

Retirement phase of superannuation.

My background

My name is John Trevenen. I am a Fellow of Chartered Accountants ANZ. I worked in the area of small business for accounting firms for 15 years followed by 22 years at a stockbroker in its strategic planning area. Superannuation was a part of my work at all stages of my career. While my time at the stockbroking firm was particularly serving clients with large superannuation balances, I believe my training and involvement in the broader industry has provided a knowledge base to enable comment on the matters raised in the Retirement phase of superannuation discussion paper.

I have been retired for over 8 years. I do not have vast research capacity. Accordingly, my submission includes anecdotal observations rather than empirical facts drawn from surveys and studies.

Response

A. Attitudes to superannuation

Many fund members take little interest in their superannuation balance. It is likely that those fund members consider their compulsory SG contributions as simply a current cost and do not focus on the long-term benefit that can be achieved from those contributions. It might also be that they do not focus on long term matters like retirement income that may be decades away.

Whilst the current superannuation system has been developed over the last 30 years, it is possible that for many fund members, their understanding of the retirement funding objectives/outcomes have not developed at the same pace. There are many reasons for this lack of personal understanding of the retirement income benefit of superannuation. They include:

1. Age – Younger members are more interested in the funds they have access to during their working life, rather than funds that may be available many years in the future;
2. Changes – The likelihood/expectation of government changing the rules has also been a frustration that discourages members from exploring what they can achieve with their benefits in the future; and
3. Safety Net – Whilst the Aged Pension provides a critical and essential security for Australians, it might also be limiting the sense of responsibility Australians have towards planning for their retirement.

So, one of the first requirements will be to establish a greater sense of ownership by Australians in respect of their retirement income needs. Improved reporting by funds is one aspect of this, but will not be sufficient to achieve meaningful change to member attitudes. Advertising campaigns that focus on changing

entrenched apathy or ignorance about retirement funding would assist. Campaigns like Don't Drink and Drive, Speed Kills and cigarette packaging are believed to have changed attitudes. While it may seem extreme, it will be impossible to achieve improvements to retirement income outcomes without creating greater personal responsibility on the part of members to understand how the relevant systems work.

B. Reporting to members

As stated above, it is unlikely that increased reporting by only some funds will create a greater understanding of the importance retirement income outcomes. One aspect to consider is the part of the Public Service in the formulation of ways to better inform Australians about their current situation and how that projects into their future retirement income needs. As I understand it, MyGov currently has carriage of information including name, date of birth, tax file number, investments (used to populate the eTax option) and superannuation balances for each Australian and their recognised spouse/partner. MyGov also has the knowledge as to how that information would impact Age Pension calculations. As such, MyGov would be ideally placed to communicate to each Australian about how their retirement income will be generated, including to what extent the Age Pension will be accessed. I appreciate this sounds somewhat Big Government, but they have all the data already! Might as well use the data they have plus some appropriate assumptions to inform all Australians at least annually about this critical issue. Superannuation Funds do not hold the same level of information that MyGov holds, so requiring funds to report on retirement income outcomes would be less helpful.

On the other hand, think for a moment about the information MyGov could report to Australians. Things like:

- a) Concessional contributions to superannuation for the financial year
- b) Additional concessional contributions that could have been made (up to annual limits)
- c) Estimated income from work in the year before Age Pension age
- d) Estimated financial assets at Age Pension age based on current financial assets and also if additional concessional contributions were made
- e) Estimated Age Pension, Investment income and Superannuation drawdown at retirement on Age Pension age, including a comparison with the position while working; and
- f) Scenario building reports that enable the user to input different assumptions.

I submit that information like the above would be very helpful for Australians of all ages. Of course, the MyGov idea is not perfect. For example, beneficiaries of private trust distributions don't have the corresponding investments in their record. Nevertheless, I consider there is merit in the idea for the majority of the population.

C. Age Pension vs Savings including superannuation

Another aspect to consider is the somewhat dysfunctional crossover between the Age Pension and personal savings including superannuation. Journalists and financial advisers often write about the level of superannuation and other savings that achieve no financial benefit in retirement as they cause a drop to the Age Pension. For example, Bec Wilson recently published an article in The Age entitled, "The sweet spot: How to earn more while having less in retirement". This process contributes to attitudes that there is no point saving for retirement, unless your savings/superannuation will exceed the level at which there is no entitlement to the Age Pension. I am of the opinion that Australians are more likely to be interested in the topics of superannuation and retirement income outcomes if they can see that they will benefit at retirement.

Of course, the easiest way to overcome these issues would be to remove superannuation from the means tests for the Age Pension, thereby granting all Australians an entitlement to the Age Pension. Clearly, that would be expensive and thus unpalatable politically. However, it could be watered down by excluding Australians with superannuation above, say, the Transfer Balance Cap (currently \$1.9m). I believe most would accept that is a level where receipt of the Age Pension is not warranted.

I am available to speak to this response if required.

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