ACTUARIES INSTITUTE CALLS FOR TAX REFORM TO PROTECT RETIREES AND FEDERAL BUDGET

- Superannuation and retirement incomes policy discrepancies must be fixed
- Expert panel should advise Government on long term, equitable goals

The Actuaries Institute today said there is an urgent need for sensible taxation and policy reform that will safeguard retirees' living standards and reduce pressure on future budgets.

In its response to the tax discussion paper issued recently by Treasurer Joe Hockey, the Actuaries Institute said there is growing community clamour for clarity and certainty around superannuation taxation arrangements and retirement incomes policy.

Among its recommendations, the Actuaries Institute believes the Government should consider introducing a lifetime cap of around $2.5 million on superannuation savings which can be transitioned into a superannuation income stream which pays no tax on investment earnings, lowering the high-earner 30% concessional tax rate to incomes above $180,000 from the current $300,000, and easing pension eligibility restrictions linked to the sale of the family home.

"Now is the time to act and fix our superannuation and pension systems which are in fact two sides of the same policy coin," said Estelle Pearson, the President of the Actuaries Institute.

"It is not good enough to say that superannuation is out of bounds for revision and review," Ms Pearson said.

"Superannuation should not be out of bounds for revision and review. Via a summit or an independent panel of experts, the Government should be taking advice that will halt the obvious and perplexing discrepancies that are emerging in current policy and which are confusing many workers and retirees.

"Like many others, the Actuaries Institute keenly awaits the Government's response to the Financial System Inquiry's recommendation for overarching and agreed goals that will secure fair and equitable policies for Australians now and over the next few decades," she said.

Ms Pearson said these goals must ensure that savings and taxation policy is operating in the best interests of Australian workers and the nation's ageing population.

Recommendations included in the tax paper response by the Actuaries Institute include:

1. To encourage equity and sustainability:
   - Individuals earning more than $180,000 should be subject to the 30% concessional tax rate now applying to those with incomes above $300,000. The change would include an allowance for superannuation contributions and provide a tax concession on superannuation contributions of between 15% and 22% for most people.
   - A lifetime cap to be gradually phased in for both concessional and non-concessional contributions
   - Limit tax concessions provided on investment earnings on assets supporting a superannuation income stream, which now attract no tax, by imposing a lifetime cap of $2.5 million. Any excess amount could remain in a superannuation account and 15% tax on investment earnings would continue to apply.
2. To encourage innovation:
   - The tax treatment of investment earnings on deferred lifetime annuities and deferred group self-annuitisation products should be tax free after age 60 when superannuation income streams become tax-free.
3. To help ensure retiree savings last longer and help relieve longevity risk:

- Consideration should be given to reintroducing maximum withdrawal factors, which could be set at double the minimum withdrawal factors, to provide a corridor within which payments would be considered to be an income stream. (Current minimum annual withdrawal is 4%, hence upper limit would be 8%)
- Recognising the high value of the home equity component in retirement savings, consideration should be given to maintaining the means test exemption on a portion of any home equity released on the sale of the family home, or released in some other way using an allowable financial instrument. This would provide an improved standard of living for retirees from their own assets and would reduce or delay their reliance on the Age Pension.

"There is little to be gained by favouring piecemeal changes which frustrate and confuse Australians who are saving for their retirement or trying to enjoy their retirement years without being too much of a burden on the community," Ms Pearson said.

"The Government's Intergenerational Report, has prompted voters to think hard about how they will fund and spend their retirement income. It is no surprise too that people are concerned about their future lifestyle options as pension eligibility is refined and healthcare and aged care costs keep growing," she said.

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