Mutual Pensions

Harnessing the Power of Averages.

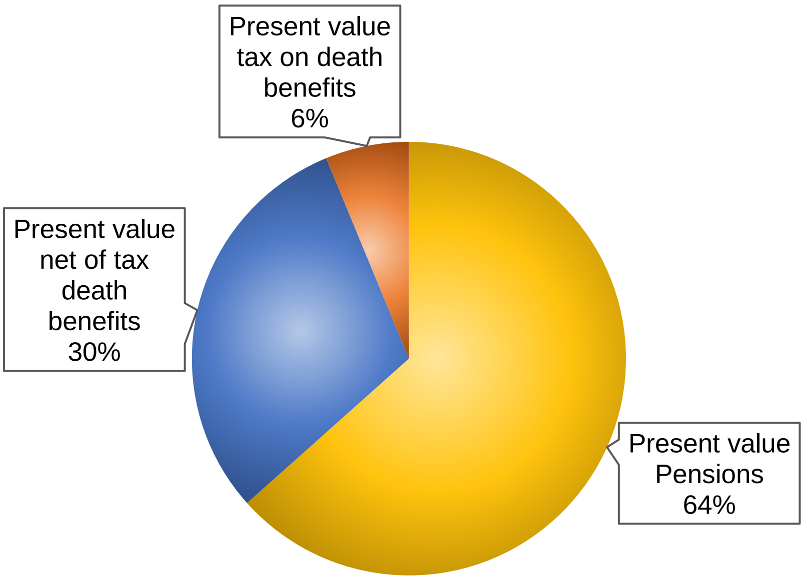
MEDIA RELEASE

SUBMISSION TO TREASURY REVIEW

Aspiring Group Self Annuitisation (GSA) provider, Mutual Pensions Pty Ltd, has made several bold policy calls in its submission to the Treasury Review into the Retirement Income System.

Mutual Pensions Pty Ltd has called on the Review to recommend requiring a proportion of superannuation benefits to be locked into a longevity protection product. This is to prevent the tax leakage when superannuation is used as a vehicle for intergenerational wealth transfer.

The submission identified that almost a third of superannuation is expected to be lost to the system if retirees simply take the minimum account based pension.



The submission compared the benefits that would accrue to non dependent beneficiaries if a pre tax dollar were paid in salary and invested outside superannuation with those that would accrue if that pre tax dollar were contributed to superannuation and remained in the superannuation system, ultimately passing, after beneficiary tax, to the beneficiary. In some circumstances, the superannuation supported value is more than twice the non superannuation value.

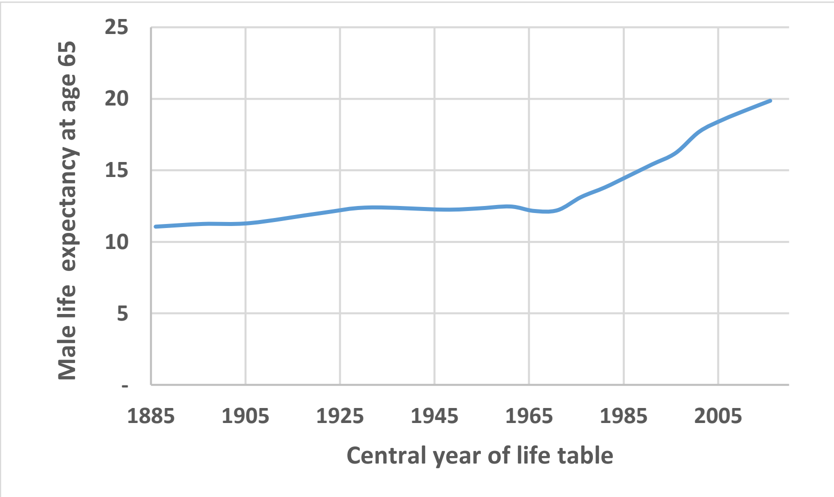
Generally, longevity products meeting the Government's Comprehensive Income Product (Retirement) (CIPR) standards must not pay more than the purchase price on death up to half of the life expectancy at purchase, half the purchase price at death at half the live expectancy then scale down to nothing at the life expectancy. CIPRs include life time annuities and GSA arrangements. Under GSA arrangements participants bear the investment risk and transparently share the longevity risk.

Mutual Pensions Pty Ltd's suggestion is that four years from Government announcement of the change, 20% of benefits must be taken in CIPR form, with the proportion rising 5% each year until it reaches 75%.

The submission said "*Mutual Pensions® are not products seeking a public policy problem which they can solve. Quite the reverse. They are products designed to address a public policy problem whose time for solution has now arrived.*"

Mutual Pensions Pty Ltd observed that the life expectancy at age 65 inflected about 50 years ago (see chart) and suggested that the retirement age be set as 67 and four months for those born in 1959 and increase by four months each year for ever until a future parliament decides to halt the process.

Anticipating criticism of later retirement for those with physically very demanding occupations, Mutual Pensions Pty Ltd suggested allowing 80% of the Age Pension to be paid five years earlier for those people.



Mutual Pensions Pty Ltd advocated a system where a proportion of the excess of the value of the family home over a reasonable proportion of the median home price in a region be included in the assets test to decide a pensioner's entitlement to the Age Pension, but that the pension continue at the rate without the family home inclusion, resulting in an overpayment recovered at death.

Mutual Pensions Pty Ltd suggested that the current superannuation benefit applying to down sizers should be extended to an arrangement that initially quarantines almost all of the proceeds of any downsizing the family home. It suggested the downsizing proceeds are only gradually introduced to the assets test for the pension actually paid, but a "shadow correct" pension including the proceeds also be determined. As with the family home adjustment, the excess of pension paid over the shadow correct pension that would have been paid is recovered at death.

Mutual Pensions Pty Ltd also suggested that the Pensioner Concession Card, once granted, never be revoked. It argued that while pensioners may be happy with a pension reduction from the means tests, they greatly overrate the value of the card and irrationally arrange their affairs to keep it.

Mutual Pensions® Pty Ltd submitted that the SG path is satisfactory and there is no need to specially address gender issues.

Other recommendations Mutual Pensions® Pty Ltd made include doubling the Social Security work bonus, allowing for home mortgages in the assets test, more work on the relationship between home owners and renters in the assets test and access to transition to retirement pensions five years early for those unemployed for a year or more.

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The submission is at http://www.mutualpensions.com.au/wp-content/uploads/2020/02/MX003Sbmsn.pdf.

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