Save Our Super

Brexit means the Government must pause and re-think on superannuation

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The economic shock waves from Brexit mean the Government must pause and re-think its superannuation tax plans if it is elected next Saturday.

The retirement savings of Australians are now vulnerable to the buffeting they will receive as the global economy adjusts to Brexit. Superannuation fund investment strategies and expected returns on fund assets are now much more uncertain. The share market will be more volatile, interest rates may stay lower for longer and investment values will be affected by variations in exchange rates and trade flows.

In these circumstances, new taxes and new limits on superannuation savings will diminish the capacity of superannuation funds to deliver dependable and adequate returns to their members in line with their investment strategy and anticipated retirement income.

The superannuation funds to which most Australians entrust their retirement savings are not protected against economic turbulence, whether they are self-managed or run by professional fund managers. They are exposed to investment risk, including the loss of capital, and longevity risk.

In contrast, the defined benefits funds that politicians and public servants enjoy are guaranteed for life by government at the cost of taxpayers and are immune from adverse economic conditions.

In the current circumstances, it would be unfair and unwise for the Government to proceed with its superannuation tax plans. Politicians should not expose the retirement savings of others to risks they do not bear themselves. They should not be imposing new structural changes on superannuation when the investment climate is so uncertain.

If elected, the Coalition should immediately put its superannuation tax plans on hold until the consequences of Brexit become clearer. This is consistent with the Prime Minister's message at his campaign launch today that in the wake of Brexit Australia needs stability in economic policy.

If elected, the Government should also review the unfair impact of its superannuation changes on people who have invested in superannuation under the rules and now find their retirement savings are to be taxed. The Government should 'grandfather' the rules that applied prior to the Budget on 3 May.

The Government should also review the numbers that underpin its policy. We have shown through analysis by Dr Ron Bewley, former Professor of Econometrics and Head of the School of Economics at the University of NSW, that the numbers on which the Government justifies its policy do not add up.

A fund of $1.6m is not enough to last all of retirement for all people - to do that it would need to be twice as large, $3.2 million. Nor will a fund of $1.6m deliver four times the age pension, nor an income equivalent to $100,000 from a defined benefit fund as the Government has claimed. Dr Bewley's analyses can be found here - www.smsfoa.org.au

The numbers on which the Government justifies its superannuation changes do not stack up and should be independently audited.

As well as hitting the pause button on its superannuation tax policy, the Government should engage in genuine consultation with superannuation investor groups. So far it has fallen short of proper consultation.

The Tax White Paper process was cut off at the knees even before an options paper was released; there was no consultation on the significant structural changes to superannuation in the Budget; and consultation on the objective of superannuation was merely expedient. The thoughtful submissions by many superannuation groups have not yet even been published on the Treasury website.

There has been no answer from the Government on the many basic questions being asked about how the superannuation tax changes will affect them.

There is widespread dismay among Australians who have retired, and among those approaching retirement, that the Government's superannuation changes will disrupt their retirement plans and diminish the income they expected to rely on in retirement.

Many people have told us they will now have to defer their retirement and work longer.

Many have found that the back-dated non-concessional contributions cap, in particular, has wrecked their retirement savings plans.

Abrupt changes to superannuation break the implicit contract between government and the people: in return for requiring people to lock-up part of their income for the whole of their working lives, the government provides incentives to encourage savings and should ensure that the rules of the game are not changed midstream to adversely affect people who have made savings in good faith.

If younger people are to have confidence in superannuation, they need to be assured that the savings they make now under the current rules should still be intact in decades hence and not diminished by government policy changes in the meantime.

Changes to the superannuation rules should always be prospective with prior savings and caps 'grandfathered' to honour the policies under which the savings were made.

Retirement savings are such an important element in the economic and social fabric of Australia that the rules should not be changed by one political party or the other, but should only be made after thorough review, proper consultation and with bipartisan agreement.

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