

Submission to the Review of Superannuation in retirement

Monday 8 January 2024

Actual case:

‘Richard’ and ‘Robyn’ (a couple) have been retired for two years and currently draw their incomes from two superannuation income accounts, two annuities and the Commonwealth age pensions for a couple who own their home.

On retirement, they purchased financial advice and planning to set up an annual joint income consistent with published standards for a comfortable lifestyle for retired homeowners (approx. \$70,000). The cost of this financial advice and planning was considerable at \$4,000, and barely affordable.

Annuities:

While the financial advisor recommended, amongst other things, that both Richard and Robyn each invest in an annuity with one particular provider (Challenger) they opted instead to spread the risk of performance and/or default by investing in two different providers’ products – one with Challenger and one with QSuper. Given these products “lock away” the funds invested, Richard and Robyn decided to invest lesser amounts than recommended by the advisor. The loss of flexibility and control over their funds, associated with these products, was daunting.

Notes: These annuity products are very different from each other in many ways and due to their complexity not easily understood by an average investor. Given the funds are “locked away”, Richard and Robyn were anxious about their decisions –

Will the providers default sometime in future? Are their funds lost if the provider defaults? Is the risk of under-performance and/or default worth the trade-off of a “guaranteed” return for life?

The Commonwealth’s discount applied to the assessment of annuities under the asset and income tests for age pension entitlements was an important consideration in deciding to invest in the two annuities. The additional age pension derived through this discount, when added to the very modest returns on the annuities, offered an acceptable overall “return” given the perceived risks. In summary, the Commonwealth’s discount helps to ‘derisk’ and ‘underwrite’ the risk/return of annuities. In this way, public funds are already supporting the role of annuities (for those on the age pension). Discounting annuities further to say 50% from the current 60% could make annuities even more appealing to retirees, where eligible for the age pension.

Age pension:

Richard and Robyn are in receipt of partial Commonwealth age pensions. Through regular indexation of the applicable thresholds for assets and income tests, and regular drawdown of their financial assets for living costs, their pensions are now approaching the full entitlement.

The Commonwealth's age pension program is critically important in addressing concerns about longevity risk. Upon retirement, Richard and Robyn made significant financial decisions to maximise their pension entitlements due to their concerns about their modest superannuation funds running out while they were still alive. These decisions included the purchase of annuities and funeral bonds.

The Commonwealth's age pension program could contribute much more to "insuring the longevity risk of older Australians" (Discussion paper, p.24).

As potential health costs rise with ageing and financial assets are drawn down over time, the supportive role of the age pension takes on greater significance in addressing perceived longevity risk. However, current policy settings of the maximum level of age pension severely limit its potential to address several important social policy objectives.

The current maximum entitlement caps act to dis-incentivise drawdown of any more than the age-based minimum rates for superannuation income accounts.

Based on entitlements for a homeowner couple, assessed assets of \$451,500 would provide combined annual pension of \$42,988. As assessed assets drop below this threshold, the pension amount remains unchanged. At this point a pensioner will be incentivised to reduce further drawdown to the minimum on account of longevity risk concerns.

Furthermore, for age pensioner couples with little or no superannuation, living on only \$42,988 places them at or below the poverty line. When too old to work for financial gains, no one wants to be entrenched in this so-called 'safety net' (a misnomer).

The upper threshold on assessed assets for a homeowner couple is currently set a \$1,003,000 at which point there is no age pension entitlement. This implies the government considers this level of combined assets for a couple as 'sufficient' to support their living standard.

The table below summarises the current scale thresholds.

Assessed Assets	Annual Pension
0	42,988
451,500	42,988
1,003,000	0

If the cashflow of the age pension was capitalised at say 7.5% per annum (superannuation funds average return), the maximum pension entitlement would equate to a 'capital value' of \$573,179 and combined with the assessed assets of \$451,500 amounts to a total value of some \$1,024,679 (an amount close to the scale's upper asset limit of \$1,003,000).

This kind of analysis applied to the full scale of pension rates, shows that between the upper and lower asset caps, the implied ‘total capital’ value is around \$1 million. However for those holding assets less than the lower cap of \$451,500, there is a total value slide to \$573,179 as shown in the next table.

Assessed Assets	Annual Pension	Capitalise Value	Total Value
0	42,988	573,179	573,179
451,500	42,988	573,179	1,024,679
1,003,000	0	0	1,003,000

In order to better target retirement income policy objectives, the Government should consider lifting the maximum pension to closer align with an adequate living standard i.e. considerably higher than the current poverty line. For example, the pension could be increased on a sliding scale to a lower assessed assets cap of \$101,238 with the combined couple annual pension rising to, say, a maximum of \$69,316.

The following table shows the proposed values.

Assessed Assets	Annual Pension	Capitalised Value	Total Value
0	69,316	924,213	924,213
101,238	69,316	924,213	1,025,451
451,500	42,988	573,179	1,024,679
1,003,000	0	0	1,003,000

The proposed scaling above could be applied similarly to entitlements for those who are single and/or renting. These settings would improve the living standards of those who have little or no superannuation, increase equity and moderate longevity concerns.

Given the continued long-term growth in compulsory superannuation and the continuing reduction in the impost on the age pension budget, such an adjustment would be affordable.

While government may have a greater role in the market – supporting with public funds the business models of private providers of annuities – the Commonwealth’s Age Pension is, and should always be, the foundational national “annuity”, without performance or default risks, for the Australian retired community that provides an adequate standard of living for all.

Model of increased maximum age pension

Assets test for home owner couples

Combined assets	Pension Rate (each) per Fortnight	Annual (each)	Annual (combined)	Cap rate	7.5%
				Capital value of pension cash flow	Comb. assets & cap value of pension
3,624	1333.00	34,658.00	69,316.00	924,213	927,837
9,366	1333.00	34,658.00	69,316.00	924,213	933,579
15,108	1333.00	34,658.00	69,316.00	924,213	939,321
20,850	1333.00	34,658.00	69,316.00	924,213	945,063
26,592	1333.00	34,658.00	69,316.00	924,213	950,805
32,334	1333.00	34,658.00	69,316.00	924,213	956,547
38,076	1333.00	34,658.00	69,316.00	924,213	962,289
43,818	1333.00	34,658.00	69,316.00	924,213	968,031
49,560	1333.00	34,658.00	69,316.00	924,213	973,773
55,302	1333.00	34,658.00	69,316.00	924,213	979,515
61,044	1333.00	34,658.00	69,316.00	924,213	985,257
66,786	1333.00	34,658.00	69,316.00	924,213	990,999
72,528	1333.00	34,658.00	69,316.00	924,213	996,741
78,270	1333.00	34,658.00	69,316.00	924,213	1,002,483
84,012	1333.00	34,658.00	69,316.00	924,213	1,008,225
89,754	1333.00	34,658.00	69,316.00	924,213	1,013,967
95,496	1333.00	34,658.00	69,316.00	924,213	1,019,709
<u>101,238</u>	<u>1333.00</u>	<u>34,658.00</u>	<u>69,316.00</u>	<u>924,213</u>	<u>1,025,451</u>
106,980	1324.70	34,442.20	68,884.40	918,459	1,025,439
112,722	1316.40	34,226.40	68,452.80	912,704	1,025,426
118,464	1308.10	34,010.60	68,021.20	906,949	1,025,413
124,206	1299.80	33,794.80	67,589.60	901,195	1,025,401
129,948	1291.50	33,579.00	67,158.00	895,440	1,025,388
135,690	1283.20	33,363.20	66,726.40	889,685	1,025,375
141,432	1274.90	33,147.40	66,294.80	883,931	1,025,363
147,174	1266.60	32,931.60	65,863.20	878,176	1,025,350
152,916	1258.30	32,715.80	65,431.60	872,421	1,025,337
158,658	1250.00	32,500.00	65,000.00	866,667	1,025,325
164,400	1241.70	32,284.20	64,568.40	860,912	1,025,312
170,142	1233.40	32,068.40	64,136.80	855,157	1,025,299
175,884	1225.10	31,852.60	63,705.20	849,403	1,025,287
181,626	1216.80	31,636.80	63,273.60	843,648	1,025,274
187,368	1208.50	31,421.00	62,842.00	837,893	1,025,261
193,110	1200.20	31,205.20	62,410.40	832,139	1,025,249

198,852	1191.90	30,989.40	61,978.80	826,384	1,025,236
204,594	1183.60	30,773.60	61,547.20	820,629	1,025,223
210,336	1175.30	30,557.80	61,115.60	814,875	1,025,211
216,078	1167.00	30,342.00	60,684.00	809,120	1,025,198
221,820	1158.70	30,126.20	60,252.40	803,365	1,025,185
227,562	1150.40	29,910.40	59,820.80	797,611	1,025,173
233,304	1142.10	29,694.60	59,389.20	791,856	1,025,160
239,046	1133.80	29,478.80	58,957.60	786,101	1,025,147
244,788	1125.50	29,263.00	58,526.00	780,347	1,025,135
250,530	1117.20	29,047.20	58,094.40	774,592	1,025,122
256,272	1108.90	28,831.40	57,662.80	768,837	1,025,109
262,014	1100.60	28,615.60	57,231.20	763,083	1,025,097
267,756	1092.30	28,399.80	56,799.60	757,328	1,025,084
273,498	1084.00	28,184.00	56,368.00	751,573	1,025,071
279,240	1075.70	27,968.20	55,936.40	745,819	1,025,059
284,982	1067.40	27,752.40	55,504.80	740,064	1,025,046
290,724	1059.10	27,536.60	55,073.20	734,309	1,025,033
296,466	1050.80	27,320.80	54,641.60	728,555	1,025,021
302,208	1042.50	27,105.00	54,210.00	722,800	1,025,008
307,950	1034.20	26,889.20	53,778.40	717,045	1,024,995
313,692	1025.90	26,673.40	53,346.80	711,291	1,024,983
319,434	1017.60	26,457.60	52,915.20	705,536	1,024,970
325,176	1009.30	26,241.80	52,483.60	699,781	1,024,957
330,918	1001.00	26,026.00	52,052.00	694,027	1,024,945
336,660	992.70	25,810.20	51,620.40	688,272	1,024,932
342,402	984.40	25,594.40	51,188.80	682,517	1,024,919
348,144	976.10	25,378.60	50,757.20	676,763	1,024,907
353,886	967.80	25,162.80	50,325.60	671,008	1,024,894
359,628	959.50	24,947.00	49,894.00	665,253	1,024,881
365,370	951.20	24,731.20	49,462.40	659,499	1,024,869
371,112	942.90	24,515.40	49,030.80	653,744	1,024,856
376,854	934.60	24,299.60	48,599.20	647,989	1,024,843
382,596	926.30	24,083.80	48,167.60	642,235	1,024,831
388,338	918.00	23,868.00	47,736.00	636,480	1,024,818
394,080	909.70	23,652.20	47,304.40	630,725	1,024,805
399,822	901.40	23,436.40	46,872.80	624,971	1,024,793
405,564	893.10	23,220.60	46,441.20	619,216	1,024,780
411,306	884.80	23,004.80	46,009.60	613,461	1,024,767
417,048	876.50	22,789.00	45,578.00	607,707	1,024,755
422,790	868.20	22,573.20	45,146.40	601,952	1,024,742
428,532	859.90	22,357.40	44,714.80	596,197	1,024,729
434,274	851.60	22,141.60	44,283.20	590,443	1,024,717

440,016	843.30	21,925.80	43,851.60	584,688	1,024,704
445,758	835.00	21,710.00	43,420.00	578,933	1,024,691
<u>451,500</u>	<u>826.70</u>	<u>21,494.20</u>	<u>42,988.40</u>	<u>573,179</u>	<u>1,024,679</u>
457,242	818.40	21,278.40	42,556.80	567,424	1,024,666
462,984	810.20	21,065.20	42,130.40	561,739	1,024,723
468,726	801.20	20,831.20	41,662.40	555,499	1,024,225
474,468	792.90	20,615.40	41,230.80	549,744	1,024,212
480,210	783.90	20,381.40	40,762.80	543,504	1,023,714
485,952	775.70	20,168.20	40,336.40	537,819	1,023,771
491,694	766.70	19,934.20	39,868.40	531,579	1,023,273
497,436	758.40	19,718.40	39,436.80	525,824	1,023,260
503,178	749.4	19,484.40	38,968.80	519,584	1,022,762
508,920	741.2	19,271.20	38,542.40	513,899	1,022,819
514,662	732.2	19,037.20	38,074.40	507,659	1,022,321
520,404	723.9	18,821.40	37,642.80	501,904	1,022,308
526,146	714.9	18,587.40	37,174.80	495,664	1,021,810
531,888	706.7	18,374.20	36,748.40	489,979	1,021,867
537,630	697.7	18,140.20	36,280.40	483,739	1,021,369
543,372	689.4	17,924.40	35,848.80	477,984	1,021,356
549,114	680.4	17,690.40	35,380.80	471,744	1,020,858
554,856	672.2	17,477.20	34,954.40	466,059	1,020,915
560,598	663.2	17,243.20	34,486.40	459,819	1,020,417
566,340	654.9	17,027.40	34,054.80	454,064	1,020,404
572,082	645.9	16,793.40	33,586.80	447,824	1,019,906
577,824	637.7	16,580.20	33,160.40	442,139	1,019,963
583,566	628.7	16,346.20	32,692.40	435,899	1,019,465
589,308	620.4	16,130.40	32,260.80	430,144	1,019,452
595,050	611.4	15,896.40	31,792.80	423,904	1,018,954
600,792	603.2	15,683.20	31,366.40	418,219	1,019,011
606,534	594.2	15,449.20	30,898.40	411,979	1,018,513
612,276	585.9	15,233.40	30,466.80	406,224	1,018,500
618,018	576.9	14,999.40	29,998.80	399,984	1,018,002
623,760	568.7	14,786.20	29,572.40	394,299	1,018,059
629,502	559.7	14,552.20	29,104.40	388,059	1,017,561
635,244	551.4	14,336.40	28,672.80	382,304	1,017,548
640,986	543.2	14,123.20	28,246.40	376,619	1,017,605
646,728	534.2	13,889.20	27,778.40	370,379	1,017,107
652,470	525.9	13,673.40	27,346.80	364,624	1,017,094
658,212	516.9	13,439.40	26,878.80	358,384	1,016,596
663,954	508.7	13,226.20	26,452.40	352,699	1,016,653
669,696	499.7	12,992.20	25,984.40	346,459	1,016,155
675,438	491.4	12,776.40	25,552.80	340,704	1,016,142

681,180	482.4	12,542.40	25,084.80	334,464	1,015,644
686,922	474.2	12,329.20	24,658.40	328,779	1,015,701
692,664	465.2	12,095.20	24,190.40	322,539	1,015,203
698,406	456.9	11,879.40	23,758.80	316,784	1,015,190
704,148	447.9	11,645.40	23,290.80	310,544	1,014,692
709,890	439.7	11,432.20	22,864.40	304,859	1,014,749
715,632	430.7	11,198.20	22,396.40	298,619	1,014,251
721,374	422.4	10,982.40	21,964.80	292,864	1,014,238
727,116	413.4	10,748.40	21,496.80	286,624	1,013,740
732,858	405.2	10,535.20	21,070.40	280,939	1,013,797
738,600	396.2	10,301.20	20,602.40	274,699	1,013,299
744,342	387.9	10,085.40	20,170.80	268,944	1,013,286
750,084	378.9	9,851.40	19,702.80	262,704	1,012,788
755,826	370.7	9,638.20	19,276.40	257,019	1,012,845
761,568	361.7	9,404.20	18,808.40	250,779	1,012,347
767,310	353.4	9,188.40	18,376.80	245,024	1,012,334
773,052	344.4	8,954.40	17,908.80	238,784	1,011,836
778,794	336.2	8,741.20	17,482.40	233,099	1,011,893
784,536	327.2	8,507.20	17,014.40	226,859	1,011,395
790,278	318.9	8,291.40	16,582.80	221,104	1,011,382
796,020	309.9	8,057.40	16,114.80	214,864	1,010,884
801,762	301.7	7,844.20	15,688.40	209,179	1,010,941
807,504	292.7	7,610.20	15,220.40	202,939	1,010,443
813,246	284.4	7,394.40	14,788.80	197,184	1,010,430
818,988	276.2	7,181.20	14,362.40	191,499	1,010,487
824,730	267.2	6,947.20	13,894.40	185,259	1,009,989
830,472	258.9	6,731.40	13,462.80	179,504	1,009,976
836,214	249.9	6,497.40	12,994.80	173,264	1,009,478
841,956	241.7	6,284.20	12,568.40	167,579	1,009,535
847,698	232.7	6,050.20	12,100.40	161,339	1,009,037
853,440	224.4	5,834.40	11,668.80	155,584	1,009,024
859,182	215.4	5,600.40	11,200.80	149,344	1,008,526
864,924	207.2	5,387.20	10,774.40	143,659	1,008,583
870,666	198.2	5,153.20	10,306.40	137,419	1,008,085
876,408	189.9	4,937.40	9,874.80	131,664	1,008,072
882,150	180.9	4,703.40	9,406.80	125,424	1,007,574
887,892	172.7	4,490.20	8,980.40	119,739	1,007,631
893,634	163.7	4,256.20	8,512.40	113,499	1,007,133
899,376	155.4	4,040.40	8,080.80	107,744	1,007,120
905,118	146.4	3,806.40	7,612.80	101,504	1,006,622
910,860	138.2	3,593.20	7,186.40	95,819	1,006,679
916,602	129.2	3,359.20	6,718.40	89,579	1,006,181

922,344	120.9	3,143.40	6,286.80	83,824	1,006,168
928,086	111.9	2,909.40	5,818.80	77,584	1,005,670
933,828	103.7	2,696.20	5,392.40	71,899	1,005,727
939,570	94.7	2,462.20	4,924.40	65,659	1,005,229
945,312	86.4	2,246.40	4,492.80	59,904	1,005,216
951,054	77.4	2,012.40	4,024.80	53,664	1,004,718
956,796	69.2	1,799.20	3,598.40	47,979	1,004,775
962,538	60.2	1,565.20	3,130.40	41,739	1,004,277
968,280	51.9	1,349.40	2,698.80	35,984	1,004,264
974,000	43.1	1,120.60	2,241.20	29,883	1,003,883
1,003,000	0	-	-	-	1,003,000