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Mythbusting superannuation tax concessions

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Mythbusting superannuation tax concessions

Given the ongoing public debate and discussions between the government and key stakeholders on a broad range of possible tax reforms, including in regards to superannuation tax concessions, it is crucial that conversation and decision-making take place in the context of accurate information.

Australia faces an ageing population with escalating pension, health and aged-care expenditure. Governments will face challenges in setting a tax framework policy that will help accommodate the costs of supporting older generations throughout their retirement years. An informed debate will allow the government and community stakeholders to reach a consensus on ways to adjust the current superannuation system, to ensure it remains sustainable and equitable.

While this debate is both welcome and necessary, it is important that discussions are based on, and decisions are made in, the context of accurate information, and not based on some of the myths that are perpetuated by inaccurate data, dubious analysis or assertions not backed by evidence.

In this context, this paper busts some of the key myths regarding superannuation tax concessions.

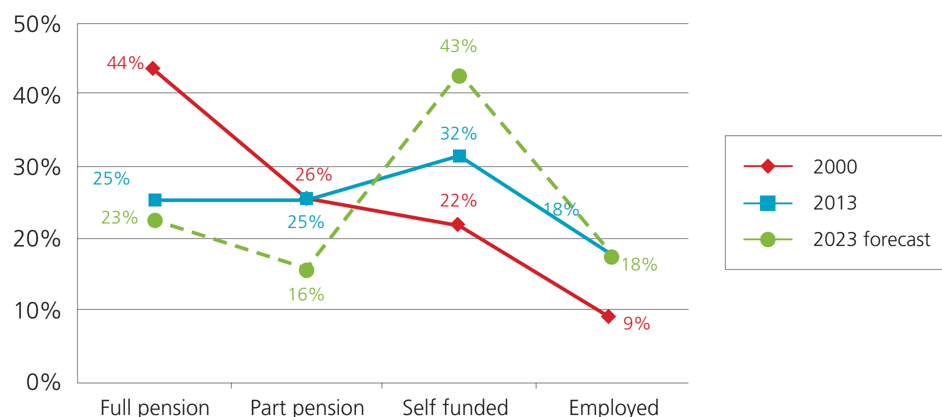
MYTH: Superannuation is not helping reduce the government's spending on the Age Pension

FACT: Super saves the government $7 billion in Age Pension expenditure annually, and these savings will only increase as the system matures

Superannuation is boosting incomes and providing a lifestyle in retirement that is better than that which can be sustained on the Age Pension alone. Around 32 per cent of those aged 65 in 2013 were fully self-funded in retirement, up from 22 per cent in 2000. We project this number will rise to 43 per cent by 2023. The Intergenerational Report (IGR) released earlier this year acknowledges that reliance of younger retirees on the full Age Pension is dropping. However, the figures published do not show the reliance on the Age Pension falling as much as the numbers in chart below. This is because the IGR looks at all retirees (not just those turning 65). The tightening of the asset test that will apply from 1 January 2017 will also reduce the percentage of retirees receiving the Age Pension.

One of the challenges still facing the system is ensuring retirees have adequate superannuation in retirement, particularly in the later years of their retirement. Reforms such as increasing the Superannuation Guarantee (SG) from 9.5 to 12 per cent and the development of longevity products (reflecting that we are living longer) will further reduce pressure on the Age Pension.

Retirees at Age Pension eligibility age



Source: ASFA Research Centre, 2015.

More than $7 billion a year is already cut from the Age Pension bill due to individuals having superannuation savings. This includes:

- around $3 billion in savings annually from around 160,000 people with super balances sufficient to be fully self-funded
- around $3 billion in savings from around 500,000 people receiving around $5,000 on average a year less from the Age Pension due to the income test on superannuation income streams

- over $1 billion in savings from around 150,000 people, including many in defined benefit schemes, no longer receiving a part Age Pension because of the income test.

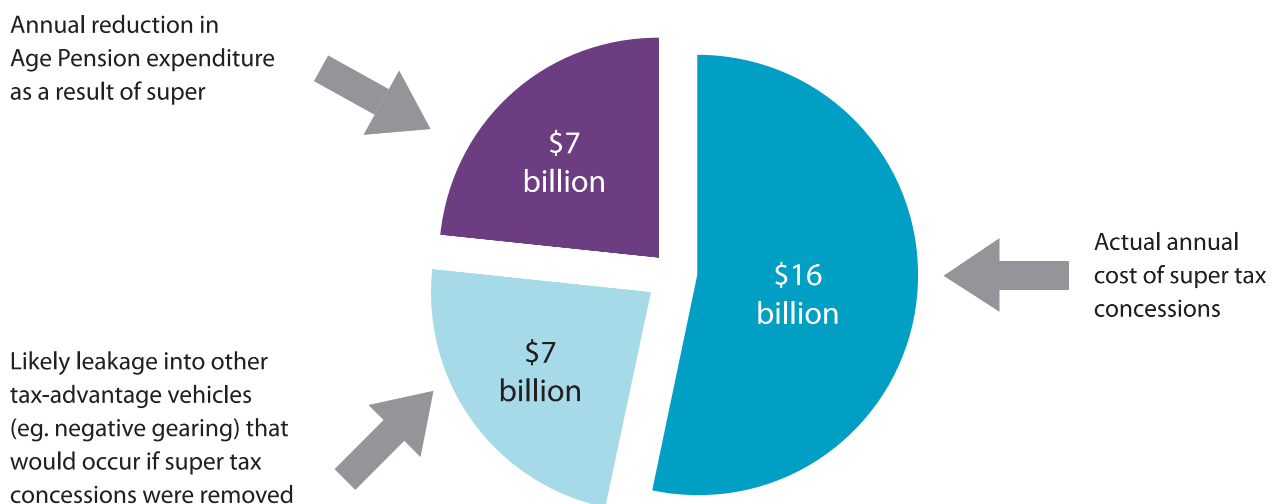
These amounts will increase in the years ahead as more Australians retire with substantial superannuation balances.

MYTH: Superannuation tax concessions cost the budget $30 billion annually – more than the total spending on the Age Pension

FACT: The actual cost of tax concessions is around $16 billion a year

When you take into account the savings the government makes on the Age Pension as a result of super, and the impact of behavioural change (people shifting money from one tax-effective vehicle to another) that would occur if super tax concessions were removed, a more accurate estimate would be around $16 billion a year. This is shown in the diagram below.

With the current legislated settings for the SG, expenditure on the Age Pension is projected to reach 3.6 per cent of GDP in 2054/55. In the absence of superannuation savings, expenditure on the Age Pension would be likely to reach 5.5 per cent or more of GDP and retirement incomes on average would be lower.



MYTH: The majority of government support for retirement goes to high-income earners

FACT: Financial assistance for retirement provided by the government is broadly comparable across the personal income tax brackets

All Australians receive financial support for their retirement from the government through either the Age Pension, tax concessions to fund their own retirement through superannuation, or a combination of both. When both of these forms of assistance are summed across a lifetime, all Australians receive around $300,000 across all tax brackets as a contribution by the government to their retirement. The main difference for individuals is in the timing and vehicle through which it is delivered. For example, the full Age Pension for a single person is currently $22,542 a year, while tax concessions for superannuation are generally for smaller annual amounts spread over a number of years. That is, everyone receives the same amount of assistance from the government – the only difference is the timing and vehicle through which it is delivered.

A lower-income person will receive this mostly in the form of the Age Pension, concessionally-taxed contributions and the low income superannuation contribution (while it still remains in place), while a person in the top income tax bracket

will receive it as tax concessions for super. Many will receive a combination of all of these.

What's more, the amount of government assistance provided to individuals on very high income levels has been substantially reduced though lower caps for tax concessional contributions to super.

MYTH: The bulk of tax concessions for superannuation contributions go to high-income earners

FACT: The bulk of tax concessions for superannuation concessional contributions go to middle-income earners

Tax concessions applied to superannuation concessional contributions are not significantly skewed towards high-income earners, and, in fact, support the bulk of the working community to save for their retirement. ASFA analysis of data from 2011/12 found that around 75 per cent of the tax concessions applied to contributions went to those paying either of the (then) middle income marginal tax rates of 30 per cent or 38 per cent: those earning between $37,000 and $180,000 a year.

		Share of tax concessions (%)		
Taxable income range ($)	Share of total contributions (%)	Contributions	Investment earnings – accumulation phase	Investment earnings – pension phase
0 – 6,000	1	2	-0.4	0
6,001 – 37,000	14	12	1	41
37,001 – 80,000	43	38	35	29
80,001 – 180,000	33	35	42	22
180,000+	10	13	23	8

This shows that the contribution caps, which have been lowered substantially over the past few years, are working to reduce the concessional contributions made by upper-income earners, while continuing to provide support to the majority of Australians to help them save for their retirement.

However, some individuals have accumulated relatively high superannuation balances through contributions and transfers made before the contribution caps came into effect. ASFA has recommended that the tax treatment of very high superannuation account balances, in particular those in excess of $2.5 million that are in the pension phase, should be the starting point for discussions around ensuring the future equity and sustainability of the system.

MYTH: The most important tax concessions received by high-income earners relate to superannuation

FACT: High-income earners get the most benefit from concessional capital gains tax treatment, negative gearing and exemptions for the family home

The bulk of the wealth of high-net-worth individuals is in the form of shareholdings or property, both residential investment properties and commercial real estate. Around $360 billion in total is held in superannuation by those with more than $1 million in super. This is just over 20 per cent of the $1.6 trillion investable assets held by high-net-worth individuals.

For most high-net-worth individuals, tax arrangements relating to capital gains, negative gearing and the family home are likely to have more impact on the achievement and maintenance of wealth than superannuation tax concessions.

MYTH: Only high-income earners make salary sacrifice contributions

FACT: Many middle-income individuals make salary sacrifice contributions

Only around 35 per cent of employees with incomes above $150,000 a year make salary sacrifice contributions. Around 85 per cent of salary sacrifice contributions relate to employees with incomes below $150,000 a year. Over half a million Australians earning between $40,000 and $80,000 a year make salary sacrifice contributions.

MYTH: Most people take a lump sum from their super when they retire, spend it all on a big holiday or to pay off debt, then end up on the Age Pension

FACT: The majority of superannuation assets end up in income-stream products when people retire

There is no evidence that the majority of retirees are using their super to pay off debt or using a lump sum to fund the purchase of boats, cars and overseas trips before going on the full Age Pension.

In fact, only a minority of households have debt around the time of retirement (only 18 per cent of 65-69 year olds, falling to 6 per cent for those 70 plus), and even then, they generally have assets outside super which they can use to pay it off.

The vast majority of Australians are very sensible with what they do with their retirement savings. The great bulk of larger balances are retained in the superannuation system in order to generate ongoing income in retirement. In 2013/14, around $46 billion in superannuation assets were invested in phased drawdown income-stream products, compared to just $9 billion taken as lump sums. many individuals taking a lump sum also establish an income stream with only around $5 billion taken as a full lump sum payment of superannuation savings.

MYTH: Compulsory superannuation has not increased household or national savings

FACT: National and household savings have been substantially lifted by compulsory super

The household savings rate has increased by around five percentage points from five per cent in 1992, when compulsory superannuation was first introduced, to around ten per cent in 2013/14. Some analysts have concluded that the household savings rate would only be two per cent in the absence of compulsory superannuation, as other developments have been driving the household savings rate down.

While there has been some offsetting reduction in voluntary savings because of compulsory superannuation, especially by higher-income earners, compulsory super currently is injecting an additional amount in excess of $35 billion a year into household savings, or 50 per cent of the total SG contributions flowing into superannuation.

MYTH: Government funds spent on superannuation tax concessions would be better directed at helping other areas of the economy

FACT: Superannuation provides broad economic benefits that are the foundation for growth and prosperity

Superannuation plays, and will continue to play, an important role in providing the foundations for economic activity and prosperity. It currently lifts household savings by around two percentage points of GDP or nearly $40 billion a year and, with the increase in the compulsory SG from 9.5 per cent to 12 per cent, this is expected to rise to 2.5 percentage points of GDP. This helps Australian businesses and governments to finance investment and infrastructure without having to rely unduly on foreign savings and investment. Higher levels of domestic savings reduce the cost of capital in Australia, increasing investment by Australian businesses which drives stronger economic growth.

Superannuation benefit payments, including lump sums, pension payments and insurance payouts, also boost domestic demand by over $50 billion a year, a figure which could quadruple by 2040 as more people move into retirement. The ageing population is expected to slow GDP growth, and, without superannuation, this reduction would be much greater. This is because superannuation provides business with the consumers of the future, delivering a boost to the economy which benefits all Australians.

Through their superannuation, all Australians have a stake in the Australian economy through the shares they own indirectly in the superannuation fund.

MYTH: Private superannuation savings could be confiscated

FACT: Superannuation entitlements and account balances are strongly protected by law

Some media reports earlier this year have suggested that the current system of superannuation savings could be nationalised. These reports point to the introduction of measures which treat certain lost or inactive superannuation accounts as unclaimed with payment of the balances into consolidated revenue. However, the reality is that individuals can have any unclaimed superannuation monies paid into their active superannuation by simply applying to the Australian Taxation Office (ATO). This can be done in minutes by making use of the online facility provided by the ATO.

No political party in Australia has a policy which would involve the nationalisation of superannuation savings. In addition, Section 51(xxxi) of the Constitution of Australia limits the power of the Australian government in this area to "the acquisition of property on just terms from any State or person for any purpose in respect of which the Parliament has power to make laws." It is a constitutional guarantee of just compensation. Such a constitutional protection does not apply in some Eastern European countries where private pension savings have been nationalised.