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OPINION

Federal election 2016: End of a superannuation era no matter who wins

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Australia's superannuation system as we know it — the system that has delivered a $2 trillion savings pool, projected to rise to $4 trillion in 10 years and $9 trillion in 20 years — is now coming to an end.

There has always been superannuation in Australia and there always will be. But the combination of major cuts to super tax concessions now proposed by both parties, and the Coalition's significant proposed reductions in contribution caps, means superannuation's potential for growth and its future role in the economy will be severely circumscribed.

The net result will be a major long-term restructuring of the financial system. The free-flowing rivers of gold that have underwritten the easy growth of Australia's wealth management industry and its service providers over the past 25 years will become a thing of the past.

The super system as we know it — or knew it before the budget — saw a big shift of money into funds management allowing Australia to boast that it had the fourth-largest funds management business in the world.

Last year, according to the latest annual super publication issued by the Australian Prudential Regulation Authority, saw $104 billion in new contributions flow into the super system, generating fees of $12.6bn and earning service providers $9.1bn.

Going back, it was the big rise in super in the financial system following the introduction of "occupational superannuation" by the Hawke-Keating governments that saw the big four banks all move into wealth management. The trend was started by former Commonwealth Bank chief David Murray when he bought Colonial State Bank in 2000.

Others followed and now the big four all have their own version of the bancassurance model.

The Howard-Costello government made changes to super that boosted its role even further, which effectively helped to increase the banks' wealth management arms and further turbocharge the development of the funds management business and the superannuation sector.

Whichever party wins the election, the super tide will now start to turn. Its relative role in the financial sector and the relative role of the businesses that have fed off it will come under pressure.

There are two issues. There are the actual proposals by both parties, which are proposing to cut the potential benefits of super. The middle classes who have come to see super as their primary savings vehicle apart from their family home will rethink their investment strategies outside of super, with options including reducing their mortgages, negative gearing and family trusts ... and spending more money.

Regardless of which party wins the election, the changes will stop a lot of extra money going into super and lead to substantial sums being taken out of high-balance super accounts in the first six months of next year ahead of the proposed changes.

For many, the idea of being able to put $1.6 million in superannuation with earnings on a tax-free basis, as the Coalition is now suggesting, will still, in theory, represent a good investment.

The Labor proposal is to allow tax-free earnings from super up to $75,000 a year. Above that, earnings will be taxed at 15 per cent from the first dollar. This is equivalent to a fund of $1.5m delivering a return of 5 per cent. It’s probably a bit too optimistic in the current low interest rate environment, but for argument’s sake let’s assume both proposals are roughly equal.

The Coalition proposals will more sharply curtail future money flows going into super.

The announced budget changes will cut the concessional super contribution cap from $30,000 a year for people under 50 and $35,000 for people over 50 to a flat $25,000 a year, which will reduce the amount anyone can build up in super over their working life.

The maximum concessional levels have already come down from $100,000 a year a few years ago.

The Coalition is also proposing to limit the total amount anyone can put into super on a post-tax basis to a maximum of $500,000 as of budget night with the calculation backdated to any contributions made from July 1, 2007.

People who have more than $500,000 in post-tax super contributions as of budget night won’t have to take it out of super. But, after budget night no one can put more than $500,000 into super on a post-tax basis, a figure that is calculated from any contributions made from July 1, 2007.

The system before the budget allowed people to put in $180,000 a year in post-tax contributions, or $540,000 over a three-year period. The Coalition’s proposals put a straitjacket around the growth of the industry.

Some say that the Liberals never liked compulsory super anyway and this is their way of starting to undo the system that had its roots in the trade union movement of the 1970s. Whatever its motives, the impact is the same.

The other more fundamental issue is the savaging of trust in super. Labor announced its new tax policy last year. The Coalition made a big point of difference less than three years ago in the last election that it would not be moving the goalposts when it came to super and it would not be making any sudden unexpected changes.

The fact that it has reneged on that assurance in less than three years — and that Labor is also cutting back on the system — will make many people wary of putting any extra dollars into super above the guarantee minimum. No worker can now put in an extra dollar into their super with any confidence that the tax regime will be the same when they need the money.

We will still have a super industry but, as for the grand national super savings plan we had a few years ago, it's the end of an era.

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