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Committee Secretary, Dr Margot Kerley
Standing Committee on Ageing
House of Representatives
Parliament House
Canberra ACT 2600

Submission from John Ray

I am a married 76 year old accountant and self-funded retiree who retired from full time employment at the age of 66, after spending the last fifteen years in the life insurance and superannuation industry. Until recently I worked part time, for three days a week, until retrenched. I believe that my age, experience: and qualifications may make my opinions worth considering. For your convenience, I will start with a summary.

SUMMARY

POLICIES: The Desire for certainty.

EDUCATION: The need for unbiased information and advice.

INCOME: Superannuation. Inflation and tax. Inheritance tax. Married retirees.

WORK: Incentives. Ageism.

HOUSING: Satisfying changed needs. Housing types.

AGED CARE: Appropriate care. Respect for the individual.

HEALTH: Healthy lifestyle. Adequate treatment.

DYING: Whose life is it, anyway?

RECOMMENDATIONS

The body of my submission follows,

Yours faithfully,

John Ray

POLICIES

Preparing for retirement should start as early as possible, with increasing importance as we grow older. Financially, people must have some confidence that by saving through their lives they will enjoy a comfortable old age. Individually they cannot guarantee such certainty. This is a job for government, either directly or through regulation. It is said that the only certainty is death and taxes, but even these cannot be predicted. Death at one hundred rather than at seventy means that thirty years more income is required. Taxes are changed; invariably producing winners losers.

Other factors, such as charges or rebates for superannuation medicines, medical and hospital services, changes in pensions and related entitlements, can significantly affect final income. In recent years governments have continually changed these; usually in the name of 'reform', making rational planning all but impossible. A previous government claimed to be preparing for demographic changes twenty five years in the future. The present government claims to look forward forty years. It is hard to believe that either looked beyond the next election. Only the politicians and senior public servants who subject us to these unpredictable changes achieve certainty through the generous superannuation that they have given themselves.

EDUCATION

People need detailed and objective information to equip them for the life and financial changes associated with old age and retirement. In particular, financial advice cannot be left to those who have an interest in selling a particular product. Governments should either provide this themselves or ensure that it is provided by accredited advisers who have no pecuniary interest in the investment choices made. Personally I have been very concerned at the continual pushing of 'growth' investments, as if there were no risk involved.

INCOME

General: As far as I can judge, people have a very muddled view of old age and retirement, and no more so than in the income required. Some believe that old people should live a restricted life, such as they could not bear to live themselves, without holidays, outings, or the occasional restaurant meal. They assume that there is never a need for new clothes, refrigerator, or car. Others believe that with their own home, the old age pension and (say) \$100,000 they can live prosperously for the next twenty five years.

By providing only a means tested very basic pension, Australian governments of both major parties have tried to distance themselves from responsibility for retirement incomes, but this detachment is an illusion. The Government inserts itself into every aspect of saving for, and off, these incomes.

Superannuation used to be confined to senior and salaried staff. This was felt to be unfair, so it was extended to all employees. The great number of small accounts was less efficient to administer, incurring proportionately higher fees. Then the government decided to tax superannuation further eroding its worth. Changes kept coming until its complexity was understood by few; even in the superannuation industry for which I worked. At first members could choose 'capital guaranteed' funds which meant your savings were secure, but the fund backing it had a high proportion of equities, which fell in value in 1987, so the guarantee was abandoned. Employees with a 'defined benefit' based on final salary were not affected, but this is being abandoned in favour of 'accumulation accounts' where the

risk of loss is held by the employee. Superannuation may be taken as a pension or as a lump sum. There are tax advantages in a pension but most people prefer to take a lump sum because they have more control. The amount is also often too small to give a worthwhile pension. Personally I do not believe that any pension is worth having unless it is indexed to the CPI or average weekly earnings. No private organisation can guarantee indexation, so if governments want to encourage pensions they must tackle this problem.

As I have already indicated, I believe that neither retirement income, nor retirement savings in years immediately preceding retirement, should be largely from or in equities. We appear to be at the end of a prolonged boom which has raised expectations of perpetual growth. Even if the value of shares and property trended ever upwards, it could still have prolonged downturns that kedd retirement plans. Even now people are misled by charts of carefully selected dates and investments that give an excessively benign view of the past. (As I write, sharemarkets are falling. Lest I seem to be writing with the benefit of hindsight my wife and I got out of our last share investments in the euphoria of 1986. We may have less wealth than if we had made all the right decisions at the right times, but we undoubtedly have more peace of mind.)

Inflation and Tax are enemies of saving. Even at the present 'low' rates of inflation, savings are halved in about thirty years; which is a serious loss in a working life. As an example of the effect on retirement income, let us assume current rates of the CPI of 3%, a term deposit of \$100,000 at 5% and a marginal tax rate of 31.5%. Instead of an apparent income of \$5000, the real value is only \$425 towards living expenses ($\$100,000 - \$3000 + \$5000 - \$1575 = \$100,425$) Contrast this with the treatment of franked dividends and the low rate of tax for capital gains. You can vary these assumptions, but the basic picture is unchanged.

Inheritance Tax: If the government takes action to protect the savings and income of retirees by some form of indexing for inflation, either directly, through the tax system, or indirectly as guarantor to private investment funds, this may result in the maintenance of the real value of an estate that, at death; will go to the retirees beneficiaries In other words, government support will go to an unearned inheritance. This is the point at which a tax may justly be levied. Personally, I believe that inheritance taxes should also be levied on all large estates.

Intergenerational Equity: It may be said that it is unfair to younger generations to give too much support to the old; ignoring the fact that everyone expects to be old themselves one day. The hope that one will be able to be mean to the current older generation, but that the rules will be changed to your own advantage when you yourself reach that age has so far been an illusion. (I say 'so far' as one of the generation which has been watching the baby-boomers since it changed their nappies; and would never underestimate their capacity for forceful self-interest. To I say 'Now is the moment').

Bias against married couples: For social security and other benefits, including the pension, couples are assessed jointly. This treats them differently to others gay couples for example, who are assessed as individuals. This means that they always have lower; or no, entitlements. However, for taxation purposes they are assessed as individuals. The least that could be done to redress this bias is to permit married couples to 'split their income for tax purposes.

WORK

When old age pensions were first granted at age 65, few people lived beyond that age and physical labour meant that those who did were usually unable to continue working. Today and in the future most can expect to live into their seventies and many well beyond, while most work' is emery. Even lifting, moving and digging is done by machines. Yet we have fit and healthy people unemployed, many uncouncted as they are banished to so-called 'early retirement'. This is a disgrace.

I hesitate to recommend that the pension age be raised, as many neither desire nor are capable of continuing, but I believe that those who wish to should be encouraged and rewarded This could be done by increasing the old age pension for each year that it is unclaimed, or by levying a lower rate of tax, for example. Many, of course, would' choose to work part time, as I did. At present, ageism is' alive and well in the community. Over 55, people are not considered fully r. I look forward to the day, probably after I have gone, when they are considered as valuable social assets; courted and; rewarded.

HOUSING

Many old people will be quite happy living in their existing home for many years, but at some key may wish for housing that demands less effort, time and cost. This is an area where stereotypes are closer to the truth. Small well-built and comfortable houses, no stairs, with easily maintained gardens, close to family, shops and transport, in a quiet safe neighbourhood. Good environmental design to reduce the cost of cooling and heating, and well insulated against noise. Such houses are rare at present and private builders cannot be relied onto supply them. The ration of local, state and federal governments is required to establish and enforce building standards. Such houses may be in a retirement village, freehold home.

For those too poor to afford the above, it is the responsibility of government to ensure that suitable and affordable accommodation is available.

Some retired people, jealous of their independence, choose to live in caravan parks; perhaps in a mobile home. The law does not always protect their rights as well as it does those: of house tenants: It should.

AGED CARE

I have nothing very original to contribute on this subject. the first objective should be to provide home help services, including meals on wheels so that people may remain in their own home as long as possible. This is not only usually kinder but also less expensive. Nursing home accommodation may be necessary with the frailty of advancing age. There may be differences due to the incomes of residents, but a good basic standard must be established for all. Above all, the dignity of individuals must be respected as an integral part of their care. Regrettably this is not always so at present. There is a great shortage of good accommodation and it is not easy to find a suitable nursing home close to family.

Governments must not only establish standards but monitor and enforce them, and ensure that the funds exist to provide good accommodation, whether public or private.

HEALTH

Prevention: Health in old age depends very much on the lifestyle in previous years, so every effort must be made to get the message across about exercise, diet, not smoking etc. Medical check-ups are needed with increasing regularity as we age, or have particular concerns. In the past it was thought that the old should relax and take it easy. On the contrary, it is vital that they should keep active and interested. Good health demands more work as you age; not less.

Treatment: The standard of treatment is generally high in Australia but government is continually under pressure to contain costs by reducing it. As a principle, I believe this is do unfair and shortsighted. This threat seems particularly acute for public hospitals.

DYING

I believe strongly in the right of the individual to choose their own death when faced by a hopeless or terminal illness, either: by the withdrawal of treatment or by voluntary euthanasia; directly or through a 'living will' in the case of lost capacity. There must of course be laws to ensure that this wish is genuine and the diagnosis correct. I realise that some people find this morally repugnant, but they should: recognise that nobody is suggesting that they take this path, and that they have no right to dictate to those who do. Whose life is it, anyway?

RECOMMENDATIONS

Income

1. Younger generations will not support any system of retirement savings and income unless they believe that one day it will benefit them too. They will never have this certainty if it is left to the constant meddling of governments. Whatever system is decided, it must involve the participation of the whole community in discussion and decision making. Once decided it must be brought into law by referendum, and be changed only by referendum.
2. Outside this system, people will have the same right to save and invest as at present, but no concessions or tax advantages.
3. Politicians and senior public servants will no longer be allowed special privileges, but belong to the same scheme as ordinary citizens. This should ensure that it is both fair and generous.
4. Special retirement savings accounts will be established, called (for example) 'Designated Accounts' (DAs). Savings will be accumulated until retirement age. There will be a limit to the total amount that may be saved in these accounts, increasing in line with inflation. The source of funds may be by a contribution from employer and employee, or from other specified sources.
5. The balances of funds in DAs will be increased at least annually by the rate of inflation, after the addition of interest, compounded daily. The interest rate will be the long term real

rate of interest of fully secured investments, which I believe to be about 2.5%. No tax will be levied on . capital or income, but an inheritance tax will apply on death.

6. On retirement, except for relatively small amounts; at least 75% of the DA must be converted to a pension. Any sum remaining may remain in the DA and continue to be indexed, with the same real rate of interest. Sums may be withdrawn from or added to this account up to a designated limit. Pensions will also be indexed.'

7. DAs may be provided by the Government or by private institutions, but be fully guaranteed by the Government for capital, indexation, and interest This will ensure that private institutions are well regulated and audited.

8. Citizens whose savings are too low to convert their DA to a pension will qualify for an old age pension similar to today's.: This also will be specified in the referendum:

9. Use of funds: History shows that when such large sums are accumulated they are almost most invariably misused over time. It is most important that they be invested in sound assets in the system. Otherwise they may be frittered away in pork-barreling, cheap loans to cronies, or financing dangerously risky schemes. The whole system must have an independent supervisory board, or boards, composed of persons of experience and probity; free from the influence of government or fund managers; producing frequent detailed audited accounts.

10. Retired married couples, both in the proposed and the present system, would be permitted to split their taxable income .

Work

11. Ageism must be made as unacceptable as sexism and racism.

12 There must be incentives to encourage people to work beyond retirement age if they wish.

Housing

13. Most housing in Australia is poor environmentally; including the smaller housing suitable for retirees. The Australian government should involve itself in establishing standards that produce suitable housing.

Health

14. Good medical and hospital services should be available to all, including the aged and the poor.

Aged care

15. More good quality nursing home places, must be provided.

Dying

16. Subject to safeguards, people must be allowed to die according to their wishes in cases of hopeless or terminal illness; by the withdrawal of treatment, or voluntary euthanasia.