

Legislating 'The Objective of Superannuation' - Consultation Paper February 2023

Submission by Paul Loring

The ideas and suggestion I make here are my intellectual property, and can be used by government with acknowledge of their source being myself.

Prior to reading the Consultation Paper I considered the government objectives should be

- the Retirement System was to insure no one in retirement lived in poverty.
- The Superannuation System was to maximise the number of Australians who were self-funded in retirement, ie, independent of the Age Pension. This being achieved by having accumulated sufficient superannuation savings to fund a deemed lifestyle. During this accumulation stage government would provide sufficient support to reach this deemed saving level, but not a cent more.

This isn't an objective that is in practice. The current Age Pension provides a rather meagre existence, and a less than generous objective for a wealthy country. The current Superannuation System provides greater benefits for those on higher incomes, and has no ceiling to the government support provision; hence reducing the support that government can divert to those with low superannuation savings at retirement, whilst continuing to provide support to those with savings above, in many cases well above, a level of sufficiency.

Having read the proposed objective, I consider that it does not , but should, include aspects of the above. Particularly the concept of deemed sufficiency being a driver for government support, but also establishing the limit of such government support.

My consideration of the paper follows.

In the background and history within the paper, several associated aspects are referred too, ie,

- Retirement System
- Age Pension
- Superannuation System
- Superannuation

This is a confusing beginning. What exactly is it we are being asked to assess, provide feedback and contributions?

Does, and indeed 'ought', the Objective's scope include

- the Accumulation and the Retirement stages;
- Age Pension,
- the Objective of SG, Personal Savings during the accumulation stage;
- concepts of growth, and both minimum and maximum draw down on the capital during the pension stage;
- the roles and responsibilities of the major stakeholders;
- a clear understanding and potential differentiation of Minimum, Adequate and Dignified, ie, terms that the various reviews have used.

The Consultation Paper ought to have covered all these, but does not! Important because there are both dependencies and separations between them. I find it extremely difficult to consider this

without a vision of the end point; it needs a pathway to that point and a clearer picture of the aim, the lifestyle the government is targeting.

The objectives of the following, their purpose, roles of stakeholders are significantly different and hence require separate and distinct statements. Separation would add clarity to their differences and hence to different policy needs:

- Age Pension
- Personal accumulated funds and
- Pension.

Age Pension

The Age Pension is clearly a Gov't responsibility. It should fulfill a 'minimum' standard of life. Where minimum does not equate to 'inadequate', just above the poverty line, terms that are applicable to the current Age Pension, but perhaps 'dignified' ought too. It is the 'Safety Net' for those who are not fully self-funded. The Age Pension is not colloquially considered to be an aspect of Superannuation. They are separate, but may be they could or should be part of the definition of the Retirement System.

The objective of the Age Pension is to deliver a Government funded income for a deemed minimum standard of retirement, for those Australians whose Personal Accumulated funds fall short of meeting the requirements of the deemed dignified standard of retirement.

Personal Accumulated Funds

Superannuation is colloquially the term used for the self-funded "Personal Accumulated Funds". I think it is these funds that are the primary target of this Consultation. Obviously, underlying the whole retirement system is self-funding and consequently independence for government support during retirement. Hence for government, maximising the numbers of Australians who accumulate sufficient funds to provide their income is an essential government goal. But, there is no justification that such a system includes Government Support beyond that deemed level of sufficiency.

The objective of Accumulating funds is for those savings to deliver income for a deemed but dignified standard of retirement, independent of the Age Pension, potentially with government support that is equitable and sustainable.

- Deeming implies a gov't mandated and revised level of accumulation that will deliver the deemed standard income.
- The means of accumulating those funds whatever their source (*be they from SG, personal contributions, gov't handouts and tax concessions, redundancy payments, etc*) require policy. Hence the qualifying description of Equitable and Sustainable need to cater for a variety of such means and sources. Currently this is not the case, with tax concessions based on deductions that favour higher incomes and higher marginal tax rates, and not being capped at the deemed standard of retirement.
- Clearly, gov't support should end immediately each person's fund reaches the deemed level to support the lifestyle income

As it stands the proposed Objective does not cater for the inequity of partners, highlighted in the main by the large differences between male and female funds. This applies to both Accumulation and Pension stage of self-funding, but I suspect is essentially an accumulation issue.

I don't know how to incorporate appropriate wording, yet. Let me outline a means of rectifying the issue in the long term, ie, not an immediate solution.

Relationships can last a lifetime but increasingly this seems rare. Hence, I think it better to base the Retirement System on individuals, thus removing the concept of couples; if they share a retired life together, lucky them, I don't consider couples sharing a lifestyle is sufficient reason for reducing support. During their time together couples should be mandated to share equally their monthly accumulated savings. Hence, a business or fund process would ensure that the two separate accounts would receive half the SG and additional payments from both partners for the duration of that relationship.

For periods when one partner was unable to contribute, child rearing, unemployment, etc, each would still receive half the contribution from the remaining partner. Over a lifetime this would lead to different accumulated funds at retirement, but would be based fairly and equitably during a life of change.

This also has implications for immigration of older people. Do they have sufficient Personal Accumulated funds, at their stage of life?

Pension

Pension stage from the Personal Accumulated funds, is much more closely related to the Age Pension. The Objectives more obviously relate to the quality of retirement life. Hence, throughout the accumulation stage ensuring that the targets for accumulation retain relevance are critical. What the deemed lifestyles of say, Minimal vs say terms used by ASFA of a Modest and Comfortable , as well as Adequate and Dignified need much greater definition and precision. They need a means of deeming and revision. The Objective needs to encapsulate all this; I don't think it is even close to that at present.

The purpose of the chosen descriptive terms establish the boundaries that define the standards of lifestyle in retirement, but more so the boundaries of government responsibility. The lower level boundary is the 'Safety net', the level government 'must' fund. The next level boundary is the deemed accumulated savings level that government will support, but not a cent more above that level. Government will encourage Australians to aspire to save above that level but will not provide support.

I agree that the objective needs to encapsulate using the funds to deliver retirement income. It is justified by the more generous government support provided during accumulation and pension stages; so, watering down those supports, also waters down the case for this objective. An argument for means testing other gov't support payment during pension stage might be appropriate. But that shouldn't warrant disqualifying pensioners just for being conservative.

Housing needs consideration. Would it be acceptable to spend the whole lump sum to buy a house, ie, previously renting? Or visa versa for a gov't to expect a retiree to sell their house to fund an otherwise insufficient Personal Accumulated fund? Neither feel very comfortable. But, likewise why not go out with a few years at the wheel of a Lamborghini! However, consideration is needed to avoid recklessly drawing down so quickly that gov't dependency will be required in later years.

Note that by separating the objectives of these 3 aspects of the retirement system, the emphasis changes. In Pensions, the concept of 'sufficiency' over the remaining lifetime is paramount. Whereas in Accumulation the means of saving takes precedence. Both being separate from the Safety Net requirements.

A pathway

The nations interest is to maximise the number of Australians with sufficient Super to support their financial needs throughout retirement, ie, to be independent of the Age Pension Safety Net.

This highlights the need to determine what is "sufficient super"? In my opinion that is critically important, and should be given greater significance, and hence thought, than 'how to build it'. We need to know what we are endeavouring to build. However, far more political energy and media coverage has, and continues to go into the latter. Tweak after Tweak, making the system ever more complex.

If the gov't role is to maximise the number of Australians with sufficient super, why should Gov't sacrifice that goal, to help some go beyond sufficiency? The latter often being associated with widening the Australian income and wealth gap. Why aren't we talking about this? Why don't we just STOP doing it?

Sufficient Super:

What is "sufficient super"? The ASFA maintains their detailed superannuation research to provide a modest and comfortable lifestyle, ie, to maintain a healthy, vital and connected lifestyle in retirement. This is very detailed work revised every two years. My guess is sufficiency lies within these two models. The historical record of difference between each 2 yearly revision, provides evidence of how frequently a gov't deeming determination could/should occur. This then could form the basis for a Gov't deemed super sufficiency. Clearly, today March 2023, this deemed level of sufficiency would be about \$500k/person.

Although the ASFA research has a modest and comfortable level, it also provides data for single and couples. I recommend the future deemed sufficiency to be limited to per adult.

Armed with a clear, specific definition of sufficient super, then Gov't role too becomes clear and specific, maximising the number of Australians reaching that figure, but NOT a cent more. Gov't will help everyone to get to this level of super. That won't stop many people saving much more than this, just Gov't won't help them beyond the deemed sufficiency, that is none of Gov'ts business.

The savings to Gov't from the benefit to those with more than the deemed sufficiency, can then be redirected to accelerate those getting close to retirement but without having reached the sufficiency level. In practice a larger redirection from wealthy men to impoverished women.

Turning to How to reach the Super Sufficiency:

First don't do anything to help those who have already reached that level. Just STOP doing it.

The objective is to help everyone reach that deemed level, during their working life. The sooner they do that the sooner Gov't responsibility ends, and then the benefits of exponential growth kick in to increase beyond sufficiency.

If gov't determines that it will provide support during accumulation, then there are many ways to achieve that. But, basing it on greater benefit for those on higher tax rates is not fair, and should be

abandoned immediately. That is an inherent weakness, of unfair bias of the Deductions part of taxation.

(In Brainstorming there is no such thing as a bad idea) So, just one idea, to get others thinking about the 'how to', a system could be based on:

- Instead of tax concessions and saving incentives, at age 18 the gov't deposits \$20,000 into their super fund
 - The benefits of exponential growth kick in immediately, would that deliver the deemed inflation proofed savings level at retirement?
 - What would the annual cost to government be?
 - Would SG fund that government support, ie, a proportion of the SG is returned to government to cover that cost, the remainder plus additional savings continues to grow the savings account (or shared accounts for partners)

Addendum to my submission:

A significant issue with the Retirement System, is the terms used to identify the levels of Government Support. Over several reviews different terms have been used in an endeavour to improve the meanings, but none seem to be entirely satisfactory. For example ought the Age Pension or Superannuation System provide Minimal, Satisfactory, Modest, Comfortable, Adequate, Dignified support? They clearly are all intended to be meaningful words, but they all lack being specific and measurable.

Perhaps a better approach is to establish a base level, and then subsequent measures above or around that base?

Would the 'Poverty Line' be such a base? In a wealthy country such as Australia, I hope that a government objective is to continuously raise the quality, the inherent lifestyle defined by that 'line'. Consequently, instead of vague terms, the Age Pension could be defined as, say, 10% above the poverty line, and the Personal Accumulated Fund support limit be, say, 25% above the poverty Line.

Such an approach could, perhaps ought, then be a more general approach for all Government Support, not just the Retirement System, eg, New Start xx% above the poverty line, etc.

>>>>>>>>>>>>>

I wrote to Minister Jones on 7/12/2023, received his reply today pointing me to the consultation that ended on Friday 9/2/24 that I was unaware off.

Assistant Treasurer and Minister for Financial Services - Superannuation

Cc: Minister for Finance, re Superannuation for Gov't implication

Retirement Pension

Several sources of specialist information for Super and Pensions, indicate that about 60% of a pension's growth occurs during retirement. Gov't focus has tended to be on the accumulation phase rather the Pension phase. Clearly, accumulation is an essential aspect of the retirement phase.

Since MySuper was established, Gov't has focussed on annual performance testing, publication and removal of the poor performers of accumulation phase funds; together with the consequent need of account holders to shift their funds into better performing funds. Increasingly advocates for the pension phase have been requesting that this same performance testing, publication and removal of poor performers for pension funds. However, my understanding, correct me if I'm wrong, that pension account holders have constraints about what can be done with their pension a/c. Switching from one fund to a different fund, I suspect, is one such constraint. But, it is clearly essential. Not just to fulfill the needs of the performance testing, but with increasing age, the need to manage change over decades of retirement. This demands a system with equal flexibility as the accumulation phase, to manage the accumulation during the retirement phase.

This is urgent.

Retirees need the benefits of performance testing even more so than those in accumulation, as they have more to lose, and less time to correct the issue.

I can see this also requiring such change with SMSF. My understanding is that many SMSF include a significant portion of the whole fund, being within one or more Pension funds. Possibly starting as a single pension fund, but then accumulating superfunds from the mandated drawdowns, to subsequently roll the new super fund into another separate pension (constraint exists that you can't top up a drawdown fund) within the one SMSF.

Pensions are very inflexible. Bizarre considering the decades they are expected to last.

This is something I think best managed by a Labor Gov't.

Paul Loring

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]