

MEDIA RELEASE

Alliance welcomes Retirement Income Review

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The independent Review of the Retirement Income System will provide an important opportunity to ensure that Australia's world-class superannuation and retirement income system continues to evolve in a positive direction for all Australians.

John Maroney, the newly appointed spokesperson for the Alliance for a Fairer Retirement System, says Alliance members have identified five key questions that should be addressed during the Review or afterwards by the Government:

- How can the retirement income system ensure incentives are in place to encourage those who can save for an independent retirement to do so and avoid disincentives?
- What is an adequate level of retirement income commensurate with their pre-retirement standard of living that older Australians should seek to attain?
- What are the defined objectives of superannuation and the age pension and how should these two pillars work together to ensure intergenerational equity and the sustainability of the retirement income system?
- How can retirement income policy settings ensure the maximum degree of certainty for those planning for retirement over decades?
- Where are there gaps or issues that indicate a lack of fairness in terms of either horizontal (between people with similar circumstances) or vertical (between different generations) equity in the existing three-pillar retirement system?

The Alliance congratulates its former spokesperson, Dr. Deborah Ralston, on her appointment to the Review panel and wishes her and her colleagues on the panel, Michael Callaghan and Carolyn Kay, well for the challenges ahead and pledges to provide carefully considered input to the consultation processes.

Maroney says: "At present, only 30% of the population over 65 is independent of government support. The remaining 70% is comprised of 42% on the full age pension and 28% on a part age pension. As the superannuation system reaches maturity and balances at retirement increase, reliance on the age pension will reduce. Over the same time period, the number of people and the proportion of the population, in retirement will increase. The Alliance calls on the Review to consider the adequacy of super to support retirees into the future."

The age pension is determined by two means tests. The income test reduces the pension as deemed income rises. A higher deeming rates (set by the government) translates into a lower pension and creates an incentive for retirees to invest in risky assets in the pursuit of yield.

There is a need to review the deeming rates used to calculate a person's deemed income from financial assets and to establish a benchmark which adjusts this rate periodically. The current deeming rates no longer reflect the market rates of return received by age pensioners who are more inclined to rely on bank term deposits etc.

The assets test reduces the pension as retiree's assets increase. At present, the age pension taper rate (the rate at which the pension is withdrawn) equates to a "tax" of 7.8% on assets over the age pension asset limit, well in excess of market rates of return available to part-pensioners on these assets. This creates an incentive to reduce assets in order to maximise the pension.



The net present value of the age pension can be over \$800,000 for a couple in their 60s. This is supplied by the taxpayer with no effort required or additional savings on the part of the claimant. If a couple, who own their own home, accumulated \$870,000 at retirement, they would find that they are not eligible for the age pension. They may derive great pride from their independence from government welfare; however, with the present taper rate, their income could be no higher than a pensioner couple with half their assets. This may be a disincentive to maximise personal and super savings for retirement. Since its inception the compulsory superannuation system has produced a diversity of outcomes.

Average super balances at retirement are modest for most Australians, and the self-employed and those earning less than \$450 per month with any one employer are excluded from the compulsory superannuation system. Indeed, a 2015 Productivity Commission report estimates that around 40% of Australians over the age of 65 years have no superannuation.

Australians plan for their retirement over several decades. On-going changes to superannuation policy erode trust in the system and can result in unintended consequences for the viability of the system. No changes to superannuation policy should be made without a full regulatory impact statement, which would also accommodate potential impacts on the other pillars of the retirement system and grandfathering where appropriate to allow retirees and potential retirees to adjust their plans.

In addition to superannuation, the age pension and their own labour, older Australians draw retirement income from a range of sources including bank deposits, investment in shares, exchange traded funds (ETFs), and property, etc. In addition, about half the wealth for Australians over 65 years rests in the family home. We strongly support the recent expansion of the Pension Loans Scheme to those who are not in receipt of an age pension as a means by which retirees can draw on the value of the family home.

The Alliance will prepare submissions for the Review and encourages all Australians who have an interest in promoting a fairer and sustainable retirement income system which provides greater adequacy and certainty to respond to the Review's discussion paper that will be released later this year.

Copies of the Alliance's July submissions on the Review's proposed terms of reference to the Treasurer and Shadow Treasurer are available on the Alliance website: <http://www.fairerretirement.com.au/news/2019/8/6/alliance-for-a-fairer-retirement-system-submission-on-retirement-income-review>



About the Alliance:

The Alliance for a Fairer Retirement System is a group formed to represent millions of senior Australians, shareholders, self-funded retirees and those planning a sustainable retirement, including over one million members of self-managed super funds. The Alliance's mission is to help improve the existing superannuation, Age Pension and broader retirement income systems.

The organisations that form the Alliance include:

- Association of Financial Advisers
- Association of Independent Retirees
- Australian Investors Association
- Australian Shareholders' Association
- Gold Coast Retirees Inc.
- Listed Investment Companies and Trusts Association
- National Seniors Australia
- Self-managed Independent Superannuation Funds Association
- SMSF Association
- Stockbrokers And Financial Advisers Association
- WA Self Funded Retirees

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