

Submission to

Senate Select Committee on Superannuation

Inquiry into

PLANNING FOR RETIREMENT

by

The Association of Independent Retirees (A.I.R.) Limited

March 2003

CONTENTS

RECOMMENDATIONS 3

INTRODUCTION 4

PLANNING FOR RETIREMENT

1. Financial Planning – pre-retirement 5

2. Access to Superannuation to Finance Retraining 6

3. Proposed Changes to Superannuation 7

4. Other Aspects of Retirement Planning 8

APPENDIX 1 NICRI Publications. 9

Summary of Recommendations

- 1. That Government make a major expansion in the funding and, activity capability of the National Information Centre on Retirement Investments, Inc. (NICRI).**
- 2. That it be mandatory for the trustees of superannuation funds to provide pre-retirement seminars and training programmes prepared, and run by an independent organisation such as NICRI for all workers approaching their anticipated retirement date.**
- 3. That training programmes be commenced a minimum of five (5) years before the employee's expected date of retirement and that they be held annually to ensure that a full understanding of the financial consequences of retiring are well understood by the future retiree.**
- 4. That Government take action to educate workers, through the whole of their working lives, of the need to prepare for a retirement financial environment differing significantly from that of the past.**
- 5. That superannuation funds accumulated during an individual's working life should not be made available for worker retraining purposes.**
- 6. That the contributions tax be phased out over a five year period.**
- 7. That pre-retirement education covering the effects of life style changes in retirement be included in all government and privately sponsored pre-retirement training programmes.**

INTRODUCTION

The Association of Independent Retirees (A.I.R.) Limited welcomes the opportunity to present this submission to the Senate Inquiry *Planning for Retirement* because of the vital importance of planning for all aspects of life in retirement. Planning which, to be effective, must be commenced well ahead of the actual event and continued throughout retirement.

A.I.R. was founded in 1990 to represent fully and partly self-funded retirees (SFRs) to all levels of government, Federal, State and Local. Prior to its formation, no organisation existed with the sole purpose of representing this rapidly growing section of the Australian population.

A.I.R. is a non-party political, non-profit company, representing people who are not in full time employment and who do not receive a full age pension. It will continue to advocate on behalf of SFRs to achieve equitable treatment from the three tiers of government.

A.I.R. is committed to ensuring that the voice of self-funded retirees is heard by Government Ministers by regular presentations of its opinions and proposals to members of both Houses of Parliament and to Government sponsored inquiries.

In Australia, the number of partly and fully self-funded retirees over the pension eligibility age already exceeds one million. In addition, the Australian Bureau of Statistics estimates indicate that there are some 1.25 million retirees between the ages of 50 and pensionable age. No details are available of the proportion of this group that is self-funded.

Demographic changes in the Australian population will increase significantly the number above pensionable age in coming years. Increasing numbers of retirees will receive superannuation payouts. As the effects of the Superannuation Guarantee Levy become more marked these sums will increase significantly. Mechanisms must be established to ensure that retirees are adequately prepared to handle monetary sums greatly in excess of those normally encountered throughout their working lives.

An overhaul of Australia's complex superannuation system and reductions in the excessive tax burden placed on superannuation are also needed to improve the efficiency of the system and to maximise outcomes for retirees.

PLANNING FOR RETIREMENT

1. Financial Planning – Pre-Retirement.

Of great concern to A.I.R. is the present lack of genuinely independent advice available to pre- and post-retirees.

The gradual aggregation of sources of financial planning advice into a limited number of large financial institutions, particularly banks, is seen as prejudicial to the long-term interests of workers approaching retirement and to those already in retirement.

With financial advisors dependent for their livelihood on the organisations that employ them, the probability of workers receiving unbiased, truly independent advice on the disposition of their retirement funds continues to diminish. Inevitably investment recommendations from such sources will, increasingly, be directed to the principal's range of products to the probable detriment of sound financial planning.

Workers must have access to completely independent information during the years immediately prior to retirement.

To this end, A.I.R proposes a major expansion in the funding and activity capability of the National Information Centre on Retirement Investments, Inc. (NICRI).

NICRI, currently operating on a government-funded budget of less than \$500,000 per annum, has been a valuable, though little known, source of independent information on the wide variety of possible options available for gaining income from retirement funds.

The restricted level of funding for NICRI severely limits the range of pre-retirement services it can offer.

Some indication of the role presently played by NICRI can be gauged by the breadth of coverage of NICRI leaflets covering most aspects of retirement incomes. (A listing of these appears in Appendix 1.) These leaflets provide basic information in easy to understand language. Substantial expansion in their breadth and depth of subject coverage could be achieved if NICRI funding were to be substantially increased.

While NICRI participates to a limited extent in pre-retirement seminars organised by Centrelink, its work in this field could be greatly expanded by increased funding.

A.I.R recommends that it should be mandatory for the trustees of superannuation funds to provide, for all workers approaching their anticipated retirement date, pre-retirement seminars and training programmes prepared, and run by an independent organisation such as NICRI.

It is recognised that many of the larger employers already provide some pre-retirement education for employees. However, the independence of the advice given can be open to question if the advisors are drawn only from the financial advisory industry.

It is imperative that workers are properly prepared for the important decisions associated with the disposition of their superannuation payout.

It is recommended that these training programmes be commenced a minimum of five (5) years before the employee's expected date of retirement and that they be held annually to ensure that a full understanding of the financial consequences of retiring are well understood by the future retiree.

In addition to these intensive training programmes, there will be a growing need to develop in workers a greater appreciation of the significance of the increased part superannuation proceeds will play in their retirement financial positions.

As the results of the Superannuation Guarantee Levy become more apparent through increased superannuation pension benefits, workers will need to be educated in a way never previously necessary. There will be less dependence on the Age Pension and, increasingly, workers will have to plan for the utilisation of the end benefits of the scheme.

This will be a major change in the mind set of the worker who previously took little regard to his financial future, depending as he did on the availability of the Age Pension.

To effect this attitude change, AIR believes it will be necessary for Government to develop specific educational programmes implemented throughout the whole of a worker's working life.

In effect, every worker becomes an investor who needs training and assistance in the management of his financial affairs.

It is recommended that Government take action to educate workers, through the whole of their working lives, of the need to prepare for a retirement financial environment differing significantly from that of the past.

2. Access to Superannuation to Finance Retraining.

Item (d) of the Inquiry's Terms of Reference questions whether there is scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people.

A.I.R is clear in its absolute opposition to such a proposition.

The superannuation funds accumulated during an individual's working life are needed to support retirees in their retirement years. They should not be made accessible for any other purpose.

Retraining of older workers for more suitable work should remain a joint responsibility of Government and employer. In situations where job loss occurs due to company failure the cost of retraining must be borne by Government.

3. Proposed Changes to Superannuation

A.I.R , in its submission to the Senate Inquiry, *Superannuation and Standards of Living in Retirement*, made a series of recommendations that included, (among others), the following:

- The phasing out of the contributions tax over a five year period.
- A complete review of superannuation legislation.
- A gradual removal of the superannuation surcharge.

Of these, the phasing out of the contribution tax would have the greatest immediate impact on Government revenues. In their submission to the above inquiry, the Association of Superannuation Funds of Australia (AFSA) estimated that this loss of revenue would lie between \$2.6 billion and \$3.6 billion if the contribution tax was removed in one step.

AFSA goes on to say:

"However, it needs to be stressed that this revenue flow and subsequent spending by the government now is both detrimental to the adequacy of individual's retirement income and to the government's future revenue from taxes on end-benefits".

If A.I.R's proposal for phasing out the contribution tax over a five year period were to be adopted the impact on Government revenue would be reduced to about \$600,000 in the first year.

In the overall context of total taxation revenues of \$165 billion (2000-2001 year), this is seen as a relatively small price to pay to achieve a more adequate level of retirement income when the full benefit of the Contribution Guarantee becomes effective. As well, higher receipts from taxation on the resultant higher superannuation payouts will reduce the long-term impact of the proposed measures on Government revenues

In terms of planning for retirement, the recommended changes are of great significance.

The anticipated increase in funds available to the retiree as a result of the higher inputs over the individual's working life will provide for greater flexibility in determining all elements of the retiree's life style. It will increase the period of independence from social security support,

provide access to a broader range of retirement activities, give greater freedom with respect to accommodation choice, remove or diminish financial pressures and aid in the maintenance of improved health.

4. Other Aspects of Retirement Planning

While the management of funds generated by superannuation and by personal savings throughout one's working life is perhaps the most crucial element in retirement planning, it is, by no means, the only item requiring detailed consideration.

Important to a satisfying retirement are such features as management of the changes in personal relationships between partners, ensuring that leisure time is productively employed, that health issues are appropriately addressed, that life style choices are carefully thought through and that attention is given to changing accommodation needs.

Pre-retirement training is necessary in each of these areas and should be included in all government and privately sponsored programmes.

Appendix 1

NICRI Publications

List of Leaflets Available from NICRI

General Series	Investment Product Series
Introducing NICRI	Allocated Annuities
Investing with Safety	Allocated Pensions
Deeming Accounts	Bond Trusts
Complaint Resolution Schemes	Cash Management Trusts
Enduring Power of Attorney	Equity Trusts
Estate Planning	First Mortgages
Negative Gearing	Fixed Interest Investments
Introducing Rollovers	Funeral Bonds
Rollover Safety	Introducing Immediate Annuities
Retirement Income Streams	Immediate Annuities (Booklet)
A Super Checklist	Insurance and Friendly Society Bonds
Redundancy and You (Booklet)	Investment Fees
A Super Guide	Master Trust & Wrap Accounts
Understanding Risk	Mortgage Trusts
Financial Planning Series	Property Trusts
A Guide to the Financial Planning Process	Shares Term Deposits
Income and Expenditure Sheet	Unit Trusts
	Understanding Retirement Income Streams