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Data analysis shows lower income retirees to be hardest hit by ALP franking credit proposal

A 20-year projection of different income levels confirms that lower earning retirees will be hit hardest by the ALPs proposed removal of franking credit refunds.

Data analysis by SuperConcepts confirms that retirees with an account-based pension receiving a minimum pension amount of \$45,000 per annum at age 65, will find themselves 15% worse off in retirement savings after 20 years.

“The data is very confronting and it was one of the key reasons why we made a detailed submission to the House of Representatives Standing Committee on Economics,” said the report author Peter Burgess, SuperConcepts general manager of technical and education services.

“Our data analysis supports a view that the Federal Budget will receive much less than the projected \$55 billion over 10 years from this measure and that the budget savings will not come from high net worth individuals, rather it will come from the lower end of the income spectrum,” Mr Burgess said.

Our analysis illustrates the impact of removing refundable franking credits over 20 years on the superannuation balance of a member who at age 65 had an SMSF balance equivalent to the average SMSF balance for a member of that age (i.e. \$900,000)[1].

The calculations assume a 40 per cent allocation to Australian shares, 3 per cent capital growth and a 4 per cent income return. The calculations also assume the SMSF has a single member who only has a retirement phase interest in the fund and is receiving the minimum annual pension entitlement from an account-based pension.

Our analysis shows that the member’s closing balance after 20 years would be \$825,519 if refundable franking credit were removed compared to \$953,480 if refundable franking credits were not removed.

“This equates to a significant impact on the fund’s earning rate and the total income received per annum,” said Mr Burgess. “In year one the total income received including franking credits is \$36,771 compared to \$30,600 if refundable franking credits were removed. After five years the income differential is \$7,631 per annum and after 10 years the differential is \$9,207 per annum.

“As a consequence, after 10 years the member’s minimum annual pension entitlement would reduce from \$60,756 to \$56,762 and after 20 years from \$88,298 to \$76,991.

“This is due to their retirement phase benefit being replenished at a lower rate as pension payments are made, resulting in a quicker depletion of their superannuation assets. While the member in this example could increase their pension payments above the annual minimum requirement, this would accelerate the depletion of their capital and increase their dependency on the age pension at an earlier age.

“It’s also worth noting, with the introduction of the superannuation reforms on 1 July 2017, superannuants with substantial balances are less likely to be impacted by the removal of refundable franking credits.

“This is because the introduction of the \$1.6 million transfer balance cap on 1 July 2017 effectively limits the amount of franking credits which are refundable under the current regime.

“Superannuants, who before 1 July 2017 had pension balances in excess of \$1.6 million, were required to withdraw any excess pension balance above \$1.6 million or transfer the excess balance to an accumulation interest in the fund.

“As investment earnings derived from assets supporting an accumulation interest are taxable, the existence of an accumulation interest results in the fund having some taxable income to utilise its franking credits rather than those credits being refunded which may have been the case prior to the 2017/18 income year.

“This is an important point because it means SMSF members with a total superannuation balance in excess of the general transfer balance cap (currently \$1.6 million) may not be impacted, or the impact from removing refundable franking credits, will be much less than first anticipated.

“In other words, the projected budget savings of \$55 billion over 10 years is unlikely to be realised and much of the revenue that will be raised will come from the superannuation accounts of members with much smaller superannuation balances,” said Mr Burgess.

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