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Advisers encouraged to review changes carefully

A higher than expected number of changes to superannuation delivered in the 2016 federal budget will keep financial advisers on their toes, as they work to update financial plans in line with the changes.

From 1 July 2017, the tax exempt status of income from assets supporting 'transition to retirement' (TTR) income will be removed, with earnings to be taxed at 15%. A change IOOF claims will "effectively negate that TTR strategy for those under 60" and will "turn the TTR pensions into accumulation accounts from which a draw down is made."

Similarly chief executive officer at the Financial Planning Association of Australia (FPA), Dante De Gori argued that changes to the TTR will negatively affect thousands of middle to low income earners, who will now need to carefully review their circumstances as they approach retirement.

"The FPA believes that the 'effective' abolition of TTR is a net negative for low to middle income earners. The tax exemption for earnings on assets supporting TTR income streams will be removed, and concessional contribution caps reduced.

"These changes mean financial planners must help clients navigate an increasing number of rules and consider the retrospective nature of these changes particularly around tax and super," De Gori said.

The Association of Financial Advisers (AFA) chief executive officer, Brad Fox said that the changes to the TTR pensions will require a considerable number of Australians to reconsider the value of this strategy alongside partial retirement.

"What is very clear is that Generation X, Baby Boomers and existing retirees will need to take a careful look at their position to understand and interpret what the changes will mean for them both today and for the long term.

"The interplay between these measures means that most Australians will need to seek financial advice to make the best use of the various measures."

A lifetime non-concessional contributions cap of $500,000 was also introduced from 7:30pm (AEST) on 3 May 2016 and is retrospective to the extent that it will take into account all non-concessional contributions going back to 1 July 2007.

IOOF argues that while the addition of a lifetime non-concessional cap fits with the government's review of super and economic plan, it will mean that many individuals have their retirement plans disrupted "by the move to a lifetime cap without any real telegraphing of this intent - particularly given there has been over $1.4 million in potential non-concessional contributions which could have been made."

In its 2016 Federal Budget Briefing, Colonial First State FirstTech (CFS FirstTech) warned that advisers "may want to refrain from providing advice to make non-concessional contributions, until the amount of a client's non-concessional contributions made since 1 July 2007 can be verified."

The government has stated that the ATO holds reliable contribution records, but it is not clear if clients will have access to this information, meaning that clients may need to directly contact their superannuation funds to verify their past contributions.

A reduction of the concessional contribution cap from $30,000 to $25,000, regardless of age, will also have an impact on the strategy advisers recommend to their clients, especially those looking to self-fund their retirement.