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Opinion – Election delivers more doubts

Once again the financial services industry has been left high and dry.

Financial planners were looking for clarity and certainty from the federal election. But this objective may still prove unattainable, irrespective of which party forms government.

Take the impact of two significant publications: the April 2016 Senate Economic References Committee Report, 'Achieving Economic Security for Women in Retirement', and the Australian Human Rights Commission Report, 'Willing To Work'.

These both correlate in superannuation terms to adequacy of funding and longevity. Yet the coalition has still not addressed these major societal issues.

Let's consider the transition to retirement (TTR) pension, the non-concessional contribution cap and the $1.6 million pension balance cap as examples of areas that need to be addressed through wider consultation.

If the purpose of TTR is to prolong the participation of older people in the workforce and help people transition to retirement via supplementing income from part-time employment, this is a sensible and strategic use of super.

If it is to counter the rich end of town capitalising on these income streams, this bogey is well and truly nobbled with the reduction of the concessional contribution caps to $25,000. The drop in concessional contribution caps prevents the establishment of deep salary sacrifice arrangements leveraging off super tax concessions.

The problem for the super fund trustee is how to implement fund earnings tax on the assets backing a TTR income stream? Is it a new subset of the pension division and what are the fund reporting implications? When does a pension start and finish? Will there be grandfathering?

Surely if policy makers are worried about control of TTR pensions, a reduced concessional contribution cap and increasing the preservation age will achieve these goals on their own.

As for the proposed lifetime non-concessional contribution cap, why is it $500,000 and why is it backdated to 1 July 2007? Retrospectivity is a red rag to a bull in super and retirement planning.

If, according to Scott Morrison, very few people are impacted by this, why not for simplicity's sake make it $500,000 or $540,000 effective 1 July 2017 and align it with the changes to concessional contribution caps? This will make fund administration and financial advice much more straightforward.

Also, carving out certain transactions – such as the subsequent exemptions for certain small funds being partially through the completion of a pending limited recourse borrowing transaction – creates extra complexity.

Similarly with the proposed pension balance cap, people keep asking, 'why $1.6 million'?

A minimum pension drawdown of 5 per cent of $1.6 million at age 65 returns $80,000 – the upper threshold of the 32.5 per cent tax bracket.

However, the coalition decided in the same budget to increase the tax upper threshold to $87,000, so if this is the logic, why didn't it increase the capital amount to $1.74 million?

If the reason is more altruistic, then the Association of Superannuation Funds of Australia's April 2015 paper 'Superannuation and High Account Balances' recommends a pension capital upper cap of $2.5 million as a starting point. This is to ensure the future equity and sustainability of the system.

Importantly though, any of the above is far preferable to Labor leader Bill Shorten's unworkable proposition of reducing the tax-free concession available to those with annual super incomes from earnings of more than $75,000. Earnings above the $75,000 threshold will attract the same concessional rate of 15 per cent that applies to earnings in the accumulation phase, and capital gains will be grandfathered.

Where on earth do they dream these up?

Whichever party forms government, it must consult widely and constructively with the industry to ensure clarity of purpose is achieved.

This is in the national interest, as super funds and financial advisers have serious obligations to their members and clients.

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