

BUSINESS

- [MARKET DATA](#)
- [MONEY](#)
- [PORTFOLIOS & WATCHLISTS](#)
- [QUOTES](#)
- [BUSINESS NETWORK](#)

Super the best way, says Costello

Nassim Khadem
October 12, 2006

MANY investors will move their savings out of property and into superannuation as a result of the Federal Government's plan to scrap tax on superannuation payouts, Treasurer Peter Costello says.

In an interview with *The Age*, Mr Costello said he was confident that the Government's budget plan to allow Australians to put \$1 million each in their super accounts over the next nine months, then take it out tax-free, would encourage a significant shift in savings from bank accounts and investment properties.

He said the Government's recent changes to superannuation would also cause more people to invest in the future earlier. "The message that I want people to pick up is that superannuation is something you start saving in your 20s, 30s and your 40s," he said. "I want to turn superannuation from a sprint to a middle-distance event ... you won't be able to make up lost ground with a sprint at 55 any more. So get out and pace yourself for the race."

Mr Costello said that because superannuation was now attractive from a tax point of view, it made other investments comparatively less attractive. "Some of the strategies that have been promoted and people have taken up will lose their appeal ... it will in my view significantly reallocate savings," he said.

"One of the areas I think it could reallocate is out of the property market and into superannuation."

There are signs a shift is already happening. Reserve Bank assistant governor Ric Battellino said recently that Australians held only 25 per cent of their financial assets in deposits and bonds, down from 40 per cent 20 years ago. He also said the wealth of the nation was growing if superannuation and other investments were considered.

But in a recent submission to Treasury, the Australian Bankers Association expressed concerns that there were not enough incentives for people to put their savings in bank deposits, compared with superannuation.

Mr Costello dismissed this, saying the banks were still able to get investment from foreign countries, despite offering low rates. "Foreigners are quite prepared to lend at rates that Australians find uncommercial," he said. "This would be a problem if all that borrowing was done in foreign currency, but of course it's not, so there's no exchange-rate risk."

Mr Costello said that if the banks were really concerned, they could offer Australians more competitive returns. "Australians are saying we are not going to put the bulk of our money into

the banks because the return is so low ... If the banks want to tempt some of that money out then they presumably have to offer better returns," he said.

So far the Federal Government has failed to provide detailed costings of the scheme, releasing a costing only for the first three years of up to \$7.2 billion. But consultant Access Economics has forecast that by 2040, the plan would cost 1-1.5 per cent of Australia's output every year — that's \$10 billion to \$15 billion in today's money.

Mr Costello played down the forecast, saying it had to be seen in perspective. "The four-year cost of this is about \$6 billion," he said. "The four-year cost of the tax cut is about \$36 billion. If we projected out that \$36 billion to 2040, what do you think the cost of that would be? It would be a lot more than 1.5 per cent (of gross domestic product)."

When you see news happening: SMS/MMS: 0406 THE AGE (0406 843 243), or [email us](#). [More](#)

[Subscribe to The Age for your chance to win a new Saab!](#)

Copyright © 2006. The Age Company Ltd.