

GET YOUR STICKY LITTLE FINGERS OFF OUR RETIREMENT SAVINGS

Introduction

At the NSW Senate pre-selection on 19 March I had the occasion to speak with a senior Liberal politician, who, I gathered, had some ability to speak on the topic of superannuation's taxation treatment. I made it clear that I was thoroughly opposed to any attempt to place further taxes on people's retirement and superannuation savings.

The senior politician's response was, I suppose, at least candid. It was, simply, that there was a hole in the budget, the government needed the money, and this was, politically at any rate, the easiest way to get hold of it. Open that response might have been, but I found it little less than nauseating. The level of cynical immorality involved was as appalling as it was abysmal. People's retirement savings and incomes are not some conveniently targeted, sitting-duck pile of money that vote-buying politicians can readily reach for when, having wantonly indulged their chronic addiction to pissing away public money, they next need to stage another smash and-grab tax raid in a desperate and almost certainly futile attempt to make the books balance.

Raising taxes on superannuation is both bad policy and bad politics.

Bad politics

People who save for their retirement and are supporting themselves at that stage of their lives are likely to be Liberal voters. Punishing them by imposing taxes that reduce their retirement savings is a poor way to reward them for their support. The tax-happy, soak-the-rich, Left will never vote Liberal, no matter what, but imposing policies that make Liberal party supporters worse off is a great way to ensure that there are less of them. Is the Turnbull government really that self-destructive?

Bad policy

Jacking up superannuation taxes is unjust. People will have made their long-term savings and superannuation decisions on the basis of certain assumptions, one of which is the impact of taxes on that savings pool *over the entire period of its existence*. If people aim for a certain income in retirement, and start setting aside moneys in order to achieve that income, one of the factors that they will have to consider is the level of taxation that savings pool will be subjected to over its lifetime. If, at some stage during their working lives, the government decides to increase that level of taxation those plans will be placed in irreversible jeopardy. It is no use saying (even if it was the case) that the increased taxes would only be prospective, not retrospective. Those higher taxes still have the effect of changing the rules of the game when people are half way into it. Confronted by higher taxation, they would need to have increased their level of savings in the *past*, which they cannot now revisit, in order to ensure that the savings pool achieves the intended size. For many people, simply adjusting upwards future savings may not be a readily achievable option, especially when their retirement is imminent or their capacity for additional savings is constrained. When the government constantly changes the taxation rules, people can only guess at what imposts their retirement savings will be ultimately subjected to.

Misconceived thinking about fairness

Jacking up superannuation taxes is being rationalised by misconceived rhetoric about fairness. Parenthetically, one should add that whenever one hears politicians speaking about making taxes fairer one should try to hide one's wallet, because almost invariably that will be

what they are after. Cloying, syrupy rhetoric about fairness and equity can almost always be taken as code-language for wanting to screw more money out of people and should be regarded as such.

The argument seems to be that one segment of the community is getting a tax break denied to others. But retirees are not some kind of breed apart, like blacks or whites, men or women, Protestants or Catholics. A black may not become a white, or a man a woman, but sooner or later, if they live long enough, every person will enter the retirement phase of their life. It is quite wrong-headed to incite the politics of division and say that young people are subsidising the old. Sooner or later, those young people will become old. They are not subsidising others but themselves later on in life.

A tax break for only the rich?

There is also some suggestion that the "rich" are using superannuation as a vehicle for avoiding tax. And, of course, no one should ever become rich, should they? This argument too is seriously misconceived. A person's earning capacity can often, indeed, almost always does, vary over their lifetime. In a number of professions (e.g.: sport) the span of someone's peak earning capacity may be quite limited. Medical professionals may have to wait until their fourth decade before they can hope to earn serious money. Women who have spent many years out of the work force while looking after children are particularly faced with this difficulty. Their span of peak earning capacity may be heavily skewed toward the later years of their working life; a time when the opportunity to use compounding interest (which works best the further away one is from retirement) will be seriously confined. Saying that they can look to their husband's superannuation may be cold comfort if they happen to become divorced and he is good at hiding his assets.

Viewed from a lifetime perspective a person's total earning capacity may not be anywhere near as great as may appear when attention is (conveniently, it would seem) confined to their earning capacity at its peak. Slapping high income earners with higher superannuation taxes is unjust to people whose professions and life circumstances are such that their earning capacity is concentrated in only a few good years. The same criticism applies to restrictions on the amounts that people can contribute to their superannuation funds before higher taxes apply.

Self-serving myopia

It is, of course, entry-grade economics to observe that the higher the taxes on people's retirement savings the smaller those savings will ultimately prove to be. The inevitable result is that in more cases those savings will prove to be insufficient and the superannuants concerned will find themselves driven to rely on the old age pension. The government may get its higher taxes now, but at the price of a much greater welfare burden in the future.

Of course, one does not need the perspicuity of a Sherlock Holmes to divine the political reasoning that underpins this slimy, short-sighted, opportunistic push to place higher taxes on superannuation. One can almost see the wheels turning: the need to fund that higher welfare burden, our current crop of vote-buying politicians are doubtless saying to themselves, will be faced by some other group of politicians years from now - by which time, of course, we will have been long gone. We need to lay our hands on those taxes now if we are to secure our re-election. The future can take care of itself.

The government's discussion paper

As if in an effort to rationalise (and probably to soften us up for) this raid on our retirement savings on 9 March 2016 the Australian Government released a discussion paper entitled "Objective of Superannuation". Without citing any reasoning or evidence in support, the paper advanced the proposition that the purpose of private superannuation is "to provide income in retirement to substitute or supplement the Age Pension". In other words, the government will begrudgingly allow us enough of tax break to give us a retirement income equivalent to the Age Pension, not from any spirit of generosity, but simply because this will spare the government the need to pay us that pension itself.

If there were any justice in this cosmos every person concerned in the preparation of that wretched document would be condemned to practise what they preach and spend their declining years with that same Age Pension (or income equivalent) as their sole means of support. I have seen what life is like for people in that situation. If you own your own home the pension may suffice to keep body and soul together, but luxuries and comforts are few and far between. Of course the authors of that paper are at scant risk of having such a fate await them. Particularly if they are politicians, they will have their own, generous, and largely taxpayer subsidised, superannuation schemes to fall back upon. Having to live on the income equivalent of the Age Pension is not a predicament that they will ever find themselves needing to fear. They will happily let that fate befall the rest of us, but not them.

Is an old age of austerity the best that the government will let us hope for?

Of course the central assertion in that paper invites the question: why should a retirement income equivalent to that Age Pension be all that the taxation system is structured to allow? Finding oneself unable to go on working in the last years of one's life is a fate that ultimately will await all of us. Why should the taxation system condemn us to spend those years in what is little more than genteel poverty? Are we not entitled to aspire for something more?

Loss of credibility

As I say, our politicians have apparently come to think that superannuation's primary purpose is to provide some sort of conveniently situated piggy bank that they can readily raid whenever the budgetary environment becomes just that little bit too difficult. If superannuation actually happens to provide some sort of income in people's retirement that is, apparently, little more than an added bonus. Is revenue falling short of our massive spending you hear those politicians ask? Well, there's always that superannuation tax concession that we can try to wind back. The damage that this reflexive, ad-hoc approach does to the credibility of the system is immense. As Peter Costello observed recently:

"We are asking people to put money into the system for 20, 30, 40 years to prepare for their own retirement.

"All they see is that every time the government gets into trouble it comes around and taxes it more.

"I think people could start drawing the conclusion that it was not a very safe investment.

"And, by the way, it isn't. It is locked up for 40 years but apparently it is not locked up against the government. The tax regime depends on the state of the budget in any one year."¹

And that, sadly, pretty well sums up the execrable reality that we have descended into.

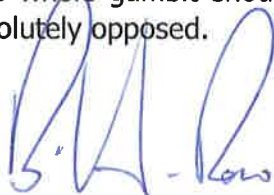
Why would anyone in their right mind contribute to superannuation? In view of politicians' endless, mindless, myopic fiddling with the system what assurance can anyone have that those funds will have remained intact when one comes to retire? It would make more sense to put the money in a shoebox under the floorboards.

Of course, we can predict what reply our politicians will make in response to that proposition: "don't even think about the shoebox option," they will say, "because then we will not be able to find your money. Rather, we will *make* you put it into super, which we can conveniently target for higher taxes whenever we conceive the need to do so. The only people who should ever be able to get their hands on that money is us, not you."

Doubtless, the politicians will assure us that each little piece of tax-happy tinkering will be the last. But every successive attempt to fiddle with the system creates a precedent for the next.

Conclusion

Irresponsible politicians, addicted to buying votes with bribes and hand-outs, have massively overspent and brought the national budget into serious deficit. Rather than cut spending, which they are too lazy, timid and ideologically disinclined to do, and thinking this to be the softer, easier option, they propose to ratchet up taxes on people's retirement savings. In order to provide the political cover needed for this sordid, disgusting little exercise they resort to class-warfare rhetoric, stoke a sense of unfairness and inflame the politics of envy. The whole gambit should be seen for the grubby, disgraceful little tax raid that it is, and resolutely opposed.



Bradley Row

Wednesday, 6 April 2016

¹ *The Australian* 28 March 2016 p17.