

HOUSING AND SUPERANNUATION: SUBSTITUTABILITY

I have every confidence that the Commission will, as it has been asked to do, competently assess and report on the efficiency and competitiveness of the superannuation system -- with an eye on the system then delivering the best outcome for members.

My concern here is the continuing inclination of government to quarantine 'superannuation' as a policy domain quite separate from issues that overlap with policy on 'age pensions' and in particular the exemption of owner occupied housing from the means test limiting access to the age pension.

While one can readily understand the political sensitivities, it is simply not sensible or credible to see the superannuation system as a separable element of sound policy in the broader context.

To sharpen the point, the obligation on financial advisers to give clients the 'best advice' could very sensibly be read as embracing advice to retirees to game the system. Many retirees would be well advised arrange their affairs to swap super assets for housing assets, to qualify for the maximum age pension entitlement, and then take a an income stream, akin to an ('exempt') super pension, from a reverse-mortgage arrangement with either a financial institution or with children and others intended as beneficiaries of inheritances, including the 'family home'.

In a sense it is a no-brainer for retirees and their families to do this – among other incentives the DPV of the age pension entitlement for a couple of 65yros is some \$500, 000.

I will not labour the point with obvious implications for 'what the super system is trying to achieve' and rejecting the plain nonsense of government expressing the 'objective of superannuation' as providing an income in retirement to supplement the age pension'

I do endorse the intention of the Commission to have close regard the question of whether *inputs* and *behaviours* in the system are consistent with allocative efficiency.

[Following is a copy of my submission to the Treasury's inquiry earlier this year about 'the objective of superannuation': inexplicably this heartfelt plea seems to have either gone through to the keeper untouched – or perhaps declared 'wide'.]

Peter Mair

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PROPOSED DETERMINATION: THE OBJECTIVE OF SUPERANNUATION

My primary concern about superannuation policy settings is that the policy context is fundamentally flawed while ever there is no consistency with the treatment of owner occupied housing assets in the hands of retirees.

Retirees in otherwise identical financial circumstances face very different incentives and opportunities if their consumable wealth is held in housing assets, exempt from age-pension means tests, or held in superannuation funds which are not so exempted.

The inequitable disparity is made greater by concessions to residing partners not entering residential aged-care and when a tax levy is withheld from disbursements of a deceased-member's super funds to inheriting beneficiaries -- and it would widen further if an income tax liability were to be reimposed on superannuation earnings and withdrawals.

I am hoping that this disparity, while generally known, will be made more pointedly clear with a brief but credible example of a simple strategy, to rort the system, available to families of self-funded retirees.

This contrived 'rort' would have been a sensible strategy over the past two decades at least -- when house prices inflated. Not fixing the disparity risks re-fuelling the house price boom.

In essence, the rorting strategy entails cashing out, tax free, all super fund assets of the retired parents before upgrading the parents housing assets to absorb most of the available cash from both the super and sale of the former residence. This step alone entitles the retiree parents to get the full age pension -- a discounted present value of some \$500,000 for a 65yro couple.

The next step is to arrange to 'eat the new house'.

One option -- a reverse mortgage against the house taken as regular tax-free income payments -- is akin to eroding accumulated super funds with an allocated-pension (but without the age-pension kicker).

A more attractive option for the family as a whole would entail the payment of income supplements to the parents, from prospective beneficiary children, formally setup as a mortgage against which the supplements are registered as loans from the beneficiaries, accruing interest at generous rates. The objective here is about ensuring the accumulating loan eventually matches the value of the mortgaged property so that the retiree parents will have minimal assets to sequester for residential care bonds -- and the kids already 'own' the home unencumbered.

..... worse, along the way, there is no barrier to the proceeds of loans, in the retiree hands, being entirely contrived and immediately gifted back to the beneficiary 'lenders'.

In short summary, denoting super funds as substitutes or supplements for the age pension is sensible enough. Sensible, only if the overall policy context is changed to preclude retiree housing assets being eroded while the age pension is additionally made freely available irrespective of the value of the mortgaged home and related flow of tax-free income draw-downs.

Whatever Treasury may be inclined to do about 'super objectives', and responses to the self-serving Murray report, it is about time some respected policy authority in Australia had the backbone to stand up and declare, and expose, the fundamental flaws in the broader context of retirement income policy.

Looking ahead, it is almost imperative that any initiative to fill the gap in the availability of reverse mortgages will involve a government-owned player – especially in the establishment phase for this embryonic market development. The Productivity Commission recognized this in its plan to rationalize the funding of residential aged care.

Looking back, it is very Australian for a government player to be involved in financial institutional developments – the Commonwealth Bank a century ago and Medibank more recently, to say nothing of mortgage insurance, life insurance, general insurance, trade finance et al et al.

The one institutional development where this 'government player' strategy was not invoked was 'superannuation' and the outcome has been continually unsatisfactory as private banks and life-companies offensively rorted their customers: not-for-profit industry funds have eventually compensated to some extent but the situation was and remains most unsatisfactory.

Australia needs a reverse-mortgage innovation operating on demonstrably fair commercial terms, ensured by the involvement of a government-owned player. This is reasonably prerequisite to reforming the retirement income system -- in relative import this probably has a higher priority to the semantics in defining the objectives of superannuation retirement income arrangements that will remain flawed until the broader context is rationalized.

There are growing signs of unrest about the present concessions to retirees owning expensive homes but without any accepted institutional arrangements to fairly facilitate the withdrawal of the equity in their homes. The institute of actuaries, among others, is floating ideas about relieving the asset rich-income poor conundrum facing many 'starving' retiree home owners anecdotally 'nailed to the floor' of their homes.

Please speak up.

Peter Mair

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