Committee Secretary
Senate Economics Legislation Committee
P.O. Box 6100
Parliament House
Canberra ACT 2600

Dear Senators

First, let's consider what the primary aim of the superannuation system is – it is supposed to encourage/enable more and more people to be self-funded in retirement – and reduce community reliance on the age pension. Why? Because the current arrangement whereby workers do not contribute adequately during their working lives, and are forced to depend upon the government-funded age pension in retirement, is economically unsustainable. The population is ageing rapidly and the taxpayer base is declining, so that unless something substantial is done, there will inevitably be a rapidly increasing rise in the budget deficit. **The government's proposed changes will, in actual reality, result in the opposite outcome to the primary aim of the superannuation system!** They will discourage/make more difficult workers' ability to self-fund, and will increase the percentage of retirees dependent upon the age pension! How smart and fiscally responsible is that?

The government's ill-considered superannuation changes have produced a huge backlash from those people in the community who are going to be adversely effected by the proposed changes to superannuation legislation. **The government has lost the support of self-funded (SF) retirees, their families, and all those who aspire to be self-funded retirees.** This is far more than the fictional 4% the public service claimed would be effected! **And any other politicians or parties who support this ill-conceived superannuation legislation will also lose the support of this section of the community.** Remember there is a great deal of anger in the community because the changes adversely impacting on the retirement future of ordinary people are being imposed by public servants and politicians who can happily enjoy their own retirements completely at tax-payer expense – and these taxpayer-funded generous defined benefit pension payments are blowing out the Budget in a big way! How fair is that?

Worst of all, these changes, without any grandfathering provisions whatsoever, have removed all confidence in superannuation within the community! The lack of any grandfathering provisions is particularly harsh, and completely out of line with the past introduction of legislation having a detrimental impact on personal finances. The outcome? In the longer term, there will be an even greater impost on the Budget bottom line as the number of SF retirees will drastically reduce, and the number of government-funded age pension retirees will blow out in a completely unsustainable manner. A further result of a decreasing number of SF retirees is that the actual payment to those unable to save for retirement for a wide variety of very legitimate reasons (unemployment, disrupted employment, self-employment, disabilities, full-time carers, etc.) will be adversely effected – the government will not be able to afford an age pension that is adequate for an acceptable standard of living! **So, in the longer term, these ill-conceived changes to superannuation will impact most severely on the poorer people in the community – not the rich!**

It should be remembered that, over a 30-year retirement period, every SF retiree saves the Budget a minimum of $700,000, even without indexation being factored into the calculation. It is quite common for retirees to live for 30 years beyond the day they retire and longevity is increasing. If you include the medical, nursing and age care home costs, and other concessions that age pension retirees also receive from the government, that figure would easily be a non-indexed $1M or even considerably more. After all, the accommodation cost alone for entry to an age/nursing home for a person on a government pension is around $400K – a cost that must be fully paid by a SF retiree from his/her own funds.

During and after the July election, it became painfully clear that none of the government Ministers interviewed on TV or radio had the remotest understanding of superannuation! On the other hand, we retirees understood what the changes meant only too well! As one newspaper commentator wrote; "**No one understands superannuation as well as self-funded retirees do!**"

My suggestions for a fairer-to-all superannuation scheme are as follows:

1. **There must be some grandfathering provisions for existing retirees!** We retired 16 years ago, are in our 70s and 80s, and put in place pension arrangements such that we do not anticipate relying upon the taxpayer, even if we enter a nursing home. We receive no concessional benefits at all. If these provisions come into force, we will be forced to put ourselves in the hands of potentially unscrupulous financial advisers so we can adequately restructure our superannuation fund. This is the sort of stress and expense we thought we had finished with 20 years ago! We are just too old now, and our health is not as good as it was 20 years ago – thus adding to the stress of re-arranging our retirement finances. An inevitable consequence is that we will end up relying on a partial government-funded age pension. Hence the proposed changes will cost the government more – not save money.

2. **A cap on tax-free pension amounts is fair and more sustainable, but the $1.6M cap is far too low, especially given today's low interest rates, people's increased longevity, and the unstable world economic situation.** I mean, who is going to go without for all their working lives (like we did), and lock away their own money for up to 45 years, to just end up with a retirement income little better than the age pension that they could get by careful manipulation of their non-super assets, or by just blowing their savings on flasher homes, cruises, travel and luxury items? **I suggest an AWOTE or CPI-indexed $2.5M pension cap, which is the limit that would have applied today under the Hawke/Keating government's Reasonable Benefits Limit (RBL) legislation!** Any more than that needs to be in an accumulation fund where the earnings are taxed at 15%. In the accumulation phase, the earnings could even be taxed at 30% above a certain earnings threshold – say above an indexed $250K earnings. This would be sufficient to provide a comfortable retirement income for all self-funded retirees, continue to encourage self-funding, reduce taxation concessions, and prevent the flagrant use of superannuation for family wealth building. Accumulation funds could continue to be used to cover medical and age/nursing home accommodation costs. And it would still catch those with **truly excessive** funds.

3. **There needs to be a tax-free cap for couples, as well as singles. This could be part the essential grandfathering provisions.** This approach is completely in line with the determination of other age benefits like the age pension and the Commonwealth Seniors Health Card (CSHC). The multiplier used in those cases is 1.6. Therefore, there should be a **couple's cap** of 1.6 times the single's cap – 1.6 x $2.5M = $4M. These 'couple's' untaxed caps are much fairer to older women, most of whom had no opportunity to have their own superannuation funds (the public service marriage bar; no or limited access to the Superannuation Guarantee legislation, which was not introduced until the 1990s; limited employment opportunities; and the social pressure in past generations for the wife not to work, but to stay home, supporting her husband and caring for the children and home). Alternatively, if not part of grandfathering provisions, retirees could make a **one-time choice between a couple's cap or a pair of single's caps**. Today's women have much greater opportunities to accumulate their own superannuation funds than past generations had.

4. **A reduction of the existing annual limits on non-concessional (NC) contributions makes no sense at all**. Non-concessional contributions are the only way for many in the community to self-fund their retirement! Particularly small business owners, farmers, contractors, investors, those downsizing from the family home – and especially women, who traditionally have very low superannuation funds because of their disrupted working lives. Why are contributions from a fully-taxed (non-concessional)

source treated unfavourably, whilst those concessionally taxed at only 15% are favoured? Does it really matter what the source of contributions is as long as a tax-free cap is applied, and the fund earnings are taxed the same? **Much fairer to allow non-concessional contributions up to the tax-free pension cap. This allows everyone the ability to self-fund, even women and self-employed people who do not have the benefit of employer-sourced concessional contributions.**

5. **The drawdown rate for pensions and its variation with age needs to be reviewed** in line with the increasing longevity of people these days.
6. **Any changes and potential savings calculations should include the cost of implementing them.** What we don't need is a new public service empire created just to monitor and enforce the new rules! This is what happened under the previous Labor-introduced RBL legislation and was the main reason then-Treasurer Costello drastically simplified the superannuation rules back in 2007. If proposed changes bring in an additional $1B per annum but require an additional 4% public service staff earning an average of $100K per annum, then the Budget gains absolutely nothing! Remember, every 1% increase in Canberra public service staffing levels costs around $250M/year! Hence, **simplicity should be the order of the day!** An example of unnecessary expensive bureaucracy is the proposal that Centrelink will be responsible for deciding which portions of an existing pension fund that exceeds the cap is to be moved to accumulation. Why, other than to employ more public servants? Just imagine the complications that will occur for those unfortunate retirees that have complex self-managed superannuation funds! What a nightmare that will create! Why not let the retiree choose, based on financial advice, and in accord with his/her personal needs/preferences, and reduce the costs of the new proposals?

Should super be used to accumulate wealth? NO! Should there be a cap on the tax-free pension component? YES! Is the $1.6M per person adequate? Absolutely NOT! If the previous Hawke/Keating government's RBL provisions were still in force today, the pension cap would be $2.5M per person. And the $1.6M is especially inadequate, if it applies to existing older female retirees who had no opportunity to build their own super. In that case, the older couple is now restricted to a total of $1.6M, whilst younger couples can have a total of $3.2M! How fair is that? This is surely the only age benefit that that does NOT have a single's and couple's limit!

Don't forget - you cannot receive a regular income from an accumulation phase fund – unlike the pension phase. The consequence? If the restriction on the pension cap is too low, and the government makes it clear that it does not value SF retirees' contribution to the Budget bottom line, retirees and would-be retirees will be angry! They may be tempted to spend their savings on cruises and other luxuries – as opposed to day-to-day living. They can pay for those via lump sum withdrawals from accumulation phase funds, or they can cash in other assets. Or, they may decide to remain in their too-large expensive family homes so they can receive an (even partial) age pension rather than downsizing and self-funding. To be quite blunt, by the time we get to 90 or so, it is in our best interests to have no money at all, so that we can enter an age care/nursing home at the government's expense! The consequence? Another reason to spend our hard-earned money, especially given that governments do not appear to value self-funded retirees, and the contribution they make to the economy! Rather, they constantly seek to use them as convenient cash cows – whilst at the same time handing out generous family benefits to those who are making no efforts at all to save. Spend it or lose it will be the new catch cry for retirees and would-be retirees!

I have not discussed in depth all the proposed superannuation changes here, but it seems to me that insufficient encouragement is being given to workers, especially those approaching retirement, to save for their future. Anything that discourages self-funded retirees, and forces them back onto full or partial age pensions, will have a pronounced detrimental effect on the Budget and will increase the deficit by up to $23K per person per annum. Alternatively, the government could be quite pragmatic about the whole issue of lower income workers – that is, it could accept that all lower income people will receive the age pension anyway, therefore not give lower income people any extra tax concessional treatment while they are working – thus making up-front savings.

Remember, in countries such as the UK and in Europe, all workers must make employee contributions of up to 10% of their net income, in addition to the employer making a 10% contribution – thus more fully funding workers' retirements (a much higher total contribution of 20% of workers' incomes). In these countries, all workers receive a non-means-tested government pension – one that can then be augmented by private superannuation if so desired.

Governments should be praising SF retirees for their commitment to self-reliance and for relieving the government of the financial responsibility for their retirements. Instead, SF retirees are being attacked as selfish, Budget destroying parasites who need to be brought to heel! A fine reward for doing exactly what past governments have asked of them – to be frugal, to invest, to save, to provide for their own futures, and not to be a burden on the taxpayer!

Finally, superannuation rules must be put in place to ensure that greedy and ill-advised political parties cannot change them again! Surely there is some way to 'cement' in superannuation rules? Without that, confidence in superannuation will just continue to be eroded, and dependence upon the age pension will continue to increase, creating ever-increasing budget deficits.

Submitted for your consideration. Now is the time to act responsibly for the longer term benefit of all Australians and the economy!

Kay and Pat Kelly