Changes to superannuation in last night's Turnbull-Morrison budget not only generate revenue, but herald a change to retirement income policies and the implementation of a new more clearly defined objective for superannuation.

Budget initiatives are consistent with the Financial System Inquiry recommendation of a new objective for superannuation: to provide income in retirement and supplement or substitute for the Age Pension. Reframing the objective in this way to substitute for the Age Pension flags a major change to policy and will impact on the way superannuation tax concessions are allocated.

Since the Howard government's Simpler Super Reforms in 2007 , which abolished the Reasonable Benefit Limits, invited a one-off voluntary contribution of up to A$1 million and removed the tax of super benefits over the age of 60, superannuation has become a preferred savings vehicle for middle to high income earners. As a consequence, the majority of tax concessions now go to this group and the cost is increasing. There is only a marginal fiscal offset in terms of reduced reliance on the Age Pension amongst low income earners.

## Improving sustainability of the retirement system

With the proportion of Australians over 65 expected to increase from 14% to 21.5% over the next 20 years, the combined costs of tax concessions and the Age Pension under current policy settings becomes unsustainable. Indeed, under current policy settings this dependence declines only marginally over the next 20 years (See page 81 of the National Commission of Audit).

Ensuring adequate superannuation savings to substitute for the Age Pension will need a concerted policy push, as around 70% of older Australians are currently receiving the Age Pension with the majority receiving the maximum rate.

This high dependence is partly as a legacy of workers seeing the Age Pension as an entitlement after a life time of paying tax, a result of low superannuation balances to date and the storing the majority of voluntary household savings as wealth in the family home.

Consequently, tax concessions need to be redirected from middle to high income earners to those at the lower end of the income scale.

## Increasing equity between high and low income earners

Budget night measures which reduce the attractiveness of super for middle and high income earners include:

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Extending Division 293 Tax, which applies a 30% tax on contributions for incomes over $300 000, to those on incomes of more than $250,000.

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Reducing the annual cap on concessional contributions to $25,000 (currently at $30 000 per annum and $35 000 for those over 50 years).

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Introducing a lifetime cap of $500,000 on non-concessional contributions that takes into account all contributions made on or after 1 July 2007. The lifetime cap will replace the existing annual cap on non-concessional contributions (currently $180,000 per annum or $540,000 over 3 years) and come into effect immediately.

Further, additional assistance for low income and older workers is provided by:

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increasing flexibility for people with superannuation balances of less than $500,000 to be able to carry forward unused concessional caps for five years from July 1 2017, thereby allowing people with circumstances such as broken career patterns to catch up with their super savings.

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removing the need for people aged 65 to 74 to satisfy a work test in order to make super contributions.

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introducing a tax offset of up to $500 for people earning less than $37,000 to offset the tax disadvantage of low income earners who pay more tax on superannuation contributions than on their wages. This replaces the Low Income Earners Contribution (LICS) which is phased out from 30 June 2016.

Disincentives for higher income earners using superannuation for the purposes of tax minimisation or estate planning were also announced as changes to the Transition to Retirement and by placing a cap on total concessions available to an individual.

Another disincentive is introducing a tax on the earnings of transition to retirement (TTR) pensions. (A 15% tax is applied to earnings in accumulation phase, while earnings in retirement are not taxed. TTR pensions were introduced to encourage those who reached the preservation age to stay in the workforce while working part time, but have been found to be used primarily by full time higher income earners for tax planning purposes).

For the first time since 2007 when the reasonable benefit limits were removed, the Turnbull government has also specified a cap for entitlement to superannuation tax concessions, by introducing a limit to the amount of superannuation benefits which can be drawn tax free. A $1.6 million cap on the amount of superannuation that can be withdrawn tax-free in retirement will be introduced from July 1, 2017.

The latter suggests that the desirable retirement income workers should be striving for is around $80,000 per annum. This is slightly more than the ALP’s recommended level of $75,000 per annum, and significantly under the level proposed by the superannuation representative bodies, ASFA and the SMSF Association, of a balance of $2.5 million which equates to an income of around $125,000 per annum.

## The future for the retirement system

Other policies required to ensure more older Australians can substitute super savings for the Age Pension would include increasing mandated the Superannuation Guarantee to 12% as currently planned as most low income earners are unable to make voluntary contributions; broadening the coverage of superannuation (20% of retirees reach the preservation age with no superannuation savings); and raising the preservation age closer to Age Pension eligibility, to extend working life and ensure balances are not depleted before retirement.

While this budget has taken one step forward in improving the equity of the system, in the long run the success of the retirement system will depend on ensuring a steady and cohesive approach to policy, and minimising change to build greater trust in the system.

It is evident, however, that in the foreseeable future superannuation policy will need to be further revised to meet the proposed objective, and ensure the fiscal sustainability of the retirement system.

Ultimately, the quality of life for both retirees and future tax-payers will rest on achieving an appropriate fiscal balance between supporting the aspiration of more self-reliant retirees, and the continuation of a strong social safety net for those who need it.

*The authors do not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.*

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