midwinter

Midwinter Financial Services

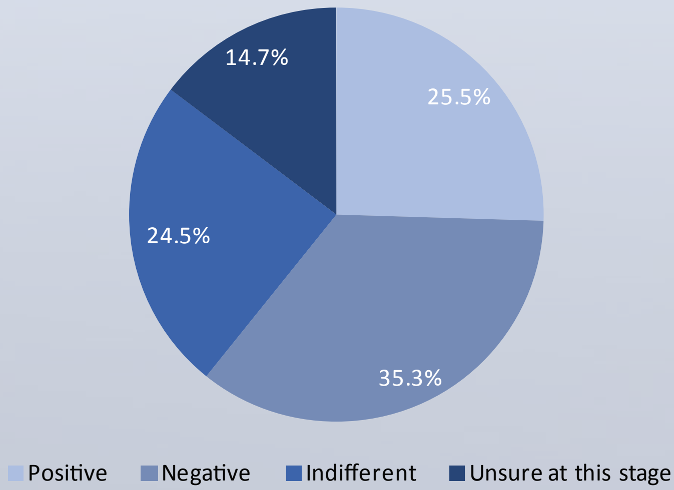
2016 Federal Budget Survey

What does the advice industry think?

Superannuation was very much in the spotlight in this year's Federal Budget. Licensees and advisers have much planning ahead of them in order to make the most of the changes (particularly in superannuation) that came out the Budget.

This guide is intended to give some insight in how licensees and advisers have reacted to the changes in the budget, and how these changes might alter the planning landscape over the next year.

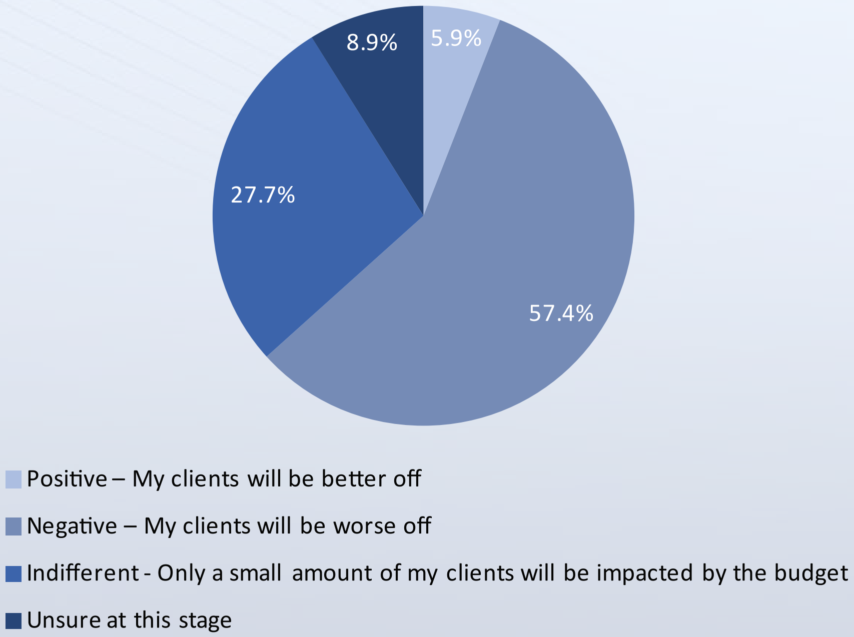
C. The Budget will bring new planning opportunities for some planning businesses and be an administrative nightmare for others. Overall, what is your reaction to Budget 2016 in regards to your BUSINESS?



A fair amount of advisers have expressed feelings of negativity towards the Federal Budget and how it will impact their businesses. This is predominately due to the increased administrative burden as well as training and business rules changes.

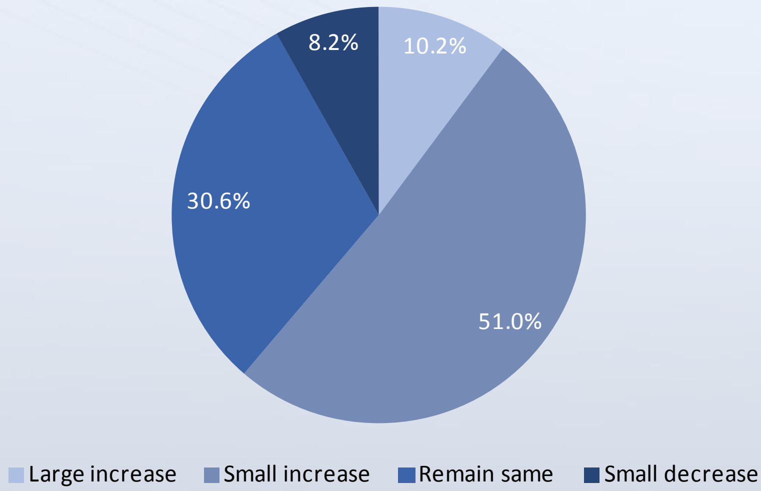
Around a 25% of advisers did see the Budget as a positive opportunity, as additional complexity triggers a need for advice. Planners with a strong strategic and technical background will rise to the top amidst these dramatic changes to super. Below, we explore in further detail why advice partitioners found the budget to be so negative.

D. Overall, what is your reaction to Budget 2016 in regards to your CLIENTS?



The response from advisers was clear when it came to how these changes would affect their clients - with 57.4% of the individuals surveyed believing that 2016's federal budget would have an overall negative impact on them. Only 6.7% of planners surveyed were of the opinion that the budget would impact their clients positively.

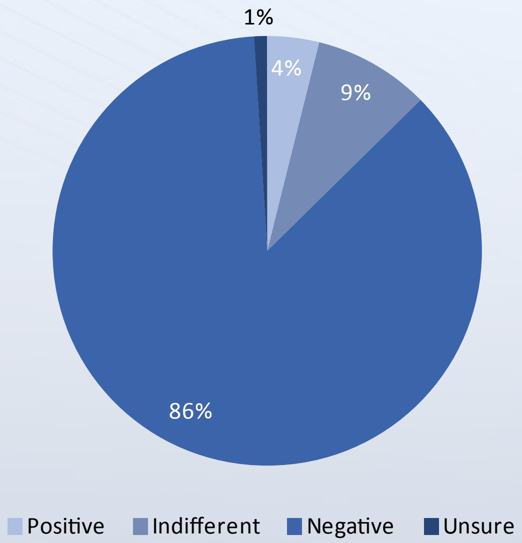
E. Increased complexity in superannuation may result in more demand for advice or turn people off superannuation altogether. How do you think Budget 2016 will impact the overall demand for financial advice?



The majority of advisers (51%) believe that the Budget will result in an increase in the demand for advice.

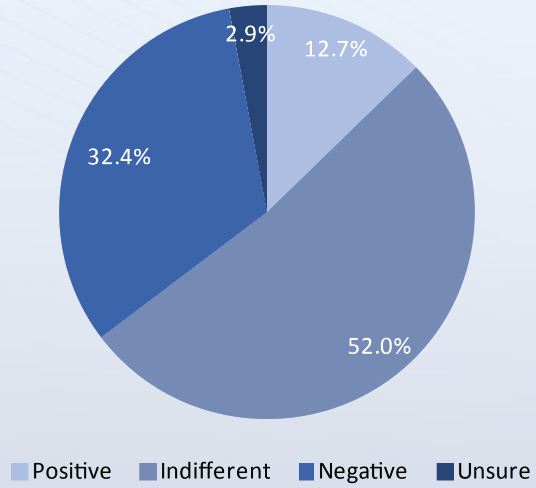
This outcome really highlights the value of advice at times of uncertainty. With much discussion around the onset of robo-advice, any robo-advisers would have a tough time wading through some of these complex changes to legislation. Now is a good time for advisers to be reaching out to their client base to let them know they are on top of the changes and how it impacts them.

F. From a planning perspective, how do you feel about the lowering of the concessional contributions cap to $25,000?



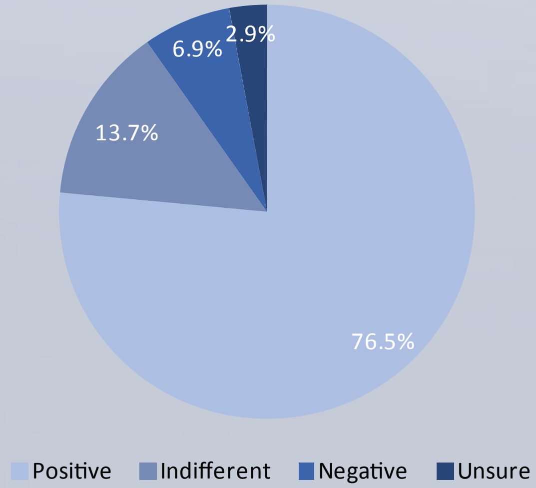
An overwhelming 86.4% of advisers came out against the lowering of concessional contributions to $25,000. The feedback from advisers is that this is very disappointing, particularly when clients are hit with both the reduction in concessional caps and the reduction in the 15% threshold to $250,000.

G. From a planning perspective, how do you feel about the reduction in the threshold from which an extra 15% tax applies on contribution to super, from $300,000 to $250,000?



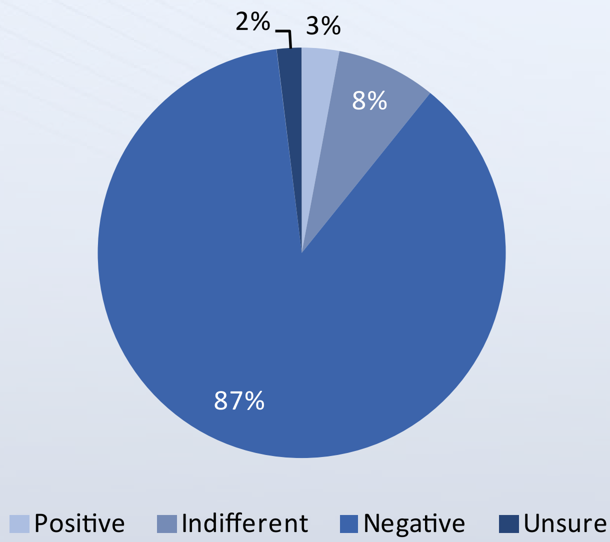
Surprisingly, planners remained largely indifferent to the changes in the reduction in the threshold from which an extra 15% tax applies on contribution to super, from $300,000 to $250,000.

H. From a planning perspective, how do you feel about introduction of the "catch-up concessional contributions" over a 5-year period?



According to advisers, the introduction of the "catch-up concessional contributions" over a 5-year period was the most positive change to come out of this year's Budget. 76.5% of advisers felt that the introduction of the catch-up concessional contributions would have positive impact from a planning perspective.

I. From a planning perspective, how do you feel about the lifetime cap for non-concessional contributions of $500,000?

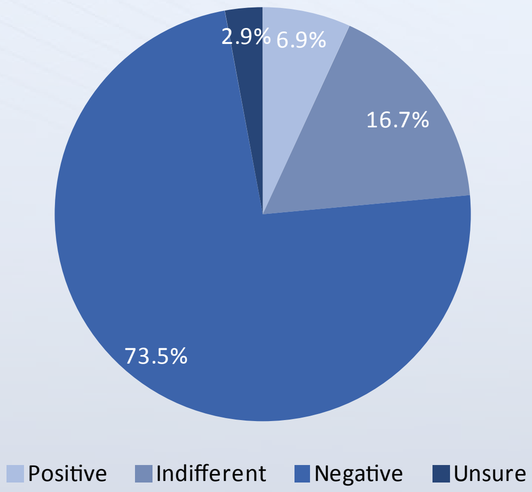


According to the survey, this was one of the most negatively received parts of the budget. Planners felt that the cap was far too low and potentially very onerous for some – indeed it was felt to be arguably unnecessary, given the $1.6 million lifetime cap.

Other planners felt the retrospectivity element was particularly unfair and added significant complexity.

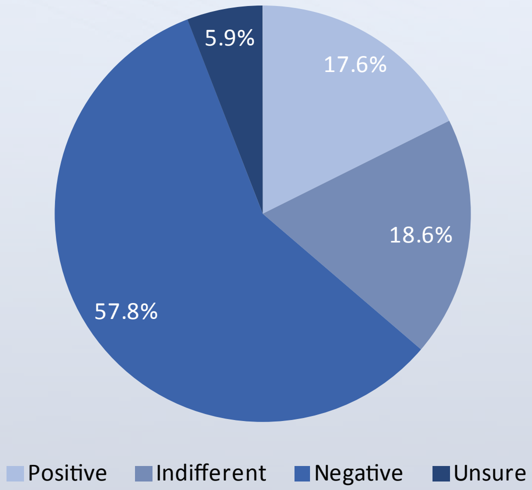
Interestingly, planners disregarded the notion that it was the $1.6m cap would only have a minor impact on the proviso that it only affects a small amount of super fund members.

J. From a planning perspective, how do you feel about removal of tax exemption for fund earnings on TTR pensions?



The rejection of the removal of tax exemption for fund earnings on TTR pensions was evident with 73.5% of survey respondents expressing negativity towards these proposed legislative changes. This result is unsurprising given the amount of investment that advisers have put into the implementation of transition to retirement strategies.

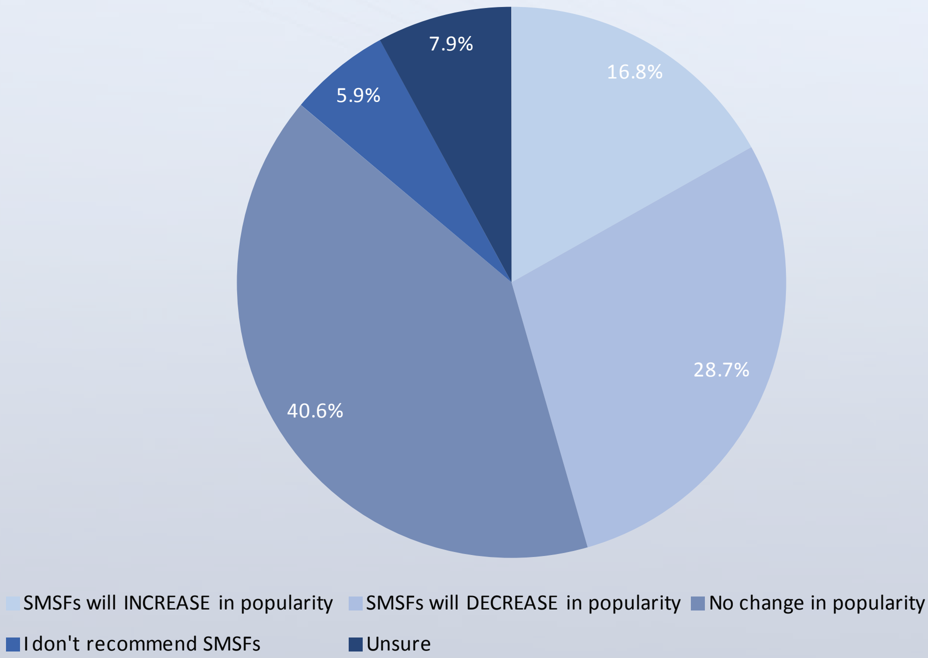
K. The Government is introducing a transfer balance cap of $1.6m on super balances moving into tax-free retirement phase. Some pundits say this limits the capacity for Australians to save for retirement, others say it is a reasonable amount and should allow for a comfortable retirement... From a planning perspective how do you feel about the $1.6m transfer balance cap?



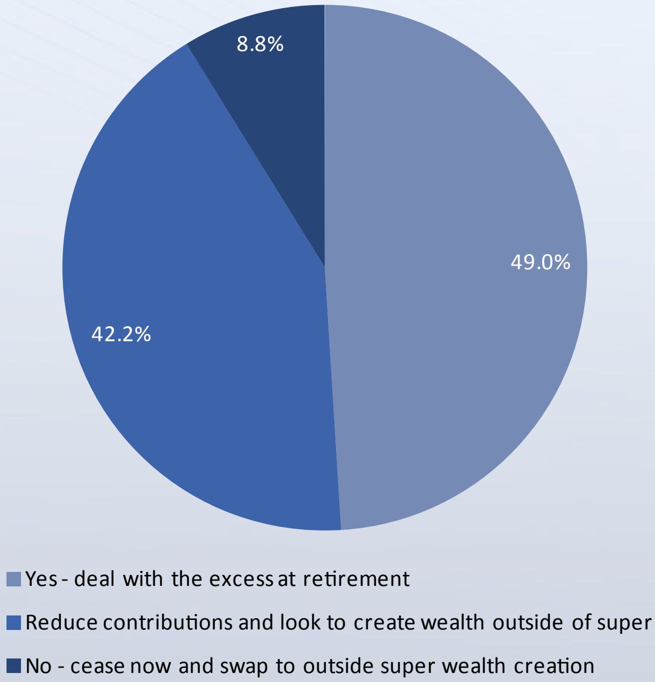
The majority of advisers (57.8%) believed that the introduction of a transfer balance cap of $1.6 million on amounts moving into the tax-free retirement phase would have a negative impact from a planning perspective. This is predominantly due to advisers believing that the thresholds limit the capacity for Australians to save for their own retirement, and the mooted retirement income of $80,000 per annum is largely insufficient.

Advisers also believed that the $1.6 cap would introduce a large amount of complexity into their client's financial circumstances and the refining the concessions for retirement phase could have been designed in a far more efficient manner.

L. SMSFs may face difficult strategic and administrative challenges as a result of the $1.6m cap, but also continue to offer increased flexibility and control. What impact do you think the Budget will have on SMSFs?

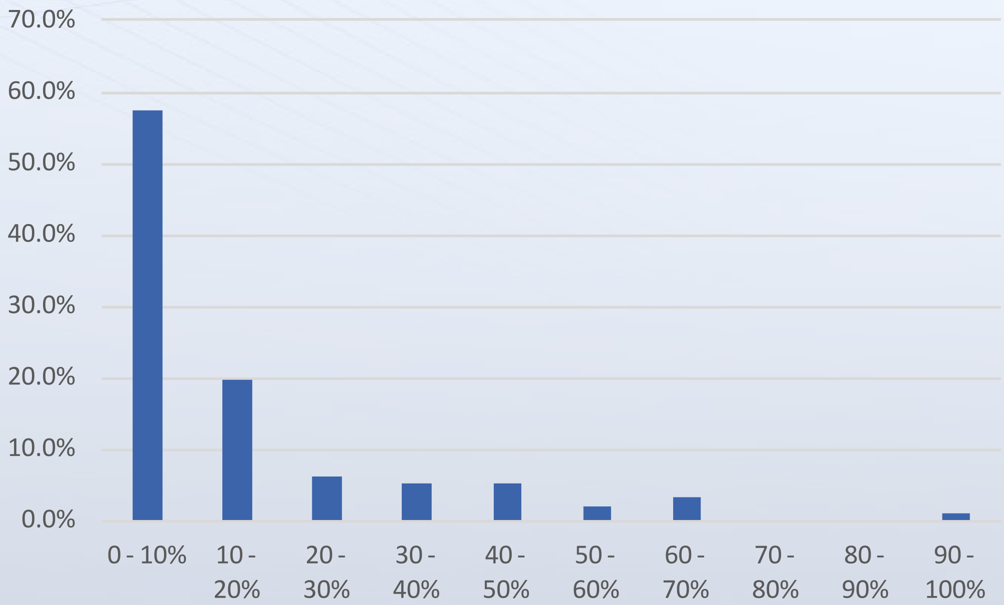


M. If you have projected a client's wealth to be higher the $1.6 cap at retirement - will you still recommend contributions and TTRs?



Advisers were torn between whether or not they would continue to recommend contributions and TTRs to their clients, or reduce and look for ways to maximise client's wealth outside of super.

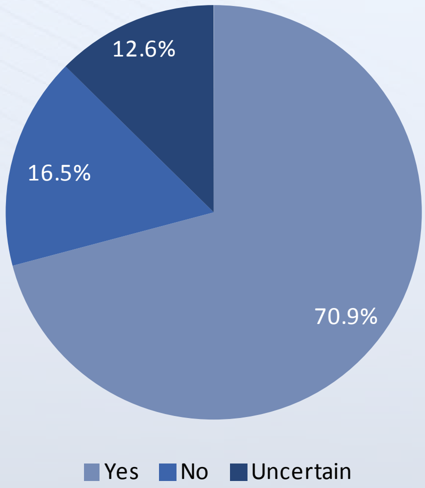
N. What percentage of your client base will the $1.6m cap have an IMMEDIATE impact on?



Immediately after the budget, the Federal Government suggested that only 4% of Australians would be impacted by the $1.6m cap.

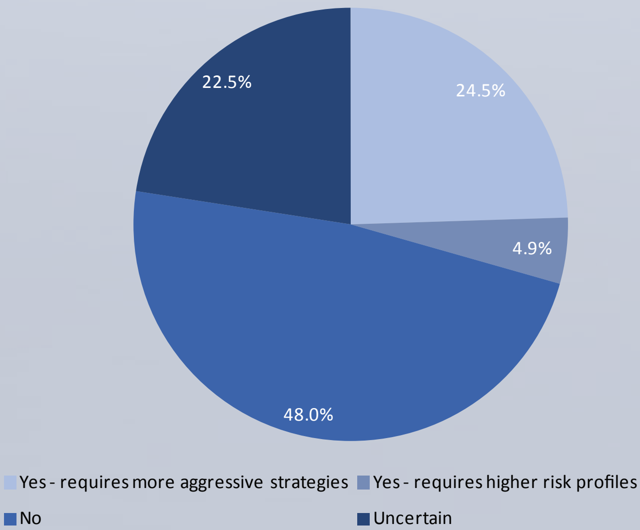
According to 57% of planners, somewhere between 0 – 10% of their clients would be immediately impacted by the cap. A further 20% of advisers responded that between 10 – 20% of clients would be impacted. This suggests planner's clients would be more impacted by the $1.6 m cap than the 4% put forward by the Government.

O. Do you intend to initiate client reviews for those clients immediately impacted by the $1.6m cap?



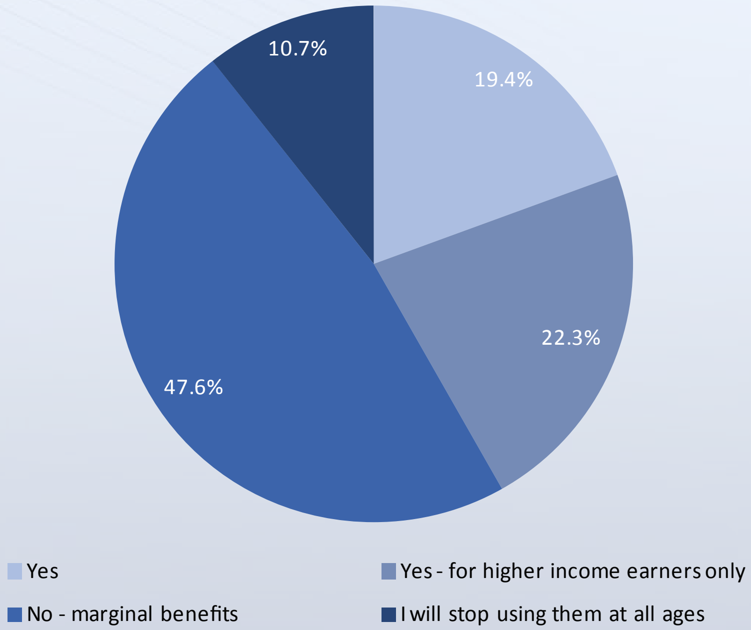
It is action-stations for advisers post the 2016 Budget, with 70.9% of surveyed advisers stating that the $1.6m cap will provoke them to initiate client reviews with those immediately affected.

P. For your clients that come up against these proposed caps - do you think they will become more aggressive in their strategies or risk profiles to meet their retirement goals?



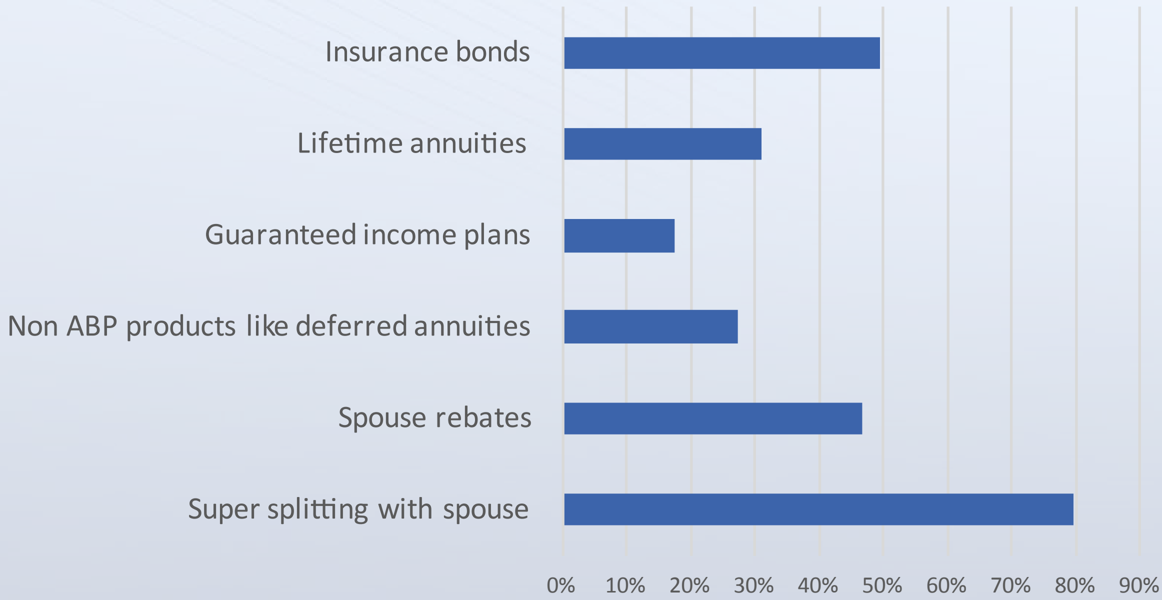
Given the increased level of difficulty in getting client's money into super, advisers are going to have a harder time in ensuring that superannuation will meet their clients' retirement income requirements. Reassuringly, advisers have largely rejected the need to take on more aggressive superannuation strategies or risk profiles for their clients.

Q. Now that TTR pension earnings are being taxed the same as super earnings, will you continue to recommend TTRs for those under age 60?



Budget 2016 marks the slow death of the Transition to Retirement strategy, with 58.3% of advisers seeing little or no value in continuing to recommend a TTR for those aged under 60.

R. The introduced complexity around retirement advice may increase the feasibility of some lesser used strategies - please tick which of the following you believe you may use as a result of these changes?



With the slow death of the Transition to Retirement strategy and the increased complexity of around retirement advice as a result of this year's Budget, advisers are looking towards some lesser used strategies.

Up until now, partners with disparate pension balances had little impact on tax. With the new Budget rules advisers will now look to split super across both parties to get both of their pension balances below $1.6m midwinter

Some words from the advice community

These are the unedited results from the comments section of our survey.
Midwinter is a financial planning software provider, and we are always interested in how advisers and Licensees users approach the budget changes. In doing so, we avoid forming opinions of our own.

- These comments do not necessarily reflect the opinion of Midwinter or our clients,
- We have not edited or filtered these comments.

STRONGLY NEGATIVE COMMENTS

“Retrospective changes (TTR & $1.6m cap) are immoral and a disgrace.”

“The $500,000 lifetime NCC cap is far too onerous - they have gone too far with this one and it will affect a lot of clients and voters. Should have been around $2M to allow for a comfortable retirement income stream from super. it will be a disincentive for those accumulators to use superannuation as a retirement vehicle.”

“The lack of grandfathering for people who engaged in superannuation strategies since 2007, and up until May 3rd 2016 in good faith, is scandalous behaviour by the government and could possibly be illegal. I would hope that some professional body will explore the legality of this total breach of public trust.”

“Extremely disappointing. Short sighted budget. The government wants people to save for retirement but inhibit their ability to contribute into super. If people are willing to contribute into super and not touch the funds until they retire what is the problem. It is truly wrong to increase the GST to fund for budget expenditures?????”

“Most clients would accept some form of taxation on benefits such as income streams, but get fed up with taxes or limitations on the source or entry points. Super should be delinked from the tax system and become a policy for genuine retirement and only reviewed say every 5 years. Its the tax system that needs fixing...not super., otherwise it will always be the political Band-Aid plaything for any government under the guise of "balancing the budget" Let people accumulate, let them decide how they will spend their retirement income and the economy benefits anyway. Strange that Morrison didn't propose anything in regards to the estate distribution of super or at least bringing it into line with other assets transferred to non-dependents."

"Disappointing as the budget is very immediate and simply looks to be doing something to repair past issues and create more revenue for the Government - it is a political statement. It does not provide leadership and reduces the incentive to save for one's future. Why limit those with funds to be mediocre? The $500K cap on top up contributions is insane and totally unfair."
"Lifetime caps and $25000 annual limits - ridiculous strategy especially for women or carers who may have been out of the workforce for long periods - and have only about 10 years to build super"

"It's a typical budget that again attacks superannuation and people's retirement plans and goals. It makes no sense putting in place dis-incentives for people to contribute to super. Those nearing retirement need as much assistance as possible to build their retirement savings, but what do the Government do, decrease the contribution thresholds and limit the amounts that can be contributed to super!!! Dumb, dumb, dumb!!"

"The retrospective change to Non concessional caps is not in the spirit of budgets past. To at least not give those in the process of re-arranging their affairs the opportunity to do so till 1/7/16 is grossly unfair."

"The $500k lifetime NCC cap is not only difficult to administer (smacks of the ill thought super surcharge) but being backdated to 2007 creates more distrust of superannuation that already has a confidence challenge in client's eyes. Advisers in general were very confident in saying when the rules change they generally are not retrospective. We can't say that now. What happened to grandfathering. Removing the 10% rule a real positive. TTR always had a dubious application so tightening that is ok. Reducing contribution caps to $25000 is so short sighted. Younger couples with mortgages and young children will never contribute $25000 each and when they are able to with the mortgage paid and kids educated they won't be able to catch up with a $25k limit."

"I am not able to comprehend that the Government on one hand wishes us all to be financially independent and on the other hand limits the non-concessional contributions to $500,000. What about the client who never had superannuation, is 63 years of age, wishes to retire and therefore is planning to sell up the one investment property he had for 20 years to simplify his financial affairs, having one nest egg to derive an income from. How will he be able to establish an income stream which is providing him with sufficient income for the remainder of his life if $500,000 is the limit. How can we ever determine the amount of non-concessional contributions a new client may has made since 2007 to various superannuation funds which he since then all consolidated and now has only one fund? What about re contribution strategies implemented in the past, how does the Government differentiates these re-contributed amounts from the new lifetime cap. Do they?"

"Woeful budget for having people able to self-fund retirement. More of my clients will qualify for a pension and for those who wouldn't their faith in government "logic" of doing the right thing for people who want to avoid the pension has been rocked severely. They have put super back miles by shaking the foundations."

"The goodwill effort to restore confidence in retirement income planning that was behind Howard & Costello's Simpler Super has now been terminated, particularly through the retrospective measures. Superannuation will once again be a leper. Even though many people won't be materially impacted by these changes, their confidence in the system will compromised, they will see regressive, retrospective changes as a reason to avoid superannuation. Interestingly at the same time, despite there being consensus that housing in Australia is becoming unaffordable and concerns regarding a housing bubble, the government is now giving tacit support to pushing that further (a) because they are going to perpetuate the same negative gearing regime and (b) because many high income earners and disaffected superannuants are going to see property as a safe haven. I'm not sure that's a healthy thing, but any housing bubble that exists is about to get inflated further."

"We have just reduced how much Australians can place into super to eventually go into retirement savings. Australians will need to start earlier to fund for their future given the reduced concessional benefits and lifetime cap on non-concessional benefits. We also will have a 2 tiered retirement system instead of the current 1 tier. We will have $1.6M go to retirement income stream at 0%, and we will have the remainder able to stay in super mode at a maximum tax rate of 15%. For the generation coming up, they will struggle to get to $1.6M (indexed) if all they can place into super are the new proposed limits."

"The long term goals and benefits of a robust superannuation system have been denigrated by successive governments intent on taxing the growing pool of superannuation savings. While the current generation of retirees have arguably received disproportionate benefits, the wealth accumulators are being penalised. Superannuation can no longer be viewed as the only long term vehicle for saving for retirement. Australians intent on taking control of their future will need to employ strategies that incorporate investment outside of super in addition to taking advantage of the tax advantages that super strategies still provide. Those who intend to retire early, or to have a more flexible arrangement in their older years, will need to ensure that their investments outside of super are sufficient to supplement this choice."

"Consumers are the clear loser, particularly around retirement. The system be significantly more complex and that will decrease trust further in the system. For planners, these measures will open up advice opportunities across the whole client spectrum, and a significant need for an ongoing advice relationship!"

"I expect the Budget changes will turn people off superannuation - so initially there will be an increase in advice to deal with the impacts, and then the demise of TTR will reduce opportunities for Advisers going forward. People will still need quality advice on investments outside of super and wealth creation."

"Extremely disappointed in the so called Liberal Governments attack on super. Particularly concerned about the retrospective nature of non-concessional lifetime caps and clients being forced to remove benefits from pensions that have already been accrued. This is class warfare-political envy normally the domain of Labor and Greens. Very contradictory compared to Gov't statements around ongoing ability to Negative Gear being such a wonderful idea for people to create wealth. Political Risk: No Government can ever be trusted on any future financial strategies. As demonstrated people who have acted in good faith and within the laws are now massively penalised. THIS is a DISCRACE"

“My clients are wealthy farming families. This budget impacts negatively for them. They grow a large asset to retirement without access to super (Cashflow negate) and do not get the benefit of long consistent CC to super and now have the ability to protect those assets (both for family succession) and for commercial viability threatened. 99% of farms here are family owned. Ag provides (value added) 12% of GDP. The ability to protect off farm children's; legacy vs the one who gets the farm is now at risk as caps are out on the amount that can be contributed to super.”

“Still tinkering around the edges and does not address the real need for a restructure of the way super is legislated - lower contributions tax going in and a modest tax at any age on withdrawal coming out.”

“The retrospective capping will cause significant issues for people just entering retirement who have relied on there never being retrospective action in super before”

“It is incredible to think we would stop people or provide a dis-incentive to save THEIR money for retirement. This is a backward step and the budget should have looked at ways to cut expenditure.”

“It is the continual changes that CLIENTS find the most frustrating. As an adviser, these changes will keep a demand for my service”

“I have a number of clients with untaxed defined benefits that will now have additional taxable income from excessive contributions and who have no flexibility to adjust salary packages. This has the trappings of an ambush”

“You cannot penalise clients and advisers for complying with the law of the land by introducing retrospective legislation. Most of these questions are not yes or no answers they will depend on the individual clients needs at the time of advice. Government limiting retires income to what they think is reasonable is a dangerous precedent.”

“While I am also upset about the decision to change non-concessional caps to a $500,000 lifetime (although it can make looking at limits easier). I am most upset about the government making it from 2007. Clients have been following the cap rules each year and as a result some have made non-concessional contributions over $500,000 so they are being penalised despite following the rules at the time. If they change the cap rules it should be going forward not backwards."

"I have many TTR clients who earn between $60k - $70k and who have under $200k in super - they are now able to boost their retirement savings after the kids have gone & the debts are paid down.... but this has now been hijacked by reducing the cap to $25k. As usual 'they' only look at the high income earners with large super balances. Adding insult to injury is the introduction of earnings tax within the TTR pension. Successive Governments have spoken about the inability to fund the Age Pension - here is an example of a strategy to assist this being watered down. Also the constant rule changes - the contribution cap in the last few years has been $100k. $50k, $25k, $30k $35k now back to $25k. Hopeless."

"Very complex budget when projecting future tax liabilities on retirement and death. The future costs of the tax grab are significant."

NEGATIVE COMMENTS

"Disappointing on the Non Grandfathering of existing Retirement Income Streams. For these larger clients that need to move funds back into accumulation, there will also be further CGT implications in possibly needing to sell down assets?"

"Fundamentally the superannuation changes will not significantly impact the majority of Australians though high income earners will never be able to build enough assets in superannuation to generate their preferred retirement lifestyle. The unintended consequences, however, are that for all Australians, Superannuation is now being treated as a cash box by the federal government and this signals that retrospective changes will become standard. As advisers we have usually had comfort that any changes to superannuation would be prospective and investors could make decisions based on the rules as they are. Should we trust future governments not to penalise self-funded retirees who have made the sacrifices necessary to build a comfortable retirement. The short answer is emphatically no. Other than compulsory contributions all Australians should consider what, if any, investments they should make in an area where their assets are held hostage to preservation age limits but can be eroded by the stroke of a poorly considered pen. This is under a conservative government! Imagine what a Labor Gov't in the future will do?"

"Brings super somewhat back in line with its real objective, retirement/planning/funding"
"A real pity politicians can't keep their words and refrain from making negative changes to super and re-introducing complexity like RBLs again!"

"I have over 50% of my client base undertaking TTR strategies and they will be worse off under this budget. Some may have the retirement plans significantly affected. New super & non-super strategies will be required to make up the shortfall."

BUDGET INCREASES UNCERTAINTY

"Think it creates a lot of questions around the small business capital gains tax rollover provisions - is that in addition to the new cap or a part of it?"

"The more things change the less effective the system becomes. These changes are a response to the short-sighted changes made by Howard & Costello previously."

"More adviser risk liability especially in relation to non-concessional contributions and the lifetime cap. The ATO will need to make information available as how can we expect clients to know what they have put into super since 2007."

"Really concerned that superannuation legislation has become a lot more restrictive and that superannuation being a vehicle designed to reduce aged pension benefits is now being greatly limited. Concessional contribution caps being reduced offers little encouragement for further salary sacrificing and non-concessional lifetime limit is backwards. It is difficult to gauge how our clients and/or investors will react to the changes but my gut feeling personally is that superannuation is starting to lose its appeal. I would have expected a budget like this to be released by a Labor government not a liberal government who previously throughout history have been more innovative."

"The government wants to increase the number of people on Centrelink. (All ages) They say the opposite but action speaks louder than words. I can't believe what they say because I see what they do. It’s getting harder to escape poverty because the government trips you up. The government wants more people to fail so there are more people who depend on the government.”

“People are becoming more & more skeptical of Superannuation. After years of being told we must provide for our retirement to continually change the playing field compromises the whole integrity of the superannuation system. Non-concessional contributions going from $180k pa to $500k over a lifetime - back dated to 2007... is absolutely atrocious.”

“Generally good measures when viewed from a community perspective with the exception of the NCC lifetime limit. This is draconian, retrospective and with the $1.6M cap it is pointless.   It also destroys some longer term plans for clients that have partially implemented strategies. Typical political/bureaucratic solution of cracking a peanut with a sledgehammer. Hopefully this measure will struggle to pass the senate, no matter who is in power.”

“How are people aged 55+ able to prepare for a very long retirement with a NCC lifetime cap of $500,000 in super when life expectancy is over 90years of age? What happens to inheritances when ordinary properties sell for well over 1.5million in Sydney and higher? $500K into super and the rest spent fueling the investment property market? Seriously? At least they will have rental income because $500K won't provide much pension income. We will have more people on the age pension because they can't save enough in the last 10 years of working life to last 25-30years in retirement and good health. My late uncle lived until 98.5years not unusual for more of the population. Idiots.”

“The $500,000 lifetime non-concessional contribution cap with retrospective application back to 1 July 2007 is very poor public policy. It is unfair to count contributions over the past 9 years and adds to the complexity of super. The total inadequacy of this new $500,000 lifetime limit is illustrated by the fact that it is $40,000 less than the non-concessional limit that someone under 65 could have contributed to super the very day the Budget was handed down under the 3 year bring forward rule. These harsh rules which so severely restrict the amount investors can put into super run counter to the Government's declared objective of encouraging people to become self-funded retirees, thus reducing the number of people receiving the age pension. The

Government needs to reconsider this rule by at the very least removing the unjust retrospectivity provision, and ideally lifting the lifetime limit to a more reasonable $1 million."

"To force responsible people who have contributed to super throughout their entire working life to be self-funded and not rely on the age pension throughout their 40+ retirement years and have now finally put over $1.6M in tax free pension phase, to now have to remove any excess over $1.6M and either spend this or put back into super, borders on criminal as I don't know one of these individuals who ever voted Labor during their lifetime, so why should they or anyone else have to pay the piper back for the horrendous waste of our vast financial resources during the horror years between 2007 and 2013 under brainless fools Rudd and Gillard with kindergarten kids like shorten to assist them. I always thought and sold super to replace the age pension totally, now I'm told my past 40 years has been totally misguided as super is only to top up the age pension as the government has massive reserves and wants to continue paying the age pension forever and is happy if people put a little in super just to top up the minimal age pension only if they want to."

BUT WILL THE BUDGET EVEN PASS?

"This budget still has to pass parliament and I don't see this happening due to the increased difficulties government and private enterprise will face tying to implement them. Caps did not pass parliament after the budget announcements a few years ago.   This is purely to buy lower income earners votes by appearing to be hurting the high income earners but with no real substance. I see every day Australians becoming more apathetic about super and this complexity will just drive them to buy more property and increase the affordability gap."

"The chances of these measures going through in their current form is very slim. The is no sitting of Parliament before the election and it means the LNP being voted in with a reconstituted post-DD election friendly Senate."

"More Tinker with Super. Again Reduce confidence in the system. It is also easy to kick Super as everyone is contributing, especially employees."

"What about the massive super rort of using super lump sum to pay off a mortgage and then receiving a part of full pension, while those dedicated to self-funded retirement are penalised. SGC at the very least should be corralled into income streams without the ability to take it as a lump sum."

"This budget has to survive an election and then make it past the lobby groups and both houses of parliament before it eventually becomes law. Watch this space!"

"The worst policy element is the retrospectivity applying to the $500,000 cap on no concessional contributions – retrospective back to 2007. This is wrong. 2. It is also bad policy to reduce the ability of older clients (50+ years) to contribute more to superannuation as they approach retirement, by reducing the $35,000 deductible limit to $25,000. It contradicts the government's aim to encourage people to build a superannuation lump sum so as to be less reliant on the Age Pension"

AMBIGUOUS COMMENTS

"TTR will still have a place if they need the Cashflow and don't want to stop work. I think $1.6mper person is fine but i am worried about the admin on the lifetime cap. I want to think about how this effects younger Australians as traditionally they only start contributing bigger amounts as they get older. i.e. $25K per year not fully used for 10 years.... does that mean a concessional catch up of $100K over two years is ok?"

"The changes will require a broader range of investment options to be considered for higher income earners."

POSITIVE COMMENTS

"Measures are largely sensible and pragmatic, while some changes are very significant none are unfair and accompanying reduction in contribution restrictions provide opportunities to mitigate impacts for those on the margins of being impacted. The carried forward concessional contribution rule is a very noteworthy positive as is the removal of the '10% test'."

"Generally safe election budget - of no real benefit to most of the working population. Will only give marginal benefits to anyone earning $120k or less!! Good for the Liberal Party's re-election chances!!"

