SMSF Owners' Alliance
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Super savings key to retirement age

As the Treasurer is reported to be considering raising Age Pension eligibility to 70, he could also take the opportunity to enhance the superannuation system to give more people a choice about when they can afford to retire.

It's been reported that moving the Age Pension eligibility age to 70 may be phased in over the next 15 years to 2029. This means someone who is 50 today and planning to retire at 65 will instead have to work for another 20 years, five years more than planned. This may suit some people but not all, depending on circumstances such as the availability of work and their capacity to work.

Those who wish to retire at 65 can still do so if they save enough in superannuation to retire on a private pension and not have to rely on the taxpayer-funded Age Pension. This is, after all, the prime objective of the superannuation system.

It's a win-win situation for retirees and for the Government if a person can retire independently of the Age Pension and the government can save their Age Pension costs.

How does a 50 year old achieve this outcome?

If a 50 year old on average weekly earnings has been contributing to super just at the compulsory Superannuation Guarantee level and earning on average a 6% average annual return, our calculations indicate that he or she would now have about $110,000 in super which over the next 15 years would rise to about $440,000. This is not enough to generate a private pension for this person greater than the Age Pension, which would require savings of close to $800,000.

To be able to fund a private pension sufficient to avoid the Age Pension, the 50 year old would have to make additional voluntary contributions to super. We calculate that depending on the returns achieved by their fund – and this is one of the most significant variables – the person would have to contribute an additional 15-40% (depending on the performance of their fund) of salary in each year to 65 to have enough in savings.

But a lot of people would be unable to save this much because of the current contribution cap of only $35,000. A better solution, as we have consistently argued, would be to restore the voluntary cap for over 50s to $100,000 as was previously the case.

Fairer still would be a system of 3-year rolling caps so that women and others likely to experience uneven work patterns are not disadvantaged.

Increasing the opportunity for people to contribute more to superannuation does not mean a greater cost to the Government's budget. The cost of tax incentives given to super savers, are much less over time than the full cost of the Age Pension.

The Treasurer could also consider two related policy changes.

The first is whether the age of access to superannuation should be raised from 55 to 60. This would maintain the current differential between the age of access to super and eligibility for the Age Pension.

The second is whether it would be sensible for the Government to restrict lump sum withdrawals from super if, as a result, there is insufficient left in super to keep the retiree off the Age Pension.
Lump sum withdrawals from super could be prohibited, if as a result the super balance left for someone aged under 70 is not enough to fund a private pension greater than the Age Pension, say, $600,000.

Just as the minimum annual withdrawal from super increases with age, so this minimum balance could be reduced for each 5-year age bracket, recognising that as life expectancy shortens a retiree needs less in super. So, for example, the minimum super balances for each age group could be:

Age	Minimum balance (indicative)
<70	$600,000
70-75	$500,000
75-80	$400,000
80-85	$300,000
>85	$200,000

These numbers would need to be indexed the same as the Age Pension.

A reality is that the efficiency – and cost to Government – of our superannuation system is very sensitive to the rates of return achieved on super savings after taking into account fees and Government charges.

As well as raising the annual contribution limits, we therefore believe that there are other reforms to superannuation the Treasurer should consider in the context of any announced changes to the Age Pension:

- Improve governance and transparency of the major APRA-regulated funds as is currently being reviewed by Treasury. This should improve competition between funds and reduce costs. One of the reasons Australians are not accumulating enough in super is the relatively low returns achieved by superannuation funds, averaging a 6% net rate of return over the past 10 years. Treasury's submission to the Financial System Inquiry noted that Australia's superannuation sector is characterised by high operating costs and limited product innovation. The cost of running large superannuation funds in Australia is significantly higher than in comparable countries.
- Ensure the FOFA reforms are applied effectively so investors are clear as to whether they are dealing with a product salesperson or a professional, non-conflicted adviser acting solely in their best interests.
- Reduce red-tape costs for SMSFs, including an independent review of the recent unjustified increase in the ATO Supervisory Levy.

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