Submission to the Retirement Income Review
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The concessional contribution allowance should be refined. The present system has a logical flaw, applies unfairly and could be better directed at achieving adequate retirement income.

The logical flaw: Once someone has a superannuation balance that will provide enough to fund a comfortable retirement, there seems to be no logic in the Government providing tax deductions for any further contributions. That money, in effect provided by the Government, is not being directed at "achieving adequate retirement income" because a person with a superannuation balance that will provide a comfortable retirement does not need any further help to achieve that aim. In effect the tax deduction for such a person is an unjustified gift from the Government.

A further logical flaw applies to people over 65 who are still earning. Each year they can withdraw $25,000 from their superannuation tax free and then put the $25,000 straight back into their superannuation fund and claim that contribution as a tax deduction. Again, that tax deduction is a straight gift from the Government none of which contributes to "achieving adequate retirement income". The concession should be adjusted according to how much the person has taken out of the fund that financial year, cutting out altogether if the person has withdrawn $25,000 or more.

The unfairness: At present, the only people who get tax deductions from concessional contributions are those who can afford to make the contribution, typically people in the workforce and on higher incomes – usually men in their 50s. Those on lower incomes or out of the workforce lose the chance to get the concession for the time they are on lower incomes or out of the workforce.

Typically, women are out of the workforce more than men. When their children grow up, they often return to the workforce and get higher pay so they can afford to make deductible contributions. But they are limited to $25,000 a year. Over their lifetime they therefore get less tax benefits than those who have continuous work or lots of years of high enough income to afford to make the deductible contributions.

A way to better direct the benefit: A fairer way to apply tax concessions to superannuation contributions would be not to have a flat limit applying to everyone, but to calculate the amount of concessional contributions a person can make according to how much they have in their account (or accounts), tapering to zero once the person has a balance that will provide a comfortable retirement.

Of course, there will be disagreement as to how much superannuation one might need for a comfortable retirement. However, the principle that once one has that amount there is no logic in the Government providing any further tax incentives is logical and sound policy.

The Association of Superannuation Funds of Australia estimates that the average superannuation balance required to achieve a comfortable retirement would be $640,000 for couples and $545,000 for singles. However, that is very likely much too low, given low interest rates and the inevitability that the economies of scale available to a couple will end at some stage.

Moreover, the aim of superannuation should be to reduce reliance on the aged pension. Realistically, people with balances suggested by ASFA would likely qualify for a part pension before long.

For argument's sake, let's suggest that a superannuation limit of $1 million would be more than adequate for a person's comfortable retirement and there is no need for any further Government help to such a person.

Further, let's look at people who have been out of the workforce or on a low income for a long time. They should get an opportunity to "catch up". They should be granted a higher level of deductible contributions. They should be able to catch up in, say, five to 10 years.

So you could devise a formula to yield the "deductible contribution level" (D), based on the "comfortable retirement" balance (C), the individual's balance (B) and a reasonable catch up time of around 10 years.

D = (C minus B) divided by 10.

Example One. Someone with a $900,000 balance. Their deductible contribution would be $1 million minus $900,000 divided by 10, which is $10,000.

Example Two. Someone with a $200,000 balance. Their deductible contribution would be $1 million minus $200,000 divided by 10, which is $80,000.

Now, it may be that the equation needs to be tweaked a bit according to what the Budget can afford, but the over-riding principle is sound: people with low balances should be able to make higher "catch-up" deductible contributions and people with high balances should only be allowed smaller deductible contributions or none if their balance reaches the point of being adequate for a comfortable retirement.

Tax on superannuation earnings: With the present flat tax of 15 per cent on earnings, the vast bulk of the total tax concessions goes to people on higher incomes who would otherwise have their earnings taxed at more than 40 per cent.

High-income people usually have higher balances so gain bigger benefits. The tax on superannuation earnings should be made progressive, but not based on income, but rather based on the balance of the person's superannuation account or accounts. Say, zero on balances up to $100,000, 15 per cent up to $750,000, 30 per cent up $1.5 million and 40 per cent thereafter. Or it could be more gradually stepped.

The importance of a progressive rate based on the balance is that it is fairer to people with low balances, especially women who have often been out of the workforce caring for children.

Some further points: Some people and organisations have argued that the 9.5% employer contribution should not be increased. There are several sound arguments as to why it should continue to increase as legislated to 12%.

At present MPs get 15.4% paid into their superannuation. So unless MPs' superannuation is cut to 9.5%, any repeal of the 12% for everyone else could be seen as hypocrisy.

Whatever is seen sustainable, in the national interest, equitable and economically sound for the mass of Australian workers should also be applied to the superannuation scheme of federal members of Parliament.

Arguments that people should not be forced to save and should have access to their money now are flawed. Without compulsory saving people would not save enough for their retirement as the history before the scheme shows.

The other reason to increase the rate to at least 12 per cent, if not to the MPs' rate of 15.4 per cent, is the great boost it has given the Australian economy. Since the scheme started in 1992 Australians have accumulated nearly $3 trillion ($3,000 billion) in their funds.

Since then, Australia's net foreign liabilities have been steadily falling as the funds have grown and invested more at home displacing foreign money or invested overseas. For first time in modern history Australians own more in foreign shares than foreigners own in Australian shares. That would simply not have happened without the scheme. Foreigners would have bought even more of the farm than they have.

Lastly, the scheme addressed an historic wrong in Australian society when until 1992 only professionals and high-income earners got decent retirement benefits and the workers were thrown on to the age pension to eke out their time living hand to mouth.

It would be a major injustice to slow, halt or reverse the amounts paid in the compulsory scheme. To halt it at 9.5 per cent would in effect give retiring workers just enough to disqualify them from the aged pension and little more – not correcting the historic wrong and not providing decent retirement income for all.

31 January 2020.