Submission to Superannuation inquiry Australian Senate
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What is Superannuation

It is difficult to define Superannuation, other than an amount of money available for retirement once full time work has ended. There is no agreement as to what amount of money is needed or should be available and who should provide it. Superannuation basically is anything you want it to be and, like motherhood should not be criticized. Once you receive it, it is too late, you cannot go back in time and start again or earlier.

How I did it

About 1975 I decided it was time to look at my retirement prospects. At the time I was a member of a company superannuation fund run by the employer. The Superannuation trustee was a $2.00 company with the directors of the employer company also directors of the trustee. The funds were invested in the Employer Company and the directors voted the fund's shares. Giving themselves a 10% margin at A.G.M. time. The Employer Company I note, is no longer listed on the Exchange.

As was the norm in those days, if the employer company went bankrupt, management withdrew its superannuation once they were aware of the position of the company and, if anything was left, usually there was nothing, it went to the employees. I understand this is now illegal.

I set up the Salger Family Trust and Clalor P/L as trustee with myself and my wife as directors. We then purchased our 1st flat. Then No 2 and No 3. By this time, it was essentially self-funding with rent and tax benefits. In 1987 we sold the first flat and with the capital gain split in 2, we purchased 2 two-bedroom units by mortgaging 1 unit and increasing the mortgage on our house to pay for the second. It was still basically self-funding.

In 1993, we sold one of the two bedroom units and invested the proceeds on the stock Exchange. There we made our main mistake. One of the investments was Pacific Dunlop and to date, we have lost about $30,000 of our retirement funds. Most of this loss was recouped through other shares that have risen in value.

In 1998 we decided to retire. My wife had returned to work with Qantas and accepted a package, which as she was 55 years old included her superannuation. She received all up, about $120,000, some of which we used to clear all debts. We entered retirement debt free and 5 rental properties and about $100,000 in cash and shares.

Pitfalls

Government, as is normal, seeks to milk the punters for what it can get and if the punters are small with no political clout, all the better. Joan Kirner's Government tried to milk family trusts and federal Politicians are forever demanding that Family Trusts be taxed extra on the basis that family trusts are for the rich and thus fair game. In reality, this is often not the case, but it makes good television, with the talking head saying that my pet spending project can be funded if only Family Trusts were taxed. In our case, the profit of the trust flows to my wife and myself and we pay tax at our marginal rate. But, reality cannot get in the way of a good 30 second TV appearance.

2 years ago we applied for and were granted a LOW INCOME HEALTH CARE CARD. Centerlink has now withdrawn this card, as we have a family trust (therefore, we must be rich). Centerlink demanded details of the assets in the trust. We refused to supply the details on the basis that the card was a low-income card not a low asset card. This logic was to no avail, and even after lodging a complaint with the Commonwealth Ombudsman's office, Centerlink refused to renew the card. I thought of writing to the Minister, but decided it would be a waste of a postage stamp. All you get back is spin.

Investment options

The worst investment we made was in Pacific Dunlop. This company was appallingly managed and we should have dumped it as soon as it became apparent that Pacific Dunlop was heading for the scrap heap. Australia beat the United States by at least 5 years with shonky accounting, such as concealing debt as trade creditors, revaluing assets upwards prior to sale so that a loss can be booked, borrowing to prop up lemons. Yet still paying management exorbitant salaries and perks as the company share price headed south. Pacific Dunlop lost about $B6 of shareholder value, much of which was superannuants money managed through professional funds managers.

What distresses me most, is that the funds managers seem unable or unwilling to step in and insist that management make changes to ensure that the company is run profitably. Pacific Dunlop is the classic example of funds sitting on their hands and watching the shares go south. It took an American Fund to buy in and 'kick butt'.

My wife and son have some funds with BT. Who incidentally was a large shareholder in Pacific Dunlop. To date, my wife and son's investment has declined about 20% in value. My son has discontinued making monthly contribution to his super fund with BT, on the basis that he need not pay fees to a fund manager to lose his money. I was fascinated to hear on the Sunday Business show in Melbourne on Ch. 28 that Phillipa Smith was quoted as saying that investors should not be concerned if their superannuation fund is losing money. Of course, she did not say how you retire if your fund loses your retirement savings. You could also ask her 'If funds cannot have a positive rate of return during a period of low inflation and good business conditions, how will they fare during an economic downturn.
BT then had the unmitigated Gall to request that we 'top up' our investment. Presumably so that they can lose some more.

Mathematics of retirement

One must have some sound skepticism of the ability of the nation to use business investment returns to provide an income for retirement. We have a population of 20 million people. If 15% are of retirement age, 3 million people need superannuation payments of say $10,000 per year each. That adds to 30 billion dollars plus administration costs per year. The top 100 companies on the Australian Stock exchange do not create that much in dividends after tax and losses. And, all shares are not owned by superannuation funds. I hope it is not Government policy to freeze out all other investors.

To make up the shortfall, funds could sell shares, but to whom. All funds would be in the same position. One should remember the fiasco of the Property trusts of the 1980's. Investors poured in money and the funds were investing in properties. When investors wanted their money back, funds could not sell properties, as they were all attempting to raise cash. Government was required to assist with regulations to freeze redemptions. A friend who was managing a financial planning firm suggested I negatively gear into a property trust. This was just before they crashed.

We could invest overseas, but that is asking overseas consumers to fund our retirement income. We could sell the shares to overseas buyers and face the 'selling the farm' charges.

We could improve our management culture and run companies more profitably, but that would mean abolishing equal opportunity coordinators, affirmative action coordinators, sexual harassment consultants, paternity leave, maternity leave, PMT leave, closing businesses that cannot pay their way, etc.etc.etc. One only needs to look at the fiasco of Telstra which is a political football and where purchasers of tranche 2 shares have lost a significant part of their retirement funds. We have lost about $3000.00 on Telstra 2.

We could attempt to keep our brightest at home. We have 3 children. Our Daughter aged 30, a graduate of Melbourne University, is in England, she and her partner own 3 houses that they rent to American Servicemen. My son aged 28 started with the Melbourne Age after graduating from Latrobe University. He looked up at the hierarchy ladder and saw only mediocrity, mostly due to equal opportunity promotion. He is now in Tokyo teaching English in a Junior High School. He comes back occasionally to see how bad things are here. My youngest aged 25 was snapped up by Price Waterhouse as a Graduate inductee. He wants to go overseas, but Price Waterhouse will not let him go until the next graduate intake to see if they are up to standard. He has passed his Chartered examinations and is looking to head off. P.W. in America offered him a position, but local P.W. refused to clear him.

We could tighten Accounting Standards. We beat the Americans by at least 5 years with shonky accounting. The difference between the Americans and us is that we are unlikely to discover them. I wrote to ASIC in 1997 re a $780,000,000 discrepancy in the Pacific Dunlop accounts, but they were not interested. They simply advised me after pressing them that the directors of the company reclassified trade creditors as long term debt. I suggested to the gentleman advising this to me, that I just saw a flock of pigs flying overhead (or is it a clutch of pigs). Nothing like hiding debt as trade creditors, I wrote to the auditors but was ignored.

We could abolish tariffs and make local manufacturing more efficient and force them to export. In 2000 I needed 4 new tyres for my Nissan Patrol. Just prior to the introduction of the GST, I obtained a price from Dunlop Tyres. Realizing that there was sales tax on tyres I decided to wait until the GST was in to get them cheaper. To my annoyance I found out that the price post GST was the same as pre GST. Dunlop had increased their price in line with the GST savings. I purchased Hancook Tyres. They were made in Korea, enjoyed a long sea voyage, were unloaded at Australia's docks and transported to Tullamarine and sold cheaper than tyres made in Cambellfield by Dunlop and transported a few kilometers south to the Beaurepair outlet. And, my price for the Dunlop tyres was with the shareholder's discount.

We could increase our population , but this is somewhat difficult as we are performing about 100,000 abortions per year.

We could introduce compulsory euthanasia. After retirement, one is allowed say 5 years of retirement, then expected to do the right thing. This is no more far fetched than in the 1960's and 70' saying that by the year 2000 we will be performing 100,000 abortions per year, mostly for convenience or lifestyle reasons. We could site the Euthanasia clinics next to the abortion clinics (sorry Fertility Clinics). The spin churned out for voluntary euthanasia by its proponents is distressingly similar to the spin churned out when abortion on demand was promoted 30 years ago. All it needs then is a Reformist Government and a mediocre press.

How should superannuation be paid

Lump Sum

With a lump sum, Superannuation funds need to have significant funds available to meet payouts when they fall due. This can cause cash flow problems. However, the superannuant is assured of his/her money. The difficulty is that many people cannot manage a large sum of money. Experience has shown that most people receiving a lump sum for injury are broke within 5 years and on welfare. Large sums attract sharks like blood and, one can be cynical and suggest that advice concerning money mostly is given so as to suit the advisor rather than the advisee. Further, knowing that a lump sum is coming encourages debt and spending with the expectation that welfare will be there once it is spent.

Lump sums encourage divorce. One needs only to examine the divorce rate in the Victorian Latrobe Valley after the SEC paid out large lump sums as redundancy payments. One also needs to examine divorce and lump sum payments as settlement for injury. Settlements for injury are to look after the injured party and cater for their special needs. In a celebrated case in Victoria the injured worker appointed the State Trustee to protect his settlement. With the connivance of the State Trustee office, the wife received the lump sum settlement in her divorce settlement. He ended up in a wheel chair on welfare; she was sunning herself on the beach on the Gold Coast with the settlement proceeds designed to make his incapacity tolerable. Ask Jeff Kenett why he was so insistent to abolish Transport Accident and Work Cover lump sum payouts during his term in office.

How does the payee then ensure a comfortable retirement with his/her lump sum. They need to invest it.

To receive $10,000 per year nett per person, a lump sum of $250,000 per person is required or $500,000 per couple. With Inflation, after a few years, capital needs to be draw down, and the retiree must hope to die before the capital is expended. A bad investment and it all goes in one hit. One is reminded of the Bond Corporation saga where retirees were advise at the Annual General meeting that for the purposes of the Assets Test their investment in Bond Corporation is now worth nothing. Geelong Building Society is another example of retirees hearing that they are now broke and reliant on welfare.

Many fund managers trawl the population by telephone, looking for pigeons able to be persuaded to attend 'RETIREMENT INCOME SEMINARS'. My standard reply is that I have a business degree, what do you expect to teach me.

The ASIC webpage GULL AWARD should be compulsory reading for anyone with a lump sum.

Periodic Payments

Fortnightly payments on retirement overcomes the divorce problem, but creates its own problems, some of which are far worse. During my stint as TAFE teacher I contributed to the State Super fund and was involved for a short time with the Technical Teacher's Union Superannuation Subcommittee and attended several meetings. It turned out that the fund was expected to pay the fortnightly payment out of its own contributions for a period of 11 years after retirement. After that, Government started to make a contribution. But, during the Kirner period in Government, The Government took most of the cash reserves for its own political purposes and demanded that the fund borrow to meet its obligations. This made the Government look good as to buying votes and the debts were passed onto successive Governments. In our case Jeff Kennet. But, then again, they forced the SEC to sell land holdings on lease back, hand the proceeds to the Government who then complained that the SEC was deeply in debt. That is probably why we have it privatised now.

Having private funds provide the periodic payments makes the retiree dependant on the fund remaining solvent during the lifetime of the retiree. The HIH experience should create a bit of caution. The American experience with ENRON and WORLDCOM is an example of what can happen.

The whole subject is very depressing. I am glad I bypassed it and can look forward to an enjoyable retirement with an income for my wife and myself of somewhere near $30,000 per annum and have the capital to run down if I need it. I receive $2000 per annum from the State Super fund which helps pay some of the bills. I do not need to jump through hoops for Centerlink. We own four flats and three houses and if we can prevent our Political Masters from sticking their greedy grubby fingers into the trust we will not be reliant on welfare or the pension, during what is left of our lifetime.

Respectfully Yours

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