



Equity and superannuation ASFA Policy & Research Paper

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ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its \$3.4 trillion in retirement savings.

Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 17 million Australians with superannuation.

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Executive Summary

- Superannuation is the most commonly held asset for households apart from bank accounts and motor vehicles. Other assets (apart from owner occupied property) are held by only by a relatively small proportion of households with average and median balances quite low in most cases. It is for only a small minority that other financial assets are of relevance to wealth and retirement savings.
- Superannuation currently is substantially improving retirement incomes **for nearly 2 million retired Australians** by providing regular income streams. **Around 600,000 households, nearly 1 million Australians, are mainly dependent on superannuation in retirement.** Many more retirees also have benefitted by taking lump sum benefits either at retirement or during retirement.
- As a result of increasing superannuation account balances, at Age Pension eligibility age an increasing proportion of retirees have substantial private incomes. **Only around 40 per cent of the age group 66 to 69 currently receive the Age Pension.**
- **Currently around 30 per cent of couples and singles reach or exceed the ASFA Comfortable Standard** and projections indicate that the superannuation system as it matures will play a crucial role in improving retirement living standards. **By the year 2050 ASFA projections indicate that around 50 per cent of retiree households will be able to afford expenditure at the level of ASFA Comfortable or above.**
- **While not traditionally considered to be a redistributive mechanism with equity objectives, the operation of insurance delivered through superannuation has a strong redistributive effect.**
- Through superannuation around 8.6 million Australians have Death cover, around 7.7 million have TPD cover and around 3.9 million have temporary disability income replacement insurance. The total value of insurance cover amounts to a massive \$3.3 trillion. While only a small proportion of those covered will make a claim in any given year, over a 40 year working life an individual (or their dependents) has about a 1 in 5 chance of receiving an insurance benefit through group superannuation coverage.
- The level of taxpayer support for retirement income in Australia is at relatively low levels in terms of expenditure as a proportion of GDP. **Across the OECD, expenditure on publicly funded pensions averages 8.8 per cent of. In contrast, Age Pension spending is low and stable in Australia as a percentage of GDP, increasing by a meagre 0.2 percentage points to 2.4 per cent between June 2001 and June 2019.**

- Many OECD countries offer favourable tax treatment with respect to retirement savings made through private pension plans, not just Australia. Even when the cost of Australia's superannuation tax expenditures is included using a very comprehensive cost measure the broader cost of Australia's system to the government is remarkably low by international standards. **The total cost of Age Pension and superannuation tax concessions is projected by the Retirement Income Review (RIR) to be around 5.0 per cent of GDP by the year 2060, a very modest amount in international terms.**
- Recent reforms have limited the superannuation tax concessions flowing to those on higher incomes and/or with relatively high balances. Treasury has estimated that between 2018-19 and 2021-22 there was an average decrease of 0.9 per cent per year in the cost of taxation concessions for superannuation investment earnings. Treasury also has estimated a modest increase of 1.5 per cent a year for such concessions over the Forward Estimates.
- **Introducing higher rates of taxation for balances over \$3 million is projected to lead to a 9.5 per cent decrease in tax concessions in relation to investment earnings. Those affected are mostly aged 60 and over, with around two-thirds male. Around half are retired with those still in employment or business mostly involved in professional roles.**
- However, ASFA recommends that eligibility for the Low Income Tax Offset (LISTO) be extended and that SG apply to Paid Parental Leave to make the system more equitable.

Introduction

Key objectives behind the provision of government assistance for retirement income provision are to encourage savings, help ensure adequate and sustainable retirement incomes and to treat individuals equitably both in their working life and in retirement.

The availability of superannuation will provide a higher standard of living to Australians in retirement than what is provided by the Age Pension alone.

Superannuation tax concessions provide encouragement for individuals to save for their retirement principally through supplementing personal and employer contributions. This allows individuals to obtain a more optimal spread of consumption over their lifetime. Without such concessions Australians generally would not save enough to generate an income that would provide dignity and comfort in retirement. While the Age Pension provides sufficient income to just avoid poverty in retirement, it does in itself support dignity or adequacy in retirement.

Currently and for the foreseeable future most individuals will rely on a mixture of private savings, principally superannuation, and the government provided Age Pension for their income in retirement. Private savings provide a supplement to the Age Pension, but also have the effect of reducing reliance on social security. This has implications for the aggregate call on government expenditures.

Perceptions as to adequacy, equity and fairness of these various arrangements are important if voluntary and compulsory savings through superannuation and the government's retirement income strategy are to have the confidence and support of the community.

The importance of superannuation in household savings

Superannuation is the major financial asset of households.

As shown by Table 1, superannuation is the most commonly held asset apart from bank accounts for households with the highest income earner aged 15 to 64. Other assets (apart from owner occupied property) are held by only by a relatively small proportion of households with average and median balances quite low in most cases. Only a small proportion of the population have other financial assets that are materially relevance to wealth and retirement savings.

While privatisation and demutualisation of certain businesses led to a spike in the ownership of equities 20 years ago, the incidence has declined over time. In contrast the coverage of superannuation has increased over the last 20 years.

Table 1: Percentage of households with asset type

Year	Home	Other property	Superannuation	Equities	Bank accounts	Business
2002	68.4	16.6	76.8	41.0	97.5	12.7
2018	64.3	20.9	84.7	29.3	98.0	9.9

Source: [HILDA-Statistical-report-2020.pdf \(unimelb.edu.au\)](https://www.unimelb.edu.au/files/2020/04/HILDA-Statistical-report-2020.pdf) page 118

As indicated by Table 1, the coverage of superannuation has increased over time for households for households with the highest income earner aged 15 to 64, from 76.8 per cent of households in 2002 to 84.7 per cent in 2018.

The average superannuation balance held also nearly doubled in real terms over that period (Table 2), reflecting the increase in the rate of compulsory contributions, the growing maturity of the system and strong investment returns.

In contrast the average value of equities hold by households has increased only marginally, with the average value of business assets held falling. Each of these asset categories are also held by only a small minority of households.

Table 2: Average value of each asset type across households, 2018 prices

Year	Home	Other property	Superannuation	Equities	Bank accounts	Business
2002	\$305,000	\$73,000	\$122,000	\$47,000	\$35,000	\$60,000
2018	\$509,000	\$161,000	\$240,000	\$44,000	\$70,000	\$44,000

Source: [HILDA-Statistical-report-2020.pdf \(unimelb.edu.au\)](https://www.unimelb.edu.au/files/2020/09/HILDA-Statistical-report-2020.pdf) page 118

The importance of superannuation for household savings is also clearly indicated by recent ABS data on Household Finance and Wealth¹. As at June 2022, Australian households had a total of **\$3,378 billion in superannuation, \$1,505 billion in currency and deposits, \$1,226 billion in shares and equity and \$487 billion in consumer durables.**

The ABS also publish data on the percentage of households holding various financial and other assets². These indicate that in 2019-20, 82.9 per cent of households had superannuation, 22.8 per cent of households had shares (excluding their own business) and 23 per cent had holdings of real property other than owner occupied dwelling.

For the great bulk of households (over 80 per cent) superannuation together with owner occupied housing are the dominant forms of saving to support living standards in retirement. Only a relatively small proportion of households (around 20 per cent or so) have other significant assets in the form of shares or investment property.

1 <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-finance-and-wealth/jun2022>

2 [Household Income and Wealth, Australia, 2019-20 financial year | Australian Bureau of Statistics \(abs.gov.au\)](https://www.abs.gov.au/australian-bureau-of-statistics/publications/australian-household-income-and-wealth/2019-20)

The impact of superannuation on retirement outcomes

Superannuation is substantially improving retirement incomes for nearly 2 million retired Australians by providing regular income streams. The ABS data also indicate that in 2019-20 around 580,000 households, encompassing over 1 million Australians, were mainly dependent on payments from superannuation. This is nearly double the number of households mainly dependent on superannuation in 2009-10. For those dependent on superannuation income, around 75 per cent of such households have less than 20 per cent of their income from government pensions. Many more retirees also have benefitted by taking lump sum benefits either at retirement or during retirement.

By 2021-22, there was a total of \$59 billion in superannuation income payments in retirement, (Table 3), which is greater than the annual Age Pension expenditure of around \$51 billion in that year³.

Table 3: income stream payments from APRA funds and SMSFs (a)

Income year	SMSF income stream payments (\$ billion)	Total income stream payments for APRA funds with greater than four members (\$ billion)
2021-22	18.4	40.4
2020-21	18.1	38.5
2019-20	19.3	40.9
2018-19	22.7	39.2
2017-18	24.4	36.4
2016-17	36.2	34.5

(a) Figures from APRA Annual Superannuation Bulletin June 2022, Excel version Table 2

Historically the Age Pension has been the main source of income for most retirees in Australia. Government pensions and allowances were the most common main source of income for the 3.9 million retirees in Australia in 2018–19 aged 45 and over (49 per cent for men; 44 per cent for women), followed by superannuation (30 per cent for men; 17 per cent for women).

However, this is beginning to change with increasing superannuation balances and with more retirees relying mainly on superannuation. As shown by Table 4, in 2021-22 (for

3 [2021-22-annual-report.pdf \(dss.gov.au\)](https://www.dss.gov.au/2021-22-annual-report.pdf)

funds with more than six members) there were around 1,370,000 persons who received regular income from account based income streams. There also were 99,000 persons receiving annuity payments (both term and lifetime) along with 159,000 persons receiving defined benefit pensions, (mostly related to former public service employment). The total amount of pensions paid by funds with more than 6 members increased from **\$28.4 billion in 2014-15 to \$40.4 billion in 2021-22**.

A further 81,000 persons received transition to retirement pensions in 2021-22. These pensions have become less popular due to changes in their taxation treatment. In 2016-17 there were 162,000 persons receiving such pensions from funds with more than four members.

Table 4: Superannuation income streams, 2021-22 (a)

	Total account based	Annuity	Defined benefit pensions
Number	1,370,000	99,000	159,000
Average annual payment	\$20,353	\$47,294	\$25,426

(a) Payments from funds with more than 6 members.

Source: APRA Annual Superannuation Bulletin

There also are very substantial numbers of persons (over 330,000 in 2019-20) receiving income stream benefits from Self-Managed Superannuation Funds (SMSFs). SMSFs have a substantial proportion of their membership in the retirement phase.

The average income stream benefit paid by an SMSF was around \$47,900. This is significantly higher than the average for APRA regulated funds, reflecting the higher average account balances in SMSFs. Income stream payments in 2019-20 would also have been affected by the temporary reduction in minimum draw down rates. The minimum annual payment required for account-based pensions and annuities, allocated pensions and annuities and market-linked pensions and annuities was reduced by 50 per cent for the 2019–20, 2020–21, 2021–22 and 2022-23 financial years.

The evidence available indicates that in most cases individuals draw down entirely on their superannuation during retirement rather than leaving a substantial amount for a spouse or children⁴. The findings of the ASFA 2021 paper are confirmed by more recent ABS data which indicate that in 2019-20 for those aged 75 and over, only 41.7 per cent of males and 29.5 per cent of females had a superannuation account balance or were receiving income from superannuation (which would include receiving a defined benefit pension which cease on death).

4 [Super balances just before death Paper v1.indd \(superannuation.asn.au\)](#)

Table 5: Percentage of older Australians with superannuation

Age	2017-18			2019-20		
	Males	Females	Total	Males	Females	Total
65-74	62.3	50.6	56.3	62.7	53.8	58.0
75 and over	33.8	25.8	29.5	41.7	29.5	34.9
Total 65 and over	51.3	40.0	45.4	54.1	43.4	48.5
Total	74.4	69.5	71.9	78.0	70.9	74.4

(a) Includes persons with a superannuation account balance above zero and/or receiving regular income from superannuation and/or who received a lump sum superannuation payment in the last two years

(b) The number of persons with superannuation coverage expressed as a percentage of total persons in the corresponding group (age and sex)

ATO sample file data indicate that in 2019-20 for the 2.9 million Australians aged 70 and over, only 540,000 had more than \$1,000 in superannuation, around 310,000 had more than \$200,000 and only 180,000 had more than \$500,000. Most of the higher balances are held by members of SMSFs. In 2019-20 there were around 115,000 members of SMSFs aged 70 and over receiving income streams and with balances over \$500,000.

However, **overall 90 per cent or more of those aged 70** and over pass away with little or no superannuation, having drawn down on their balances after their retirement.

That said, some individuals do have significant balances in superannuation. In 2019-20 around 35,000 individuals had more than \$3 million in superannuation, with around 90 per cent of them in SMSFs. The number is expected by Treasury to grow to around 80,000 by 2025-26. In 2019-20 there were around 80,000 individuals with more than \$2 million in superannuation.

ATO sample file data indicated that the bulk of individuals with these high balances are aged over 65. The higher taxation that is proposed on investment earnings associated with these large balances will help address concerns about tax advantaged balances within superannuation being associated with estate planning purposes rather than for retirement income.

As well, the large and growing pool of superannuation assets is positively influencing both adequacy of retirement incomes and sustainability of government expenditure on the Age Pension.

As a result of increasing superannuation account balances, at Age Pension eligibility age an increasing proportion of retirees have substantial private incomes, which increases retirement incomes, decreases the proportion of retirees who receive a full Age Pension and increases the proportion who receive no Age Pension at all.

Already there has been a fall in the percentage of new Age Pensioners who are on the full Age Pension and an increase in the percentage who at the time of retirement are fully self-funded.

As shown by Table 6, **only around 40 per cent of the age group 66 to 69 currently receive the Age Pension.**

Take-up rates vary between each State and Territory, largely driven by differences in average superannuation balances. For instance, in the Australian Capital Territory coverage of superannuation and average superannuation balances are higher than the national averages. There also is a relatively high incidence of defined benefit pensions in the Australian Capital Territory.

Table 6: Age Pension recipients by state and territory by age group, December 2021

State	% of age group 66-69 receiving Age Pension	66-69	70-74	75-79	80-84	85-89	90 and over	Total
ACT	25%	3,471	6,490	5,936	4,569	2,800	1,556	24,822
NSW	40%	128,234	212,236	183,079	136,428	84,753	48,810	793,540
NT	36%	2,374	3,442	2,224	1,379	595	281	10,295
QLD	44%	89,115	145,626	120,786	82,250	46,869	25,459	510,105
SA	45%	35,344	57,820	49,693	36,656	23,255	13,980	216,748
TAS	47%	12,605	20,399	16,891	11,888	6,701	3,366	71,850
VIC	38%	93,749	159,547	139,243	105,798	67,158	37,993	603,488
WA	41%	41,107	66,419	54,366	40,299	24,238	13,131	239,560
Total	42%	415,034	694,215	594,107	436,816	266,719	149,172	2,556,063
% of age group receiving Age Pension		42%	63%	77%	83%	84%	71%	65%

Source: Department of Social Services Demographic Data, ABS Population Estimates

In 1997, the take-up rate for the Age Pension and the age-related Veterans Pension for those aged 65 and over was 79 per cent. By 2007, this had fallen to 75 per cent. As shown by Table 6, it is now around 65 per cent for those eligible by age to receive the Age Pension. **If the takeup rate for the Age Pension in 1997 applied to the Age Pension in 2021 there would be around 550,000 extra Age Pensioners, increasing the cost of providing the Age Pension by about 20 per cent.**

As people age, their receipt of the Age Pension generally increases. This makes sense as older age groups had less or no time in the compulsory superannuation system. Superannuation balances also generally decline with age as balances are drawn down.

However, greater wealth is associated with longer life expectancy so there is a small decline in the relative incidence of accessing the Age Pension after age 90 for the relatively low number of Australians in that age category. As well, most individuals aged over 90 are single and subject to the relatively tighter asset test for singles.

The take-up rates for the Age Pension will decrease further as superannuation balances increase and if the trend for more people to remain in paid work after age 65 continues. The decrease in take-up will be particularly marked for those in their late 60s.

Currently just under 20 per cent of those aged around 67 are still in paid employment with a further 40 per cent or so self-funded (or at least not eligible for the Age Pension).

Currently around 30 per cent of couples and singles reach or exceed the ASFA Comfortable Standard and projections indicate that the superannuation system as it matures will play a crucial role in improving retirement living standards. By the year 2050 ASFA projections indicate that around 50 per cent of retiree households will be able to afford expenditure at the level of ASFA Comfortable or above.

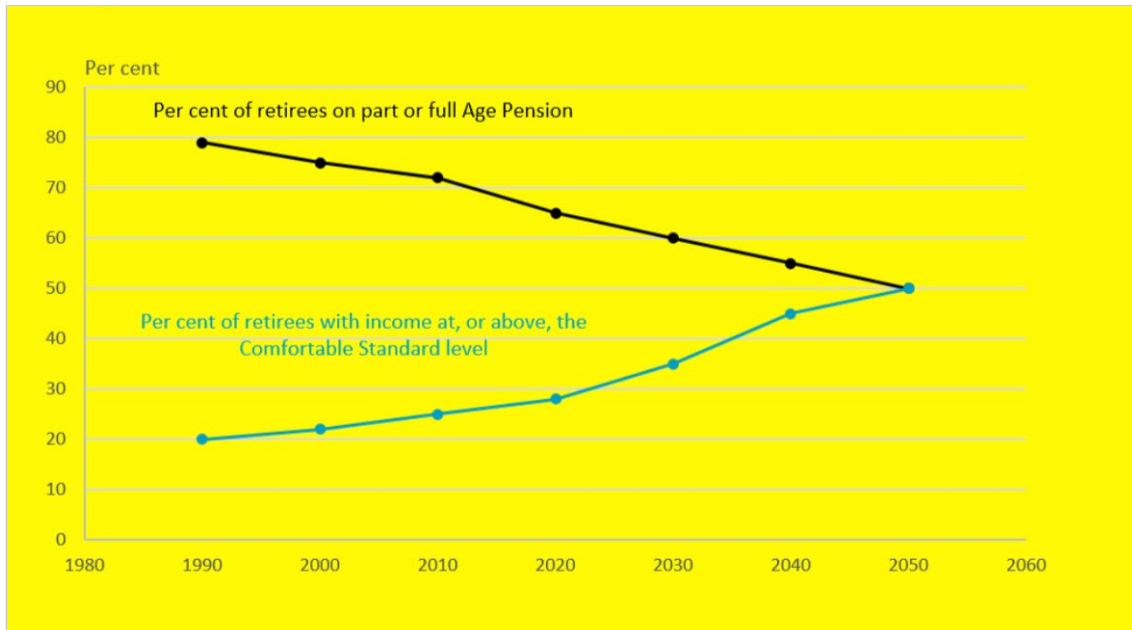
Consistent with ASFA projections, projections published by the Retirement Income Review indicate that by the year 2060 around 50 per cent of the Age Pension population group will be totally self-funded. Of the 50 per cent, around 40 per cent will be part-rate pensioners. In comparison, currently only around 35 per cent of the total Age Pension population are self-funded with only around 32 per cent Age Pension recipients on a part-rate pension.

As a result, according to the RIR Report, Age Pension expenditure as a percentage of GDP is expected to fall moderately over the next 40 years, from 2.5 per cent in 2020 to 2.3 per cent in 2060. This is despite the population over Age Pension eligibility age being expected to grow faster than the working-age population, leading to fewer working-age people for each person of Age Pension eligibility age.

Across the OECD, expenditure on publicly funded pensions averages 8.8 per cent of GDP and is projected to increase to 9.4 per cent by 2050. Some European countries already have four times the level of Australian expenditure, with this projected to rise further. Those countries where expenditure on public pensions is expected to increase (in the absence of reform) include Canada, Germany, New Zealand, the United Kingdom and the United States. In contrast, as noted earlier, Australian expenditure is already relatively low as a percentage of GDP and is expected to decline.

As shown by Chart 1, the growth in the percentage of retirees reaching ASFA Comfortable (largely through the growing maturity of the compulsory superannuation system) is accompanied by a fall in the percentage of retirees who receive a part or full Age Pension.

Chart 1: Projections of reliance on the Age Pension and also for reaching ASFA Comfortable Retirement Standard

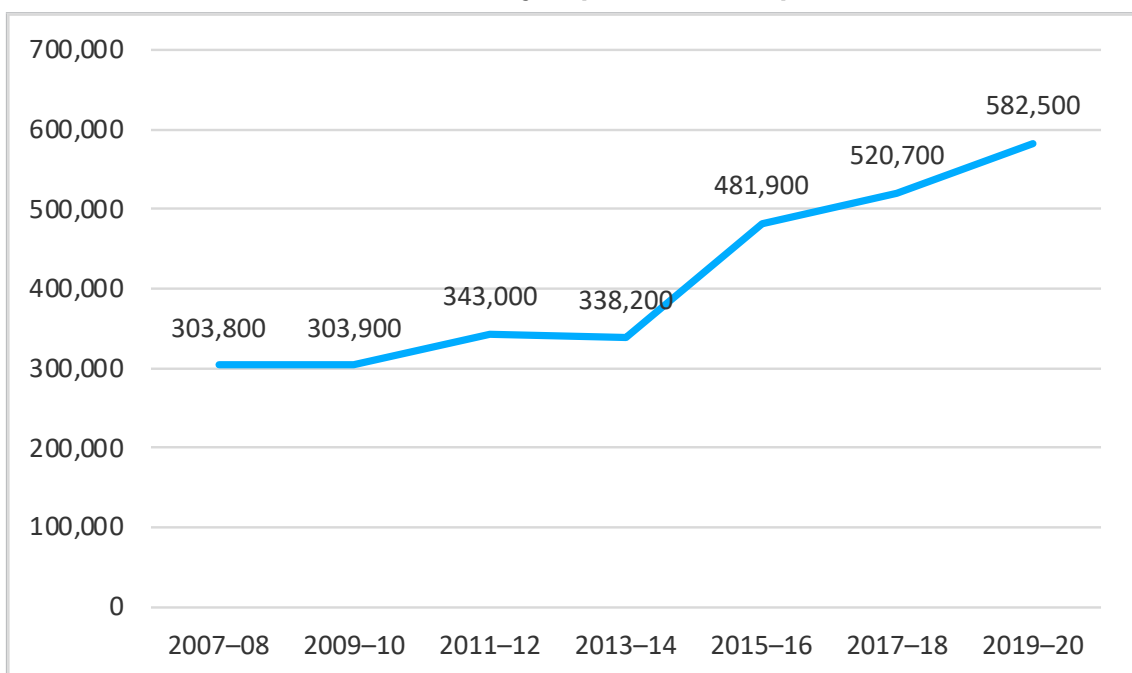


Source: Department of Social Services demographic data and ASFA estimates

Note: Per cent of retirees on Age Pension and per cent achieving ASFA Comfortable do not necessarily add up to 100%. Some retirees at ASFA Comfortable or above will receive the Age Pension after drawing down on their superannuation

Consistent with this, the maturing compulsory superannuation system has led to a substantial increase in households that are mainly dependent on superannuation rather than being mainly dependent on the Age Pension (Chart 2).

Chart 2: Number of households mainly dependent on superannuation income



The redistributive and equity enhancing effects of insurance cover delivered through superannuation

While not traditionally considered to be a redistributive mechanism with equity objectives, the operation of insurance delivered through superannuation has a strong redistributive effect. Those who stay alive and in employment in effect provide support for those who suffer temporary or permanent inability to work or who lose financial support due to a death in the family.

As indicated by Table 7, through group insurance arrangements in superannuation around 8.6 million Australians have Death cover, around 7.7 million have TPD cover and around 3.9 million have temporary disability income replacement insurance. The total value of insurance cover amounts to a massive \$3.3 trillion. While only a small proportion of those covered will make a claim in any given year, over a 40 year working life an individual (or their dependents) has about a 1 in 5 chance of receiving an insurance benefit through group superannuation coverage.

Table 7: Group insurance coverage through superannuation and insurance benefit payments

	As at 31/12/2021		
	Lives insured	Annual premium (\$ thousand)	Sum insured (\$ million)
Death	8,576,000	2,099,606	1,877,446
TPD	7,674,000	2,359,518	1,435,351
Disability Income Insurance	3,865,000	1,894,397	13,915 (monthly)

In the 2021 calendar year around 16,000 TPD benefit payments were made from superannuation funds amounting to over \$2.2 billion being received by fund members according to APRA statistics. There were over 10,000 death benefit insurance claims totalling \$1.4 billion paid and more than 19,000 income protection claims paid (Table 8).

As indicated in the Table, the great bulk of insurance claims are accepted and paid. Some TPD claims are rejected because cover for an individual has lapsed or because the individual does not satisfy the requirements for a TPD payment. The assessment of a TPD also involves consideration of a range of factors which in some cases can take some time to assess and/or for an individual's condition to stabilise.

Table 8: Insurance claims through group superannuation cover finalised and paid in 2021

Finalised Claims accepted and paid			
	Number of claims	% of finalised	Average sum insured
Death	10,135	98.3%	\$137,000
TPD	16,052	89.4%	\$136,000
Disability Income Insurance	19,394	95.9%	\$4,000 a month

Source: APRA Life insurance claims and disputes data, December 2021 (issued 19 April 2022)

Note: Sum insured for DII is expressed as a monthly benefit.

The sustainability of the age pension and superannuation tax concessions

The level of taxpayer support for retirement income in Australia is at relatively low levels in terms of expenditure as a proportion of GDP. As noted earlier in this paper, there are very few countries in the world where government expenditure on retirement incomes is lower in those terms.

Many OECD countries offer favourable tax treatment with respect to retirement savings made through private pension plans, not just Australia. It is difficult to compare other countries' tax expenditure figures because their magnitude depends on the specific tax benchmark used. However, even when the cost of Australia's superannuation tax expenditures is included using a very comprehensive cost measure the broader cost of Australia's system to the government is remarkably low by international standards.


Age Pension spending has been reasonably stable as a percentage of GDP, increasing by 0.2 percentage points to 2.4 per cent between June 2001 and June 2019 according to figures published in the RIR Report (page 377).

An increase in average superannuation balances at the time of retirement as the superannuation system has matured has assisted in keeping Age Pension expenditures in check despite the ageing of the Australian population structure (while at the same time boosting retirement incomes of the recently retired).

Even with the demographic ageing of the Australian population, expenditure on the Age Pension is projected to rise very little over the next 40 years. The percentage actually falls in the near future due to the impact of the increase in the Age Pension eligibility age along with increasing average superannuation balances.

Of course expenditure on the Age Pension is only part of the story. The cost of tax concessions for superannuation contributions and investment earnings are relevant.

Total contributions have grown faster (75 per cent from June 2004 to June 2019) in real terms than salary and wages (55 per cent). The cost of contributions tax concessions has grown more slowly (62 per cent) than contributions, reflecting the tightening of policy settings, such as lower contributions caps and a reduced Division 293 tax threshold. Introducing the transfer balance cap, which restricts the amount that can be taken into the retirement phase where earnings are tax free, has partly restrained growth in earnings tax concessions.



The RIR indicated that Age Pension expenditure as a percentage of GDP is expected to fall moderately over the next 40 years, from 2.5 per cent today to 2.3 per cent in 2060. As the superannuation system grows, the cost of contributions tax concessions as a percentage of GDP is projected to remain stable, while earnings tax concessions as a percentage of GDP are projected to grow. Contributions are closely related to growth in GDP (especially after the SG reaches 12 per cent). The earnings tax concession grows with the increase in average superannuation balances, with mechanisms such as the Transfer Balance Cap limiting the tax concession on account investment earnings. The proposed higher tax on investment earnings associated with balances over \$3 million will also help contain the earnings tax concessions.

The total cost of Age Pension and superannuation tax concessions was projected by the RIR to be around 5.0 per cent of GDP by the year 2060, a very modest amount in international terms.

In summary, both the Age Pension and tax concessions for superannuation are largely sustainable, at least in aggregate affordability terms. However, the proposed introduction of a cap on superannuation is appropriate to address equity concerns.

In addition, Contribution caps, the Balance Transfer Cap applying to the opening of income stream accounts, and the Division 293 taxation of contributions in regard to higher income earners are all playing a role in containing tax expenditures on superannuation. As well, the means test for the Age Pension is containing Age Pension expenditures as superannuation balances grow in the runup to retirement.

Over time there have been numerous changes to superannuation tax settings, generally leading to a more restrictive approach to taxation concessions. However, there have been other measures, such as downsizer provisions and targeted contribution catch-up arrangements which have provided more generous government support for a subset of the overall population.

Equity and the tax treatment of superannuation

Equity clearly is a key issue in the debate about superannuation and retirement income reform. There is strong government and community concern that the assistance provided to retirement income should be spread fairly according to need. There also is a strong tradition in Australia of support for a “fair go”. In the context of superannuation this means that no groups should face barriers to participation in the retirement income system.

Superannuation contributions are not spread entirely evenly across all taxpayers or income ranges. This is because one of the basic characteristics of superannuation is that contributions are linked to employment and receipt of income. Taxpayers on very low incomes generally are not receiving superannuation contributions or are receiving the benefit of only relatively small contribution amounts.

However, individuals on a low income in any given year will not necessarily be on a low taxable income for all of their life.

For an individual, a period of low income may be part of a highly-variable income profile – which may include periods of relatively high incomes. Analysis undertaken by the Productivity Commission bears this out⁵.

Many individuals who have low taxable incomes from employment are undertaking part-time employment when they are studying or when they also have family responsibilities that prevent them from undertaking full-time work. However, over their lifetime they will have many years, usually decades, of full-time work. As well, wages often increase in real terms over the course of a career. The distribution by income level of taxable incomes and tax concessions for superannuation contributions in any given year is not necessarily a good indicator of assistance delivered to an individual over a lifetime. The means tested Age Pension also has an important role in the redistribution of income over a lifetime.

5 [Productivity Commission 2018, *Rising Inequality? A Stocktake of the Evidence*](#)

Improving the adequacy of retirement incomes for lower paid workers and for also improving the equity of the system

ASFA considers that there are a range of measures which would lead to better and more equitable retirement outcomes for low to middle income earners.

These recommendations include that:


- the upper threshold for the Low Income Superannuation Tax Offset (LISTO) be increased to \$45,000 a year and the maximum amount be \$700 a year
- SG apply to paid parental leave payments.

Increasing the upper threshold for the LISTO

The current maximum amount of \$500 is equivalent to 15 per cent of 9 per cent of \$37,000, which was in line with the 9 per cent SG when the LISTO was introduced. The first tax bracket (\$0-\$18,200) incurs a zero per cent rate of tax and the second (\$18,201-\$45,000) incurs a 19 per cent rate of tax. For those on the 19 per cent rate there is also the 2 per cent Medicare levy.

In effect those currently on an income of between \$37,000 and \$45,000 a year pay tax at a marginal rate of 21 per cent on earnings outside of superannuation while within superannuation the tax rate on concessional contributions is 15 per cent. The concession for such taxpayers is only 6 per cent of income, which is much lower than the tax concession provided to those on income earners with a slightly higher taxable income where the marginal personal tax rate is 32.5 per cent. The raising of the personal tax threshold has also decreased the amount of tax concession that was previously received by those in the income band.

With the increase in the upper threshold on equity grounds it is reasonable to provide those earning between \$37,000 and \$45,000 with a tax concession in line with what they received prior to the change in the taxation rate structure. Taxpayers in the \$45,001 to \$120,000 income range pay tax at the marginal rate of 32.5 cents in the dollar.



For a person aged 35 and retiring at age 67 who is on a wage of \$44,000 a year, receiving a LISTO payment to their superannuation account of \$700 a year would lift their super balance at retirement in today's dollars from around \$293,000 to \$336,000, a substantial increase.

ASFA's estimate of around one million Australians benefitting from the proposed change is derived from ATO statistics on the number of taxpayers and wage and salary earners by income band. There are a considerable number of part-time workers who have income in the \$37,000 to \$45,000 range.

The impact of introducing additional tax related to investment earnings on balances over \$3 million


The tax concession enjoyed in relation to investment earnings for high balance members is substantial for large accounts. Based on ATO data, in 2019-20 there were around 35,000 superannuation fund members with balances within superannuation of over \$3 million. Treasury projects the figure will be around 80,000 in 2025-26. Some of these funds have balances of some hundreds of millions of dollars, well in excess of retirement needs. The Treasury estimates suggest that the average additional tax paid by the individuals affected would be \$25,000 a year,

While the current caps on superannuation contributions limit the ability for members to build up excessive balances in the future there is a real question regarding the appropriate treatment of high balances that were achieved in the context of more generous contribution caps in the past. Large capital gains on business and/or real property asset holdings are also an issue, particularly for SMSFs. These have not been impacted to a great extent by changes to contribution caps as the increase in account values has been driven by capital gains rather than contributions.

The Transfer Balance Cap regime limits the amount a member may take into pension phase. However, 'excessive' balances may still be present in accumulation accounts and therefore will be subject to a current tax concession of up to 30 per cent of the tax on earnings (that is, 45 per cent personal tax rate less 15 per cent tax on fund earnings).

Treasury has estimated that changing the taxation treatment of investment earnings related to total superannuation balances in excess of \$3 million would lead to additional revenue of around \$2 billion a year, although the exact amount raised would depend on how excess balances were invested after they were withdrawn from the superannuation system. This figure of \$2 billion would reduce the total tax concession applying to superannuation contributions and investment earnings by around 4.5 per cent, and by 9.5 per cent in regard to investment earnings alone. This clearly is a substantial impact.

In regard to who would be affected by such a cap, broad demographic information on holders of large superannuation accounts is available from the ATO sample file for 2019-20 and from SMSF taxation statistics.



These statistics indicate that around 65 per cent of those affected by the proposal are male. Those affected are relatively old, with around 50 per cent aged over 70 and around 90 per cent aged over 60.

Even though the age groups affected are relatively old, only around 50 per cent are retired, with around 30 receiving wage or salary income.

Labourers and unskilled workers are not represented in those affected by the measure. The ATO statistics suggest that of those likely to be affected around 20 per cent currently identify as managers, around 10 per cent as a professional, around 5 per cent clerical or administration, around 2 per cent as consultants. However, as noted above many of those affected are retired with no data available about former occupations.

Those likely to be affected are relatively affluent on a number of measures. Around 25 per cent owned a rental property, around 25 per cent received dividends of over \$40,000 a year and around 15 per cent had total income for tax purposes of over \$500,000.

The majority of those likely to be affected live in Sydney and Melbourne, but there are significant proportions living in Brisbane, Perth and Adelaide. Only a relatively small proportion of those likely to be affected live in regional areas of Australia.

