Five fundamental flaws in the Government's superannuation policy

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Four associations representing investors have written to the Prime Minister, the Treasurer and Assistant Treasurer pointing out major flaws in the Government's plan to impose new restrictions on superannuation savings and asking the Government to submit its numbers to an independent review after the election.

In their joint letter, the associations highlight five basic problems with the Government's plan.

1. **The $1.6m transfer balance cap applies retrospectively to transfers already made to pension accounts**

If the transfer balance cap were to apply only to future retirees, savers can decide to change their retirement income strategy during their working life, working longer as necessary to ensure they have the standard of living in retirement they have anticipated. However, extending the cap to those who have already transferred all their savings into a pension account is retrospective in its impact. Such retirees have already made decisions regarding consumption and savings methods based upon the encouragement from governments to increase their self-sufficiency in retirement. Such decisions cannot be reversed and people who have already retired most likely cannot move back into the work force, so the policy would appear to be ***unfair*** to those who have already retired compared to those yet to retire who have time to adjust their retirement savings plans.

2. **Retrospective $500k non-concessional contributions cap**

The new cap on on–concessional contributions should apply prospectively and not retrospectively back to 2007. In comments to a superannuation conference in Adelaide in February this year, the Treasurer seemed to agree that retrospective changes to superannuation are unsettling and unfair.

> *"One of our key drivers when contemplating potential superannuation reforms is **stability and certainty, especially in the retirement phase**. That is good for people who are looking 30 years down the track and saying is superannuation a good idea for me? If they are going to change the rules at the other end when you are going to be living off it then it is understandable that they might get spooked out of that as an appropriate channel for their investment. That is why I fear that **the approach of taxing in that retirement phase penalises Australians who have put money into superannuation under the current rules – under the deal that they thought was there.** It may not be technical retrospectivity but it certainly feels that way. **It is effective retrospectivity,** the tax technicians and superannuation tax technicians may say differently."* Treasurer Scott Morrison, 18 February 2016 (our added emphasis).

The Treasurer was right then and wrong now.

3. Incorrect valuation of the $1.6m transfer balance cap

We take issue with the statement the Treasurer made in his Budget speech that:

"*A balance of $1.6m can support an income stream in retirement of around four times the level of the single age pension." a*nd the indication in Budget Paper No 2 that this order of retirement income stream is commensurate with a defined benefit pension of $100,000.

These comparisons do not account for the risks faced by members of APRA-regulated and self-managed funds:

- Economic risk, including very low interest rates
- Market risk affecting investment returns and possible loss of capital
- Inflation risk eroding the value of savings
- Credit risk, on corporate bonds for example
- Longevity risk that superannuation savings may not last long enough

Members of defined benefit schemes, and age pensioners, do not face any of these risks. Instead the risks are borne by the taxpayer.

Analysis undertaken by Dr Ron Bewley, former Head of the School of Economics at the University of NSW shows that in order to deliver an income equivalent to four times the Age Pension, the transfer balance cap should be $3.2 million. Or, alternatively, it should be admitted that a $1.6 million cap will only deliver twice the age pension, not four times.

The equivalent defined benefit pension that can be funded from $1.6m would therefore be close to $50,000 p.a. rather than $100,000.

4. Ability to top up

There may be individuals who for whatever reason have been unable to make adequate concessional contributions but are prepared to top up their super using after tax funds (e.g. from the sale of their house). However, the new lifetime non-concessional contributions cap may restrict them from making their desired contribution even though this would not breach the overall balance transfer cap. This appears to be an unintended consequence and unfair on those who have been unable to make adequate concessional contributions.

We suggest that upon retirement individuals may make an additional non-concessional contribution above the $500,000 cap provided their balance does not then exceed the transfer balance cap.

5. Concessional contributions cap

We applaud the Government for introducing flexibility in contributions but our analysis still shows that the lower cap will in too many cases result in people saving inadequate amounts to fund a pension equivalent to more than the age pension.

In the real world most people cannot make contributions up to the $25,000 cap in their early working years and this cap is inadequate later in their career when they are more able to make substantial contributions.

We strongly recommend the Government maintain the policy approach that the concessional contributions cap for those over 50 is double the standard cap – that is, $50,000p.a.

We believe the Government should address the issues that we have raised and which are weighing on the minds of many people - many more than 4% of superannuation fund members - who are concerned that the Government's retrospective policy changes will have an adverse impact on their retirement plans and the standard of living in retirement they had planned on the basis of existing policy.

This concern is not held just by the 4% who may be affected adversely by the Budget measures as of now, but many more who are aspiring to have saved and be independent of the Government when they retire. We are also concerned that continual changes to superannuation by governments is undermining confidence in superannuation as a reliable savings mechanism, particularly among young people who cannot be sure that the savings they make today will still be there when they retire decades from now.

We would welcome a commitment from the Government that after the election it will submit its figuring to independent public review. We suggest a panel be appointed, including representatives of Australia's one million self-managed fund members, to check the assumptions and calculations that underpin the Government's policy. If the Government is confident of the policy rationale, and the numbers it has relied on, it should have nothing to fear from such an independent review.

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