

# What Price Dignity?

## Equity and entitlement in the Australian tax and transfer system

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## Summary

The Australian tax system was once based on the notion of horizontal tax equity (those who earn similar amounts should pay similar amounts of tax) and vertical tax equity (those who earn more should pay proportionately more). The provision of tax concessions to superannuation and the decision to exempt income from superannuation from income tax has fundamentally violated both of these principles.

We highlight the disparity between the case made for the provision of generous taxpayer support for increasing the retirement incomes of those with superannuation and the case against providing support for other potential beneficiaries of government support.

According to the Westpac Association of Superannuation Funds of Australia (AFSA) Retirement Standard benchmarks, a comfortable lifestyle for a couple, including entertainment, a car, clothes, private health insurance and holidays, can cost about \$55,000 a year. A modest lifestyle will still require about \$31,000 a year per couple.<sup>1</sup> People in low wage jobs and people receiving income support payments have access to nowhere near that level of income.

### The relative price of dignity in Australia

	Income
Age Pension (individual)	\$18,962
<b>Other Centrelink payments<sup>2</sup></b>	
Newstart	\$12,347
Sickness Benefit	\$12,212
Austudy	\$10,106
Carers Payment	\$18,962
Disability Support Pension	\$18,962
<b>Super industry defined dignified income</b>	
Comfortable retirement (individual)	\$39,186
Comfortable retirement (couple)	\$53,599
<b>Employment (Selected full-time jobs)</b>	
Hairdresser	\$37,034
Child care worker	\$41,673
Panel beater	\$47,429
<b>Average annual earnings (seasonally adjusted)</b>	
Full-time adult	\$68,900

<sup>1</sup> See 'Is your super on target' at 'Moneysmart' website 2011, at <<https://www.moneysmart.gov.au/superannuation-and-retirement/is-your-super-on-target>>

<sup>2</sup> Individuals in receipt of either benefits or low incomes may be eligible for other forms of assistance, including rent assistance or Family Tax Benefits, which are designed to help partially offset the cost of housing or raising a child. However, while the receipt of such allowances increase family income they are, by definition, associated with the need to meet expenses that retirees who have paid off their homes, and who do not support children are not required to meet.

All employees

\$51,610

This double standard is compounded by shallow arguments that the superannuation concessions take pressure off the aged pension. These claims are simply not true. In the lead-up to the 2011 Tax Forum we asked why there is relatively little scrutiny of or debate about providing tens of billions of dollars in income support to boost the retirement incomes of wealthy Australians. There, however, is intense scrutiny of, and acrimonious debate about, provision of income support to working age Australians and older Australians whose incomes is solely derived from the Aged Pension.

There is nothing wrong with encouraging individuals to save for their retirement and most developed countries provide some incentives to do so. But the Australian system has become so expensive, complex and inequitable that it needs to be urgently examined. The vast majority of the benefits of the scheme accrue to the highest income earners and the existence of very generous income and assets tests ensure that rather than substituting for the cost of the Age Pension tax concessions for superannuation are primarily adding to those costs.

The design of the current superannuation tax concessions mean that low income earners, including the millions of people working part-time, caring for others or surviving on disability payments, receive absolutely no benefit from tax payer support of retirement savings. It is often argued that taxpayer support for superannuation is legitimate because it saves the Commonwealth money in the long run due to a reduction in the cost of providing the Age Pension. Except for the very small proportion of the population with more than \$821,000 (and just over \$1 million for a couple) in assets<sup>3</sup> in addition to their family home, the remainder of the population will receive a part or full pension.

The return to the taxpayer for each dollar spent on superannuation tax concessions is far less than one dollar in the form of reduced expenditure on the Age Pension.

The data and analysis provided here highlights what economists refer to as the 'opportunity cost' of the \$27 billion currently spent by the Commonwealth Government to help higher income earners achieve their desired level of retirement income. Every billion dollars spent on boosting the retirement incomes of those with superannuation is a billion dollars that is not spent on helping those who live in poverty today, including those who have already retired, and those who will never accumulate any superannuation savings as a result of spending their lives caring for children, parents or those with disabilities; or working in an low wage job.

This paper does not argue that individuals should not be free to save some of their income and be supported to do so to provide themselves with more money in their retirement. Rather, we explore the simple question:

Given that, the top five per cent of income earners receive 10 billion, 37 per cent of the taxpayer support linked to superannuation, more than ten times the support, per person, that the other 95 per cent receive. What is the policy rationale for spending \$27 billion per year to provide significant taxpayer assistance to high income earners prepare for their retirement and no assistance to assist low income earners pursue the same goal?

<sup>3</sup> Centrelink 2011, *Asset test; Chart B – asserts test limits for Part Pensions*.

The large and growing taxpayer support provided to boost the superannuation balances of those Australians in paid work needs to be evaluated not just in terms of the benefits to the recipients but to the benefits that could otherwise be provided to the broader community. Our finding is that the policy rationale for the maintenance of existing taxpayer support does not reflect the actual operation of the current tax and transfer system. Taxpayer support for relatively generous entitlements and relatively few obligations for relatively wealthy Australians should be carefully considered if we are to seize the opportunity to deliver more equitable support to a broader cross-section of Australians than those who benefit from the existing arrangements.

The proposed increase in compulsory superannuation, pressure from the superannuation industry for even greater taxpayer support and the rising expectations of the soon to be retirees the question illustrates a fundamental issue to be addresses: **'How do we ensure the tax and transfer system provides fair support for a life of dignity for everyone living in Australia?'**

## Introduction

It is often said that to retire with dignity in Australia a couple would need a retirement income of around \$50,000 per year. In order to help Australians achieve such levels of retirement incomes Australian taxpayers now contribute around \$27 billion per year in tax concessions to help boost the retirement savings of so called 'self-funded' retirees. The plight of the superannuant has been much discussed in Australian politics in recent times with Bill Shorten, the Minister for Financial Services and Superannuation saying:

*"The Great Depression and Second World War generations of Australians did it tough. They were frugal in an era of bitter hardship and war, and widowhood and suburban sacrifice. But our current generations of Baby Boomers have learned to expect more and get more. Like Oliver they want more, and we are here to supply it."*

*The amount of money required to live reasonably is much higher than previous generations required. Or put another way, we are no longer as good at living frugally. We are healthier than our great grandparents. We are more active and energetic. We don't just play bowls and chess and Scrabble, we hike, we bicycle, we travel overseas. We are keen to change our lifestyles in the years of 55 to 75. This means we need more money."<sup>4</sup>*

A view echoed by the former Coalition Government's Minister for Ageing, Julie Bishop:

*"We are moving towards a future where older Australians will have different needs and expectations. With the advent of the Baby Boomers as the next generation of older people, old age will be characterised by different values and aspirations, needs, services, cultures and recreational activity."<sup>5</sup>*

According to the Association of Superannuation Funds of Australia (ASFA), the peak industry body for the superannuation sector:

*"The Age Pension is the yardstick for the basic amount people can survive on in retirement, but most of us want and need more when we finish working."<sup>6</sup>*

One of ASFA's members, Maritime Super, states that its goal is:

*"...helping members and their families and friends achieve financial security and dignity in retirement."<sup>7</sup>*

The ABC's economics correspondent, Stephen Long recently summarised the superannuation systems as follows:

*"When Paul Keating set up the superannuation system the promise was it would give workers security and dignity in retirement."<sup>8</sup>*

Even the Commonwealth Government helps to propagate the view that a comfortable retirement requires an above average income, stating on its 'Moneysmart' website:

<sup>4</sup> Shorten 2011. *Speech to the Australian Institute of Superannuation Trustees.*

<sup>5</sup> Bishop 2005. *New national organisation for over 50's launched*, Media Release.

<sup>6</sup> Association of Superannuation Funds of Australia 2011. *Working out how much you need: how much does a comfortable retirement cost?*.

<sup>7</sup> Maritime Super 2011. 'Industry Superannuation Funds', *Superfriend* (online), at <<http://www.superfriend.com.au/supporters/our-supporters/industry-superannuation-funds>>

<sup>8</sup> ABC 2011. 'How safe is your super?', *7:30 Report*.

*“According to the Westpac – Association of Superannuation Funds of Australia (AFSA) Retirement Standard benchmarks, a comfortable lifestyle for a couple, including entertainment, a car, clothes, private health insurance and holidays, can cost about \$55,000 a year. A modest lifestyle will still require about \$31,000 a year per couple.”<sup>9</sup>*

Changes in tax treatment of different types of income has led to age playing a much more important role than income or any other factor in determining an individual's tax obligations and entitlements to income support. For example, a 35 year old on the minimum wage who is caring for children or paying off a home, according to contemporary debate, being treated in the tax and transfer system as being entitled to less income to live ‘with dignity’ than a 65 year old couple who have paid off the family home and whose children have moved out.

This is not to say that individuals on low incomes do not receive any support from the Commonwealth. Those on the minimum wage with children, for example, are eligible for Family Tax Benefits. The point being made is that even after such support is received low income individuals raising a child and paying rent or a mortgage are still expected to live on an income well below that which is considered necessary to sustain a retired couple who own their own home with no dependent children, and to carry a higher tax obligation.

## What price dignity?

According to ASFA a retired couple, in good health and who have paid off their own home, would require \$54,954 per year if they desire a ‘comfortable’ lifestyle. A ‘modest’ lifestyle, on the other hand, would require \$31,519. Both of which, are well above the presumably immodest lifestyle that the Age Pension of \$28,584 can deliver. ASFA’s breakdown of a comfortable and modest family budget is provided in Table 1.

**Table 1: Budgets for various households and living standards (June Quarter 2011)**

	Modest lifestyle – single	Modest lifestyle – couple	Comfortable lifestyle – single	Comfortable lifestyle – couple
Housing - ongoing only	\$56.91	\$54.63	\$65.96	\$76.46
Energy	\$31.71	\$42.11	\$32.18	\$43.64
Food	\$75.93	\$157.28	\$108.47	\$195.24
Clothing	\$17.92	\$29.09	\$38.79	\$58.18
Household goods and services	\$26.00	\$35.25	\$73.13	\$85.67
Health	\$35.10	\$67.75	\$69.65	\$122.92
Transport	\$92.10	\$94.71	\$137.25	\$139.86
Leisure	\$72.18	\$107.53	\$218.72	\$299.73
Communications	\$9.21	\$16.12	\$25.30	\$32.21
Total per week	\$417.05	\$604.47	\$769.44	\$1,053.91
Total per year	\$21,746	\$31,519	\$40,121	\$54,954

Source: ASFA Retirement Standard.

<sup>9</sup> Moneysmart website, ‘Is your super on target?’.

In compiling the estimated cost of a 'comfortable' retirement ASFA has included, among a wide range of other expenses, the following costs of retirement:

- Weekly expenditure on restaurant meals and coffee \$100
- Annual expenditure on domestic holidays \$3,000
- Five yearly cost of overseas holidays \$11,000
- Weekly cost of wine with dinner \$40

While there is no doubt that some Australians spend such amounts on prepared food and holiday travel, and no doubt that even more people aspire to such levels of expenditure, the policy question addressed in this paper is simply whether or not such expectations constitute a policy problem that large amounts of taxpayers' money should be used to address a personal preference which individuals should be free to save their own money for if they so desire.

To put the imagined 'needs' of retirees who have paid off their own homes into perspective it is useful to outline the incomes that millions of other Australians are expected to live on. To that end Table 2 provides a range of incomes for Australians who are either relying on government support or working in relatively low income occupations.

**Table 2: The relative price of dignity in Australia**

	Income
Age Pension (individual)	\$18,962
<b>Other Centrelink payments<sup>3</sup></b>	
Newstart	\$12,347
Sickness Benefit	\$12,212
Austudy	\$10,106
Carers Payment	\$18,962
Disability Support Pension	\$18,962
<b>Super industry defined dignified income</b>	
Comfortable retirement (individual)	\$39,186
Comfortable retirement (couple)	\$53,599
<b>Employment (Selected full-time jobs)</b>	
Hairdresser	\$37,034
Child care worker	\$41,673
Panel beater	\$47,429
<b>Average annual earnings (seasonally adjusted)</b>	
Full-time adult	\$68,900
All employees	\$51,610

Source: Centrelink; ABS, Employee Earnings and Hours; ABS, Average Weekly Earnings.<sup>10</sup>

<sup>10</sup> ABS 2010. *Employee Earnings and Hours*, Cat. No. 6306.0.

Table 2 makes clear that many ASFA Retirement standard Australians are currently expected to make ends meet on between one third and one half of that required to provide what the superannuation industry estimates, and the government appears to accept, is a comfortable retirement. Indeed, Table 2 also highlights that there are Australians who work full time in order to pay off a house and raise a child on incomes that are substantially lower than that which the superannuation industry suggests is required to fully participate in society prior to retirement.

## How the Australian retirement income system works

Much is made in Australia of the difference between Age Pensioners and so called 'self-funded retirees' with the former depicted as a cost to the Commonwealth Budget while the latter are typically described in terms of self-reliance and taking pressure of the budget. For the vast majority of current and future retirees this distinction conceals more than it reveals. In reality the Age Pension operates as a retirement income floor below which no retiree's income will fall. Except for the very small proportion of the population with more than \$821,000 (\$1 million for a couple) in assets,<sup>11</sup> in addition to their family home, the remainder of the population will receive a part or full pension.

To put that into perspective, the average 65 year old Australian retires with around \$100,000 in superannuation.<sup>12</sup>

According to the Commonwealth Treasury, by 2050 the number of Australians with sufficient superannuation assets to exclude them from receiving a partial Age Pension will rise by less than 4 per cent. The number of fully self-funded retirees is barely expected to rise.

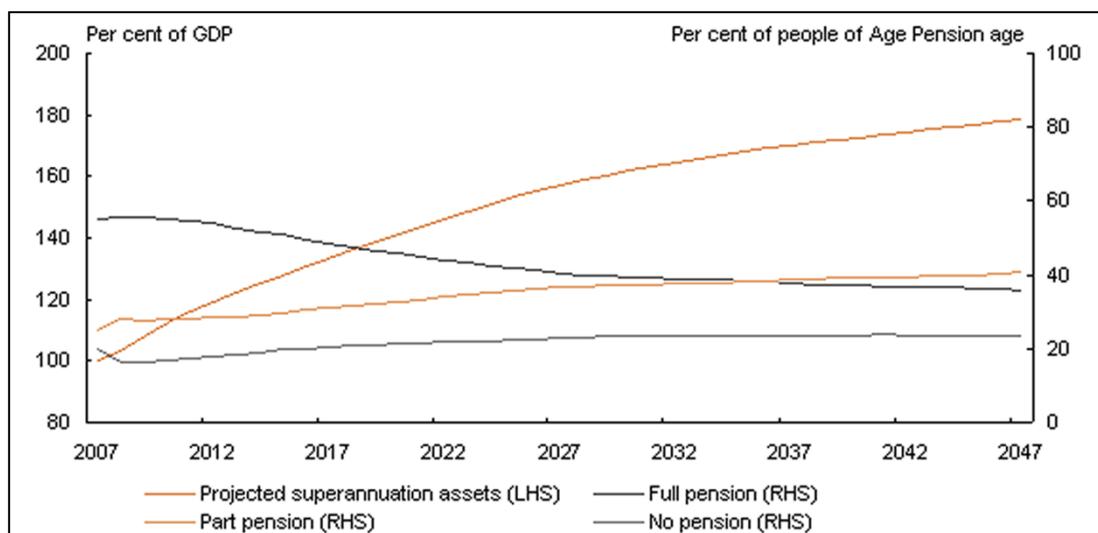
Figure 1 provides Treasury estimates of the growth in assets invested in superannuation, which are expected to grow rapidly by 2050, and the number of 'self-funded retirees', which is barely expected to rise.<sup>13</sup>

<sup>11</sup> Centrelink 2011. *Asset test; Chart B – asserts test limits for Part Pensions*.

<sup>12</sup> Commonwealth Treasury 2002. *Submission to the Senate Select Committee on Superannuation: Inquiry into Superannuation and Standards of Living Retirement*.

<sup>13</sup> Commonwealth Treasury 2008. *Australia's Future Tax System – Retirement Income Consultation Paper*.

**Figure 1 Superannuation and Age Pension Coverage: 2007-2050**



Source: Australian Government (2007).

The main purpose of the \$27 billion annual expenditure on superannuation tax concessions is, therefore, to significantly increase the standard of living of a small portion of retirees. According to Treasury, 35 per cent of the cost of superannuation tax concessions accrues to the top five per cent of income earners. In the words of Treasury:

*“...the concessions are heavily weighted to individuals on high personal tax rates.”<sup>14</sup>*

The lowest income earners, and those who spent their lives either caring for others or unable to work for any other reason, literally receive no taxpayer assistance to boost their retirement savings and, in turn, have little chance of retiring on anything more than the ‘floor payment’ in the form of the Age Pension.

## What’s fair?

Historically the two main principles that have underpinned the development of the Australian tax system have been the notions of ‘horizontal equity’ and ‘vertical equity’. Horizontal equity refers to the principle that people who earn the same amount of money should pay the same amount of tax while vertical tax equity refers to the idea that those who earn more should pay a higher proportion of their income in tax than those who earn less. Australia’s historic, but diminishing, support for a progressive income tax system is based on the notion of vertical equity.

While the Australian tax system is far less progressive than it once was the principle remains largely intact. For example, those earning high wage and salary incomes pay significantly higher rates of tax (45 cents in the dollar for every dollar over \$180,001 per year) than those earning \$35,000 (who face a marginal income tax rate of 15 cents in the dollar).

The biggest inequities in the relative contribution or support that Australian citizens make or receive arise from the gradual abandonment of the idea that those in similar financial circumstances should be treated similarly.

<sup>14</sup> Attorney General’s Department 2008. *Australia’s future tax system: Retirement income Consultation paper*, p.23

For example:

- Those whose income comes from capital gain pay half the tax paid by someone who earns the same income from an employer. For example, an executive in the top tax bracket who received a bonus of \$100,000 would pay \$48,500 tax but if the same bonus came in the form of an entitlement to buy shares at a discounted price and then sell them at the market price the tax payable would be \$24,250.
- Those who try to support themselves while studying are expected to make do with a far lower income (\$10,106) than those who try to support themselves while searching for work (\$12,347).
- Those who try to support themselves while sick are expected to support themselves on a lower income (\$12,212) than those searching for work (12,347) and significantly less than those who are deemed to be disabled (\$18,962).
- A long-term unemployed person who has a birthday and becomes eligible for the aged pension will see their income rise from to \$12,347 to \$18,962.

The most egregious abandonment of the principle of horizontal equity, however, arises for those who draw their income from their accumulated superannuation funds. That is, those who are retired and drawing on superannuation assets are not required to pay income tax on any of that income. Put simply, the small minority of people with very large superannuation balances could receive more than \$1 million per year on which they would pay no tax.

An individual working full time on the minimum wage of \$30,643 per year, on the other hand, is currently required to pay \$2,681 per year in income tax. Someone receiving \$50,000 from an employer is required to pay \$8,600 per year in tax. Again, a superannuant receiving the same amount is required to pay nothing.

## Critical analysis of the policy rationale

### Superannuants have paid taxes all of their lives

Defenders of the vast disparities between the generous support provided to high income earners to help them boost their retirement incomes and the level of support provided to those on lower incomes often make the claim that superannuants have already made their contribution to society during their working life and, in turn, should be afforded preferential treatment in retirement. Such an argument has two main flaws.

- First, money placed into superannuation is concessionally taxed during an individual's working life with the biggest concessions accruing to those who earn the most. That is, because all income placed into superannuation is taxed at the flat rate of 15 per cent a person who earns \$35,000 per year who placed \$1,000 into superannuation would receive no income tax benefit as the flat rate of taxation on superannuation of 15 per cent is the same as the marginal tax rate that someone who earns \$35,000 faces. However, a person who earns \$200,000 per year who places an extra \$1,000 into superannuation would receive a tax concession of \$300 as they are only required to pay the 15 per cent flat tax on superannuation contributions rather than the 45 per cent marginal tax rate they would otherwise face. Put simply the higher someone's income during their working life the greater the taxpayers contribution to their superannuation lump sum.
- Second, the argument that once people have 'made their contribution' to society they should not be required to make any more is entirely inconsistent with the notions of vertical and horizontal equity on which our progressive taxation system is based. Indeed, if the idea that our capacity to contribute to society should be based on the cumulative level of our previous contributions rather than our current capacity to pay then there is no reason to wait till someone reaches retirement before applying it. That is, if as a society, we are to design a tax system based on whether people have

already contributed enough rather than on their capacity to contribute more it would seem fairer to be specific about what this amount is and exempt people from tax for the rest of their lives once it has been reached. Under such a scheme perhaps wealthy parents might pay the tax liabilities for their children in advance leaving their children to spend their inherited wealth without ever having to worry about tax.

### It is their money

It is sometimes argued that retirees should not have to pay tax on their superannuation earnings on the basis that 'self-funded retirees' have put aside their own money to fund their retirement. Such an argument is flawed for a number of reasons:

- First, as discussed above taxpayers contribute more than \$27 billion per year to the accounts of the so called 'self-funded' retirees.
- Second, the inequities in the tax treatment of superannuation mean that the vast majority of taxpayer support goes to high income earners while no taxpayer support is given to low income earners to boost their private retirement savings. That is, the implication of the concessional tax treatment of superannuation discussed above is that if taxpayer support for superannuation was provided in the form of annual cheques rather than less transparent tax concessions a person earning \$30,000 per year would receive a cheque for \$0.00 while someone making the compulsory 9 per cent contribution on an income of \$200,000 per year would receive a cheque for \$5,400 each year.

According to the Commonwealth Treasury:

*"The proportion of concessions that flow to individuals on higher personal tax rates has been increasing in recent years...it is estimated that 5 per cent of individuals accounted for over 37 per cent of concessional superannuation contributions."*<sup>15</sup>

### Self-funded retirees take pressure off the aged pension system

The notion that the enormous expenditure of taxpayers' funds to boost the retirement incomes of high income retirees will 'take the pressure off' the budgetary cost of the aged pension system is perhaps the most widely cited justification for the inequities of the current system.

This is perhaps the most widely cited justification for the rapidly growing taxpayer contribution to the pool of private superannuation funds in Australia. Consider, for example the following commentary surrounding a government announcement regarding its intention to increase the level of compulsory superannuation from 9 to 12 per cent:

*"The new figures also reveal the increase is projected to help take long-term pressure off the Budget because boosting retirement savings will reduce demand for the pension."*

*Treasury figures show it will save \$10 billion in pension payments by 2030-31."*<sup>16</sup>

The argument that taxpayer support for superannuation results in a saving to the budget, rather than a boost in the retirement income of high income earners is, it seems, so well established that the journalist concerned did not even think to compare the likely future 'savings' with the ongoing cost of the scheme.

<sup>15</sup> Attorney General's Department 2008. *Australia's future tax system: Retirement income Consultation paper*, p.22.

<sup>16</sup> Hudson 2011. *Workers in line for superannuation boost*.

As discussed above Australian taxpayers now spend more than \$27 billion per year on tax concessions for superannuation. This is enough to provide the full aged pension of \$18,962 to 1,423,900 people each year.

Rather than spend \$27 billion significantly increasing the generosity of the aged pension, however, successive governments have argued that directing this amount of money into privately held superannuation accounts will both increase living standards for retirees and take pressure off the Commonwealth Budget through lower expenditure on the aged pension.

In reality, the existence of very generous income and asset tests mean that a retired couple can receive an income of more than \$67,000 per year and hold assets (in addition to their family home) of more than \$870,000 for a single person and over \$1million for a couple, still draw a partial aged pension, and be eligible for health care and pharmaceutical concessions. The generosity of these income and assets tests means that very few Australians will ever be so wealthy that they will receive no Age Pension.

While it is true that the annual expenditure of \$27 billion on tax concessions for superannuation will result in some reduction in the number of people who receive the aged pension it is not true that the savings that result from the likely increase in the number of self-funded retirees will be anything like \$27 billion per year.

The Commonwealth Treasury has warned us that ‘investment’ in tax concessions for superannuation will not necessarily generate a ‘return’ in the form of lower aged pension expenditure. For example, in the *Retirement income Consultation paper* prepared for the Henry Tax Review, Treasury described the impact of an increase in compulsory superannuation as follows:

*“Although superannuation tax revenue would rise, this would be more than offset by a loss of personal tax revenue. There would be a longer-term saving on Age Pension outlays.”<sup>17</sup>*

The Treasury explicitly compares the relative size of the gain in tax on superannuation and the loss of tax from personal income. They make no comment on the relative size of the ‘longer-term saving on Age Pension outlays’.

### **Access to concession programs for older people is tightly targeted**

In addition to receiving generous tax concessions on their superannuation, tax concessions through their working life and then being exempted from income tax when drawing their superannuation pension, wealthy Australians now also receive both generous health concessions and an annual, tax free, payment of \$800 per year to help them with the cost of water and electricity. This \$800 payment is being made to thousands of people with millions of dollars in accrued superannuation who live on tax free incomes of over \$100,000 per year.

This particularly inequitable arrangement arose as a result of the Howard Government decision to provide, tax free, a payment of \$800 per year to help pensioners with the cost of water and electricity. This \$800 payment is being made available only to those with an adjusted taxable income of \$50,000, or \$80,000 for couples. But since pensions drawn from a superannuation fund are no longer considered to be taxable income there is nothing to

<sup>17</sup> Attorney General's Department 2008. *Australia's future tax system: Retirement income Consultation paper*, p.20.

prevent people with millions of dollars invested in super who draw incomes of hundreds of thousands of dollars per year from successfully applying for the Commonwealth Seniors Health Card. In turn, all recipients of the CSHC receive the tax free Seniors Supplement of around \$200 per quarter which replaced the Seniors Concession Allowance and Telephone Allowance.<sup>18</sup>

## Is the cost of dignity rising faster than the cost of living?

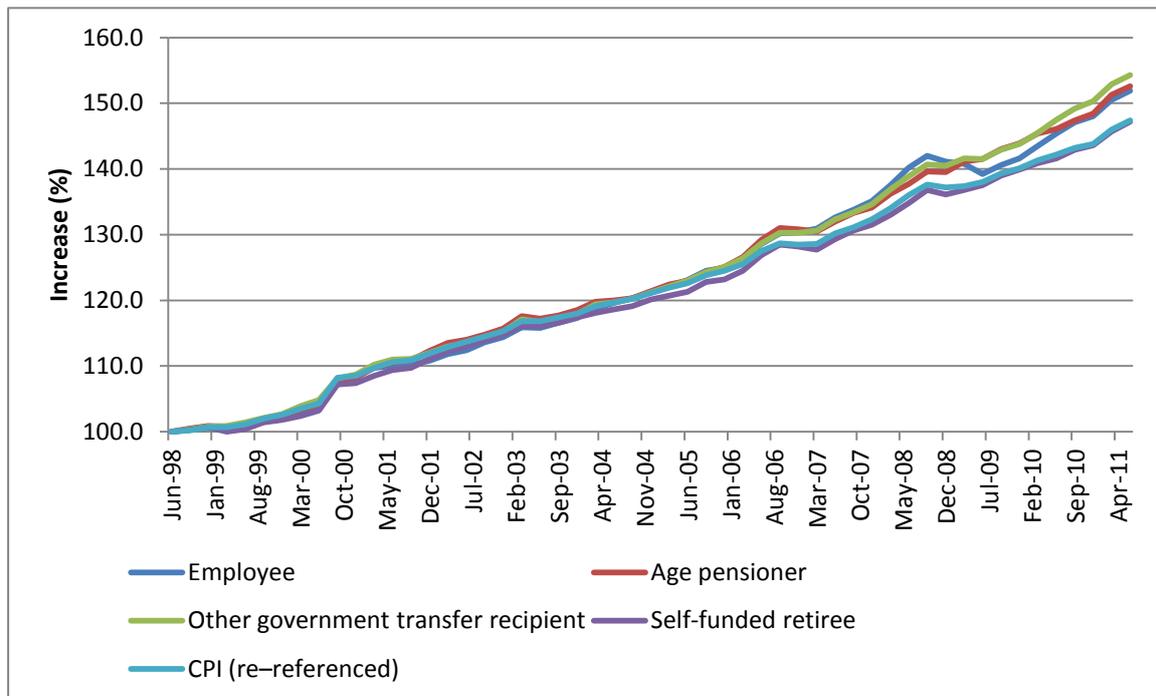
While the indexation of government benefits is linked by law to movements in the ABS, measures of the cost of living the rise in the cost of a 'comfortable retirement' is linked only to the willingness of the superannuation industry to convert growing lifestyle aspirations into their regular estimates of 'retirement standards'.

Consider, for example, how ASFA describes the role of holiday travel in their estimates of the cost of a 'comfortable' retirement:

*"As self-funded retirees, this group spends a large portion of their budget on leisure related activities such as travel, sporting pursuits, entertainment and other forms of relaxation. Participants sought to travel at least once a year and undertake extensive trips internationally. This was predicted in the 2004 provisional budget but downgraded due to the focus group results. In 2009, due to the strength of the Australian dollar and the participants' reaction to the recreation travel budget, expenditure for the Comfortable budget was increased."*<sup>19</sup>

While the perceived cost of retirement may be increasingly rapidly Figure 2 shows that according to the ABS the actual costs faced by 'self-funded' retirees have been growing much more slowly than the costs faced by those who rely heavily on government pensions for their income rather than using the Age Pension to augment their other earnings.

**Figure 2: Cost of living increases by household income source since 1998 (%)**



Source: ABS, Analytical Living Cost Indexes for Selected Australian Household Types.

<sup>18</sup> Power 2010. 'Superannuation basics: Are you eligible for a seniors health card?' *Superguide*

<sup>19</sup> Association of Superannuation Funds of Australia 2011. *Detailed budgets*.

Figure 2 shows that in the past 22 years, increases in the cost of living have been above CPI for all household types with the exception of self-funded retirees whose cost of living increases have for the most part remained below CPI. A noticeable divergence has been occurring since the financial year 2006-07.

Since 2006-07 households receiving welfare support experienced the largest cost of living increase followed by those dependent on the Age Pension and employees. The lower cost of living increases for self-funded retirees improves the relative dignity of the life they can live on the income they are receiving, compared to other Australians.

## Conclusions

While individuals with the capacity to support themselves should be encouraged to save for their retirement it is entirely unclear why governments would choose to prioritise the lifestyle preferences of future retirees over the needs faced by the lowest income earners in Australia today.

The large and growing taxpayer support provided to boost the superannuation balances of those Australians in paid work needs to be evaluated not just in terms of the benefits to the recipients but to the benefits that could otherwise be provided to the broader community. In particular, in evaluating the equity and efficiency of the support currently provided to those with superannuation it is important to consider:

- The \$27 billion annual cost of superannuation tax concessions is equivalent to the cost of providing the full Age Pension for more than 1.4 million Australians.
- 37 per cent of the benefits of this expenditure accrue to the top 5 per cent of income earners
- The existence of generous income and asset tests for the Age Pension means that the number of retirees who do not receive the Age Pension is forecast by Treasury to rise by less than 4 per cent by 2050
- The \$55,000 tax free retirement income that the superannuation industry estimates is required to retire comfortably is not only well above the income that we expect Age Pensioners, the permanently disabled and those who cannot find work to live on, but it is well in excess of the minimum wage.

The policy rationale for the maintenance of existing taxpayer support does not reflect the actual operation of the current tax and transfer system. Taxpayer support for relatively generous entitlements and relatively few obligations for relatively wealthy Australians should be carefully considered if we are to seize the opportunity to deliver more equitable support to a broader cross-section of Australians than those who benefit from the existing arrangements.

In the context of the proposed increase in compulsory superannuation, pressure from the superannuation industry for even greater taxpayer support and the rising expectations of the soon to be retirees the question must be asked **‘how do we ensure the tax and transfer system provides fair support for a life of dignity for everyone living in Australia?’**

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