

## **Submission – Legislating the Objectives of Superannuation**

### **Submitter:**

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### **Introduction**

Superannuation is an important part of retirement and incomes system. It's an essential lynchpin.

Too many Australians retire in near poverty and are reliant upon the age pension which is too low, at just \$1026 per fortnight based upon the current rate at the time of writing. There are philosophical and practical considerations which must be considered.

One of these, is the fact that our society is ageing. The number of Australians working and paying taxes to support the retirement system are decreasing. There are fewer taxpayers, so the sustainability and funding of long term pensions is difficult.

Philosophically, the question asked, is about whose money is it? A point often made by coalition MP's and their supporters. It is couched on terms of individual freedom of choice and personal responsibility.

I believe that many Children's stories and fables are instructive. An example here, is the story of The Grasshopper and the Ant.

Another argument advanced is around housing. It is put, that one of the greatest protections against poverty is to own your own home.

Realistically, many people will lose their homes and have nothing left in retirement. Many relationships breakdown and the family home is sold. I am a former business banker and a loans officer. It's very common for investors and businessmen to mortgage their home to secure funding. Many lose their homes as a result of poor economic conditions, business failures or natural disasters.

Again, as a business manager, I saw real life examples of parents and grandparents, doused and other family members guaranteeing loans and providing their own homes as security. Some of these homes were lost in defaults.

In investment terms and finance, we learn of the importance of diversification and investing in different asset classes. Superannuation is a trust arrangement, it is protected from bankruptcy, provides access to a broad range of asset classes, and obtains the benefits of compound returns and gives the owner the ability through pooled investment in accessing alternative assets. An average Australian would not have the ability to invest in major infrastructure assets.

As previously indicated, a frequent question " Whose money is it?" Without superannuation many will not provide for their own future and retirement. They will then rely on the taxpayer, for the pension. The question to those proponents, is " Whose money are you living off?"

I do not object to the pension, it's part of the social contract in a civilised society. It is however, a facile and fallacious position to take.

Many of those, adopting this perspective claim to believe in the rights of the individual and human freedoms. They adhere to the principles of small government. Yet, without superannuation more people will be living in poverty, rights to quality age care and healthcare will be restricted, and the taxpayer will be burdened with higher taxes to meet the ever rising costs of an ageing population.

These are some of the issues to consider:

### **How Much Superannuation is Enough?**

This figure is bespoke and will vary according to every individual. The purpose of superannuation is to provide a comfortable living in retirement, to replace income from employment and salary income, foregone when an individual permanently ceases working.

It will vary according to a number of very diverse factors, including family status, home ownership, level of income, health and medical conditions. A person who has lived on the median wage, and had a particular lifestyle would likely want to maintain that lifestyle. Median income is currently \$52388. A person who has worked their lives, as a barrister, or an accountant are likely to have a much higher income, and a very different lifestyle. They would also expect to maintain that in retirement. Thus, it makes it very difficult to set a fixed sum as the ideal superannuation figure.

A figure of \$1,000,000 may sound very large, but is not very much when compared with life expectancy. Life expectancy is currently around 83 years, with males being about 81.2 years and females around 85. These are average figures, some will exceed this, some will not.

**Superannuation limits should be set as a multiple of Average Earnings, not a specific dollar amount. The current caps are around 1.6 Million, though I note there are around 900 Self Managed Superannuation Funds with balances of around \$50Million. I note one has reportedly a balance in excess of \$450Million. These are extreme examples. In life insurance it's recommended to maintain cover equal to any outstanding debts plus a figure about ten times income. I think this is conservative, and should be twelve to fifteen times. Investment returns are low, and capital exhausted at this rate. I would suggest superannuation thresholds at about twelve times Average income. AWOTE at April 2022 was about \$1770, or \$92040 per annum.**

Everyone's circumstances are different. The amount required is unique to every person.

### **TAXATION**

The taxation applied to superannuation is highly complex and is subject to frequent tampering from both sides of Politics. Superannuation is a long term investment and savings strategy over many decades to provide retirement security and income. Long term strategy and investment is desirable, yet constant tinkering leads to inconsistency, distrust in the system and long term planning.

It is taxed on the way in, taxed during the accumulation phase, taxed again in some instances, on the way out. Employers can claim the superannuation as a legitimate taxation deduction and superannuation members then pay 15% contributions tax on deducted contributions. Superannuation earnings are taxed at 15%, though, a superannuation fund, may offset this with imputation credits. Funds released prior to preservation age, incur penalty taxation.

Continued concessional taxation arrangements should remain, to encourage contributions and to enable higher compound growth within the fund.

For higher income earners, a higher rate of taxation should apply. This rate, should be lower than the highest marginal tax rate, to ensure that superannuation remains attractive as an investment. Without an incentive, wealthier individuals and their advisers, would seek to structure investments to maximise negative gearing, and capital gains discounts. These Howard Costello legacy policies cost the Commonwealth billions of dollars in foregone revenues with the opportunity lost to invest in raising income support payments, healthcare, education, NDIS, training and re skilling programs, and infrastructure.

That is the current arrangement with a tax rate of 30% for those individuals earning above \$250,000. This rate is appropriate.

Taxation penalties should remain to discourage early access, with the exception of access due to TPD and disability. I left employment in 2018 after being terminated. I have been assessed as TPD and granted access to my superannuation. To pay my mortgage and save my home, I accessed this but paid 22% tax. This meant, a large part of my superannuation was lost through tax. It means I have less available to me to support myself in my (enforced) retirement. I now rely upon the disability support pension. I am fearful that I will outlive my capital and savings.

## **HOUSING**

This is a difficult question. Housing affordability is a major problem and is adversely affecting first home buyers, renters and the most vulnerable. Many have suggested that members access their superannuation funds for the purpose of buying a home. This is likely counter productive for a number of reasons.

Governments of all persuasions, state and federal, Labor and coalition have a long history of assistance to first home buyers. This assistance has included stamp duty concessions, discounts and first home buying grants. The result is the same. With this extra money bidders have pushed up the price of housing. Freeing additional cash from superannuation will have this effect, as well as reducing the pool of superannuation available for investment and retirement incomes.

From an investment perspective, superannuation funds, and the national economy are likely to be adversely affected. Knowing that members may seek access to Freyr funds, superannuation funds will need to either maintain more liquidity to meet withdrawals. This means more cash holdings, and reduced investment in medium to long term assets. Superannuation returns are potentially reduced.

A full economic analysis needs to be undertaken.

Given other policies, such as the continuation of the capital gains discount, negative gearing are more likely to ensure investors remain in the market negating any benefits from superannuation access.

The current rising interest rates entrench this advantage. Investors are able to claim interest as a legitimate deduction. As interest increases, the amount of deductions will increase depriving Commonwealth tax revenues.

## ECONOMIC CONSIDERATIONS

Superannuation provides a number of economic opportunities and benefits. Among these, employees and members funds are pooled. These funds are invested by funds managers in many long term projects, enabling Australian ideas and projects to proceed. These ensure Australian ownership and some control of our assets.

Large scale infrastructure and investment developments are funded in the national interest.

Members through a well designed and managed fund, have greater opportunities to invest in more diverse assets and to access markets internationally normally denied the Australian investor.

Funds now account for trillions of dollars. They are professionally managed and have access to expertise denied the average investor/ member/ SMSF trustee. They have access to analysts who specialise in industry sectors, accountants, actuaries, real estate investors, and corporate analysts. These skills are not held by the average investor.

There will still be reliance on the pension, but superannuation may mean more receive a part pension, and other pensioners may receive a higher pension, due to a lower pension bill.

The reality is that our society is getting older, fewer working people are supporting the tax receipts. Unless we can sustain the superannuation we are simply postponing the inevitable and kicking the can down the road.

## PROPOSED OBJECTIVE

I have read the discussion paper and I note the proposed objective set out below.

**The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.**

The above objective is too narrow. Another difficulty lies with the current income support system. Payments including Jobseeker, Age and Disability Support Pensions are too low, confining many people to poverty.

Our public policy approaches are piecemeal. Everything must be examined as a whole, in a comprehensive and holistic approach.

Taking Jobseeker, as an example: it's just \$668.40 per fortnight. For those over 60, it increases to \$618.59. The largest cohort on Jobseeker are over fifty. This consultation is for superannuation and relates to retirement incomes. Many of those on Jobseeker have underlying health and medical conditions forcing them to retire. Many should be on the Disability Support Pension but the eligibility requirements are onerous. As a result, many are forced to retire and live on it. The reason, is the increasing age of eligibility for the Age Pension. That age is now 67.

The Turnbull Government attempted to lift the pension age to 70. It was a proposal of the Abbott Government and flagged in Treasurer Hockey 2014 budget. People born after 1966 were looking at age 70.

I make this point and I cite, “ **alongside government support, in an equitable and sustainable way.**”

Those receiving income support from the “safety net” are not being adequately supported now. The current economic circumstances and trillion dollar debt are oft used as an excuse for inaction. Yet the Stage 3 Tax Cuts are proceeding. Abolition or repeal of these tax cuts, could go a long way in improving the quality of life for older Australians.

Let's examine the rationale for the wording.

#### rationale

The drafting of the proposed objective attempts to remain neutral, enduring, and clear. However, it is anticipated there will be a wide range of views on the particular terms used in the objective, driven by different understandings of the most appropriate terms to capture Australians' experience and expectations of the superannuation system. This section describes the reasoning behind terms used in the proposed objective.

'Preserve savings' refers to the principle of preservation; that is, the concept that contributions to superannuation should not be accessed unless for the purpose of income in retirement, apart from exceptional circumstances. This recognises that superannuation exists first and foremost as a savings vehicle to fund retirement and not a pool of individuals' savings to meet other lifetime costs.

'Deliver income' captures the purpose of the superannuation system – to provide universal savings that are then drawn down in retirement to deliver income that support retirees' standards of living. The focus on delivering income makes clear that the purpose of superannuation is not for minimising tax on wealth accumulation or enabling retirees to leave tax-effective bequests.

'Dignified' denotes the importance of financial security and wellbeing in retirement but recognises that this does not necessarily equate to the same level of income in retirement for all Australians.

This is a qualitative measure, that will require interpretation and may change over time to reflect society's standards. According to the Cambridge Dictionary, 'dignity' means “the importance and value that a person has, that makes other people respect them or makes them respect themselves”. When used in the context of the objective, 'dignified' recognises that individuals deserve a high-quality standard of living in retirement, as served by both the superannuation system and government support. Superannuation has played an important role in combatting poverty in old age and lifting retirement standards. It has helped Australians navigate the complexity of very long-term decision-making through regular savings through their working life.

As detailed by the Retirement Income Review, 'equitable' captures the importance of a system that delivers similar outcomes to people in similar situations and targets support to those most in need.

'Sustainable' signifies that the system should be robust to demographic, economic and social change, and should be cost-effective for taxpayers in achieving retirement outcomes. While all Australians can save for their desired lifestyle in retirement, this outcome is influenced by personal circumstances and expectations, and is ultimately constrained by the need for equity and sustainability in the system. Beyond a certain level of income, additional Government support through tax concessions is not necessary or appropriate.

While many Australians rely on government support as a supplement to their superannuation savings to achieve a dignified retirement, not every Australian will draw upon government support. The phrase 'alongside government support' aims to capture the importance of government payments or policies that act as a substitute or complement to superannuation, recognising the cohesive interaction with superannuation savings. The term 'government support' intends to encapsulate the broad range of supports available to retirees, including the Age Pension, Commonwealth Rent Assistance and the Home Equity Access Scheme. “

**Rent assistance does not reflect the real level of rent in the community. Many older Australians are facing homelessness. I read in The Guardian today about an older woman forced to live with her pensioner father. He died, and the rent has been increased. Information from Services Australia is a Maximum of \$ 151.60.**

I raise these points again to highlight that superannuation cannot be examined in isolation, particularly as the objective indicates it's to operate alongside suppliers.

**The objective should further be broadened to include definitive measures. It should quantify what is a reasonable amount and establish a measurable outcome for maintaining it in real terms. A useful measure would be linking it to Average Earnings with a multiple of 15-20 times that figure. If invested as a capital sum, an annuity pays 3-4 %, property rents can yield 2%, dividends 3-4%. Life expectancy is increasing. Many erroneously expect living expenses to reduce. Instead, more medical care may be required, aids and house modifications . Many are now retiring with higher levels of debt, due to higher house prices, raising families later in life, and supporting adult children.**

## **SUMMARY**

Superannuation is an important feature of our retirement and economic system, though, it should not be looked at in isolation. It must be considered in tandem with the social security system, pension age eligibility and an overhaul of the tax system, including Stage 3 Tax Cuts, Negative Gearing and Capital Gains Tax discounts.

Although, I note the view that it should not be used to build wealth, the risks are wealthy investors will simply move to other investment vehicles.

Referring to the Consultation questions.

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

Undermining faith in superannuation. It is an area, in which governments have consistently changed rules and regulations. It means long term planning is fraught with difficulty for investors, funds managers, financial planners and those contemplating retirement.

As I have identified, without a holistic review of other policy areas including taxation funds nice from superannuation will be moved to other structures. Negative gearing, offshore schemes and capital gains tax concessions may result in exacerbation of housing shortages. Investors may shift to property, to compensate for loss of superannuation tax concessions.

Further squeezing of Commonwealth revenues, as higher deductions are claimed. Further exacerbation of entrenched inequality and poverty.

2. Does the proposed objective meet your understanding of the objective of the superannuation.

This is nuanced. It sets an objective in that the focus is to build superannuation, and build retirement savings.

It's too broad and narrow simultaneously. Broad in the sense it's very general and non specific. Narrow in the sense it is not specific enough on measures, or amounts. What amount is considered adequate and what is considered wealth accumulation. It should be linked to a measure such as Average Earnings and / or average loans.

Many Australians are now retiring with high levels of debt. At retirement when ceasing employment they need to replace the income foregone and to also pay out debt.

3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?

Not in isolation, a review of income support, social security, aged care, taxation should be looked at in tandem.

Income support payments are too low. Many are forced to retire early due to disabilities and are on Jobseeker. They cannot build up superannuation benefits.

Sustainability is built on revenues and that is contingent on tax.

Superannuation should be built on as part of a suite of initiatives.

4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?

See above.

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