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Submission to the Retirement Income Review

From: SA Superannuants

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Introduction

This submission is made on behalf of SA Superannuants (the Association), an organisation representing people in receipt of untaxed-source defined benefit pensions paid from South Australian and Commonwealth superannuation schemes. These pensions differ in important ways from the more common taxed-source retirement income streams (defined benefit or account-based).

Most untaxed-source pensions have larger gross amounts than would be the case if the same amount of contributions, and earnings, backing them were held in the taxed-source superannuation environment. Working in the opposite direction to this advantage are the facts that the pensions are not eligible for the 15% tax offset prior to age 60 and remain taxable income after age 60 with a 10% tax offset then available. Other taxable income (including age pension) is added to the superannuation pension and taxed at the marginal rate for the combined income. The medicare levy is also payable on untaxed-source defined benefit pension income throughout retirement.

The untaxed-source status of South Australian and Commonwealth defined benefit pensions has been mandated by the respective governments with members given no choice in the matter. For many members, in receipt of the pensions today, membership was compulsory at the time they joined the schemes in the 1970s, as was a personal contribution from after-tax income. There was little or no vesting of benefits and employees leaving government service before the prescribed retirement age received only their personal contributions plus a small interest rate. They received no employer component to go with the refund of their personal contributions. Once compulsory membership of the South Australian pension scheme was relaxed many people opted not to join. Others who had been compelled to join earlier sought the right to leave.

After closure of the scheme in 1986 came compulsory super for all Australian employees and with it full vesting of both the member-funded and employer-funded component of the pensions. Today the Association acknowledges that the untaxed-source defined benefit pensions of its members represent a good return on their investment. But we consider that the common assertion of the pensions being generous by community standards does not stand up to close examination when all three pillars of the retirement income system are taken into account along with taxation differences. The Association would say that South Australian untaxed-source pensions are ***'Good, but not better than the Superannuation Guarantee.*** The basis for this view is set out in a document that can be opened by clicking here.

The submission following aims to give a perspective on Australia's retirement income system reflecting the experience of people receiving untaxed-source pensions. The Association hopes that the submission will assist the panel in its deliberations on adequacy, equity, sustainability and cohesion of Australia's existing retirement income system.

Consultation questions

Question 1: *Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?*

The Mercer Retirement Income index compiled for June 2019 ranks Australia's retirement income system as third best out of 37 countries. The countries ranked above Australia were Denmark and the Netherlands. The Mercer index has the three sub-indices Adequacy, Sustainability, Integrity and they have weightings of 40%, 35% and 25% respectively. The scores out of 100 on the individual sub-indices for Denmark, The Netherlands, Australia and New Zealand are shown in the table. The combined and weighted scores are also shown along with one of the grades A, B+, B, C+, D, E.

Country (grade)	Adequacy	Sustainability	Integrity	**Combined Score**
The Netherlands (A)	78.5	78.3	88.9	**81.0**
Denmark (A)	77.5	82.0	82.2	**80.3**
Australia (B+)	70.3	73.5	85.7	**75.3**
New Zealand (B)	70.9	61.5	80.7	**70.1**

The figures in the Table suggest that Australia's system is already highly effective. For the two countries ranked above Australia retirement income is taxable and so it might be worthwhile the panel investigating the impact that tax-free status for most Australian superannuation income streams has on each of adequacy, equity, sustainability and cohesion. New Zealand has a universal (not means-tested) age pension system and this is something people whose means disqualify them from receiving an age pension payment often advocate for Australia. The implications of moving to a universal age pension for Australia might be something useful for the panel to investigate. However, the Association itself supports a means-tested age pension and sees it as the bedrock of Australia's retirement income system.

Question 3: *In what areas of the retirement income system is there a need to improve understanding of its operation?*

Taxation: it is a common experience for members of the Association to be challenged when they say that they are paying tax and the medicare levy. Many retirees in receipt of taxed-source (tax-free after age 60) income streams believe that anyone still paying tax and medicare levy in retirement must have a very large income. On page 4 of the Consultation Paper, referring to the age pension, we read

> 'It is a taxable payment, however the seniors and pensioners tax offset (SAPTO) raises the effective tax-free threshold for eligible older Australians above the rate of the Age Pension.'

This implies that SAPTO eliminates tax on age pension income and most Australian retirees, including those who have relatively large superannuation incomes, know that their own age pension payments are received tax-free. Hence the common assumption by people that any retiree paying tax and the medicare levy must be much better off than they are. The reality is that once an untaxed-source superannuation pension exceeds the modest level of about $35,000 p.a. the person receiving it will pay tax and the medicare levy on their combined income.

The justification for superannuation tax concessions: it is also common for people to express resentment when they notice a decline in their superannuation account balances during retirement. They see the situation as one in which they are being forced to use their capital, as well as the earnings of that capital, to fund their retirement when they should be able to retain most of the capital until death no matter the age at which death occurs. However, as the Consultation Paper states

> 'Minimum drawdown rules for superannuation mandate the withdrawal of a certain percentage of assets from superannuation each year. These rates increase as a retiree ages and are designed to ensure that superannuation is used for its intended purpose of providing income in retirement.'
>
> Consultation Paper, p. 25

The Panel could consider ways in which people might be brought to understand that the tax concessions for saving through the superannuation system justify those savings being used to reduce reliance on the age pension.

Question 11: *What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflects a proportion of pre-retirement income (and if so, what period of pre-retirement income); or matches a certain level of expenses?*

The Association considers the benchmarks set by ASFA (Singles: Modest lifestyle, $27,913 p.a., Comfortable, $43,787 p.a. Couples: Modest, $40,194 p.a., Comfortable, $61786 p.a.) as appropriate for the Panel to use in judging the adequacy of tax-payer support that is currently being provided, through taxation concessions and means-testing arrangements, for all three pillars of the retirement income system.

Figure 4, on page 14, of the Consultation paper is an indicator that the level of public support given to high income/high wealth individuals, by superannuation tax concessions, is greater than that given to low income/low wealth people by the age pension. This is to be expected given that, over a working lifetime, the difference between marginal income tax rates and the maximum superannuation tax rate of 15% increases until income reaches $250,000 p.a. Then in retirement large superannuation account balances pay no tax on earnings and can receive unused franking credits worth as much as age pension payments being made to lower income/lower wealth individuals.

Question 12: *What evidence is available to assess whether retirees have an adequate level of income?*

The ASFA benchmarks are above the maximum age pension payments ($24,268 p.a. for a single person and $36,582 for a couple) and below the income or asset level that eliminates age pension payments altogether. Information provided about the benchmarks, particularly the 'Comfortable', benchmark, are convincing evidence that retirement incomes from about $35,000 p.a. to $45,000 p.a. for singles and about $50,000 p.a. to $65,000 p.a. for couples will deliver a reasonable standard of living. Support for retirees from the superannuation tax concessions and age pension cover, and extend beyond, these ranges.

The Consultation Paper provides the following information on the current value of superannuation held by Australians.

> 'Between 2013-14 and 2017-18, average household wealth held in superannuation increased by around 16 per cent to $374,000 for individuals aged 55 to 64 (ABS 2019a).'
>
> Consultation Paper, p.23

When a superannuation account balance value of $374,000 is entered into the ASFA retirement calculator (http://www.superguru.com.au/ExternalFiles/calculators/retirement-tracker/#/) for a couple aged 67 the calculator returns a retirement income value of $58,636 p.a. with the recipients receiving $35,978 p.a. in age pension. If half this amount is entered for a single person the calculator returns retirement income of $35,272 p.a.

These numbers suggest that the retirement income system is delivering adequate incomes for a significant fraction of retirees and that this fraction is going to increase.

Question 14: *What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (e.g. women, renters, etc.)?*

The Association draws the Panel's attention to the valuing of defined benefit pensions for transfer balance cap purposes. This valuing is done by applying the factor of 16 to the annual pension value regardless of the recipient's age. Sixteen would be a high valuation factor for a defined benefit interest even when the pension commences at age 60. To have it applying to the pensions of older people seems both unfair and unnecessary.

The legislation authorising application of the Transfer Balance Cap is the *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016.* In its *Division 294-Transfer Balance Cap* this act states that the object of the Division is to 'limit the total amount of an individual's superannuation income streams that receive an earnings tax exemption.' Applying a valuation factor of 16 to defined benefit pensions of the same amount being received by both a 60-year-old and an 80- year-old is, in effect, a false claim that the pension of the 80-year-old is backed by the same amount of assets receiving an earnings tax exemption as is the case for the pension of the 60-year-old. Clearly there is a much smaller set of assets backing the pension, and receiving an exemption from the earnings tax, in the case of the 80- year-old.

Defined benefit pensions cannot be cashed in except in prescribed circumstances and so they do not have an asset value that the pension recipient can realise as is the case with account-based pensions. However, the Association accepts that it is fair for them to be assigned a value for Transfer Balance Cap purposes otherwise people receiving them would be able to have more assets backing income streams that are exempt from earnings tax than people with account-based pensions. In this matter much of the concern the Association has is with the precedent set by valuing a defined benefit pension using a valuation factor unrelated to age. We request the Panel to consider recommending to the Government that actuarial, age-related factors be used in the valuation of defined benefit pensions for Transfer Balance Cap purposes.

Question 18: *What should the Panel consider when assessing the sustainability of the retirement income system?*
Question 19: *What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?*
Question 24: *What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?*

According to the Consultation Paper:

> 'Research has shown that many households in retirement are net savers (i.e. their income is greater than their expenditure) (CEPAR 2018a, p. 22). In addition, superannuation balances are forming an increasing part of bequests. There are a number of possible explanations for these behaviours, many of which are rational on the part of the individual. However, where individual choices place pressure on public finances, they affect the sustainability of the retirement income system.'
>
> Consultation Paper, p. 24

There are several matters affecting the long-term sustainability (and fairness) of the retirement income system that the Association believes the Panel should investigate or recommend for investigation. These matters are:

a) Taxation of non-superannuation income. When taxed-source superannuation income became tax-free in 2007 the change went further than just reducing tax payable on superannuation to zero. It made the superannuation income non-taxable income and other taxable income (including age pension) became taxable as if it was the only income. The Association asks the Panel to recommend to the Government that it use Centrelink data to estimate the cost to tax revenue of
i. allowing age pension and other taxable income to be taxed separately from superannuation income.
and/or
ii. making age pension tax-free for all recipients

b) Exemption of taxed-source superannuation income from the medicare levy. The large part of superannuation contributions are paid from before-tax income which avoids the medicare levy and it is not payable on any earnings. Most payments to retirees from the superannuation system are also not subject to the levy. Given that money going into the system and the earnings of that money do not provide medicare levy it seems inappropriate that payments from the system also escape the levy. The Association asks the Panel to recommend to the Government that it use Centrelink and tax office data to estimate the cost to medicare levy revenue of exempting taxed-source superannuation payments from the medicare levy.

c) Refunding of unused franking credits to superannuation accounts that are funding pensions. A superannuation account that is funding a pension is exempt from tax on its earnings. That account delivers no tax to the government and it seems odd that the account is able to receive a full refund of franking credits when it is not a tax-paying entity.
In effect the tax office is providing non-means-tested income support to the account holder by paying to him or her, each year of retirement, the tax that the company paid in that same year on the franked dividends that went into the account. It is reasonable for unused franking credits to be refunded to a taxpayer in order to ensure that tax is not paid twice on the same income. But refunding of unused franking credits to superannuation accounts that are tax exempt does not avoid double taxation, it is no taxation at all on income.

An alternative that would avoid double of taxation of franked dividend income is to make this income tax-free for the recipient. The Association asks the Panel to recommend to the Government that it use tax office data to estimate the current cost to tax revenue of the refunding of unused franking credits to superannuation accounts backing pensions and compare that cost to the cost of making franked dividend income tax-free to all recipients whether working or retired.

d) Abolition of the work test for non-concessional contributions made by people aged over 65
Many retirees report dissatisfaction with the low interest rates on bank account deposits and the fact that those rates are lower than the main age pension deeming rate. The Association believes that removal of the work test for non-concessional contributions made to superannuation by people aged over 65 could be a win-win move for both retirees and government revenue. The basis for this view is set out in a document that can be opened by clicking here.

e) The extent to which the Newstart allowance is being used for retirement income support prior to age pension age. The fact that applicants for the Newstart allowance are not required to provide information on superannuation assets that they or their partners hold allows the possibility that individuals with large, unpreserved superannuation accounts are using the Newstart allowance for income support when they have actually retired and have no intention of seeking paid employment. The Association asks the Panel to consider recommending that applicants for the Newstart allowance be required to report the amount of unpreserved superannuation to which they have access. This will provide the government with information about the total amount of money being paid to people in this position and allow an informed judgement to be made about whether changes are justified. The Association supports an increase in the Newstart allowance for all recipients. Its suggestion that unpreserved superannuation held by applicants for the allowance be recorded is not being made to disqualify people from receiving it when they need to do so. The purpose is to collect information that helps ensure that the allowance works fairly for people of all ages.

Taxation of, and generosity of, untaxed-source defined benefit pensions

This document sets out a basis for questioning two assumptions commonly made about untaxed-source defined benefit pensions. These assumptions being that:
a) recipients enjoy a tax advantage over other retirees because untaxed-source schemes do not pay tax; and
b) the pensions are generous by community standards

No tax paid prior to pension commencement?
The South Australian pension recipient would have paid 6% of gross salary from after-tax income for 30 years. Salary throughout those thirty years would have had a marginal tax rate of at least 32.5%. In order to pay this 6 % contribution the person had to use at least 8.9% of their annual salary and so paid at least 2.9% of annual salary as a contribution tax. Today every worker gets 9.5% of salary paid by their employers as the superannuation guarantee (S.G.) without being required to make any personal contributions. The 15% contribution tax on this uses up 1.4% of salary leaving 8.1% of salary to be added to their account balance. So the South Australian pension recipient has paid more tax on their personal contribution than is payable on the larger S.G. contribution which all Australian employees receive.

This is not to deny that when the total contributions (personal and employer) needed to fund the South Australian pension are taken into account, along with taxes on contributions and earnings that would be payable if the pensions were being paid from a taxed source, the total amount of tax payable would be greater than what a South Australian pension recipient pays on their personal contributions. But it is not the case that the South Australian pension recipient has paid no tax prior to pension commencement. And throughout retirement most people receiving these pensions will pay a significant fraction of the pensions as tax and medicare levy (see Table 2 below). The Association's calculations indicate that the tax and medicare levy the Federal Government receives via the 6% after-tax contributions of South Australian pension scheme members is greater than the government receives from 40 years of S.G. contributions paid into the taxed-source environment. As the fraction of the pension funded by these contributions is received by the retiree he/she pays tax and medicare levy on much of it.

Generous compared to the community standard?
Australia has a three pillar retirement income system made up of:
1. S.G. contributions paid by employers. This began at the rate of 3% of salary in 1992 rising to 9% in 2002. Currently the S.G. is 9.5% of salary increasing to 12% by 2025
2. voluntary savings including voluntary superannuation contributions
3. age pension and, before age pension age, access to retirement income support from the Newstart allowance.

The Association does not dispute that the employer contributions (actual or notional) needed to fund South Australian and Commonwealth untaxed-source, defined benefit pensions are much higher than the S.G. But comparing the generosity of South Australian and Commonwealth defined benefit pensions with the community standard requires that all three pillars of the retirement income system be taken into account along with taxation and medicare levy differences. A comparison that satisfies all these requirements is made below.

The account-based figures in Table 1 were obtained using an *Association of Superannuation Funds of Australia* (ASFA) calculator. The figures for the SA untaxed-source defined benefit pension were calculated using current income tax, means testing, tax offset and medicare levy parameters. Each pension is assumed to have a tax-free component of 5% derived from the after-tax, personal contributions of the pension recipients. This component is also not counted in the age pension income test. The total net income values were checked against online calculators. More detail about the sources of the figures is provided in the Appendix.

All figures in Table 1 correspond to the first year of retirement after reaching age pension age. The ASFA calculator refers to this fact by saying to users ‘Please note this illustration provides a snapshot of the first year of your retirement split between the age pension and your super. It will change over time’. Other assumptions listed for the ASFA calculator include the assumption that over the full retirement period the retirement income for account-based superannuation will increase at a rate greater than the Consumer Price Index (CPI).

Table 1: comparison of total net incomes delivered by account-based pensions with those delivered by SA untaxed-source defined benefit pensions.

Account-based superannuation ‘community standard’				South Australian untaxed-source, defined benefit pension			
Account balance ($)	Age pension ($p.a.)	Account drawdown ($ p.a.)	Total net income ($p.a.)	Gross pension ($p.a.)	Age pension ($p.a.)	Tax and medicare levy ($p.a.)	Total net income ($p.a.)
400,000	35,588	24,271	59,859	40,000	21,586	1,613	59,973
500,000	28,451	35,637	64,088	53,000	15,411	4,408	64,003
600,000	20,801	46,498	67,299	64,000	10,186	6,753	67,433
700,000	13,669	56,614	70,283	71,500	6,622	7,910	70,212
800,000	6,588	66,472	73,060	79,000	3,061	9,042	73,019

The Figures of Table 1 indicate that:

- the Federal Government is paying, at the start of retirement, **much more in age pension to each couple with account-based superannuation** than to the corresponding couple in receipt of a South Australian untaxed-source defined benefit pension. The gap will get greater throughout retirement.
- **Every couple in Table 1 with an account-based superannuation pension** is likely to receive a full, or near-to-full, age pension for much of their retirement.
- **No couple in Table 1 receiving a South Australian pension** is ever likely to receive a full age pension.
- **No couple in Table 1 with an account-based superannuation pension** will ever pay tax or the medicare levy
- **Every couple in Table 1 with a South Australian pension** will certainly pay tax and medicare levy for all, or most, of their retirement.

Retirement before age pension age

Most people receiving South Australian pensions (and Commonwealth pensions) commence those pensions before reaching age pension age and will proceed to age pension age without any Federal government income support and with pensions that are less than those of Table 1. A couple with one of the account balances of Table 1, retiring before age pension age, will be able to claim the Newstart allowance which is currently about $26,000 p.a. They can do this by delaying commencement of their account-based pension and making tax-free lump sum withdrawals from their superannuation until they reach age pension age. Neither the amounts withdrawn, nor the account balance, affects their entitlement to Newstart.

Access to the Newstart allowance for retirement income support prior to reaching age pension age goes a long way towards ensuring that, at age pension age, a couple of Table 1 with account-based income, will still be able to enjoy much the same standard of living over their retirement as the corresponding couple with a South Australian pension.

Early death of the retirees

When the member of a Table 1 couple who is in receipt of a South Australian pension dies their partner receives two thirds of the pension. In the same situation the surviving partner of the couple with account-based superannuation retains the entire, remaining account balance. With the South Australian pension, if the surviving partner dies soon after there is no payment to the estate except if the pension has been getting paid for less than a total of 4.5 years. This is also the case if the South Australian pension recipient is single throughout retirement.

In Table 1 the estate values of the account-based superannuation, drawn down at the rate which provides the same total net retirement income as the corresponding South Australian pension, remain substantial until each member of the couple has had many years of retirement.

Having made the point that the South Australian pensions of Table 1 have little or no estate value soon after commencement the Association acknowledges that the pensions do guarantee secure income for those fortunate enough to live beyond normal life expectancy. This is a fact to be taken into account when comparing the pensions with the community standard.

Comparison with taxed-source defined benefit pensions

In the years following introduction of the current dual system for taxation of superannuation income most public sector superannuation pension schemes opted to become taxed-source schemes. All the existing corporate schemes were compelled to do so. There were no complaints made by members or employers of the schemes that became taxed-source schemes. Members of the schemes whose pensions had commenced before 1 July 1988 continued to receive their full pensions and their employers did not have to pay tax on the contributions and earnings of assets backing the pensions. The maximum rate of taxation payable on superannuation contributions and earnings from 1988 has been 15%. As people retired after 1 July 1988 pensions were reduced by increasing amounts in proportion to the fraction of their service completed after 1 July 1988. If one third of service had accumulated after this date then the pension was reduced by 5% (one third of 15%). If two thirds had accumulated the pension reduction was 10%.

The Commonwealth Government handled its employee contributions in the taxed-source superannuation environment but paid its share of pensions from general revenue and this component of the pensions is untaxed-source superannuation income. The South Australian government handles both employee and employer contributions in the untaxed-source superannuation environment. It does this by exploiting a constitutional limitation on the taxation power of the Commonwealth which allows for a state government (not a private employer) to elect to have its funds ‘constitutionally protected’ from payment of taxation.

Receiving a pension paid from an untaxed-source is disadvantageous, not advantageous, for most (not all) recipients of such pensions. This disadvantage can be illustrated as follows using the pension values of Table 1.

The pensioner’s service commenced 40 years ago in 1979, with the percentage of service completed after 1988 being 31/40 x 100 = 77.5%. The pension reduction would be 77.5% of 15% = 11.6%. The taxable component of the pensions in Table 1 is 95% of the gross value and if the pensions were paid from a taxed source this component of the pension would have to be reduced by 11.6% in order to become taxed-source income. For all but the $40,000 p.a. pension this reduction in gross income produces a significant increase in net income.

For example, when this reduction is applied to the pension of $64,000 p.a. it reduces by $7052 p.a. to become $56,948 p.a. This reduction sees the tax and medicare levy reduced by $6,753 p.a. and age pension increased by $3,528 for a net gain of $3,229 p.a.

The Association considers that, in order to justify the statement that a South Australian untaxed-source defined benefit pension is generous compared to the community standard, it would need to be shown that the S.G. paid for forty years of employment and 8.9% paid for thirty years as additional personal contributions (8.9% of salary paid by salary sacrifice being the same financial commitment as the 6% paid from after-tax salary by a SA pension recipient) into a taxed-source fund would be insufficient to produce the retirement account balances of Table 1. Estimates of what these contributions would deliver as account balances at retirement are provided in Table 2.

Table 2: Account balances and retirement incomes arising from 40 years of S.G. contributions at 9.5% p.a. of salary and 30 years of personal contributions at 8.9%

1	SA defined benefit super pension of Table 1 ($ p.a.)	40000	53000	64000	71500	79000
2	Retirement income from the SA defined benefit pension ($p.a.)	59973	64003	67433	70212	73019
3	Retirement salary ($ p.a.)	53300	70700	85300	95300	105300
4	Salary 40 yr ago ($ p.a.)	18500	24500	29500	33100	36500
5	Account balance from 9.5% contributions made for 40 yr ($)	284441	376704	453557	508909	561208
6	Salary 30 yr ago ($p.a.)	22984	30438	36650	41122	45346
7	Account balance from 8.9% contributions made for 30 yr ($)	167577	221939	267229	299776	330632
8	Account balance at retirement ($)	452018	598643	720786	808685	891840
9	Retirement income estimated by the ASFA calculator ($ p.a.)	62091	67165	70739	73198	75457
10	Advantage of account-based superannuation ($p.a.)	2118	3162	3306	2986	2438

The figures in Table 2 indicate that, for each of the South Australian pensions of Table 1, the S.G. for 40 years and 8.9% of salary for thirty years, when paid by salary sacrifice (which is the norm) would produce higher account balances at retirement (and, therefore, higher retirement incomes) than the South Australian pensions. Details of how the figures in Table 2 were obtained are provided in the Appendix.

Summary

The Association acknowledges that South Australian and Commonwealth untaxed-source defined benefit pensions require an employer contribution (actual or notional) well above the S.G. but a large part of this additional employer contribution flows to the Commonwealth government in the form of smaller age pension payments made to, and larger tax and medicare levy payments collected from, the pension recipients.

The analysis set out above is complex and if there are serious flaws in it the Association will be only too glad to have them pointed out. But we would expect the information and argument that reveals the flaws to also be provided.

Appendix

Details of the calculations that produced the Figures of Table 1 and Table 2

Table 1:
Net incomes from account balances: these have been obtained using the *Association of Superannuation Funds of Australia* (ASFA) calculator 'Retirement tracker tool' which is located at the web address:
http://www.superguru.com.au/ExternalFiles/calculators/retirement-tracker/#/

Net incomes from South Australian pensions: these have been obtained using online calculators.

Age pension amounts obtained with the calculator at:
https://www.noelwhittaker.com.au/resources/calculators/age-pension-calculator/
Tax payable on taxable income checked with the calculator at:
https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=STC&anchor=STC#STC/questions
Medicare levy payments obtained with the calculator at:
https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=MedicareLevy#MedicareLevy/questions
Senior Australian and pensioner tax offset amounts obtained with the calculator at
https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=BTOSAPTO&anchor=BTOSAPTO#BTOSAPTO/questions
Low income tax offset(LITO), and low and middle income tax offset(LMITO), amounts were calculated in accord with information provided at the web address
https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Low-and-middle-income-earners/

Table 2:
Rows 1,2 and 9 contain figures from Table 1
Salary at retirement(Row 3): this has been calculated assuming that the SA pension is 75% of salary at retirement
Salaries 30 and 40 years ago(Rows 4 and 6): these have been calculated by discounting salary at retirement by 2.75% p.a.
Account balances from 9.5% contributions made for 40 yr and 8.9% contributions made for 30 yr (Rows 5 and 7) have been calculated assuming salary inflation of 2.75%, earning rate of 5% and using the calculator at:
https://www.noelwhittaker.com.au/resources/calculators/super-contributions-indexed/
Account balance at retirement (Row 8): this is the sum of the figures in Rows 5 and 7.
Total net income advantage of account-based superannuation (Row 10): this is the figure in Row 2 minus that in Row 9.

Work test abolition for non-concessional contributions made by people aged over 65
Proposal and supporting argument from SA Superannuants

The proposal: *that all people aged 65 and above be permitted to make non-concessional contributions to superannuation without having to satisfy the work test.*

This will involve no cost to government and would be of benefit to all elderly Australians choosing to make the contributions . The Association proposes that the following tax arrangements would apply to the contributions and the earnings.

- No tax deduction would be allowed for the contributions and no contributions tax would be payable on them.
- The contributions and earnings would have to be held in an accumulation account with annual earnings subject to tax.

To maintain the integrity of the superannuation system these contributions should be subject to annual limits.

This set of arrangements is aimed at assisting people of modest means to get a better return on their savings. The Association believes that the arrangements can only be a winner for the government. The individuals who chose to make use of the arrangements will have to take into account the greater short-term risk that is associated with saving through the superannuation system as compared to bank accounts. The incentive for them to do so is the larger return that superannuation funds are certain to provide over the medium to long term.

It has been put to the Association that people wanting a larger return on their savings can purchase shares and/or invest in managed funds. Our response to this is that many older people have had little experience in making share purchases, or with managed funds, and see these methods of saving as unfamiliar and risky. Superannuation funds, by comparison, are familiar savings vehicles which would be much preferred. Indeed, if investing in shares or managed funds was a viable option for most retirees it would not have been necessary for the Government to allow the proceeds of house downsizing to be placed in the superannuation system.

The calculations set out below demonstrate how superannuation accounts could work to the advantage of fully retired people with little risk of reducing taxation revenue or increasing Centrelink outlays. A bank account interest rate of 2% is compared with a before-tax, and after expenses, return of 6% from a superannuation account.

Example 1: the fully retired person is currently not paying any tax and has $20,000 in a bank account earning 2% p.a. This delivers $400 interest to the person and no tax to the government. If the $20,000 is transferred to the superannuation system it is likely to deliver a 6% return before tax. So the person’s superannuation account balance will increase by $1,200 before tax. The superannuation fund will pay as much as $180 of this in tax to the government and the person’s account balance will increase by at least $1,020 i.e. by at least $620 more than the increase that would have occurred had the money stayed in the bank account.
Result: the government has gained up to $180 in tax revenue and the person has gained at least $620.

Example 2: the fully retired person is currently paying tax at the rate of 19% and has $20,000 in a bank account earning 2% p.a. and the reasoning of example 1 is repeated.

Result: the government gains up to $104 ($180-$76) in tax revenue and the person gains at least $696.

Example 3: the fully retired person is currently paying tax at the rate of 32.5%, plus the medicare levy of 2%, and has $20,000 in a bank account earning 2% p.a.
Result: the government has gained up to $42 ($180-$138) in tax revenue and the person has gained at least $758.

Impact on age pension outlays: where this strategy produces superannuation account balances larger than the original bank account balances, and the person is getting an age pension payment, that age pension payment is going to be reduced. The account balance increases will increase the deemed income used in the age pension income test and increase the value of assets used in the age pension asset test. This is another factor that can only work in the Government's favour.