The Australia Institute

Research that matters.

Super for some

Who wins and loses from $30 billion worth of tax concessions for superannuation?

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Richard Denniss

TAI

Policy Brief

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The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

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LPO Box 5096
University of Canberra, Bruce ACT 2617
Tel: (02) 6206 8700 Fax: (02) 6206 8708
Email: mail@tai.org.au
Website: www.tai.org.au

Introduction

Superannuation is unlike any other product in Australia. There is no other product that all employees are forced to spend nine per cent of their income buying. In fact, the proportion of income spent on compulsory superannuation is to rise to 12 per cent by 2020.

But it is not just individuals that spend a lot of money on compulsory superannuation. According to the Tax Expenditure Statement the taxpayer contributed $30.3 billion in 2011-12 to the retirement savings accounts of Australians and this cost is projected to increase to $44.8 billion by 2015-16.[1]

Unlike most areas of government spending however, the benefits of tax concessions to superannuation flow overwhelmingly to high income earners with many low income earners receiving literally zero benefit from this largest of government expenses. That is, according to modelling by the Commonwealth Treasury the wealthiest ten per cent of the population are expected to receive 31.8 per cent of the tax concessions on superannuation contributions in 2012-13. The same Treasury modelling shows that the poorest ten per cent will receive no benefit from those tax concessions and the bottom half of the population will receive 18.7 per cent of the concessions on contributions[2].

Those with the lowest incomes and those who spend time caring for their children or family members receive virtually nothing from the enormous cost of concessionally taxing contributions to superannuation.

Consider the following:

- The 646,000 people who make up the top five per cent of the income distribution received superannuation tax concessions worth $7.1 billion. This is more than the $6.5 billion received by the 6.4 million people who make up the bottom 50 per cent of the income distribution[3].

- The 129,000 people who make up the top one per cent of the income distribution received $2.1 billion in tax concessions for superannuation, an amount almost as large as the $2.5 billion shared between the 3.8 million people who make up the bottom 30 per cent of the income distribution[4].

Put another way, those in the bottom half of the income distribution receive an annual average retirement saving contribution from the taxpayer of around $1,000 while those in the top five per cent get around $11,000 each and those in the top one per cent get around $16,000 per year in taxpayer support for their retirement.

To qualify to be in the top one per cent of income earners and receive a taxpayer funded retirement contribution of $16,000 per year an individual would need to earn at least $294,900 in 2012-13[5]. To place this generosity into perspective an unemployed person's Newstart Allowance is only $12,807 per year.

Figure 1 illustrates how the generosity of taxpayer contributions to individual retirement savings increases rapidly as incomes increase.

[1] Australian Government (2013) *Tax expenditure statement*

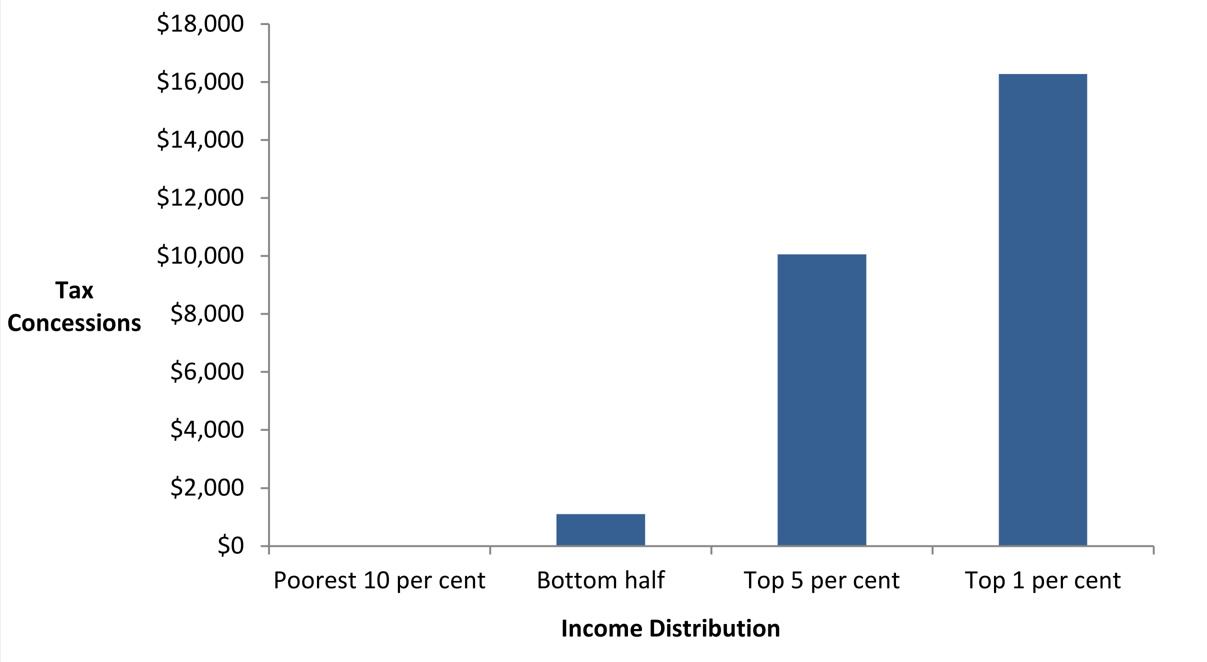
[2] Australian Government, Treasury (2012) *Distributional analysis of superannuation taxation concessions*

[3] Australian Government, Treasury (2012)

[4] Australian Government, Treasury (2012)

[5] TAI calculations based on Australian Taxation Office (2012) *Taxation Statistics, 2009-10.*

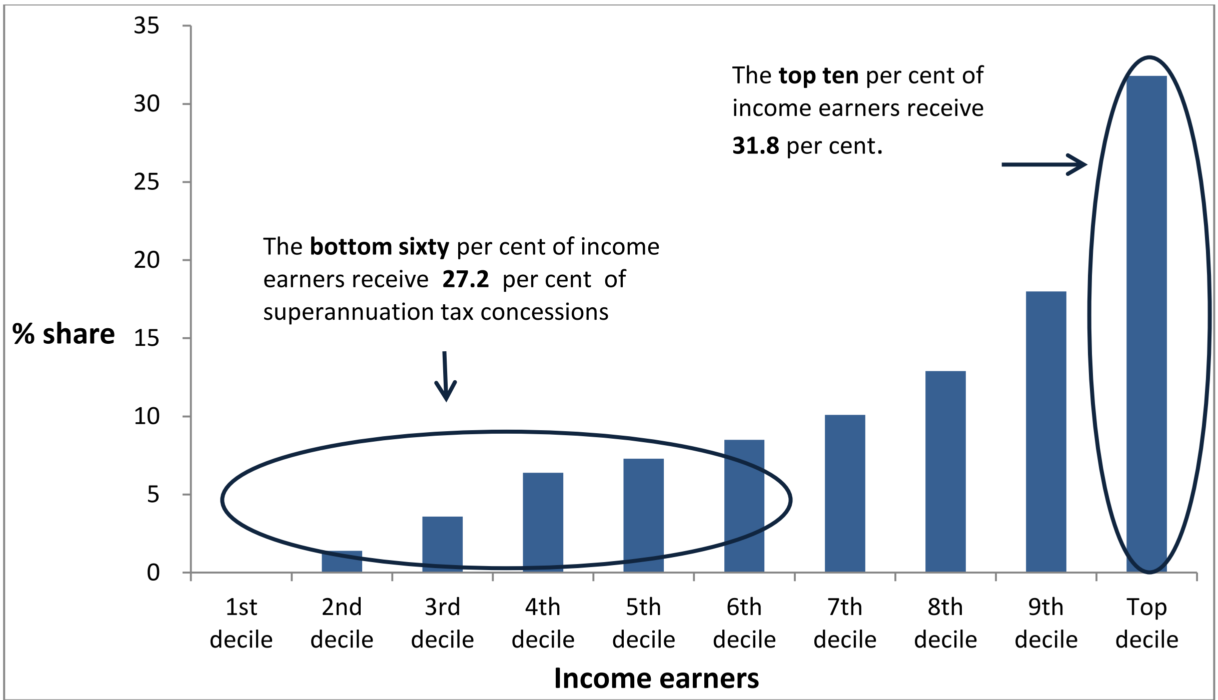
Figure 1 – Average annual benefit from tax concessions on Superannuation, by income distribution



Source: Australian Government, Treasury (2012) and authors estimates

The incredible generosity of superannuation tax concessions for high incomes means that the top ten per cent of income earners are projected by Treasury to receive 31.8 per cent of concessions on superannuation contributions while the bottom 60 per cent combined are projected to receive only 27.2 per cent of concessions on contributions (see Figure 2).

Figure 2 – Distribution of tax concessions on Superannuation contributions (2012-13)



Source: Australian Government, Treasury (2012)

But don't we all benefit from 'universal' superannuation?

The idea that superannuation is 'universal' and that it benefits all Australians is likely to be an important element of the apparent public apathy towards its cost. In fact, millions of Australians never have, and never will, receive any benefit from the tens of billions of taxpayers' dollars flooding into superannuation.

While it is common to hear references to 'universal' superannuation it is important to observe that those who are not in the paid workforce, either through choice or necessity, typically miss out on all taxpayer contributions towards their private retirement savings. For example, those who care for infants, children, or adult family members who cannot care for themselves typically receive no taxpayer contribution. Similarly, the unemployed, those on sickness benefits or disability payments receive no taxpayer assistance in the accumulation of their private retirement savings.

It is also important to note that the majority of existing age pensioners receive little, if any, benefits from the $32 billion cost of tax concessions for superannuation. That is, those who retired before the introduction of compulsory superannuation, or soon after its introduction, have little, if any, funds invested in superannuation and in turn receive no benefit from tax concessions on superannuation contributions and little, if any, benefit from the tax concessions associated with fund earnings or withdrawals. While some argue that such pensioners should not expect to receive benefits from tax concessions as they receive the full age pension it is important to highlight that, as the following quotations show, both the Government and the Opposition accept the argument that taxpayers should spend large amounts of taxpayers money helping those who are still in the workforce secure much larger retirement incomes than those deemed necessary for the previous generation of retirees. For example:

> *"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." (Bill Shorten, the Minister for Financial Services and Superannuation)*[6]

This is 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."*[7]

It is interesting to note that the argument that governments simply must find the money required to deliver the rising expectations of the next generation of retirees is an argument

[6] Shorten, B (2011) *Speech to the Australian Institute of Superannuation Trustees.*

[7] Bishop, J (2005) New national organisation for over 50's launched, Media Release.

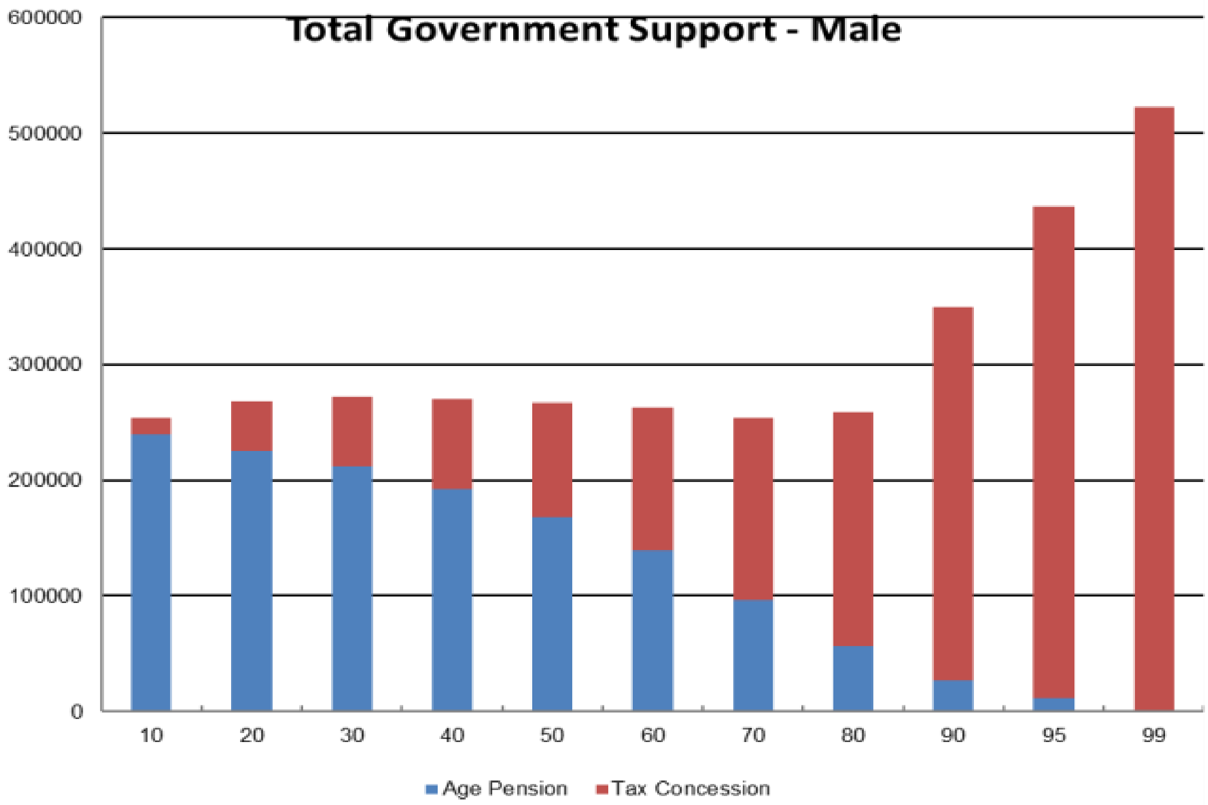
that does not seem to have been successful in relation to the expectations of those who want a significantly better health system or significant reductions in indigenous disadvantage.

But doesn't superannuation take pressure off the budget?

No. The fact that a well-designed superannuation system could take pressure off the Commonwealth budget does not mean that our current poorly designed scheme does take pressure off the budget. Put simply, we provide far more in tax concessions to wealthy Australians than we would have ever provided them in terms of the age pension. Furthermore, the people receiving the largest taxpayer contribution to their retirement savings would be highly unlikely to have ever been eligible for the age pension.

Figure 3 shows that, according to the Commonwealth Treasury, the lifetime cost to taxpayers of providing tax concessions for those in the top ten per cent of income are far higher than the lifetime cost of providing the age pension. Given that, as shown above, the top ten per cent of income earners receive around a third of the entire cost of tax concessions for superannuation the budget position would be significantly improved by abolishing such concessions. Put simply, Figure 3 shows that the tax concessions received by the wealthiest ten per cent of males are significantly higher than the cost of providing the age pension. Indeed, Figure 3 shows that the cost of helping the wealthiest one per cent of the population 'prepare' for their retirement is more than twice the cost of providing the age pension to lower income earners.

Figure 3 – Distribution of "total government support" (both superannuation tax concessions and age pension)



Source: Australian Government, Treasury (2012)

Conclusion

Australia's compulsory superannuation system has delivered a large pool of retirement savings and boosted the retirement incomes of many Australians. However, the fact that the superannuation scheme has benefits does not mean that it should not be carefully examined and genuinely reformed.

The cost to the Commonwealth of taxpayer support to so called 'self-funded retirement' is forecast by Treasury to rise from $31.8 billion this year to $44.8 billion in 2015-16. Unlike new expenditure on health, education and the environment it is rare to hear the Government asked where this extra $13 billion per year will come from.

Similarly, it is inconceivable that if the superannuation system was being designed from scratch that a proposal would be made to deliver nearly a third of the taxpayer funded benefits to the wealthiest 10 per cent of the population and only five per cent of the benefits to the poorest third of the community.

The fact that the cost of the tax concessions to the wealthiest ten per cent far exceeds the cost of providing them with the age pension is the bitter icing on the most inequitably shared cake in Australian public policy.

Reforming such a system is not as difficult or dangerous as those who benefit from it the most would argue. Tax concessions for the top ten per cent of income earners need to be dramatically reduced and the money used to provide much greater assistance to the majority of Australians who, at present, receive virtually nothing from what will soon be the largest single area of Commonwealth expense.

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