, be warned and advised that they must offer these products to SMSF investors?
- If the banking system in Australia is as sound as the government claims it is, shouldn't the ceiling for government-guaranteed deposits be lifted (to at least $1-2M) so that the investors can choose one or two banks for their "safe" funds and not have to endure the complexities of trying to spread the funds across multiple banks?

3. The minimum drawdown

Each year our accountant calculates the minimum we will have to withdraw from our SMSF portfolio by 30 Jun of the following year. The percentage of the drawdown is increased over the years based upon the age of the SMSF owners.

Based upon our budget, we find that so far we have had to draw down more than we have needed for the coming year to cover our living expenses. We believe that the minimum drawdown is not simply a guideline as the Consultation Paper claims it to be, but rather a revenue generator that ensures that the tax-free status enjoyed by the account-based pensioners gradually disappears, and a greater and greater proportion of their savings ends up in individual, taxed accounts.

It is beneficial that the government allows retirees to draw down *more* than the annual minimum, but when trying to plan a strategy to make the superannuation funds last to the end of life, the minimum drawdowns add a level of stress and complexity to the retiree that grow over time as our retirement portfolio shrinks.

If the reason the government requires this minimum drawdown is to prevent retirees from living out their lives tax-free, and if the government can't survive without the taxes generated by moving the funds into taxed accounts via the minimum drawdowns, then perhaps there are better ways to address the issue.

The most obvious solution is to eliminate the minimum drawdown but start taxing the income from superannuation investments (e.g., interest, dividends and capital gains). This tax could be set at a much lower rate than individual taxes to reflect the fact that it is only the difference between the minimum drawdown and the actual (smaller) amount drawn down that need be taxed to offset the government's loss.

One of the key complications of this solution is that, depending on how the economy and markets fare over a given year, an SMSF (or even a retail fund) portfolio may actually lose value. In this case, by taxing the earnings (interest, dividends and capital gains), the retirees get a double hit to their savings, thus making it even harder to appropriately diversify and stretch the portfolio to provide long term income.

The ideal scenario would be one in which the minimum drawdown is scrapped, no new taxes are introduced to make up the shortfall, and the government turns elsewhere for the revenue. One potential source would be poor-performing retail funds, which might be penalized (via and annual tax) on a sliding scale based upon the degree of their underperformance.

Another way to make up the shortfall would be to penalize companies like CommSec and the investor registries for wasteful practices like using paper, ink, manpower and the post to send out statements, or issuing annual tax statements several months after the close of the financial year, or charging fees beyond a reasonable accepted limit.