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Mr David Murray

Head, Financial System Inquiry

Dear Sir,

Re: Superannuation

As a matter of reference I am 70 years of age and have a mixture of Federal (DFRDB) pension and private super. The latter I recently changed to a SMSF.

I will deal with the primary purpose of writing to you before I comment on some of the content of your interim report.

The one major issue not addressed anywhere, and I find puzzling, is that I believe a person should be able to draw on their superannuation contributions to assist them in purchasing their first home. Housing, we all know, is frightfully expensive in Australia, particularly in the capital cities, but is still difficult for those in regional Australia where incomes are lower. It is almost impossible for a person to pay rent and save a deposit for a home. Are we to become, even more so, apartment dwellers and renters? Young people struggle to save for a home deposit yet they are contributing for years to their super and they cannot access these funds.

I was lucky enough, or through judicious planning on my part, to be able to help my children with a lump sum, to assist them in owning their first home. It seems obvious to me that an individual should be able to do access their own super to achieve the same. Obviously there would need to be some rules, possibly including:

1) must be for the first home;
2) they must not borrow more than a percentage (maybe 80%) of the property value i.e. they must have 20% for the deposit rather than the trend of 10% with some lenders;
3) this is administered through the ATO;
4) if they sell the home the money, as a proportional amount, goes back to their super. i.e. if they originally drew out 10% of the price of the property from super then 10% of the sale goes back to their superannuation, and
5) the lender of the mortgage cannot access that amount of the borrower defaults.

Secondly, and I apologise if I have missed it in the interim report, but the current system does favour the rich. I am aware of medical specialists who have invested in super far beyond what they need ($11m+) and still have years of their working life left. This is tax avoidance, a burden on the tax system and the average tax payer. There should be **two** limits for private superannuation:

1) A maximum amount one is allowed to contribute. I see no reason why this limit should not be about $2m indexed – superannuation should be for need not want for a comfortable retirement. Before the maximum the contributor is taxed at the marginal rate; and
2) A maximum income the fund is allowed to make before it is taxed.
3) For someone with a split super/pension like myself the pension should be calculated to a capital using the amount on is required to draw from Super. So, if the regulations state that one must with draw 5% annually from private super then a $10,000 pension is the equivalent of $200,000 capital/invested.

Thirdly, I may have missed this but my understanding is that there are now none, or much fewer, special considerations once one gets beyond a certain age as there was in the 'Costello years'. It is my experience that at the age of 50 years, one becomes increasingly concerned about retirement and the adequacy of funds. Failure to understand the consequences in early years, the cost of bring up children, and the ravages of divorce settlements all restrict or deplete superannuation holdings. Beyond 50 years or age contributors should be allowed to invest far more than they may have been able to earlier in life. While couples are having children later in life, many still have additional expendable income after 50 years of age. I see no reason why salary sacrifices up to $100,000/yr are not allowed provided there is the cap on contributions and funds earning beyond a set level are taxed at personal income rate.

My comments about findings in your interim report are:

1) Costs are too high which is the reason I now manage my own superannuation and as with many other things in this country we have far too much change in policy which I agree adds to the cost. I am sure we can learn from other countries and more competition is needed.
2) The cost to Government is too high and one of the reasons is as I said above – there is no cap on contributions and the cap on earnings should remain (both indexed or reviewed).
3) I believe that a large percentage of the population **do not** take adequate steps to provide for retirement. Many younger people do not see the need until later in life and then it is too late – a percentage of people don't care at all. Even the current aim of 12% is not adequate even if one contributed during their entire working life. If everyone cared about super why is the 'lost super' so high? Therefore, inevitably there needs to be default and compulsion measures whether we like them or not.
4) I agree there is a lump sum culture and while contributors should be able to draw lump sums there should be a limit. They should not be able to draw down to zero funds by spending 'with gay abandon' and then default to the age pension. A cap for lump sums of say 20% of the funds at a defined point - when one is eligible to draw for super and this can be rolling so that if they contribute more then the cap can incease. An exemptionmay be for helping a child getting a house deposit, provided that by doing so the contributor does not default to the age pension, or part pension, within say the next 5 years of making the lump sum withdrawal.

I am not naive to suggest this but it certainly would help if a bipartisan approach to super were achievable then such significant policy change would be avoided however sadly that is just a a dream.

I trust that my ideas give you some fresh thinking.

Yours Sincerely

Henry Detjen