Communicating super is key

By Tom Garcia | 29/07/2016

Regardless of where you sit in the ongoing debate over the government's proposed superannuation changes, there can be no argument that our already complex super system looks set to get even more complicated.

From the proposed new rules for the transition to retirement scheme through to the controversial backdating of the $500,000 non-concessional cap, there is nothing straightforward or plain English about the latest round of policy proposals.

If the very politicians who conceived these changes struggle to explain them – as we saw in the lead up to the federal election – what hope has the average Australian worker got?

From my experience of talking to people outside the super industry, many have only the vaguest understanding of terms like "concessional" and "non-concessional". It's a big stretch to expect the average Australian to fully grasp the impact that some of these complex changes might – or might not – have on their retirement, particularly in many years down the track.

Changes to super that are not easily articulated are vulnerable to being misinterpreted – sometimes deliberately so by self-serving vested interests who, in seeking to retain the status quo, exaggerate their impact on ordinary Australians.

Take the proposed $1. 6 million pension transfer cap. The aim of this cap is to protect the integrity of the super system by ensuring that the very generous tax concessions available through super are put to the right use – that is, to help all working Australians save enough income for a dignified retirement. The government, the opposition and most of the super industry recognise that the purpose of super it not to fund a lavish retirement lifestyle or to provide an inheritance for the kids.

If we are going to improve the fairness and sustainability of our super system, changes along these lines are needed – no matter how much Liberal back benchers, SMSF trustees or scaremongering *60 Minutes'* commentators would prefer it to be otherwise.

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But have we gone about these changes the right way? How much thinking went into the design of some of these measures and how the public might interpret them? Could a similar policy outcome be achieved by introducing a tax-free limit on an individual's retirement income rather than his or her final super balance? Such a measure would put the focus where it should be – on retirement income – and be more aligned to the government's proposed objective for superannuation: "to provide income in retirement to substitute or supplement the age pension."

Already there is much confusion about the $1.6 million balance cap, which has been widely misunderstood as an adequacy measure.

It is estimated that fewer than 4 per cent of very wealthy Australians will be adversely affected by this measure, but the impact has been greater. Many ordinary Australians are now concerned that their savings fall well short of the $1.6 million cap and are angry with the super system for not delivering. Given that the majority of retired Australians still rely on some form of age pension, it is sends a confusing message to put the focus on super balance alone. Similarly, many people are worried that they will hit by the $500,000 non-concessional cap limit, when the reality is that very few Australians make sizable, if any, after-tax super contributions.

As one financial planner put it: these caps hit an aspirational nerve among people who “feel” they could be affected.

A secondary debate concerning the super changes has focused on whether they undermined the government’s election performance. If they did, it was because they were so complex and poorly explained that every second Australian feared them.

By failing to more carefully consider the best ways to introduce fairness into super (the ideal forum to do this was the ill-fated wider tax reform process, not the May federal budget), the government has fuelled uncertainty in super and left a lot of people needlessly worried about their retirement prospects.

In the coming months, we can expect more public debate and media scrutiny of superannuation and the proposed changes. With the Brexit crisis in Europe creating further uncertainty for superannuation, these significant policy changes will need to be carefully navigated by parliament, the industry and, most critically, better communicated to the public.

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