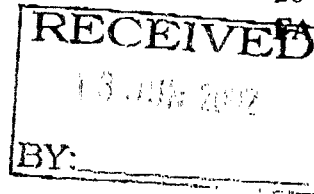


The Chair;
The Senate Select Committee on
Superannuation and Standards
of Living in Retirement.

20 Roseworthy Crescent,
FARRER ACT 2607



Dear Senator Watson,

SUPERANNUATION AND STANDARDS OF LIVING IN RETIREMENT

With reference to the current senate inquiry, I would like to offer my observations based on my experience as a "retiree" of nearly ten years. I have tried to address the issues as set out in the information sheet provided by your office.

However there is one facet of the current retirement trend that is missing. Over the last ten to twelve years and currently, the trend is for people to retire early through the Commonwealth Government led push for the farming out of services usually provided from within a Department or Company.

This early retirement is accompanied by **reduction in superannuation entitlements** and little possibility of future **income producing employment**.

I feel that some consideration should be given to the early retirement factor in the deliberations of the current inquiry particularly in relation to the Adequacy of income.

BACKGROUND

I worked in private enterprise for the first eleven years of my working life and then in the Commonwealth Public Service from which I retired at age 53 through "voluntary" redundancy after almost thirty years service in the same department. I have since enjoyed some spasmodic contract employment in the private industry. I have had no employment since my last contract was terminated twelve months ago due to the downturn in the economy.

Our current income is derived from my reduced consuper pension and interest from savings investments. My wife has no superannuation entitlements.

ADEQUACY

- * How much is enough?
Based on a single income to cover a husband and wife who own their home, have no outstanding debts and live very modestly - \$35,000 pre tax income.
- * What will it need to cover?
General household expenses, food, rates, electricity, water, gas and telephone.
Running costs and maintenance of at least one modest family vehicle.
Health expenses including Hospital Insurance.
Money to permit participation in some health beneficial activity eg., tennis, golf, gym work, some social entertainment and active hobby interests.

* Levels of contribution required?

The SGC levy is a definite start but at current levels will not be adequate and an additional minimum contribution of at least 5% pa. should be made by the individual.

* Whose responsibility?

I believe that everyone has the responsibility to make some provision for their retirement. This can be enhanced by schemes such as the SGC Levy and Governments can provide assistance with taxation incentives/benefits and protective legislation to ensure that employers make the required payments and do not use employee entitlements to finance and prop up failing businesses.

* Fund performance - investment returns, investment strategy & investment choice.

This is a very difficult question as not everyone is blessed with financial commonsense. Some compulsory investment in Government guaranteed bonds paying a reasonable rate of interest should be part of every portfolio. Other investment should be spread over a number of investments to spread the risk based on the advice of an experienced financial adviser.

A third component should be a "cash" component invested in term deposits with a major bank. The basis of all my financial considerations is the return from a \$5,000 three year term deposit with the Commonwealth Bank. This "cash" component income has been subject to a major drop in interest rates from approximately 8.5% in 1992 down to approximately 3.8% in 2001.

* Funds fees and charges (including role of member benefit protection)

The fees and charges that form part of the overall fund management/administration strategy can be quite a contentious point. When the investments are doing well, fees and charges can appear to be reasonable. However when the investments do not perform as expected, the fees and charges can be disproportionate to the fund earnings. The general result is that there is negative income from fund earnings and the members income suffers accordingly.

The problem is how to strike a balance between fund performance, as measured by earnings, and the overall performance taking fees and charges into account. If the fees/charges are tied to fund performance, fund managers may be tempted to chase income through investment in risky investments to maximise their income and lose sight of the long term goal of effective management of the funds committed to their care.

I believe that the answer is for prudent management that is not over assertive/conservative, with legislation to prevent management from awarding exorbitant salary packages and super bonuses at the expense of the investors.

EQUITY.

- * Tax - number and quantum of taxation points
If tax is payable on entry into a fund and on the earnings of the fund at concessional rates to encourage savings. I see no reason to tax a reasonable income stream derived from such a fund.
- * Reasonable Benefit Limits - defining "reasonable" is difficult as we all have our own definition depending on our needs. This I will have to leave to those with more experience and the statistics to make a "reasonable" decision.
- * Deductible contribution limits
A good provision - can prevent over contributing just in order to achieve a tax benefit.
- * Concessional treatment (including the effectiveness of incentives)
This is possibly the most effective way to encourage the individual and business to participate and invest in superannuation for their future benefit.
- * Funded/unfunded schemes.
I know that my super comes from an unfunded scheme and if it were not from the Commonwealth Government, I would be extremely concerned that the enterprise could go bust and leave me with nothing. Therefore I consider that all schemes should be funded. Inherent in this is the danger that assets of a scheme could provide a temptation for financial misuse by company directors and politicians. Consider how big Comsuper would be if it had been fully funded from the start.
- * Special groups: intergenerational issues, low income earners, self employed, women, older age workers, discontinuous employment.
I do not know what is meant by "intergenerational issues", however given the Howard Governments heavy handed push for "individual employment contracts", the "discontinuous employment" problem can only continue to grow and will require special attention. Workers can become focussed on the need to find employment in order to provide for their family needs and tend to forget the superannuation issue. Refer also to SIMPLICITY - account consolidation and lost members register.

Low-income earners, women, older age workers will have to be provided for by governments. Private enterprise is too self centred to be trusted in this area.

The self employed will need to be educated to make provision for their retirement and this should be part of every "business plan" prior to setting up a business. Banks and other Lending institutions should include this in their considerations to undertake the financing of a new business.

SIMPLICITY

Apply the KISS principle - keep it simple stupid

- * Grandfathering - a term that has no meaning for me at this time.
- * Tax Treatment
Has to provide an incentive to encourage the individual to want to participate without being too complicated for the individual to follow without having to pay a CPA to explain it all.
- * Education
A **prime** requirement, without it all else could fail.
- * Account consolidation
The Industry appears to have this aspect covered, as they offer to consolidate everything into their scheme. However the individual still has to be educated that it is their money and that they need to keep track of the number of schemes that they get pushed into with every change in employment.
- * Lost Members Register
A veritable necessity - see account consolidation.

INTEGRATION.

- * Aged pensions (including consideration of a universal age pension for >80)
See "equity" - special groups etc.
- * Means/Asset testing
Unpopular, but with Australia's population base possibly a necessity. Currently in Britain when a person reaches the pension age they are paid the age pension regardless of what other financial provisions and assets they may have. I have several cousins in this position in the UK.
On the negative side it does encourage the ideology of blowing it all on having a good time and let the government pay when the time comes. It also discourages being thrifty and saving for your retirement.
- * Housing issues including rental assistance
Low-income earners, women, older age workers will have to be provided for by governments.
- * Concession Cards
A sound method to provide assistance to those who have special problems or those who fall between other major areas of assistance through policy or other administrative shortcomings.
- * Lump sum/income stream
If my information is correct, in recent years, Commonwealth Government changes to the commonwealth superannuation schemes has been towards the lump sum superannuation payment and this has set the trend in the industry.

I personally lean towards a mixed income stream comprising, an indexed income from a funded scheme sufficient to cover basic needs, and supplemented by additional income generated from investment savings.

The crux of this or any scheme or mix of income streams is that the indexation has to keep pace with the actual cost of living. Something that the current Comsuper pensions do not do despite the recommendations of a previous Senate Inquiry that the Howard Government has failed to implement. Any scheme that fails to have a proper and realistic indexation provisions will in my experience simply create a section of the community that knows that it is being disadvantaged and taken advantage of by the government and those whose super schemes do have a fair method of indexation.

- * Private health insurance PIHIS - 30% rebate and Lifetime Health Cover
Without the current private health insurance incentive scheme my wife and I would simply have to progressively lower our private health cover until we could no longer afford it and then to drop out. Based on our current income I estimate that our health cover, private health insurance with 30% rebate and medicare levy, will amount to 6% of our joint after tax income.

We are rapidly reaching the point as a small shopkeeper in the USA pointed out to us in 1994, "we cannot afford not to have health insurance and we cannot afford to have health insurance".

- * Pharmaceutical Benefits Scheme (PBS)
A necessity for those on low incomes and those who have a medical condition requiring continuing special medication to enable them to have some quality of normal life.

- * Disability
Those with a disability that requires special appliances, services, medication and housing modifications to enable them to live with dignity will require special provisions to be provided by governments. This may require governments to encourage community volunteers, but with the current climate of insurance cover it may be a hard task.

- * Aged Care
This is an area of growing concern, as people grow older their ability to carry out tasks that would have been easy 10 - 20 years before become impossible and the general solution is to pay to have the task done, if they can afford the cost. This is where the indexation of superannuation becomes critical to maintain a respectable income stream.

Another aspect that requires consideration is the automatic reduction in the super pension payment to the wife where the husbands superannuation was the sole income. When the husband dies, the wife is deprived of the one person who did most of the little maintenance jobs around the house. She now has to depend on others and in most cases has to pay quite large sums for little jobs, eg. getting a plumber to change a tap washer.

Social Security measures that encourage people to remain in their own homes for as long as possible are good up to a point. The big problem is when the general maintenance of the home and grounds becomes too much for the older person, the idea of change is overwhelming and they are not up to facing the changed circumstances.

Yours faithfully,



David Dunnet

6 June 2002.