SUBMISSION 4

House of representatives Standing Committee on Economics, Finance and Public Administration
Submission No: 4
Date Received: 24/6/05
Secretary: Sharon Bryant

Bryant, Sharon (REPS)

From: john dimeski [[redacted]]
Sent: Thursday, 23 June 2005 10:09 PM
To: Committee, EFPA (REPS)
Subject: Improving the Superannuation Savings of People Under Age 40

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24 JUN 2005
House of Representatives Standing Committee on Economics, Finance & Public Administration

Dear Sir/Madam,

please accept the attached as a submission for the abovementioned topic.

I look forward to discussing the matter in more details.

Regards
John

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ChoiceSuper

Inquiry into

Improving the Superannuation Savings of
People Under Age 40

AUTHOR: JOHN DIMESKI JUNE 2005 ©

Chapter

1

Superannuation

Heading in the right direction without a plan

Superannuation is often viewed by the community as an abyss, the ultimate black-hole, we know it exists, but we do not know how to get there. These are harsh words, and when you add the recent developments concerning SuperChoice legislation and those powerful yet incomplete television advertisements depicting the fee crisis associated with leaving Industry Funds, it is no doubt most Australians see Superannuation as nothing short of unattainable, untenable and outright confusing.

We often hear in the media that super is a great idea, something for the future, ideally for retirement. Yet that yellow brick road is certainly the path we are headed, very windy with a myriad of obstacles along the way. If we are to make super an asset base for the future that parallels good old bricks and mortar, let's start thinking about why Australians dismiss superannuation as a savings vehicle and opt for more liquid flexible investments such as the residential home, investment property and shares.

If we focus not on SuperChoice but on ChoiceSuper, i.e., making this the superior option, the national savings problem currently facing Australia can begin to alleviate, but only if we head in the right direction with a plan, ideally down a straight road and not the windy yellow brick road.

This report does not propose to provide a thesis on the econometrics of the superannuation debate, simply point out salient features that are currently inhibiting the average Australian from focusing on superannuation as a serious asset for retirement purposes. These can be summarised as follows:

1) Simplifying the legislation surrounding superannuation

2) Reduce the number of legislative amendments imposed on superannuation

3) Enforce a regime of disclosure regarding fees

4) Provide minimum reporting standards of quarterly reporting, as half yearly/yearly reporting of members balances can result in a lack of focus on returns, analysis on contributions etc. Do we not like getting our bank statements monthly?

5) Utilise proceeds from superannuation at any time to pay for Financial Advice, most people refuse to pay for good advice, and I question how useful a $1,100 Statement of Advice really is? This is overly important as without a plan Australians are destined to follow the yellow brick road.

Chapter

2

ChoiceSuper

Heading in the right direction with a plan

To date I have highlighted the fact that Australians are skeptical about superannuation. In particular people under age 40 are the most vulnerable. The days of employment for life are well and truly behind us. Those fortunate enough to fall under the 'job for life' category and survive the corporate cull have amassed a level of retirement savings that may just get them through to their life expectancy.

Did I also mention that delightful component called pre-83? We all know, should I say, we all do not know that Australians under age 40 almost by mathematical certainty will not be able to categorise any part of their hard earned superannuation in this concessionally taxed environment. Yet again, the under 40 are working harder and longer, deferring a family and yet concessions exist that are largely unworkable. Also, the lucky Australians that managed to hold onto their job for life whilst watching their property assets, often pre 85, grow many fold in value are now smiling even more so. Fortunately for them retirement is beginning to sound no so like a dirty word. But for the unlucky folk aged under 40, well, no pre-83, no CGT concessions on investments (property and shares) and forget about that nice employer.

Actuarial studies provide evidence of life expectancies expanding as a result of community health awareness programs and improved medical services. This only adds to the importance of building a savings pool for retirement, otherwise, people under 40 will grow old under a deteriorating standard of living due to the inability to generate sufficient income from their superannuation.

As a general rule, the first twenty-one years of our lives are geared towards school; the next forty-four represent our working lives to sixty five, with the final twenty years retirement related. However, if this statement holds true, it is reasonable to suggest that we need to save one third of our salary/wages possibly in the form of superannuation to meet our retirement needs. That is, we work for forty years, and spend the next twenty years. Therefore our adult life can be viewed as being sixty years, two-thirds of which are income producing whilst one-third is non-income producing. Hence the need to save 33 cents in every dollar for retirement. This is a generalisation, but a rule if met, can result in a national savings pool providing a higher standard of living for all Australians.

To conclude the discussion I have provided some possible areas of improvement for people aged under 40 to save toward superannuation. These are not exhaustive nor have I provided a comprehensive analysis. The purpose is to stimulate debate and address each notion on its own merits. These are as follows:

6) Introduce the notion of nil contributions tax on employer contributions if the employee submits an equal or greater amount in the form of salary sacrifice (note this component to also be treated as nil tax). To ensure that these generous contributions remain in the fund at retirement, a new component can be introduced called the post 2006 component. This new component will be preserved until the member dies and can only be drawn as an income stream. Australians can elect the percentage of their employer/salary sacrifice contributions to be catergorised as post 2006 knowing that these monies are quarantined and can only be accessed at retirement. Perhaps the earnings of this component can also be quarantined. Which leads me back to point (5), the utmost requirement to source sound financial advice to develop the appropriate strategies for retirement. Imagine the net impact on superannuation savings, the national savings pool via the significant reduction of welfare dependency. Again, this discussion does not propose to quantify the financial impact, merely raise the unambiguous notion of introducing an untaxed element solely for the purpose of providing an income stream for retirement.

7) *Alongside point (6), a pressing issue facing young Australians concerns home* affordability. Although superannuation prohibits gearing, perhaps the notion of a members superannuation fund balance contributing towards their home can be viewed as a positive development in light of the property boom. For example, assume a member accesses $200,000 from their super to purchase a $400,000 property, whereby $200,000 would be geared funds, the super fund can enter into an arrangement whereby any proceeds from the sale of the property would be directed back into the members superannuation fund and quarantined for future retirement income streams. I do not propose to quantify the mechanics nor the taxation aspects of such a proposal however such an approach will well and truly raise awareness with the benefits of superannuation.

ChoiceSuper - How to make Super the best choice

The points raised in this discussion to date represent an alternative approach to making super the best choice. Without disclosing a full analysis of all the permutations and combinations as result of my industry experience, this discussion is merely a brief documentation of potential solutions to raise the awareness of superannuation for people under the age of 40. Should you wish to discuss these or other items associated with this topic I enclose my contact details below.

Regards,

John Dimeski

[redacted]