SMSF Owners' Alliance
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SMSFOA Members' Newsletter
 # 9/2016 27 June 2016

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Brexit must prompt Government re-think on superannuation

With just days to go to the Federal Election, Brexit has injected a new element of uncertainty into Australia's economic and political mix and it will be on peoples' minds when they vote this Saturday.

Australia's superannuation savers now face an anxious period as they wait to see how the shock-waves from Brexit will affect the value of their retirement savings and retirement incomes.

On Sunday (26 June), in the wake of Brexit, five associations representing investors called on the Government, if re-elected, to pause and re-think its policy on superannuation which has caused deep unease and a sense of betrayal amongst many of the Coalition's supporters.

Our joint media release is reproduced below.

What is Labor up to?

In the last days of the election campaign, the Labor Opposition has announced new taxes on superannuation but won't say what they are.

When announcing Labor's costings of its economic policies on Sunday, the Treasurer, Chris Bowen, said Labor would take all of the Budget savings on superannuation planned by the Government, but he would not say how it would be done.

"We continue to have concerns about the retrospective nature of the Government's measures, we want to raise the same money announced, but committed to raising the same amount as the Government from the superannuation changes and there are some measures, resources of government, we would then sit down with the sector and work out if there is a better way, like but

the commitment is to the envelope which the Government outlined." – Shadow Treasurer Chris Bowen, 26 June 2016

Until now, Labor's policy has been to impose a new 15% tax on retirement account earnings over $75,000 which they estimated would raise $1.4 billion over the next four years.

The net revenue gain over the next four years from the Government's Budget measures would be about $3 billion so it looks like Labor is planning to more than double its take from superannuation.

We'll have a closer look at what Labor is up to.

It seems politicians just can't keep their sticky fingers off our savings.

What about the minor parties?

SMSF Owners' member Peter Ellis has checked the stance of the minor parties and confirms that these parties have pledged to oppose the Government's superannuation changes.

- Australian Liberty Alliance.
- Rise Up Australia Party.
- Pauline Hanson One Nation.
- Family First.
- Liberal Democrats.
- Christian Democrats.

A $1.6 million super fund is out of reach for most

In his third report examining the Government's superannuation policy, Dr Ron Bewley concludes that young people now entering the workforce will not be able to reach the $1.6 million in superannuation that the Government considers an appropriate benchmark for tax-free retirement savings.

Even saving the maximum concessional contribution of $25,000 per year, which is unlikely given other priorities in life, most people will not be able to reach the $1.6 million target.

Only in the extremely unlikely event that a person could start their working life with a $500,000 non-concessional contribution and then make the maximum concessional contribution every year for 38 years would anyone have even a 50% chance of accumulating more than $1.6 million.

For most people starting out, $1.6 million is simply unattainable. This indicates the Government's decision to limit concessional contributions for everybody to $25,000 per year (previously $30,000 for under 50s and $35,000 for over 50s) will reduce the amount of savings flowing into superannuation and make it very difficult for people to save enough to support themselves financially in retirement without recourse to the age pension. SMSF Owners reckon that an annual concessional cap of $60,000 is required to generate adequate savings – remember that when Peter Costello was Treasurer, the cap was $100,000!

Dr Bewley is a former Professor of Econometrics and former Head of the School of Economics at the University of New South Wales.

In his previous report he concluded that $1.6 million is not an appropriate benchmark for adequate retirement savings. He concluded that TWICE as much - $3.2 million - is needed.

Dr Bewley's reports and our media releases are here: https://smsfoa.org.au/home/expert-advice.html

Welcome to the fray

We welcome the newly formed group Save Our Super as an ally in our campaign to convince the Government its superannuation changes are unfair and unjustified.

Save Our Super has been formed by Melbourne QC Jack Hammond who last week convened a public meeting which he reports was attended by more than 250 concerned people at the Malvern Town Hall, right in the middle of Assistant Treasurer Kelly O'Dwyer's seat of Higgins.

Save Our Super has now started a petition calling for the Budget changes to super to be 'grandfathered' so they don't have an adverse impact on people who have saved for their retirement in good faith under the rules.

Please visit http://saveoursuper.org.au and add your weight to the petition addressed to Malcolm Turnbull, Bill Shorten, Scott Morrison, Mathias Cormann and Kelly O'Dwyer.

Now, here's our media release on Brexit's impact on superannuation and why the Government should think again.

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

26 June 2016

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 - https://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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The Government won't change its policy before the election so our best chance of getting a better outcome is to press the Coalition, assuming it wins government again, to review the policy after the election, especially the numbers on which it is based, and sit down with SMSF Owners and other groups to discuss how the superannuation system can be made more efficient and effective without penalising those who have saved diligently in accordance with the rules to secure their financial independence in retirement.

It's not too late to have your say

The only way we can get the Government to re-think its policy is to keep up pressure on Coalition Members and Senators during and after the election campaign.

To find your Member/Senator's contact details, please go to this address:
http://www.aph.gov.au/Senators_and_Members/Guidelines_for_Contacting_Senators_and_Members

Or just Google your Member's/Senator's name and this will take you to their own websites where you can leave a message. Politicians tend to be more responsive if their own electors write to them.

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