

Submission to the Australian Governments Better Tax White Paper

Introduction

The current discussion on the Aged Pension and Superannuation is failing to emphasise the purpose & the benefits of our excellent superannuation system here in Australia. It is instead focussing on the very few people (less than 450) who have more than \$10 million in their Super Fund.

The Sole Purpose of building up your Superannuation balance is to fund yourself in retirement and enjoy a long and comfortable retirement earning as much from your super fund in retirement as you were earning after tax whilst working.

The side benefit is that you fund yourself in retirement rather than going on the Aged Pension and becoming a burden on the tax payer.

Giving the Super System Certainty

The most important feature that the super system needs is certainty. With Governments of both persuasions continually tinkering with it uncertainty builds up and people tend to look for other areas to invest such as their home etc. The current discussion regarding increasing tax on the “wealthy” doesn’t help as it gives rise to the fear that changes will disadvantage all super funds.

The current System

Given that the current Super Guarantee system is relatively new, it is not surprising that it has not as yet had the effect of reducing the dependence of people on the Age Pension. However, for a person on an average wage of say \$60K pa for 45 years from age 20 to 65, if just the SG is contributed to his/her super fund each year and it grows over that time at 6% per annum after allowing for CPI increase and some fees, the sum that person will have in super will be over \$1 million in today’s dollars. This will enable that person to have an after tax income in today’s dollars of \$50,000 per year without eating into their capital. If they wish to spend some of their capital then they can increase the annual expenditure. Naturally, if over their working life they are able to add extra amounts to super then their income in retirement will be more.

The capital this person has in super will ensure them comfortable lifestyle in retirement and, in most cases, a better income after tax than when they were working. It is a wonderful system and it is so important to have people understand the value of super and to not make them wary of super by changing it all the time and especially scaring them by suggesting the introduction of taxes in super.

The Sole Purpose Test

As we know, the reason for our super system is to fund a comfortable retirement of all Australians. This is the sole purpose of super. It is therefore very important that this is adhered to by all. It is proposed that the top asset level at which eligibility for the age pension stops is in the order of \$880,000 in assets excluding your own home. To ensure that people do actually fund their retirement then it would be best to put a limit on what can be taken out of super once the asset value of your Member Balance in super drops to the \$880K limit. Once this is reached then a maximum of 5% (say) can be taken out each year. This will ensure that the sole purpose test is met and it will prevent people taking all their money out of super, spending it and then going onto the age pension.

Medicare Levy

Whilst I do not advocate putting taxes on superfunds, I do feel that it is a reasonable call to apply the Medicare Levy to income earned in super. After all, self-funded retirees are, most likely, the biggest users of our free health care system and I do not think anyone would object too strongly to such a imposition. After all, all working people pay this tax as well.

In Conclusion

We all know we have a wonderful super system and the benefits need to be sold to people of all ages. People are living longer in retirement and super, handled well, will prove to be a great benefit for retirees and also the future generations of Australians who will not have to fund the ever growing number of retirees.

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