"We've got to tighten our belt, we make no apologies for that"

- Wayne Swan

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I am often reminded that my monthly newsletters are not a time for me to get on my soapbox, and my position on the topic of politics is to remain neutral and unbiased. This month I will do my best to avoid a slap on the wrist as, in my view, the latest Government announcement regarding the future of superannuation is certainly a low point for 2011.

It was back in 1977 when Malcolm Fraser, of the then Liberal Government, rejected the recommendation from the preceding Whitlam Labor Government to establish a national superannuation scheme, and again rejected the recommendations of the Hancock Inquiry in 1979.

After what some refer to as "the decade of lost opportunity", in 1983 the Hawke Government expressed support for the principles of employee superannuation and thus planted the seeds of what is now a $1.3 trillion pool of retirement savings.

By 1987, the Australian superannuation savings had grown to over $40 billion. Witnessing the growth of superannuation, the Hawke Government introduced 15% contributions tax in 1988. Of course it was easy to see that over the coming decades there would be far more inflows into superannuation than outflows and that it would now become a great little revenue raiser, in effect bringing forward tax revenue.

And thus Labor's record of self-interest-driven tinkering with Australians' retirement savings began….

After one and a half terms of a Labor Government and its continued taxing of the Superannuation environment, it would appear that nothing (except for Gillard's $90,000 pay rise) is sacred in the Government's push to deliver a budget surplus by the next election. Here is a look at Wayne Swan's recent announcement on changes to superannuation as part of his 2011/2012 Mid-year Economic and Fiscal Outlook:

Contribution caps frozen

The existing transitional concessional contribution caps are scheduled to return to $25,000 from 1 July 2012. These caps were intended to be indexed to AWOTE and increase in $5,000 increments. Wayne Swan has again extended the index freeze on these caps out to 2013/14. The first indexing of the caps was originally intended to be an increase to $30,000 on 1 July 2009. This will deliver an estimated $485 million to Treasury's coffers over the next two years. I can see Swan salivating as Australians repay the deficit with their retirement savings.

Contribution caps for those over age 50

The was no mention of what is planned for the current $50,000 caps for those over aged 50. This measure is still under consultation.

There has been talk of maintaining the $50,000 cap for those with superannuation balances of less than $500,000. Sounds like a stellar idea. However, implementing this initiative is so complex that it may be that an alternative measure will be introduced in the May 2012 Budget. There is also the potential for it to be scrapped altogether, based on the state of the Government coffers at the time of the Budget; but we would hope that a simpler solution such as a $40,000 cap for all over-50's could be introduced. Be assured, we are not betting the house on such a sensible approach.

Government co-contribution

The Government will halve the co-contribution payments from $1000 to $500 (remember that prior to the last budget this was $1,500. To save a bit more revenue the income threshold for eligibility for the co-contribution will also be reduced from $61,920 to $46,920 on 1 July 2012. Although it has not been clearly disclosed, the cost savings on this measure as I understand it will be around $660 million.

Tax free super contributions

Previously the Government announced the commencement of the Low Incomes Superannuation Contribution (LISC). In essence the LISC which is scheduled to commence from 1 July 2012 allows that individuals earning up to $37,000 will have the contributions tax on their Employer Superannuation Guarantee payments refunded to their superannuation account with a maximum refund of $500.

The changes to this policy are designed the reduce eligibility for LISC.

Firstly, any individual who earns less than 10% of their income through employment or business will not be eligible. This could be tens of thousands of Australians who will not be eligible.

Secondly, if an individual's LISC entitlement is less than $20 it will not be paid. Some argue this is an administrative burden and costs more than $20 to pay. Would the same attitude be taken if it was the taxpayer that owed the $20?

Fortunately, it is not all bad news. The blow has been softened by some further relief for those receiving a pension.

25% minimum pension relief extended

The current minimum pension relief has been extended to 2012/13. A small victory but we will take whatever we can get!

Although I am not the bearer of good news this month (I do apologise for that), it is important for those investors with complex strategies such as transition to retirement income streams to keep abreast of these changes and their impact on existing or planned investment strategies. There does not appear to have been a single year since "Kevin '07" where the effectiveness of transitional strategies was not impacted by the Labor Government's use of your superannuation as a deficit-funding tool, despite being handed a country in surplus. This fact highlights the importance of ongoing financial advice for the optimisation and regular maintenance of these strategies, to ensure you are not caught out and penalised.

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.