

THE reduction to the superannuation co-contribution scheme and the plan to increase the retirement age has shocked Australians already struggling to come to terms with plummeting super returns resulting from the global financial crisis.

The changes to superannuation, announced in Tuesday's budget, will turn away about \$4 billion a year from the system and ultimately slug the public purse so hard that anyone in their early fifties and younger will be working two more years at least, according to opposition spokesman Chris Pearce.

The number is probably closer to \$3 billion, says Credit Suisse analyst Adnan Kucukalic, but the outcome is the same. "We think it will slice about 10 per cent off inflows into super and send it elsewhere," Kucukalic says. "It must affect the size of the super pot and how much people will fall back on age pensions."

That's before counting the impact of the global financial crisis, which has already cut savings in super to where they were four years ago. Despite a mini-rally in the share market, another dud year of negative returns is in store this financial year, prompting many to kick themselves for believing politicians will never tamper with super again.

"There will be no change to the superannuation laws one jot, one tiddle," said Kevin Rudd in 2007 before the federal election.

As a result of the budget, tax-deductible super contributions through salary sacrifice will be halved to \$50,000 a year for those aged 50 or older, and \$25,000 for those younger than 50.

Some industry players argue that the Government has forced Australians to personally carry more of the cost of retirement while removing the motivation for doing so.

"It's contradictory, I agree," ING Australia technical services chief Andrew Lowe says.

The announcement in the budget that the retirement age would be raised to 67 also caught the industry by surprise.

"We were very surprised and disappointed to see the lift in the age pension eligibility from 65 to 67, and even more disappointed in the interim Henry Review papers that recommended lifting the superannuation preservation age to 67 as well," says Fiona Reynolds, chief executive of the Australian Institute of Superannuation Trustees.

"One of the founding principles of the establishment of the age pension nearly 100 years ago was that people who had bent their back in a lifetime of physical labour should be able to retire with the dignity and security provided by the age pension. This should not be discarded lightly."

Senator Nick Sherry, the man with the superannuation chalice, is hedging his bets on the issue, saying it is a matter for the Harmer Pension Review later this year. But the writing is on the wall judging by the paper issued with the budget and the criticism it has provoked.

Half the trouble, as always with superannuation, is the mumbo-jumbo -- jargon that often is utterly baffling.

"Put simply, many customers are seeing our lips moving, but don't understand what we're saying," Suncorp superannuation and investments head Vicki Doyle says. "Why is it so, since super is just a tax-effective investment structure that provides customers with options for investment allocations?"

"As an industry," Doyle says. "we have collectively clouded information with the dialect of super, disengaging customers from their super, their money, their future".

The federal Government may believe it is just fiddling around the edges with the superannuation system but Johnston Rorke managing partner Chris Ball says constant changes to tax rates and contribution limits undermine the entire system of compulsory retirement savings.

This occurs as confidence in the super system has already been shaken by the sudden plunge in equity markets.

Encouraging people to put long-term savings plans in place requires certainty about the rules applying to those savings, and the Government's changes will convince some that locking money into super is riskier, than say, borrowing to buy investment property, he says.

"If the federal Government is going to continually change the superannuation laws, it may be necessary to rethink the super strategy in favour of more certain outcomes," he says.

"You are going to see a lot of people leaving superannuation, and I think that's a bad thing."

Ball says the decision to cut the tax-deductible amount that can be contributed to super will hit many who "back-end" their super contributions closer to retirement because they concentrate on paying off their mortgage in earlier years.

"With these reductions in limits they are just not going to have enough money in super," Ball says.

The result will be more people relying on a part-pension, which, he says, also raises the spectre of future governments increasing the income limits at which the pension cuts in.

If the Government wanted to claw revenue back from super, there were other, less disruptive changes it could have made, Ball says.

It had been expected, for example, to crack down on transition to retirement schemes, which enable pre-retirees to start drawing down on their super while still working.

Ball calls that an "artificial" scheme designed to reduce tax, and says changing that would have been far less offensive than limiting the amount people could put into super.

The Government should have cancelled some or all of the tax cuts in the pipeline rather than touching super, he says.

"My sense is there was an underlying ideology in the changes," he says.

Many in the industry seem to be breathing a sigh of relief, if only because they expected much more severe cuts to super in the budget. One rumour taken seriously was that the Government would temporarily suspend compulsory super contributions.

The industry is bracing for further changes to super expected to be recommended by the Henry Tax Review.

Financial Planning Association chief executive Jo-Anne Bloch is also critical of the Government's tinkering with the rules.

"There is no incentive to save and to nurture a savings culture", Bloch says.

The impact of the budget changes to contribution caps will, however, be limited to the "higher end" of superannuants, she says.

The Association of Superannuation Funds of Australia estimates that the changes to contribution caps will affect no more than 4 per cent of people who salary sacrifice into super, although that doesn't account for those who were planning to do so.

Bloch warns the changes to super will have consequences for pensions costs and tax revenues as people change their behaviour, and that will come back to bite the Government down the track.

"You can't tinker with tax rates and concessions without affecting something else," she says.

Watson Wyatt managing director Andrew Boal is another who believes the budget changes are going to increase pressure on the aged pension and discourage the use of super.

He notes that 1 million Australians are expected to retire in the next 10 years and that there are almost 4 million people between the ages of 45 and 65.

"For the large wave of baby boomers who were born before 1964 and are now aged 45 or older, planning for their retirement is a crucial financial decision and what they need more than anything is certainty," he says.

"The message we are getting in this budget is that the older and wealthier will have to start playing outside super if they want to continue their current lifestyle" in retirement.

Boal says 70 per cent of retirees rely on a full or part aged pension. Not only is the Government running the risk that people will be discouraged from saving for their retirement, he says, but those with smaller lump sums may be tempted to spend it in the first few years of retirement then fall back on the aged pension in the belief that a few, short years of high living is preferable to decades of just scraping by.

After the budget, then, a comfortable retirement will require an early start on savings and a three-pronged long-term strategy.

In the seven weeks left in this financial year, Lowe suggests older people make use of the opportunity to move up to \$100,000 into super at the concessional 15 per cent tax rate.

Longer term strategies are a mix of super and non-super savings, and undertaking gearing.

Super still enjoys a 15 per cent tax rate on earnings in the accumulation phase, but it remains locked up until preservation age -- the age at which you can draw it out tax-free. Most Australians pay more than 15 per cent tax, so it is appealing.

For those who don't want their retirement funds locked away, savings outside super remain available, perhaps with gearing.

"Outside of super, that might mean drawing down on a mortgage to invest, using a margin loan or, inside super, using a geared managed fund or using instalments," Lowe says.

On the face of it, there's one message from the budget: our retirement is in our hands. Maybe that's what the politicians have been unable to spell out in as many words.