Australian Government

A tax plan for our future
Stronger • Fairer • Simpler

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STATEMENT OF REFORM PRIORITIES

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STATEMENT OF PRIORITIES

The ageing of the Australian population is well known. As the latest Intergenerational Report noted the percentage of Australians who are aged 65 and over will almost double in the next 40 years. Our demographic changes are part of our known future and we need to plan accordingly. The tax system must support such planning by encouraging individuals and households to save now and rely less on the government in the years ahead.

Australia's retirement income system represents a fundamental component of this long-term direction. It is well-respected around the world and has three important pillars:

1. the taxpayer-funded means-tested age pension
2. the Superannuation Guarantee system whereby employers must contribute at least 9% of earnings for their employees
3. voluntary superannuation where contributions are made by employers (through salary sacrifice by employees), employees and the self-employed

It is recognised that the superannuation system is supported by a range of taxation concessions. There are several purposes for these concessions but they include:

- an encouragement for individuals to save more for their future. As the Henry Report noted "income taxation creates a bias against savings, particularly long term savings" (Part One, p32)
- a recognition that due to the preservation rules, individuals need some compensation for the lack of access to their savings
- a desire to increase long term superannuation savings with the desire that future Government spending of the age pension will be reduced.

The Henry report noted that "privately funded superannuation ... should continue to receive a concessional tax treatment compared to other savings". (Part One, p 34) I agree. The question remains as to what is the best form of that concession and how can it be made fairer and simpler.

However before tackling that question, it must be recognised that the Government supports the provision of retirement income in two ways: the payment of the means-tested age pension and the provision of taxation concessions for superannuation. Considering the equity and efficiency issues of one and not the other is missing the benefits of our three pillar system.

It is therefore essential that the provision of retirement income recognises that we need better integration between the pillars. Or to put it another way, superannuation needs to be considered a “whole of life” product and not just a product that provides a lump sum benefit at retirement. It should have a focus on the provision of income which, in turn, provides the opportunity for better integration with the age pension. As the Australian superannuation continues to mature, it is encouraging to note that since 2009 pension payments (including from account based pensions) from the total super system now slightly exceed lump sum payments. We are beginning to move towards an income oriented system and this should be further encouraged through changes to the tax and transfer system. Such an outcome will also provide the potential to reduce future age pension payments to those who have retired with reasonable superannuation balances.

1. What are your priority reform directions for the tax and transfer system?

   Taxation concessions for superannuation must continue to encourage additional voluntary savings; to compensate members from the inherent bias against long terms savings in the income tax system; and to recognise members’ lack of access to these savings.

   The current concessional caps provide a major disincentive for many individuals who have the capacity to save more for their retirement, particularly in their 40s and 50s. The administration of these caps is complex and produces unfair results, as well as undermining confidence in the long term stability of taxation treatment of superannuation.

   On the other hand, there are currently no requirements stipulating that part of an individual’s superannuation balance should be taken as an income stream. The introduction of such an approach (for super benefits above a certain minimum) would also provide greater integration between the three pillars and is likely to provide greater saving for the Government over the longer term through reduced age pension payments. Of course, transition arrangements would also be required so as not to disadvantage those approaching retirement.

   The introduction of a requirement for superannuation funds to provide income streams would also require changes to a range of current regulations affection taxation, means testing and superannuation funds. Such a change would also encourage the development of a longevity insurance market consistent with Recommendation 21 of the Henry Report. It would also require transparent and simple legislation and tax rules relating pension payments, which is not the case at the moment.

2. How are your proposals financed over the short and longer term?

   The continuation of the current taxation concessions for superannuation requires no immediate additional financing. Furthermore, the continuation of these arrangements without introducing the Henry recommendations concerning the taxation of superannuation would engender increased confidence by Australians in the system, which has been adversely affected by a plethora of tax changes over the last decade. Another major reform of the tax system of super would act as a major disincentive for additional superannuation savings.

On other hand, it is recognised that an increase in the concessional caps would require additional financing. However such additional costs should be seen as a long term investment by the Government to reduce the financial effects of an ageing population. Put simply, if Australians save more now for their retirement and drawdown most of these investments as an income stream during their retirement, there will be long term beneficial effects for the economy in terms of the living standards of our retirees and the Government's future budgetary position.

A retirement income system, integrating the means-tested age pension and our maturing superannuation arrangements, provides us with the opportunity to develop a future for all Australians that is:

- stronger, as the provision of income for older Australians is clearer and should also reduce future Government pension outlays
- fairer, with clearer links within the tax and transfer system by introducing integration between the three pillars
- simpler, as the objectives of each pillar within the retirement income system will have been clarified.

LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.