From:
To: Community Affairs, Committee (SEN)
Subject: Social Services and Other Legislation Amendment Bill 2013
Date: Monday, 9 December 2013 12:16:10 PM

I wish to voice my opposition to the Social Services & Other Legislation Amendment Bill 2013, particularly the area regarding the changes to deem Allocated (Account Based) Pensions as financial assets for new pensions commenced as from 1st January 2015.

I am a self employed Certified Financial Planner who specializes in retirement planning, particularly for Australians who currently face the prospect of having to rely on the Age Pension in some format to support their lifestyle in retirement. Many Australians are fearful in moving into retirement, especially Baby Boomers who may have had only 1 or 2 employers in their adult life. There has been **absolutely no consultation** on this issue with industry or the general public, nor any modeling provided by government to show the impacts on the general public, other than a short term cash grab in potential Federal Budget savings. Australians over the past 5 years have experienced significant changes to superannuation rules & are becoming noticeably skeptical of government policy on this subject. The rule changes to be implemented: -

- Are anti-competitive. Existing persons with current Allocated (Account Based) Pensions will not change their provider after the rules come in (even though it may be in their best interests) for fear of losing Age Pension benefits under the proposed rule changes (as their existing pension will be closed & a new one established after 1/1/2015). This position may become exacerbated in the event of an Administrator or Product manufacturer failure in the future. Product providers may also increase their administration charges on these products in future (or not reduce or meet other market acceptable costs in future) as they will consider that clients have locked themselves into existing products for the longer term
- Encourages people to retire early & spend their available superannuation monies (or a fair percentage) by pension age
- Encourages people to put a reasonable amount of monies into their family home (a CGT & Centrelink non-assessable asset)
- Disadvantages/discriminates against persons with lower levels of retirement savings as they will be more affected under the Income test. For those persons who hold higher levels of assets, the current Assets Test will continue to determine their level of benefit
- Doesn’t consider that an Allocated Pension is a long term market linked investment which can be subject to significant volatility, not a day to day bank account
- The Allocated Pension is designed to provide a regular income for retirees that can be drawn down progressively over their lifetime, reducing the impacts on the government purse. The current calculation for the deductible amount under an Allocated Pension is fair & equitable as it basically accounts for return of the persons capital over the lifespan of the product (20+ years). Compare this to the proposed rule changes & people being deemed on an asset value at general interest rates
- It will encourage retirees to place monies into very conservative style investments (Bank accounts, fixed term deposits only). Longer term yields on these style of products would be expected to be < those achieved in a more diversified market linked product (exposure to growth assets – shares, property, international assets, etc.). This has the effect of shortening the term of how long people’s

monies may last & place a greater strain on government resources long term.

- Introduce again a different treatment for Tax & Centrelink purposes for those people who have Allocated Pensions & depends on when they purchased them in that they are either (a) under Age 60 (b) over Age 60 & < Pension Age (c) > Pension age & in receipt of an Age Pension
- Provides an advantage for those persons who have non-account based retirement products (Annuities & Defined Benefit Pensions) which will not be caught under these provisions. These people may receive significant levels of cashflow from these providers & thus have a material long term advantage over those persons of more modest means.

As a simple example let's use a single person of Age Pension age: -

1. has $200,000 in super savings & $200,000 house compared to
2. a person who has $50,000 in super savings & $2,000,000 house

The person with $2m house receives far more in Age Pension. There is no equity in this arrangement & the rules encourage people to spend their monies as they see fit & then rely on government support in the long term.

The Government needs to consider a true review of the whole Retirement Income System & engage with the industry & the general public to find an equitable outcome, instead of this continuing “policy on the run”. The short term potential savings of $161m may never materialize as people change their habits & this policy change may in fact cost the government & the country significantly more in the longer term as people modify their behaviour.

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