

# Investment update

## The Henry tax review: what will it mean for super?

In May 2008, the Federal Treasurer, Wayne Swan, appointed Dr Ken Henry and a panel of experts to conduct a wide-ranging review of Australia's tax system. The stated purpose of the review is to:

*"... examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes."*<sup>1</sup>

Following the announcement of the review, broad public and industry consultation was undertaken in order to incorporate the widest range of views possible. The panel is due to submit its findings in December 2009; however in May 2009 it released an interim report on how Australians fund their retirement, *The Retirement Income System: Report on Strategic Issues*, outlining initial recommendations for changes to how retirement income is structured in Australia.

In this *Investment Update* we review the retirement-related recommendations in the panel's May report and look at the potential effects that any changes may have on your super investment.



### Three pillar system

Before we consider the recommendations, let's take a look at Australia's present retirement income structure. It's a three pillar structure consisting of:

- **Pensions** – paid after retirement to those who qualify on the basis of a means test
- **Compulsory contributions** – paid to working Australians by their employers over the course of their working life
- **Voluntary contributions** – additional contributions Australians can make for their retirement, subject to certain limits.

It's important to note that the proposals made by the panel are for changes within the three-pillar structure to ensure the retirement incomes system remains strong and continues to serve the purpose for which it was designed. There are no proposals to change the overall structure as part of this review.

<sup>1</sup> <http://taxreview.treasury.gov.au/> (accessed 2 December 2009)

## Recommendations arising from *The Retirement Income System: Report on Strategic Issues*

In the Retirement Income System report, the panel made a series of recommendations, some of which were taken up by the Government in the May 2009 Federal Budget. Recommendations seek to ensure that the super system becomes consistent and understandable so that people become more engaged with their super earlier in their working life rather than just prior to retirement. They're also geared towards ensuring that the burden of maintaining an ageing population doesn't fall to the Government alone (via pension payments) but that people equip themselves for a comfortable retirement over the course of their working life.

Following is an outline of the recommendations, with those that have been included in the last Federal Budget being highlighted.

- Keep the Superannuation Guarantee (SG) minimum rate at 9% and rely on the Age Pension to cover low-to-average income earners in retirement with voluntary contributions the main source of support for higher income earners.
- Continue to limit SG contributions to employees and not to self-employed people. However, the definition of self-employed is yet to be defined (this definition is expected to be included in the Review's final report).
- Increase the eligibility age for the Age Pension to 67. This recommendation was included in the Federal Budget. Starting from 1 July 2017, the Age Pension will increase in six month increments, reaching age 67 from 1 July 2023.
- Increase the access age for super to 67, to match the increase in the Age Pension eligibility age. This measure would be expected to provide a longer time frame for super investment, which means potentially higher returns over the course of the investment. The age increase also reflects the fact that people are generally retiring later than age 65.
- Make means testing fairer, consistent and understandable. Whilst the Panel's recommendations in this regard will only be revealed in the final report, the Government did make some changes to the Age Pension income test with the introduction of the Work Bonus however, they increased the taper-off point from 40% to 50%.
- Reduce the complexity that results from the interaction between the tax-transfer system and the age care system.
- Provide advantages in the tax treatment of super as an incentive for people to increase voluntary contributions. The final report will include a comprehensive review of how this will work, but the current recommendations include making the treatment of contributions more equitable based on income and people's financial circumstances. Interestingly, the Government significantly reduced the concessional (before-tax) contributions in the May 2009 Budget, which has reduced the availability of tax advantages using super.
- Improve people's ability to make sure their super lasts for the full duration of their retirement, taking increased life-expectancy into account.
- Improve people's engagement with super (which is generally low, particularly for those who are a long way off retirement).

### What does 'Superannuation Guarantee' mean?

Superannuation Guarantee refers to the minimum 9% level of compulsory contributions (calculated on ordinary time earnings) that your employer makes to super on your behalf. Some employers may choose to make contributions that are higher than the minimum.

### What's the Work Bonus?

The Work Bonus encourages retirees to retain some part-time work even after they've retired by offering a reduction in their income (for means testing purposes) of half of the first \$500 in a fortnightly period.

### Potential effects on super investment

Without the final report findings, it's difficult to definitely determine the potential implications for your super. However, there are a couple of effects of which it's important to be aware:

- Plan for your super being a longer-term investment – the Panel's recommendations add two years to the current age at which you can (a) access the Age Pension (something that has been legislated for implementation) and (b) access your super savings.
- If you have the capacity, it may become even more important to make voluntary contributions – both before and after-tax – if there are changes to contribution limits based on income and personal circumstances.

Talking to a licensed financial adviser can help you understand the implications of the current rules for your super and any changes that may arise from the Henry Report. NGS Super provides financial planning services exclusively to our members. Our experienced, licensed financial planners know NGS Super. There is no cost to you as an NGS Super member for the initial consultation about your NGS Super account and no obligation to move to a fee-paying arrangement. Call **1300 133 177** to make an appointment or speak to a planner.

### Important information

The information provided in this fact sheet is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances and consider seeking independent advice from a licensed or appropriately authorised financial adviser.

