SMSF Owners' Alliance
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SMSFOA Members' Newsletter

#3 /2016

Dear Members

In this newsletter:

- **Superannuation – what's it really for?**
- **SMSF Owners' offer our definition of superannuation**
- **Stepping up our advocacy effort ahead of the Budget and the election**
- **Register for the Australian Shareholders' Association 'Grow your portfolio' conference**

Defining the purpose of superannuation

SMSF Owners has been directly engaged with the Federal Government in recent days as it works up a definition of the objective of superannuation. SMSF Owners was invited to attend a Superannuation Roundtable with the Assistant Treasurer, Kelly O'Dwyer, in Canberra on 18 March.

Our Research Director, Malcolm Clyde, was there and put our views to the Minister. We also attended a follow-up meeting with Treasury officials in Sydney on 31 March.

These discussions have been reinforced with a formal submission to Treasury which can be found on our website here:

https://smsfoa.org.au/images/Advocacy/160406_SMSF_Owners_Alliance_Submission_to_Treasury_on_the_Objective_of_Superannuation.pdf

The Government is obviously keen to have the objective of superannuation defined in the near future so the decisions on superannuation it may announce in the 3 May Budget can be framed in a policy context.

David Murray's Financial System Inquiry final report in November 2014 recommended that the Government: *"Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term."*

Not only was David Murray saying the purpose of superannuation needed to be clearly stated, but that governments would have to justify any changes in terms of the objective. So, hopefully, no more unexpected and unsettling changes, which is good for confidence in a system that requires investment for decades.

Murray's report offered a bare bones primary definition: *"To provide income in retirement to substitute or supplement the Age Pension."*

We believe this definition is too limited and too vague to be a meaningful guide to the evolution of the superannuation system for the long term benefit of all Australians.

- It makes no mention of savings, a serious omission when the whole point of superannuation is that it is a long-term vehicle for long-term savings to support self-funded retirement income.
- It implies the Age Pension is the primary pension system with the role of superannuation just to replace or supplement it. This is inconsistent with the 'three-pillars' architecture of the retirement income system comprising the Age Pension, mandatory superannuation contributions and voluntary contributions. Superannuation should be the strongest pillar which helps most people rely on to build their retirement savings with the Age Pension only acting as a safety net. This should be the long term goal of Australia's retirement income system.
- The linkage to the Age Pension also implies a levelling of aspirations whereas, in a developed society, everyone should aspire to and be provided with the means and encouragement to save enough to allow them to retire on a pension that bears a fair and reasonable relationship to their income before retirement.
- It makes no reference to any benchmark for the success or adequacy of the system, nor to principles of equity.

So what definition do we offer?

Here's what we have proposed:

The primary objective of the superannuation system is to give every working Australian the opportunity and encouragement to save enough so that they can fund an income in retirement that allows them to maintain to a reasonable degree their living standard after retirement.

What does maintaining their living standard to a reasonable degree mean?

The standard international benchmark for an adequate retirement income is what's known as a Reasonable Replacement Rate. Generally, this is agreed to be around 60-70% of a person's pre-retirement, after-tax income. This level of income is consistent with publicly funded defined benefit pensions (for politicians, public officials etc.) and was canvassed in Ken Henry's review of taxation.

Principles

We say in our submission that the objective should be supported by the following principles:

a. Sufficient tax incentives are required in order to encourage each individual not to spend all of their income but to save some for their retirement;
b. The superannuation system is part of a three-pillar retirement income system (comprising the Age Pension safety net, mandatory and voluntary superannuation contributions) and that the cost of tax incentives beyond those necessary to encourage adequate savings and the cost of Age Pensions should have regard to the fiscal sustainability of the overall system;
c. For individuals to have confidence investing their savings in superannuation for many years, it must be stable with any changes limited, justified in terms of this objective and, in particular, not retrospective nor adversely impacting those who have made retirement decisions;

d. The adequacy of savings must take into account the risks borne by each individual with regard to longevity and also health, aged-care and other unpredictable costs during retirement;

e. The distribution of tax incentives must be equitable, meaning that they should generally be proportional to the income taxes paid by each individual. Any tax concession to an individual or group of individuals that is not proportional to the taxes that individual or group has paid represents a transfer to or from that individual/group to another, is inequitable and must be justified.

f. Any limits on tax incentives must apply to contributions rather than investment outcomes and provide flexibility to allow for uneven income over an individual's working life

g. Any limits on tax incentives should not unreasonably constrain most taxpayers from meeting this objective;

h. Savings are to be invested in the best interests of each member and must not be subject to mandatory direction;

i. The system's structure and administrative rules are kept as simple as possible and all reasonable steps are taken to maximise competitive market efficiency in its operation so that costs to savers are minimised.

Beneficial Outcomes

Whilst not objectives of superannuation, it is recognised that the following fiscal, economic and social benefits flow from the achieving the objective:

a. The fiscal cost of the nation's retirement income system is reduced as increasing reliance on self-funded superannuation reduces the burden of Age Pensions on the Government's budget;

b. The system provides very substantial capital formation through savings with a stable, long-term focus;

Boosting Membership

With the budget and an election looming, we are in a critical phase for superannuation policy. There are likely to be changes in the budget that will affect self-managed funds. We need to be more than ever vigilant and vigorous in expressing our views to government and the media. We operate on a shoe-string budget and need your support. Please ask your friends and associates with SMSFs to consider joining us and if you've let your membership renewal slip, please renew it so, with your help, we can continue to be effective advocates for SMSF owners.

Stepping up our advocacy effort

As part of our advocacy effort leading up to the May budget and the double dissolution election that may follow on 2 July (depending on the Senate), we are sending regular briefs to Coalition and Independent Members and Senators.

These briefs point out that one million SMSF owners are a key constituency. They are hard-working Australians – farmers, small business people, tradesmen, professionals – who are taking on responsibility for funding their own income in retirement. See the first of our Coalition Briefs below.

Getting the message home to the Coalition

In our February newsletter we suggested that in the next few weeks, while Government budget and election policy decisions are being made, that members contact their Federal Coalition Members and Senators to get across the key messages on superannuation.

Thank you to the members who took up our suggestion and contacted their Federal politicians. We hope more will do so. We repeat below the key messages and some tips on how to contact your Member/Senator. Of course, it's best to make the points that you think are important in your own words. Please let us know – dfairweather@smsfoa.org.au – how you go.

- Changes should only be brought in if they make superannuation more efficient and effective as a savings vehicle.
- The Budget should be brought into balance by reducing spending, not raising more tax and especially not by snatching savings. The nation's savers should not have to pay for Labor's reckless spending in government.
- Any changes to superannuation tax should not be retrospective. This would be highly unfair to people who have saved for retirement under the existing rules.
- Tax incentives are given to encourage people to save for the future. People who have successfully done what the Government wants them to do should not be penalised for their success.
- Claims that superannuation tax concessions unfairly benefit those on higher incomes are based on incorrect use of Treasury numbers (Tax Expenditures Statement) which even Treasury says should not be relied on as a measure of the cost to the Budget of super tax incentives.
- The TES does not take into account future savings to the Budget in Age Pensions because superannuation gives people the opportunity to look after themselves.
- The top 20% of income earners get a greater share of super tax concessions (57%) simply because they contribute more, but they also pay an even greater share (64%) of income tax in the first place.
- People who set up SMSFs have made the commitment to be financially independent in retirement and old age – they don't want ever to fall back on the Age Pension.
- There are one million members of SMSFs who expect the Liberal-National Coalition Government to protect their savings.

You can either do it the old-fashioned way by writing and posting a letter or you can do it via email or making a comment on the politicians' Facebook and Twitter accounts.

We'd like to give you a handy list of email addresses but Parliament House does not publish an overall email list.

However, it's easy enough to check your particular Member's/Senator's email – go to this address: http://www.aph.gov.au/Senators_and_Members/Guidelines_for_Contacting_Senators_and_Members

Or just Google your Member's/Senator's name and this will take you to their own websites where you can leave a message. Politicians tend to be more responsive if their own electors write to them.

Remember, you are one in a million – let them hear your voice.

SMSF Owners' Alliance

Superannuation tax briefing note for Coalition Senators and Members

February 2016

This briefing note for Coalition Senators and Members comes from the SMSF Owners' Alliance, an independent, not-for-profit advocate for the one million Australians who are trustees and members of self-managed superannuation funds…the people who have grasped the opportunity to secure their financial independence in retirement and not have to rely on a publicly funded pension. It's the first of a series of briefing notes we'll be sending you between now and the election.

A clear message to all Coalition Senators and Members

Amid the swirling debate on tax changes ahead of the Budget and the next election, one clear message needs to reach all Coalition Members and Senators.

The one million Australians in self-managed funds are relying on you to safeguard their retirement savings.

They believe the money they have saved to ensure their financial independence in retirement – meeting the fundamental objective of the superannuation system – should not be taken from them to pay for Labor's irresponsible spending in government.

The one million owners of self-managed funds are not the 'fabulously wealthy' portrayed by Labor, left-wing think tanks and others who see superannuation savings as a treasure trove to be envied and emptied.

They are hard-working Australians – farmers, small business people, tradesmen, professionals – in cities and regional areas throughout Australia. They have accepted responsibility to take care of the funding of their own retirement and old age, avoiding dependency on the public pension.

Critics of superannuation tax concessions usually base their arguments on two flawed arguments:

1. Superannuation tax concessions cost the budget too much
2. The concessions unfairly favour people on higher incomes

Supposed cost to the budget

It is often claimed that superannuation tax concessions cost the budget $32 billion (or some other large number) and cannot be sustained. This claim is based on a misreading, and often deliberate misuse, of the Treasury's annual Tax Expenditures Statement (TES). This attempts to measure taxes that are not collected. There are significant issues with the $32 billion number.

1. It is mathematically wrong. It is derived from adding two separate tax concessions – on contributions and on earnings. Treasury warns in the TES that these items can't be simply added together. The media and left wing 'researchers' routinely ignore this warning.
2. It doesn't take account of 'behavioural effects' – that is, what people might otherwise do with their money if a tax concession is withdrawn or reduced.
3. It is based on a benchmark that is not used in other comparable economies. Using the alternative benchmark produces a much lower number – around $10 billion.
4. It doesn't take account of savings in age pension costs – a fundamental shortcoming.
5. Nor does it acknowledge the positive economic impact of a larger savings pool and the tax revenue generated from invested savings. SMSFs invest 99.4% of their assets in Australia.

Treasury itself has warned that the TES cannot be used to measure the effect on the budget if a tax concession is withdrawn or reduced. Treasury also assesses the reliability of the TES number on fund earnings as 'low' because of the difficulty in estimating volatile returns. These issues were canvassed thoroughly in a 2015 review by the House of Representatives' Tax and Revenue Committee.

Take-out: Take the $32 billion claim with a large grain of salt.

Fairness of super tax concessions

It is often observed, as David Murray's Financial System Inquiry did, that the majority of tax concessions flow to high income earners. The FSI published a chart indicating the top 20% of income earners received 57% of the value of the tax concessions. This is both true and unremarkable.

Higher income earners will always get a greater share of any income tax benefit simply because they pay more tax in the first place.

What the FSI chart did not show (but should have) was that the same top 20% of income earners paid 64% of income tax revenue. The top 2% of taxpayers pay 26% of income tax revenue.

Take-out: Higher income earners more than pay their way when it comes to super tax concessions.

Multi-million dollar funds

Much is made of the fact that a relatively small number of self-managed funds have large balances.

According to the ATO's statistics, only 4.6% of SMSF account balances held more than $2 million. Only 0.5% had balances over $5 million. The average was $564,000 and the median was $338,000.

There are reasons why a few self-managed funds have relatively large balances:

1. They may have been in existence for a long time, even pre-dating the introduction of superannuation in the 90's.
2. Some were able to take advantage of the '$1 million window' to sell other assets and transfer money into their super fund.

3. Some were able to take full advantage of the $100,000 cap on concessional contributions set by the Howard/Costello Government but then cut in half by the Rudd/Gillard Government.
4. Some have been able to make use of non-concessional contributions on which income tax has already been paid.
5. Some have simply been successful investors.

Take-out: Don't set superannuation tax policy on the basis of a relatively small number of high balance SMSFs.

Key metrics on SMSFs (Australian Taxation Office – SMSF Statistics)

SMSFs by numbers

SMSFs make up 99.5% of the number of funds and 29% of the $2 trillion total superannuation assets as at 30 June 2015. There were 557,000 SMSFs holding $590 billion in assets with more than 1 million SMSF members.

SMSF members by age

At 30 June 2015, 85% of SMSF members were aged 45 years or older. The average and median member age was 58 years and 59 years respectively.

SMSF pension funding

In 2014, SMSFs paid out $30.7 billion in benefits to members – 82% was taken in the form of a pension. Nearly half (47%) of SMSFs were in pension phase. The average pension was $72,000.

The $30 billion in pensions paid by SMSFs takes a lot of pressure off the Budget.

Our next Coalition Briefing Note

Thank you for taking the time to read this note.

The topic of our next note will be:

Change tax only to make superannuation work better for everyone, not just to raise revenue.

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- **No increase in superannuation taxes**
- **No adverse retrospective tax changes**
- **No limit on super fund balances**
- **No raiding of super savings to plug Labor's Budget black hole**

Shareholders’ Association Conference

A reminder for members that the Australian Shareholders’ Association is holding its **2016 Grow Your Portfolio Conference** on **16-17 May at Sheraton on the Park, Sydney**.

The ASA have built an impressive program with high calibre, thought-provoking speakers ensuring you receive the maximum return on your registration investment. The comprehensive program includes the following streams:

1. Buying and selling shares
2. Investor’s toolkit
3. Investor’s opportunities
4. Investor’s alternatives

Registrations are now open for the two day conference with an optional third day on which a number of site visits will be conducted.

Full details and more information about the conference are available on the ASA website: https://www.australianshareholders.com.au/conference-2016

SMSF Owners’ Member Newsletter #3/2016 6 April 2016