

Bryant, Sharon (REPS)

From: John C. Dewan
 Sent: Tuesday, 5 July 2005 10:26 AM
 To: Committee, EFPA (REPS)
 Subject: Superannuation

Re: Superannuation for those under 40

Getting anybody to save for retirement is a problem and I believe that compulsory superannuation is likely the best solution.

There is one area of the Australian retirement savings system that I believe is dreadfully complicated and could be simplified to some extent. That is in the area of DIY Superfunds.

Australians should have the opportunity to open accounts similar to IRAs in the US. IRA stands for something like "Individual Retirement Account". The UK copied this system not that long ago and called the accounts ISAs ("Individual Savings Accounts").

These are much simpler than the DIY system now in place in Australia and involve only the individual concerned. The "custodian" is usually a bank, brokerage house or managed (mutual) fund company.

These accounts really only apply to someone interested in purchasing individual company shares but can also be used for investing in managed (mutual) funds. The accounts do NOT apply to the purchase of real estate or collectibles (art, jewellery etc.). I have no knowledge in these areas and suspect that the Australian DIY system, as it is now set up, probably suffices for those areas.

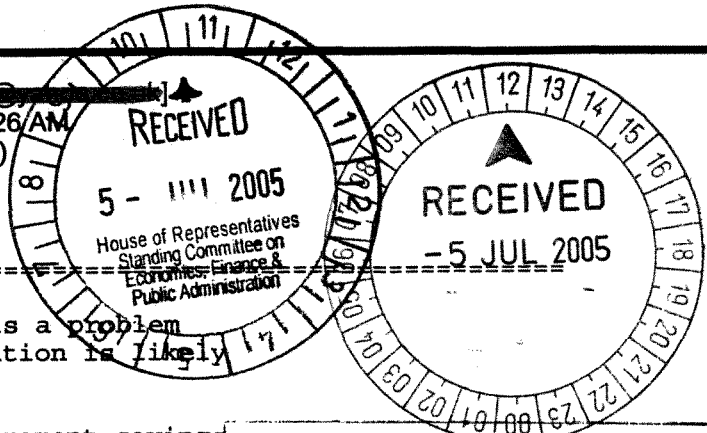
IRA accounts are also tax advantaged. The assets grow without incurring any further taxes and, if they were initially funded with after-tax dollars, funds can be withdrawn free of taxes once a certain retirement age has been reached.

The idea that Australian Superfunds are taxed three times (on entry, on any gains and on exit) is a huge disincentive. This whole area of Australia retirement saving should be re-thought. If you want people to participate in something it has to be simple and they have to have a sense that they are gaining some kind of advantage from it. Putting money away for a long period of time should not be penalised with excess rules and excess taxation. If the government is to use the tax system to mould people's behaviour it should help and encourage them not hinder them.

I recently looked into opening a DIY Superfund with an Australian online discount broker and found that it would cost \$500 to set up and \$1000 per year to maintain. This is ridiculous! In the US, IRAs are usually free to set up and are usually free to maintain each year. The companies involved as "custodians" are only too happy to have the assets under management.

I would recommend Australia at least look into these types of accounts. Anything that can be done to simplify the complicated DIY Super system, and the taxes involved with Superannuation in general, can only help Australians save for their retirement. The government may lose out on some taxes in the short term but in the long term should win when retirees are able to pay for their own retirement rather than having to rely on the government for a pension.

John C. Dewan



House of representatives Standing Committee on
Economics, Finance and Public Administration

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Secretary: Sharon Bryant

5 Portland Street

Nedlands, WA 6009

Phone: (08) 9399 2000

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