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

Submission to the Senate Economics Legislation Committee on the Superannuation (Objective) Bill 2016

16 December 2016

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees. We are a nationwide member driven association who works to advance and protect the interests and self-sufficiency of Australians in retirement. We seek to secure recognition and equity for Australians who, through their diligence and careful management are 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. They also accepts there is the need 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.

The objective of the Superannuation system must reflect the needs of those who now and will in the future self-fund their retirement, and that this objective clearly reflects the need for improved and increased self-sufficiency in retirement.

Our view is that the Government's currently adopted Objective stated in the Bill is inadequate and does not satisfy this need. The stated objective for superannuation in the Bill – *to "substitute and supplement"* the Age Pension lacks ambition and a long-term vision.

It positions superannuation in merely a supporting role for the Government's Age Pension.

We have stated previously and are still of the view that this Objective 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.

Modifying and strengthening the Objective will increase the rigour in improving the effectiveness and efficiency of the superannuation system in the future.

The current stated Objective misses the opportunity to position superannuation as the main plank of a comprehensive retirement incomes policy that encourages all Australians to take responsibility for their own financial security in retirement rather than rely on the taxpayer funded Age Pension.

We accept the need for a Government-funded Age Pension to be a safety net to support those who are in need of financial support in retirement but to define superannuation as merely to "substitute or supplement" the Age Pension sets no benchmark for the performance of superannuation.

It is meaningless to have an Objective for Australia's superannuation system that is not qualified and does not include even a very general measured performance goal.

The superannuation system must be to provide a sustainable, adequate and equitable retirement income stream which is optimised to meet this aim over the lifetime of a person in retirement. This is not adequately supported by the proposed non-qualified Objective and the proposed subsidiary, and similarly non-qualified, Objectives for the superannuation system of:

- facilitate consumption smoothing over the course of an individual's life;
- manage risks in retirement;
- be invested in the best interests of superannuation fund members;
- alleviate fiscal pressures on Government from the retirement income system; and
- be simple, efficient and provide safeguards.

We strongly **recommend** to the Senate Economics Legislation Committee that the Objective in this Bill be amended to reflect the above, and that the subsidiary Objectives are included in this Bill rather than being just a general reference in the accompanying Explanatory Memorandum.

In addition, the subsidiary Objectives should be redrafted to include measurable performance goals and indicators.

With the intent of the first, second and last subsidiary Objective there needs to a clear acceptance that the superannuation retirement income stream pension phase is very different from the pre-retirement accumulation phase, as Australian's are spending an increasing length of time in retirement. As a result, there is now more than ever before a need for those in retirement to adopt a conservative cash generating investment profile to deliver a regular cash flow to provide a self-funded pension over the whole of any retiree's lifetime.

This becomes a serious issue as assets are depleted and the regulated annual drawdown percentage from the fund increases for those relying on their assets to support their needs through an adequate regular monthly income stream.

Our **recommendation**, therefore, to the Senate Economics Legislation Committee and the Government is that after the 1 July 2017 changes are implemented to revise the current age-based percentage drawdown requirements and a lowering of the percentage once people have reached 75 years of age as follows:

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 and **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 requirement is now overcome with the Government's $1.6 million value cap on the amount of assets that can be transferred into account based retirement income or held in an account based pension on 1 July 2017.

Implementing the proposed change will give greater flexibility in the actual drawdown for many retirees and will have no cost impact to the Government. In fact, it is estimated that implementing this change will generate as much as $200 million additional savings for the Government by maintaining assets and deferring for some the drawing down on the part Age Pension.

In conclusion, we refer the Senate Economics Legislation Committee to the statement of the Treasurer in relation to the superannuation reform package: *"Above all this contributes to getting the budget back into balance."*

It is poor policy and economically naive, in our view, to convert Australians' savings for the future into revenue to meet current Government short and long term fiscal needs. The economic cost will be felt in the long term with less money flowing into superannuation and with greater demand on the Age Pension and aged care, leaving a higher bill for the next generation of taxpayers.

Superannuation affects every working and retired Australian and their families. When Governments change the rules on superannuation, it should be incumbent on them to engage in a genuine consultation process, ideally outside the pressure of the Budget process. Nothing shakes confidence in superannuation more than sudden, unexpected and sometimes retrospective changes to the rules.

It seems to most Australians that the Government is currently more interested in raising revenue to prop up the Budget than in engaging in genuine reform of the superannuation system to make it more efficient and effective in terms of assisting more Australians to achieve self-sustainable financial independence in retirement.

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