Franking credit plan's silver lining for retirees

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LABOR'S controversial plan to axe franking credit cash refunds may be a "blessing in disguise" for retirees, according to some investment specialists.

They say many seniors put too much money into stocks, such as the big banks and Telstra, mainly for the franking credit tax refund. This strategy has robbed them of the benefits of a diversified portfolio and meant many missed out on huge growth in global shares, such as Apple and Amazon, over the past decade.

However, hindsight won't help the angry army of self-funded retirees set to lose thousands of dollars a year. If Labor wins the election, it plans to scrap the refund of unused tax credits that are attached to share dividends.

Association of Independent Retirees acting president Wayne Strandquist said retirees had planned their finances based on the rules. "Now Labor wants to shift the goalposts, leaving self-funded retirees with no ability to make up income they will lose," he said.

"Many of these retirees just missed qualifying for a part government age pension and will not receive franking credit refunds under the Labor policy."

Stockspot founder and CEO Chris Brycki said Labor had been "pretty headstrong about passing this legislation and doesn't really care what the self-funded retirees think".

He said its plan would strengthen retirees' investment portfolios and "they should see this as a blessing in disguise".

Mr Brycki said Australians held a much lower proportion of bonds – 5 per cent versus 44 per cent worldwide – but bonds were an important counterbalance to shares. "In the past seven years, when Australian shares have fallen, bonds have risen," he said.

Few retirees invest in overseas shares, despite this becoming easy through exchange traded funds. Mr Brycki said Australian shares were up 72 per cent since February 2009 while the US market was up 219 per cent. Financial strategist Theo Marinis said local shares had not climbed as much because they paid big dividends. "People are addicted to the franking credits," he said.

Mr Marinis said retirees should be drawing down on nest eggs rather than living solely off the income, and should make decisions based on investment principles rather than generous tax incentives such as franking credit refunds.

"It's been a big free kick for older Australians to the detriment of younger Australians," he said. "I'm a Boomer. I'm adversely impacted, but you have to do something to ease the burden on our kids and grandkids."

Mr Marinis said the change would benefit retirees by forcing them to diversify into less volatile portfolios. "That's the first rule of investment," he said.

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