

17 August 2017

To Productivity Commission

Submission on superannuation

I consider that successive governments have damaged the efficacy of Australia's superannuation regime by ignoring the need for policy stability to ensure people trust the system and are able to make plans for retirement over a long term time-frame, that is over their working lives.

The constant changes also impose an unreasonable cost on people trying to plan for retirement – I suggest the Commission seek to uncover the total costs paid for accounting, and legal advice by self funded retirees and small business owners in the period between introduction of the legislation for the most recent changes and their effective date of 1 July 2017. I predict you'll find a massive, and not very productive, aggregate expenditure.

The changes introduced on 1 July were discriminatory against those already in retirement, particularly those who had been subject to, and complied with, the former reasonable benefits limits regime.

There is a disparity between the treatment afforded a person (assume age 60) who first utilises the \$1.6 million TBC post 1 July 2017 and that imposed on retirees (assume age 70 and over) already in pension mode as at 1 July.

The "new" pensioner utilises (and exhausts) the TBC and is then allowed to retain any increase in the value of pension account as a result of prudent investment even if that increase results in a pension account balance of many millions by age 70 and beyond.

The "established" pensioner – despite having complied with reasonable benefits limits regime at the time [s]he commenced the pension account – was forced to reduce that pension account back to \$1.6m at 1 July 2017.

The constant changes, especially to contribution limits, make retirement planning particularly difficult for small business people – many of whom are not able to fund regular contributions, and pay themselves a "below market" wage while owning and running the business. Practical equity between small business owners and wage earners demands the ability to transfer a significant amount to the superannuation environment upon sale of the business and retirement. Where is the problem with a large contribution at that time if the "reasonable benefit limit" or "transfer balance cap" (or whatever new terminology the next government invents) is not exceeded?

Where is the fairness in providing exemptions to the caps for people who sell a house but not people who sell a business? If we are focussed on productivity, people who operate and build a business are contributing much more than those who simply ride the property value wave, and yet the system discriminates against them.

While I acknowledge that a small minority of Australians have contributed very large sums to self managed super funds, I consider the laws in place prior to 1 July 2017 would (or should) have been effective to address any concern their primary purpose was possibly tax and succession planning rather than funding retirement,. If the Government had simply run a few test cases challenging the primary purpose for which funds were being administered, the problem may have been addressed.

It's a cheap political trick to demonise the vast majority of self funded retirees are tax cheats. The fact is only a minority of Australians are net tax payers, so only a minority get any benefit from the superannuation environment. Arguably that's not an unreasonable pay off for the fact they have acarried the rest of the population throughout their working (and tax paying) lives.

The whole system needs greater transparency.

Could the commission look at the productivity gain of removing all tax "churn" – such as "family tax benefits" and "childcare rebates" etc etc and simply raising the tax free threshold to the income at which people are actually becoming net taxpayers rather than continually seeking to take further tax from the minority of older Australians who are not a drain on the public purse.

One of the productivity gains would be a [massive] reduction in the public sector employees needed to design and administer the "churn" – and a consequent reduction in the government's unfunded public sector superannuation liability. Another might be a reduction in the politics of envy: the people who are too stupid (or too wilfully blind) to realise they are not actually paying any net tax would be forced to concede that.

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