

Super expensive

Superannuation tax concessions are large, unfair and growing rapidly

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Superannuation tax concessions are almost as big as the cost of the age pension. They're also growing at twice the rate of the age pension. While the age pension is means tested to make sure that most of the benefit goes to those who need help with their retirement incomes, most of the superannuation tax concessions go to those that need the least help with their retirement incomes.

Superannuation tax concessions were supposed to help Australians become less reliant on the age pension, but with the rapid increase in the concession they will soon to be more expensive than the age pension. The cure has becoming worse than the disease.

Large

Superannuation tax concessions are set to rival the age pension in costs within a few years. According to Treasury's release in February of the Tax Benchmark and Variations Statement 2019¹, superannuation tax concessions are expected to be \$41.3 billion in 2019-20 and grow over the next three years to \$52.5 billion in 2022-23.² This compares to commonwealth funding for assistance to the aged, which is made up almost entirely

¹ Commonwealth of Australia (2020) *Tax Benchmarks and Variations Statement 2019*, The Treasury, available at <https://treasury.gov.au/sites/default/files/2020-01/complete_tbvs_web.pdf>

² Total superannuation tax concessions have been calculated by adding up Concessional taxation of capital gains for superannuation funds, Concessional taxation of employer superannuation contributions, Concessional taxation of personal superannuation contributions, Concessional taxation of superannuation entity earnings, Superannuation measures for low income earners and Concessional taxation of unfunded superannuation

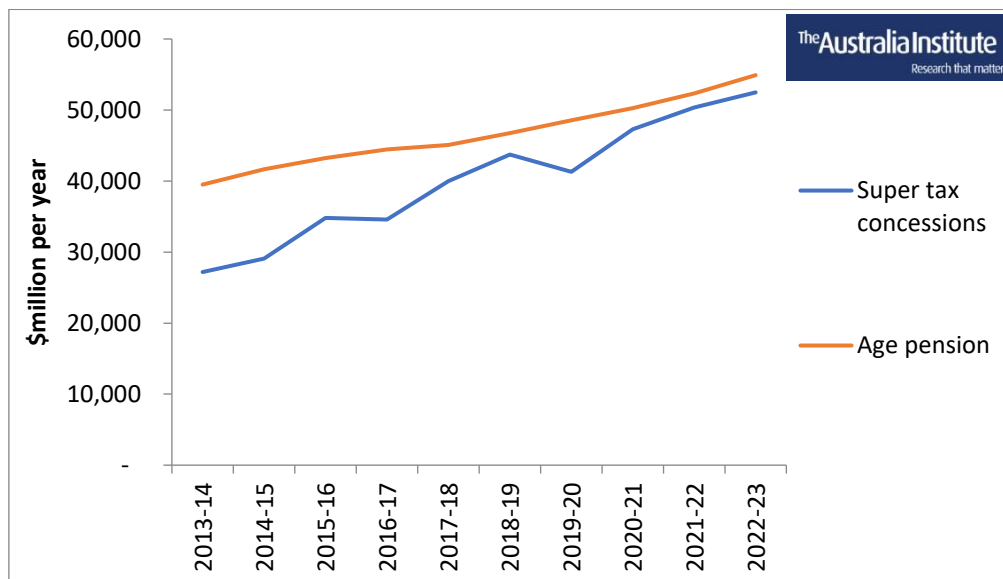
by the age pension³, which will be \$48.5 billion in 2019-20 rising to \$54.9 billion in 2022-23.⁴

Growing rapidly

Superannuation tax concessions are not just large but are growing rapidly. Over the next three years they're expected to grow by 25.2%. This is twice the growth rate of the age pension which is expected to grow by 12.6% over the next three years. Superannuation tax concessions have for some time been growing faster than the age pension. If we look at the average annual growth rate of the age pension over the nine years from 2014-15 to 2022-23, it has grown at 3.7% per year. Superannuation tax concessions have grown at more than twice that rate over the same period at 7.8% per year.

This has meant that the gap between the cost of superannuation tax concessions and the cost of the age pension has been narrowing as shown in Figure 1.

Figure 1 – Comparison of the cost of superannuation tax concessions and the age pension



Source: Tax Benchmark and Variation Statement 2019

³ Because assistance to the aged is mostly made of the age pension and because the Government does not release separate figures just for the age pension, when this paper refers to the cost of the age pension it is actually referring to assistance to the aged.

⁴ Commonwealth of Australia (2019) *Mid-Year Economic and Fiscal Outlook 2019-20*, The Treasury, available at <https://budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf> Various budget papers for previous years.

If the difference in growth rates continues then it will not be long before superannuation tax concessions cost more than the age pension.

Compulsory superannuation and the concessional way Australia taxes it was introduced in part to take pressure off the budget. This represents a failure of policy because superannuation tax concessions which were designed to reduce the budget cost of the age pension have themselves grown rapidly and are likely to soon cost the budget more than the age pension.

Figure 2 – Superannuation tax concessions and Age pension for 2019-20 to 2022-23

| | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---------|---------|---------|---------|
| Super tax concessions (\$ billion) | \$41.3 | \$ 47.3 | \$50.4 | \$52.5 |
| Super tax concessions growth (%) | | 14.5% | 6.5% | 4.2% |
| Age pension (\$ billion) | \$48.5 | \$50.3 | \$52.4 | \$54.9 |
| Age pension growth (%) | | 3.6% | 4.1% | 4.9% |

Source: Tax Benchmark and Variation Statement 2019, Mid-Year Economic and Fiscal Outlook 2019-20. Age pension refers to Assistance to the aged (see footnote 3)

Unfair

There is also the issue of equity. While the age pension is means tested and mainly helps low income households, superannuation tax concessions mainly go to high income households. 60 per cent of superannuation tax concessions go to the top 20 per cent of households with just 11 per cent going to half of all Australian households.⁵

Superannuation tax concessions also predominately favour men. Despite women making up about 50 per cent of the workforce, they only receive 30 per cent of superannuation tax concessions.⁶ Women retire with substantially less superannuation than men. The median superannuation balance for women at retirement is \$36,000. For men it's more than three times that at \$110,000.⁷ While women get substantially less superannuation tax concessions, with their lower superannuation balances they're

⁵ Matt Grudnoff (2015) *A super waste of money: Redesigning super tax concessions*, The Australia Institute, available at <<https://www.tai.org.au/content/super-waste-money-redesigning-super-tax-concessions>>

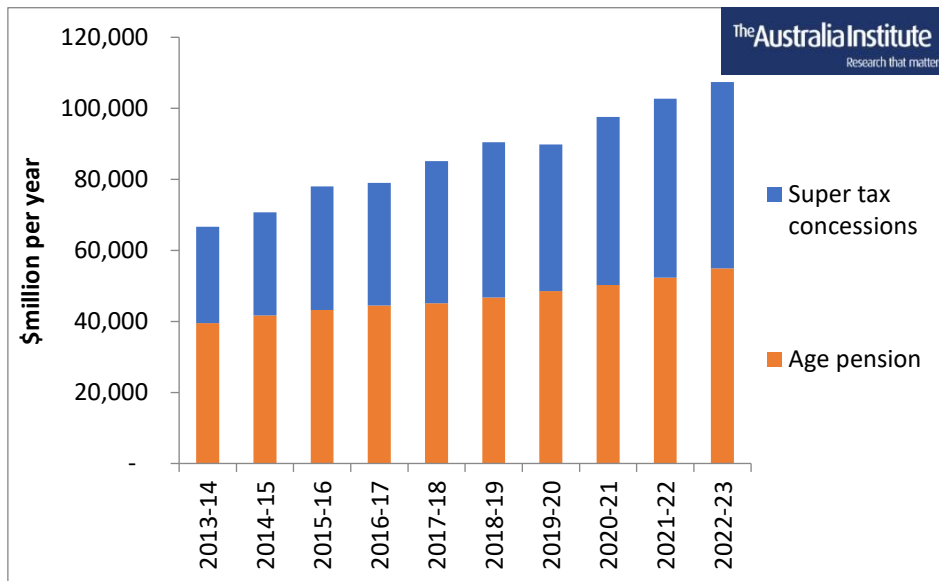
⁶ Matt Grudnoff (2015) *A super waste of money: Redesigning super tax concessions*, The Australia Institute, available at <<https://www.tai.org.au/content/super-waste-money-redesigning-super-tax-concessions>>

⁷ Clare R (2017) *Superannuation account balances by age and gender*, ASFA Research and Resource Centre, available at <https://www.superannuation.asn.au/ArticleDocuments/359/1710_Superannuation_account_balances_by_age_and_gender.pdf.aspx>

far more likely to retire in poverty. 40 per cent of older single retired women live in poverty.⁸

Superannuation tax concessions and the age pension represent the main way the government funds retirement incomes. The two combined are worth \$90 billion in 2019-20 rising to \$107 billion in 2022-23. This is shown in Figure 3.

Figure 3 – Combined cost of superannuation tax concessions and the age pension

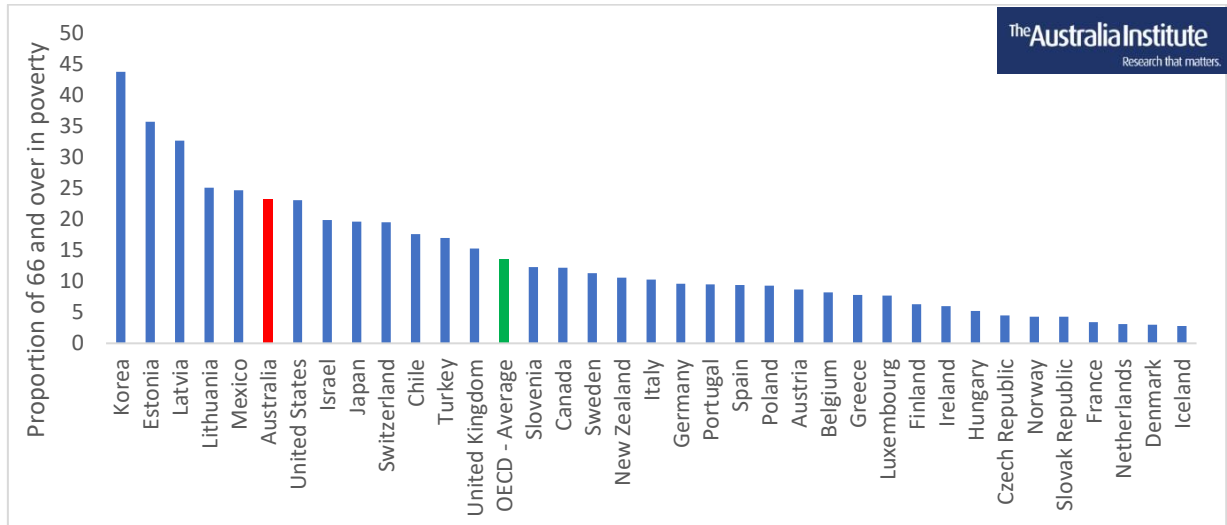


Source: Tax Benchmark and Variation Statement 2019

Despite the large amount of money Australia still has very high rates of poverty in retirement. Of the 36 developed countries (OECD nations) Australia has the sixth highest rate of poverty for retirees. This is shown in Figure 4.

⁸ Women in Super, *The Facts about Women and Super*, available at <https://www.womeninsuper.com.au/content/the-facts-about-women-and-super/gjumzs>

Figure 4 – Rates of poverty for those aged 66 and older for OECD nations



Source: OECD (2020) *Social protection and well being, Social protection, Pensions, Income and poverty of older people*, available at <https://stats.oecd.org/>

Such high rates of poverty in retirement is in part because so much of the funding for retirement incomes goes to high income households in the form of superannuation tax concessions. The rapid growth in these tax concessions will only make this worse.