SMSF Owners' Alliance
Limited ABN 96 161 052 464
Not-for-profit public company

2 June 2016

Government's super policy doesn't add up

In promoting its superannuation policy changes, the Government is saying its $1.6 million benchmark produces a pension equivalent to four times the Age Pension and equates to a $100,000 tax free benefit for people on defined benefits schemes, such as politicians and public servants.

But the numbers don't add up.

Further, there's a good chance someone with $1.6 million in their super savings account will still be living well after their superannuation runs out. Then they will have to fall back on the Age Pension.

SMSF Owners asked Dr Ron Bewley, former head of the School of Economics at the University of New South Wales, to examine the Government's claim that a superannuation account of $1.6 million will generate a pension of four times the Age Pension and be commensurate with a guaranteed income of $100,000 for those on defined benefit schemes.

In the first of a series of reports, Dr Bewley concludes that there is serious doubt there is any reasonable comparability between the $1.6 million cap, a defined benefits pension of $100,000 and a notional amount ($90,884) equal to four times the Age Pension.

He says: "I found the differences between these pensions are so great that no reasonable person could draw that conclusion."

In follow-up reports he will show that a superannuation savings cap in excess of $3 million is necessary for some reasonable degree of comparability.

Using ASIC's MoneySmart calculator, Dr Bewley looked at income streams that could be generated from a superannuation account of $1.6 million. MoneySmart assumes returns of 8% for Balanced Funds, 6% for Capital Stable and 5.5% for Capital Guaranteed.

Dr Bewley found that under the less risky Capital Guaranteed option, a retiree aged 60 with $1.6 million in their account would run out of superannuation savings after 20 years, with the Capital Stable option after 21 years and the more risky Balanced option after 29 years.

The average life expectancy for a man of 60 is about 83 years and 87 for a woman. However, 50% will live longer. For an individual, it only matters how long he or she will live, not the 'average person'.

There is a 25% chance that a man will live to 90 and a woman to 93. If they had chosen the less risky Capital Guaranteed option, they would have run out of superannuation savings 10 years and 13 years earlier at the age of 80.

Taking into account market volatility, he finds that savings could run out much more quickly.

In contrast, Dr Bewley notes that while a man with $1.6 million has a 25% chance of having no money left in his superannuation for his last ten years or more, a politician with a defined benefit scheme has a pension that may well last for more than 50 years.

"That is not a fair go compared to our $1.6m man."

SMSF Owners' Chairman Bruce Foy said that it appears, once again, Treasury has got its numbers wrong and he called on the Government to get an independent assessment otherwise this superannuation issue may be the equivalent for the Coalition as the mining tax was for Labor.

He noted that someone on a super-funded pension bears substantial risks that someone on an Age Pension or defined benefit pension does not, including inflation risk, market return risk, capital loss risk, longevity risk…and now tax risk.

The first of a series of papers Dr Bewley is writing on the Government's superannuation changes is attached.

Dr Bewley retired from his position as Professor of Econometrics in the School of Economics at the University of New South Wales, including Head of the Department of Econometrics and Head of the School of Economics. He was also a senior executive with the Commonwealth Bank, specialising in investment research.

He is now Executive Director of Woodhall Investment Research. See:
http://www.woodhall.com.au/

He can be contacted at: ron.bewley@woodhall.com

Contact:
Duncan Fairweather
Executive Director
SMSF Owners' Alliance
dfairweather@smsfoa.org.au
0412 256 200
www.smsfoa.org.au