

Dear Ms Chester,

I wish to provide my observations for your review into the efficiency of the current Australian Superannuation and Retirement Saving Model.

In looking at retirement income support there often have been reference to a Pillar Model. That is a small number of policies to deal with the complete populations' current needs. This has to me always seemed unsophisticated because diverse, and unrelated, problems need to be shoehorned into overarching philosophy, and complex rules introduced to run the system.

The complexity has turned off the consumer, and the 'once in a lifetime' nature of choices has created unnecessary fear. These two issues, I believe, are major reasons for market failure.

I would prefer a model that solves a person's individual problem at the time the choice needs to be made in a simple and transparent way. It should also allow latter revision at 'low cost', and be able to evolve for life and relationship changes.

Prior to 1982 superannuation was limited to business and governments that wanted to offer a lifetime employment model. The Swiss Chalet case highlights how this model, based on tax incentives, might fail workers, and principally benefit business owners. 'Family Businesses', like the retailer Waltons, with well-capitalized defined benefit superannuation for current employees, became takeover targets for aggressive asset stripping business models, like done by Bonds Inc.

Prior to 82, super was a benefit received by a small percentage of the working population, but a concessional taxation model had matured that was transferred to a universal retirement income model. In 1992 the Superannuation Guarantee Laws were introduced and a new social experiment began.

SG will only fully mature when the cover level reaches 15% of wages and covers workers for 30 year, in my view. Currently 'catch up post aged 45' is a major influencer. [I would be interested to see in your report a view on the future.] It should however be acknowledged that SG was a model to achieve tax effective, life time saving, only to supplement and Aged Pension retirement income system. The so-called 'Dignity In Retirement For Every Worker'.

I view the current point in time to be a transition step, in a slowly maturing model. Evolving in an unpredictable direction, being biased & greatly influenced by short-term expediency. It should not be driven by tax planning, but this is the case too often.

Because your report at this stage is talking about default funds, I would like to put forward how I think entry into the super system should be designed.

The choice of First Fund should not be left to a 'new employer'. They have too much power to influence, and commencement of employment is a time of high uncertainty. A best interest test should apply, but maybe hard to implement at commencement of employment. At this time the employer and the employee are seeking to build a relationship of trust, but this is often tested in early days in a job.

I do believe that worker and employer representatives can produce a prudent financial choice outcome. This is the collective IR model that originally created SG via an Award Superannuation System.

Going back to the principle I tried to state earlier, I would like to see early contributions into the super system, which is capital, protected. So the 'Retirement Saving Account' is better suited than a bells and whistles superannuation account. But the RSA product has failed in the current market.

The advantage of a 'RSA like' initial account is the 'real' super account choice then would not be made for a year or two. Then a choice could be made as an outward rollover into a more productive fund, with a 'large' initial capital investment. In this way fixed & variable fees would not take the egg from the nest before any investment growth was sustainable.

I believe the ATO is the best entity to now hold small balance accounts for the start of a working life. The infrastructure has been developed, and a capital guarantee can be provided by Treasury oversight.

I would like to see such an account to accept SG payments & personal contributions, to allow co-contributions to also flow to it. I would like it to be setup automatically when a TFN application is made. It should be fee free & indexed at CPI or inflation to give a capital guarantee. It should also be possible rollover back into this account small balance accounts if another super account is not perform by generating balance growth.

The rollover outward or inward should be the individual's choice. This way an informed rollover choice would be normalised into the Australian Superannuation System. This is an efficiency mechanism that is underperforming in the current market. I believe it is not more widely used due to unfamiliarity.

The Market Efficiency this method would provide over your 10 best model is that small balance bells and whistle super accounts are rarely sustainable. Even the best accounts can make small balances grow. The consumer market has been searching for a simple short-term low cost product that the current fund market cannot provide.

I would like believe a simple rollover outward choice system could be build onto the ATO's 'MyGov Find Your Super' product to allow informed fund choice after a material amount of super had accumulated, or payment to individuals who have meet a condition of release.

I believe that the choice of super account provider can be better made at a time after a significant period of employment has been experienced. At this time contribution levels for each quarter will be better understood, and so the suitability of a particular produce may be better understood. In addition a 'what if calculation' could be done on the last few years. In this way a saver could see which produce better suits their contribution history. A tailored solution to their individual circumstance can be chosen.

I believe that low balance accounts are a market failure of the current and your proposed systems. As such this is an instance in which government intervention is justified.

In my 50's I can still remember as a youth my early working life when super balances just disappeared. I do not want to leave this as a legacy for the next generation of workers.

Ian Gillard  
Retiree