FINANCIAL REVIEW
PREMIUM

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Coalition's super changes hurt rather than help

Treasurer Scott Morrison is delighted superannuation changes have been passed. **Andrew Meares**

by Jennifer Hewett

A rare show of bipartisanship has broken out in Canberra. Unfortunately, it just means a big bipartisan mistake.

But given the enormous long-term costs of that mistake will only become obvious many years hence, it's little wonder Treasurer Scott Morrison and Kelly O'Dwyer are delighted their superannuation changes have passed the Parliament.

"Turnbull government delivers on fairer, more sustainable superannuation," the headline on the accompanying media release boasted, a line faithfully repeated by ministers and by Malcolm Turnbull.

That description only refers, however, to changes that are politically sustainable as opposed to financially sustainable. And the claim to fairness in all of this is an extremely murky concept.

There's no doubt, for example, the changes severely constrict the ability of many people to fund their own retirement in future without relying on the aged pension or part pension.
They will also further destroy confidence in the super system and the benefits of contributing any additional funds beyond what is mandated. Is that fair or sustainable in the long term, which, after all, is what super is supposed to be about?

Drop in contributions

The latest figures from the Australian Prudential Regulation Authority demonstrate some of the initial impact.

They show a drop in contributions over the past year, and a particularly pronounced fall in voluntary, post-tax contributions.
This reaction is entirely predictable from people who keep being informed there's absolutely no point in relying on any long-term consistency in saving within superannuation.

It's an open invitation to older Australians to spend as much of their own money as quickly as they can, then turn to more direct help from the taxpayer.

The government is naturally attempting to suggest this drop-off in contributions will change again, once certainty is restored about just what the new rules will be.

And no doubt there will be a last-minute surge before the old rules become redundant in July next year.

But this increase will be very temporary, even if the Treasurer is insisting this really is it in terms of any further changes to super.

"At the next election, there is only one party that is going to be seeking to tax superannuation more and that's the Labor Party," he said. That's hardly reassuring for many voters, given opinion polls favour Labor.

And it's also the Liberals who happily opened the way for Labor to propose still higher taxes and restrictions on superannuation.

That's despite the Coalition promising, hand on political heart, to make no negative changes to super in the last term of Parliament.

Steep taper rate

That's what made Morrison's restrictions on eligibility for the aged pension while still Social Services Minister such a shock.

That certainly affects those who will now be cut off from even a part pension, along with a steep taper rate at which eligibility declines.

A single homeowner will lose the pension completely once assets outside the family home reach $542,500, compared with $793,500 now. A home-owning couple will lose access once assets reach $816,000, down from $1,178, 000 now.

With investment returns so low, even a million dollars is nothing like it was. But that won't become clear to many people until those restrictions take effect from January 1. Happy New Year.

That effect combines with the legislation passed this week to reflect the major changes to super announced in the May budget.

True, the government had to face an election before either of these shifts could be implemented. But its willingness to contemplate major "reform" only meant Labor could more easily afford to up the ante.

The fury on the Coalition backbench and among its traditional supporters about the budget's superannuation changes produced a modest post-election compromise on the original proposals.
The ramifications of the revised package are still huge and, so far, little understood except by those immediately and directly affected.

For now that will be heavily concentrated among those with self-managed super funds.

Raising revenue

Duncan Fairweather from the SMSF Owners Alliance said the legislation was basically about raising revenue.

"The challenge now for the trustees of half a million self-managed super funds is to understand how the complex new tax laws will affect them and make decisions on how to manage their superannuation assets well before July 1 next year," he said.

"The loss of confidence in super as a life-long investment and the deep disillusion with the cynical way in which changes have been made will last longer."

That effect will only compound over time. It will certainly be felt by most of those wanting to put additional money into super well beyond the mandatory superannuation guarantee of 9.5 per cent in order to fund their own retirement.

As of July 1, the maximum annual contribution put into super at a concessional tax rate falls to a flat $25,000 compared with $30,000 now for those under 50 and $35,000 for those over 50. The impact of that, too, can only increase over decades to come.
The plan to backdate a $500,000 cap on after-tax contributions had disappeared, replaced by new limits of $100,000 a year compared with $180,000 now. But there's a strict limit of $1.6 million on money in super that is tax free as opposed to paying a rate 15 per cent.

The Prime Minister claimed the passage of the superannuation changes were an example of making the 45th Parliament work. The Treasurer was equally confident about the importance of the changes to super.

"Much is often written by commentators about 'where's the reform?'," Morrison declared. "Well it's staring you right in the face."

Or, in this case, hitting you over the head with a blunt weapon.

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Bottom line

How the new super rules will affect you

Now	From Jul 1, 2017*
PRE-TAX CONTRIBUTIONS**	
Contribution cap of $30,000 a year; $35,000 if you're 50 or more	Cap of $25,000 a year for everyone
Use annual cap or lose it – no catch-up option	Catch-up contributions from July 1, 2018 on rolling 5-year basis for those with less than $500,000 in super
15% tax on contributions if you earn less than $300,000; 30% if you earn more	30% contributions tax kicks in at $250,000
Tax deduction for personal contributions for those earning less than 10% of their income from employment	Tax deduction for personal contributions for everyone
Voluntary contributions not allowed if you're 65 or more and not working	Voluntary contributions not allowed if you're 65 or more and not working
Low Income Super Contribution – refund of contributions tax for those earning up to $37,000	Low Income Super Tax Offset – effectively a refund of contributions tax for those earning up to $37,000
AFTER-TAX CONTRIBUTIONS	
Contribution cap of $180,000 a year	Contribution cap of $100,000 a year if total super balance is less than $1.6m
"Bring-forward" rule allows 3 years of contributions to be made in one year if you're under 65, i.e. $540,000	Bring-forward period of 2 or 3 years, i.e. up to $300,000, depends on your total super balance
Additional CGT cap ($1.415m in 2016-17) for eligible small business owners	Additional CGT cap for eligible small business owners
Tax offset for spouse contributions if spouse earns less than $13,800	Tax offset for spouse contributions if spouse earns less than $40,000
PENSION PHASE	
No limit on how much can be moved into pension phase	Transfer limit of $1.6m
Fund earnings tax-free; pension payments tax-free from 60	Fund earnings tax-free; pension payments tax-free from 60
TRANSITION PENSIONS	
Fund earnings tax-free; pension payments tax-free from 60	Fund earnings taxed at up to 15%; pension payments tax-free from 60
SUPER DEATH BENEFITS	
Anti-detriment payment, i.e. effectively a refund of contribution tax paid by deceased, may be paid on death	Anti-detriment payments abolished unless member dies before July 1, 2017 and payment made by July 1, 2019

* Unless otherwise stated. ** Includes compulsory Superannuation Guarantee, salary-sacrifice contributions and personal tax-deductible contributions

SOURCE: PERPETUAL PRIVATE