

To:

Retirement Advice & Investment Division

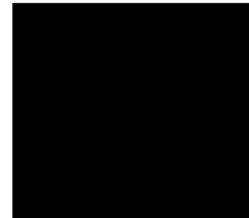
Treasury

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From:

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Australian Superannuation in Retirement - Consultation Response

1. My Background

I am a 76 yr old self funded retiree from the UK living in Australia for nearly 20yrs with full Australian Citizenship. These are my independent views on this subject following discussions with my Australian friends over this period of time. I receive two Annuity pensions from the UK (paid monthly) but do not have an Australian Superannuation Fund of any description. I qualified for an Australian CentreLink part pension after 10 yrs in this country which I now receive every month. I have some declared savings held in the Commbank.

2. You Cannot Change the system for existing retirees

I found the concept of a Superannuation Fund alien to me when I came to Australia as most UK retirees live off a company/works Annuity + the UK State Pension. I was amazed (and envious) of the Australian System which had been in place for 30 yrs affording all my retired Australian friends access to a huge block of money at their retirement. I was also staggered to learn that most also qualified for a CentreLink Part Pension. I expressed my opinion (which was not always welcomed) regularly to my friends about the overly generous system which they now find themselves in and tried to explain how their position is so beneficial compared with the UK and many other Countries. However, I understand that it is what it is and having set out the process 30 yrs ago, most Australians have set out to make the SuperFund work successfully for themselves. So, to even attempt to change a Superannuation System for existing retirees who have spent a lifetime of work putting their future in place would be wrong. Their mindset is fixed. It would be morally wrong and political suicide.

3. Change should only be made to the Younger Workforce

Any change to an established system should be focused on the new workforce allowing them time to build their fund and set up their arrangements with their Fund Managers for the new changes. It might be appropriate to offer these changes to those in the middle of their worklife cycle, but this is perhaps where some choice might be offered. Clearly an age cut off would have to be considered at say 50 yrs of age after which an Annuity is out of the question. I believe it is best to present this as a change for younger workers and leave older people as they are with what is the current system of utilising their SuperFund.

4. CentreLink Pension

One thing I have learned from my retired Australian friends is that they view the CentreLink Pension as a right. I completely disagree with them as it is a needs based fund, a fallback fund for the needy, not for a retiree with a huge block of money just sitting there in their super fund. You have to somehow change this expectation mindset. I receive a UK State Pension because I have Contributed to a UK State Benefit Fund all my working life. So I have paid into it and get out of it access to a State Pension at retirement based on the number of years I have contributed. The UK also has a separate Social Security System which is needs based like the CentreLink Pension, but it is not a right and is only a fall back process for the needy.

5. Inheritance Fund

Another thing I have learned from my Australian friends is that many expect to pass money held in their Superannuation Fund to their family members when they die. They want to help their family which is understandable, but I find it wholly unacceptable that monies accumulated through generous tax concessions into a fund is then not used to pay for their retirement. This mindset has to stop. If you get generous allowances to build up your Superannuation Fund, then it should be used solely for your retirement.

6. The way forward

a) On reading the Consultation Report, there seems to be a desire to move retirees into some form of Annuity that pays a regular amount monthly to the retiree. This all sounds fine to me, but please ensure that this becomes the stated priority with the most associated government benefits. If you give people choices of keeping huge blocks of monies in Superannuation Funds at retirement, then I fear most folks will want the status quo. You have to be firm in your instructions about what an individual's responsibilities are going to be and that they should not be reliant on future fall back government support.

b) When you have your talks with the Superfund Licencees (and other Fund Managers) about what Annuity packages they can provide, keep their Annuity suggested packages to a minimum. You should aim for a small number of options for retirees to keep it as simple as possible. Remember that the Fund Managers are only in it for themselves and will naturally want to offer the smallest returns for the retirees and make as much money for themselves through low return rates and ridiculous service fees. Government needs to be very clear what it wants from these early negotiations.

c) If I was starting my working life again, I would want to know in advance what a certain block of accumulated funds would give me at a certain age. I firmly believe that government should only approve Annuity Schemes that can clearly state the value of that fund in terms of its monthly return at retirement. What would an accumulated fund of \$250,000 give me per month, or \$500,000 or \$1,000,000 for examples. Once I know this figure, I would be motivated to accumulate my target SuperFund for my retirement. Could I retire at 50yrs or would I need to work until I was 70 yrs old and so on. I would be motivated by a clear pathway for my retirement. We don't want Annuity packages that

can be altered by the Fund Managers simply because Investments Portfolios were poor one year or really good the next, what they need to be are guaranteed fixed amounts which will be Index Linked to the cost of living indices. These are big asks and if they don't want to play ball, then others might. I foresee a situation where under these new arrangements, Fund managers will compete against each other for their retiree's fund to manage as an ongoing Annuity. The retiree will be able to shop around and get the best deal for their retirement.

7. Finally

I am not an expert on Annuities, I only offer my opinion as to what should be done. Government should have a clear target for what level of pension that is required for a happy retirement from Accumulated Funds and Annuities. Be realistic with the public about what they need to accumulate to give them a reasonable level of income at retirement. Please be tough in your negotiations with the SuperFund managers. Avoid stirring up the existing Pensioners and focus on the next generation of Australian workers.

Stephen Dickson