

G'day all,

I have recently done an analysis of the Australian Super situation and Aged pension. I have checked my numbers very carefully and I am confident I am correct.

## **The Superannuation Retirement Scam**

Currently Superannuation is a vehicle for the wealthy to avoid paying tax, not a retirement scheme for the masses. The problem is that super pension phase income is not taxable, even though those funds were accumulated with a substantial tax discount. Lower income people receive only a small tax discount on their super if any at all.

Super pension phase income is not taxable while the **aged pension is taxable** as is any income earned from assets out side of super and the current crop of retirees have not had the advantages of life time super contributions.

Compulsory superannuation contributions are currently 9.5% of normal weekly earnings (not overtime or penalty payments), and taxed at 15% with a range of management fees the lowest being about 1.5%. The lowest income earners pay 19% taxes on their income so have a very small taxation discount on their super contributions compared to high income earners.

For a super fund to make sufficient income to pay for the taxes and charges levied each year, the fund must realise a 19% return each and every year. While some funds may achieve this in some years that level of return is quite unusual. Indeed the best performing funds long term average is 8-9% before management fees are deducted.

That means that a person earning \$100,000.00 a year and making a 10% contribution of \$10,000.00 to super and their super fund making **19% return each and every year** would have a total of \$500,000.00 after 50 years of working; just enough for a single person to miss out on the aged pension.

Even if this person contributed the maximum allowable \$25,000.00 a year under the same conditions they would only have \$1,000,000.00 after forty years of working; again for a couple no aged pensions.

\$100,000.00 per year is well above all of the average, median and modal annual incomes. And to contribute the maximum of \$25,000.00 a year requires a very substantial income. However the federal government appears to consider a couple with \$800,000.00 in assets above their

family home to be adequate to produce a liveable income, **it is not** in this low return/interest rate environment.

To make the superannuation system a **Fair Retirement Scheme for all:**

1. Make compulsory contributions to super up to an amount, e.g. 15% of statistically modal annual income a tax free threshold for super contributions. (removes bracket creep)
2. Raise compulsory contributions to 15% of income but offset by using 50% of any income increase to be contributed to super.
3. Contributions over that tax-free amount receive a discount, e.g. 15%, off the marginal tax rate for that individual.
4. Pension phase earnings have a tax-free threshold for a couple of e.g. the minimum full time annual earnings, after which normal tax rates apply.
5. Remove the limits on after tax contributions to super but introduce a minimum deemed earning rate for super accounts over e.g. \$1 million.

Indeed all senior Australians should have a reasonably high tax-free income threshold to ensure as much as possible they can pay for their own care rather than being a burden on the taxpayer.

### **Aged Pension Changes**

In this low interest rate/return environment both the deeming rates for the aged pension, currently at the discretion of the minister, and the taper rates of the aged pension are far too high. To be fair to aged pensioners both the deeming rate and the taper rate need to be tied to the Reserve Bank cash rate.

In their wisdom Scott Morrison, the Liberals with support from The Greens have increased the taper rate to \$3.00 per \$1000.00 of assets from January 1 2017. That means single pensioners will lose annually \$78.00 pension for each \$1000.00 in assets or 7.8%, much more than any low risk return achievable and a strong financial incentive to spend assets to receive more pension. Providing a strong financial incentive for aged pensioners to spend their assets and go on a full aged pension. But the national treasurer Scott Morrison thinks these changes will reduce the government aged pension payments, smart thinking Scott. But I don't trust this sneaky treasurer. How soon is the family home going to be counted as an asset?