SMSF
Owners'
Alliance
Limited ABN 96 161 052 464
Not-for-profit public company

SMSF's Should be Free to Choose Type of Retirement Income

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In SMSFOA's submission to Treasury's current 'Review of Retirement Income Stream Regulation', we warn against mandating a particular method of retirement income.

The widely used account based pensions should continue to be available along with other types of retirement income products such as annuities.

We note that the flexibility, control, simplicity and low cost of account based pensions are attractive to SMSF owners. The packaging of such simple business-generated income streams as interest, dividends and rent into more complex products does not always add fundamental value and always involves a fee.

We do not believe it is necessary for retirement income products such as term, lifetime or deferred annuities to be designated as 'superannuation income streams' under the SIS Act.

They should be available to any investor, inside or outside a superannuation fund, in the same way as shares, bonds and other investments.

SMSFOA is concerned about reference in the Treasury discussion paper to designing rules to 'constrain the earnings tax exemption available in pension phase'. This can be read as suggesting Treasury is trying to build a case for removing or modifying the tax exemption on earnings in the pension phase. We believe this is outside the scope of the review of retirement incomes and should be looked at in the forthcoming Tax White Paper or in a separate review of the superannuation system.

The discussion paper also sets out on a complex and, in our opinion, unnecessary discourse on how to provide for deferred annuities and what restrictions should apply to them. This further suggests a Treasury interest in controlling and prescribing the products in which superannuation funds in pension phase can invest.

The SMSFOA submission warns against creating another privileged market for financial product providers in the pension phase, noting that the Financial System Inquiry's Interim Report focussed on the lack of competition and relatively high cost of the APRA-regulated funds which benefit from compulsory superannuation contributions. A similar mandated market should not be created in the pension phase where there is currently an even lesser degree of competition and product choice.

In comments on the second part of the Treasury Discussion Paper, relating to minimum annual payment amounts for account-based income streams, we suggest:

- Rather than a rigid annual limit, there could be a rolling three year limit which would provide more flexibility for superannuants to adjust their drawdowns to meet their actual needs;

- There may be a case for easing mandatory drawdowns when the fund assets have fallen to a certain level, i.e. when the fund is reaching the point where it can no longer provide a private pension greater than the Age Pension. This is consistent with our view that lump sum withdrawals should not take the fund below a level where it cannot sustain a private pension equivalent to the Age Pension.
- The minimum drawdown amount should not apply to funds accumulated from non-concessional contributions and the earnings from them.
- Concerns about the impact of another GFC on retirement incomes are over-played.
  We show that if a pension fund is earning 5% in interest and dividends and paying this to the superannuant, then a cash buffer of 6% of assets would be sufficient to make up for a 25% fall in fund income over five years and avoid the forced sale of shares.

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