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Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES, A.C.T. 2600

Dear Sirs,

With regard to the current Retirement Income Review, we would like to submit the undermentioned remarks which relate to your Consultation Questions Number 18 and Number 19 in relation to the sustainability of the current retirement income system.

We have operated our business consultancy company for over 25 years and make this submission on our own behalf and not on behalf of any client.

Over the past 30 years or so, generous taxation incentives have been made available to Australians to encourage them to boost their superannuation savings beyond levels which would have occurred if only compulsory contributions were credited to their superannuation accounts.

Perversely, it is now apparent that, far from achieving the objective of encouraging Australians on middle and lower incomes to voluntarily boost their superannuation savings (and thus rely to a lesser extent on the Aged Pension when they retire), the vast majority of the Commonwealths generous tax concessions for superannuation have gone to wealthier Australians on higher incomes who, in all likelihood, will never meet the means test requirements to qualify for an Aged Pension.

As a simple basis for conducting policy in the area of superannuation, it appears patently obvious that in granting or continuing to offer any type of tax concession, the Commonwealth should expect, and should be able to demonstrate, that a dollar spent on a tax concession today will be more than offset, in net present value terms, by a saving to the Federal Budget in future from a reduced level of Aged Pension payments.

However, in light of the ever increasing amount of taxation concessions being made to an ever increasing pool of superannuation funds built up by Australians, an even more important consideration is just how sustainable Commonwealth Government budgetary outlays will be in future if current policy settings in this area continue as they are.

In seeking to address your Consultation Question Number 18, we believe that Treasury should be directed to undertake a forecasting exercise to estimate the future level of taxation concessions which will need to be made annually in regards to superannuation over the next 20-30 years if current policy settings remain unchanged.

Such an exercise should take into account the likely growth in current superannuation balances and an estimate of growth based on new entrants to the workforce over that time. Also to be factored in would need to be the likely declines in the balances of superannuation accounts for Australians moving from the accumulation phase to the pension phase as well as the likely declines in superannuation balances resulting from a forecast of the demise of existing and future superannuation account holders.

The outcome of such an exercise would provide policy makers with a clear indication as to whether the current system is likely to be sustainable over the next 20-30 years as the Baby Boomer generation reach retirement age and then steadily begin to pass away.

We would also suggest that the results of the forecasting exercise be made public so that the outcomes can be widely discussed and disseminated and, hopefully, Australians across the entire political spectrum can all agree that the issue needs to be addressed.

With regards to Consultation Question Number 19, as well as considering that the current system may not be sustainable (the extent to which could be quantified by the forecast exercise outlined immediately above), we would suggest that the current superannuation system may not even be fit for the purpose it was designed for when compulsory superannuation contributions were introduced some 30 years ago.

At that time, an assumption was made that the level of superannuation contributions made on behalf of Australians would gradually taper up to a level much higher than they have. Because contributions over the past 30 years have been lower than initially forecast, the superannuation balances of lower and middle income Australians are lower today than they were expected to be when forecasts were made 30 years ago. As a result, more Australians are now eligible for the Aged Pension today than was forecast 30 years ago, and Commonwealth budget outlays for Aged Pensions today are greater than they were forecast likely to be.

Additionally, whilst an enormous amount of payments and concessions are made each year by the Commonwealth to encourage Australians to continue to boost their superannuation savings, and thereby try and reduce or eliminate their future dependence upon the Aged Pension, the majority of these Commonwealth outlays continue to flow to wealthier Australians who are never likely to be Aged Pension recipients.

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To more accurately direct the focus of superannuation concessions towards building up the superannuation balances of lower and middle income Australians, we consider that the introduction of a progressive taxation basis within the superannuation arena will help alleviate these concerns, and that consideration of such a system should be considered as a matter of urgency. Such a change to the tax treatment of the superannuation regime could considerably boost the retirement savings of lower paid workers whilst, at the same time, limiting the excessive benefits currently being gained by those on very high incomes or with very high superannuation savings.

Rather than continue to apply the current flat tax rate of 15%, consideration could be given to applying a progressive taxation basis to contributions made to, and income earned by, superannuation accounts.

If, for example, no taxation was payable on the first $10,000 of contributions and income made to/earned by a superannuation account, this of itself would boost the accumulation of assets in every Australian’s superannuation account by $1,500 per annum.

The very rudimentary modeling we have undertaken clearly shows that for low income and part time workers, this would result in a considerable boost to the build-up of their superannuation balance over their working lives.

We submit that such a taxation policy would more efficiently focus Commonwealth spending within the superannuation environment towards reducing the numbers of Australians likely to be dependent on an Aged Pension in the future, and for many Australians who would remain dependent on an Aged Pension, it would reduce their dependence.

As well as introducing a “tax free threshold” for superannuation account incomes and contributions, a progressive taxation basis could also introduce a higher level of taxation (higher than the current flat rate of 15%) above a specified threshold for larger superannuation accounts. This would help ensure that a smaller portion of the current level of tax concessions flow to those with large superannuation balances.

Conceivably, the taxation rates and the taxation thresholds for superannuation accounts could be constructed so that the outcome is fiscally neutral for the Commonwealth but that the outlays made by the Commonwealth are more focused toward building up the superannuation balances of lower and middle income Australians and reducing, or eliminating, their future reliance on an Aged Pension.

Whilst it may be slightly outside the specific role of the Retirement Income Review, we believe it is nonetheless appropriate that you call upon the Commonwealth Government to initiate a thorough review of all Commonwealth outlays in the superannuation environment; with particular focus placed upon quantifying the extent of benefits and concessions paid or provided to those Australians whose higher wealth or higher incomes make it unlikely that they would ever qualify to be a recipient of the Aged Pension.

Furthermore, we would submit that a progressive taxation scheme affecting income earned on superannuation savings would be considered by Australians to produce a much fairer outcome; we have no doubt that all Australians would agree that those with the lowest superannuation balances, not those holding superannuation accounts with multi-million dollar balances, should be the major recipients of government concessions or expenditures in this area.

Notwithstanding these equity considerations, we are conscious that an important objective of your Review relates to the sustainability of the current superannuation system. In this regard we feel our suggestions will, firstly, help the nation and its administrations quantify just how sustainable the current system is in regard to the concessions and benefits currently made available by the Commonwealth and, secondly, help improve the effectiveness of the concessions made available by the Commonwealth – hopefully to the extent that concessions made available now should more than pay for themselves in terms of reduced Aged Pension outlays in future.

We hope our submission is of some use in your deliberations. Should the Review seek any clarification of the relatively brief remarks we've made in this submission, or elaboration upon any of the concepts outlined, we'd be pleased to make ourselves available to contribute.

Yours Faithfully

Geoff Cossar
Director