Actuaries Institute says Budget injects fairness into retirement incomes system

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The Actuaries Institute welcomed tonight's 2016-17 Federal Budget, citing policy changes designed to inject more equity and fairness into the retirement incomes system.

The Budget has introduced the largest changes to the superannuation sector since the Costello Budget of 2007. It has further simplified the system while reinstating equity. 96% of individuals with superannuation will not be adversely affected by the changes.

"Overall the Budget changes improve the system, making it fairer while also increasing revenue to assist the economy in these financially constrained times.", said Institute President, Lindsay Smartt.

"The Institute believes these changes will help to meet the Government's objective of superannuation, which was adopted from the Financial System Inquiry – to provide income in retirement to substitute or supplement the Age Pension ", Mr Smartt said.

The Institute has argued consistently for superannuation reform to focus on the development of innovative retirement income stream products over lump sums to better manage longevity risk in Australia's ageing population. The Institute added that it is pleasing to see the extension of tax exemptions to retirement products such as deferred lifetime annuities and group self-annuitisation products.

"We acknowledge the doubling of the tax rate on superannuation contributions for people who earn more than $250,000 a year, which, together with a reduced concessional contributions cap, raises an estimated $2.5 billion for the federal budget over the forward estimates," according to Mr Smartt.

The changes to Transition to Retirement (TTR) are aimed at reducing the benefit for wealthy people who use it for tax reduction purposes. However the Institute noted that the change also makes it less attractive for those on average incomes and goes against the original intent of TTR which was to encourage people to work longer and provide a mechanism where people can gradually phase down.

The Institute welcomed the following budget measures designed to achieve longer term structural reform in retirement incomes:

- Introducing a $1.6 million transfer balance limit on the amount that can be transferred to tax-free retirement phase accounts (thereby receiving tax concessions on investment earnings rather than being taxed at 15%);
- A 30 per cent tax on concessional contributions for those earning over $250,000 per annum;
- Removal of regulatory barriers on the development of retirement income stream products such as deferred lifetime annuities;
- Retention of the low-income super contribution (LISC) now renamed LISTO, which is a payment of up to $500 to help low-income earners save for retirement.

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The Institute also said it would continue to encourage the Government to focus on:

- Including estimates of the future costs of natural disasters in the budget's Statement of Risks. This could entail development of Government policy to improve resilience against natural disasters and to design funding mitigation and adaptation measures supported by comprehensive cost benefit analyses.
- Undertaking ongoing research into understanding and managing the financial and economic implications (risks and opportunities) of climate change and take action to reduce greenhouse gas emissions, improve energy efficiency and the development of renewable energy sources. We also support the development of policy to address the significant implications for Australian business and society from the transition to a low greenhouse gas economy.

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About the Actuaries Institute
As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.

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