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ActivePaper

Meddling, speculation

OUTLOOK SERIES

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Neale Prior
Personal finance editor

Behavioural finance might sound like one of those high-level academic endeavours like particle physics, chaos theory and midnight swims in the Reid Library moat.

Yet Curtin Business School economics and finance professor Robert Durand does not even need to be prompted to bring it down to challenges confronting ordinary Australians as they watch the Federal Government mess with superannuation laws.

Slapping a tax on super savings that support income streams when annual fund earnings exceed $100,000, a series of cuts and broken promises with caps on tax-deductible contributions and the changing of super-related pension deeming rules.

These changes are small, but came after a lot of big talk.

The Federal Government had to unveil them more a month before the Federal Budget because a series of leaks about potential moves by Treasurer Wayne Swan to plug revenue shortfalls rocked confidence.

Professor Durand said the meddling and speculation appeared to be eroding confidence in the super system, something that could lead to bad outcomes for Australians who should be saving for their retirement.

The specialist in behavioural economics said there was a growing body of academic literature about the importance of trust in investment and how it influenced investor behaviour.

"In economies where there is greater trust, there is greater propensity for investors to make more provision for their retirement," he said. "What we have seen is a series of statements which make people much more cautious, much more reluctant about superannuation."

RSM Bird Cameron super specialist Peter Nicol warned that the Federal Government risked undermining one of the major pillars of our nation's retirement income system. "If that occurs, people are going to become more reliant on government and that is counter-productive," Mr Nicol said.

"People won't trust what happens in the future and they will act counter to the best interest by not putting their money into super and putting it elsewhere."

HPH Solutions financial planner Randall Stout said his firm's statement of advice to clients outlined a series of risks and the biggest risk at the moment was legislative risk.

Mr Stout said confidence in the super system had been eroded by the Federal Government trying to use it for wealth distribution through taxes and rebates to low-income earners.

"Instead of leaving it as a flat rate and accepting a flat 15 per cent contribution tax is there, they are trying to tinker with it and use it as a

tax measure," he said. "It is not a level playing field now.

"If you are on a higher income, you are on a higher tax rate.

"And if you are on a lower tax rate you get rebates.

"If it was a business, you would sack them."

One of the big fears is that the Government's tax on earnings of $100,000 or more on retirement income streams will eventually hit people with far lower balances than $2 million, based on earnings of 5 per cent, touted by Mr Swan when he unveiled the changes.

The Wealth Designers planner Troy MacMillan said the tax could

erodes belief in super

hit self-managed super funds that sold an investment property that booked a capital gain. "What if you have $1 million earning 10 per cent or $700,000 earning 15 per cent," Mr MacMillan said.

Mercer financial planner Michael Heffernan said governments had to make choices, allocating resources where they believed they would have the most effect. From a policy point of view, it made sense to encourage people on lower and middle incomes to save for retirement. "It would be nice to be able to salary sacrifice $100,000, but is it necessary," he said. "I don't think the Federal Government is worried that people on higher incomes will be able to provide for themselves.

"Their focus is on people who are on lower incomes, who are less likely to provide for themselves and more likely to be reliant on the age pension."

Yet Mr Stout said the slashing of concessional super contributions would hit ordinary people who had put their children through school, paid off their mortgage and had planned to then build the retirement nest egg through super. "They have done all the right things," he said.

Smith Coffey principal Stephen Jones said every client was talking about the changes, even those who were not affected "They don't know what the Government is going to do," Mr Jones said.

Clients were also questioning whether they should continue to invest in super.

Mr Jones says the answer is yes.

Despite the tinkering, income going into super below the concessional contribution maximum is still taxed at 15 per cent and earnings are taxed at this rate in the accumulation phase. At the pension drawdown phase, zero tax still applies to fund earnings below $100,000.

This allows the after-tax principal sums and earnings to enjoy the full miracles of compound interest when left for extended periods.

Mr Jones said it was a lot easier to explain when investors did not face the prospect of a tax hit at the end, but it remained a very attractive investment option.

> 35 per cent return – you should be happy with that.
>
> **Smith Coffey chief Stephen Jones**

"Even now, if you are earning $80,000, put money into super and pay 15 per pent tax, you are going to be about 35 per cent better off if you save inside super than outside: 35 per cent return — you should be happy with that."

NWQ Capital Management chief investment officer Sharon Hicks said the Federal Government had a habit of being very selective when implementing recommendations of major policy reviews, such as Ken Henry's review of the tax system and Jeremy Cooper's super probe.

Ms Hicks said the Government chose issues that were either politically palatable or potential vote winners, such as focusing on fees in the My Super reforms. Issues of volatility and the investment path were fundamentally important in achieving good results from super.

"The messages are just lost in terms of a lot of politicking, which just creates confusion and that goes back to behavioural finance issues."

And behavioural finance reveals people's hormones change with perceptions of perceptions of risk. The most notable hormone to rise is cortisol, the primary stress hormone.

Professor Durand said this could be measured in investor behaviour. "People procrastinate on more complex decisions," he said. "When you're talking about super, all these things are going to lead to bad outcomes."