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Self-funded retirees under attack

Both major parties think self-funded retirees are not yet a big enough part of the community to influence elections, so are fair game.

ROBERT GOTTLIEBSEN THE AUSTRALIAN 8:04AM March 13, 2018

By discriminating against retirees the ALP has left the door open for Treasury to convince the Coalition government to make a frontal attack on franking credits.

Later in this commentary I will set out what they will be now be considering.

But first let's look more closely at the way self-funded retirees are under attack.

Because they are not yet a big enough part of the community to influence elections, both parties reckon they are fair game.

Under the Peter Costello rules, superannuation funds in pension mode were tax-free. The current Coalition government limited the tax-free portion to $1.6 million and introduced other nasties to attack retirees. One of those nasties encouraged people with in the vicinity of between $400,000 and $800,000 in assets to liquidate part of those assets and go on the government pension. They received a 7.8 per cent return on assets liquidated. Cruises have boomed thanks partly to the Coalition. It was stupid policy but the Coalition attitude was: "Who cares? Self-funded retirees don't carry enough votes and the increased eventual pension bill will be met by a future government".

However Coalition policy encouraged retirees to invest that $1.6 million tax-free money in shares, particularly those that paid franked dividends.

Now the ALP says that that those $1.6 million tax-free funds will not be able to claim franked credits, substantially lowering the value to self-funded retirees of banks and other securities that pay high franked dividends. Many bank hybrids are among those to be affected.

That means if your superannuation fund is paying tax, ie not in retirement mode, you can claim franking credits but if it is in retirement mode (or not paying tax because of large volumes of franking credits) then the fund can't claim the benefit of those credits.

This is clear discrimination. Both the industry and retail funds will argue that overall they are big taxpayers and there should be no discrimination between members in retirement mode and those saving for retirement. It's only those dreadful self-managed funds that should be attacked.

I fear that between now and coming to power in an election, lobbying by the big superannuation funds might cause the ALP policy to be converted into a full-scale attack on self-managed funds by giving industry and retail funds a special advantage. I hope I am wrong.

Such a move would decimate self-managed funds but given they have a third of the superannuation market it would be dangerous politically.

As more people move into retirement phase any restriction on the use of franking credits will reduce the market value of bank shares and those hybrids increasing their returns by the use of franking credits.

But on the favourable side, under pressure from institutions, companies like banks, Telstra and BHP paid out far too much of their profits in dividends. Many of the current bank problems relate to the fact that they underinvested in the technology backing the administration of many products they introduced. The required money to fund that investment was being foolishly being paid out in dividends.

But Telstra and BHP have sensibly changed policy and reduced or restricted payouts. The banks so far have not adopted such a policy. For BHP, with $11 billion in unpaid franking credits, many shareholders will press the company to pay them out quickly because they could lose their value for retirees, depending on the result of the next election.

In the case of BHP this is an extra money grab discriminating between BHP shareholders who are retirees and those who are not.

Like all political games that discriminate between people it is not the high-income earners who will suffer, they will find a way around the problem.

Rather it is mum and dad who worked hard and saved for their retirement who cop it in the neck every time.

The Coalition's attack on this group set a policy that discouraged retirees from selling their house and downsizing. They have made some amendments to that.

But the ALP is now saying the same thing. If you free up cash by selling your house and investing it in shares with franked credits then you are deprived of the benefit of those franking credits.

Many will either keep their house or increase their cruise enjoyment and live on the government pension.

Rather than hit the battlers where it hurts a more enlightened ALP would have been much better to restrict franking credits to dividends that are less than half the profit.

That would have been good for the country as well as for the long-term shareholders and it would have raised as much money. The ALP has left the door open for the Coalition to adopt such a policy.

In addition I believe there is a very good chance that the Coalition will embrace the "Calderon plan" which was **announced at the Melbourne Mining Club** by the CEO of Orica, Alberto Calderon (under the plan Australia follows the US in new plant and research write-offs but does not lower company tax).

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Robert Gottliebsen has spent more than 30 years writing and commentating about business and investment in Australia. He has won the Walkley award and Australian Journalist of the Year Award, two of journalism's highest honours. He is an economic writer at The Australian, and he appears on television and various radio stations.