

13 May 2014

ASFA's response to the Federal Budget

The Association of Superannuation Funds of Australia (ASFA) says this year's Federal Budget will deliver new investment opportunities for superannuation funds, policy stability and certainty for the community when it comes to planning how they will save for their retirement.

ASFA has identified five key policy areas highlighted in the Budget:

- 1. Investment environment changes support infrastructure investment and diversification of the Australian Securities Exchange (ASX)**
- 2. Changes to Age Pension eligibility need to be made using a long-term, holistic policy approach**
- 3. Programs for older workers are important for the future, but more debate is needed**
- 4. Pensions test changes mean superannuation savings will be even more important in the future**
- 5. Delaying increase in Super Guarantee not unexpected**

1. Investment environment changes support infrastructure investment and diversification of the Australian Securities Exchange (ASX)

ASFA is supportive of the government's infrastructure package.

The core element of the package is the government's asset recycling fund, which will receive an initial contribution of \$5.9 billion from the uncommitted funds in the Building Australia Fund and the Education Investment Fund.

ASFA believes that the asset recycling initiative will support superannuation investment in brownfield assets by removing impediments that provided a significant disincentive for state governments to privatise assets.

ASFA CEO Ms Pauline Vamos says superannuation funds have a long history of investing in infrastructure, and a strong appetite for further investment in this asset class.

"The current average asset allocation of APRA-regulated superannuation funds to infrastructure is around 7.5 per cent. Around \$70 billion in total is currently invested by Australian superannuation funds in infrastructure and this could rise to \$200 billion or more by 2025 on the basis of likely asset allocations.

"As the superannuation system continues to mature and more people move from accumulating super to taking income streams, stable, long-term and income-producing assets such as infrastructure will become more attractive and more suitable investments for super funds. Many of the public assets potentially earmarked for sale would be an ideal match for the risk-return profile desired by super funds in this changing demographic environment."

ASFA notes that the government has not made decisions around the complex area of infrastructure financing.

"Concessional loans are one way of addressing the challenges of financing infrastructure, but in the long term, ASFA believes that it is important to develop a functioning infrastructure project bond market. We believe that there are a number of potential ways in which the Federal Government could ultimately support the development of an infrastructure bond project market and we look forward to discussions with the government on how this may be achieved."

2. Changes to Age Pension eligibility need to be made using a long-term, holistic policy approach

With the government confirming it will raise the Age Pension eligibility age, ASFA says there are many risks that need to be considered in order to ensure these policies deliver on their policy intentions, and

minimise the impact on Australia's future retirees.

"There are a number of other factors that need to be considered when it comes to making changes to Age Pension eligibility. Importantly, the health status of older workers needs to be taken into account as many people reaching their late 60s and early 70s are either unable to work at all, or can no longer perform the roles they have been working in, due to physical or mental health-related concerns. This is particularly pertinent for people who have spent a lifetime working in physically demanding jobs, such as labourers and aged care workers.

"We also must manage the risk of superannuation being used to pre-fund the Age Pension, rather than being a top-up, as was always intended, particularly for lower-income earners. There is also a risk that more people will move to the Disability Support Pension as a result of not being able to work."

ASFA estimates that, at present, around 15 per cent of people aged 60-64 receive the Disability Support Pension. If the Age Pension eligibility age was increased, ASFA believes around 40-50 per cent of people aged 67 to 69 would end up on the Disability Support Pension or Newstart Allowance.

"This would substantially reduce the projected savings from increasing the eligibility age," Ms Vamos says.

Other changes, such as including the family home in the asset test or changing the income thresholds, must be made with caution, given the impact they could have on a retiree's standard of living.

"This highlights how important it is that people save more for their retirement, as the Age Pension alone will not be enough to deliver the lifestyle they expect in retirement."

3. Programs for older workers are important for the future, but more debate needed

ASFA notes the government's intention to provide a payment of up to \$10,000 to a business that employs an Australian over the age of 50 who has been on unemployment benefits or the Disability Support Pension for six months. However, the government is abolishing the Mature Age Worker Tax Offset, which will save \$760 million over the forward estimates.

Ms Vamos says addressing the availability of jobs for older people is a crucial for Australia's future.

"We have long said that, as the population ages, there is a need to encourage people to create job opportunities for older workers. The introduction of a bonus payment to companies to hire and keep older workers is a positive step. ASFA is supportive of targeted, well-run programs for workers. However, we note that the new payment comes at the cost of the removal of the Mature Age Worker Tax Offset.

"It's important to note that this is a complex area that, ultimately, requires a detailed conversation about a radical overhaul of work practices. We look forward to participating in that conversation," concluded Ms Vamos.

4. Pensions test changes mean superannuation saving more important in future

The government has announced that all pension asset test and income test thresholds will be fixed for three years from 1 July 2017. From 1 July 2017, the government will link pension increases only to inflation. The government will also change how it deems the return from a person's financial assets and untaxed superannuation will be included in the income test for new recipients of the Commonwealth Seniors Health Card.

The cumulative impact of the government's changes will be to increase the importance of superannuation savings to fund a comfortable lifestyle in retirement. ASFA notes that the government has not made any changes to preservation age for superannuation. We believe that any future changes require extensive community consultation. In particular, we welcome the confirmation that the Superannuation Guarantee will be part of the Paid Parental Leave scheme.

ASFA's Retirement Standard shows that couples wanting to live a 'comfortable' retirement require an income of \$57,817 per year.

"The tightening of the pension means test highlights how important it is that people save more for their retirement."

5. Delaying increase in Superannuation Guarantee not unexpected

ASFA notes that the Federal Government will freeze the legislated increase in the Superannuation

Guarantee (SG) from 1 July 2014, when the SG is scheduled to increase to 9.5 per cent. The SG will remain at this level until 30 June 2018 and will then increase by 0.5 per cent each year until it reaches 12 per cent in 2022/2023.

"While the pause in the increase was not unexpected, as it was previously announced, we are pleased that the pause will apply at 9.5 per cent rather than 9.25 per cent, as previously stated.

"ASFA's view is that the original timetable for phased increases should be maintained. This view is overwhelmingly supported by the community, with ASFA consumer research showing almost four in five Australians support the measure.

"People expect to be able to live comfortably and with dignity in retirement, for all of their post-work years. Increasing the SG is a crucial part of ensuring people save enough of their income to help fund the lifestyle they expect in retirement. We urgently ask the government to reconsider this decision and proceed with the planned, phased increases to the Superannuation Guarantee."

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About ASFA

ASFA is the peak policy, research and advocacy body for Australia's superannuation industry. It is a not-for-profit, sector-neutral, and non-party political national organisation, which aims to advance effective retirement outcomes for members of funds through research, advocacy and the development of policy and industry best practice.

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