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This Week's Top Articles

The value of tax-aware investment management

Harry Chemay

To mark the launch of the S&P/ASX Franking Credit Adjusted Indices, S&P Dow Jones Indices recently held a series of panel discussions on tax-aware investment management (TAIM). Panellists included the ASX, asset consultants Mercer and Towers Watson, fund managers Parametric Australia, Plato Investment Management and Warakirri Asset Management and wealth manager and advisor, HLB Mann Judd. I moderated each session.

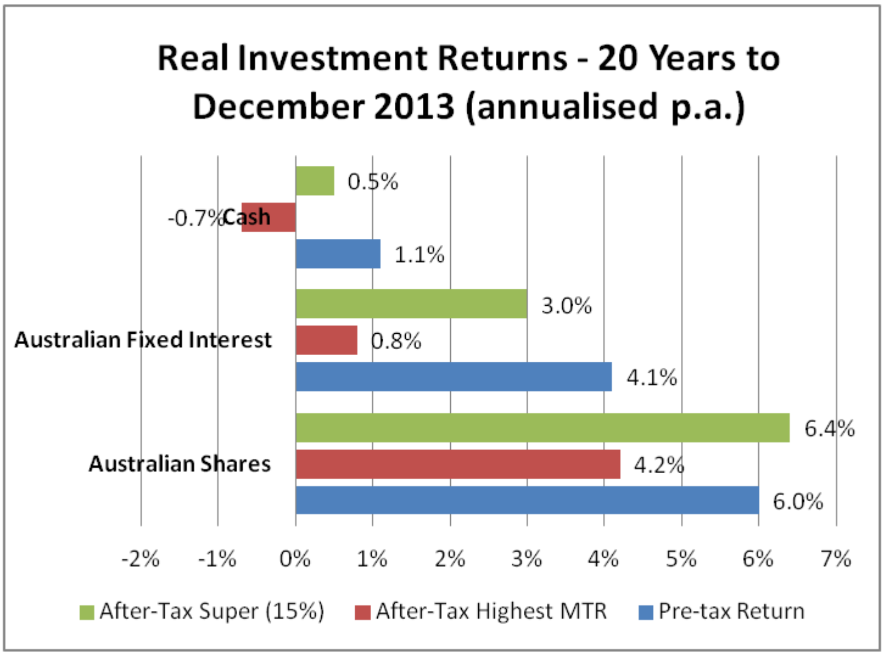
The sessions explored the potential for superannuation funds to better manage Australian equities from an after-tax perspective, especially allowing for franking credits.

Australia's dividend imputation system operates to neutralise the double taxation of corporate earnings. It was not until 2000 that excess franking credits were allowed to be claimed by low rate and tax exempt taxpayers, such as super funds. Previously, the imputation system resulted in low rate taxpayers forgoing tax credits attached to their dividends. For super funds this was significant, having had a 15% tax imposed on their taxable income in 1988.

What difference does tax make to investment returns?

The evidence that taxes materially affect investment returns includes the annual Russell Investments/ASX Long-term Investing Report, which measures pre and post-tax returns for various asset classes over 20 year periods, as shown in Figure 1 for a selection of asset classes:

Figure 1: Long-term pre vs post tax real returns for select asset classes



Source: Russell Investment/ASX 2014 Long-term Investing Report, June 2014

Figure 1 shows the annualised inflation-adjusted index returns on a pre-tax and post-tax basis for a superannuation fund in accumulation mode and the highest personal marginal tax rate (MTR).

Given the risk equivalence, each investor's actual return is heavily tax-dependent. Top rate taxpayers received a markedly lower net return than a superannuation fund. In the case of Australian shares, the after-tax return for a super fund actually exceeded its pre-tax equivalent due to the imputation credit. Other data sources indicate a post-tax lift in benchmark (pre-tax) Australian equity returns in the order of 0.30% - 0.60% per annum in accumulation phase, and 1.40% - 1.70% per annum in pension mode.

Does superior pre-tax performance translate to superior post-tax outcomes?

The asset management industry today exists, in the main, to deliver *alpha*, which, absent other explanations, is suggestive of manager skill. Alpha is usually demonstrated by a strategy's performance against an agreed benchmark, most typically an index that represents the market return or *beta*.

Since its introduction in April 2000, the S&P/ASX 300 index, a pre-tax benchmark incorporating the 300 largest companies listed on the ASX by float-adjusted market capitalisation, has become a key marker that most large-cap active Australian equity funds aim to surpass. But what about taxes? As a 'cost' of investing, shouldn't taxes also be incorporated into the evaluation of manager performance? And if they were, would it change pre-tax performance outcomes when viewed through a post-tax lens?

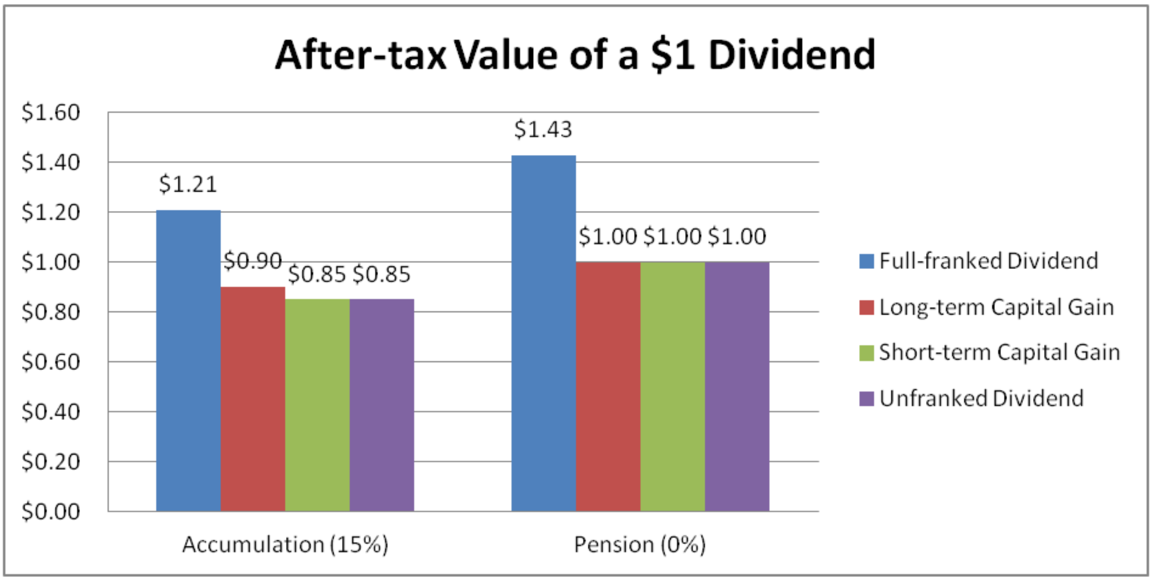
In a 1993 paper entitled '*Is Your Alpha Big Enough to Cover Its Taxes?*', Tad Jeffery and Robert Arnott (founder of Research Affiliates) concluded that disregarding tax effects can have a significant negative impact on post-tax returns for the typical active equity manager. Subsequent studies have put this return drag in the range of 1% to 3% per annum.

Revisiting the issue in 2011, Rob Arnott, Andrew Berkin & Paul Bouchey studied the pre-tax returns of over 400 active US equity mutual funds, calculating their post-tax returns relative to passive equivalents, thus determining their *tax alpha*. Once again the results were the same: positive investment alpha almost inevitably came at the cost of a greater level of negative tax alpha. The authors concluded that "*active management involves more than letting our gains run and cutting our losses: it involves paying attention to the trade-off among risk, return and taxes whenever an investment decision is made and whenever assets go through a transition.*"

Superannuation funds and tax-aware investing

What difference do tax rates have on returns experienced by super fund members? In the case of Australian shares that pay dividends, a great deal as Figure 2 shows:

Figure 2: Post-tax value of a $1 dividend received



Source: Plato Investment Management Ltd (using 2012/13 personal tax rates including Medicare Levy)

Members in accumulation mode might incur a tax of between 10% and 15%, or receive an uplift of up to 21%, on their Australian shares. Members over age 60 and in pension mode either have no tax effect or receive an uplift of up to 43% on each dollar of fully franked dividend attributed them.

Cooper Review issues a tax-aware challenge

The 2010 final report of the Super System (Cooper) Review contained a section on managing for after-tax returns, including a submitter observation that taxes are often the single biggest expense for most super funds. It noted that the Australian fund management industry, unlike its US counterpart, has no obligation to calculate or report after-tax returns, and that there was a near-universal use by super trustees of pre-tax market indices as benchmarks against which fund managers were assessed and remunerated.

The Cooper Review made a recommendation to include an obligation on each APRA-regulated super fund to explicitly consider the tax consequences of its investment strategy, a change adopted into law with effect from 1 July 2013. Consideration must now be given to the overall investment strategy not just in respect of risk and return, adequate diversification, liquidity and costs, but also the expected tax consequences of investments held by each APRA-regulated fund.

Murray Review and the winds of change

Whilst the Cooper Review raised the bar for super fund tax awareness, the Financial System Inquiry (Murray Review) revisited the imputation system with somewhat different conclusions. It noted that: "*The case for retaining dividend imputation is less clear than in the past. For investors (including superannuation funds) subject to low tax rates, the value of imputation credits received may exceed tax payable. Unused credits are fully refundable to these investors, with negative consequences for Government revenue.*"

The FSI could not make specific tax recommendations, but its insights were taken into account in the recently released Treasury *Re:think* tax whitepaper. The whitepaper notes that the value of franking credits claimed by individuals, super funds and charities is around $19 billion per annum. It also notes that Australia is one of only a handful of countries (along with New Zealand, Canada, Chile and Mexico) to still refrain from the double taxation of dividends. Somewhat ominously Treasury's whitepaper asks if the imputation system still serves Australia well, or whether the taxation of dividends could be improved.

Tax matters, so manage its impact on returns

Institutional asset management as practised today evolved from foundations laid decades ago by Modern Portfolio Theory: that risk and expected return are inescapably entwined and that intelligent diversification provides as close to a free lunch as an investor can hope to achieve. MPT is, however, a simplified world without fees and taxes where all investors have the same time horizon. Real-world investing, rather than being 'frictionless', involves taxes that materially impact outcomes and as a result tax awareness should be central to the investment decision making process.

A commitment is required on the part of superannuation funds and the asset managers they appoint to optimise post-tax risk-adjusted returns for the members who own the assets they manage. The benefits of such a commitment would likely be enhanced investment outcomes and individuals better funded in their retirement years.

Harry Chemay consults across superannuation and wealth management, focusing on post-retirement outcomes. He has previously practised as a specialist SMSF advisor, and as an investment consultant to APRA-regulated superannuation funds.

This article is based on a more detailed piece written for the S&P Dow Jones Indices tax aware website.

Nothing in this article constitutes taxation advice. Where data has been provided in relation to tax rates or the application of certain taxes, these are for illustration and education only and should not be relied upon by the reader. Readers should seek advice from a suitably qualified taxation professional on their particular circumstances.

Disruptive technology in banking

Michael Birch

While banks have been focussing on getting ready for Basel 3 and dealing with legacy legal issues from the Global Financial Crisis, there has been a seismic shift happening under their noses. Technology companies without the same legacies who have world-leading brands, are customer savvy and have sizeable balance sheets are now adding banking products and financial services to their broad array of consumer services.

New players across many bank products

In a recent report, Macquarie noted that in 2006 Apple and Google had a combined market capitalisation of around $180 billion, broadly similar to JP Morgan and only 20% smaller than HSBC. They now have a combined market capitalisation of over $1 trillion, almost five times the size of either. In fact, Apple's market cap is equivalent to approximately $100 for every person on the planet. But this is just Apple and Google. There are a raft of smaller players attacking financial services from every angle from on-line transactions, phone banking and peer to peer lending (P2P). Google (Google Wallet), Apple (Apple Pay) and Ebay (PayPal) have already taken their first step into financial services and there is every indication they will keep penetrating these markets given complacent incumbent players, above normal returns and huge cross sell opportunities.

Google Wallet and PayPal are 'wallets' which allow the user to store money transferred from a bank account, make payments by email or by touching the phone to an in-store reader. The service is secure and protects customer details. Google Wallet and PayPal are both considered to be much more user-friendly than many of the bank-owned apps that are on the market. As with much of what Google has done, it has purchased a smaller player with an innovative platform (Softcard) to enhance the offering. With its huge balance sheet, we expect Google to keep acquiring best of breed players to augment its market-leading offering across all facets of its business.

Apple Pay is an iPhone App that facilitates point of sale transactions, but it has to be linked to debit or credit cards. Apple Pay cannot store money itself. To use Apple Pay the phone has to be near the merchant reader and authenticated with a finger touch on the touch ID. Vibration confirms payment complete. Card numbers are not stored on the device, but rather a unique Device Account Number which is not backed up to cloud. Macquarie calculates that Apple Pay now counts for two of every three dollars spent via contactless payments on the US's three largest card networks.

Threat from smart phones

Outside of the 'big three' payment offerings, smart phones have the ability to replace traditional banking products. Vodafone has launched M-Pesa which allows users to deposit, withdraw and transfer money with a mobile device. M-Pesa was first developed to provide an easy medium for micro-finance lenders to send funds to third world countries with limited bank branch networks. It is currently only used in limited markets but is being rolled out more broadly as the platform gains greater acceptance. Most importantly, M-Pesa provides an exchange link between physical and electronic cash. Macquarie believes that ultimately Google, Apple, Samsung, etc, will roll out affordable smart phones across all markets, with wallet-based functionality that offers all the benefits of M-Pesa based on a global infrastructure.

One of the largest growth areas has been P2P. P2P lending is where there is a 'market place' which connects borrowers and lenders. Whilst this market is only small, it is growing fast through payday lending and consumer loans. With interest rates low, P2P borrowers are paying lenders significantly more than what is available through bank deposits. However these loans are inherently higher risk than many of the loans the banks make and there is a risk that if there is a credit downturn this market could be short-lived. Lenders may not be prepared to take on credit risk if economic conditions worsen.

Major bank consumer lending markets are most at risk, while business banking is a little more specialised and less likely to be 'disrupted'. Interestingly one of the leaders in this field is Lending Club, which is 8% owned by Google and already starting to enter partnerships to deliver new financing opportunities to specific Google partners.

Commoditised banking is a particular target

Commoditised retail banking products such as payments, credit cards and simple loans are ripe for the picking by the large technology companies using innovative solutions and strong brand recognition. Google and Apple are active in the banking channel and will continue to expand until they have scale positions. As penetration of the disrupters increases, there is heightened earnings risk for the retail banks. Some of the disrupters may fail, especially the newer players, but current bank share prices do not reflect the risk that the big technology companies and some smaller innovators will succeed.

Michael Birch is Head of Equities at Mason Stevens Limited

Ensure your children are insured

Noel Whittaker

John is one of the first baby boomers. Born in January 1946, he has just turned 69 and is living a full life in retirement. His career started in banking then moved to financial advising, so he is well experienced in the way the various asset classes work.

He has been a golfing mate of mine for years, so it was great fun recently to join him on the stage where he shared his experiences with an audience of retirees.

He's a practical guy, and started by confessing he'd become a grumpy old man with a strong opinion on everything, which made life unpleasant at home when talkback radio was turned on. He suggested a better radio station for retirees is one of those that plays 1960s music.

One message he gave really hit the mark, because I've never heard any financial person mention it before. The topic was life insurance. The natural reaction is to ask why this topic would be relevant to retirees, because they would be unlikely to need it or to be able to afford it.

"No," he said. "It's not for you, it's for your children." In his experience as a financial adviser, John has seen all the problems that can happen when a family has insufficient insurance, and has long insisted that all his children be insured to the hilt.

This includes life insurance, total and permanent disability (TPD) insurance, trauma insurance, and income replacement insurance.

He then told us about his daughter, who had twin babies, and who three years ago was diagnosed with breast cancer. She had a high paying executive job, and the combination of her income replacement insurance and her trauma insurance meant the family had enough funds available to handle their mortgage payments and the treatment that her condition required. She lived in a large provincial town and full oncology treatment was only available 1,000 kilometres away in the nearest capital city.

The good news is that the treatment appears to have worked, and she is now in remission.

Then John delivered the clincher. "Imagine you're in a comfortable retirement with a substantial nest egg and enjoying the fruits of all your hard work – how are you going to react when one of your children rings to tell you they've been diagnosed with a serious illness? Are you going to tell them it's up to them, or are you going to dig into your own savings to rescue them?"

Illness is something we all think is going to happen to somebody else and insurance, like making a will, is something that's easy to put off. It's only when the problems start that we realise it's too late to do anything about it.

John concluded, "A serious illness is bad enough, but if one partner dies, or is permanently incapacitated, the surviving partner may be unable to continue at work and care for the children at the same time. If that happened, it may be the grandparents who end up taking care of the children."

Getting your children to take out sufficient insurance is an important and emotive matter, and one that is never over in a single conversation, which is why it's important to involve your financial adviser. Often, premium affordability is a stumbling block but life and TPD premiums can come from their super. Income protection premiums are tax deductible. Only trauma cover premiums have to come from post-tax dollars.

Noel Whittaker is the author of Making Money Made Simple, and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. See www.noelwhittaker.com.au.

The 'low versus no' risk appetite for internal fraud

Tony Prior

Ask an executive in a typical financial institution about their organisation's fraud risk appetite and there is usually, conceptually, some level of tolerance for external fraud, but there is no tolerance for internal fraud. However there is often a gap between the expressed zero tolerance view and the fraud risk framework that has been put in place.

To adequately prevent and detect internal fraud, there should be a close alignment between prevention, detection, mitigation processes and the risk appetite – the extent to which an organisation is prepared to accept the possibility that risks will materialise. The lower the appetite for fraud risk and losses, the greater the processes that should be put in place for higher risk areas. The quandary for financial institution executives boils down to 'low versus no'. How much internal fraud is too much?

Financial and reputational damage

While customer experience and fraud loss optimisation is often a trade-off determined by a financial institution's risk appetite, this usually applies to external fraud losses.

However, when addressing internal fraud, customer experience is not the most significant consideration, as it is often brand impact that hurts a financial institution most. Internal fraud and misconduct issues invariably attract the attention of media, and sometimes even regulators or government. While there may be some level of acceptance for financial loss, often there will be zero appetite for reputational damage.

The approach to setting an internal fraud risk appetite should therefore be designed to not only safeguard the organisation's and client's assets, but also ensure minimal damage to the brand.

Two examples of fraud

1. Misdirecting inward contributions

A super fund employee managed a relationship with a large corporate client and was responsible for processing the client's employees' super contributions. A regular payment file was received from the corporate client and the super fund employee altered the file to redirect the contributions to an external account held in a false name operated by the employee. As the reconciliation of contributions matched against the data (contribution file) was not conducted in a timely manner, there was no independent checking performed by the super fund to confirm the receipt of contributions. The employee was able to satisfy the corporate client's inquiries and reporting requirements through their close relationship. The fraud was ultimately detected when a corporate client employee made their own inquiry with the super fund's call centre regarding the balance of their own account.

2. Information theft

A retail bank suffered a number of identity takeovers of customers' online backing accounts. The bank found that all the customers had links to a common superannuation fund. The bank contacted the super fund and provided the names of the victim customers. Forensic data analytics conducted by the super fund found that the victim customers all had either a super or insurance product, and that a single employee had accessed (viewed) all the super and insurance accounts for no apparent reason. The employee was interviewed and made admissions and their employment was terminated. The super fund believed that confidential information was 'harvested' by their employee, and then provided to an organised crime group to enable the group to take over and defraud the customers' bank accounts, with sufficient information to answer the bank identity challenge questions. The super fund's own products were not affected.

Setting the risk appetite

There are a number of metrics that can be used, beyond the dollar loss, when determining an acceptable level of fraud risk, including: the number of internal incidents; the number of fraud attempts or near misses; and the percentage of employees that have completed mandatory fraud training.

Activities should be designed to impact behaviour beyond the absolute metrics. The culture of the financial institution may drive certain behaviours and therefore the perception of acceptability of the level of internal fraud. Understanding this is as critical as analysing the absolute metrics. For example, a financial institution may mandate that all allegations of internal fraud will be subject to its disciplinary procedures.

Once the acceptable level of risk appetite has been determined, resource allocation can be broadly categorised into two areas:

1. Fraud risk management (proactive measures to prevent and detect fraud)

The correlation between proactive measures and expressed risk appetite is generally less evident in financial institutions than the reactive measures. Too often we see a stated zero tolerance for internal fraud, yet the proactive measures are either ineffective, do not cover the entire organisation or are lacking completely.

2. Fraud investigation (reactive measures when an incident occurs)

Often financial institutions defend their zero tolerance for internal fraud on the basis that they investigate all fraud matters. The flaw in this approach is that it ignores the application of preventative measures. A true low, or zero, appetite for fraud requires more than just a reactive framework.

Finding the sweet spot between 'low and no' appetite

A certain level of internal fraud will probably occur as a commercial reality of doing business. How does a financial institution manage the optics of a low appetite and still communicate the message to employees that it is not 'open slather'? A key plank in a fraud risk framework is strong deterrence, with overt condemnation of internal fraud and 'tone at the top' messages and behaviours. It comes down to the way risk appetite is operationalised and embedded into the organisation's day to day business.

Where should financial institutions start when determining an appropriate level of internal fraud risk and putting in a mitigating framework to align to that level?

For starters, risk appetite for fraud loss should be a standard part of the risk management planning cycle. Calculations should be based on robust information on actual experiences and predicted risks, including the risks and rewards of new products and channels. Once the level of fraud risk appetite has been agreed, it should be communicated across the institution and oversight procedures put in place.

At the other end of the cycle, reporting should occur in line with a pre-defined risk appetite, with appropriate intervention when both positive and negative variances to the plan occur. Socialisation of notable results should be supported with strong messages, reinforced from the top of the institution.

Keeping pace with change

Fraud risk management is not a set and forget exercise. Fraud risk, like other risks, is fluid and ongoing monitoring is required to capture material changes. Many financial institutions are already in the process of de-risking their books and ending customer relationships where they present too high a risk.

Similarly, as the Australian superannuation sector continues to evolve and go through further consolidation and new parties get introduced into the delivery cycle and supply chain, enhanced due diligence processes should be put in place to ensure any new acquisitions have fraud risk profiles and a defined risk appetite that align to the core business.

Tony Prior is a Director in Ernst & Young's financial services specialist fraud investigation and dispute services team. The views expressed in this article are the views of the author, not EY. The article provides general information, does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Liability limited by a scheme approved under Professional Standards Legislation.

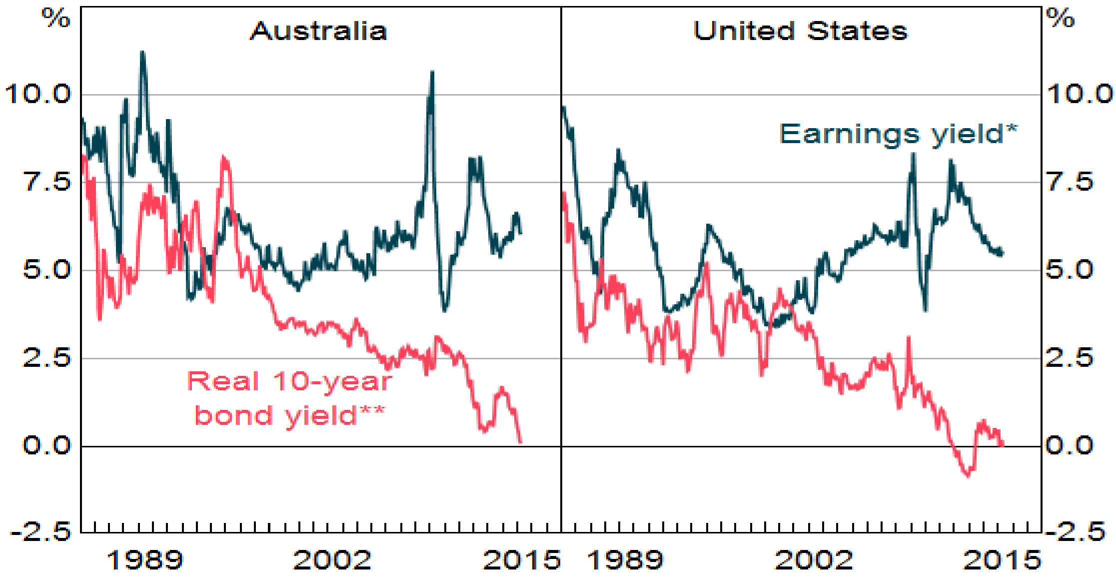
Low rates and the equity risk premium

Sam Ferraro

Over the course of the past year, RBA Governor, Glenn Stevens has bemoaned the low level of entrepreneurial risk-taking across Australia's corporate sector and implored businesses to invest for future growth prospects. 'Animal spirits' remain dormant in Australia and across most of the developed world thanks to persistent revenue headwinds and high discount rates that companies are assigning to expected future cash flows for potential new projects. The propensity for CEOs to lift dividend payouts rather than commit to new capital investment reflects a desire to cater to investors' insatiable appetite for income.

At first glance, the persistence of a high cost of capital is difficult to reconcile with the risk free rate or yields on sovereign bonds being at record lows. But in a wide-ranging speech delivered on 21 April 2015 ('The World Economy and Australia') in New York, Glenn Stevens acknowledged that lower returns on safe assets have not pulled down the cost of capital because there has been an offsetting rise in the equity risk premium (the return required to compensate investors for taking on the higher risk of the equity market). The Governor argued that the stability of earnings yields in the face of declining long term interest rates implies that the risk premium has lifted, reflecting more risk being assigned to future earnings and/or lower expected growth in future earnings (see Chart 1). He also highlighted anecdotal evidence of stickiness in hurdle rates used by corporate Australia when assessing projects.

Chart 1: Earnings and sovereign bond yields



* Trailing earnings-to-price ratio for the MSCI Australia and S&P 500 indices

** Prior to 1996 for Australia and 2000 for the United States, 10-year sovereign yields are deflated using underlying inflation

Sources: ABS; Bloomberg; Board of Governors of the Federal Reserve System; MSCI; RBA; Thomson Reuters; Yieldbroker

Investors have gravitated towards safe assets as they perceive a high level of risk in the world, despite the fact they are receiving record low interest rates. As Mr Stevens noted:

"Compensation in financial instruments for various risks is very skinny indeed. Investors in the long-term debt of most sovereigns in the major countries are receiving very little – if any – compensation for inflation and only minimal compensation for term."

The risk premium and cost of capital

While lower rates have encouraged investment in 'defensive' sectors like banks and property trusts, stock multiples in cyclical sectors such as media and consumer discretionary are not receiving the assist from a lower risk free rate that might otherwise be expected due to caution about lower earnings and growth prospects.

There is a common misconception that record low interest rates should be associated with a re-rating of stocks. The risk free rate (the government bond rate) is directly observable on a daily basis, so our familiarity with low long term interest rates informs our mental framing of the cost of capital. But the equity risk premium is not directly observable, and so we are likely to neglect it as a source of variation in the cost of capital.

In fact, from the perspective of monetary policy, it is a key channel in which a central bank can influence the psychology of risk-taking, and hence the RBA Governor's speech. If a central bank is seeking to revive 'animal spirits' in the corporate sector, it must do so by reducing the expected equity risk premium, as well as lifting expectations of revenue growth.

The defensive sectors in the Australian market are trading at a premium (based on dividend multiples) to their 10-year median estimates, while cyclical sectors are trading at or below their historical medians (see Chart 2). The higher equity risk premium has played an important role in driving a wedge in the multiples between defensive and cyclical stocks.

Chart 2: Defensive versus cyclical sectors and long term earnings multiples

High defensive stock valuations may persist

It might be tempting to think that either defensive stocks or high-yielding stocks with strong and sustainable sources of competitive advantage are exhibiting bubble-like valuations. But shifts in the risk premium and cost of capital matter for portfolio construction. This analysis suggests they have contributed to the relative rise in valuations for defensive (lower beta) stocks. Those high valuations may persist while the corporate sector's animal spirits remain dormant. The unwinding of the defensive trade will eventually happen abruptly, but that remains way off as long as output remains below potential, there is deficient aggregate demand, unemployment is well above the natural rate, and inflation remains subdued.

Sam Ferraro is founder and principal of the independent financial consulting firm, Evidente. This article is for general educational purposes and investors should seek professional advice about their personal circumstances.

Labor is proposing a complex 'new tax'

Stuart Forsyth

(Editor's background comment: Stuart Forsyth is a former Assistant Deputy Commissioner for the Australian Taxation Office. While at the ATO, his responsibilities in superannuation included managing the active compliance and risk and compliance areas. He left in November 2014 to become a Director of McPherson Super Consulting and SuperIQ. He wrote the following letter to The Australian Financial

Review on 24 April 2015 but it was published in a highly abbreviated form. This is the full version provided to Cuffelinks. It's important to know this background because Stuart was at the ATO when the previous version of the Labor Party policy on taxing earnings on super funds in pension phase was considered.

Note the importance of understanding the difference between earnings in pension phase, and pension payments from the fund. The two tax implications are often confused.

A reminder of the Labor Party proposal: "Ensure earnings of more than $75,000 during the retirement phase are taxed at a concessional rate of 15% instead of being tax free.")

In your [*The Australian Financial Review]* headline article on 22 April 2015 there is the following statement: "The reintroduction of tax on earnings, which was abolished by the Howard government in the 2006 budget, would raise about $1.4 billion a year and $9.2 billion over a decade". This statement is wrong. There has never been a tax on earnings of superannuation funds that are in pension phase. This would in fact be a new tax. It is important that we get the detail right as this affects not only the retirement income of pensioners, but the complexity of what is already a very complex system.

There is some excuse for your correspondent in the fact that the Labor Party seem to be the origin of the error as they say in their Press Release:

"In particular, the tax-free status of all superannuation earnings, introduced by the Howard Government in 2006, disproportionately benefits high income earners and is unsustainable."

What the Howard government did in 2006/2007 was to make most pension payments received by those over 60 years of age tax free.

When previously in government, the Labor Party proposed a similar change to the current Press Release and industry advised them that it would be complex to administer and impossible to understand at the member level. What they seem to be proposing is a new calculation of a notional share of the taxable income of the fund that could have applied to a member's account as if it was not in pension phase. This would then be adjusted for capital gains and then aggregated by the ATO. Any liability would somehow be advised to multiple funds and amended potentially on multiple occasions. In other words, this is close to being beyond rational explanation and would create a new and somewhat strange compliance burden. Nothing in superannuation is simple and this policy although it sounds simple would in fact be extremely complex to implement. Costs to implement would be prohibitive both at the Government level and the industry level.

By rushing to announce this recycled policy the Labor Party has locked in behind a poor option when better options exist which would produce less complexity while still meeting the policy outcome of collecting more tax from pensioners with higher balances.

Stuart Forsyth is a Director of McPherson Super Consulting and SuperIQ.