The House Standing Committee on Economics – Inquiry into the implications of removing refundable Franking Credits

We would like to take this opportunity to submit this submission to this Committee to highlight the adverse consequences of the removal of refundable franking credits in our particular situation.

Background

My wife and I are trustees and beneficiaries of a self fund superannuation fund being in pension mode since 17th July 2009. We are self funded and responsible for the administration of our fund to generate sufficient income to:

- To provide a sustainable pension
- To generate sufficient income to meet the minimum pension requirements for an Account Based Pension Fund. Our minimum % factor for our age range is 5% of the value of the fund.

The cost of our combined share portfolio was $804,832, this was achieved after many years of self sacrifice, discipline and going without, and our strong desire to be self sufficient and not be a burden on the public purse, and it's a feat that we are proud we had achieving since the inception of our fund in 2009.

The main factor in our ability to meet the objectives of our fund was that the franking credits received were refundable and these franking credits contributed to the overall liquidity of the fund, in providing a pension and the ability to meet the minimum pension drawdown, as required by legislation.

The valuation of the fund's share portfolio as at 30th June 2018 was $1,512,173 which was achieved through good luck rather than good management and one of the main consequences in the increase in valuation of $707,341, is the minimum drawdown increased by 5% on this amount. The minimum drawdown on the revised valuation of $1,512,173 is $75,609.

Income of the Fund

The total income of the fund as at 30th June 2018:

- Franked and Unfranked Dividends $ 56,463
- Franking Credits $ 19,730
- Total of Dividend and Franking Credits $ 76,183
- At a yield of 5.0%
- Our Investment Strategy was to invest in Equity to obtain a rate of returned that exceeded the prevailing cash rate

Consequences of removing Franking Credits

The removal of franking credits refunds would have a very detrimental effect on the viability of the fund by reducing the income from $76,183 to $56,463 a reduction of $19,730 or 25.9%, and a further consequence of Labor's policy is that there's insufficient funds of $56,463 to meet the minimum drawdown of $75,609 which is a shortfall of $19,156.

We wonder what the reaction of the MUA would be, if the government legislated that their members' wages would be reduced by 25.9%.

Labor's proposed policy is a double edged sword causing stress and anxiety by:

- Decreasing the fund's income
- And forcing the fund to find additional liquidity through the sale of fund's assets to finance the shortfall in the minimum pension requirements so that the fund remains compliant.
- The worksheet listed below on the Minimum Pension for account based Pension Fund shows that the shortfall increases as the % of the minimum income increases, which would cause further stress and anxiety to members of the funds as they get older.

Conclusion

We consider ourselves comfortable rather than well off, and we have prided ourselves in being self sufficient and not having to be a burden on the government and we managed to achieve this through many years of self sacrifice, discipline and austerity.

When we were considering forming our self managed superannuation fund, we considered the prevailing circumstances at that time, and it was evident that the way to maximise the fund's returns was to invest in equity rather than fixed interest because of the relative returns of both asset classes, and our investment strategy was based on these considerations.
This has worked well since 2009 and now the Labor Party wants to change the goal posts that leave self funded retirees having to readjust under new rules that affect a number of situations.

My wife tells me on numerous occasions why did we bother to be self sufficient, with continual rules changes and it's becoming extremely difficult to be compliment, we would had been better off by enjoying ourselves by spending everything and putting up our hand for the pension.
We thank you for the opportunity to submit our presentation to you for your consideration and please find worksheet below that support our case.

Yours faithfully

Franking Credits Consequences

	Member 1	*Member 2*	*Total*	
Share Portfolio	377,831	427,000	804,832	at Cost
	206,515	500,827	707,341	Profit on Valuation
Share Portfolio	584,346	927,827	1,512,173	*At Valuation*

Includes Franking Credits

Income

	Member 1	*Member 2*	*Total*	
Dividends	27,434	29,019	56,453	
Franking Credits	9,201	10,528	19,730	**[A]**
Total Income	**36,636**	**39,547**	**76,183**	
Yield%	**6.3%**	**4.3%**	**5.0%**	

Without Franking Credits

Income

	Member 1	*Member 2*	*Total*	
Dividends	27,434	29,019	56,453	
Franking Credits				
Total Income	**27,434**	**29,019**	**56,453**	
Yield%	**4.7%**	**3.1%**	**3.7%**	
Loss of Income	**9,201**	**10,528**	**19,730**	**[A]**
Loss of Income %	**25.1%**	**26.6%**	**25.9%**	

Minimum Superannuation Drawdown @ 5% for our age group

29,217	**46,391**	**75,609**

Reduction of Income

SMSF Balance		$ 1,512,173
Yield include Credits	*5.0%*	*76,183*
Dividend	*74.1%*	*56,453*
Franking Credit	25.9%	*19,730* [A]
	100.0%	**76,183**

Income now without franking credits	**$56,453**	before	**$76,183**	a reduction of	**$19,730** [A]

Minimum Pension for an Account Based Pension Fund @ various % Factors

AGE	MINIMUM INCOME	Required Income	Actual Income	Shortfall	
< 65	4.00%	$60,487	**$56,453**	**-$4,034**	
74	5.00%	$75,609	**$56,453**	**-$19,156**	[A]
79	6.00%	$90,730	**$56,453**	**-$34,277**	
84	7.00%	$105,852	**$56,453**	**-$49,399**	
89	9.00%	$136,096	**$56,453**	**-$79,643**	

94	**11.00%**	$166,339	**$56,453**	**-$109,886**
95	**14.00%**	$211,704	**$56,453**	**-$155,251**

In order to meet the ***minimum required*** as a pension payment, assets of the fund need to be sold to meet this shortfall.
As investment assets are sold, income decreases because the asset base has been reduced so the spiral will continue until the assets are totally exhausted, and the participants need to receive pensions. This could have adverse future ramifications if the need for pensions has increased.