



PETER BOBBIN

LEGAL BRIEF

Back to super future

Changes to super in the 2006 budget will benefit men, but women won't be so super secure. They'll increasingly have to rely on men, even with our high divorce rates.

Peter Costello has gained many new friends and most of them are super friendly. I can't work out whether to applaud Peter Costello as an innovator or to recognise him as a retro from the 1970s and early 1980s. Has the Treasurer created the first real superannuation incentive in more than a generation? Or is he the modern Marty McFly from the movie *Back to the Future*? Has Peter Costello brought Australian superannuation back to 1982 when the retirement benefit was mostly tax free?

It doesn't really matter what view you take – the future of the financial services industry is again assured. Budget 2006 has introduced yet another change to the superannuation landscape that will require a rethink of current and future client investment strategies.

But what do all these changes mean? First, the baby boomers have again stamped their authority over the rest of the population. Many boomers are now facing retirement, so it's only natural that the people once dubbed the "me generation" ensure that they enjoy a tax-free superannuation bonus. Don't believe it? Well, when does the new tax-free super come into play? From July 1, 2007. Track back 61 years to 1946 and you reach the year of birth of the first baby boomer (nine months after the end of World War II).

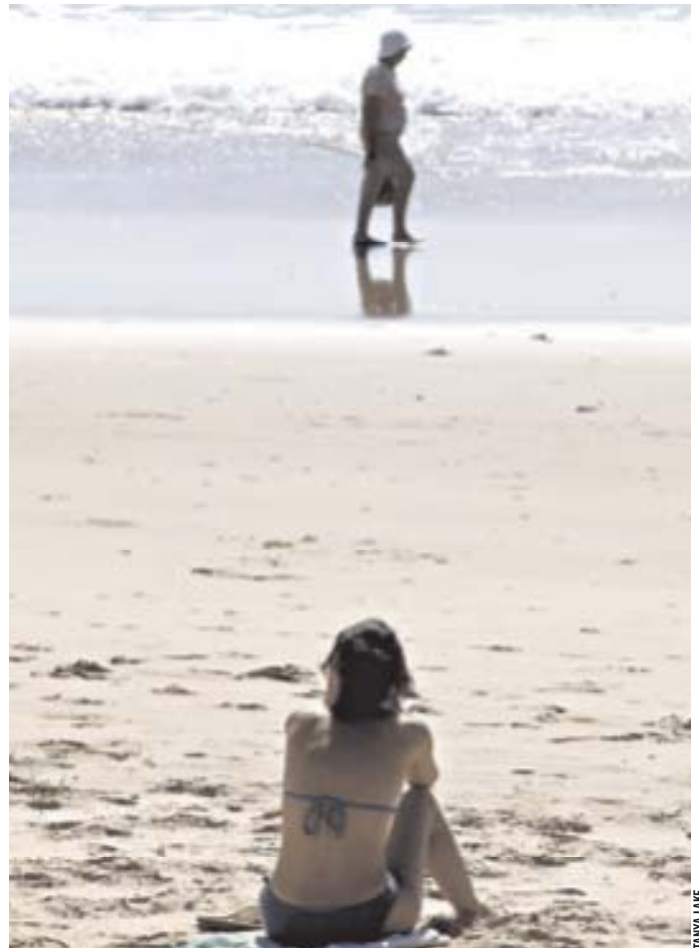
Many people are still saying the 2006 budget is too good to be true. The sceptics await the devil in the detail. But Peter (McFly) Costello's announcements are so clear that there is little room to speculate – other than over the terms of the typical grandfathering that the superannuation industry demands, so that no person is made worse off by an unexpected change. In other words, the new super rules are unlikely to get worse. Indeed they can only get better for the chosen few who cry: "My retirement plans have been fouled up. You must look after me. I need a time-safe harbour."

In looking at the effects of the super changes, I have taken the lead from the soon-to-be streamlined superannuation age-based annual maximum deductible contribution limits.

UNDER 35s

At last the government can say that it has done something for women. A common industry complaint under the old rules was that the come-and-go nature of women in the workforce unfairly limited their ability to contribute to super. Under the old contribution rules, the maximum amount a person under 35 could contribute in one year was \$14,603. This increased almost threefold for the under 49s and by seven times for the over 50s. But these increases came at the same time as mortgages and school fees. After age 35, the rules let women contribute more but they could no longer afford to.

Those members of the X and Y generations with double-X chromosomes can no longer complain – they now have the go-ahead to



TANYA LAKE

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make large early lifetime tax-deductible super contributions. Under the 2006 budget, women under age 35 will soon be able to put \$50,000 into their super account each and every year.

This should be seen as a win for women. But does Costello really think that women under age 35 have superannuation on their minds? They already have too much else to think about, including relationship breakdowns. The latest statistics indicate that women aged 30 to 34 experience the highest divorce rates in Australia. They are battling to keep what they have, not thinking about maximising super contributions they can't touch for decades.

MIDDLE AGE

For women, the years between 35 and 50 are the child-rearing age when they take their toddlers through to their teens. There is now relief in sight. Turning 40 brings middle age, and a mortgage that is affordable because a third career change will have brought a decent wage. The light that is discernible at the end of the tunnel is freedom. Many know it as retirement.

Just 100 years ago, our retirement needs were not great. In the period 1901-10, the average life expectancy of a newborn girl was 59 years. In the average lifespan, time in retirement was short and the gap between the end of work and the end of life was small. Today we have longer life expectancies and women can enjoy average lifespans exceeding 82 years.

However, did you also know that the average age at retirement from the labour force for women aged 45 years and over in 2004-05 was 47 years, 11 years earlier on average than for men?

The average age for women to retire puts them well within the pre-60 age bracket that means they'll still be taxed on their super. Costello has put tax-free superannuation beyond the reach of anyone but a 60-year-old. How will the average retired 47-year-old woman survive for 13 years? The answer can be only with non-superannuation savings or a very understanding and fully employed life partner. So there is nothing super in the budget for 35- to 50-year-old women.

OVER 50S

They say that 50 is the new 40. Of course, this is the baby boomers talking, who once said that 40 was the new 30. These must be the people the budget is aimed at. What can they look forward to?

No longer can those who have reached the golden age of 50 manage their later working life tax affairs by increasing their superannuation savings. While those baby boomers currently close to retirement will continue to enjoy \$100,000 contribution limits for another five years, the rest of us will be limited to the same amount as everyone else, regardless of age.

In short, the simplification of the age-based contribution limits has guaranteed a super failure for women. The fact is that women still have a come-and-go lifetime relationship with work, especially if they heed Costello's call to populate Australia. The halving of the over-50 contribution level now guarantees that women will not be able to make up for earlier times when they were out of the workforce raising a family. Those women with the very understanding, fully employed life partner will enjoy a marital safety net, but no longer is this super guaranteed to last a lifetime. Soon there will be no cap on the amount that can be withdrawn tax-free from super. Currently,

31 per cent of those who receive a lump-sum super payment use this to pay off or improve their existing home, or purchase a new home. And if the age 60-plus married couple apply the balance of their super as a pension, there is no reason for men to leave it in a pension fund past their use-by date, which is five years earlier than women, because there is no longer a cap on the maximum withdrawal. The abandonment of these maximum limits now exposes longer-living women to the spending patterns of their older and shorter-living husbands.

SO WHO HAS THE SUPER BUDGET OF 2006 BEEN AIMED AT? MALE BABY BOOMERS?

The continuing principal failure of Australia's current tax incentive-based savings system is the lack of a medium-term savings plan. As a baby boomer, I will reap the benefits. So will Peter Costello. We will enjoy a bonus tax-free income or lump sum in retirement. However, my wife and daughter will not be so super secure. Women will need to rely on men, even with increasing divorce rates in Australia. The real failure in the super budget of 2006 is its failure to encourage medium-term savings.

This would have provided a real boost to the practical lifetime needs of women. I do not wish to discourage Costello, since my super future is secured by his generosity, but what is really needed are taxation incentives to encourage savings not just for retirement but for the changing life patterns that we all experience, especially between ages 30 and 50.

In the absence of a true tax-incentive-based medium savings plan, there is little doubt that the long-term retirement incentives of superannuation will be supplemented with Australia's second greatest tax deduction love: investment gearing.

Gearing strategies will remain a more effective option for the young. There is no doubt that retirement is an issue, but the reason that older people are so concerned with super is because most of them have already struggled through mortgages, children, education and career changes as well as divorce or death. Retirement is now their focus and so too is superannuation.

The young have all these challenges ahead of them and super addresses only one of them. It does nothing to address the shorter term demands. Until something else fills the void, gearing strategies provide the only medium-term tax-effective savings plan worthy of any confidence.

So what has the 2006 budget achieved on the superannuation landscape? A great deal for male baby boomers who have an eye on retirement, and a need for women to take better care of us. After all, we hold the superannuation purse strings.

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