

Legislating the Objective of Superannuation

Submission by Ken McKay

Consultation questions

1. What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?

Response: If the legislative purpose is cast too narrowly it will have drastic impacts as future governments will use it to restrict access to one's own life savings.

2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

Response: No it does not, its focus is too heavily on providing income for a dignified retirement. A dignified retirement also requires essential assets, particularly security of housing and assets to support mobility such as motor vehicles.

Housing affordability is at a crisis level, the only way an average single person can purchase their home is by utilising some of their Superannuation as a lump sum to pay off the mortgage or to buy a house outright. **The proposed legislative objective will enable the legislators to change the current legislation to prevent taking some of your superannuation after reaching the preservation age as a lump sum.**

If we look at the asset test and the different thresholds for home owners and non-homeowners. The difference is \$224500 for both the reduction in pension and the cut off from receiving the pension. In other words if you do not own your own home you are allowed an additional \$224500 in assets, presumably to earn income to pay rent. The median cost of rent for a 2 bedroom home is between \$20000 and \$25000 per year.

Using the deeming rate of 2.25%, the additional \$224500 in assets would produce just **\$5051.25** in annual income. The current superannuation arrangements put a life time renter \$20000 a year worse off than someone fortunate enough to own their own home. Assuming all the renters assets on retirement are in superannuation and using the minimum drawdown rate of 5% to cover the cost of renting they would need to be able to have an additional asset base of between \$400 000 to \$500 000 to a person who owns their own home.

The income test means that you get a part pension unless your earnings are above \$2243/fn or \$58517.60 per year. Yet if all your earnings come from superannuation, the cut off point by the asset test is \$846 750. If you have \$846 750 in superannuation the drawdown of 5% would provide \$42 337. To achieve the sum income the retiree would have to drawdown 6.9%.

The income test would enable a person who has turned 67 to work full time receiving an award rate of pay and still receive a part pension, all of the award rates in the General Retail Industry Award

2020 would enable a person working full time to receive a part pension. Level 6 receive \$1987.60/fn, level 7 \$2087.20/fn and the highest rate under the award level 8 receives \$2173.20, all below the cut off point under the earnings test.

Looking at the threshold levels for the tapering of the pension, a non homeowner with \$504500 in super with no other assets using the 5% drawdown would receive \$25225, all of which would have to go to paying rent, leaving the pension to pay their cost of living. A homeowner with \$280 000 in superannuation would receive \$14000 on top of the full pension even taking rates and insurance into order would enjoy a higher standard of living.

If there is to be a legislative objective to superannuation it should be amended to be:

The objective of Superannuation is to preserve savings to deliver the financial resources for a dignified retirement, alongside government support in an equitable and sustainable way. Financial Resources should be directed towards both income for retirement and securing essential assets for a dignified retirement.

3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined? **NO, the issue is this is an attempt to limit a future government from allowing people early access to their superannuation in lieu of providing economic relief in a time of emergency. A future government with the same intent could simply amend the objectives or amend the legislation.** An objective should not be developed until we have a well stated retirement living standard that is equitable, only after we have an agreed minimum living standard accepted in the community is it possible to define superannuation as a piece in the jigsaw puzzle.

4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed? No submissions on this point