Federal budget and superannuation

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Significant changes to superannuation form a key part of the Federal Budget

Australians are expected to go to the polls this year and it appears highly likely that changes to retirement income policy, including superannuation, will feature strongly in the lead-up to the federal election.[1]

Retirement income policy featured in a number of government and other reports in 2015, with all canvassing potential significant changes to the ways we save for retirement and live after we stop working.

A strong and consistent narrative in these reports is that with Australians living longer, governments cannot keep up with the rising cost of looking after an increasing aged population, particularly in the areas of the Age Pension and health care costs for retired people. The question this begs then is: Who will end up paying?

One recent sign that this is not simply 'talk' arose in the lead-up to last year's budget when the government confirmed that about 90 000 retirees with 'significant assets' would no longer qualify for the Age Pension as of January 2017.[2]

The most recent report addressing retirement income policy was the Productivity Commission's Housing decisions of older Australians paper released in December last year.[3]

The paper considered the impact on Age Pension eligibility if some value of the family home were integrated into the Age Pension assets test. Currently, the family home is exempt from the test.

It also canvassed the idea that people should consider financing part of their retirement by accessing the equity 'tied up' in the family home with this wealth being accessed via equity release products such as reverse mortgages.

In a media release accompanying the paper's release on 1 December 2015, Productivity Commission Commissioner Karen Chester said: "When faced with lower incomes, older Australians are more likely to cut expenditure than draw down on their wealth … This is despite the fact that most older home owners could actually achieve a modest retirement living standard over the remainder of their lives by drawing on their home equity."

The government set up the Financial system inquiry (Murray Report)[4] as "a root and branch examination of Australia's financial system." The inquiry was led by David Murray AO, who delivered his final report in December 2014. On 20 October 2015, the government released its formal response to the report.

Seven of the forty-four recommendations in the Murray Report related directly to superannuation with 'superannuation and retirement incomes' identified as one of the financial system's five strategic priorities.

The government proposes to act on some of the recommendations in 2016 including developing legislation to enshrine the objective of the superannuation system within law, which will serve as a guide to policy-makers, regulators, industry and the community about superannuation's fundamental purpose.

In September last year the Committee for Economic Development of Australia (CEDA) released its paper The super challenge of retirement income policy which examined the economic impacts of Australia's ageing population and decreasing housing affordability.[5]

The paper called for a complete overhaul of retirement policy, including consideration of options such as pre-tax mortgage repayments and superannuation being accessible to help pay for owner-occupied home purchases.

In response to Australia's ageing population and the increasing demands it is making on the retirement income system, the Productivity Commission released its Superannuation policy for post-retirement paper in July last year.[6]

The report, a sequel to the Commission's 2013 *An ageing Australia: Preparing for the future* report, provided detailed analysis of two aspects of superannuation policy affecting the post-retirement phase.[7]

Firstly, it looked at what might happen if the age at which individuals could access their superannuation (the 'preservation age') were raised.

Secondly, it investigated whether the way people draw down their superannuation (in particular, the use of lump sums) was resulting in accumulated savings being quickly spent with earlier reliance upon the Aged Pension.

While the report made no specific recommendations it did observe that the overarching objectives of the retirement income system remain poorly defined and warranted "further and collective attention."

Arguably the strongest statement from the reports listed in this column regarding what is seen as the unsustainable impact of an ageing population on Australia's financial future (and therefore the need for change) was contained in the government's 2015 Intergenerational report – Australia in 2055 released in March last year.[8]

"With a growing population that will live longer, the Intergenerational Report shows the growth in the costs of many services, especially in health, that will put pressure on the budget and threaten the sustainability of those services. Every day our spending exceeds government revenue by more than $100m. To make up the shortfall we have to borrow that $100m per day," then Treasurer Joe Hockey observed in the report.

The report noted that governments will not be able to continue to pay for people to access general health services, age and service pensions and aged care funding in the same way they currently do.

A key implication of all these reports is that Australians, who are living longer and who are retired for longer than in the past, will be increasingly expected to pay for their own retirement.

As a result, retirement income streams from superannuation will become of even greater importance in determining our quality of life once we leave the workforce.

There is nothing like an impending election to sharpen the mind of the government and opposition and no doubt 2016 will be an eventful year in terms of retirement income debate and policy.

1 The latest date the Federal election could be held is 14 January 2017 but most predictions are for a late 2016 poll.
2 The maximum value of assets (not including the family home) a person can hold to qualify for a part pension will be cut from $1.15m for a homeowner couple to $823 000, and from $775 000 to $547 000 for a single homeowner.
3 http://www.pc.gov.au/research/completed/housing-decisions-older-australians
4 http://fsi.gov.au/
5 http://www.ceda.com.au/research-and-policy/research/2015/09/01/retirement
6 http://www.pc.gov.au/research/completed/superannuation-post-retirement
7 http://www.pc.gov.au/research/completed/ageing-australia
8 http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report