CPSA COMBINED PENSIONERS & SUPERANNUANTS ASSOCIATION OF NSW INC

Submission to the Financial System Inquiry

(Second Round Submissions)

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CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 130 branches and affiliated organisations with a combined membership of over 30,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.

1. Retirement income funding generally

Purely from the point of view of retirement income funding, it would make sense to integrate the Age Pension and compulsory superannuation in a social insurance scheme. Rather than appropriate funds from consolidated revenue, part of income tax revenue raised and all compulsory superannuation contributions would be levied together and hypothecated for the payment of a pension at a fixed, indexed rate from pension age to death. It would put a stop to the undignified status of the Age Pension as a welfare payment. It would create an imperative for Government to make sure compulsory super contributions are invested effectively and at minimal cost as Government would have a vested interest in the investment performance of superannuation assets and economically sustainable annuitisation.

A social insurance scheme of the type described above would be an entirely transparent way of ensuring that all Australians have an adequate basic retirement income. While it would put more responsibility on Government, the transparency of the scheme would make it easier to demonstrate the link between the level of funds raised and the pension payments made, giving the Government the authority to amend levies and contributions if and when necessary.

A social insurance scheme of this type would still be able to sustain ulterior functions of the current superannuation system, viz that of a savings pool from which investment and bank funding can be sourced.

2. Superannuation

It is doubtful that superannuation in its current form will become the main source of retirement income for the vast majority of future retirees. The architect of compulsory super as it has evolved over the past twenty years or so, Paul Keating, was always clear in his mind about the purpose of superannuation. He recently said in an ABC Lateline interview: “Super was never a welfare scheme. It was always for people on one or two times average weekly earnings.”

Superannuation has developed as an impressive investment savings bank for Australia as a nation and as an increasingly important source of bank funding. It is therefore likely that superannuation’s ostensible purpose of retirement

income funding will continue to take a backseat unless action is taken to make it effective and fair. It is even doubtful that it can provide a financially secure retirement for financially average and financially twice-average Australians. Superannuation works well for those who take an interest, that is, it works well for those with an SMSF, who will typically have a target in mind as to how much they need in retirement and will put in the effort to reach that target. But for most people who do not actively manage their super, super will provide the lump sum needed to pay off debt or to replace worn-out assets when they retire. For many people, super is no more than an enforced form of saving over a period of decades involving money that could be put to better use paying off debt or buying life's essentials during their working lives. Arguably, many people would be in a better financial position at retirement without compulsory super and the fees they have had to pay fund managers.

Whether MySuper will or will not provide sufficient competitive pressures to ensure future economies of scale being reflected in higher after-fee returns will never materially matter because super and default super make people save who have bills and mortgages to pay now, not decades hence. Their balance when they finally get to it may be a bit higher as a result of forcing super fees down, but their final balance will always be a poor investment reward and will not give them an adequate retirement income stream.

CPSA supports a performance fee structure for default super, whereby fund managers get a proportion of funds' returns. CPSA also supports auctioning the management rights to default funds principally on the basis of performance fees for a given asset mix.

The Murray Inquiry should not be concerned about the high operating expenses of many SMSFs, because these need not be high. For SMSF trustees who take the trouble to do their own accounts and tax returns, the cost of a compulsory audit can be less than the ATO's supervisory levy. Given the relative simple asset mixes in most SMSFs, it would be a good idea for the Government through the ATO to offer trustees a course in how to prepare financial statements.

The retail and industry super fund sectors understandably share the ritual of SMSF bashing, urging the Australian Government on many occasions to set a threshold entry balance and generally pretending that for people to operate SMSFs is a sure path to financial perdition. This should be seen for what it is:

hype intended to stunt the growth of SMSFs in attempts to divert more money into retail and industry funds.

3. Home equity

Too often the owner-occupied homes of retirees are seen as a savings bank by policy makers and the residential aged care sector. CPSA's policy is that the owner-occupied home of a retiree should not be encumbered with debt unless it can't be avoided. The notion that retirees should draw down on something so vital to their well-being to top up their income is a dangerous one and recognised as such by the vast majority of retirees. Home equity release has never taken off in Australia, because retirees realise that encumbering their home with debt makes it virtually impossible to sell up and move to more appropriate housing or fund nursing home accommodation. Home equity release simply is a bad idea and it has quite rightly been rejected by the target group.

The impediments to the development of products to help retirees access the equity in their homes are not regulatory. If anything, the regulation of home equity release products should be strengthened to ensure that the few who consider taking them up understand the consequences and potential consequences.

The real impediment, apart from consumer sentiment, to developing the home equity release industry is commercial in nature. There are many metropolitan and regional areas where capital appreciation of housing is low or even non-existent, making those areas no-go areas for home equity release providers. It was one of the main reasons why the Productivity Commission's recommendation, made as part the Commission's *Caring for Older Australians* inquiry, to impose compulsory home equity release on aged care recipients to fund their care was not adopted.

4. Bank failure

CPSA is concerned that measures to reduce the perceptions of an implicit guarantee for systemic financial institutions by imposing losses on particular classes of creditors during a crisis should not impact on deposits made to fund retirement, i.e. it should not impact on superannuation savings and retirement

savings outside super. It would be ironic indeed if ordinary people, after being compelled to save into their super, were to see their deposits reduced or wiped out altogether if their financial institution suffered catastrophic losses.