

Retirement Advice and Investment Division

Superannuation in Retirement Consultation

I am writing this submission as a private individual and not on behalf of any organisation. The views expressed are entirely my own.

I would like to thank Treasury for the conduct of this Consultation.

Submission approach

I am making this submission as I am very interested in public policy and unless the few opportunities to review legislation or systems are taken it may be decades before another opportunity occurs.

I am a retired commonwealth public servant. I am a recipient of a PSS defined benefit pension and also an Australian Super Pension. I have worked in various government agencies dealing with tax, health, aged care and auditing (amongst others) as well as a former means testing adviser. I have worked with departmental officials with remedying defects in means testing of assets via private companies and trusts.

As I have got older, I have become increasingly conscious of the lack of sensitivity of many public policies for equity effects. The means tested systems of Australia have the effect of making many poverty relief programs, and public policy programs highly targeted (and effective) and relatively inexpensive versus universal programs. Been taxpayer funded enables means testing as opposed to a contributory system. However, some initiatives such free tertiary education and superannuation programs have the regressivity and cost features of universal programs. Tertiary education has been remedied by the application of the Higher Education Charge Scheme (HECS), but superannuation continues to be the source of vast largesse.

Separating the accumulation and decumulation phases of superannuation seems somewhat bizarre. There is no point in focusing withdrawals of monies when the accumulation phase is equally full of inequity and complexity, and those in the former give rise to issues in the latter. It is akin to looking at things simply as they have the light shining on them whilst ignoring those things that are in darkness or twilight.

I will provide a series of comments and remedies for a variety of issues in both the contributions and withdrawal phases of superannuation.

Superannuation

Prior to the introduction of the existing system of superannuation many people did have superannuation of sorts. Some were modest accumulation schemes payable on retirement, some private businesses offered quite attractive pension and or lump sum schemes again on retirement, and public servants and members of parliament had very generous schemes. But many lower income earners had little in retirement than their access to the age pension. The overselling of the benefits of superannuation must sound very hollow for a low income earner who could not live on their accumulated superannuation.

The economic characterisation of contributions is that they are so-called foregone wages. That is, instead of wages or salary been paid say each fortnight, a portion is paid into a superannuation fund, to be accessed in retirement.

Cameos - I am very fond of using cameos to characterise how things are versus the glossy claims about superannuation. Similar overstatements apply to Medicare or social security. Sometimes our systems fail as there are gaps, or we assume everyone will apply for the benefit, or be able to access it, or even be aware it exists.

I have found that using some headings and pointing out a solution for these problems might get some focus on some solutions instead.

I would note in passing that the Consultation paper is written in a very bland bureaucratic speak which would delight Sir Humphrey Appleby of Yes Minister. It would neither scare the horses (or voters!) but might render them comatose instead (and not focus very much on what matters).

Issue for low income earners - Low income earners have modest means and the modest contributions attract the same 15% contribution tax, attracts the same 15% earnings tax (offset for credits such as imputation credits) and the modest nest egg become tax free in retirement. For many millions of the lowest income earners the sums involved are simply too small for an adequate retirement.

Work by The Australia Institute amongst others has demonstrated the massively regressive impact of the actual workings of superannuation. The value of tax concessions for superannuation by tax decile has shown a massive skew towards high income earners. Only some 11% of tax concession by value actually accrue to the lowest 50% of the population. The absence of a specific concession for small superannuation holdings of low income earners is not the major reason for this, as higher income earners have learned to game the system, whereas low income earners do not have the financial contributions to make superannuation work for them.

- The solution for that lies in having a lower rate of taxation in superannuation for balances below a certain amount. This will enable lower income earners to actually have more in retirement. This would be a highly progressive initiative.

For many low income earners most of the issues been considered by this review are totally irrelevant. They lack the financial advice from their superannuation funds (and lack financial advice generally) and lack financial means generally.

Superannuation funds are rather fond of advertising that they apparently act in their members interests. The annoying ads with the box symbol formed by actors hands are unavoidable. The discussion paper in part refers to a role of superannuation funds in the advice services they provide to members. They should be much proactive in providing advice to members (rather than spending money on ads).

I had the opportunity to see how Centrelink's Financial Information Service Officers at work. What was striking was how well regarded and appreciated their advice was to Centrelink customers. Superannuation funds should step up and be more proactive and active in their supportive of members and apply members money to actually helping members in need. The social licence they operate under was granted to them, not earned and public policy should at times be changed to redress failures by social licence holders to uphold the intent of public policy.

- Superannuation funds should be required to be helpful to their members particularly when they have the greatest need for advice – doing so should be a key performance indicator of a fund which would be a source of pride (as opposed to vacuous ads).

Specific issue for women - The principal architects of superannuation in Australia must have had in their minds a world of a very traditional male breadwinner and homemaking wife and many now defunct shibboleths. The Basic Wage had the same defects despite arising about 80 years before. Even in retirement women continue to be substantially disadvantaged.

Many women do earn good wages and are treated well, but many do not earn high wages and motherhood creates a career burden. When Australia introduced paid parental leave this century it lagged considerably the first, Germany which first introduced its scheme in 1883. It contrasts with the age pension where Australia in 1909 closely followed the first (also Germany) which introduced its in 1882. The age pension was of great benefit particularly to women who were then even more economically disadvantaged relative to men, than now.

Women through lower incomes, breaks in workforce participation and child rearing reach retirement age with lower assets generally and lower superannuation balances. Australian women do not receive a superannuation contribution whilst on Paid Parental Leave – this should be remedied. A contribution should be made, its impact would not be financially substantial, but it should be made nonetheless. Over time it would help redress (in part) the lower superannuation balances of women.

- Women should be paid a superannuation contribution whilst on Paid Parental Leave.

Financial planning and estate planning - Work by The Australia Institute amongst others has demonstrated the massively regressive impact of the actual workings of superannuation by examining the value of Tax Expenditures. The value of tax concessions for superannuation by tax decile has shown a massive skew towards high income earners. Only some 11% of tax concession by value actually accrue to the lowest 50% of the population. By contrast the other 89% accrues to the top half, the top decile 41%, 2nd top decile 19%, and the 5th, 6th and 7th highest deciles in total accrue the remaining 29%. If you plot it out on a graph, even the most unaware of inequality will be struck at how regressive the skew is.

Seniors focused organisations, financial planners, the well to do have the motive, the understanding, the means to be well informed to exploit any system. In the tax space its just common sense and for that matter just about anywhere including superannuation.

The superannuation system as it is currently structured without reasonable caps has simply become a vehicle for financial planning and estate planning. It has become a vehicle to facilitate the well to do to increase their income and wealth and pass this down through future generations, that is it facilitates intergenerational inequity.

I would propose that there be hard caps on the amounts of money that people can accumulated in superannuation and if people have assets in excess of that they should have to pay tax on them in the conventional part of the economy. That is both income tax and capital gains tax. This would improve the equity of the superannuation system, limit the impact of the superannuation system in increasing inequality and reduce tax expenditures and increase tax revenues.

The point above is important as I point out that the tax concession as indicated by Tax Expenditure are rapidly rising and exceeds \$40 Billion annually now. Contrary to the claim that it will reduce age pension outlays, it is exacerbating pressure on the federal budget as the reduction in pension outlays is a slow relative decline whilst the largesse of the tax concession to underwrite superannuation will grow strongly. A solid block of superannuants would never have qualified for an age pension in the past but now have a tax advantaged-tax levered superannuation instead (and a drain on the federal budget).

An important consideration is that delaying remedial action only makes the problem worse. Using the example of France which is beset by endless protests whenever any changes are proposed to make their social security system affordable. People have been led to believe that they have paid for their social security and no matter that the assumptions about (actuarially unsound) contributions and (significant changes in) longevity must be addressed.

- Cap the value of superannuation contributions and the amounts that can be held in superannuation that to restrict intergenerational inequity and reduce value of lost tax revenue due to concessional treatment and increase revenue.

Due to a combination of excessive benefits in superannuation and inadequate withdrawals from superannuation (due to a misplaced fear of outliving their super) people may live a less than adequate retirement but die with an excessive amount of money in superannuation that will flow to their estates beneficiaries.

The problem is attitudinal and adds to intergenerational inequity. The current minimum and maximum withdrawal limits are sort of guardrails and might need rethinking. People tend to err in favour of the lesser amount. As well superannuation funds offer the indexation function on withdrawals. As it happens I have always applied the indexation function. It is a simple and set and forget option.

I would suggest that the indexation option be the automatic default option and this would overcome the fortnightly cash pressure some superannuants have as the cost of living rises but their superannuation pension is not. As well it would gradually reduce the upward growth in superannuation balances (and improve intergenerational inequity as people spend their own superannuation rather than passing it on).

- Indexation of superannuation payments should be the automatic default option improving both superannuant living conditions and reducing the growth of excessive superannuation balances passing to estate beneficiaries.

- The minimum and maximum withdrawal limits may need to be rethought also. For many people these figures appear to be writ and induce behaviour that is driven by fear and risk aversion.

Aged care is one area of concern as people age. Superannuation as well as property holdings can help pay for accommodation bonds. Again because of inadequate superannuation balances of lower income earners they can be badly placed to pay for bonds. But a more favourable tax environment for low income earners accumulating superannuation will help address this.

Housing and the intergenerational divide. I raise this topic as for a twenty something having money put aside for what appears to be an inconceivable 40 years in superannuation prior to retirement must seem strange when the housing pressures are very immediate.

Occasionally the idea of allowing access to superannuation balances come up, and the usual arguments against resurface. For a younger person who might want to buy a property but have possibly a significant balance in superannuation but cannot apply it to a property must be frustrating. Australia has traditionally had a higher level of dwelling ownership than many parts of the world. Other parts of the world have much longer term rental horizons than we do in Australia, decades (or near permanent) versus very short timeframes here.

In the environment of some 35 or so years ago the entire environment in which our superannuation regime was created (and I add, since mutated and modified) has changed. Systems like taxation need constant maintenance every year things have changed a little. New tax schemes and creative tax agents, the underlying labour market conditions, the profitability of business and economic conditions. Federal budgets are buffeted by international factors, record iron ore prices or coal prices are not determined by the genius of a Treasurer or his/her Treasury (despite what they might think). Its pure (dumb some others might say) luck.

The twenty something's back then and their parents now are significant holders of real estate, and sizeable superannuation balances. They have been the winners of a boom in property values after they bought in. The current twenty somethings are not in such a position at all. They are likely to be less able to make top up contributions to their superannuation as well as either renting at retirement, or still paying of mortgages near retirement.

Greater investment in public housing, social housing via other players, and more relaxed planning regimes to facilitate more flexible and cheaper housing options would help. Most of these policy levers largely exist in the state/local government sphere. But creating a longer term rental regime would be desirable from improving affordability for renters, provide a long term investment horizon for investors in the rental property sphere. Rental options are also helpful in terms of flexibility in the labour market, enabling people greater mobility.

But superannuation may need changes too. Tweaks to make it appropriate to its time, otherwise policy will be reactive and not proactive. As our society has developed average family sizes have fallen, people partner later, housing choices occur later. Superannuation needs to be flexible enough to cope with this environment. I have doubts that it is flexible enough.

Conclusion

I am a public interest person. I am not selfless but policy settings need to be focused on the long term. The totality of the changes I have proposed above would increase superannuation holdings of low income earners (who gain relatively little from our existing superannuation settings); cap the superannuation holdings of well to do middle to high income earners who gain the vast bulk of the excessive Tax Expenditure outlays; increases taxation collections by forcing excess superannuation holdings into full personal income tax and capital gains tax environments; finally reduces inequality and intergenerational inequality enabled by superannuation system tax assistance.

The most compelling reason to enact these sort of changes is that they would improve income and wealth distribution and reduce inequality. No doubt these changes would be measurable improvement.

Regards and all the best.

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