FINANCIAL REVIEW
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Election 2016: Super tangle ensnares the government

1 June 2016

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Malcolm Turnbull won't be happy his enthusiasm about an economy in transition is being overwhelmed by arguments about "transition to retirement" and the government's other changes to superannuation.

So instead of being able to celebrate better than expected growth figures as confirming its "economic plan", Coalition messaging keeps being diverted by the antagonism, mainly from its own supporters, to its plan for super.

That leaves the Treasurer and the Prime Minister belatedly trying to refine their big super sell to emphasise such changes will help pay for those who will supposedly benefit from making the system "fairer".

According to the government's list, that includes women with more flexible arrangements, lower income earners who get a tax credit and people over 65 who can now keep contributing.

Absurdly complicated system

Despite mounting evidence to the contrary, it is also sticking to its line that the changes will only adversely affect 4 per cent of those in superannuation.

The catch with this rationale is that a lot more than 4 per cent of traditional Coalition voters will be the ones doing most of the paying. Unlike a lot of politicians, including government ministers, many of them do understand the detail of how it will affect them very, very clearly. And even those who do not understand the finer points of this absurdly complicated system are increasingly suspicious of what yet more changes could mean for their savings.

None of that sentiment necessarily adds up to electoral catastrophe for the Coalition.

Not when a majority of those most outraged about the super proposals would probably still prefer a Coalition government. That's especially as the campaign lens becomes more focused on the government's claims to superior economic management and the cost of Labor's promises.

Backbench angst

But despite Turnbull's insistence the budget has the full support of the government and of the cabinet and of the party room, backbenchers are still extremely alarmed about the political impact of the super measures. Given the degree of backbench angst, the Senate obviously won't be the only problem for a re-elected Coalition government trying to pass super bills.

That, however, is a future problem Coalition strategists would love the luxury of dealing with, once safely back in government. Right now, the immediate problem is to win. That will keep the public mutterings somewhat contained.

But out on the hustings, Coalition MPs know the containment strategy is certainly not working too well. It's not just the usual donors and party members walking away from helping the Liberal campaign in disgust. It's a broader feeling of betrayal from traditional supporters.

Sure, MPs can suggest to unhappy voters that they should really be complaining about Labor party super proposals because they would be worse. That's cold comfort from a government that promotes its determination to help people help themselves, including in retirement.

Most furious response

Instead, the budget surprised just about everyone outside Treasury by the radical shift in the way super is treated. Scott Morrison still attracts the ire for his role in the exit of Tony (no-changes-to-super) Abbott. He's also not regained too many friends with his approach to super as Treasurer.

The most widespread impact is the reduction in tax concessional contributions to an annual limit of $25,000 from $30,000 or $35,000.

But the most furious response is probably to the new lifetime limit of post-tax contributions of $500,000 into superannuation, backdated to 2007. No matter the (dubious) merits of the government's technical case this change is not retrospective, it lost the political case once everyone saw a start date of nine years ago.

Another big change is the limit of $1.6 million on super balances in pension phase where earnings are currently tax free. If there's a major drop in values, that figure cannot ever be topped up. And although the government says that it will equate to income of $80,000 a year – or four times the aged pension – that assumes a decent return per annum. Try telling that to retirees watching their returns dwindle indefinitely along with interest rates.

Transition to retirement

The proposed new transition to retirement arrangements had actually received relatively little campaign attention until Julie Bishop inadvertently drew attention to the issue by not being able to explain them.

The always vociferous Greens senator, Sarah Hanson-Young, has no excuse for her total inability to understand the most basic elements of the super system, a failing embarrassingly obvious in a separate radio interview Wednesday. But it's not so surprising Bishop, along with millions of others, are not so familiar with the TTR rules.

Yet those currently using a TTR keenly appreciate what it means, often due to using a financial adviser who can add up the tax implications. This system allows people aged between 55 to 65 to withdraw between 4 and 10 per cent of their balance each year.

This was originally meant to assist people's cash flow as they prepared to retire and moved to part-time work. It allows people to salary sacrifice into super at a concessional tax rate and then withdraw money at lower or zero tax rates while the pension fund earnings were untaxed.

But it also became a route for people on higher marginal tax rates, usually working full time, to reduce their tax by churning the money. Another alternative was to immediately reinvest the money back into superannuation as a post tax contribution in order to reduce the tax due on their estates.

It may have made sense for the government to tighten the rules on these particular aspects. But by over-reaching on the rules around superannuation in general, the government is now getting a lot more return fire than it bargained on, much of it from its own side.

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