Interview with John Maroney (CEO of the SMSF Association)

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Reuben Zelwer: Welcome back to The Finance Hour. John Maroney is the CEO of the Self Managed Superfund Association. They're an independent professional body represents the self-managed Superfund sector. And I just put a bit of a disclaimer on that I in fact am a member, a practising member of the SMSF Association. John, do I have you on the line?

John Maroney: Yes. I'm here, Reuben.

Reuben Zelwer: So John, the topic of this week's show is Who Moved My Cheese? We talked about, I talked last week about the franking credits proposal by the Labour government, and had a lot of inquiries, as you'd expect, over the last week or so. So the question I've got to you is, is this a case of who moved my cheese?

John Maroney: I think that's a good description for it, Reuben. I would just clarify one point. It's not the Labour government. They're still in opposition.

Reuben Zelwer: Yes. That's true. You're right.

John Maroney: This may make it more difficult to become the government, because I think it will prove to be a very unpopular measure because there's one and a half million people that we've identified that would be adversely affected by their proposal of removing excess franking credits.

Reuben Zelwer: Yes. I explained last week that franking credits have been around for a long time. Paul Keating introduced them. But for quite a long time, there was no such thing as getting a refund of franking credits until I think Peter Costello introduced that, I think it was the early 2000s. Now obviously, that was a big boon for Superannuation funds. But was it bad policy to actually introduce it in the first place?

John Maroney: I don't believe so. In fact, it was good policy. It's a fair approach that if companies pay tax, and it's a withholding tax, then it's designed to reduce your tax if you're a taxpayer less than 30%, and you pay more tax if you're a higher taxpayer. So we think it was good policy, and it had bipartisan support at that stage. In fact, it was part of the ALP platform they took into the 1998 election, and they supported the legislation when it went through in 2000.

Reuben Zelwer: Right. Okay. And I guess when that occurred, it created a big bias for all superannuation funds to buy Australian shares, buy those shares with franked dividends as a result of the current ability to get those franking credits back. Has that distorted the way people invest a bit?

John Maroney: I think it has encouraged people to buy more Australian shares, and that was the original purpose of the imputation system when Paul Keating brought it in. I spendta few years working as government actuary under when Paul Keating was treasurer, so I remember the situation quite well. He was very much wanting to support investment by investors of superannuation fund members in Australian companies, 'cause that helps the companies grow with availability of capital. It helps them employ more Australians. So I think it's seen as a very positive measure to have that incentive to invest in Australian shares. But you still do need to think about the diversification, think about other issues. So I think it's been a successful move, and one that we would be worried that it could adversely impact on the availability of capital for Australian companies, the valuation of those companies, and several other adverse impacts if this policy is implemented.

Reuben Zelwer: Right. So there's obviously been a lot of talk about who's impacted by this. There's obviously the self-managed Superfunds, particularly those that are paying zero tax. They're significantly impacted. And there's also, I suppose, the bigger political difficulty for the government has been that there are a lot of people who hold some shares outside of super, just in their own name. They may be low income earners or pensioners. And they also are getting caught up in this. They won't get their franking credits refund. Which of those two parties do you think we should be more concerned about, the self-managed funds or the individuals with parcels of shares in their own name.

John Maroney: I think both groups we need to be concerned about, because it has been part of the tax framework now for 18 years, and a lot of people have made their long term investment plans around that system, and I've spoken to a number of them directly in recent weeks where they'll be getting a few thousand, several thousand, several hundred dollars back in refunds, and that helps them if they're retired, and trying to pay their bills, trying to have a little bit more income. And the figures we put forward show that the median income that a member of a self-managed Superfund is drawing is around the $50,000 level a year, and the franking credit gives them about $5,000 of that, so this would be effectively cutting 10% off the income of people that generally are not getting the age pension at all.

Reuben Zelwer: Yeah.

John Maroney: And we think that's a very harsh way of changing the system after 18 years of encouraging them to go down that direction, to rip that away with very little notice, in practise.

Reuben Zelwer: I guess also what compounds that is the fact that interest rates are so low. So people's alternative to frank dividends are not that great. It's term deposits, which a lot of self-managed Superfunds have. We've done an episode on term deposits before. Australians have got a huge amount in term deposits, but the returns from those are really very low, about somewhere between two and a half and three percent. So the alternatives are limited.

John Maroney: Yeah. We fully agree with that. And that just exacerbates the adverse changes that the current government made last year to the deeming rates on the asset test. So the asset test now assumes you can earn 7.8% effectively. As you say, people wanting secure investments can only earn two or three percent, so that can lead to people self-funded retirees receiving less in retirement income than full pensioners because the asset test assumes they're earning a lot higher than what they're actually earning.

Reuben Zelwer: Yeah. So it seems also that over the last few days, there may have been a little bit of back peddling, although not officially, that they may allow certain caps, say up to $1,000 or $2,000 for individuals that they can get their refunds back. And that may partially alleviate the issue for people who hold shares outside of super.

Would you think, if that comes through, which personally I think is likely, from a politicial point of view because it's not going to disaffect that many people. If that came through, that kind of concession, would that make things better from your perspective?

John Maroney: There would be a number of ways of improving the policy to remove some of the negative impacts on low and middle income earners. What's been talked about so far, we think is only a small move in the right direction. We still think it's bad policy, and that overall they should rethink the whole policy, and we would need to look at the whole range of policies they take forward to the election in relation to personal taxes, any changes to age pension means testing.

Reuben Zelwer: Yeah.

John Maroney: Quite a number of policies. But there would be a number of ways to improve it. We would still be concerned. As I said, the median retiree from a self-managed Superfund is probably getting $5,000 or their $50,000 in income out of franking credits. Anything that's below $5,000 would still be adversely affecting pretty much ordinary moms and dads that have saved long and hard, made sacrifices so they have a good retirement, and don't put as much pressure on the public purse through the age pension, because they have saved up themselves.

Reuben Zelwer: Yeah. And what about the other reports we're hearing that these rules will affect self-managed Superfunds, but will not affect other large funds like industry funds and potentially retail funds? Have you looked into any more detail about that?

John Maroney: We have, and that is a concern of our, because we think it is distorting the competitive marketplace. It would mean, it's optional to lose your franking credits. If you move into a fund that has enough young people paying tax, then you can use the benefit of them paying tax to still get your franking credits. And we don't think that's a good design for competitive marketplace. We know the productivity commission is looking at the competitiveness of the superannuation system, so they may say something about that. But we think it would be detrimental to good forces of choice and competition to effectively tilt the playing field that says if you stay in your self-managed Superfund you lose your franking credits. If you move into a larger fund with some young members with taxable income, you don't lose them.

Reuben Zelwer: So it's actually pretty clear that you won't lose the franking credits if you're in one of those other funds. Is that clear cut, or not necessarily?

John Maroney: That's the way the system works at the moment, because the fund is taxed as a single entity. It's not taxed at an individual level. And their proposal has just been to ban refunds of excess credits. And the way the excess is worked out, it takes into account all the members of the fund, not just the individual.

Reuben Zelwer: Yeah.

John Maroney: And so if an individual in a self-managed Superfund is going to lose $5,000 in credits if they have the exactly the same asset allocation in a fund which has young members paying contribution, generating taxable income, they wouldn't lose it.

Reuben Zelwer: Wow.

John Maroney: Some self-managed funds may invite their children to join the funds.

Reuben Zelwer: Yeah.

John Maroney: The children would bring taxable income.

Reuben Zelwer: Yeah.

John Maroney: But that brings a number of legal complications.

Reuben Zelwer: Sure. And that might mean the kids then risk control of the Superfund.

Reuben Zelwer: I know there are strategies around that.

John Maroney: The funds can allow individual member investment choice.

Reuben Zelwer: Yeah.

John Maroney: And so that shouldn't be an issue in a well functioning family, but-

Reuben Zelwer: You never know.

John Maroney: There certainly would be extra complications if there were difference in views between trustees.

Reuben Zelwer: Yeah.

John Maroney: 'Cause every member of the self-managed Superfund has to be a trustee or trustee director.

Reuben Zelwer: That's right. Well there's a growing amount of case law of those situations where one child has sort of grabbed control of the Superfund one way or another, tand applied the funds to their benefit, as opposed to the other children. But we got Gris.

John Maroney: That's a whole area in itself.

Reuben Zelwer: Yeah. Now John, well the question then is what can we do? I mean, there's obviously the political process, and Labour, the current government is clearly struggling in the polls. And most people are predicting a Labour win at the next election. The question is what can we do, or what, listeners who feel disaffected by it, what can they do to actually try and make an impact here? And also, what are you doing as the SMSF Association, to try and get a more equitable outcome?

John Maroney: So I think the first thing people can do is if they're affected by this, they should inform their local member of parliament that they've heard about this proposal, it's going to adversely affect them if it comes to pass, and say they don't like it, the reasons being that it essentially is an unfair way of changing what is a withholding tax system. And we would encourage people to write their members of parliament and to write to both ALP and the government people on this.

Reuben Zelwer: Yeah.

John Maroney: And I think the traditional letter writing is becoming a lost art. I think politically it's still a very good way to get a message to our elected parliamentarians.

Reuben Zelwer: You mean it's not as good as just writing a Twitter post?

John Maroney: Well, I think it's probably more effective than the Twitter post. But I would also encourage people to express their views on Twitter and other places. So that's one thing people can do. We would also encourage them to join groups that are going to protect their retirement. We are certainly one of those groups. We certainly welcome anyone with a self-managed Superfund, or anyone interested in the self-managed Superfund, and that would include the children of people affected, because this is going to affect the whole family finances, even if it's just the parents that are in the fund. The children are essentially contingent beneficiaries. They're also potentially the ones that are going to have to financially support their parents if they run out of money sooner, because they've lost the ability to use the franking credits to be self-sufficient for longer.

So we think people can join groups. As I said, the SMSF Association, we have a trustee knowledge centre, and we'll be encouraging people to join us, so we can, and we do, so we can better express their views on all issues. This is one issue. We certainly expressed views last year when the government made changes. So we're a non-political organisation, so we will argue for good policy for retirees and for the Australian population overall. We've obviously gotta focus on those that are in self-managed Superfunds, but we look at all that.

Our initial stage is trying to generate awareness, particularly through the media, through media releases, through talking to television radio journalists to get the message out there, because we think there are one and a half million people who will be adversely affected. Most of those probably have children, so you're looking at several million people either affected now or later. It's 200,000 Superfunds ALP says will be affected. We think it's 300,000 now, and the whole 600,000 will be affected once they get to the retirement phase.

So we think this is a big issue for millions of Australians, either now or into the future, and we think it works against those, so we will discuss with our own groups. We'll discuss with other groups. We will go to camera. I'll be down there next week. We will go and talk to Labour party people. We'll talk to government people, and say, "Look, we don't think this is good policy," and we think they need to rethink the policy and come up with a better approach to achieve, we support budget repair, but we think there are better ways of doing it, at least without the detrimental effect on individuals, retirees, the Australian companies, and the economy overall.

Reuben Zelwer: Well it'll be interesting to see how successful you are, because it looks like Bill Shorten has really put a lot on this. I wonder how likely he is to peel it back.

John Maroney: Yeah. That's a very good question, and we think he's more likely to do it if more people say to him and his colleagues they don't like his policy, they think it's bad policy, they think it's hurting people unfairly, a lot of middle and low income earners, and that they've saved up for their retirement to take pressure away from the public purse, and this is just undermining what we've developed in the last 20 years of a retirement system that is helping people have a better retirement with less pressure on the taxpayer to finance that by getting people to save for their own retirement. And this is really undermining those long term incentives for people to look after themselves.

Reuben Zelwer: Excellent. Thanks very much John.