

# **THE VOICE of Pensioners and Superannuants**

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## **Australia needs superannuation pension products**



THE recently published report of the federal Retirement Income Review implied that the compulsory superannuation contributions should not be increased from 9.5 per cent to 12 per cent because, in general, retirees do not use up their retirement savings and even increase these savings in retirement.

The Retirement Income Review based this finding on one academic publication from 2017 and a Grattan Institute report from 2018.

Obviously, superannuation funds would like compulsory contributions to go up and are keen to show that, on the contrary, retirees do use up their retirement savings.

The Association of Superannuation Funds of Australia (ASFA) has prepared a research paper which, not surprisingly, finds that, in general, Australians exhaust their superannuation in retirement and leave no superannuation when they pass away.

ASFA bases itself on ATO and APRA data and previously unpublished Household, Income and Labour Dynamics in Australia (HILDA) survey results.

Who is right, the Retirement Income Review or ASFA?

The question whether compulsory superannuation contribution rates will generally produce adequate retirement incomes cannot be answered based on the experiences of people who generally have not had the benefit of superannuation throughout their working life.

ASFA says that “80 per cent of people aged 60 and over who died in the period 2014 to 2018 had no super at all in the period of up to four years before their death”.

These are all people who started to receive compulsory employer superannuation contributions in 1992, when they were 36 or, more likely, much older and the compulsory contribution rate was a lowly 3 per cent. They had no chance to build up an adequate level of superannuation savings and, naturally, those inadequate savings had been exhausted before they died.

The studies used by the Retirement Income Review were published in 2017 and 2018 respectively. The findings of these studies also reflect the immaturity of the compulsory superannuation system.

Rather than mount spurious claims based on ATO, APRA and ABS data, what ASFA should do is get its members to develop annuity-style superannuation pension offerings. These are quite common elsewhere in the developed world but rare as hens' teeth in Australia.

Such superannuation pensions would make it crystal clear how much retirement income you would get for what level of superannuation savings. And that would settle the question of what an adequate compulsory superannuation contribution rate looks like.

One of the main reasons those with retirement savings hoard them is that they generally have no understanding of how to use them and run them down responsibly. And they have virtually nowhere to turn to be shown.

CPSA's publication *Would you rather be financially secure now or when you're dead?* is a modest attempt to help retirees and intending retirees make the most of their savings.

## Digital device use up among older Australians



AUSTRALIA'S COVID-19 restrictions have led to more older Australians using digital communications, including social media apps.

Research from the Australian Communications and Media Authority (ACMA) shows the number of people aged 75 and over who use social media doubled from 18 per cent in June 2019, to 41 per cent in June 2020.

For older Australians, emailing had increased from 37 per cent in 2019 to 81 per cent in 2020. Use of messaging/calling apps and mobile texting have also increased significantly.

For all age groups, 77 per cent of Australians in June 2020 had used an app to make voice calls, video calls or send messages in the last six months, compared to 67 per cent in 2019.

More than one in three Australians increased their use of social networking apps following the introduction of COVID-19 restrictions.

According to ACMA, after years of gradual drift towards communications and social media apps, COVID-19 is the cause of a more pronounced shift. More people are relying on social networking apps and mobile communication services like Facebook Messenger and Zoom.

The report also notes a continuation of the long-term trend of declining use of fixed-line home phone services for all age groups except over-75s.

However, over-75s do use mobiles as well, because across all age groups, 99 per cent of adult Australians used a mobile phone in the six months to June 2020.

## **Granny flat arrangements to offer greater protections for older people**



GRANNY flat arrangements will become safer once a law change is introduced that will stop penalising people who create formal granny flat contracts.

Currently, if an older person agrees to move into a granny flat on their adult child's property and there is a formal contract agreed to, the adult child will have to pay Capital Gains Tax (CGT) on the value that is added to their property.

If there is no formal contract, CGT will not be charged on the granny flat because for CGT to be applied there must be a triggering event. A CGT-triggering-event occurs when a contractual or legal right in an entity is created, such as a formal granny flat agreement.

Older parents not wanting to have their children pay extra tax may choose to not create a formal arrangement. If there is no formal granny flat arrangement in place an older person may be exposed to financial abuse. For example, if an older person's son and daughter-in-law's relationship breaks down, an older person may be forced to move and may not be able to recover any money that

was invested in the granny flat as there was no formal agreement in place to spell out the rights and responsibilities of both parties.

On 16 April, the Australian Treasury released draft legislation that will exempt CGT from granny flat arrangements.

The draft legislation says that for a granny flat arrangement to be free from tax the occupant must have reached pension age or have a disability that requires daily assistance, and that the agreement gives the occupant the right to live in the granny flat for life.

Commercial relationships where a granny flat is built and rented out will still be charged CGT.

This is good news for all parties. This law change will encourage formal granny flat arrangements which will mean older people living in granny flats have greater security of tenure and less exposure to financial abuse, without placing their children in a worse tax position.

The law change is expected to be implemented 1 July of this year.

Even after this change is implemented it is still strongly recommended that legal and financial advice are sought after before entering a granny flat arrangement.