MEDIA RELEASE
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First Home Super Saver Scheme could hit compulsory savings: new analysis

The proposed First Home Super Saver Scheme (FHSS) announced in the 2017 federal budget will put retirement savings at risk and possibly drive up housing demand.

Industry Super Australia, in a submission to Treasury, has argued that, in guaranteeing returns through the use of the shortfall interest charge, the FHSS would eat into compulsory savings.

In times of low or negative returns, superannuation funds will be forced to dip into members' super guarantee (SG) balances to cover the difference between guaranteed and *actual* returns. Its analysis shows that had the scheme been in operation over the last decade *more than half of savers* would have had their compulsory super assets eroded due to its design.

It's also likely that SG assets will be used to underwrite returns in the first year – as any contributions will be deemed to have earned a full year of interest even if contributions are not made until the last day of the 2017-18 financial year.

Industry Super chief economist Stephen Anthony said: "The scheme would offer limited benefit to first home savers and threaten retirement savings".

"Super funds will be forced to dip into compulsory savings to cover shortfalls in 'guaranteed' returns, leaving people with much less at retirement".

"People must also understand that after paying super contributions and earnings tax, the $30,000 put into the scheme could be worth as little as $25,000 on withdrawal".

Anthony said the FHSS - for what is only a marginal tax benefit - was likely to drive up housing demand, leaving first home buyers with increased household debt or locked out of the market.

"Policy makers can target supply and demand in our major cities by reigning in investor tax concessions and boosting housing stock," he said.

The submission also highlights the scheme's high administrative costs and impact on investment strategies.

"Funds will need greater liquid asset allocations to deal with unpredictable withdrawals. This may hamper their ability to invest in assets such as infrastructure, and impact fund performance."

Finally, the submission warns the FHSS would set a precedent for opening up super to other pre-retirement purposes.

"Allowing withdrawals from super for other than retirement income, runs counter to the sole purpose test and the Government's own objective of super," said Anthony.

The submission identifies other measures to deal with housing affordability, such as: new dwelling construction; extending zoning rules to allow urban infill and land sales; modifying negative-gearing and capital-gains discount concessions to incentivise greenfield activity; and restricting foreign investor/student purchases to new property only.

Stephen Anthony is in Canberra and available for interview. Media contact: Phil Davey 0414 867 188
Industry Super Australia provides policy, research and advocacy on behalf of 15 not-for-profit Industry SuperFunds who are the custodians of the retirement savings of five million Australians.