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7 June 2006

General Manager
Superannuation, Retirement and Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir / Madam

Submission: Budget Summary – Superannuation

I first became a licensed adviser on 21 May 1985 as the Research Coordinator of Personal Investment Planners Pty Ltd, Chatswood. I was appointed a Director two years later and left after five years service to set up a Financial Planning practice for KPMG on the Gold Coast. After a further five years' service I left KPMG to set up my own financial planning practice with a corporate dealer licence.

Since then my company has been issued with AFS Licence 228898 and we have built up a practice specialising in high networth clients and self managed superfunds but also have clients receiving part age pensions. I have been fee based (ad valorem) since 1989. We are results oriented; we recognise that our prime function is to look after the financial needs of our clients. For that reason we try to reduce opportunity cost to the minimum by investing clients up to 90% in Australian and International Equity funds managed by the top fund managers.

I still actively advise clients and prospects and the following submissions flow from a keen appreciation of people behaviour in greatly varying financial and personal situations developed over the past 21 years.

LUMP SUMS

Most people do not handle sudden unhampered access to large capital sums well. Winners of lotteries immediately spring to mind. When Approved Deposit Funds were fashionable it became apparent to me that an initial first drawdown of $15,000 was followed up with another larger one quite soon after and the time span between drawdowns reduced. As a result significant capital was eroded at a serious rate, measured in months instead of decades. Rolling the money over into an allocated pension forced the financial discipline essential for most people except the naturally frugal.

We also know that many people like the feeling of cash in the bank after a lifetime of cashflow problems. To few this is a security blanket that is not touched. To most it is money to spend and as soon as the $15,000 or so is gone, they need another $20,000 because the first amount did not last that long. Easy access to capital leads to squandering in most instances. Most people need the financial discipline imposed by pensions.

Our submission is to continue charging 15% tax plus medicare levy on lump sum withdrawals in excess of the tax free post 1983 indexed amount. In contrast the personal pension drawdown would be tax free *between* maximum and minimum Pension Valuation Factors. This would help preserve retirement capital significantly.

Creating Inheritance Capital

Although the present plan is to throttle down the inflow of contributions replacing RBLs as a control mechanism with the purpose to limit the approximate end benefit amount; the ultimate size of an accumulation account with the proposed changes after decades can be very large. High Net Worth, (HNW) people could begin lodging $50,000 deductible and $150,000 undeducted contributions for their children from, say age 25. Assuming imputation credits take care of the 15% contribution tax; if the superfund returns an average 14% pa (our average SMSF returns over the past ten years) the $200,000 contribution pa compounded at 14% pa would create a member's benefit of $306,181,723 at age 65.

Even if half that amount would be used to create tax free retirement income, the balance @ 14% pa at nil tax (after imputation credits) would become $2,102,753,950 after a further 20 years to age 85 with no compulsion to move these funds to an ordinary tax environment.

Our submission is that at age 65, or subsequent retirement, or at the latest at age 75, accumulation accounts must become *retirement income paying* accounts or Superannuation would become a tax haven for the ultra rich.

Deductible Contributions

In our experience the average person is unable to make substantial savings until age 50. Until then the money is used bringing up children through university and paying the mortgage off. It is after these milestones have been achieved that savings can really commence.

Our submission is that deductible contributions should increase to $100,000 per person after age 50. In practice this permits the creation of retirement capital in excess of $3,000,000 per couple. Most superfunds are invested in balanced funds and create a long term return not much above 7.2% pa. With increasing life expectancies we consider a minimum of $1,000,000 retirement capital essential. Your proposal limits the opportunity for business persons and sea-changers to rearrange their affairs on retirement.

Undeducted Contributions

This proposal also limits the opportunity for business persons and sea-changers to re-arrange their affairs on retirement. Scaling down large or expensive residences frees locked up capital for the continuing maintenance and welfare of retirees. Likewise the successful and reasonably frugal can sell their indivisible property investments in order to invest in liquid investments in their SMSF

Our submission is that retirees from age 60 can make undeducted contributions upon rearrangement of their financial affairs up to an indexed value of $5 million.

Locked – in Complying Life Pensions

In the days of (unrealistic) RBLs and "anti thrift" allocated Pension PVFs the complying life pension SISR 1.06(2) offered a welcome escape. Unless the motivation was to provide a long term income stream for a challenged child or grandchild, the main purpose was to fall below RBLs.

Until the May 9 announcement, the probability that RBLs would ever be abolished was a *celestial dream.*

Now that RBLs are to be abolished there is much capital locked up in complying life pensions providing parsimonious income flows, entered into for no valid reason (after 1/7/07). On the basis that such a 1.06(2) pension could only ever be terminated (within six months) and rolled over into a similar pension we have the situation that the only complying pension left for SMSFs is the market linked complying term pension.

Our submission is that present 1.06(2) and 1.06(6) pensions can be rolled over to Market linked complying term pensions once RBLs are abolished. This would free half of the locked up capital and creates the opportunity to increase retirement incomes.

Your Apparent Perception of Financial Advice

Our clients pay us an annual fee primarily for ongoing monitoring their financial affairs, thus keeping them as rich as possible as well as continuing to look after their family (succession) interests. Aging and retirement cause serious loss of self confidence. Retirees like to discuss the more important decisions to be made with their financial adviser they have come to trust. When half these clients become widows in due course then the widows rely on their adviser even more as the "man or woman of affairs" they know well whom "George" also liked and trusted.

Ongoing relationship advisers, in contrast to institutionally authorised transaction advisers, usually have their own AFS licence and supply a totally different service from the transaction advisers who frequently are the recipients of "indifferent" publicity.

We trust our submissions strike a chord and receive your favourable consideration.

Yours faithfully

Ralph de Vryer

Ralph de Vryer CFP SSA