Cuffelinks
Connecting investors with ideas

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Budget time and Labor v Liberal on fiscal discipline

Ashley Owen

Part 1: Which political party has produced more government surpluses and deficits?

Much of the media coverage and debate surrounding the federal budget is coloured by political bias, uninformed rhetoric, misinformation and value judgments about whether deficits are inherently good or bad. Here we stick to the facts. While the impacts of fiscal policy on such things as jobs, pensions, debt burdens and the implications for current and future taxpayers make for heated dinner conversations, investors are primarily interested in the impacts on investment markets.

This 3-part series will put the federal budget into perspective and address questions such as:

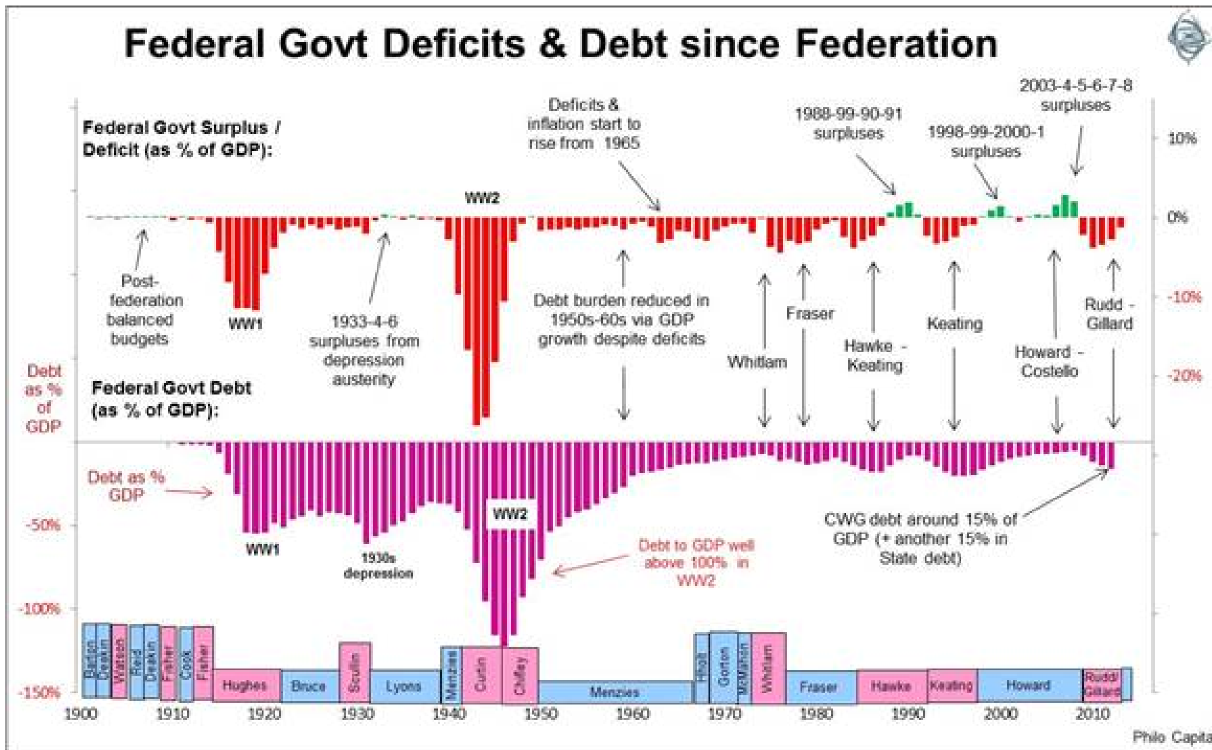
- How often have governments produced budget surpluses? (Part 1)
- How do Labor and Liberal governments compare when it comes to deficits? (Part 1)
- How do Labor and Liberal governments compare when it comes to running up (or paying off) debt? (Part 2)
- How serious are the current levels of deficit and debt? (Part 2)
- Have government deficits been good or bad for stock markets? (Part 3)

Issues such as whether deficits are good or bad for the country as a whole or what the money is actually spent on (i.e. productive assets or recurrent welfare, etc) are questions for another day.

History of federal government surpluses, deficits and debt

The first chart shows the history of federal government fiscal balances and debt levels since Federation, and it also shows the various governments in power. Labor governments are shown in pink and 'right-leaning' governments, mainly Liberal and Liberal Coalitions, in blue.

Chart 1: Federal government deficits and debt since Federation



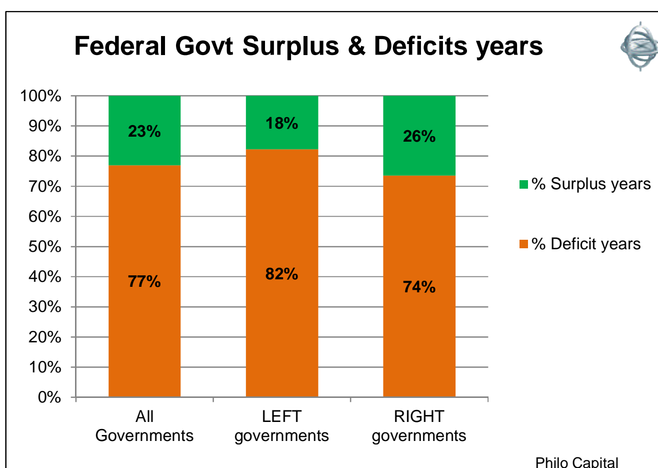
The top section shows the annual government balance (surplus or deficit) expressed as a percentage of GDP, for June years up until June 2013. (Gross Domestic Product, or 'GDP' is a common measure of total national output, production, income and spending). A government surplus or deficit in a given year is the total amount of government revenues collected (mostly through taxation) minus total government outlays.

Most of the media attention each year is centred on the budget speech in May of each year (was August in the early years) for the following fiscal (June) year. The budget speech is a statement of policy and intent, but budget measures announced are often amended or modified during the year. What we are concerned about here is the actual outcome each year. That is not just talk or policy or politics, it is fact.

We can see that federal governments have run surpluses (green bars in the top section of the above chart) in only a very small number of years since Federation.

Chart 2 shows that Labor governments have achieved government surpluses in just 18% of all years they were in power, while right-leaning governments have done marginally better, with surpluses in 26% of years in power.

Chart 2: Surplus/Deficit years



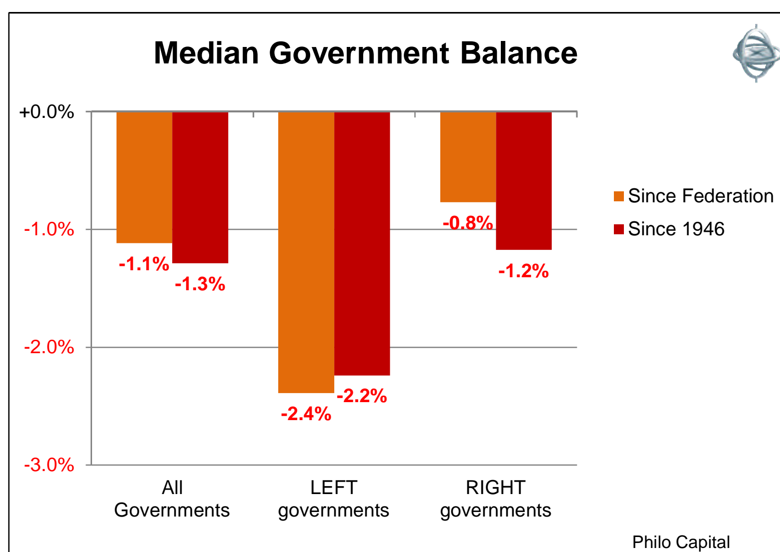
Surplus years are rare

Surplus years have been few and far between. Aside from the early years of balanced budgets (before Canberra existed!), the only surplus budget outcomes have been in the following years:

- 1933, 1934 and 1936 resulting from the depression austerity plan under Joe Lyons (UAP). Deficit spending to stimulate the economy was not an option because foreign credit markets refused to lend to Australian governments following the default and restructure on the entire stock of domestically held government bonds in 1931. The government had no option but to balance the budget by imposing austerity measures including savage cuts to wages and spending
- 1949 (just) under Chifley (Labor)
- 1988, 1989, 1990 and 1991 under Hawke/Keating, in the late 1980s boom prior to the deficit spending in the 1990-1991 recession
- 1998, 1999, 2000 and 2001 under Howard/Costello, in the 'dot-com' boom prior to the impact of the 'tech wreck' slowdown
- 2003 through to 2008 under Howard/Costello (although Labor under Kevin Rudd won the election during the 2008 fiscal year), in the 2000s mining/credit boom prior to the 'global financial crisis'.

Chart 3 shows Labor budget balances have been worse on average than Liberal/right governments (ie deficits under Labor governments have been double the size of deficits under Liberal/right governments).

Chart 3: Median government balance since federation (as percentage of GDP)



Even if we just look at the post-war era the differences are still significant, and reflect the philosophical differences between the major parties on the role of government in society and in the economy.

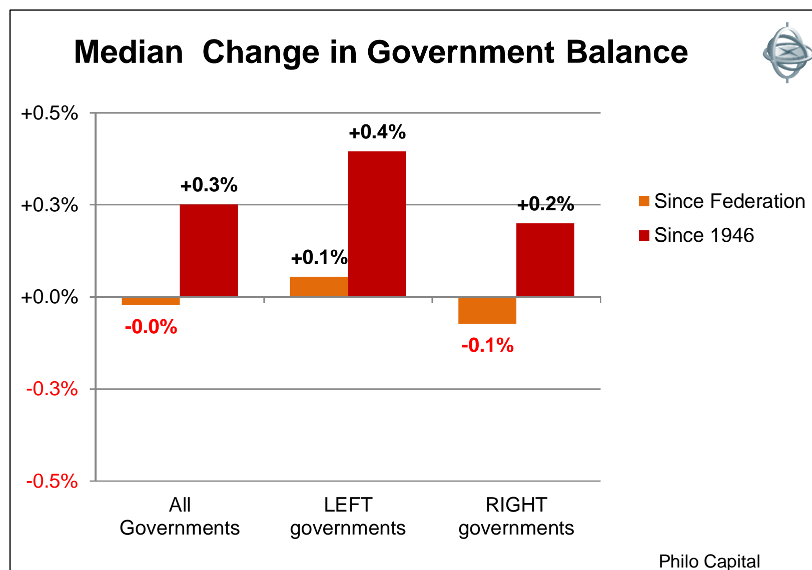
Changes in government fiscal balance

More important than the actual level of government fiscal balance from year to year is the change in the balance. This is the case for a couple of reasons. The first is that every government inherits the budget position from the prior government and so the incumbent government has more control over changes in government spending and revenues than it has over the levels of spending and revenues.

The second reason is the change in balance rather than the level reflects the incumbent government's fiscal stance and its effects on the economy. For example if a government goes from a deficit of $50 billion in one year (as it will in 2013-14) to a deficit of 'only' $30 billion in the next year (as is forecast in 2014-15), the $20 billion in lower spending and/or higher taxes in the second year represents a substantial tightening of fiscal policy even though the deficit in the second year appears expansionary if viewed in isolation.

Chart 4 shows that Labor governments have a slightly better record of reducing deficits over the whole period since Federation and also in the post-war period, although in the majority of cases it was reducing their own deficits, since Labor governments also ran significantly larger deficits than Liberal governments.

Chart 4: Median change in government balance (as percentage of GDP)



Some conclusions

Some conclusions include:

- Apart from the golden era before Canberra existed, and in the 1930s depression when Australian governments were excluded from foreign debt markets (and therefore unable to run deficits) following the default, government surpluses have been very rare.
- The surpluses occurred in unsustainable economic booms – the late 1980s credit-driven 'entrepreneurial' boom, the late 1990s 'dot-com' boom, and the 2000s credit and mining boom.
- Australia's unusually high levels of population growth, economic growth, favourable demographics and broadening tax revenue base are conducive to central governments running modest on-going deficits, as long as the deficits are used to invest primarily in productive assets rather than recurrent spending and welfare. To date this has tended to be the case in Australia.
- The string of government deficits during Labor's most recent period in office was not unusual compared to prior Labor or Liberal/right-leaning governments.
- Labor governments have run fewer surpluses and larger deficits (expressed as per cent of GDP) compared to Liberal/right-leaning governments.
- In the post-war era, Labor has produced four surplus years compared to the Liberals' eleven. In the pre-war era, the big debt build-ups in WW1 and WW2 were bi-partisan, but the 1930s surpluses were the result of partisan austerity measures of the Lyons UAP governments (forerunner to Liberal Party).
- The pre-WW1 period was a golden fiscal era of balanced budgets and no Canberra!

In Part 2, we will look at the record of Labor versus Liberal governments in running up (or reducing) government debt levels. Then in Part 3, we will examine the impact of government deficits and surpluses on stock market returns, under Labor and Liberal governments.

Ashley Owen is Joint CEO of Philo Capital Advisers and a director and adviser to the Third Link Growth Fund.

Poetry for investors

Jack Gray

In the heady 1960s, students demanded an injection of culture into the narrow training of economists, engineers and other technocrats. Courses such as *Poetry for Physicists* flourished as part of a utopian vision that humanities would sensitise future leaders, a vision whose minimal expectation was that technocrats will at least have read a novel.

Even by that low standard the movement failed as almost none took it seriously, neither physics students nor their teachers nor administrators. And today in a world where that ugly notion 'relevance' dominates institutions of supposed higher learning, the gap between the two cultures, the technical and the humanities, has widened, such as reported here.

Today, unfortunately, Finance is the prime path to financial success, a path that values culture even less than did engineering 50 years ago. One investment professional proudly declared his studied ignorance of any history because what happened in the past is *"boring, irrelevant and would clutter my mind."* Pity he hadn't listened to the Roman orator and writer Cicero (106-43 BCE) who understood the incipient dangers of historical ignorance, *"To not know what happened before you were born is to be a child forever."*

I hesitate to promote poetry on the grounds of relevance, nonetheless the following poetic statements do offer insights and provocations that can make for wiser investors. Hear how poetically the German thinker Wolfgang Goethe (1749-1832) hints at our (investment) biases, *"We know for certain only when we know little. With knowledge, doubt increases."* The notoriously difficult American/English poet T S Elliot (1888-1965) further captured the epistemological challenges investors face: *"Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?"*

The English sometime poet G K Chesterton (1874-1936) does seem to appreciate investing's central challenge, as evident by the sting in the tail, *"the real trouble with this world of ours is not that it is an unreasonable world, nor even that it is a reasonable one. The commonest type of trouble is that it is nearly reasonable, but not quite. … It looks just a little more mathematical and regular than it is; its exactitude is obvious, but its inexactitude is hidden; its wildness lies in wait."*

With greater specificity the Russian Boris Pasternak (1890-1960) also warned of over-emphasising rigour, processes and (risk) measures, *"what is laid down, ordered, factual, is never enough to embrace the whole truth: life always spills over the rim of every cup."*

In a not dissimilar vein the prolific Greek C P Cafavy's (1863-1933) poem *Things Ended* reminds us of the limits and dangers of stress-testing,

"Engulfed by fear and suspicion,
mind agitated, eyes alarmed
we try desperately to invent ways out,
plan how to avoid the obvious danger
that threatens us so terribly.
Yet we're mistaken, that's not the danger ahead:
the news was wrong
(or we didn't hear it, or didn't get it right).
Another disaster, one we never imagined,
suddenly, violently descends upon us,
and finding us unprepared - there's no time now -
sweeps us away."

Herding, that most human of responses, offers a false sense of protection from those "dangers ahead". To be like others is the default strategy of (almost) all managers, consultants and super funds, and one that ineluctably results in following fashion. The wonderfully cynical Irish poet Oscar Wilde (1854-1900), captured the inherent short-termism in that behaviour through his aphorism, *"fashion is a form of ugliness so intolerable we have to alter it every six months."*

To avoid excessive herding requires sometimes choosing the road less travelled, as did the American poet Robert Frost (1874-1963) in his beautifully lyrical (almost) eponymous poem,

Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth;

Then took the other, as just as fair,
And having perhaps the better claim
Because it was grassy and wanted wear,
Though as for that the passing there
Had worn them really about the same,

And both that morning equally lay
In leaves no step had trodden black.
Oh, I kept the first for another day!
Yet knowing how way leads on to way
I doubted if I should ever come back.

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I,
I took the one less traveled by,
And that has made all the difference.

And when that path less travelled does lead to success (as surely it sometimes must) and when we then suffer from hubris (as surely we will) we should be reminded of the fate of Ozymandias (as surely we won't) so powerfully captured by the absurdly young English poet Percy Bysshe Shelley (1792-1822),

"I met a traveller from an antique land
who said: `Two vast and trunkless legs of stone
Stand in the desert. Near them, on the sand,
Half sunk, a shattered visage lies, whose frown,
And wrinkled lip, and sneer of cold command,
Tell that its sculptor well those passions read
Which yet survive, stamped on these lifeless things,
The hand that mocked them and the heart that fed.
And on the pedestal these words appear --
"My name is Ozymandias, king of kings:
Look on my works, ye Mighty, and despair!"
Nothing beside remains. Round the decay
Of that colossal wreck, boundless and bare
The lone and level sands stretch far away."

Perhaps in some small way poetry can help us transcend the accusation, *"what do they of investing know who only of investing know?"*

Dr Jack Gray is a Director at the Paul Woolley Centre for Capital Market Dysfunctionality, Faculty of Business, University of Technology, Sydney, and was recently voted one of the Top 10 most influential academics in the world for institutional investing.

You have an aversion to what? Is it risk or ambiguity?

David Bell

'Risk aversion' and 'ambiguity aversion' sound like similar, albeit complex, terms. But they are distinctly different and can potentially, in combination, explain lots of the investment behaviours we observe in practice. They are also useful concepts for industry to become more engaged with.

By defining the two terms it becomes easy to understand the difference. Both forms of aversion exist in everyday life decisions but in this article we focus more on aversion associated with financial decisions.

Risk aversion is a measure of a person's reluctance to take a financial risk when the characteristics of the payoff profile are known exactly. A common way to estimate a person's risk aversion is to offer them a scenario when the odds are known. For instance: you are offered the opportunity to randomly pick out a ball from an urn which you know contains 50 red balls and 50 blue balls. If you select a red ball you get paid $2 and you lose whatever you paid to play if you select a blue ball. How much would you pay to play? Most people would say some amount less than $1 (the rate at which one would expect to break even) because they express some degree of risk aversion. The lower the amount they would pay to play the higher their level of risk aversion. If they offered to pay more than $1 they would be risk seekers. It is a regulatory requirement that financial planners assess the risk tolerance of their clients. Here 'risk tolerance' has a similar meaning to the level of 'risk aversion' but also takes into account the client's financial capacity to take risk. In practice financial planners typically estimate risk tolerance through questionnaires rather than measure it through pay-off type experiments.

Ambiguity aversion is less known and not well understood. It refers to the preparedness to take a risk where the characteristics of the scenario are unknown. To illustrate we once again take our urn which contains 100 balls. The payoff amounts remain the same ($2 if a red ball is drawn and the loss of whatever you paid to play if a blue ball is drawn). The difference is that we do not know how many red balls and how many blue balls are in the urn. For me this sounds a strange risk to take but each of us would have a price at which we would be prepared to take a draw. For anyone interested in exploring further this is known as Knightian Uncertainty and is based on what is known as the Ellsberg Paradox.

Risk and ambiguity aversion have a degree of similarity (indeed the research has shown that the two measures have a moderate positive correlation) but it is important to understand the difference. Most of us are risk averse. The alternative is risk seekers who place more value on a positive payoff than they do on the risk of loss. From here we can all be further distinguished by our degree of ambiguity aversion. Some of us will be more prepared than others to take a risk that we don't fully understand, but I expect that for most of us our ambiguity aversion would be higher than our risk aversion. If I self-assess my own position I would expect that I have moderate risk aversion but high ambiguity aversion: I'm quite prepared to take risk provided I understand the characteristics of the risk I am taking.

It needs to be noted that the concept of ambiguity aversion is currently assessed via simple odds-based experiments like the one outlined above. However this may unfairly generalise the concept of ambiguity itself: people may have different personal benchmarks for what represents an understanding of risk. Some may want to know all the details of an investment while others may feel knowledgeable once they have attained a broad understanding.

There are interesting ramifications for portfolio preferences when we characterise individuals as having unique characteristics regarding risk aversion and ambiguity aversion. For instance:

- A more risk averse individual may select a lower risk portfolio than a less risk averse individual because they have a greater degree of ambiguity aversion and are unfamiliar with the characteristics of the underlying investments
- Two individuals with the same levels of risk aversion and ambiguity aversion may prefer different portfolios because they have different levels of knowledge about the characteristics of the underlying investments (asset classes and investment strategies).

The relevance of these points is higher when we account for the poor levels of basic financial literacy in Australia (see Cuffelinks article November 29, 2013).

For industry practitioners, ambiguity aversion may explain why some new investment products take a while to gain acceptance even though they are a low risk product.

For an outsider the world of finance must appear very complex, making them ambivalent towards the many investment options available to them. And if anything complexity is on the rise. For instance, MySuper has created a broader range of default funds (balanced and lifecycle funds) which are difficult to compare, whilst the post-retirement space into which many are entering is arguably more complex than the accumulation environment.

And with this the responsibilities of super funds and financial planners to educate their members and clients can actually contribute to better retirement outcomes. Improved education, or even increased confidence in those managing their money and making investment recommendations, decreases ambiguity and gets investors taking a level of risk more in line with their risk aversion. Over time we expect this risk to be rewarded and so members and clients would be expected to experience better retirement outcomes.

I find this a fascinating topic. Even without knowledge of the ambiguity aversion of financial advice clients and super fund members it is easy to identify that improved education will make a client or fund member more comfortable to adopt a level of investment risk which is consistent with their level of risk aversion.

David Bell's independent advisory business is St Davids Rd Advisory. In July 2014, David will cease consulting and become the Chief Investment Officer at AUSCOAL Super. He is also working towards a PhD at University of NSW.

Investors need to allow for future cycles

Don Stammer

By my reckoning, the Australian economy has been through six cycles in the last 70 years, with low points in 1952, 1961, 1974, 1981, 1990 and 2009. Each slump had unique features, but all had two things in common: at the time, many people feared recession would last forever; and none did. I've also been through about six booms in the Australian economy. They also shared two things in common: many people thought boom times would last forever; and none did.

Cycles also occur in investment markets, largely caused by investors anticipating turning points in the economic cycle. At times, such expectations are well-based. Often, however, investor sentiment jumps at shadows or over-reacts:

- the share market is said to have predicted five of the last two recessions
- bonds sold off in 1994 when investors needlessly feared the return of rapid inflation and
- the Australian dollar made big moves from mid-2008 to 2011 that were not subsequently supported by the economic fundamentals.

Decisions would be far simpler if cycles were to disappear and instead, employment, business revenues, wages and investment returns moved gently on upward-sloping trend lines. It's an extremely unlikely outcome and, were it to occur, long-term returns on shares and property, which are boosted by the premium for risk, would be lessened.

Why do we have to tolerate cycles?

Cycles occur because, being human, we are very much affected by the moods of others. When people around us are optimistic it's easy to share their bullish expectations – spending more, borrowing more,

and taking on riskier investments. When people around us are pessimistic, we tend to reduce spending, borrowing and investing.

Cycles can also reflect fiscal and monetary policies being adjusted too much and too late in the economic cycle with their impacts felt just when, or after, economic conditions change tack of their own accord. Credit flows can also generate or widen cycles through financing speculative excesses at the top of the cycle and crimping the funding of well-run businesses in recessions. In a small economy like Australia's, cycles in the economy and investment markets are much affected by what's happening, or expected to happen in US investment markets and the Chinese economy.

Have cycles been tamed?

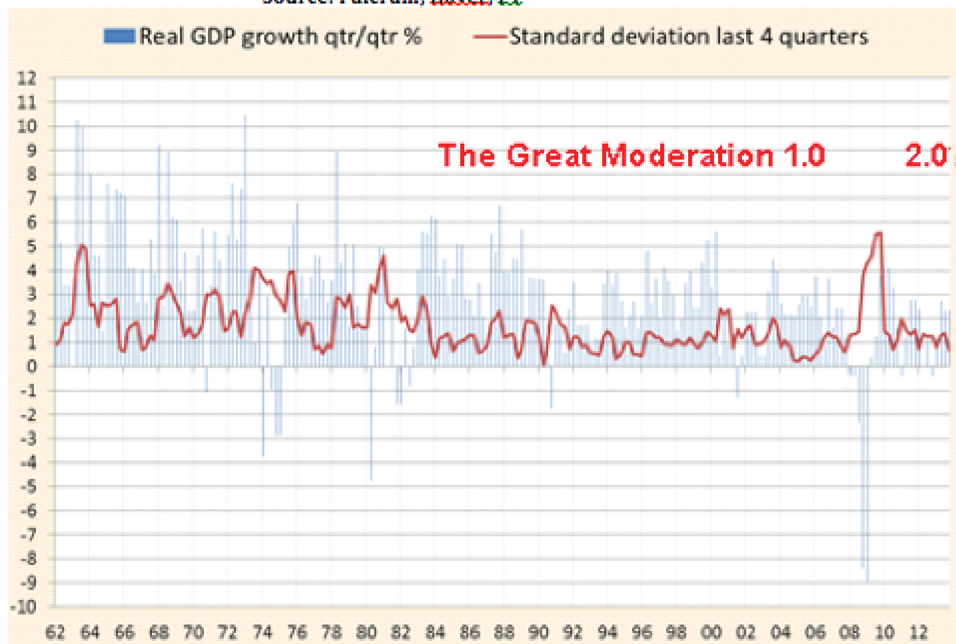
There have been many attempts to tame the economic cycle and, periodically, we hear claims that the cycle is obsolete. In the late 1940s, economic planning was meant to moderate the cycle. Then came a couple of decades of confidence in 'fine tuning' economic activity through fiscal and monetary policies to eliminate cyclical swings. Later, monetary targeting took over. Following that, hopes were held that independent central banks, with charters requiring them to deliver low inflation, would smooth the traditional cycle.

From the early 1980s to early 2008, year-by-year variations in US growth and inflation declined sharply and claims were made of the 'Great Moderation'. In 2004, Ben Bernanke - then a senior central banker in the US and subsequently its head – gave the Great Moderation his strong endorsement. Alas, soon afterwards, the US economic cycle and cycles in investment markets were the widest and most damaging of those experienced in 70 years.

In recent weeks, some commentators on the US economy have spoken of 'The Great Moderation, Version 2'. They say that, after the big swings in 2008 and 2009, the US economy will return to low-volatility growth and modest inflation which will be positive for risk assets in the medium term.

In my view, wide cycles will continue in the economy and investment markets. Certainly, past claims of pronounced declines in cyclicality turned out to be unjustified. And, as and when the money bases of the major economies start circulating, monetary and fiscal authorities are again likely to face big challenges in managing future cyclical swings in the economy and investment markets. Claims of the 'new normal' of secular deflation are also being withdrawn.

REAL GROWTH IN GDP IN G7 ECONOMIES
Source: Fulcrum, Haver, FT



Some segments of investment markets and aspects of economic conditions are now moving back to where they were before the GFC hit hard in 2008. They are now 'normal' or 'normalising' again. As a result, the concept of the 'new normal', which came into vogue during the crisis, particularly in the US, is falling out of fashion.

A good example of the recent return to normal is the prospective price-earnings multiples of the US and Australian share markets. As a result, investors must allow that shares are no longer cheap. Meanwhile, the US unemployment rate is an example of something that's normalising. However, cash rates here and abroad remain well below their normal levels.

That 'New Normal' is more likely a cyclical consequence

Of course, the long-term trends that we often use to define what is 'normal' are not set in concrete. They can change, but this doesn't happen as often as is thought. 'New paradigms' are rare, but in investment markets and the economy we've seen the float of the Australian dollar, the introduction of franking credits on dividends, the sustained drop in Australian inflation from the early 1990s, and the economic reforms Deng Xiao-ping initiated in China.

From September 2009, senior managers in the world's largest bond fund, PIMCO, gave shrill support to the concept of the new normal:

"… it's time to recognize that things have changed and that they will continue to change for the next – yes the next 10 years and maybe even the next 20 years. We are heading into what we call the New Normal, which is a period of time in which economies grow very slowly as opposed to growing like weeds, the way children do; in which profits are relatively static; in which the government plays a significant role in terms of deficits and regulation and control of the economy; in which the consumer stops shopping until he drops and … starts saving to the grave."

PIMCO, under new management, has dropped this expectation of a new normal dominated by secular stagflation. They say the US has *"already left the most intense period of deleveraging that really created all sorts of pressures and adjustments that needed to happen in the economy"*.

Certainly, a financial crisis as severe as the North Atlantic economies suffered from 2008 causes many people and businesses to change the ways they spend, borrow and invest. But these are generally better thought of as cyclical consequences that will normalise over time, rather than as a new normal that lasts for decades.

Don Stammer is an adviser to the Third Link Growth Fund, Altius Asset Management, Philo Capital and Centric Wealth. The views expressed are his alone. An earlier version of this article appeared in The Australian.

Changes to how SMSF contributions are received

Monica Rule

SMSF trustees must prepare for new ways to receive superannuation contributions for their members as they can no longer accept cheques from 1 July 2014. A new superannuation law requires certain employers to make superannuation contributions for their employees into SMSFs electronically.

Employers affected by this change are those who have 20 or more employees. The law does not apply to SMSFs that have related parties as employers. A related party includes the members of the SMSF as well as relatives of members, business partners and any associated companies and trusts. Employers with less than 20 employees will need to comply with the new law from 1 July 2015.

The purpose of this law is to increase the efficiency of the Australian superannuation system. It is aimed at improving the quality of superannuation records, allowing the use of tax file numbers to identify

members, improving rollover transactions between superannuation funds and standardising the process for making contributions.

Affected employers will be required to make superannuation contributions for their employees by submitting payments using the new Data and Payment Standards and having the payments recorded electronically using a prescribed format. Employer contributions made by cheques or other paper formats are no longer acceptable.

In my opinion, our superannuation system will benefit from this new law as there are currently over 180 different payroll systems used by different superannuation funds. Their processes are complex, time consuming, expensive and prone to error. The new requirement will provide a minimum standardised format for all superannuation funds and will reduce manual processing, improve data quality, reduce errors, lower costs, require less preparation time and provide faster receipt of contributions. It will mean better information about the amounts and timing of payments made for employees and will improve data matching which will reduce both lost superannuation accounts and the chance of members being given multiple accounts and thus having to pay multiple administration fees and insurance premiums.

SMSFs that receive superannuation contributions from unrelated employers will need to contact their employers and provide them with:

- an electronic service address (not an email address) for the delivery of contribution data messages
- the SMSF's Australian Business Number
- the SMSF's bank account details

There's not much time. SMSFs will need to provide the above information to their unrelated employers by 31 May 2014 in order to meet the deadline of 1 July 2014. They will also need to ensure that the SMSF's bank account is able to receive electronic contributions and contribution messages with information about the payments in the new electronic format. To help SMSF trustees obtain an electronic service address, the ATO has published a register of messaging solution providers on its website.

I recently accessed the ATO website to check on the providers. Australia Post is one of the providers that can assist SMSFs with receiving readable messages from employers and other superannuation funds. They are currently providing a special welcome offer of $25 for a 12 month registration. The offer ends on 31 May 2014.

SMSFs that fail to comply with the new electronic standard will not be able to receive superannuation contributions from unrelated employers and rollovers from retail superannuation funds. An administrative penalty of up to $3,400 may be imposed by the ATO for non-compliance. The ATO can also issue a direction to an SMSF trustee to address the contravention and take action.

Unrelated employers that don't receive the information from SMSFs before 1 July will be required to remit their employee's superannuation contributions to their company's default superannuation fund instead of the employee's SMSF. This will mean delays for members receiving their superannuation contributions. I encourage trustees to look into the Data and Payment Standards without delay.

Monica Rule worked for the Australian Taxation Office for 28 years and is the author of 'The Self Managed Super Handbook – Superannuation Law for Self Managed Superannuation Funds in plain English'.

Abolition of First Home Saver Account benefits

Graham Hand

The First Home Saver Account (FHSA) was one of the financial market's best-kept secret, and a great product for a future home buyer. When I called the Australian Taxation Office (ATO) last week to check some details, the staff member did not even know where to find someone to help with the questions. Eventually, a special number was provided to talk to the FHSA expert, and he admitted he took only one or two enquiries a week.

It's all irrelevant now, because the benefits of this excellent account for almost anyone saving for a first home were abolished in this week's budget, apparently due to lack of use.

Why bother writing about it now?

The FHSA will not actually be abolished until 1 July 2015, but it is no longer worth opening one because the benefits were removed on budget night. There has even been a substantial change in the terms for any of the 46,000 accounts already opened, so it's important for anyone with this account to reconsider whether it's worth having.

The details of the changes are on the ATO's website here.

Briefly, the FHSA scheme was announced in 2008, and the Rudd Government saw it as a major initiative to assist people to buy their first house. They expected to pay $6.5 billion in government assistance to 750,000 Australians. The latest APRA statistics for December 2013 show 46,000 accounts in total, with only 800 opened in the previous six months, for a balance of $520 million.

The great features included that the government would make a 17% contribution on the first $6,000 deposited each year, giving a tax-free gift of up to $1,020 a year. Interest on the account was taxed at only 15%, and balances could build up to $90,000. The 17% was in addition to the interest rate paid by the product provider. The full annual government contribution was paid even if the account was opened on 30 June.

The drawbacks included that the money could only be used to pay the mortgage on a first home after the end of a 'four year' period (which actually was really a 'two year' period, but that's another story). If not used for a loan, it could be added to a super account.

What is happening?

Any new accounts opened from 7:30 pm on 13 May 2014 will not be able to access any concessions or the government contribution. The government contribution will cease from 1 July 2014 for existing accounts. Tax and social security concessions will cease from 1 July 2015, although existing accounts will receive these concessions for the 2013-14 and 2014-15 years.

Restrictions on withdrawals will be removed from 1 July 2015 when the FHSA will be abolished and these accounts will be treated like any other account.

In summary, the thousands of account holders putting $6,000 a year into this account and receiving $1,020 from the government towards their first home have lost a great savings vehicle.

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