



2010 – Another Year of Change

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Over the past year, I have frequently been asked by my clients about superannuation and the likely impact of government policy on their retirement savings. Like all recent Federal Governments in power, Labor has been unable to resist the temptation to tinker with the taxation treatment of superannuation. In part, this is understandable. Think about it, superannuation was introduced because of an ageing population and an already heavy reliance by retirees on government support in the form of the Age Pension. It was evident that if Australians did not start to save, the time would come when taxpayers could no longer afford to fund the lifestyles of those in retirement.

The only way that the Government can encourage people to save is to force them (à la the 9% Superannuation Guarantee) and/or entice them (à la the very generous tax treatment of superannuation). In order to achieve this, the Government is forced to forego significant tax revenue on an ongoing basis. When times are tough and revenue is down, the temptation to reclaim this 'lost' revenue becomes too strong as we saw in 2009 with reduced contribution caps and other benefits such as the temporary reduction in the co-contribution. However, by continually tinkering with the system, the Government risks a lack of confidence in the future benefit of Superannuation. For those approaching or already in retirement I would suggest that you are in the 'safest' position regarding Government policy. Why, I hear you ask? The answer is grey, and by that I don't mean it's not clear cut! I am referring to the peppery coloured hair that spreads like wildfire on top of our scalps as we age. With an ageing population comes increasing voting power in the Grey sector and votes are the basis of Government policy.

There are a number of inquiries in progress that stand to change the current Government policies covering superannuation and taxation. These inquiries include the Henry Tax Review and the Cooper Review. The Cooper Review, headed by Jeremy Cooper, is taking a very broad look at the governance, efficiency and structure of Australia's superannuation system. Jeremy Cooper is the former Chairman of ASIC so one can only imagine the frustrations that he encountered running an under-resourced regulatory body from 2004-2009. Over the years, many investments managed to get the ASIC rubber stamp only to implode a short time after, including OneTel, Westpoint, Great Southern and Timbercorp. So you can imagine the determination and vigour that Cooper is currently investing into this review.

Not only is the Cooper Review investigating Industry, Retail, and Wholesale Superannuation funds, it is also looking very closely at Self Managed Super Funds ('SMSFs'). If you have or are intending to start a SMSF, your responsibilities as trustee may become more onerous and the investing flexibility that SMSFs offer may contract. Strap yourself in, because the Cooper Review is querying whether the lack of scale of a SMSF is a significant disadvantage.

As a financial adviser I was surprised to read the following quote from Jeremy Cooper on his website:

"So what are the aims of this model? Most members don't really engage with super, and for them we envisage a fund where the product is much simpler and cheaper for them. 'Bells and whistles' come at a cost and if you don't want them, you shouldn't pay for them. For those members who want choice, or who want to drive their own super, they will have lots of options."

Why would the Government wish to encourage investors to remain disengaged from their superannuation? And since when was the cheapest option the best for anyone? But anyway, that's another story...

continued overleaf

Here are some of the features of the Review, which commenced in May 2009 and is scheduled for completion by 30 June 2010. Obviously, if we have a change of Federal Government before then, everything is out the window. After completing Phase One, the Cooper Review has suggested that the aims of a member-oriented model should be as follows:

1. Clearer choices/boundaries - based on existing market sectors.
2. The 'Universal' product is simpler and cheaper for members.
3. Members can choose (and pay for) a more tailored model that suits them.
4. Overall the system is more accountable to members.

Cooper's blueprint of a member-oriented model (taken from the preliminary report) is presented below:

	Disconnected	Universal	Choice	Self-Managed
Investment strategy	Conservative	Single strategy (inc. lifecycle)	Supermarket	Self-directed
Governance philosophy	Trustee-centric	Trustee-centric	Disclosure-based	Self
Ability to change option/fund	N/A	Less frequent	More frequent	N/A
Insurance	N/A	Death & TPD	Member decision	N/A
Reporting	-	Minimal	Comprehensive	Compliance based
Product Disclosure Statement	-	Streamlined, perhaps online only	Comprehensive	N/A

There is a lot of information available on the **Super System Review website** if you are interested in delving into more detail. Remember to keep an open mind though, as these reviews are purely recommendations for change and do not necessarily represent an accurate picture of the future of superannuation.

Financial advice

For any further information or to discuss your financial situation, please don't hesitate to contact me on **0413 244 733** or email **simon.whiteley@eqtsuper.com**. I look forward to hearing from you.

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