

**Proposed Legislation Great for Caravan, Cruise and Carnival Industries
– Bad News for Retirees and Tax-payers**

The proposal to introduce Deeming on Account Based Superannuation Pensions currently being examined by the Senate Community Affairs Legislation Committee is ill advised and inappropriate – if introduced it will encourage savers to blow their funds on toys and ‘experiences’ and then go on the full age pension - rather than to carefully manage their savings over time, said Adelaide based financial strategist Theo Marinis.

“This proposal is great news for the fun industries – but will mean an immediate and significant burden on the federal government’s budget. It is illogical; it flies in the face of all the sensible rules established around superannuation as a long-term asset,” he said.

“Whoever the public servant is behind this proposal clearly has no understanding of human nature. As the FPA correctly state, the current rules act as a brake on spending, encouraging the rationing out of super. (as per attached FPA letter)

“If the current Deeming proposal gets up, there will be many scenarios where a person will actually increase their government pension by spending up big. This will be fun for them, but economically irrational for the country as a whole.

“A sensible superannuation system is designed to encourage and reward long term saving and not to be a burden on the taxpayer.

“I call on the committee to reject the idea of introducing deeming on to Account Based Superannuation Pensions or they will inadvertently – and naively create a huge imbalance in the current retirement savings system,” Theo Marinis said.

-o0o-

For further information please contact:



Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as **Marinis Financial Group**
T 08 8130 5130
F 08 8331 9161
M 0412 400 725
E admin@marinigroup.com.au
A 67 Kensington Road
NORWOOD SA 5067
W marinigroup.com.au

Disclaimer

The information in this article reflects Theo Marinis' understanding of existing legislation, proposed legislation, rulings etc. as at the date of issue. While it is believed the information is accurate and reliable, this is not guaranteed in any way. The information is not, nor is it intended to be comprehensive or a substitute for professional advice on specific circumstances.

The information given in this article is of a general nature and has not taken into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision on the basis of the advice above, a prospective investor needs to consider, with or without the assistance of a professional adviser whether the advice is appropriate in the light of their particular investment needs, objectives and financial circumstances.



The Hon. Kevin Andrews
Minister for Social Services
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600
cc: Senator the Hon. Arthur Sinodinos

By email: menzies@aph.gov.au

4th December 2013

Dear Minister,

RE: Social Services and Other Legislation Amendment Bill 2013

The Financial Planning Association (FPA) is concerned about the implications of the *Social Services and Other Legislation Amendment Bill 2013*, especially for consumers of financial advice. In particular, the Bill changes the way that account based pensions are assessed under social security law, and forms a disincentive to the responsible management of retirees' superannuation assets. We would ask you to hold an inquiry on the short and long term social and economic impacts of this Bill, and to carefully consider whether or not this measure will actually reduce reliance on the Age Pension.

Account based pensions are highly effective financial products. They are structured in a way that encourages and rewards retirees for withdrawing the minimum allowable from their balance, while still retaining flexibility and control to the beneficiary. With the help of a financial planner, these products can help pensioners minimise reliance on the Aged Pension.

Deeming these pensions to be financial investments under the *Social Security Act* and financial assets under the *Veterans' Entitlements Act* will be a disincentive for those approaching retirement from structuring their retirement savings into a prudent, managed stipend. This approach may encourage irresponsible spending, or a deleteriously risk-averse attitude to retirement savings, and in either case retirees will continue to rely on the Age Pension – perhaps to an even greater extent than they would on an account based pension.

The Bill also disproportionately affects Australians with modest means, and therefore have a greater reliance on the age pension. The following table compares the aged pension outcomes for a 65 year old woman who purchases either a \$200,000 or a \$500,000 account based pension and has no other assets. As the *Social Security Act* will apply either the income or the asset test depending on which provides the lower aged pension benefit; those who are asset tested will be unaffected by the deeming provisions for the income test. On a \$200,000 account based pension, the retiree will expect to receive \$62.40 less per fortnight from the Age Pension.



Date of ABP Commencement	31/12/2014	01/01/2015	31/12/2014	01/01/2015
Amount Invested	\$200,000		\$500,000	
Minimum AP Payment	\$10,000	\$10,000	\$25,000	\$25,000
Deductible amount	\$9,250	N/A	\$23,130	N/A
Deemed Income	N/A	\$7,301	N/A	\$19,301
ABP Income Tested Amount p.a.	\$750	\$7,301	\$1,870	\$19,301
Age pension reduction (income test)	Nil	\$62.40 p.f. reduction	Nil	\$293.17 p.f. reduction
Age Pension reduction (asset test)	\$4.88 p.f. reduction	\$4.88 p.f. reduction	\$454.87 p.f. reduction	\$454.87 p.f. reduction
Effect of Change	Pension is reduced by \$62.40 per fortnight.		No effect as client is still assets tested.	

Under the new rules, retirees who rely on their investment for an income stream are also exposed to the compounded risk of receiving lower returns due to investment conditions while also receiving a reduced pension as a result of deeming. Rather than facing a reduced income support payment as well as exposure to the market, retirees may choose to spend their savings and rely on the Age Pension.

The Bill also has the presumably unintended consequence of reducing competition between financial products and product providers by offering preferential social security treatment to pension schemes which are not asset-backed. If the value of the underlying asset is used to deem the income derived from the financial product, then financial products without an underlying asset (such as Defined Benefits Scheme Pensions or annuity products) may have a lower income than the deemed income of an account-based pension. We do not form a value judgment by comparing these products, but stress that product recommendations made by financial planners should be influenced by the circumstances and goals of the client, and not arbitrary distinctions in the social security law.

Furthermore, the way that the grandfathering provisions are structured in the Bill may influence retirees to feel locked in to an existing account-based pension arrangement solely because of how these arrangements are assessed against income support payments. Given that account based pensions can be designed to last for decades, we feel that this is counterproductive to retirees receiving the best financial advice for their situation. Retirees will also be exposed to greater counterparty risk, as they may decide to either stay with their present provider for the rest of their lives with sub-optimal results, or move to a different product where the retiree retains little or no control over their investment. Australians should feel confident and in control of their financial future at every stage of their lives as a basic tenet of financial citizenship and inclusion. This Bill would undermine the usefulness of a financial product which does offer this level of control to retirees, especially when paired with personal financial advice.



The FPA does not believe that the Bill as it stands will deliver the \$161.7 million saving to the Federal budget which is expected. Instead, we believe that deeming account based pensions as a financial investment would undermine the usefulness of these financial products, which will encourage retirees to pursue other investments which will not be deemed. Alternatively, the Bill will increase reliance on the Age Pension through the encouragement of spending their superannuation balance to increase their age pension entitlements, rather than being rewarded for a prudent approach to managing their retirement income. In either case, the Bill will negatively impact the retirement outcomes and investment decisions of Australian pensioners. It also has the potential to disturb qualitative social outcomes, such as participation in society and dignity in retirement.

If you have any questions, please contact me directly on 02 9220 4500 or dante.degori@fpa.asn.au.

Yours sincerely,

Dante De Gori
General Manager Policy and Government Relations
Financial Planning Association of Australia¹

¹ The Financial Planning Association (FPA) represents more than 10,000 members and affiliates of whom 7,500 are practising financial planners and 5,500 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- We banned commissions and conflicted remuneration on investments and superannuation for our members in 2009 – years ahead of FOFA.
- We have an independent conduct review panel, Chaired by Professor Dimity Kingsford Smith, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 150,000 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 17 Australian Universities for degrees in financial planning. As at the 1st July 2013 all new members of the FPA will be required to hold, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
- We are recognised as a professional body by the Tax Practitioners Board.