



Association of Independent Retirees (A.I.R.) Limited
Working for Australians in Retirement

Response to
Productivity Commission Draft Report:
How to Assess the Competitiveness
and Efficiency of the Superannuation System
[Issued August 2016]

September 2016

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees. A.I.R. works to advance and protect the interests and independent lifestyle of Australians in retirement. A.I.R. seeks to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs

Our members have a clear understanding of the need for changes to allow for better management of the financial risks they face in retirement, and other issues of concern that impact on their capacity to have an independent and fulfilling retirement.

A.I.R. accepts, in preparing this submission, the statement from the Deputy Chair of the Productivity Commission, Karen Chester that *“This system-wide assessment of the competitiveness and efficiency of our super system is challenging and novel. It has not been done before. Getting the foundations right matters most — and we know there are no silver bullets”*.

However in reviewing the draft report we consider that it does not adequately cover aspects specifically impacting on those in the retirement income stream pension phase or those who are about to retire. We will address these issues in this submission.

We do agree on the need for:

- the superannuation system to maximise net returns on member contributions and balances over the long term;
- the superannuation system to meet member preferences and needs, in relation to information, products and risk management, over the member’s lifetime;
- the superannuation system to complement a stable financial system and not impede long-term improvements in efficiency;
- competition in the superannuation system that drives efficient outcomes for members.

A.I.R. sees a critical need for a broad political and community agreement to enshrine in legislation a realistic *Objective of Superannuation* and a set of measurable goals to ensure that there is clarity of purpose and a clear path forward. It is most important that the agreed Objective reflects the needs of those who now and in the future will self-fund their retirement, and that this clearly reflects the need for improved and increased self-sufficiency in retirement.

Our view is that the Government’s current adopted Objective is not a positive statement and does not satisfy this need. It should be modified to reflect the intent of the superannuation system - which is to support the self-funding of a sustainable income stream in retirement that will adequately provide for a comfortable and active lifestyle in retirement rather than creating a dependency on the Age Pension in retirement. Such a definition may go some way to increasing the rigour behind considerations to improve the effectiveness and efficiency of the superannuation system in the future.

We believe this opinion is supported by Commissioner Angela MacRae’s statement that the intent of the superannuation system is to be able to meet its primary purpose of providing retirement income.

The superannuation system is intended to provide a sustainable, adequate and equitable retirement income stream which must be optimised to meet this aim over the lifetime of a person in retirement.

The Association is critical of the Government's position on the current reform of the superannuation system, and in particular the lack of adequate consultation with those who are now self-funding their retirement or have plans in place to retiree.

Such consultation does need to be undertaken long before change is developed and implemented, especially in regard to proposals that impact either directly or indirectly on those who are self-funding their retirement.

Likewise we are critical that proposed reforms are not adequately grandfathered for those who are retired, having made their retirement income and asset investment decisions on the basis of past rules and regulations and are now locked into the existing income stream pensions.

It needs to be clearly understood in looking for improvements that the accumulation phase of superannuation and the retirement income stream pension phase are very different. In the retirement phase where we are seeing an increasing length of time spent in retirement, a more conservative investment profile is essential to deliver a regular cash flow to provide a self-funded pension over a retiree's lifetime. This particularly impacts on the assets held in the superannuation income stream account and at times necessitates the selling of assets to generate to generate sufficient cash on which to live. Clearly this becomes a serious issue as assets are sold during retirement, and the regulated annual drawdown percentage of assets in the fund increases.

Improvement is needed to the process to facilitate self-sufficiency in retirement with the need for self-management of superannuation retirement assets and the investment strategies to generate a retirement income stream. This will best be achieved via self-management of superannuation assets, by having a self-managed superannuation fund or by using an industry or retail superannuation fund to provide management on the owner's behalf. These must be no Government involvement in specifying the detailed management of an individual's assets and investments. Government does, however, need to strongly manage and regulate on behalf of consumers the activities, risks and fees charged by industry or retail superannuation funds.

Also, in looking at improving efficiency and effectiveness, there is a need to choose between market driven competitiveness and efficiency as opposed to regulation. A.I.R. supports a market driven approach with limited but necessary regulation to protect retirees and mitigate abuse of the system.

Given the Government's stated need for increased competitiveness and greater efficiency of the superannuation system, it is rather concerning that we now have the situation of a negative impact from ongoing Government changes to superannuation and tax legislation that have further muddied the waters for those planning for their retirement or who are already in income stream pension phase. Retirement planning has not only become more complex, but current volatile market conditions and low interest rates are making it harder for many to develop a retirement plan that's built to last for the long term. The same situation exists for those relying on their assets to provide a continuation of their lifestyle with an adequate regular monthly income stream.

The Government needs to adopt a truly holistic approach to bring about greater efficiencies from the superannuation system especially for those in this retirement income pension phase. It needs to ensure in the process of change that this specific group is protected from unintended consequences of change.

A.I.R.'s view is that while the market itself must be the driver of change, there are other market forces that can have a negative impact as individuals move from the accumulation phase to preparing for retirement and then into the income stream pension phase. Self-sufficiency is

required in the income stream pension phase of superannuation where the retirement income stream fund assets are used to provide income for everyday living.

There has been no clear recognition by many that as people spend more years in retirement, everyday living expenses will increase along with the potential impact of new means tested user pays requirements. It is essential to take into account the additional costs incurred by aging retirees, including:

- significant home improvements necessary for lifestyle, maintenance and to enable retirees to remain in their home;
- replacement of major household equipment (refrigerator, washing machine, etc);
- replacement of the family motor vehicle;
- home, home contents and private health insurance;
- specific aged care that is subject to means testing;
- GP and medical specialists, including prescriptions;
- medical procedures, rehabilitation and equipment;
- special support for family members when needed.

One specific area where significant effectiveness and efficiency improvements could be gained would be a revision of the current aged based percentage drawdown requirements and lowering the percentage once people have reached 75 years of age; for example:

Current Age of pension account-holder	Current Percentage factors	Change age range to	Proposed new percentage factor
Under 65	4%	Under 65	4%
65 to 74	5%	65 to 79	5%
75 to 79	6%	80 to 90	6%
80 to 84	7%	90 to 95	7%
85 to 89	9%	95 and over	10%
90 to 94	11%		
Aged 95 or older	14%		

The Government in its 2014 Discussion Paper, *Review of Retirement Income Stream Regulations*, stated that the purpose of the minimum drawdown was to provide a regular source of income in retirement, to limit the ability of a person to invest in account based pensions and use their superannuation pension fund as a vehicle to accumulate wealth to be passed onto future generations or an excessive scope for deferral of income. This will now be overcome by the Government's proposed rule change to introduce a dollar value cap on the amount of assets that can be transferred into an account based retirement income or held in an account based pension on 1 July 2017.

The change we are proposing will give greater flexibility in the actual drawdown for many retirees and will have no cost impact to the Government. It is estimated such change would generate as much as \$200 million additional savings for the Government, enabling an extension of the period until a retiree's assets have been drawn down to the level where he/she qualifies to apply for and receive a Government part Age Pension.

A further situation requiring special consideration is where retirees have a combination of income stream pension products. These people may have a combination of account based pensions, annuities, deferred annuities and other new retirement income pension products that are emerging, as well as those on a defined benefit pension. The cap must be assessed on the aggregated total of these products, and difficulties are seen with the timing of events and

changes of, say, when an account based pension was set up or adjusted to meet the cap on 1 July 2017. In addition there are events and changes later in retirement with, say, using the funds in the account based pension account or other means to purchase a deferred annuity.

The Government has stated that reforms and approval of additional more flexible income stream pension product are intended to make the system more equitable and sustainable. However these goals would be undermined if the tax treatment of all income stream pension products are not treated equally and based on the aggregated total of the pension asset held by an individual.

It is acknowledged that this may increase administrative complexity, inefficiency and additional cost to the retiree in fees; however a simple way needs to be found to ensure the system works effectively for both the retiree and the fund administrator/manager while maximising income stream pension product choice to meet varying individual requirements. A.I.R. believes this needs serious investigation which may be assisted by the Productivity Commission including a recommendation on this issue in its final report.

A.I.R. also believes that in special circumstances, after the preservation age, a retiree should be able to use funds from outside superannuation to set up an account based pension or an annuity and receive an income stream pension subject to revised annually minimum drawdown rates suggested above. This must be compliant with the cap (it is understood that this cannot happen if the proposed cap is not legislated and approved).

This in no way detracts from the superannuation system and is only for the purpose of establishing an income stream minimum annual drawdown pension by those who have not contributed to superannuation over their working life, and do not comply with the special case circumstances are in place for small business owners and farmers. This would improve the overall efficiency of the superannuation system in the drawdown income stream pension phase.

Sue Hart
Executive Officer
Association of Independent Retirees

Email: info@independentretirees.com

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