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Senate Superannuation Committee

PSA

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In reply please quote:

BH:HA

17 April 2003

Attention: Mr Stephen Frappell

Secretary
Senate Select Committee
on Superannuation
Parliament House
CANBERRA ACT 2600

Dear Sir,

Re: INQUIRY INTO PLANING FOR RETIREMENT

The Retired Associates of the Public Service Association of NSW thank you for the opportunity to make a submission into *'planning for retirement'* and wish to comment as follows:

a. *The effects of ageing on worker's productivity.*

Unfortunately, we have not been able to complete our research into this subject. We may make a submission at a later date.

b. *The continuing relevance of a concept of a fixed retirement age.*

With the increase of life expectancy people who are returning from their main careers often don't want to cease working completely. They have skills and enthusiasm to continue to contribute to the workforce even if not to the same intensity as they have been working in their primary career.

NSW Public Sector defined benefit schemes were designed when fixed retirement ages were the norm and have rules which define the point at which maximum benefits are payable. These are the State Superannuation Scheme, the State Authorities

Superannuation Scheme and the Police Superannuation Scheme. The State Superannuation Scheme has a Normal Retirement age of 60 and 55 for women who elected to contribute to retire at 55 when they joined the scheme. However, members with a normal retirement age of 60 may elect to retire from the age of 55 on a reduced benefit. The State Authorities Superannuation Scheme generally has an early retirement age of 58, however, maximum retirement benefits are payable after 30 years membership. The Police Superannuation Scheme pays its maximum benefit at age 60 but members may elect to retire from age 55 on a reduced benefit.

If the maximum benefit from a scheme becomes payable before age 60 the application of the Commonwealth Preservation rule can mean a member is adversely affected. This will be particularly true of State Superannuation Scheme or State Authorities Superannuation Scheme members born after July 1964 whose scheme entitles them to their maximum benefit before age 60. The preservation rules may prevent them from taking most of their benefit until age 60. State Superannuation Scheme members can take the benefit before age 60 but only if they agree to receive the preserved component of the benefit in the form of a non commutable pension or allow the preserved component of their superannuation entitlement to remain in the scheme until a condition of release has been met. If members don't wish to receive the benefit in this form they will not be able to retire at the time their benefit matures. Under the scheme rules they must resign from their job to crystalise their maximum benefit. Most of the pension that they would have been entitled to begin receiving, would then be required to be set aside to accumulate fortnightly as a lump sum, thereby significantly increasing their risk of exceeding their Reasonable Benefit Limits and having to pay excessive tax. These members will also need to secure future employment to live, as they will receive little income from their super until they reach age 60. In order to receive the benefit at age 60 they would then have to resign from the position they were in at that time in order to access the benefit accumulated in a previous scheme. The benefit of a member who works past this end point *(Normal Retirement Age)* may not be increasing in real terms and in fact can be diminishing with the continued application of the 15% contributions tax on the employer component of the benefit.

To a lesser extent this is currently affecting members who accept their benefit before 60 who are born before 1.7.1960. Under the preservation rules they are able to take the benefit at this point without accepting it in the form of a non-commutable pension but only if they sign that it is their intention to leave the workforce permanently. This encourages people not to return to work so they can receive the benefit when the scheme provides it. Any time spent out of the workforce at this age is going to make it less likely that they will be able to re-enter it at a later date if they need to, and therefore, they may be more likely to put pressure on the social security system at a later date.

c. ***The potential to encourage progressive transitions from work to retirement, including through possible new benefit access and contribution arrangements.***

See above.

Also any members who would like to retire and take their benefit at their highest salary and then return to work part time or at a lower rate of pay. Teachers in particular would like to be free to work casually on an *ad hoc* basis. As defined benefits are based on salary at retirement, to do this a member must retire from their job to secure the benefit at the higher salary and then seek to gain alternative employment. The preservation rules can prevent this so they are forced to work on.

d. ***Any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people.***

If members were able to take their defined benefit at the higher salary to be sure of their base income for day-to-day expenses then they would be free to accept *ad hoc*, part time or lower paid work to augment their retirement income. *"Salary"* in defined benefit schemes is often adjusted to take account of shift work. Members in this position are unable to reduce the number of shifts they work for fear of reducing the salary that their benefit will be calculated on. This can be a problem for older people who find it more difficult to work shift work. If they were able to take their benefit at the higher salary and then seek other work they may find it easier.

e. ***Ways to assist older workers plan for their retirement.***

Super funds and financial planning companies often provide seminars to assist with this process. The information that is given at these seminars is generally specific to the member's scheme or designed to encourage them to invest with the financial planning organisation concerned. This can often be too late for a retiree to become aware of things that could have been done earlier to improve their retirement position. It is also difficult for people to access the sort of life style information that would enable them to plan for the transition to retirement. This can be a very stressful time for retirees who are not prepared for the adjustments required to make this transition successfully. Because there is no money to be made from the communication of this sort of information, most organisations are not willing to provide it.

f. ***The short and long term effect on the Budget of any proposals for change.***

Allowing access to benefits when they have been fully accumulated in a defined benefit scheme and then encouraging continued employment, could have a positive effect on the Budget position as it would enable retirees to conserve their retirement savings ensuring they avoided the need for access to social security, delayed the necessity for access or result in a lower social security benefit being paid.

g. ***Any issues for the federal or state workplace relations systems.***

I am delighted that the Workplace Relations System has little or no impact on industrial relations conducted in New South Wales. Indeed, the recent aggressive blackmailing by Mr. Abbott in trying to force University employees into individual agreements rather than collective agreements is pretty indicative of the nadir to which federal industrial relations have sunk. It is a system of shreds and patches deserving the opprobrium it so positively attracts. I would be devastated were issues of superannuation to be administered with the same inhumanity by which workplace relations are administered federally. Federal workplace relations have one fundamental ingredient missing from their diet, i.e., humanity.

Finally we would also like to comment on financial advisors as follows:

With the complexity of tax and superannuation rules that exist at present, it is imperative that people moving into retirement seek financial planning advice before making important retirement decisions. This is particularly true to people taking benefits from defined benefit schemes. Some defined benefit schemes provide the option of a pension paid directly from the scheme. These people can find it difficult to get impartial advice from financial planners that is relevant to their circumstances.

Financial planners receive their remuneration in various ways. Some are paid by the hour for their advice; these planners may give appropriate advice if they have an understanding of the benefit to be paid from the superannuation scheme in question. Many do not have a full appreciation of defined benefits as most retirees receive their benefits in the form of lump sums from accumulation schemes. Other planners are paid by way of commission on the products they recommend or receive bonuses dependent on the amount of money they convince the client to invest with their organisation. If the superannuation scheme allows a member to exchange a pension for a lump sum, the financial planner may experience a conflict of interest when giving advice. A pension paid directly from a superannuation scheme attracts no financial benefit for the planner therefore they may either be reluctant to give advice to these clients at all, because they see no financial gain for themselves, or they may even recommend commutation to a lump sum which may not be in the best interests of the client, in order to receive the financial benefit of the client's investment with the planner's organisation.

It is important that this potential conflict of interest be recognised. It may be appropriate for the Commonwealth Government to consider expanding the role of the Financial Services Officer's role within Centre Link to provide independent client driven advice to self funded retirees who may find themselves in this situation, or alternatively find a method of ensuring that this potential conflict of interest can be recognised and avoided.

Yours faithfully,

William L Hall

WILLIAM (BILL) HALL
CHAIRMAN
RETIRED ASSOCIATES BRANCH