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Official Committee Hansard

SENATE

SELECT COMMITTEE ON SUPERANNUATION

Reference: Planning for retirement

FRIDAY, 9 MAY 2003

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SENATE

SELECT COMMITTEE ON SUPERANNUATION

Friday, 9 May 2003

Members: Senator Watson *(Chair)*, Senator Sherry *(Deputy Chair)*, Senators Buckland, Chapman, Cherry, Lightfoot and Wong

Senators in attendance: Senators Buckland, Chapman, Watson and Wong

Terms of reference for the inquiry:

To inquire into and report on:

Planning for retirement.

In conducting the inquiry the Committee is to examine in particular:

(a) the effects of ageing on workers' productivity;

(b) the continuing relevance of the concept of a fixed retirement age;

(c) the potential to encourage progressive transitions from work to retirement, including through possible new benefit access and contribution arrangements, and part-time work;

(d) any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people;

(e) ways to assist older workers plan for their retirement;

(f) the short and long term effect on the Budget of any proposals for change; and

(g) any issues for the Federal or State workplace relations systems.

WITNESSES

Subcommittee met at 9.01 a.m.

CHAIR—I declare open this third public hearing of the subcommittee of the Senate Select Committee on Superannuation as part of our inquiry into planning for retirement. The subcommittee has held previous hearings this week in Sydney as well as in Melbourne. Under the terms of reference the subcommittee will focus on mechanisms to assist people plan for and make the transition from work to retirement, with particular reference to exploring opportunities available for older people to plan for their retirement.

Today, the subcommittee will hear evidence from a range of individuals representing parties with an interest in these matters. Those parties are the Australian Retired Persons Association, South Australia; the Association of Independent Retirees, Whyalla and Districts Branch; the University of the Third Age, Adelaide; the South Australian Government Superannuation Federation; and the Retired Union Members Association of South Australia. In addition, the committee will take evidence from Associate Professor Owen Covick and Mr Leslie Kemp. Both will appear in a private capacity.

All witnesses who appear before our subcommittee are protected by parliamentary privilege with respect to the evidence that is given. This means that witnesses are given broad protection from any action arising from what they say and that the Senate has power to protect all witnesses from any action which disadvantages them on account of evidence given before the subcommittee. The subcommittee prefers to conduct its hearings in public. However, if there are any matters which you wish to discuss with the subcommittee in private, we will consider your request.

[9.03 a.m.]

PARKINSON, Dr Geoffrey William, President, Australian Retired Persons Association (SA Inc.)

CHAIR—Welcome. We appreciate your appearance before the subcommittee and the interest of the Australian Retired Persons Association in our inquiry. This is an important inquiry and we hope that it will make a significant contribution to the debate and get some things done. I invite you now to make an opening statement.

Dr Parkinson—The Retired Persons Association is in a situation where it is dealing with people in a large age range—our youngest member is 48 and our oldest member is 93. Hence we see a large number of people who are retirees, some who are partly retired and a few who are still working and are contemplating retirement. Our major concern in this area is the preparation of people for retirement. We understand there are a number of issues that relate to this business and one of them is how to re-educate employers generally to get over the 'too old at 45' syndrome and change attitudes to employing older people. We also realise that it is important to make it financially rewarding and satisfying for older people to continue in work longer than they have in the recent past.

But the area which particularly concerns my association members is the way in which people are prepared for a fulfilling retirement so that they can continue to contribute to society generally until quite an old age. The Australian Retired Persons Association is hardly expert in financial areas and we believe there is plenty of evidence to indicate how people should plan financially for their retirement. We would like particularly to stress the area of educating people to structure for themselves a fulfilling retirement. Clearly there are many differences for different groups of people. Unfortunately, much of the writing, information and evidence that have been provided come from what I would loosely call the professional and managerial classes.

People like me, who have had a professional career and some of the benefits of higher education, normally make the transition relatively easily. It is not too difficult for people in our situation to find part-time work. It is easy to find volunteer situations and so on that are fulfilling. The difficulty comes with other sorts of people. For somebody who has worked, say, in manufacturing industry all their life, when that ends what do they do next? There is a particular problem for women who have not had the benefits of superannuation in the same way that men have had and, of necessity, must continue to bring in some finance into later years. Often they cannot afford to retire. So there are particular issues there.

We believe—and when I say 'we', please always interpret that as the Australian Retired Persons Association; we have tried to canvass a broad spectrum of our members, so when I say 'we', that is what I am trying to reflect—that a lot of this has to do with pre-retirement planning. We believe that there is a crying need in Australia for the development of programs which would allow people, well in advance of the time that they cease full-time work, to begin proper personal planning—and this is planning other than the financial. We believe that there should be a structure which allows people who have successfully made the transition from work to retirement to be used as mentors and educators who will help these people make the right moves.

We believe that many people may need some education and retraining towards the end of their careers—that the structure imposed by a regular working life has bound their lives and that they need some education about what can happen.

We also believe that employers need some re-education in how to use people in the latter years of their working lives and how they could perhaps continue to use them on a part-time basis. The question really is: how can this be done? We believe that there is an opportunity, if there is a small amount of resource available—and I guess ‘resource’ means money—to use the skill of people out there in retired persons organisations of various sorts, not only ours, and train a small group of those to be presenters, mentors and preparers. That would also need some cooperation from employers to allow their employees to take part in such programs in the years leading up to their retirement.

I guess the key issue we want to put forward is that we believe there is a training gap—that there has to be something done, more or less formally, to prepare people for this important stage of their life, and that that can be done relatively cheaply by using people who have made the transition successfully. These people, with a small amount of training, could provide, as it were, a core of people to train the next generation. I will stop talking there, and I hope to be able to field questions and explore with you any of the issues either in what I have just said or in the original paper.

CHAIR—Thank you very much, Dr Parkinson. I refer to the loss of job opportunities for many mature age people—often middle managers or senior executive officers. An earlier witness suggested that the chief executive officers of large corporations tend to come from the ranks of the younger members of society who are professionally and academically trained and that often they find it uncomfortable to take advice from older senior executives, many of them with lots of experience, Unfortunately, those senior executives are soon on the exit list. The suggestion is that it is almost in the culture of our society—associated with the sorts of people who are increasingly rising to the top of the management hierarchy and leading some of our biggest companies—that a lot of the problem lies. They feel uncomfortable working in an environment that has people with lots of corporate experience and knowledge. You often have brash, young CEOs coming in and wanting to make lots of changes.

Dr Parkinson—Clearly that is a problem and I can do nothing but agree. I can understand that the young turk certainly does not want looking over his shoulder somebody who has been around for a long time. There is certainly that feeling. I am not sure what the answer to such a problem is. We have to look at different ways in which to use people’s experience, and that is partly a re-education of the person with the experience. When I think back to situations that I can remember in the workplace, people who have experience can be very set in their ways and can become negative, and criticise any change that takes place. That is a real problem.

Again, it comes back to re-educating those people with experience—older workers—who wish to stay in the workplace to take a different approach. It may have something to do with the way companies are structured. It may be that companies have to look at using some of these people in a think tank capacity that is in some way removed from the line management role of the younger people you talk about. There may be a way of doing that—and I am hardly qualified to talk—in a large company or organisation. It could be possible in some situations.

If I can give an example, one of our members, with whom I had a long conversation in preparing for this hearing, is a former senior police officer who for a number of reasons took retirement at the age of 59. He is very tense about the fact that within the police force there is a whole list of unsolved murders in this state and they are not being dealt with, simply because the resources are not there to review the cases. He would desperately like to go back, three days a week, and sit there and sift through the evidence of all those murder cases—put a new set of eyes over them—and put his findings back to the operational people. He has made that suggestion but, unfortunately, the way the force is structured, it is not possible for them to re-employ him in a position that would allow him to do that for three days a week.

If in some way we can change the structure of workplaces to allow that sort of thing to happen, then I believe that these older workers can be used effectively without causing a threat. Again I have to say that there needs to be some re-education—ongoing education—of people in the work force that says, ‘Just because it has been done this way for the last 15 years does it not mean that it is right or best.’ That is the problem you keep running up against.

Senator WONG—On that point, we have enough difficulty getting employers to allow women to come back and work part time after they have left to have a child, so how do you think we are going to encourage employers to allow more progressive transition to retirement for people?

Dr Parkinson—We have developed a culture in this country that says there is something wrong with dropping in and out, and something wrong with a part-time employee—that in some way they are not as valuable. Those of us who have ever employed people—at least at a small business level—know that that is not true, and that part-time employees almost always give you greater value than you pay them for. That has certainly been my experience as a small business employer. Unfortunately, in organisations people do not seem to understand that. Clearly there are going to have to be some sorts of incentives to push them into taking people on on this basis, and I believe that eventually people will realise how valuable it is.

You learn that, in many cases, women coming back to work after having raised a family or having spent some time out of the work force are your most valuable employees. The skills that they have learned by running a home, bringing up some kids and doing all the things they do are enormously valuable—again, that is at the small business level. I cannot really speak about a big organisation. I am sure that if there are some incentives—and I do not know what they are—to get people to do that, five years down the track there will be a stampede to get more of them. I think they are enormously valuable people.

Senator WONG—In your submission you raise some concerns about the concept of a fixed retirement age. Obviously, that is a separate issue from eligibility for the age pension, and I assume that your organisation is not proposing a change to the age at which one is eligible to receive an age pension.

Dr Parkinson—We talked about that. Although lots of our members would say, ‘Personally, I would not mind getting the age pension when I am 55,’ being realistic we say, ‘As a country we cannot afford to do that.’ Rather than trying to lower the pension age, what we really need to do is ensure that if people need to continue to earn money they should have the opportunity for some part-time work. I guess that most of our members accept the fact that at some time in the future the pension age may have to be raised. They are quite sanguine about that because they realise they are old enough not to be caught in that—it is the next generation that is going to cop that. Realistically, we see that that has to happen, and it may not be a problem if these other issues are solved so that people have the opportunity of a gradual transition—not full-time work one day and pension next, but full-time work then part-time work phasing into full pension. That may even be a part pension phasing into full pension or full superannuation—whichever way it goes.

Senator WONG—One of the issues that have been raised by a number of witnesses—and I do not know whether your members are in an asset and income profile where this would occur—is the difficulty for people who, due to their economic position, are ineligible for the age pension, in terms of their super or assets or whatever, and the difficulty they may have in obtaining, on the market, an analogous form of income stream—in other words, in buying an annuity for a period of time.

There has been concern raised about both the price and accessibility of those sorts of products. That is, if you have earned a lot, you do not meet or you surpass the relevant means-testing for the pension, whether or not you can choose to go into the market and buy yourself an annuity that is analogous. One of the proposals that the Australian Bankers Association has raised is the possibility of people in that position being able to purchase a pension from the government in the same way as you would go to a financial services provider and say, ‘I want to buy a five-year annuity.’ Do you have any views about that?

Dr Parkinson—Going back to where you started, our members cover a huge socioeconomic range: from those who have absolutely no retirement savings at all and rely totally on the pension to those people who have significant superannuation investment. Certainly, some of our members had difficulty in buying annuities and setting up income streams that work. I imagine that a certain proportion of our members—and I must say ‘imagine’ because it is not something I have canvassed—would be very happy with a situation that allowed them to go to a government and buy a pension rather than be out there shopping around in the market. There is a great deal of anxiety about that.

Prior to this hearing, I was gossipping about what happens. We have people called retirement information officers who, by virtue of their previous employment, have some knowledge in this financial area and, most commonly, people come to them for advice and say, ‘Who should I go to in order to set this up?’ Because of the plethora of things out there, which a lot of these people do not understand, they do need some impartial advice. I think purchasing a pension from the government would be a blessing to some of these people.

Senator WONG—One final issue: both in your submission and in your opening statement, you talk about the need for incentives to encourage better employment patterns prior to finally exiting the work force. I do not think anybody here would disagree with the merit of achieving those employment patterns but, obviously, the problem for a government is when you set one policy to affect one policy outcome, you may lessen the likelihood of other policy outcomes. I suppose a youth advocate might say that if you have tax incentives or other incentives to encourage continued mature age or part-time employment post when one might think people would retire, the corollary will be a disincentive for young people’s employment. Whether or not that is correct—I am not taking a view about that—it is an issue that would be raised.

Dr Parkinson—I am conscious of that. Our members and the people I have talked to are saying, ‘Look, we’re not in the business of damning youth or trying to stop the kids getting jobs; it’s not the kids’ jobs we want anyway.’ I think there is some truth in what you say about those conflicting policies. If you press people to take part-time employees at the top end you may get rid of some of the jobs at the younger end. But if you look at the demographic of Australia, I believe that all of that part-time youth employment that supermarket and fast food chains and so on have lived on for the last 20 years, in 10 years time will not be there. I think they are going to face a rude reality shock. If you look at the number of kids coming through and the way in which they organise their lives, I believe there is going to be a change that is going to be forced upon those sorts of employers. They will not find as many people to deliver the pizzas, flip the Big Macs or whatever it is in 10 years time. I do not see that the policy conflict, which I agree could be there, is a long-term thing and that it will disappear simply by a change in demographic.

CHAIR—That is an interesting concept. I would have thought it was almost like the newspaper boy of the past. A lot of these members of the Coles and Woolworths shelf packing team are often at school and they do it for a bit of extra income, as well as university students who get a bit of extra income. They will still be there, won’t they?

Dr Parkinson—Not in the same numbers. I can give an example of what is happening. I notice that in the last six months, instead of my free suburban newspaper being delivered by a boy on a bike, it is now delivered by a lady who is probably in her late 50s or early 60s walking around. I think it is the beginning of that change. I find that the young people of my grandchildren’s generation who are now 14 or 15 are now finding different sorts of things. I have a 14-year-old grandson who works after school in a computer repair and software provider’s business. His friends tend to be doing things a bit different from going to McDonald’s and so on. That is a very small sample and it may say something about him and his friends, but it seems to be a bit different from what it was when I was there. I had the opportunity of picking fruit up in the hills or delivering newspapers or selling them on the streets. They were the sorts of things. I think that this next generation coming through are looking for things that are a bit different.

Senator BUCKLAND—What is your membership’s general view of the financial planning industry? Do they pass comment?

Dr Parkinson—Yes; it is largely one of mistrust and cynicism. It is interesting if you push people on this. A fair majority of them have had quite reasonable experiences. A few have had bad experiences. But often an individual says, ‘It has not been too bad for me; I’ve done this and this, and it’s really worked reasonably well. Generally they are a mob of charlatans and we do not trust them.’ It’s a funny bifurcation there. The general opinion of financial service industries by retirees is very poor. But if you try to pin it to their specific experience you find it is not quite as bad as the general impression. I do not know what one deduces from that, but certainly amongst the retired community the financial services industry needs to clean up its image somewhat.

Senator BUCKLAND—From your experience, have you been able to detect a different attitude towards self-funded retirees as opposed to pension retirees by the financial services or financial planning sector?

Dr Parkinson—I cannot say that I have any clear impression about that. I imagine that there is a difference, but I cannot really speak on behalf of our members. I imagine the financial planning industry is much more anxious to talk to self-funded people than to the pension end, but I have no evidence.

Senator BUCKLAND—In your submission you make comments in relation to planning for retirement needs to go a little further than explaining superannuation and financial planning. You talk about retirement lifestyle planning seminars—something that I entirely concur with, let me say. Do you find that people who are nearing the end of their employment or who are in a situation where it is suggested to them that they will need to take early retirement often suffer a lack of self-esteem or feel that they are of no value to the community?

Dr Parkinson—Very much. Over a number of years now, some small groups of my association have been involved in providing what are called pre-retirement seminars. It usually means that we get about two hours with people who are being pushed out of the work force. They are largely unproductive hours because the people are resentful about what is going on. As you say, they lack self-esteem and the only thing they are concerned about is how they are going to have enough money to live on and they do not wish to listen to anything else about how to structure their life. So there is a real problem in doing that. We have found that our most productive seminars happen when we can pick up the people a year or two afterwards, which is unfortunate, but in some way they have their money stacked away, they have probably been on the trip that they said they were always going to do and they are wondering what to do next. Then the frame of mind seems to be right.

We have a vision of the future which is far too idealistic, I suppose, where people understand that at some stage they will have to move out of the work force and say, ‘We’re within four or five years of it, so let’s start thinking about what that means.’ They can go through a series of things where can people can either mentor them—it is probably better in small groups and almost one-on-one—and explain how one goes through these stages of leaving work, the feeling of loss that one feels, even if you left voluntarily, and the changes in lifestyle that it means, what it means to relationships with your family and what it means with the sorts of activities you can be involved in. That is an idealistic view. But the one-off seminar after a person has been told ‘you’re for it and you’re leaving in three months time’ has proved to be largely unsuccessful because people are not receptive for the very reason that you said: loss of self-esteem and resentment.

Senator BUCKLAND—If we look at a person who is planning to retire and it is expected that the person will retire at age 65 from a company of some nature, how early in the process do you think that that person should begin planning? The financial side is one thing, but this lifestyle change that they are going to confront is another thing. They are going to be at home a lot more and probably see their spouse more than their work colleagues. Generally, when you are working, you see your colleagues a lot more than you see your family.

Dr Parkinson—Our members would dispute the last point about being at home a lot more. Once you get involved in our group, you are never home, but that is another issue. You are quite right: it is quite different from financial planning, and we all know that, to be sensible, financial planning needs to start 20 years before you retire. Our guess would be two to three years beforehand. Any longer than that and it is still the remote future. Human beings are just not concerned that far in advance. Two to three years seems to be about right—a few months is too late—and, of course, the only way that can happen is if employers understand this and will, during work time, give people some release to do this planning. And that is where the incentive comes in. I do not know how many employers can do that. Certainly, large corporations can probably afford to do it without even noticing it. But the bulk of Australians are employed, as we all know, in small business and they cannot afford to send somebody off for three days a year, which it probably is, over a period of three years. It sounds little but, to a small business, it is enormous.

Senator BUCKLAND—In a section of your submission on budget implications of proposed changes you talk about there being an impact on health costs, or a lowering of health costs, by ensuring better long-term health outcomes. Do you take into account mental health costs?

Dr Parkinson—Certainly, very much. We believe that the seeming longevity of members of ARPA is because most of them are fully involved in a whole range of activities. If you compare them with people who are not involved, they seem to either die earlier or need long-term care or even mental health care. A lot of that, I am sure, in those later years comes from a lifestyle which does not involve the person. It cuts them off from the rest of society, does not give them social opportunities, and does not stimulate them intellectually or physically. I firmly believe that if we can involve older Australians in a range of activities, make them feel wanted and make them feel they are contributing, many mental health problems just would not occur.

Senator BUCKLAND—In your opening remarks this morning you spoke about the age range of your membership being 48 to 93. Let me say that it is very commendable for a group to have that span of people. Is there a particular age range within that that adapts better to retirement than others, or is it based on their financial security at time of retirement?

Dr Parkinson—Both of those things. The financially secure are much more adaptable in fitting into a retirement lifestyle. Financial security is an important factor. There is no doubt that they have more options and it is easier to feed them into things. But when you say ‘age range’, there is a strange syndrome which is not purely restricted to us, because we have talked to other over-50s organisations. Those people, who are being ‘forced’ out of the work force by various things before the age of 55, are very difficult to involve in these sorts of organisations. We keep trying to think of new names for them. We came up with ‘retired persons’ because it seemed to be not age related. But now everybody says, ‘I don’t want to be seen as retired.’ Once they get past 55 or 56, it is much easier to get them involved. It seems that the early retirees—people who have been forced out of the work force, say, before age 56—are much more difficult to work into what we call positive retirement programs.

CHAIR—Could you share with the subcommittee some personal experiences of some of your members in terms of the issues that they face in their retirement years. Before we commenced we were having a private discussion about volunteers and the different reactions of sections of society towards volunteers. In many cases you mentioned that they are welcomed, but in others they have felt that they were unwelcome. In such cases I think you mentioned that they seldom stayed beyond about three months.

Dr Parkinson—That is right. One of the things that we try to encourage in retirement counselling of our members is that they be involved in some volunteer work within the community. Some of them do their volunteer work with our organisation, but there is only a limited opportunity there and many of them are working outside. We recently tried to survey what is happening. There are good and bad users of volunteers. Some local government authorities have proved to be excellent users of volunteers. They give them meaningful jobs, make them feel welcome and stroke them in all sorts of ways. By and large, the people who are working as volunteers with local government seem to be doing well.

Some other organisations are not good at all. When volunteers come into an organisation, permanent employees or employers tend to look down upon them and regard them as a nuisance. Volunteers feel that they are given the most menial tasks, that they are not appreciated and that they are not included. In those sorts of areas, we have found that our members stay roughly three months before they have enough and walk out of that volunteer employment. Surprisingly, some of the organisations which are like that should know better. I guess, since there is privilege, I can say this: one which has come to our notice is the Royal Zoological Society in the Adelaide Zoo. They seem to treat their volunteers with less than affection. The turnover rate there is very high. I believe that, again, there is an education need. These people are doing things that they don't even think about and don't understand, and it would be easy enough to cure it, provided there was a little bit of money to train a few people to be trainers and to give them some expenses to do it. I think it would be done by volunteers.

CHAIR—On the other hand, you were saying you have had good experience with Meals on Wheels.

Mr Parkinson—Yes. Meals on Wheels is an interesting case. The people who are drivers and deliverers for Meals on Wheels, who actually give the meals to the people in their homes, are very enthusiastic about their work. They feel that they are giving something, because they are the contact with the outside world. They talk to the old people and they become their friends. That is their feedback. People who work in the Meals on Wheels kitchens, cooking food, seem to be less pleased with their volunteer work. They don't get the same sort of personal feedback. That is one of the issues. There has to be some personal payback to the volunteer. They have to feel that they are contributing, and they have to be told that. They have to have interaction with other people. That is what we need to teach organisations to give their volunteers.

CHAIR—Thank you very much. Time is up, but it was a very interesting presentation, Dr Parkinson.

Dr Parkinson—Thank you for the opportunity.

[9.44 a.m.]

COVICK, Mr Owen Edgar (Private capacity)

CHAIR—Welcome. All witnesses are protected by parliamentary privilege. We prefer not to take evidence in camera; it is not the sort of inquiry that encourages that. We are anxious to get as wide a field of information as possible from all sectors of society with regard to this very important reference before us. Thank you very much for taking the time to present a paper and for coming before us this morning. We invite you to speak to your presentation. Following that, a number of senators will ask you some questions.

Mr Covick—I am an associate professor in economics at Flinders University and I am also acting Pro Vice-Chancellor at the moment, but I am substantively an economist. I tried to restrict my submission to things on which, as an economist, I might have something to contribute. The two areas I tried to focus on were, first, the way financial arrangements work to encourage or discourage people from making adequate saving during their remunerated working lives and, secondly, how the arrangements work for encouraging or discouraging, or helping or not helping people to use wisely during retirement years what they have accumulated at the point of retirement. I pointed out that I thought the second was probably an overlooked issue. The first one has tended to attract more attention but I think the second one is very important, and probably some strategies might be easier to come at to handle that because it has not been properly looked at.

On the first one, when people, especially non-economists, think how to encourage people to accumulate more savings during their remunerated working lives, they usually think of throwing government money at them in one way or another using either tax breaks or some type of subsidy arrangements. Economists’ studies have shown that that is unlikely to achieve the desired objectives, even if the arrangements encourage some additional private saving; it usually comes at the expense of public saving.

If you are going to maintain the public sector’s saving effort and throw money at not very well targeted people in the private sector, you are stuck with where are you going to get the money from. You might finish up with an arrangement whereby you tax more heavily some people in the younger part of their working lives—those who are not particularly well paid, struggling to maintain their families and struggling to buy houses—and basically taking money out of their pockets and giving quite a bit of it to people who are possibly quite comfortably off in retirement already, simply so that they can give more generous wedding or Christmas presents or bequests to another bunch of young people—a redistribution mechanism from some young people to other youngish people without the people you are really trying to help getting much out of it.

What I did suggest in my submission as things worth contemplating for encouraging additional savings during the remunerated working years was, firstly, moving the SGC minimum to a rate above nine and bumping it up to 10, 11 or 12; and, secondly, trying to work out some reasonable arrangements for extending the SGC arrangements to those parts of the younger working age population not currently properly covered by it. The two big areas there are people who are self employed—it is very difficult to get them equitably treated but something should be done—and people who are unable to work for various reasons. Moving on to what I wanted to give the prime focus to, once somebody has got their saving that they have accumulated during their working life and they cross the line into unpaid employment, as it was described earlier, what happens then?

Under our current arrangements in Australia we do not really do much at all, using policy tools, to encourage people to put the money into a true income stream arrangement, an income stream which is protected by a properly diversified, prudent portfolio of underlying assets, and an income stream which involves proper longevity insurance, so it keeps running however long the person is running, rather than running out when the money runs out. Something should be done to provide greater ‘encouragement’ to people to buy life annuities, or even possibly perpetuities. These life annuities should be based on good, prudent underlying portfolios of assets. They should be at least CPI indexed, preferably better than CPI indexed, because when a person reaches 65 these days, the likelihood is that they are going to live for another 15, 20 or 25 years.

If CPI indexation is all they get on their annuity after they have retired, then by the time they have been going about 15 years, assuming real wages in society have risen on average by two per cent per year, which is the sort of trend figure, they will be left behind by community living standards. Community living standards are what they are likely to be judging how well off they are by, rather than the community living standards of the date on which they retired. Having annuities, which give them CPI plus two per cent, would be better protection for their long-term interests than simply CPI indexation.

How do you do that? Once again, providing tax inducements might be popular, but it would be problematical in terms of, firstly, where you get the money from and, secondly, whether it is just the already sophisticated and financially well heeled who take the biggest advantage of the tax incentive advantages on offer. If we are compelling people to save the money during their working lives, why not introduce some sort of compulsion in how they can access it once they retire? A reasonable amount of their savings on retirement must be earmarked into an appropriate life annuity product; people should not take their own money and do what they want with it. They might spend it too rapidly because they do not properly judge their own longevity. They might deploy it into risky assets because they are advised by a charlatan or because they just try to do it themselves, and after 10 or 15 years their financial judgment becomes impaired. They were the main points I tried to make in the submission, but I am happy to elaborate if that would be helpful.

CHAIR—I have a couple of issues. You recommended soundly structured annuities. The private sector in the Western world has been quite good, until the last couple of years, in building up lump-sum entitlements for retirement. I wonder about the availability of annuities if we are going to move to forcing people to take—as you suggest, and I agree with you—at least part of their lump sum in an annuity form and finding the right sort of annuities. One only has to look at the collapse of the financial markets, also in Germany and the UK. In fact, it was these underlying investment products that were the problems of Pearl and the AMP in the UK. They now have to build all these structured investments to support the annuity. How do we take the investment risk out of annuities?

Earlier witnesses have suggested that for the more vulnerable people in society, up to a certain income level—I think you may have suggested it; correct me if I am wrong—perhaps the government should have a role in your being able to purchase an annuity from a government instrumentality, where at least the investment risk would be removed, not for all people, but for people up to a relevant income range where they just cannot afford to have any investment risk at all.

Mr Covick—Australia is somewhat unusual when you look at comparably wealthy high income countries across the world, in that our main government has not for many years issued its own debt with particularly long maturities. Once upon a time the Australian government used to issue debt with 20-odd year maturities, but since about the early 1970s it has been rare to get more than 10-year maturities. The British government has on issue perpetuities. I did mention perpetuities briefly earlier. If a 65-year-old woman approaches a life insurance office, and asks about getting a life annuity, because a healthy 65-year-old woman has such a long period of life still in front of her, most life offices will treat that annuity as pretty well identical with a perpetuity. Once you try to discount beyond 25 years the figures are very low. Pricing an annuity for a 65-year-old woman, and pricing perpetuity, is hardly any different.

If a life office is trying to offer an annuity with a 20-odd year expected duration or perpetuity, and it cannot get hold of safe paper of that term to hold behind it, you have a problem, and that is the problem you have described. There are two ways in which that can be tackled. One is that the government of the day directly provides annuity type instruments to individuals which are geared to that particular individual’s life expectancy. In principle I cannot see any reason why the government should not do that, although administratively it might be a bit costly. Some people would argue that administering, checking whether people are still alive, and sending relatively small amounts through the post regularly is a job that perhaps governments should leave to other organisations.

CHAIR—They do it for the age pension.

Senator WONG—They do it anyway.

Mr Covick—Yes, the age pension is basically the same thing, I suppose. As they are already doing it, it probably does not make much difference to do a bit more of it. You could actually sell the long-dated, or sole perpetuities, to life insurance companies.

CHAIR—But as you say, we do not have any in Australia.

Mr Covick—Yes. That is a defect in the way the funding of government debt operates. The other point I wanted to suggest is that many individuals, it would appear, dislike the idea of buying a life annuity from a life insurance company, not so much because they fear the life insurance company will go broke, but because they fear they will die tomorrow or next week, and they have a motivation to avoid handing over such a large amount of money, which they perceive as then becoming a sort of windfall gain for the insurance company.

CHAIR—That is the advantage of the allocated pension, isn’t it?

Mr Covick—But allocated pensions do not have any true longevity insurance in them. With an allocated pension, you throw the baby out with the bathwater. You overcome the problem of the life insurance company getting all your money if you die too soon, but you have no proper systematic protection against living so long that the money runs out and the income stream is not properly there. Life insurance company people have told me that they would like to offer life annuities which would give the individual a residual lump sum if the individual died within the first 10 years, say. Life insurance companies believe that, if they were able to do that, they would get far more customers for indexed life annuities.

At the moment, if a life insurance company creates such a product and sells it, it does not pass the test of a qualifying life annuity, for various tests like the higher reasonable benefit limit test. So, if the definition of a qualifying life annuity were altered to allow perpetuities with a capital value when the person died, or life annuities which had a lump sum payout if the person died before some relatively short period of time, that, it strikes me, would be compatible with the intent of current policy arrangements. At the same time, it would provide a much greater incentive to a larger number of individuals to take proper longevity insurance embodied life annuities.

CHAIR—I have two questions. Should we have a cut-off period for annuities, say, at age 80 and then, after that—if people are going to live from 80 to 114, for example—the government would automatically pick that up through an age pension arrangement? Otherwise, it is going to be increasingly difficult to price these products and provide reasonable returns.

Mr Covick—I would need to think about that one for much longer before I could give a considered answer, I am afraid.

CHAIR—You might like to take that on notice.

Mr Covick—Yes.

CHAIR—If we go down the path of making it mandatory for people to take a fixed proportion of their lump sum retirement benefit—if they are in that sort of scheme—into an income stream, is there the necessity to have reasonable benefit limit rules, which are very complicating?

Mr Covick—A well-designed system would remove the need for reasonable benefit limits, as currently understood.

CHAIR—What are the features of a well-designed system?

Mr Covick—It would probably be politically unpopular but, for an economist, a well-designed system would have the following features: you would try to work out the tolerable minimum income for a person to live on in their retirement. You would then work out the present value of buying or providing a life annuity at that rate, with either CPI indexation through to actuarially worked out average death rates, or ideally with one or two per cent above CPI indexation.

Once you had worked out the present value of a minimum standard of retirement income, you would then say that that quantum of dollars may not be accessed as a lump sum. If you have that much, that must go into a life annuity. If you do not have that much, every penny must go into getting you as close as you can to that. From that point onwards you could either say, ‘It is up to you; do what you want,’ or you could have a second area of a proportion being required. You could choose a proportion, say 50 per cent, and of every dollar of your lump sum beyond that threshold, half must go into additional income stream and half is free discretion for you.

CHAIR—Given that so many people still have a mortgage to pay, to mandate the whole into an income stream may run into some political problems. Certainly a high proportion of society would tolerate it. I appreciate your giving us a paper on this.

Senator WONG—I would like to expand on what you have been suggesting. It seems to me from the evidence that we have had that there are some problems in the market in terms of income streams available to people upon retirement. Would you go so far as to say that there is probably some market failure in respect of longevity insurance in terms of the products available in the private sector?

Mr Covick—‘Market failure’ is not the technical term that economists would normally attribute to this particular problem. It is a problem that exists in every society. Even in America, where long-dated government debt is freely available on the financial markets, people do not buy life annuities in the quantities which all the evidence suggests would be in their best interests.

Senator WONG—But that is an issue of demand; we are talking about whether the products in fact exist. You have identified certain problems: the actuarial problems and the issue of government debt on a shorter term basis than perhaps in analogous economies—I am not sure where else, apart from America. It is certainly consistent with some of the evidence from other witnesses that, if I am retiring at age 65 and I want to purchase perpetuity, I would have some difficulty in getting a reasonable product. Would you agree with that at this time?

Mr Covick—The prices you would be quoted would look too high to you. The reasons they would look too high to you are twofold. One is because the great bulk of people do not appreciate what their average life expectancy really is. Many people, if you asked them what life expectancy is in Australia, will give a fair guess of what life expectancy at birth is. If you ask them what the life expectancy of a 65-year-old is, they will subtract 65 from the figure they have given you for life expectancy at birth and they will tell you that that is the life expectancy. That is not the way actuarial tables work. The life expectancy even of males at 65 is now well over 15 years. Anybody who has survived the first 60 years without dying has a much greater life expectancy than somebody who is at zero.

When people walk into a life office and they are quoted a price, they immediately think that that is an unfair price because they have a misconception of what their true longevity is. There is a second feature. Life offices will quote prices which are not what would be regarded as actuarially fair. They will add on to what is actuarially fair various margins. One margin is just profit margin to run the operation and pay the administrative costs. Another margin is associated with the risk of looking after the portfolio. Senator Watson alluded to points regarding the risks that the owners of the life insurance company take—that the portfolio will go bad and that their own money will have to be coughed up. That element is added on to that.

The third one, which is probably the most interesting in terms of your question, is the adverse selection premium. The life insurance offices assume systematically when they are pricing these products that the people who come in and buy them know something that they do not know. They assume that the people who come in who are happy to hand over money for life annuities know more about their own health and more about their own projected longevity than the actuarial tables are telling the life insurance company is average.

The life insurance companies will add a further margin for an allowance for what is called adverse selection. The sample of people who come and buy the product from you are not a random sample of the population who will have the actuarially average longevity. They are self-selecting people who know something you do not know—that is, they are going to live forever. So you charge them more to protect yourself against the adverse selection. That is the one you could most easily remove if the government came in and provided the products. If the government were providing the products with a cap and possibly means tested, the government would be protecting itself implicitly against the worst possible consequences of adverse selection and containing those costs while overcoming that part of the problem as far as the market is concerned.

Of the four issues that I listed as giving you an outcome of far less take-up of life annuities than would objectively seem sensible for people to buy, the perception in the minds of the buyers that they are not going to live as long as the actuarial table suggests seems to be the dominant of the four.

Senator WONG—You sketched the features of the system but it was not clear to me whether we were looking at those people above the limit for entitlement to age pension for income and assets reasons, or whether you were talking about a single system. The sort of proposal that has been put to us is not to abolish the age pension as such.

CHAIR—It is a safety net.

Senator WONG—What was put to us was a proposal that those people who would currently be disentitled to the age pension by virtue of their economic position could purchase a pension from the government, whether mandated or otherwise, as part of their retirement management.

I am not sure whether this was your intent—obviously we are only talking outlines—but it would seem to me that what you were suggesting would effectively mean that lump-sum payments would become the preserve of the wealthy. If you required the first X thousand dollars of someone’s retirement nest egg to be allocated to purchasing some sort of income stream, the ability of a lot of Australians to retire debt, which as the chair pointed out is still something that many people plan on in terms of their retirement, would be minimised.

Mr Covick—You are completely correct. In the scheme I described, the lump sums would then become quarantined away from the needy and would only be accessed by the non-needy. If it were judged that that was giving an excessively generous treatment to those who were receiving the lump sums, one could revisit the issue of the appropriate taxation level of lump sums.

Senator WONG—What you could say is that, if you are over a certain threshold in terms of your retirement savings, then X proportion of that must be spent on an income stream.

Mr Covick—No, that is the opposite of what I was looking for, if I understood you correctly. The fundamental problem of a society like Australia’s is that we use the taxation and transfer system to try to prevent older people from having intolerably low standards of living, so we have a safety net that looks after people whose private means do not give them a tolerable living standard. Having done that, we then find that as an aggregate society we are not saving enough. How do you overcome that problem? You can either get the public sector to save more by having big budget surpluses all the time, or you can try to design arrangements for the private sector to save more. If your arrangements for trying to get the private sector people to save more are not systematically geared to those people saving in order to provide themselves with proper income streams in retirement, then you have not really tackled the problem.

A direct analogy would be this: if you had a system whereby everybody whose house ever burnt down had the government come in and pay for its reconstruction, nobody in their right mind would ever insure their own house against fire. We want people to insure themselves against running out of money after they have retired. You cannot have a system that says, ‘If you do run out of money, we’ll look after you; don’t worry about it,’ and, if we have managed successfully to compel you to save a couple of hundred thousand dollars: ‘Do what you want with that. You can have a tolerable living standard, paid by taxing working people after they have retired.’

Senator WONG—We are running out of time. There are a couple of very quick issues. The first is that surely there are some economic benefits, or there would be some disbenefits or detriments to not permitting the retirement of debt. Assuming that on retirement some people will need at least some portion of their retirement savings to retire debt, doesn’t that need to be balanced against the imperative of trying to encourage accessing income streams—which I do not think we disagree with.

Mr Covick—What you are suggesting there is a back-door means of using your superannuation entitlements as security for a debt that you voluntarily incur.

Senator WONG—But people do that.

Mr Covick—Our current arrangement is to try to stop people using their superannuation entitlements in that way.

CHAIR—In what way? During the build-up phase?

Mr Covick—Yes. So, if a person who knows they are going to retire in two or three years time runs up debts which the only way they can tolerably pay off is by using the lump sum of superannuation, then you subvert that arrangement by trying to stop people from using their superannuation as security for running up debts for any purpose they so choose.

Senator BUCKLAND—Isn't that a little difficult if the financial institutions are demanding to know what superannuation entitlements you will have? Some responsibility has to go there.

Mr Covick—If the financial institution knew that you were not allowed to access that lump sum when you retired, you would solve that problem as well.

Senator BUCKLAND—They know you cannot access, but they ask the question because they know at the end of the day they will get their money.

Mr Covick—But if you could not access it at the point you retired—if you were compelled to take it as a life annuity—that information would not be available for their use in that way to subvert the design of the current system.

Senator WONG—I have one very quick last question. Do you think it would be possible for the government to offer the purchase of age pensions to those who currently would not receive it under the means test in a way that was not only fiscally responsible but also sufficiently attractive to the retiree? I guess what I am concerned about is that we do not want a situation where the price of that was untenable, although I take your point that people's perception about the cost of that is perhaps significantly different from what the actuality is. Secondly, if for political reasons the purchase price for that were driven down, the government would then end up in debt in terms of that particular transaction towards the end of that person's life, which would then have other implications for the current revenue that would have to be put towards meeting that obligation. Could you briefly comment on how that might work?

Mr Covick—In principle there is no problem at all in the government selling an income stream with exactly the same features as the current old age pension at a price which is the actuarially fair present value.

Senator WONG—Without the added on bits that you described.

Mr Covick—Yes, without those unnecessary disadvantages. There is a catch, and the catch is that, assuming life expectancy continues to gradually increase in future in the way it has been doing for quite some time in the past, from time to time you would have to revise upwards those actuarially fair prices. If you worked out the actuarially fair prices today, legislated them into being and were happily selling them, perhaps after five or 10 years, when the life tables had gone through another couple of full revisions, you would then find that you need to alter the prices and you might then run into some community resistance about increasing them. That is what private providers of these things have to do, so there is no problem in principle of the government coming and doing that job.

CHAIR—Thank you very much. We enjoyed your presentation, and we look forward to your further submission.

Proceedings suspended from 10.25 a.m. to 10.41 a.m.

McARTHUR, Mr Ian Bruce, Secretary, Whyalla and Districts Branch, Association of Independent Retirees

SHAW, Mr Robert John Peebles, Branch President, Whyalla and Districts Branch, Association of Independent Retirees

CHAIR—Welcome. We must thank our colleague Senator Buckland for his initiative in bringing you as witnesses before our committee. We have had some interesting presentations from outside our normal range of presenters. It has brought some new dimensions and some new thinking to this very complex debate that I think is very essential. It is not a ‘one size fits all’, but we have to get something we can sell to the parliament and to the government. We have tended to encourage people to give us some anecdotal experiences and we would like to hear not only your own experiences but some of those of your members. I think it puts some flesh on the bones of some issues that are important to retirees and how we can best respond to the needs of retirees.

Mr Shaw—Our plan was to start with reading a prepared introduction, if that is okay, and then we would be more than happy to contribute personal experiences to any level that you would care to question us. We thank the committee for this opportunity to speak with you about our submission. We also thank Senator Buckland for the opportunity to bring some issues to you from a country and regional location like Whyalla, with its own unique problems. We believe that it is self-evident that Australia is facing a change in its social structure beyond any that we have experienced in our history. The change is evolving as the population cohort known as the baby boomers approach retirement. Preceding generations have embraced the notion that one worked until age 65, at which time the government provided a pension that was funded out of taxes paid over a working life, which was normally 45 to 50 years. The expectation was reasonable because we lived in an environment with an increasing population and a growing economy that ensured that those coming behind us were contributing sufficient taxation to fund our pensions.

Whilst the pension was never enough to live a life of luxury, it was usually enough to provide a reasonable living and, in general terms, the large majority of Australians have been allowed a reasonable life in retirement. Even today, despite pensions being under attack from changes in taxation, and the cost of utilities and services that escalate beyond the inflation rate, that expectation persists. The unfortunate reality is that we are rapidly approaching a crossroads beyond which our economy may not find it possible to satisfy the reasonable retirement expectations of future generations. Clearly this watershed is magnified by the baby boomer situation, but the real issue is that they represent a bubble rather than the vanguard of a sustained, increasing population growth that would continue to contribute to taxation at a rate to ensure that pensions as we know them will continue.

None of this will be new to members of the committee; however, it forms the background against which we sent you our submission on behalf of that group of Australians who have arranged their lives so that in retirement they can be fully or partially funding themselves. This group have long existed and, through their diligence and good management over the years, have saved the public purse countless millions of dollars. At the current time we believe that this group in the over-65 range totals around one million. We believe that there are another 1½ million people in the 50 to 65 range who might be carefully watching the outcomes of current deliberations to see whether they should dissipate their funds or hold them for future use. Unfortunately there is a perception that the self-funded group is one of privilege and therefore not worthy of assistance from the public purse. It is therefore somewhat ironic that this is the very group that the model of government has adopted as the way to the future.

Through the superannuation guarantee process, almost all retirees in the future will be to some degree self-funded. It is our submission that it is time to make legislative decisions that will send messages to create a new expectation for retirement. This expectation will be quite different from the old one and could include a belief in the following elements: 'I begin to prepare for later life at the beginning of my working life.' 'I receive ongoing appropriate advice that begins with a focus on financial planning and increasingly incorporates lifestyle factors as time moves on.' 'It will be possible to continue working for as long as I wish and as long as I am capable of an acceptable performance.' 'The notion of retirement will give way to a notion of a varied pattern of work more suited to an older person, and throughout my life I will have a number of jobs and careers.' 'My later work life will simply be a continuation of this pattern.' 'My income in this period of life will be self-funded from investments or a combination of investment income and earned income, and the government will recognise that I am now at a new stage of life by providing concessions and other assistance that will allow me to have a reasonable quality of life.'

It is also our submission that the time to send these messages is now. The excellent initiative of the federal government to fund concessions to self-funded retirees, providing equity with other pensioners, is the first of these messages. Unfortunately, it has been lost in the inevitable political argument with the states, with the exception of Western Australia. We believe that it is now time that governments of all persuasions and levels demonstrate their understanding of the depth of this problem and provide some leadership in the future before we are crushed by the cost of providing ongoing income to people in their post-working years. That is most of what we want to say. I would just make the comment that we have reviewed some of the submissions that we thought may have had some bearing on our submission, and we are happy to share some of that.

CHAIR—It might be useful to do that now.

Mr Shaw—In general terms, just going by the terms of reference, it was interesting to find that on the effects of ageing on productivity there was a very broad consensus that there is no automatic reduction in productivity as people get older. We said that in our submission, and it seemed to be echoed in most of the ones that we have reviewed.

CHAIR—There was an exception for heavy manual workers.

Mr Shaw—There was, and we pointed to that in our submission. The great temptation in all of this is to find a single solution that will solve all of our problems. The reality, of course, is that that is not going to happen. We chase the one rabbit of opportunity down a burrow, and we find down there another 1,000 rabbits. We have to say that if we talk in generalities and keep flexibility in the system we may have a better chance of having a reasonable outcome.

We need to work hard to dispel the myth that productivity is related entirely to age. It is our view—and this is more of an observation than what we read in the submissions—that this is a task facing the country that is equally as big as equality for women in the work force and equality of disadvantaged groups. We are really looking at a change in the way the country might look at the use of people in their later years of work. If we are going to make any inroads into that, something has to start at the very beginning, at the time when people form their opinions and attitudes. Maybe that is in the schools, in the same way these other great changes have revolutionised our country over the last few years.

With respect to the notion about the relevance of a fixed retirement age, there were some suggestions in other submissions that access to superannuation will eventually overtake the relevance of a fixed retirement age, that as people have some other access to income they will no longer say, 'I've hit that magic time and I will now go off and do something else.' We picked up out of that that there is a strong need to ensure that people understand the distinction between the age at which you might retire from the work force—and that now is very strongly influenced by legislation, so it is almost impossible to force somebody to leave the work force at age 65, which I think is a very good thing—and the notion that that is the point at which you gain access to a pension. Those two notions sometimes get confused. There may be some benefit in people understanding that, when you talk about the retirement age, you could be talking about the time you would choose to leave the work force or the time at which you would get access to a pension.

From the information we saw, there is a strong consensus that the declining numbers in the Australian work force will somewhat affect the attitudes of employers to employing older people because there simply will not be the younger people available for them to employ. If, however, that is going to be of significant benefit to the argument and the debate, there will need to be some complementary change in immigration laws that makes it a little more difficult to bring skilled people from overseas to fill the gaps that will be created in the future. It also sends strong messages about the need for the continuing training of the Australian work force—which, to some extent, has not been as well handled in the past as it might well have been.

With the issue of progressive transition from work to retirement, there was certainly a very broad consensus in the need to shift beliefs about the nature of work and working patterns. That includes part-time work and the negative attitudes that have traditionally been brought to the use of part-time employment. We note that in two submissions—both from Western Australia—there was a notion from the UK of something called a 'third age apprenticeship'. We had no detail of that, but the proposition of bringing some formalised form of training to people in their later years sounded interesting. Western Australia also brought forward the notion of a portfolio of work for later years, where your broad base of income may well come from a range of things, only one of which might be investment and pension.

There appeared to be very little support in the submissions for the accessing of superannuation funds to finance retirement. We said in our submission that that should perhaps be an option that is left available for people if they would like to do that, but I was somewhat persuaded by the other suggestions that said, 'In the current climate, why would you invest your money from your superannuation fund in training for a job that may not be there?'

CHAIR—That came through very strongly when we were questioning witnesses.

Mr Shaw—It is a very powerful argument. In terms of planning for retirement, we put some stuff in our submission and it was interesting to see that it was pretty well supported in the other submissions in that we saw that there was a lot of focus on financial planning with very little on the balanced lifestyle approach. It has been our experience as retired people that the balanced lifestyle approach is enormously important, particularly if somebody goes through their life thinking, ‘In my retirement I will become a golfer and go out and play golf every day,’ and then they suddenly find at 65 they are stricken down with some kind of arthritis and they can no longer pursue the thing that they spent the last 15 years thinking about. It is our view that people ought to have a much wider and broader idea as to what they might actually do to occupy their time in retirement, with all of the appropriate spin-offs in terms of health benefits that come from people who are usefully employed.

There was also a very strong view—which we would concur with—that there ought to be open access to people from a very early stage in their working life to have help with planning for their retirement, beginning with a strong focus on financial planning. I will share a personal view on that. I can remember at age 20, when working for BHP, having to make a choice as to whether or not I would join the superannuation fund. I had colleagues who were the same as me who said, ‘I’d rather buy car or go to the pub on a Friday night,’ and opted out of joining the superannuation fund. Thinking back, it was probably one of the most important decisions I ever made in my life when I decided to begin to contribute to a superannuation fund at age 20. If we can impart that notion to young people today at that same age we would do them an enormous service for the future.

There was a suggestion in the other submissions—and echoed in ours—that if we are going to talk about lifestyle planning for people or helping people with lifestyle planning, it is much better done by those who have had some experience in the post-retirement type lifestyle because they can share with people something that has some credibility. It would be of little benefit to bring together a group of people in their early fifties to be talked to by 25-year-olds about what they should do in retirement. That would have very little impact.

The other important aspect of planning for retirement that came through in submissions—something which we would also endorse—is that there needs to be some certainty about the milestones and the landmarks that you use for your planning. One submission said that we currently have an ad hoc approach driven by ever-changing taxation and social security agendas. We would suggest that that is not really enormously helpful for people who are trying to take definite steps to plan for the future.

With respect to the short- and long-term effects on the budget, the thrust of the submissions from groups somewhat like us in looking to self-funded people was that you should be strongly encouraging people through the equitable use of concessions—by ‘equitable’ we mean subject to whatever means test other pensioners are subjected to—by sending the message that it is appropriate to plan for your own retirement and that that will be recognised in some way by governments offering equitable concessions. Those were the things that we thought about, unless my colleague would like to add something.

CHAIR—Mr McArthur, would you like to add something?

Mr McArthur—No, thank you.

CHAIR—What about some personal experiences or experiences of those of your workmates? I must say that it has been an interesting inquiry, particularly getting people from places such as Whyalla. I must admit that I nearly worked at Whyalla—after graduating from university, I went there and stayed a few days. We are always dominated by the Sydney-centric financial big players because so many of the issues are centred around investments and returns. But this is a different sort of inquiry and it was prompted by our colleague Senator Buckland. It initially took a bit to get it up, because it was a little bit different, but it has proved intensely interesting. One of the virtues of the committee system is that it is very democratic in that we do have the capacity to get out of the big centres, particularly Canberra, and hear people from the regions. So I thank you very much for appearing before us today. We will now go to questions. Senator Buckland, you should be the first to ask a question.

Senator BUCKLAND—I want to put on the record that I appreciate the kind remarks, but I think the remarks are really for the committee because this has been a very productive committee in its current life. There are a few things which arose from your written submission that I want to ask you about. One is in relation to page 2 of your submission where you give examples of electricity costs, the effects of insurance and the GST et cetera. Is it the view of the association that people consider opting out of self-funded retirement by offloading assets and funds just so they can take advantage of the age pension and get the benefits that that attracts? Do you have any examples of that—obviously without names?

Mr McArthur—A number of the people I talk to are people who are moving towards retirement, more so than those who have retired. They look to arrange their financial affairs so that they can get the pension, because they see—either rightly or wrongly—the value that can come from getting even $1 of pension, which then opens up a whole range of concessions. I think it is less important after 65 because a lot of people get the seniors health card after 65 because of their level of income. But there is quite a substantial group in that 55 or 65 age group who do offload money in whatever way so that they can take advantage of the concessions. That is what they do.

Mr Shaw—There is some perception that all self-funded retirees have $2 million tucked away in the bank and they are living a very high lifestyle. The reality is that, within our organisation, the main income for people who are members is much closer to the pension income than to the other end of the scale. So those people are on the cusp of making that decision. People would say to us in our meetings and in our conversations: ‘I have put all this aside and I am just managing to keep in the self-funded arena and then there are increasing costs.’ We looked at some figures in South Australia and we found that, over the last three years, the increase in the cost of electricity has been enormous. So then those retirees say, ‘Maybe we could start to find some ways of having a piece of those benefits.’

Our view about that is that there ought to be ways that we can make some of that benefit available to those people who are closer to that threshold so they do not have to think about doing things like that, because in the long run it is not good for the Commonwealth budget or the public purse that it is encouraging people to come into that arena. But I will say too that, as we were preparing our submission, another side of that was raised. A very large number of people who are in this self-funded group tend not to want to do that. There is a strong feeling of independence. They think, ‘We have encouraged ourselves to do this and we are going to look after ourselves in retirement.’ There is also a degree of resentfulness in that they feel that if that were the only way they had to go to get that additional assistance, it would not be something they would really want to do.

Senator BUCKLAND—You make the point about equity of benefits. Do you think the majority of the membership of the 80 branches throughout the country would be reasonably happy if they could gain that equity?

Mr Shaw—Enormously happy. You have no idea how much the strong message of support—and that is what it is—that would be sent to those people by even that simple suggestion would mean to them. We said in our submission that, if the states cannot find their way to assist with that particular powerful message, maybe it is time for the federal government to have a look at sending the whole message. At the end of the day, it is the federal government's budgets that are affected by whether or not self-funded people want to have a little more of the public purse.

Mr McArthur—I think that is particularly noticeable in the group that I mentioned—that 55 to 65 age group. I will speak from my personal experience, because that is where I am. I have been fortunate enough to have been able to arrange my affairs so that I do not have to call on the public purse. Aside from a state government thing of $100 for my council rates and a reduction in my emergency services levy—and we are the only state that pays that; no other state has that levy—I do not get any other concessions at this stage.

When I get to 65, I believe that my wife's and my combined income will allow me to get the seniors health card. But there is that period when you virtually get nothing and you continue to pay taxes. I do not think a lot of people realise that. They think that when you retire that is the end of paying taxes. Even if you arrange your financial affairs in such a way, you still pay taxes. So you are still contributing to those people who, for whatever reason, have decided not to self-fund fully or at least partly.

Senator BUCKLAND—I like the term 'fitness for purpose' which you use in your submission; it is a very nice term. Do you think over the past decade or decade and a half there has been a view among some within industry—perhaps it was more pronounced in regional areas; and I think it is on the record that we both come from a regional area—that having the older work force take advantage of separation packages was partly driven by a responsibility they falsely held that they were helping the community in providing work for young people?

Mr McArthur—In our submission we make mention of the physical work, but I will again just speak from my own experience. I was a school principal and I felt more the mental and emotional pressure about that and I was happy to get out when the government said, 'Okay, you can go.' There was also substantial pressure because behind you you had this group of people who were fighting to get promoted and who saw these old people as blocking their way to promotion. They were saying. 'Out you go so that we can get a chance to get in and get those positions.' So there were those pressures.

Mr Shaw—I would think that there are some elements of that, but there are also financial pressures that cause people to make those decisions. The thing is that the young people are not coming behind us to fill those jobs. We need to be looking to a much better way of blending the existing older workers and the young workers, and I do not think we do that very well.

Senator BUCKLAND—Hence the Senate having an inquiry into skills shortages. They took evidence recently in Port Augusta for that purpose.

Mr Shaw—That was something that in my professional life previously I had some experience with. I think that is still an area that would benefit enormously from a lot of attention. We do not handle well the way that we treat our young people for the future.

Senator BUCKLAND—On the effects of ageing on productivity, on page 3 you mention three groups of people. One group was those who retire because of employer policies. The evidence is that, quite often, they are people who have been in management positions. Another group was those who had been involved in heavy physical work. We have heard quite a bit about the ability to continue in that type of work for long periods of time. There is another group, but do you have a view on the differences in mental attitude of those two groups? How do you see that?

Mr Shaw—How they view their retirement?

Senator BUCKLAND—About having to retire.

Mr Shaw—I think the view on how you see approaching retirement is as varied as individual people. Let me give you the facts of one of those suggestions, which might help. I am sure our colleague will not mind mentioning that, although it is a privileged area. The man who said that he could have actually continued working was a tug skipper. What he is really saying is that, because of the way that tugs are used in our regional location, it is not a part-time thing but a feast or famine approach to the way the work is available. He felt that there was no real reason at all why he could not move from a full-time to a part-time arrangement, sharing that with other skippers, and that would have helped him and his organisation.

A range of things stop that from happening, as you and I would be aware from past experience; but, if that had been made available, that would have meant access to an experienced person who could pass his knowledge on to others coming behind who still continue to learn. I think someone who has had that sort of approach really approaches retirement with a great deal of fear and trepidation because it is likened to mourning. You are actually about to go from an area where you are leaving behind friends of a lifetime or of a very long time and you may never often see those people again. It is almost like dying in some ways and people approach that very differently.

On the other hand, somebody who has worked a very hard physical life may welcome the idea of approaching retirement to release them from the physical labour, but I think we often forget in those cases that there is an emotional overlay too that needs to be addressed. Often it is hidden but it is equally as strong in those people who have done a lifetime of labour. They do not come out and say, ‘I really hate to leave work,’ because that is not the thing you say, but that does not stop them feeling the emotional impact of not being prepared for it.

Senator BUCKLAND—Thank you for that. Can I turn to the third group that you mentioned—that is, those who in many cases, because of change, find that the mental demands now placed on them are too great. You also talk about looking for other career options. From the evidence that you have been able to gain, do you find that these people are more likely to leave a community and take their skills elsewhere in search of those alternative opportunities?

Mr McArthur—I will just use my own life again. Like I said, I was a school principal and I found that, probably for a number of reasons, the stresses just build up on you and your health starts to suffer. I really felt that I got to a stage where I was a less effective principal than I could have been and I wanted to get out of that. But if I had taken another job in the education department at a lower level, there probably would have been some sort of whispering campaign, 'What's wrong with this bloke?' By the time you get to the retirement age, you quite often have reached the top of your profession or your work, and then people cannot accept gracefully that you can step down and still be effective. I think that is a strong factor in people just leaving, particularly in a regional area. If you have gone out of a position under a cloud, then you may choose to leave because you do not want people to think, 'There goes that bloke who did this or that.' If you are in the city, you can be a little more anonymous. I think people do leave for that reason.

CHAIR—Building on your own personal experiences, if you had lifted your qualifications during your employment—and I am not sure what qualifications you have—for example, from a bachelor's degree to a master's degree, do you think that would have enabled you to stay on in the work force a little longer?

Mr McArthur—No, I do not think so.

CHAIR—If you had maybe taken on management type qualifications?

Mr McArthur—No, I do not think so. In my own case, again being a school principal, you are trying to satisfy the needs of the children, you are trying to satisfy the needs of the parents and you are trying to satisfy the needs of staff and, quite often, those things are in conflict so you try to solve that. I think I could have carried on in the work force if I could have gone into some kind of back office job, if you like, with the education department where I was less in the public eye. As a school principal, you cannot get out of the public eye, particularly in a regional area where you walk down the street and you run into people and they question you and talk to you about what is happening in your job, so you cannot escape it. But perhaps you could move to a back office job where your experience can be of some value.

CHAIR—What I was suggesting was: can people part way through life almost self-insure through education by lifting their qualifications to broaden their range of experiences? For example, instead of being a school principal, you may have been a school inspector, a regional manager or something like that by taking on managerial qualifications. Should we be encouraging people to widen their qualifications through their working life to improve their chance of staying longer in the work force?

Mr Shaw—I have a view about that. I had two careers, I guess, which might be interesting to understand. I started life as an electrician. I became an electrical engineer and I worked in shipbuilding in Whyalla for a number of years as an engineer. As most of us know, shipbuilding in Whyalla ceased to exist and, at that stage, I was in my early 30s with two kids and a mortgage, so the future was pretty important. I actually managed to move to the steel works, where I made a career change into human resources.

CHAIR—Rather than in engineering.

Mr Shaw—Yes, because there were all sorts of lifestyle decisions that said that the better path for me was to do that. I then studied further and got some qualifications in the human resource area and started a whole new career. It was probably a happy circumstance. So I think there is always the benefit in doing that and taking opportunities to vary the basis of skills that you operate from.

From my experience in human resources—where I ended up as a general manager in BHP Steel looking after the organisation development and development of individuals, and that is where I had a lot of dealings with my friend Senator Buckland—I was able to say, 'Qualifications themselves will not save you at that particular time when you are looking to do something else. It is a part of the mix, but the bigger part of the mix is your personal qualities that you bring to a position.' The barrier to that is the attitude that lies in most organisations now that suggests that, beyond a certain age, those qualities are no longer of importance to the organisation.

I am lucky enough now to do a little bit of consulting work still on a part-time basis. I am doing some consulting with an organisation—and I am not yet 60—where I am the oldest person in that organisation of some 280-odd employees, notwithstanding some people in the parks and gardens areas that are still doing some work. I actually find that I spend a lot of time in a pseudo mentoring role—people will just come in, sit down and have a chat about something which they cannot find they can get from other people with lesser life experience. I think that is the huge disappointment and sadness about the way the work force is actually going—that there are not those people continuing in the work force with a broad range of life experience, and my colleague is another excellent example of that. We move out of the work force arena and we are not available to those people just to come and sit and have a talk about how they feel about the future. I have seen that happen within BHP and I have seen it happen in other organisations that I have done some consulting with. If we could take some steps towards making it easier for those people to continue to make their experience in life available to people, then we would have made an enormous contribution.

Senator WONG—Mr Shaw, you describe one pattern of employment and transition to retirement or semiretirement or part-time work that you are engaging in now. Whilst I think in some ways I would agree with the chair's comments about the importance of enabling people to expand their educational qualifications in order to be able to move somewhere else, what Mr McArthur describes is probably the other way around. I could be putting words into your mouth, but I understood what you were saying was that you did not want to move up, you wanted to move back.

Mr McArthur—Yes, that is right.

Senator WONG—I do not mean backwards but taking a step back in terms of your career, which is quite legitimate. I am not that old, but that makes sense to me intuitively—that you might be in a position where you are approaching the thought of full-time retirement but you are not ready to do that, so you want some sort of transition, which is scaling down. To my way of thinking, your comment is more that, for various social and attitudinal reasons, you chose not to do that—and it may well not have been available in any event because of the way the employer might have viewed it. It seems to me we cannot just say, ‘We should encourage people to enhance their skills.’ I think there are pretty good personal and public policy reasons for people to do that if they wish to, but we also need to deal with some of the attitudes which prevent people from having a more gradual transition to retirement. Would you agree with that?

Mr McArthur—Yes. If I can just pick up the point about the extra qualifications. If you take people who, say, have risen to the rank of school principal, many of them would have done study outside of just pure education; they would have administration and managerial qualifications. If those people feel like being a school principal, there are avenues open for those people within the education department itself, but I also know of a case—because this is a Whyalla case—where a school principal left the education department and bought the franchise for the Hungry Jack’s store. Another one I know got out of education and bought a wine shop. Another one I know went farming. So the managerial stuff they have done building up to being a school principal has been of use in those jobs, but they have probably already got that, because you need that these days to get the position of school principal in the first place. I guess there are other professions where that is the case as well.

Mr Shaw—Just building on that too: members would absolutely agree with the concept that there ought to be opportunities for people to take a step backwards in organisations and that that should not be seen as a bad thing. I think that should happen. Unfortunately, it rarely happens.

Senator BUCKLAND—I have one more line of questioning, to change it a bit and get on to a subject that interests me. I know Mr Shaw was here this morning when I asked this question of our first witness, but I am not sure about Mr McArthur. Are you able to tell us the views your membership has of financial planners?

Mr Shaw—Yes. I did hear the testimony of the earlier witness, and I agreed with all of the things that that witness said. It seems to be the only profession that people can follow and continue to be rewarded for not making the gains that they have promised, and our members would say that. A planner can say to me, ‘I’m sorry but your fund has actually decreased in value by 10 per cent in the last 12 months but, thank you very much, I’ll still have my commission.’ That must be the only profession left where it is still possible for that to happen. I think our people do view that.

On a more balanced view, I think there are people who do work hard on behalf of their investors and who do their very best and they are somewhat frustrated by what is happening in the world markets at the moment. But there is not a strong feeling of support or trust in financial planners, for whatever reason, amongst the people we represent and even the people we talk to but do not necessarily represent.

Senator BUCKLAND—I think you are right: the anecdotal evidence from these witnesses is so important. How do you view the advertising of financial planners? Do you think it is misleading, or do you think it is offering something positive about what they can do? How do you view the advertising—or how do your members view it, because you are reflecting the views of others?

Mr McArthur—I think the general thought can be, ‘Okay, the industry as a whole is bad, but I’ve got myself a good financial planner.’ If they are happy with their financial planner, I do not think they take much notice of the advertising. If you are looking for one, then certainly the people we mix with would probably do it by word of mouth. Somebody would say, ‘I’m getting a good run out of this financial planner or that financial planner,’ and that is probably the best way they do it. But I do not think our people take much notice of it.

Mr Shaw—Reinforcing what Ian has said, it is very strongly the case in regional situations. I think also it is important for the people investing to have a realistic expectation of the advisers. At the end of the day, they are not magicians who have a magic pot; they can just work within the available markets. What they tend to feel—and I think I am right in reflecting this—is that maybe those advisers do not work hard enough on their behalf. Even in a changing market, you can still do better, and I think the feeling is that that is not happening. Whether you can solve that, in direct response to your question about advertising, I am not sure, but there is certainly a strong feeling that they do not work hard enough in the difficult market. It is easier just to say, ‘I’m sorry. It’s been a bad two years but we’re doing our best.’ But people are not convinced that that is in fact happening.

Senator BUCKLAND—Do you think there is enough understanding in the community about the way fees, charges and commissions are paid to planners?

Mr Shaw—No, I do not think there is. I think that is a deep, dark, mysterious hole that people do not understand at all. I think some benefit could be had from understanding how that works.

Mr McArthur—The issue—and I think we have mentioned this in our submission—is the education of people, and we are saying that it should start at an early age. If you go along to a financial planner, the financial planner will say, ‘Okay, we can do this or this or this. This is your money. What do you want us to do with it?’ My view is that, if you get to that stage where the financial planner is saying, ‘You can do this and this with your money,’ if you have enough information, you do not need to pay a financial planner to tell you what to do with it—it is the people who feel unsure and uncertain who depend on financial planning, because they do not want to take a lot of interest in their own money and how it is managed.

Mr Shaw—I think a worrying outcome from that too is that a number of people might be encouraged to manage their own through self-managed super funds. They do not want to pay the fees to a managing fund and they run a huge risk of actually running their investment down the drain because they often do not have the financial ability to go with the desire to save the fees. At the end of the day, if someone is going to help you manage their funds, it is not unreasonable that they should get a fee for it. The questions are: where does the fee come from, how well is it applied and should it be outcome based? Should there be some element in there that says, ‘If you do all right for me, you’ll get a fee. If you don’t, then maybe you’ve got to share the pain’?

CHAIR—Health issues and health costs were not a pre-eminent part of your submission. I was just wondering whether you would like to comment from the perspective of older people, because health costs in the last three years of your life are quite disproportionate to what you experience throughout the preceding period. Have you got some messages in relation to health care costs and health issues that might help the committee?

Mr McArthur—I have a couple of years to go yet, and I can only say that I am looking forward to getting the senior’s health concession card. I think I will be much better off then and I expect I will get it, because the level of income at which you can still get the health concession card is about $80,000, which is quite generous. When you first retire, you are probably in reasonable health. It is only a problem when you get older, and I think the senior’s health concession card would probably cover a lot of the problems they have.

CHAIR—The government tell us that the costs of pharmaceutical prescriptions is getting out of hand. How do we contain that and yet provide the benefits? How do you ration it out? What is the fairest method?

Mr Shaw—It has to be a needs based situation. I guess, like all people approaching this age, I hit the safety net pretty quickly. My personal health situation is that I have had two bypass operations in my life and, therefore, I am left with some ongoing medical costs and some considerations for the future. So that has been of considerable interest to me. The challenge is: how do you find the right mix? I am not sure anyone knows how you get it. But there has to be a needs based approach to the provision of pharmaceuticals in particular and to access to health. I share the view of the current trend that is starting to suggest that, through the Medicare levy, perhaps those better off are contributing to the assistance of the less well off, and I do not think that is such a bad thing. As Ian has indicated, most of us still pay some degree of taxation in this semiretirement age that we are in, and I for one have no concern about some of my money going towards the Medicare levy.

If you listen to the debate at the moment there is the sense that the Medicare levy is meant to provide totally free health to everybody—and I do not think it is. I think it is a way of getting some sort of proportional access to health care for those people who have a greater need. The reality is that, if you have contributed to a health fund of some kind all your life and have been a light user of that fund, then you have a reasonable expectation that, in your later life, you will reap back some of that benefit. I am not a good example because I took the benefit of it in the middle, as it were. I continue to contribute to private funds because I think as long as you can afford to do that—and I do recognise that not everybody can—it is still in your own best interests to do that. Maybe having some level of support in allowing that to happen is important.

CHAIR—Thank you for drawing our attention to the practical problems associated with the 10 hours per week rule. I think we can get around that. Are there too many hangers on in terms of retirement income and superannuation, each clawing part of people’s potential benefit back? Do you think we have too many—we have consultants, advisers and all those sorts of people that are associated with superannuation?

Mr Shaw—That is an interesting question in a free market. My personal view of that would be that if you had a narrower field you might have a better level of advice. It comes back to it being that that is where a lot of the income disappears by way of fees to the broad range of these people. Because I was in earlier, I did hear the suggestions about allowing some opportunities to purchase into a government annuity of some kind, which is not something that we had previously thought of in our considerations.

CHAIR—That is to remove the investment risk.

Mr Shaw—Yes, that is very interesting.

CHAIR—We perceive there will be a reluctance by companies to provide these products because of the difficulty of getting stable underlying investments, particularly with the withdrawal of Commonwealth securities.

Mr Shaw—I think if there were some way of also assisting with the fear of fraud that is the ever present fear of somebody who is in retirement—

CHAIR—We have done that. We have been quite instrumental as a committee in getting moneys back to members, where there has been fraud. In fact, I think the figure is $26 million-plus at the moment.

Mr Shaw—That is a high degree of comfort to people in our position.

CHAIR—The arrangement then is that all funds paid proportionately into that are to reimburse the government. But we cannot have people losing life savings at critical times—

Mr Shaw—As we said in our submission, once it is gone it has gone. You do not have any opportunity to replace that lost fund. So something like a government supported process that you could buy into—and on a quick reaction we have not thought about it—sounds like an attractive idea.

CHAIR—Do you think it should be universal or just focus on the lower income earners up to $40,000 or thereabouts of potential income?

Mr Shaw—My quick reaction would be that it should be reasonably accessible across the spectrum. I also believe that these things are fairly self-limiting too. I think that there is a fear that, if you lay on something, everyone will have their snout in the trough, as it were. I am not sure entirely that reality sustains that over time. If you are at a very high level of income in retirement, which a lot of people are, I guess—they have huge resources—you are probably not going to be swayed by those sorts of opportunities. In fact it will be available and attractive to people for whom it is a real and honest opportunity. I think sometimes we worry too much about putting barriers in the way.

CHAIR—I have been advised that the time is up, so thank you very much for that.

Mr Shaw—Thank you for the opportunity.

[11.37 a.m.]

LAWTON, Mr Colin Robert, Deputy President, University of the Third Age—Adelaide Inc.

CHAIR—Welcome, Mr Lawton. Thank you very much for appearing before the committee today.

Mr Lawton—I submitted to the secretary some time ago a rather brief paragraph about the University of the Third Age and the committee has asked for more information. This is a learning exchange for retired people in which people who had experience in education in their lives as schoolteachers or teachers in universities and also as professionals in various areas are willing to teach courses for those who are members of a University of the Third Age campus in any particular place. These people pay a membership fee to the University of the Third Age in the place where they are living. In our case it is $60 a year, and that is all that people pay. It is $60 because the accommodation we have in Pulteney Street in Adelaide is very expensive—$34,000 a year. Whereas, our smaller groups, say, in Noarlunga or Port Adelaide can have the use of a meeting room in a library or in some local government building and pay only a reasonable rent each time the room is used. That is the reason our fee of $60 a year for those who joined—and we have 1,000 members in the Adelaide group—is high compared with, say, $20, which might be paid by members in other parts of the state. Around Australia there would be 160 University of the Third Age campuses and a membership of about 51,000 people.

The organisation originated in France in 1972 in Toulouse. In France it was the wish of the government at that time that universities—that is formal degree granting universities—should provide courses for retired people which were non-credit courses but which would be offered at lower fees than would apply to those in degree courses. That spread through France mainly by government action and then the idea spread through other European countries.

In Britain, the idea was introduced in 1981, in which the provision for older people was made, but the distinction was made that those who were doing teaching would not be paid as they were in France and there would not be fees for every course that was offered; there would just be an annual membership fee. The idea would be to have a committee of people who would be—and this would be a condition of the whole thing working well—good at networking and would know their community and would have some idea of people who had retired and who would have knowledge to provide courses. Therefore the decision was made that there would a small annual membership fee up to about £10 sterling, a little bit more in some places, and there would be no further fee.

It is an entirely voluntary organisation run by a central committee, with a program organiser and a program committee. This program committee is concerned with the quality of the courses offered and the qualifications of those who are doing the teaching. At the moment we are offering about 150 courses a year in the daytime, that being a more convenient time for most older people.

There are no entry qualifications to the system and there are no awards given. The courses may range from three or four meetings, sometimes single talks, but mostly courses of a certain length—three or four meetings or up to say 40 meetings in the case of foreign languages of which there are quite a few in our case. The whole thing you will see depends on the availability of people in the community to do this work voluntarily. As you have just been talking to someone from Whyalla, in that community we perceived that there were a number of people over the years who were interested and had heard about this organisation but really did not have any idea of who could do the teaching. You cannot start the organisation until you can at least offer a few courses.

We were very lucky that the dean of the campus at the University of South Australia in Whyalla, took the step about three or four years ago of saying to this group, ‘You can use some rooms on the university campus to do some teaching and, moreover, I will get in touch with retired members of the university staff who may be still here in Whyalla’—and there were some—‘and to see if they would offer courses,’ which they did. That is a smallish group of about 50 people, but it has been going for some years and it may be of interest to you. But bearing in mind what has been said by the last witness, it was achieved in this case through the action of a university staff member up there. In another case, the Chancellor of Flinders University—after the Adelaide group which started in 1986 had been going for a few years— instigated a branch of the University of the Third Age there using some space on the campus for organisational purposes, with telephone and secretarial facilities, but the actual teaching had to be done in suburbs around the campus. Once more, the fact that the university was teaching and using lots of rooms during the day and there was a considerable problem with parking meant that it was better if the courses were done in that area. That was interesting that universities in some cases have taken quite a deal of interest.

I was formerly working in the University of Adelaide in the area of continuing education and, in helping to start this organisation here, I had the advantage of knowing a number of people whom I employed part time to provide evening courses in languages and the humanities generally. And I was able to approach those people and see if they would help us when we started in 1986. At that time we were able to get organising facilities at the Council on the Ageing which is in Coglin Street so we could do our organising from there. I was also able at that stage to get the use of one or two rooms at the university and the state library, and the Unley City Council were most helpful in providing room in one of their community centres for some of our courses.

The whole program grew over the years to its present extent, and we had to leave the Council on the Ageing and move to a building in Franklin Street, which was quite old and not too expensive for us, and we hired a number of rooms there. Subsequently, we also leased some space in Currie Street. The space was in an office building and was not exactly suitable for the teaching that we were providing. In the last two or three years we have moved to 186 Pulteney Street where, as I have told you, there is a large expense in teaching; hence, the increased cost for those who are members.

The idea of the title comes from the medieval idea of a university at which scholars shared their knowledge, and ‘the third age’ was a French term for retirement—hence, the University of the Third Age. We have found that those who are doing the teaching are only too glad to be teaching because they do not want, at age 65 or whatever it might be, to stop teaching in a university or in schools and other places. Some people do have the advantage, in a university context, of being visiting research fellows, but that is not always the case. In the case of my stepfather, for instance, he was an architect and he kept on working until he was in his late 70s, and he had a stroke on the day he retired. In view of what you have just been hearing, he was not happy about retiring at all. He lived on for another 10 years, but he was physically handicapped to some extent.

There is another architect who was on the staff of the University of Adelaide who started running walking tours for us along North Terrace and around Adelaide talking about the style and history of the buildings. That man was also a motor car enthusiast and ran a short course for us on the history of the motor car. So you have a lot of different topics. In Adelaide we have concentrated on the humanities, but we also do some physical things like Tai Chi and yoga, and they are done at the Fullarton Park Community Centre, where there is more suitable accommodation or in the open air where these things can be done.

As far as the students are concerned, people have said to me that it has changed their lives, and sometimes they have said, ‘It has saved my life.’ For example, a social worker from the southern district hospital at Victor Harbor on the south coast got in touch with me a year or two after we started and asked, ‘Could you come down and talk to a meeting here about starting a University of the Third Age?’ She said many people had moved down from the Adelaide area and had, by moving down there, somewhat broken the immediate friendships that they had or the ease of seeing people. She said, ‘I think that this would be a way in which people could share a common interest and make friendships.’ People have repeated that comment to me too. People’s use of the organisation has been a great help to them in also broadening their basic education. Many of them have experienced wartime Britain, where their education was not completed, for obvious reasons, in the Second World War, and they have been able to supplement it through the things we have offered that they have chosen to do. So there are all those kinds of advantages.

The movement has also moved to Europe, as I said earlier, but it is still on the basis of people paying for each course that they do. The idea of the British people who proposed this idea of voluntary work was that in Britain, through the Workers Educational Association and university extramural departments, there already existed non-credit courses, which were subsidised by the government, and this may not have been the case in France. That brought in this idea of voluntary teaching, this being a real pleasure for those who are willing to help us. We have a number of people who have been teaching for us for about 15 or 16 years, and we have given them life membership and awards of appreciation—that is the only real kind of recognition they get, apart from the enjoyment they get in running courses. That is a summary of what we do. Do you have any questions?

CHAIR—Would you mind sharing with our committee your thoughts on the relationship between intellectual activity and good health?

Mr Lawton—Some studies have been done overseas in which it has been shown that there has been improved health for people who have continued study in various ways in later years. The extracts that I have given you from a Senate committee inquiry in 1997, chaired by Senator Crowley, made the recommendation that there ought to be a research program on the relationship between intellectual activity and good health. I am not sure what the government’s response to that, or to any of those recommendations, was at the time, but I am not aware that that has been done. I would only emphasise that it would be very worth while. There are many people who, anecdotally, would agree with that. We have certainly observed that people enjoy the time they spend as a member—as a teacher or a student or in the important work of administering the organisation. When you get to the size that we have, there are many administrative things that need to be dealt with.

CHAIR—Can you give us some references to that suggestion?

Mr Lawton—Yes, I can let you have them.

CHAIR—That would be helpful.

Mr Lawton—There was a report written by Dr Richard Swindell of Griffith University two or three years ago in which he calculated the benefit to the community from the existence of the organisation. He makes a number of references in that to overseas studies into this.

CHAIR—That would be helpful to the committee, because it is an interesting concept. Does the University of the Third Age receive government funding? If so, what form does that support take?

Mr Lawton—The only support that we have had has been occasional grants of around $500 or $1,000 for particular items of equipment, such as overhead projectors, slide projectors and video equipment.

CHAIR—Is that from the Commonwealth government or just from the state government?

Mr Lawton—That was from the Office for the Ageing, which is state government. There have been some grants from the Adult and Community Education program of the state education department which have paid for rent and things like that for smaller groups of the University of the Third Age, but we have not had any help of that kind. You can see that we really need help as far as accommodation goes. We have had, I would think, over the years $7,000 or $8,000 but in units of $500 or $1,000 for particular items, such as photocopiers. The teaching of a course is done freely and very often whatever state government grants are available are largely based on costs like rent, for instance, but also on teaching costs. In our case, there are no teaching costs.

Senator BUCKLAND—Can you give the committee some idea of the backgrounds of members or students involved in your branch of U3A?

Mr Lawton—Our president at the moment is Jack Cross, who is an adjunct professor of education at the University of South Australia. On our committee, for instance, there is a former Master of the Supreme Court and also several teachers. Amongst our members—of course, I have not looked at all the membership details—there are quite a few professional people from various areas, such as medicine, engineering and accountancy. Our treasurer is an accountant, and the size of the accounts these days makes it much more important to have somebody who is happy with handling large amounts and can do so satisfactorily.

I made a reference to people who had come from Britain and did not complete their secondary education. We have found that there are large numbers—maybe about a third—of our members whose education stopped at secondary and perhaps even that was not completed.

Senator BUCKLAND—So would I be right to assume that the bulk of those member students would be from academia?

Mr Lawton—No, I do not think so. Quite a lot of those teaching would be from academia. For student members I would make a distinction between schools and universities. In terms of proportions, out of five there might be three from schools and two from universities, for instance. The large body of students—I think about a third of them—have university qualifications. The others have had secondary education.

Senator BUCKLAND—Do you get an opportunity at meetings or in discussion with the people involved to get an understanding of the difficulties they experience as retirees?

Mr Lawton—Not a great deal, really. On the question that you have just been talking about, a sharebroker who advises me offered his services to us to talk on the principles of investment over a number of years. He is not doing it at the moment—somebody else is doing that. But one does not really get much into the area of people’s personal circumstances. There have been one or two complaints about the increases in the membership fee, but I think I have explained that.

Senator BUCKLAND—Yes. Just turning to the references to *Beyond Cinderella* that you provided us with—and I thank you for that—and looking at recommendation 12, they are asking for a report to be commissioned on best practice in pre-retirement education. Do you have any idea of what the thinking was in terms of the scope or the makeup of that commission to develop a report?

Mr Lawton—I had the experience myself, when I was still working at the University of Adelaide in the 1970s, of organising a series of courses on planning for retirement with the help of a social worker within the Red Cross Society. This man had contact with the Philips organisation, which is, of course, based in Holland. Apparently they had started a scheme of planning for retirement some years before that. This man then gave a paper to the South Australian Council of Social Service, outlining what he thought was a good pattern for retirement planning. He was actually leading by bringing in lawyers or people in executor and trustee organisations to speak at a series of meetings for employees who were approaching retirement—people, say, in their late 50s or early 60s. Organisations like ICI, the Shell company, the South Australian Gas Company—that has now changed its name—Myer and David Jones took part in those. He used to provide, in a course of about 15 or so hours either spread over a weekend or once a week for several weeks, lectures and discussions on matters such as financial considerations, legal matters, interests in retirement—tackling the whole question of whether people had many social interests, for instance—places of living and matters like that, and bringing in the kinds of things we are talking about here. U3A was not established then, but other things were available, like technical and further education and other adult education provision. It worked very well.

This person, Geoff Hunter, made himself available to people for a short period after the course to see how things were working for them and if they had matters they wanted to further explore with him. These courses went on at various times during the year, with various companies over a couple of years, but then various financial institutions—financial planners, banks and sharebrokers—started offering free courses. The courses I was talking about earlier involved a fee of about $15 for each course, and that was paid sometimes by the employer but there might have been a half and half sharing of the cost. The fees seem small compared with what they would be these days. The courses that the financial planners, banks and sharebrokers offered were only of about three hours duration and they talked just about financial matters, and that was that. Our impression was very much that it was only a part of the show and that many people had not thought, for instance, about the house where they were living. Would it be suitable for them as they got older? Were there many stairs? Was it too big? All these kinds of things are becoming very obvious to us now with the growth of retirement villages and so on.

Senator BUCKLAND—What do you see, from your experience, as the principal deficiency in the system that is now in place—and I guess that varies—for those who are confronted with retirement in the foreseeable future?

Mr Lawton—It is the whole thing about participating in community life and seeing that retirement can be a very encouraging time for people. There are lots of opportunities for volunteerism. The state government is becoming very aware of the large number of volunteers who work in so many places, helping local government and many other authorities, such as in hospitals and things like the phone service that deals with people who have crises in their lives. If people are made more aware of those opportunities, quite apart from people who may wish to use our services, there would not be so much of the crisis that a former witness talked about—that is, retirement being a problem time. We should be aware of the many ways in which life can be rewarding and not forget that there are many people who do not have the financial means to take advantage of the things they might like to do. Nevertheless, working for the benefit of others in the community can be a great help to them.

CHAIR—Thank you, Mr Lawton, for sharing your experiences from the University of the Third Age.

[12.09 p.m.]

KEMP, Mr Leslie Curry (Private capacity)

CHAIR—Thank you for your submission, for agreeing to appear before the committee today and for sharing with us some of your life experiences. It is important that we come to decentralised areas and hear of people’s issues and how they can help us. If you do not mind, after you have spoken to your submission we will ask you a number of questions.

Mr Kemp—I am appearing here in a private capacity but I received your letter as chairman of the Gawler branch of the University of the Third Age. That is how I know Colin Lawton. Colin and I have known each other since 1988, when we opened the Gawler branch of the University of the Third Age. The Gawler branch is very different from the Adelaide branch. I did not come to talk about the University of the Third Age but, if I may, I will add a few things about it because the experience in the metropolitan area is quite different from the experience in the sticks.

Here in Adelaide and in places like Victor Harbor there are academics galore to assist the University of the Third Age, but in a country town that is not the case. For example, in Whyalla, which Colin mentioned, they have a University of South Australia. We have the university of hard knocks in Gawler. Our committee, which runs the University of the Third Age branch there, has an ex high school principal, ex-housewife, ex-nurse, ex-electrician and ex furniture restorer. The only ones who could probably claim to be academics are the ex-teacher or ex-nurses—we have two ex-nurses.

So the committee is quite different. Our courses are not run by academics. The Tai Chi course is run by the ex-principal, as is the history course. We have a German course. But the art, drawing, discussion and literature groups are run by non-academics—people who do not have academic qualifications at all. So you will get an entirely different picture of the University of the Third Age in Gawler from the one that Colin has just given you. For example, every university professor there has ever been has retired to Victor Harbor—as Senator Buckland will know—so you fall over ex-professors there. The University of the Third Age can thrive there. But in Gawler we have real trouble finding anybody who will lead a group. So the courses we provide are limited by the people we can find who are willing to stand in front of a group of their peers.

Many people are afraid to do that, particularly when they are at retirement age. They have never had any experience of doing that before so they come to their sixties or seventies and they say, ‘I couldn’t possibly stand in front of a group and talk about my life experiences or anything like that.’ So we have a very limited number of courses. Writing your own life story and creative writing are both run by people who are not academics. There is also history, geography, weather, literature, embroidery, painting and drawing. There is a rambling group. You will find, if you look at the courses in Adelaide, that they are not like that; they are quite different. That is the University of the Third Age stuff.

What I would like to do is apologise for the thing I sent to you. I wrote it to practise my emails. I had never used my email before so I thought I might as well put something on it to see if I could do it. My wife usually edits my stuff before I write anything and she failed to do it this time because I did not show it to her—except in my scribble. So it has seven or eight printing errors. We will call them printing errors. I am sorry about that.

Senator WONG—We can ignore them, Mr Kemp.

Mr Kemp—You found them all, did you?

Senator WONG—No, we can ignore them.

Senator BUCKLAND—I would never find them.

Mr Kemp—I spelt 'generalisation' wrongly and missed out an 'e' from 'where' and so on, so I was not happy about it. I just took your terms of reference and made a comment on each one. They just came off the top of the head and I was absolutely staggered when somebody thought they were worth while looking at again. I do not think I can add very much unless you want me to dot the i's and cross the t's.

CHAIR—So that we can understand what you have said a little bit more clearly—

Mr Kemp—I thought that it was written in English; did you have a problem with that?

CHAIR—What motivated you to say the sorts of things you have said? What is your background that brought these thoughts to pre-eminence?

Mr Kemp—I was a teacher. I ended my career here in South Australia as a high school principal. As a young man I was in the services of course because, as you can tell by the age, I was old enough. I taught in England for 10 years—I was a head of the maths department there. I migrated in 1959, so I have been an Aussie from way back. Naturally I have been naturalised and I swapped to Aussie cricket—that is important—not the Poms.

My accent comes from the place where they built the Sydney Harbour Bridge, so you all know where that is. Also, Captain Cook would have spoken like I do because he came from two miles down the road. So you know where I come from. Isn't it funny that nobody knows where the Sydney Harbour Bridge was built? All right, you are all here, so tell me: where was the Sydney Harbour Bridge built? It was built in my home town—every bolt, every girder—when I was a lad.

CHAIR—And it was shipped to Australia?

Mr Kemp—Yes, and it was shipped out. They made a gross error. They said that it would be paid for in pounds but they did not state English pounds. So the Australians paid for it in Aussie pounds and the company that built it lost money. It was built in Middlesbrough in the north-east of England. That is where Captain Cook was born, just two miles outside the town.

Senator BUCKLAND—Mr Kemp, we can say to you that we all knew that but we ask the questions here.

Mr Kemp—Anyway, I came here. I taught in two or three Adelaide schools and in Whyalla. Then I became a principal at Smithfield, which is north of Adelaide, and then principal at Banksia Park High School. I retired from there when I was about 59. Geoff Parkinson, whom I notice here, was in the education department. I knew him, and I know Colin Lawton, of course, as well.

I joined the University of the Third Age soon after I retired in 1988. My wife had been to the Adelaide University of the Third Age before that. I became the first chairman at Gawler and I have been chairman off and on ever since. I teach German, history and Tai Chi. They are some of the things I do in my old age.

I am also honorary secretary of a water company. We do not have any water supply where we live and we have had to provide it ourselves by using bores. It is a reticulated system and we have got 70, 10-acre blocks on that. I do all the correspondence and the telephone calling—

CHAIR—You sell the water to the public, do you?

Mr Kemp—No, only to our group. It is a group of 10-acre blocks that were subdivided in the 1970s. They put in a reticulation system running from two bores. There was only one bore when we started. We supply metered water to 70 10-acre blocks. Every now and again we get no water at all because the pumps break down, or something of that kind happens, so we have to have rainwater supplies as well.

Senator BUCKLAND—I would like to ask a couple of questions of Mr Kemp. I guess Senator Wong and I have the advantage of being South Australian and knowing where Gawler is and where the bridge was built. You heard the questions we put to the previous witness, and your explanation of the U3A at Gawler shows that there are some stark contrasts. In your opening remarks you mentioned that you have discussion groups to get people together. Is planning for retirement or are the effects of retirement on their lives ever discussed?

Mr Kemp—Yes, all the time. It is more of a social group than an educational group, really. A lot of the people come to our courses just because they want to be with somebody else, and they nearly always begin with chats about health and what they are going to do when they have had their hip replaced and all those kinds of things. Most of them are retired already, so planning for retirement is not something they talk about. The most important thing for most of them is their health and the second most important thing is money. They have to have enough to get by on.

They are not all people who have had a lot of money in the past; some of them have been ordinary working folk and they are on the government pension. If they become ill, they are looking for a means of rubbing two coins together. So these kinds of things come out. We have all got something wrong with us; we have got arthritis and, if we are older, we have got bladder troubles or indigestion or something like that. These things all come out, for instance, ‘I was not able to come to your course last week because of ...’ so we know the troubles of the retirees, but we do not have a lot to do with the planning for retirement.

Senator BUCKLAND—From your contact with people, which I have to say sounds like fairly intimate contact with those within the group, do you have any evidence of a link—perhaps it is even more so for those who were encouraged to retire earlier—between the health of your members and retirement?

Mr Kemp—I do not think I could make a connection between early retirement and health. The people who come to the University of the Third Age generally are not typical retirees. I would not like to say what a typical retiree is, but the people who come to our group are all wanting some kind of mental stimulation. Not everybody who retires wants mental stimulation. For example, the group that Geoff Parkinson represents spends a lot of time in Gawler playing carpet bowls and darts; they get their retirement stimulation from company, not from intellectual pursuits. I do not think that the University of the Third Age people are typical. There are only 130 in the Gawler group, in the whole association, and Gawler has a population of 18,000 to 20,000. I do not know what the retirement rate would be.

Senator BUCKLAND—Do you have experience or views on whether there is sufficient emphasis put on lifestyle when people are preparing for retirement? You get a lot of advice on where to put your money and how to spend it.

Mr Kemp—Just before I retired I went to a retirement seminar with my wife and I was very critical of it. We were getting some financial advice and all the people there were people of my kind who were going to have a government superannuation, very probably one that was too big for them to receive a pension. The people who came were people like financial advisers; there was a doctor there, who gave good advice, but I felt that the people who went as financial advisers were pushing their own barrows. They wanted us to invest our money in their particular enterprise or in their particular way and I was very critical of that. If I had done that, by the way, I would have gone broke by now, because nearly everything they would have invested in at that time were things like AMP or the second lot of Telstra shares. HRH would probably have been a good thing to go into.

I am critical of retirement seminars. They only catch a very small group of people; they do not catch the huge number of retirees. One of the best bits of advice I received was, ‘Stay where you are.’ You do not often hear that. People say, ‘I would like to go to live in Victor Harbor when I retire.’ They leave the area where they have built up their little society—all their contacts—and they go and live at the beach and they do not know anybody. They become lonely retirees, and they want to go back home. One of the best bits of advice for retirees is, ‘Stay put in your society and help that society.’ I am off the track a bit, but you can see where I am heading.

Senator BUCKLAND—What you say is interesting.

Mr Kemp—As I mentioned in my submission, I believe in interventionist government. If you happen to be on one side of the fence, you are trying to avoid that. I think the government should take a bigger hand in retirement planning. I suggested in my submission that they should put out a series of booklets that are available when you are younger, when you are approaching retirement. People hardly ever think of retirement until the time of retirement comes. It is often then too late to make any firm plans about the future; plans are ad hoc. They have to realise that they will not be able to play footy all their lives, and they cannot necessarily be as energetic and as vigorous as they used to be. They say, ‘I’m going to walk in the Alps when I retire.’ Then they find they have arthritis and cannot walk anywhere. They have to be made aware of these things. They have to be made aware, too, that they are liable to suffer financial problems, particularly if they are in a superannuation fund that talks about lump sums—where they have to invest. I think the government pension scheme should be modified to help retired people.

CHAIR—In what way?

Mr Kemp—I think they should pay for it, to begin with. I think it should be contributory, like it is for superannuation. I think there should be a minimum level of contribution to give them a minimum level of pension, rather like how the Commonwealth superannuation fund is now. People have to pay in and, depending on their income, they have to pay more. In that way they get more. I think there should be, like a minimum wage, a minimum pension with a minimum rate of contribution. If it were, say, $10 a week, then the minimum rate of pension would have to be adequate for that person. Anything above that would be their contribution. I think superannuation, as it stands now, has a number of monster problems with it. They are mainly caused by them being privately funded.

CHAIR—What are those monster problems?

Mr Kemp—What people want when they are old is a salary—a wage; regular income. A pension gives them that, but superannuation does not always give them that. It depends on the superannuation scheme you are in. They allow you to do more or less what you like with it. If it does not give them a weekly, fortnightly or monthly salary, the chances are that it may be blown. If they blow it, they have to fall back on something else. They should be able to fall back on a government pension to which they have contributed. I see superannuation as over and above the pension scheme. I think the pension scheme should be run and funded entirely and absolutely by the government.

CHAIR—As it is at the moment.

Mr Kemp—Yes, but I would see it differently. I would see it as being contributory and also variable.

Senator WONG—People would argue that they contributed by virtue of their taxation over their working lives, Mr Kemp.

Mr Kemp—I paid my taxation but I do not get a pension. So what? I do not get any pension at all and yet I paid all my taxes. So that argument does not work. It only works one way.

Senator WONG—Moving to a different topic, when I looked at that term of reference, which was the ways that government could assist older workers in planning for retirement, I have to say I thought of financial planning. It is interesting to me that your submission is one of a number which emphasise the need for lifestyle planning—I do not like the term and I am not sure what term should be used, but that sort of thing—that is, how to actually assist people not just financially but socially and personally for their retirement.

Mr Kemp—With great difficulty. I mentioned in the submission that you can get the horse to the water trough but you cannot get it to drink. Every retiree is an individual. They all have different needs, they all have different pasts and they are going to have different futures. It is impossible to generalise. What you have to do is to try to get the best fit. I think to do that you make things available to people.

Senator WONG—But it is ultimately up to them whether they choose to take them on.

Mr Kemp—Absolutely. You will never be able to make everybody plan suitably for their retirement. You cannot always forecast what is going to happen to them.

Senator WONG—Where do people go now? We know that there are issues with financial planners, but to put that aside for a moment, in your experience, if one is approaching retirement and wants to have a think about what one does, do you go and talk to people or is it more a personal thing with your family, your friends and your partner? Are there any opportunities for people to access those who have already retired or people who might talk about some of the issues they need to face?

Mr Kemp—I do not think that there are a large number of courses or things like that for people to take in planning for retirement. Mostly, people retire and then wonder what they are going to do next. I think that the more academic people, the people who have been stimulated academically all their lives, have an advantage over some of the others. If a person has been a process worker in a factory all his or her life, they have been used to having a kind of spoon-fed existence. When they come to retirement they find that nobody is spoon-feeding them at all and they have to stand on their own two feet.

Senator WONG—Do you think that one option might be to encourage particularly the larger industry superannuation funds to give their members advice both about the need to plan for retirement financially and about personal choices and options?

Mr Kemp—I think it should also go to the employer to ensure that his workers who are coming up to retirement have opportunities. For small business people that might be very difficult, but for the larger companies it would be easy. Colin mentioned Myer and another group of companies doing something like that for their employees. I think that is essential. If you are in small business, then those kinds of booklets that I mentioned would have to be a substitute. They have to be aware that there is life after retirement. If you make the booklets small and—this might seem naughty—simple to read, not complex at all, not using technical terms or acronyms, with everything in plain English, then you might have some success with a little scheme like that. It would not be very costly. I have put a little criticism in the submission of how the government use their money, because the public is sometimes very critical of the use of public money.

CHAIR—A number of services already provide these sorts of booklets on planning for retirement.

Mr Kemp—Yes.

CHAIR—The Department of Family and Community Services have about eight or nine significant—

Mr Kemp—Where are they?

CHAIR—This is the real question—their distribution.

Mr Kemp—It is the distribution of them—

CHAIR—That is something that we are going to take up.

Mr Kemp—Generally speaking, the people who want those booklets have to go and look for them. I do not want people to have to go and look for them; I want people to have them put in front of them. The spoon-feeding has to continue. If they have to go and look for them, they will not see them because they will not go and look.

CHAIR—So we need to have some mechanism somehow to distribute them to interest groups such as the University of the Third Age, self-funded retirees and other groups?

Mr Kemp—Employers, libraries—and people should be directed towards those from, say, their 50s.

CHAIR—In some cases the circulation is in the 300,000s. I suppose in relation to a million people there are a significant number who are missing out.

Senator WONG—The majority.

Mr Kemp—The majority—you are quite right.

CHAIR—We will certainly take that up because that is important for us. We have your submission before us. There is a lot of good commonsense there and it will be re-read—

Mr Kemp—As long as you correct the spelling, Senator, that will be good.

CHAIR—You would be embarrassed if we took issues out of it without correcting the spelling—

Mr Kemp—Actually, there were little things left out, more than misspellings.

CHAIR—It is quite easy to do, I can assure you.

Senator WONG—I would not worry too much about it, Mr Kemp. It happens a lot.

Mr Kemp—As an ex-high school principal, you do not have anything—

Senator WONG—Most people read for content, anyway. They do not get distracted by it.

Senator BUCKLAND—You did get forgiven, you were a maths teacher so I think we can understand.

Mr Kemp—Yes, but the day before yesterday I gave a lesson on English grammar to the University of the Third Age—

CHAIR—Thank you very much for appearing before our committee.

Proceedings suspended from 12.37 p.m. to 1.44 p.m.

BUTTERWORTH, Mr Adrian John, Treasurer, South Australian Government Superannuation Federation

CRAWSHAW, Mr Kevin Michael, Committee Member, South Australian Government Superannuation Federation

SMITH, Mr Kenneth Graham, Executive Officer, South Australian Government Superannuation Federation

CHAIR—Welcome. I would like to thank the South Australian Government Superannuation Federation representatives for appearing this afternoon. I invite you to make an opening statement or talk to your submission

Mr Butterworth—Thank you very much. I would like to make some opening remarks on behalf of the people who are here representing the federation. We have provided a written report to you.

CHAIR—We have read that.

Mr Butterworth—That report deals with some technical aspects. During these opening comments, we would like to put it in context and address some more of the general principles behind your terms of reference rather than simply go over those matters in there, if that is appropriate.

CHAIR—No problem.

Mr Butterworth—Thank you. The paper is presented against a background of changes over a period in excess of 10 years affecting superannuation schemes that are of interest to us in the state public sector arena. During the past decade, there has been a focus on short-term accounting-centric changes to superannuation, much, in our belief, to the expense of broader social issues and even the longer-term public good of the state, the Commonwealth and the individuals involved.

About a decade ago, as an organisation our policy focus in superannuation was looking at the changes that were confronting us as a society. The things that we welcome are obviously within the scope of this inquiry, like workplace change and the changing career profile from the situation where once upon a time it was very linear—you started low, you worked up and you retired—to the point where now, and it is very evident and it has been evident for quite some time, that profile is changing. There are breaks in periods of employment, there are peaks in income-earning capacity, which occur quite often midterm in careers, and there are increases in part-time employment, which have been very evident for the past decade. All that changed the focus for what was essentially an income-smoothing scheme whereby people spread some of their income from their working periods over their retirement lives. We are raising those issues in a broader context. The earnings oscillations that we see are for skills demand changes and market forces, which come into play in terms of those earning changes, breaks occurring for things like parental leave and redundancies, and shifts between full- and part-time employment.

However, instead of those broad policy issues, in our organisation we have been running an almost rearguard action trying to defend some of the desirable characteristics of the public superannuation schemes of 10 years ago in this environment of accounting-centric changes. The traditional schemes tended to be promised benefit and pension based. They afforded some long-term security for the people who participated in them and tended to result, effectively, in self-funded retirees, albeit on pension funds. Around the country, these have been almost exclusively closed off for new entrants. This process occurred in South Australia at the same time as it did right around the country about 10 years ago. This was largely because they were seen as relatively expensive—around 20 per cent of salary costs was the rule of thumb that tended to be used—and they were often seen as being not funded, thereby creating a long-term unknown liability on the public purse. However, this ignored quite a few of the positives, which we have attempted to advocate. They were socially very responsible. They were seen by employees as a real part of a salary package and hence were very much factored into remuneration. The lump sum schemes that subsequently have come into place largely transfer costs, partly to the individuals but also to the Commonwealth government in terms of a greater reliance on the public pension system and other related publicly funded services.

The positives were also that there were alternative funding models that could have been adopted to take pressure off, looking at that 20 per cent figure or that expensive figure, such as funding things through internal notional loan accounts, as we understand was done in Queensland, and through looking at steady state models whereby you look at your liability as not occurring on a continuous process through employment but across all employees and see that you only need to fund this on a steady state ongoing basis. As long as you are always going to be employing people, your liability at one end is pretty much offset by productivity at the other. Those sorts of approaches—internal loan funding or steady state funding—have a big financial advantage: they are extremely efficient. They do not take funds out of the public sector and there are no management overheads in those processes. Despite those positives, they were not fashionably considered to offset the issues, and the old schemes have been shut down substantially.

There were some real negatives in the old schemes, which we would acknowledge. There were some windfalls for people whose careers peaked late. Rapid promotions towards the end could result in windfall gains. There was also some rorting which we were aware of, whereby people were engineered, for management convenience, into redundancies that were extremely lucrative, thereby creating early liabilities on the superannuation fund but getting rid of people who did not fit within the organisation. Having said that, and the fact that the systems have closed down now, we are left with systems that have continued over the past 10 years to have been modified or changed for short-term accounting reasons. The example that we have cited for you is a very current one, whereby we have been trying to look at government funds providing support services for people approaching retirement regarding products, advisory services and those sorts of areas. We have received very negative feedback to that process for accounting reasons. We are currently battling to try to get the public funds to start to take up some of those roles which we know many of the private funds have taken up and which, as we outlined in our submission, we believe offer very material benefits, both in social responsibility and to the individuals concerned.

Perhaps that is enough to cover the context of that particular technical submission of ours. We would like you to think about it in the context of the direction the state government has been taking and whether or not it is appropriate for you to make some recommendations in your report about whether the social obligations and the long-term strategic direction should be equally pressing in the considerations of public authorities and state governments.

There are issues within your terms of reference that are of interest to us in a broader context, such as using superannuation for retraining and the relevance of the fixed retirement age, which I could briefly summarise in a couple of sentences. We see the relevance of a fixed retirement age as an issue. We think the flexibility that has been introduced in recent years, allowing people to stay on at work post the traditional retirement age, has been a win-win situation all round. We would be concerned, however, to see any loss of opportunity for people to retire when they become aged, particularly for low and middle income earners, if there were no mandated retirement age and if there were a weakening of public pension systems. We would not like to see a situation where retirement became only for the affluent—those who had been able to have a sufficiently long established career at a satisfactory level to acquire suitable entitlements. I am sure that it would not be the objective of the Senate or this inquiry to go in that direction. Obviously, concern at the idea of the loss of a safety net for those who need to be able to retire at a particular age is very important.

We also would be concerned that simply encouraging more elderly people to participate in the work force to some extent would be offset by a lack of employment opportunities for young people. We have, as we know, a high level of youth unemployment, perhaps substantially brought about by technological change, ending up not in people who are currently employed losing their jobs but in a drying up of opportunities that historically would have existed for 17-, 18- and 19-year-olds. That has definitely been the case throughout the public sector that we have direct experience with.

On the issue of superannuation for retraining, we would see that in the same context as using superannuation as a general income smoothing system, which, in principle, we do not have any problems with. In fact, some way of looking at superannuation in a more modern context, where there are early peaks in earning capacity and substantial breaks—even things like parental leave—could be very meaningful. However, it needs to be recognised that, for low- and medium-income earners, the superannuation calculations that we do show that a satisfactory quality of retirement is not going to be realised if the superannuation funds are dipped into heavily for other purposes. It would be counterproductive, in our view, earlier on in life to raid funds that were going to be available to give a quality retirement. You are robbing Peter to pay Paul, perhaps. That is most likely enough of my general comments. We thought we would like to give you an opportunity to question us.

CHAIR—Mr Smith, would you like to add any comments to those of Mr Butterworth?

Mr Smith—Not at this stage.

CHAIR—Mr Crawshaw?

Mr Crawshaw—I do not really want to add any further comments, but I could elaborate for a little while on what Adrian has said. I have been involved in a number of capacities with the state superannuation scheme for quite a long time. To correct Adrian, the old scheme terminated in 1985. It is now 18 years since it was terminated, so that was some time ago. As Adrian says, there are positive and negative aspects of the old scheme. For instance, it had only about 30 per cent of employees as members, but it did provide a pension which was designed to enable somebody to live for the rest of their life. I think it provided less of a need for the Commonwealth to come in with its age pension if it was working effectively. It did only cover a third, whereas our current scheme covers everybody. When you became a public servant in those days and joined the scheme you did so with the view that you would have an income for life—a reduced income after retirement. Nowadays, if you join, there is no such concept. In fact, what you can look forward to is a lump sum which may or may not be—in most cases it probably will not be—enough to sustain you at a reasonable level after retirement.

In relation to the specifics of our written submission, there is no post-retirement product being offered by the state government to assist people to make the transition to retirement. What the State Superannuation Board people tell me is that most of those people go to private providers, usually commercial providers, who provide those products at highest cost and not necessarily at the highest return. We believe that people are getting a very poor deal as they leave government employment. We have been urging government for some time now to introduce its own post-retirement products as a number of other state governments do. While we have had some negative responses from the state government, the most recent response to that has been on the positive side, without making a commitment.

One of the specifics I want to raise—and I suggest that the committee might like to comment on this in its report—is that it would be a good thing for state governments generally to see that their responsibilities as employers do not finish totally on retirement, and that they can use their existing superannuation funds—without cost to them, I should add—to provide post-retirement products to their retired employees.

CHAIR—A number of witnesses have drawn attention to the desirability of the government providing a retirement pension based on an actuarial purchase so it would not be related to final salary or anything to do with salary but would be a pure conversion or use of part of a lump sum for acquiring a pension. In view of the upheavals in the financial sector and the risk associated with the underlying assets in a pension arrangement, particularly in an environment where some shares have lost 60 per cent of their value in certain jurisdictions, we have some concerns for the government underwriting or providing the mechanism for people—certainly for the lower income earners. We have not got a consensus view on whether it should have a universal availability; that will come later in further discussions amongst the committee members. There does seem to be some attraction. As we, as a committee, are trying to push more and more people into income streams, the cost of those income streams appears to be a little high. They have to be affordable, but a lot of people, particularly at the lower ends, cannot afford to carry the market risk. If we were encouraging people to deliberately move some of their lump sum payments so that we are getting the benefits, on the one hand, of the private sector together with others being in there boots and all during the accumulation phase, there is a major problem: we get problems with financial planners putting people onto the wrong products.

It seems sensible to try and have a guaranteed type product for at least part of people's retirement savings. This will come as a shock to a lot of people, but to some extent I think the wheel has turned a little from where we have been. As a committee, we are in a position to make recommendations; it is up to governments or potential governments to assess that. It was this committee that pioneered the concept of the allocated pension and we got the government of the day to agree to it. I think that has been a good step forward. I think there is a great opening for us to really give proper consideration to this issue of a government or government instrumentality providing a facility of taking money, and people buying a pension.

There are lots of issues: do we do it for a fixed term, or until people get to 80? Obviously, if you have a fixed amount of money for an indefinite term—people are expected to live to 90 or so—the benefit of a pension is fairly minimal. Once you pass 80, maybe there is a need for the government to take on more responsibilities for people because of the huge costs associated with ageing. These costs are beyond people's financial resources. For example, we heard earlier that it is financially impossible to provide a health care type bond for the great bulk of the population, because $10,000, $20,000, $30,000 or $40,000 in relation to a number of illnesses associated with the aged is just nowhere near adequate. Apart from government, the only viable method is to have a universal system where everybody contributes, or as many people contribute as possible.

They are big issues that we are looking at and turning the thinking around is not going to be easy for a lot of people, but it does seem to be part of the answer. An extraordinarily high number of witnesses before our committee have given it their initial nod of approval, if I can put it that way. Your first-page comment about post-retirement income streams and demand is really quite relevant to the way we have been thinking, so thank you very much for putting it forward. Where do you fit into the whole scheme of things? Are you a voluntary organisation of retired government people or are you—

Mr Butterworth—The federation covers organisations that represent superannuants or people retired from government and it also represents the bodies that look after the workers directly employed, so we are a peak body. Most of the public sector unions in this state are core members of it.

CHAIR—I think I have spoken to your organisation in Adelaide some years back.

Mr Crawshaw—It is very likely.

Mr Butterworth—We have been around for a very long time but we are a peak federation, so constituent members cover bodies like the Public Service Association, the Australian Nurses Federation, the metal workers—that is on the union side—and we have SAGSEA on the retirement association side. It is designed to bring together the interests of the beneficiaries of government superannuation schemes.

CHAIR—Do you think superannuation schemes and trustees of schemes themselves really provide enough advice to their members as they are going through their accumulation phase, and also when they reach retirement, about financial consequences and how they should be best prepared? I do not mean only in setting up costly financial plans but in giving generic advice about matters that should be important, such as being cautious and taking advice from not just one body or one organisation but checking it out with others. For example, a good checkout body that we always recommend is Centrelink. Not a lot of people seem to be aware of that and it is a free service and a very important one. We are anxious also about ensuring the safety of the money that has been put away, that it is there for retirement and has not been whittled away, stolen or put into the wrong sorts of products.

Mr Butterworth—There has been a lot of pressure put by the federation back on the funds themselves or the management bodies to provide this sort of advice. There have been quite a lot of developments in the last two years.

CHAIR—That is good.

Mr Butterworth—We have, however, been running into a wall over the issue of that boundary to retirement. It has been seen as a zone where there is a lot of political reluctance to move into. That is a boundary that has been very frustrating for us and it is the basic subject, as you see in the submission. Kevin could comment more on the very specific aspects.

Mr Crawshaw—My response to your question is: in general, no, I do not think there has been enough emphasis. And talking specifically about our fund, I think that is true as well. We have had the choice of investment option for five years or so now and the rate of exercise of that choice is very low. The advice was very clear; it was written advice that we sent out, where people would elect one option and there was a default option if they did not make a positive election. The outcome was that most members went with the default option, so whether they thought about the options or not is, in my mind, not clear.

My personal view about that is that the only way you can actually get people to think through those options and look at their own risk aversions or willingness to undertake risk is to sit down with them with a screen showing them what the impacts are and talk about the risks. I think that can be a cost-effective way if it is done initially, at the time the person joins the fund, in order to make a positive decision then, or at least have those thoughts there somewhere in people’s minds.

The second time when you need to make some decisions about your risk position is, of course, at retirement. You might want to reconsider in between but at retirement it becomes a significant issue. We are struggling at the moment with getting these post-retirement products in place. We are only talking about products which are of absolutely no risk to government, so we are not going as far as the committee is considering in terms of having guaranteed products. If we did do that, we would need to have some form of advice as people move into those products. The concept that is being considered at the moment is in-house advice being provided to members. We would see that going hand-in-hand, that there would be an increase in the capacity of the South Australian Superannuation Board to provide advice once post-retirement products are in place. That capacity would be able to follow both into the decision to take out a post-retirement product and the decisions as you go through the accumulation schemes.

I would like to make a comment on the committee’s concept of having a guaranteed retirement product. We have not specifically considered that but there would be no doubt we would think that would be a useful thing to do. We are one step behind; we would be very happy to have a non-guaranteed product at the moment. But if we could offer members a guaranteed product, suitably structured—and there are a whole lot of questions around how you structure that and you have raised a number of them—I would have thought that state government are in as good a position as anybody to do that. They have the ability to smoothe more than small companies do. I do not know whether you are thinking that way or whether you are thinking of a national body which would do that for the whole of Australia. It seems to be feasible and desirable to do that at a state level.

Mr Butterworth—There is another point that perhaps I should mention. Whilst a few of us spend a lot of time on superannuation, we tend to find that people approaching retirement themselves take a sudden interest in it but for most of the people it is a great difficulty for us to simply get them to sign up or to even take a basic interest in what they see as some very remote long-term prospect. Once they are in, the general feeling I get is that they tend to see the fund as something they have put their confidence and trust in as an institution and then they tend to want to go to things like defaults and take advice from the fund. That is where we get a lot of feedback from members. They get to the end of that process where they are looking to this body they have trusted during their working phase and they say, 'Tell me what I do for the next stage when I retire.' But they have been hitting a brick wall and, for many of the people that our members represent, it is the first time that they have had to encounter making those sorts of decisions. In many ways they are lambs to the slaughter, which is of grave concern to us.

CHAIR—You have got a lot of problems in terms of some of the quality of advice that people are receiving. That seems to be a long-term solution. We do not seem to be able to fix, I do not think, in the short term. We do have to provide other mechanisms probably as well to inform people to get into the right sorts of products.

Mr Butterworth—We see the market as being right for those people who are in a skilled position or have taken an interest in making informed decisions. The bulk of the people we are concerned about—and it is behind our submissions to the state government and now to you—are the people who are not in a position to make informed decisions. Really, they are just looking for someone they can trust to keep doing the right thing by them generally.

Mr Crawshaw—The performance of state government or low-cost schemes is generally on the better rather than worse side. The thing that they have going for them more than anything else is the level of trust that Adrian mentioned. The trust that members have in Super SA and Funds SA to manage them is very high. Most members would feel more comfortable going to their own state superannuation fund when facing these decisions. The fact that they are not playing the full role that we are advocating in our submission is of concern to us. If you want to maximise the outcomes—in other words, firstly, you want people to contribute to superannuation in addition to the guaranteed amount; and, secondly, you want them to make sensible investment decisions and not change those dramatically during their retirement, so that they do not pull out of equity markets at the bottom and then buy in at the top, which is the classic mistake that people make—then you need that trusted advice. We see a role for the current state government superannuation bodies to provide that advice.

Senator WONG—In regard to your income stream proposal or suggestion, it would be fair to say that there has been a reasonable amount of evidence before the committee about a mismatch between what the market offers in terms of post-retirement income streams and what people might otherwise want and, in addition, from a good public policy perspective what you might want to be available. Particularly, one of the issues that are being discussed is various incentives to try to encourage people to purchase an income stream product at retirement instead of taking a lump sum. There are a few mechanisms which are being proposed. The committee is interested in your proposal.

So far, witnesses have focused on things like the Commonwealth government offering an aged pension type product for those who would not receive it because of a means test. I have not turned my mind to how they would interact with your members because all state governments have this type of superannuation fund. Certainly, it makes a lot of sense for state governments. If the federal government were to go down that path, if you are going to look at encouraging post-retirement income stream products to be taken up, you would want to do something similar in the states. Firstly, as I understand your submission, do you agree that at the moment the market does not properly provide for the things that your members want? Am I right?

Mr Butterworth—Yes.

Senator WONG—Secondly, from the Commonwealth's perspective, what could be done to encourage this or any state government to look at these sorts of options?

Mr Butterworth—The most that we would hope for is for this committee to make some statements to the states that this is a good idea. It is not something that they should stay out of; it is something that they should get into. At the moment, clearly the policy position is that they do not want to touch it. If this subcommittee, with the authority of this inquiry, could say that that is the wrong strategic direction, that would be a very positive thing from my point of view.

Mr Crawshaw—There is a heads of agreement between the Commonwealth and the states in relation to the SGE—I cannot remember the name of it. It is quite a long time since that was established, and it is a fairly loose document, but it may be possible to reopen that and say, 'You should as state governments fulfil your obligations.' To go back a step: you do not have to encourage industry superannuation funds to offer post-retirement products; it is in their own commercial interests. But for some reason some state governments have taken the view that it is not in their interests to do so, so they are not actually matching what industry superannuation funds are already doing.

Senator WONG—Do any of them do it?

Mr Crawshaw—Yes, they do.

Mr Butterworth—Yes.

Mr Crawshaw—I think the majority of them do. I understand Western Australia has just taken it up, so that is quite late. Tasmania has had it for some time and I am pretty sure New South Wales and—

Senator WONG—Are you talking about industry funds or government funds?

Mr Crawshaw—Government funds. In terms of industry funds, I have not done a survey but I would be really surprised if any of them do not, quite frankly, because it enables them to increase their funds under management and therefore they get a better deal with their funds managers when they go out to the market.

Senator WONG—The actual income stream product you are looking at, though, is non-guaranteed—the amount payable is directly relevant to the amount of capital you have at any one time.

Mr Crawshaw—The traditional allocated pension is what we have been discussing.

Mr Butterworth—We have been looking just to get to the base that everybody else has, let alone looking at moving on to what is obviously a highly desirable product like an option for something like a guaranteed fund, be that a national insurance type scheme or any other.

Senator WONG—At first blush, what would your response be to a proposal—and I am not sure how this would go in terms of constitutional law—for the Commonwealth to look at mandating that a certain proportion of a worker’s lump sum would need to be taken as an income stream? You would have to build in all sorts of income thresholds et cetera to make sure it was equitable, but I am talking about some form of mandated purchase of an income stream.

Mr Butterworth—There is one issue I can raise that I see as relevant to that which some of the retirees we deal with suffer at the moment, and that is that they may end up with insufficient pension or income to be able to enjoy a reasonable quality of life but too much to get some of the ancillary pension benefits, such that we have people who are self-funded retirees who actually want to give their pension away. If they could say, ‘Take my pension away; I do not have it, I will donate it back to the state,’ they would actually be financially better off. They are in the equivalent of a superannuation poverty trap. So it would obviously be important if percentages of people’s income were being put into some sort of income streams, and we would need to look at those.

Senator WONG—Because of the benefit withdrawal effect?

Mr Butterworth—Yes—they may lose health entitlements or whatever. If you weigh it all up they are actually poorer than if they had no superannuation product at all and were just falling on the total pension. Of course, that results in a lot of disappointment for those individuals which they express quite strongly to our members. We would obviously be concerned that in any scheme you put together you dealt with those sorts of boundary issues and factored those in. But the general concept is pretty hard to disagree with.

Mr Crawshaw—The goal is correct: if we can start moving these lump sums into income streams that is where we should all be aiming for. I do not know whether mandating it is necessarily going to work. It may work—I have not thought it through—but it worries me that that would be a very significant change to the current rules. A lot of the talk around superannuation is that the rules keep changing: ‘I am not going to contribute because by the time I retire they will have changed the rules again.’

Senator WONG—You would need a fairly long lead time, wouldn’t you?

Mr Crawshaw—I am just thinking: is there another way? This is totally off the top of my head, but you could do it by incentive rather than by mandating. If you could—and I do not have the answer to what that way is—I suspect it might be better received.

Senator WONG—You do not have any suggestions on that?

Mr Crawshaw—You already provide a reasonable incentive—

Senator WONG—In the tax incentive?

Mr Crawshaw—Yes. Maybe you can improve that. You have got no tax on income; at certain levels maybe you could actually have a positive contribution because you are offsetting it against the potential for a pension payment. If you are saving a pension there could be some redirection. Or maybe you can have a tax incentive on some income stream other than from the allocated pension. I do not know; I would need to think about that one a bit.

Mr Butterworth—Also we tie into those issues we raised earlier about looking at the principles of income smoothing these other variations in the lifecycle—such as parental leave and part time. You are talking about training. I am not quite sure how—

Senator WONG—One question was particularly about post retirement, although we have had a lot of evidence about the myth of a sharply defined retirement for a lot of people, but that may not be the case for your members. That was what my question addressed. I think there are other public policy problems, to be honest with you, with viewing super as an income smoothing mechanism. I accept there may be an interest in it, but it seems to encourage a problem we already have, which is that for a great many Australians their retirement incomes are not adequate. I am not sure I would like to encourage the thought of super as an income smoothing mechanism.

Senator BUCKLAND—We had a witness before us today who had been a school principal. He indicated to us—if I understood what he was saying correctly—that he would have liked in the last few years before retirement to go back into the classroom or to step down from the peak of his career. I read a couple of things into that. One of the reasons he did not was that there was a degree of stigma attached to it—'You really did not make the choice but you were pushed.' He also displayed a consciousness of other people wanting to get to the peak of their career, so he saw himself as a barrier to others. What do you say about that? Do you think that is a reasonable option that should be made available to people who are facing retirement?

Mr Butterworth—It was one of the deficiencies I mentioned with the old scheme: your entitlement was highly influenced or exclusively influenced by what happened in those last couple of years. So it would have been almost impossible for someone to do that. This individual was most likely in the old scheme.

Mr Crawshaw—There was provision under the old scheme to elect to continue to contribute. So you could have gone back to the classroom and taught—for example, taken a 30 per cent reduction in salary—but continue to contribute at your old salary and have your pension based on that. I do not know how widely known that was. The old scheme is still continuing for members who joined prior to 1985.

Mr Butterworth—The material point is that that scheme that he was involved in is now closed.

Senator BUCKLAND—I do not know. He just made the point. I am wondering what your views on that are.

Mr Butterworth—I think it is very consistent with what people's general aspirations in their career are. A lot of them feel that there are enormous pressures now at work—extremely long hours are expected—and they would like to phase out prior to retirement rather than going from 70 hours a week to nothing overnight. I think we would encourage things that enabled that to happen.

Senator BUCKLAND—What about the government itself? Would they be supportive?

Mr Crawshaw—I work in the government health service, in one of the country health services. We have a crisis in nursing at the moment, so we are trying to hang on to as many nurses as we can. I was just saying as we walked over here that what we should be doing—and we do not do this at the moment—is saying to nurses over a certain age, 'Write your own conditions. Come back to us and say how you want to work, generally, and we will try to accommodate that.' If anybody over 55 starts leaving now, we are very doubtful about whether we have someone sitting behind them to fill that position. So my position, very strongly, is that government should be very clearly asking their older employees how they want to work and then trying wherever they can to accommodate that wind down period. I am getting to the wind down period myself.

Senator BUCKLAND—That is useful. You made a couple of points during your opening remarks at which my ears pricked up, but I might still have been enjoying the remnants of lunch. You talked about internal loan accounts. Could you explain in more detail what they are?

Mr Butterworth—The traditional schemes worked on a promised benefit, as we were saying, but in this state they were not funded—there was no accounting done internally or officially to work out how much the liability was for the future and whether that liability was growing faster than they were paying off old liabilities. One of the systems was to use the steady state where you assume that you are acquitting liabilities as fast as you are accumulating them, or the difference is taken up by growth. That was one model, which I think the old system was premised on—in other words, you don't have to worry about it; it will just sort itself out.

The other way to go is to say, 'It is really good accounting practice to know what is happening,' and account for those liabilities in your books—not take that money out of the agency or consolidated revenue and put it with some investment fund and deal with the vagaries of the market, but rather say, 'These funds which we are not spending at the moment we are effectively keeping within government and we will write them up as formal loans,' as I think they did in Queensland. They would notionally take the money out of an agency's budget and loan it back to that agency or another agency to keep them running. It meant there were no surprises and the scheme was considered to be fully funded, even though there were no external funds—it was all funded by internal moneys used within government. It was accounted for; it was an accounting mechanism.

Senator BUCKLAND—It was not a function that the individual contributor had to concern themselves with?

Mr Butterworth—No, it was purely dealing with the concern that we should know what our liabilities are, that we do not want long-term future surprises. One of the reasons for closing the pension type schemes was the concern that there were these massive unfunded liabilities that at some point in time were going to drag us down. As we said, we think they were largely imaginary rather than real, but they nonetheless had an accounting significance that was very important.

Senator BUCKLAND—Your submission deals principally with the money—and I can understand that; superannuation is about money—but the conclusion you draw is that you have to get it right for the person when they are leaving work, you have to see that they are financially secure. Do you think there is a role to be played by the funds generally in preparing a person for other than just the financial security—that is, their wellbeing—following the day that they shake hands and have a beer with the boss? Do you think the fund has a responsibility to provide some training for what happens after retirement in terms of lifestyle?

Mr Butterworth—Obviously at the moment it does not have any legal responsibility to do that, but we would be very supportive of such a role in terms of representations we have made. Our people who sit on the various superannuation boards have been very supportive of a more holistic approach to looking at those personal time of needs issues.

Mr Crawshaw—To some extent that is being picked up by Super SA at the moment.

Mr Butterworth—There has been no aversion or resistance to it.

Mr Crawshaw—Governments are interested in the population’s welfare and to be displaying that for their own employees would be very welcome.

Senator BUCKLAND—Do you know of an amount of money or a percentage of fund contributions being mentioned?

Mr Crawshaw—There is no allocation, no.

Mr Butterworth—They are more in their administrative expenses.

Mr Crawshaw—And how they run pre-retirement seminars.

Senator BUCKLAND—Do you think it is something that will require legislation to have them act—going further than just talking about it and having no real aversion to it? Do you think it is something that will have to be legislated for, to have them involved, or do you think it is something that can just be negotiated?

Mr Crawshaw—I would not like to see it legislated. It seems to me that that would require people to go outside their role. I think it is something that market forces would force. What happens is that the more progressive funds pick up these ideas and run with them, and then people follow because there is a demand for them.

Senator CHAPMAN—I am not sure if this was covered before I came in, but is your proposal that—I assume it is Funds SA—run the allocated pension in the drawdown phase as well as managing the pensions in the accumulation phase?

Mr Crawshaw—It is a combination of Super SA and Funds SA. There is legislation; the legislation allows this to occur—

Senator CHAPMAN—That was my first question: whether there needs to be a change of legislation for them to be able to do that.

Mr Crawshaw—No, there does not. It can happen by agreement between two boards but, currently, the government has expressed the view that it does not want to move along that track. The two boards have decided to not press ahead with it until the government says positively that it would like to do it. That is really where it sits at the moment; the discussion has been with the Treasurer and trying to convince him that this is the way to go.

Senator CHAPMAN—Does it have to be a government policy decision or could the board make the decision irrespective of the government's position?

Mr Crawshaw—The boards could do it—

Mr Butterworth—Legally, they could; in practice, it is not possible.

Mr Crawshaw—The boards are appointed by the government—by the Treasurer, effectively—so it would be unwise to.

Senator CHAPMAN—From your knowledge, does Funds SA currently have the expertise within it to be able to run the allocated pension investment and payments and so on?

Mr Crawshaw—There are two aspects to it. From the investment point of view, there is no issue. Funds SA is a competent investment organisation doing very well in these shocking market conditions compared with other funds—

Senator CHAPMAN—So the expertise they already have in terms of managing the accumulation phase would be adequate to manage the allocated pension?

Mr Crawshaw—Yes, in terms of investment management. The bigger job is to do the administration of it, which means providing the advice so that people can do that. That is a Super SA job and they would need to gear up to do that.

Senator CHAPMAN—So extra resources would be required?

Mr Crawshaw—Yes, they would need to resource it. They would be self-funded through the scheme. They have been growing in competence over the last 15 years. They were a shocking organisation, I have to say, 15 to 20 years ago, but they are now a very tuned in, customer focused organisation and I have no doubt that they have the capability to deliver these products.

Senator CHAPMAN—You are still lobbying the board?

Mr Crawshaw—Yes, we are lobbying.

Senator CHAPMAN—And the government, I take it?

Mr Crawshaw—Yes, primarily the government.

Senator CHAPMAN—Is there any sign of any movement in their attitude?

Mr Crawshaw—At our last meeting, after getting some fairly clear negatives, we saw—

Mr Butterworth—A crack opening!

Mr Crawshaw—We saw some openness to the idea and I am feeling optimistic that we will be able to do that, but some input from this committee may assist.

CHAIR—Thank you very much, gentlemen, for your presentation. It was very interesting. I will call our final witness for the day.

[2.40 p.m.]

POTTICARY, Mr Victor Milton, Secretary, Retired Union Members Association of South Australia Inc.

CHAIR—Welcome. The comments that you make today are protected by parliamentary privilege. We are interested in getting information but naturally we ask that, where possible, you do not defame any individuals unnecessarily. It helps us in our proceedings. Thank you for providing this document. Is it the wish of committee members that it be accepted as a document of the committee? There being no objection, it is so ordered. We invite you to speak to your submission and give us examples of your experiences—and also some solutions, if you have them.

Mr Potticary—I don't know about that! You have all read our submission. Before writing this, our committee tried to address all the points which you raised—or as many points as we could. I then received feedback from my members on some of the issues, which I have jotted down. One of the comments was that there is a lack of stability in social security, taxation laws, health costs and the economy generally, and it makes secure planning for retirement nigh impossible over a sustained period. For instance, I retired 10 years ago and the rules now are totally different from what they were back then. If you had attended seminars and received advice 10 years ago, it would not have carried through to today. We have a GST and all sorts of other things which have impinged on incomes. We think these things make planning difficult.

Another group I am affiliated with is the Australian Manufacturing Workers Union and their retired members. I addressed the example of wanting to continue working on a part-time basis if they did finish work. I was told, 'Anyone would have to be certified to want to continue working in the industry that we were in.' They were in heavy industry, with the problems of noise, dust and heat, and they could not get out of it quickly enough. Even cutting back to three days a week was not an option for them; they wanted to be out of it.

CHAIR—It is not universally attractive.

Mr Potticary—No.

CHAIR—But for some people the possibility is there.

Mr Potticary—I finished up as a senior customer service officer and I enjoyed going to work. I was dealing with limited edition books in the state government. But that was not the situation years before when I was working as a linotype operator; it was different. I asked these people whether they ever did volunteer work. Of the 20, about three did, with Meals on Wheels and things like that. That example related to the manufacturing industry. I know a couple of workers who were in the printing industry. They have kept working part time in office jobs, in small printing offices. I think they are mainly bored; they find home life not very peaceful. Their wives drive them crazy and that is why they go out to work. Most of their printing mates are not very jealous of them continuing to work. One of them is about 74 years of age but he still keeps working. Another worker was a clinical psychologist in Adelaide and she has now retired to a country town but continues to run a small clinic with a small number of patients. She prefers, if possible, to work for something in kind—she might have a farmer or a wine grower come around and for services rendered she collects something in kind.

CHAIR—There is no tax on it.

Mr Potticary—Yes. If she works for cash in hand, this results in a loss of pension, and the tax rate makes it not worth while. She knows she is likely to be caught by the tax office. Centrelink has already cut off her benefit; that has been cancelled. This same person was asked by State Super—she was in the state government—to take her superannuation money because she was no longer in the work force. She asked me to go with her to get the best investment advice. The first two advisers immediately wanted her to sign a form for $200 just to get a plan drawn up to show where she should put her money. The fees were about three to four per cent.

It was only the third adviser—the savings and loans society, which deals with state superannuation—that was experienced enough to say: 'To start off with, you are going to have 15 per cent tax taken off the top of your money because you are getting about $85,000. The state government super fund is an untaxed fund.' Previous fellas did not say that. So when you take your money out you get hit with a 15 per cent tax. The others were not even aware of that. She thought that she was paying $200 for expert advice, so you would expect to be told that up-front when you apply for it. I was with her, so that was true. Anyway, she just got her money out, paid the tax on it and invested it in developing a property up on the Murray River that she hopes she will be able to sell at a good profit. That was her form of investment. She says that she is good at property but not too good at dealing with investment advisers. So she might do well at that.

Another problem is the lack of clear direction or knowledge between investment advisers and taxation and Centrelink. I found both government departments to be excellent sources of information. I have no problem with Centrelink. They are very good. And the taxation department has always got along with our members pretty well. The fees charged on that allocated pension, which I will talk about in a minute, are, according to the taxation department, after it had looked at the fund statements—I took it all down to them—an allowable deduction. But the two fund managers I took it to said they were not. Obviously if you go to the taxation department and they say that you can claim that as a tax deduction, you are going to follow what the taxation department says. But the two fund managers I went to said, 'No, you can't claim on that.' So I will claim it.

CHAIR—Do you get a deduction for your purchase price component of it?

Mr Potticary—Yes. Under question 6 or 7 in the *TaxPack* you are allowed to claim legitimate fees that are charged, and that is what I do. I claim the fees that the fund charges, which are $8,931—not the $2,400 to start off, but really the $6,531. But the fund managers I took it to said, 'No, you can't claim that.' But if you take the documents down to the taxation department and they say, 'Yeah, go ahead,' you are not going to knock it back, are you? Some other people I know are professional people who are not yet of retiring age—they are in their early sixties—but cannot get full-time work. They lecture at places like the WEA and universities. They lead group tours overseas and generally manage like that—they do small professional jobs with which they supplement their incomes. When I was leading up to retiring and interest rates were at a high level, I was advised by one adviser to trade in the pension option for cash and invest it with his firm. I did not have a lot of state government super. The amount I would have got if I had taken it out was $140,000. Anyway—and this was 10 years ago—he said to me, ‘It would be silly to take out the pension option and you can sue me and my firm if we get it wrong.’ About six months later I noticed he was working for a different firm of investment advisers. So where do you go?

CHAIR—Of course, some of the best advice you could give to people who come to you is to take them along to Centrelink, because they have a financial advisory service.

Mr Potticary—Yes, that is what we do. But 10 years ago we were all babes in the wood. We were all working out that the government was going to close down the state government printing office by hook or by crook. There were about 40 people going away in the second call, and the government printer brought investment advisers down to the office. We all went in with any problems we had and that was some of the advice we got at the time. I do not think Centrelink came into it when we were advised but, since then, I would recommend Centrelink to everybody. They have helped me out a lot.

CHAIR—Absolutely.

Mr Potticary—With regard to some of the information people were talking about this morning, I think Centrelink are the best ones to provide that. I have been to a lot of their seminars and they present such a high and wide range of products I cannot really fault them. They are impartial as well.

They are the basic statements that I picked up along the tracks. This document I handed out to you contains some things that add to what Kevin Crawshaw and Adrian Butterworth were talking about. When I retired I got a separation package. There was about $68,000 in that. At the time I got that I put it with the Public Service savings I had aside. They said: ‘We have our own investment firm, Asgard Financial Services. We recommend you put it with them under a fairly conservative option.’ So I put it in there. There was an initial fee of $2,400 off the top of that. It then gave me a pension, which I get paid every six months.

Then the fees started mounting up. That is shown in that third column over there. At the end of 31/12/02 there was $6,531 of fees plus the initial $2,400. That gave a total in fees and charges of $8,931 in five years. There is a tax plus PAYG. It varies up and down and all over the place. It seemed to depend on what the rules were at the time. I cannot really come to grips with that. The fund earnings were those amounts there. You can see that the last two were minus $405 and minus $99. Some people who looked at it said, ‘Your fund is not doing too badly.’ They had done a lot worse than I had done with that. The fund earnings were $18,947 and from that I got a pension payment totalling $23,822.

When you look at the asterisks there, the first one, for initial investment, shows the value of the investment has decreased by $13,020. The dagger says that total fees charged represent 47 per cent of the earnings when you divide $18,947 by $8,931—you can work it out. The taxation of it varies widely. It says that tax shows instability in government taxation policies.

It says the negative fund earnings, in the fifth column across, are a ‘source of worry for retirees and make them wonder whether allocated pensions are worth while at all’. The fund earnings have been negative for the last 18 months. One of the suggestions I have had from non-members is that it would be more fair and fitting if the fund managers were only allowed to charge fees on the earnings. Even if the fees were about 30 per cent of the earnings, in a period of negative returns the fees would be zero.

Senator WONG—Mr Potticary, did you say this was your pension?

Mr Potticary—Yes.

Senator WONG—I assume it is a commission based system. What is the fee structure? Is it a mixture of commission and annual charge?

Mr Potticary—There must be a commission in there somewhere. I had the $68,000. This was a separation package. I took it to the savings and loans society. They said, ‘We only have a cash sort of super policy ourselves,’ so they recommended Asgard Financial Services. I gather Savings and Loans get some sort of kickback out of it. They must—but I don’t know what that is.

Senator WONG—Do you actually understand the fee structure?

Mr Potticary—No.

Senator WONG—Was that—

Mr Potticary—The fees here, yes. The fees come off the top of the amount. Every six months, on the amount outstanding in the fund—the capital of it—they have a fee of I think one or 1½ per cent off your capital.

Senator WONG—When you were advised about this option, were you taken through clearly what the cost structure was and what it meant for you in terms of the justification and basis for the initial up-front fee? Was the effect of the commissions over the long term explained to you?

Mr Potticary—Not in numbers; it was only in percentages. He never actually had a chart drawn up which explained it. I went to Commonwealth Financial Services and they did give me a chart which had all the gradations on it. I think they said it could last to when I was about 90 or something before it ran out. Of course it was all in the lap of the gods how the fund performed. But, with this particular one, no—other than the percentages. I complained about the high cost—the $2,400—and they said: ‘You have to pay fees anyway. You cannot go to one of the funds and not get charged.’ If you add the fees and the fund earnings together, you come up with something better than what the pension payments are, although it is not very much. It is the fund fees that drag the pension down. Some of my friends have said that fund managers should be made to take their fees just out of the earnings, and this would also give the managers an incentive to perform. As it is, they cannot lose as the fees come off at a set percentage no matter how poorly the fund performs.

Another concern, which has never been raised, is the actual honesty of the fund managers. There is no balance sheet or audited statement given to investors of where the losses or gains are made. There needs to be closer supervision of the accounts of funds. At the moment you get a statement, a booklet type thing, but it just tells you how much you have lost or made—which various funds the money is put into and whether they have gained or lost—and you just have to accept that. There is no documented statement. For example, if you have shares in Santos or something they account for every nickel and dollar in the whole thing. For these funds you have to just accept it if you have had a negative return; you cannot really see how or where it has come about.

Senator WONG—The sort of experience that you are outlining is where it was not necessarily explained to you particularly clearly what the fee structure was and what it would mean for your investment, and similarly you were not provided with sufficient information to assess whether the returns were appropriate et cetera. Do you think that lack of understanding of the cost structure and what it means for people is common amongst your membership?

Mr Potticary—Yes.

Senator WONG—Would most people have difficulty with understanding (a) the basis of the fees they are being charged and, more particularly, (b) what the actual effect of an ongoing annual commission is going to be on their long-term income?

Mr Potticary—Yes, the second part of your question is exactly right. Most people understand the percentages, but it is only after seeing the actual progress of the figures over a couple of years that they develop alarm. They have pointed out that they have compared that with some of the others and they have gone a lot worse than that. Even some where the fees might not have been as high have not made such good investments and they might have minuses of $2,000 or something, depending on which funds they have invested in. The second part of what you said is true. In terms of the first part, it was 10 years ago that I made this investment but I do remember having a statement of what the percentage of fees coming out would be.

Senator WONG—Do you think the issue of people not understanding the effect of commissions would be resolved simply by the financial planner or adviser disclosing to them the percentage of the commission, or would more be required for people to actually understand what effect that percentage will have on their earnings over a period of time?

Mr Potticary—Yes, that is true: it is the effect on earnings over a period of time. But what happened 10 years ago was that interest rates were running at about 12 per cent and the figure which the funds were projecting at the time showed that all these funds were generating positive returns. So they were virtually telling you that even though you were taking a pension of $2,151 out of the fund, the fund would probably be earning $2,400 or something like that and would actually be increasing value—and a lot of them were, too, at that time. It was only when the economic situation took a downturn that people suddenly became apprehensive that the fees and negative returns were going to result in no pension at all within a short period of time.

CHAIR—Looking at these figures, with hindsight you would have been better off going to, say, the Commonwealth Bank or a broker and investing in a listed investment company.

Mr Potticary—Yes.

CHAIR—Where you get at least a 4½ per cent yield.

Mr Potticary—Yes.

CHAIR—It is true that you would be paying some tax on it, but you would not have a cost of $2,400; you would have a brokerage of $40 or $50 and no continuing costs.

Mr Potticary—Yes, you are right. But once you put it in there you ride with it. You get trapped into it. Once you have put your money in there and you have paid your $2,400, if you pull it out it is gone.

Senator WONG—It is a disincentive.

Mr Potticary—With hindsight I should have had advice. But I was going to an investment adviser who was advising me to do that anyway. Nearly everybody else was as well.

CHAIR—At least if you had a listed investment, you would still have had your initial investment. It might have gone up a bit with retained earnings and that sort of thing, but at the end of the day you would still have had your $68,000. Hopefully, most of them have gone up a bit. I just wonder why they are not more attractive to people when you look at those sorts of figures.

Mr Potticary—This goes to what Kevin Crawshaw and Adrian Butterworth were talking about. Because I also get a part state government super pension, I understand what they are on about. There are still a lot of public servants taking separation packages and leaving and getting a handful of money. Even under the Triple S scheme that the state government has, they still get a handful of money. But the state government does not want to know about them when they retire.

CHAIR—This is our worry.

Mr Potticary—They have this handful of money, so they get referred to investment advisers.

CHAIR—Neither do any of the superannuation funds want to know anything about you, unless you have an allocated pension. They say, ‘Here is your cheque for $200,000,’ or whatever it might be. ‘You go and find yourself a financial adviser and he will invest your money for you.’

Mr Potticary—Yes, and a financial adviser usually comes up with this.

Senator WONG—Your footnote here says that if there had been available some form of income stream product post-retirement provided by the state government, where you had some confidence in the scheme, that would have been your strong preference.

Mr Potticary—I would have leapt at it. I would have put it in there, because I have great faith in state government superannuation. Like Kevin was saying, they are—

Senator WONG—Honest brokers.

Mr Potticary—Their results have been good and they do not have the charges. I do not know how companies acquire charges like that, but the state government fund does not have costs like that associated with it. I am on that superannuation federation as well and I see the sorts of figures that come out. Of course, this does not help those people who are not in the state government superannuation fund. For ordinary people in the work force, like my membership, there is no possibility of them ever putting an allocated pension into a post-retirement product with the state government. They still have the same problem of what to do with money like that. Most of them have it in these sorts of allocated pensions and they moan and groan about it all the time, hoping that the economy will boom and that it will go into positive returns of 10 or 12 per cent. It has to get up to a seven per cent return before it breaks even, I have been told.

CHAIR—That is food for thought. Thank you very much.

Senator WONG—I want to thank you for putting this before us. We certainly do not want to put you in a difficult position in terms of your private financial affairs, but it is very useful anecdotal evidence or first-hand, personal evidence of some of the broader policy problems that have been put to us.

Mr Potticary—Maybe putting Asgard on it would be legal or illegal.

CHAIR—Do you realise the consequences of this? Once the document is tabled, it is a public document. Did you want to knock out the name Asgard or anything like that? Do you want to cut out the pension—

Mr Potticary—I do not mind, provided that I do not finish up before the courts. Some of my friends who also have pensions with Asgard would demand that I left it in there.

CHAIR—Maybe we might accept it on the basis that the words ‘my allocated pension fund’ instead of ‘Asgard’ be used.

Mr Potticary—Yes. You could put ‘typical’. It is fairly typical.

CHAIR—It is a privileged document. Are there any other questions?

Senator BUCKLAND—I agree with what Senator Wong has said. This document has answered many of the questions we have been asking. It gives a clear indication of what is happening.

Mr Potticary—It seemed to follow on fairly well from what Kevin and Adrian were on about it. I guess I am one of the victims. They have not retired, either. When you retire it is entirely different from being in the work force: you are looking at the accumulation of your superannuation. It does not always go up, but it does slow down when you are taking a pension out. When you do retire the situation is essentially different.

CHAIR—Mr Potticary, if we put it in our report we may delete that name. Thank you very much for appearing before the committee.

Subcommittee adjourned at 3.06 p.m.