The Unexpected Consequences of our New Super / Centrelink Asset Test Rules

Recent superannuation changes have set in motion a chain of events which has the potential to derail and destroy the Australian retirement system – a system regularly acknowledged as the second or third best retirement income system, in the world.

Included in these poorly thought through changes:

- 1 January 2015: Deeming of Account Based Pensions
- 1 January 2017: Centrelink Asset Test changes (without the commensurate re-introduction of long term Asset Test Friendly Annuities or Term Allocated pension options)
- 1 July 2017: Transition to Retirement and $1.6 Million Balance Transfer Cap rules.

At issue here is the expectation (which is hard-wired to the psychology of most working people) that they will have the ability to receive a government age pension benefit, as is their expectation (and their right) to plan for their retirement without having the rug pulled from under them.

The reduction of age pension benefits since 1st January 2017, for Australians who have Centrelink assessable assets greater than $375,000 has serious unexpected consequences. It signals that they should not aim to build up their retirement savings beyond this point by working longer and paying tax for longer.

Why bother, when the government is corralling retirees into a situation where there is no advantage for a self-funded retiree couple having $1 million in super, when a couple with say, $360,000 in super (and a total of $375,000 Centrelink assessable assets) will qualify for a FULL age pension. The tax free income generated in both cases is around $53,000 p.a.

Australians will only continue to work longer (as has been their practice over the last decade) keep paying income tax, and forgo some age pension until later, if they have reasonable incentives to do so.

Those incentives put in place over a decade or so, via the Simple Super regime and Transition to Retirement have all but been eliminated in the short space of 2 to 3 years. Our policy makers have not yet killed the Golden Goose of retirement saving, but they have certainly dismembered it.

The behavioural changes will be significant. Consider these consequences:

- Instead of working longer, generating increased super savings with the ability to self-fund a greater portion of their retirement income, more Australians with significant super balances will be retiring at 60, living off super until 67 (in doing so running down their remaining balance to $375,000) – and then getting a FULL Age Pension.

  (Please note carefully [particularly my former colleagues in Treasury] ceteris paribus does NOT apply in the real world. All else will NOT remain the same, and by the way, simply increasing the preservation age will not plug this hole. The option remains to borrow against the equity in the home to retire early, later access tax free super to clear the debt, and then extend the hand for a FULL age pension, thank you VERY much).

- There will also be an increased attraction as a wealth creation strategy for older Australians (and their estates) to use super on the 'sacred cow'. That is, buying a more expensive home where capital gains are tax free (this asset – regardless of its value - remains 100% Centrelink Asset Test exempt) – particularly in Sydney and Melbourne.

- As a variation on this strategy, I can also see a significant increase in the use of reverse mortgages (which currently do not affect Centrelink benefits) against expensive and opulent homes, as a strategy to supplement retirement income. This is against a backdrop of Account Based Pensions in excess of $1.6 million (which are currently tax free, but fully Centrelink assessable) losing their tax free status from 1 July 2017, as they are apparently a rort.

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- Then there are the old favourite double dip strategies to reduce super balances via the purchase of boats, caravans and holidays (as an alternative to retirees living off their own resources for as long as possible, or supplementing part age pensions with their own super savings).

- Gifting and loan strategies will, once again, become an important part of the super and retirement planning mix.

- Expect a flood of funeral pre-payments forcing prices up due to an increased ability to pay.

- The revenue opportunities for the financial advisory departments of the 'big banks' (who as we all know have not covered themselves in glory) will be significantly increased, with a terrible macro outcome for Australia an increasing pool of retirees who can no longer navigate a way through the superannuation and retirement maze.

- Underpinning all of the above are the long term budget implications from an aging workforce no longer committed to salary sacrifice to superannuation (due to the penalty of losing Age pension entitlements being perceived as too high).

  (This amounts to the previous 'win, win' scenario being replaced by a 'lose, lose' scenario, with poorer retirement outcome for Australians and increasing future Pension and Health Care outlays for the Federal government. [Perhaps this is just a problem for future Federal governments]).

All this set against a background where public servants and MPs (with their perks and infatuation with aircraft travel at tax-payer expense) have granted themselves an extra 10% tax offset on ONLY the first $100,000 p.a of their own Untaxed/Unfunded portions of their very generous superannuation pensions.

In the meantime, ordinary tax payers pay tax at marginal rates on their (Untaxed) taxable income!

Federal Treasurer Morrison argues that only 5% of age pensioners are affected – but ALL pensioners have now been put on notice by this, and the other inconsistent retirement income policy changes.

As a demographic consisting largely of conservative voters, older Australians feel confused, hurt, and taken for granted. They have never before felt so much under financial attack; ironically, their persecutor is a conservative government.

This sense of abandonment is feeding into further political disruption in Australia as older voters look for centrist parties (or ultra-conservative forces such as One Nation) perceived as reflecting their views and pledging to protect their financial and practical quality of life.

As voters they will not be taken for granted – consider the lessons of Brexit and the new POTUS Donald Trump!

The only 'winner' from the changes is the financial advisory industry (including as previously mentioned, the big banks); these groups will have hundreds of thousands of new clients lining up to find a solution to their individual situations. In the interim, hard-working people who do not have the ability to access information (or are simply not aware of the nuances of the superannuation/Centrelink/ATO interface) will find themselves missing out on thousands of dollars of missed opportunities.

It is time for superannuation to be removed from the political process.

Retirement incomes policy is a long term prospect which requires divergent thinking – something which seems to be beyond the capabilities of the binary, short term and self-centred thought processes of senior public servants, their policy advisers and political masters, in Canberra.

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Our federal political system has proven without a doubt that it can't be trusted with our retirement savings… and sadly, that is the most profound unintended consequence of these changes.

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