

# Self-funded or State-funded Retirees? The cost of super tax concessions

***Tax breaks for superannuation will cost the Federal Budget \$52.5 billion in 2022-23, almost equal to the \$55.3 billion spent on the aged pension. Super concessions benefit the rich, while the pension is important for the poor. Major reform is overdue.***

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The challenge with superannuation can be summed up in one word: adequacy. The mandatory system must rise to a minimum 12 per cent of wages if we are to have a mature scheme. And, with that, any hope of shuffling the baby boomers through without inordinate stresses on the Budget onto those younger Australians who will have to fund it.<sup>1</sup> Paul Keating

When it was set up all those years ago in 1993, it was set up to be an alternative to the age pension so that people didn't have to rely upon the aged pension or even the part pension.<sup>2</sup> Kelly O'Dwyer

If the goal of superannuation is to shield the federal budget from the cost of providing an aged pension, the reality is that the system is more successful in boosting the savings of the wealthiest Australians than it is in protecting the taxpayer. The Minister for Financial Services, Stephen Jones recently observed that:

We have 32 self-managed super funds with more than \$100 million in assets – the largest self-managed super fund has over \$400 million in assets. I celebrate

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<sup>1</sup> Keating P (2007) "The story of modern superannuation" *Address to Australian Pensions and Investment Summit*, Sanctuary Cove, Queensland, 31 October at <http://www.paulkeating.net.au/shop/item/the-story-of-modern-superannuation-31-october-2007>

<sup>2</sup> ABC News (2016) "Fact check: Was superannuation designed to get people off the pension?" *ABC News*, 3 March <https://www.abc.net.au/news/2015-11-18/fact-check-was-super-designed-to-get-people-off-the-pension/6923582>.

success, but the concessional taxation of funds like these has a real cost to the budget which needs to be considered.<sup>3</sup>

This cost to the budget is significant but it is not new. The authors first demonstrated that the cost of providing tax concessions for superannuation were greater than the lifetime cost of paying the age pension back in 2007.<sup>4</sup> A decade ago, the Australia Institute reported on the value of the tax concessions for superannuation and found that subsidies for superannuation were similar in cost to the total Commonwealth payments to the states to provide health, education and other essential services.<sup>5</sup> Subsequent research by the Australia Institute highlighted the perverse distributional impact of super tax concessions, their ballooning cost, their bias towards benefiting men and the use of tax expenditures to hide their budgetary impact.

## THE PUBLIC COST OF SELF FUNDED RETIREMENT

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Figure 1 presents data from the Commonwealth Budget Papers for the financial years 2000-01 to 2021-22 as well as the budget estimate for 2022-23.

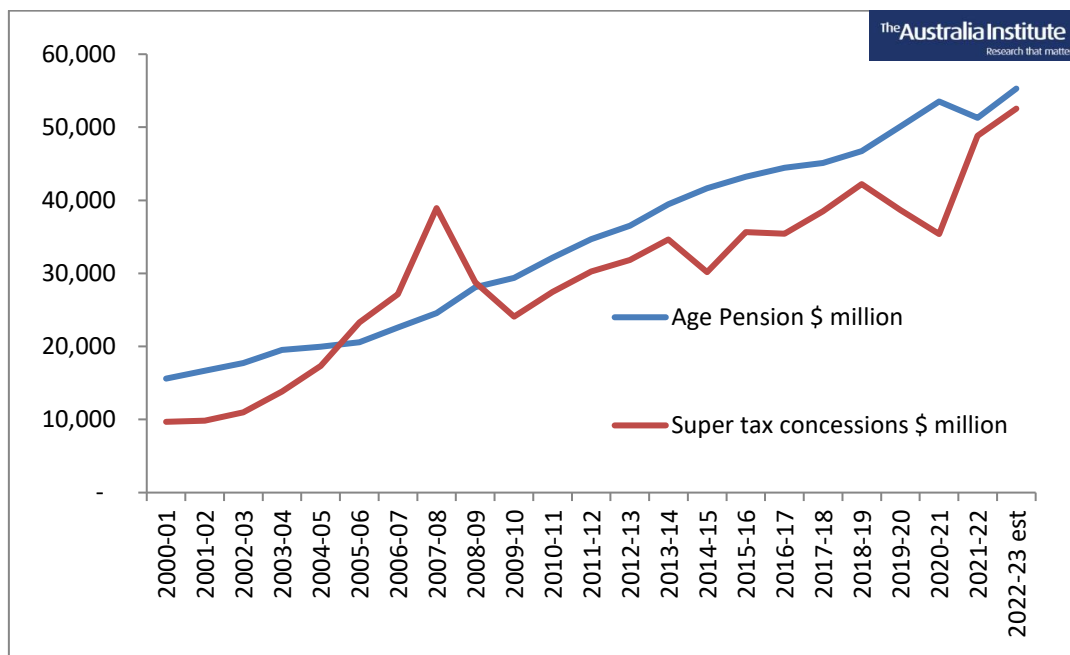
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<sup>3</sup> Read M and Vickovich A (2022) "Labor sets sights on Rich Lister super tax breaks", *Australian Financial Review*, 8 November.

<sup>4</sup> <https://www.ppesydney.net/content/uploads/2020/05/Crisis-of-cash-or-crisis-of-confidence-the-costs-of-ageing-in-Australia.pdf>

<sup>5</sup> Denniss R and Richardson D (2012) Can the taxpayer afford 'self-funded retirement'? Policy Brief No 42, August at [https://australiainstitute.org.au/wp-content/uploads/2020/12/PB-42-Can-the-taxpayer-afford-self-funded-retirement\\_4.pdf](https://australiainstitute.org.au/wp-content/uploads/2020/12/PB-42-Can-the-taxpayer-afford-self-funded-retirement_4.pdf)

**Figure 1: Tax concessions for superannuation and age pension compared, \$m.**



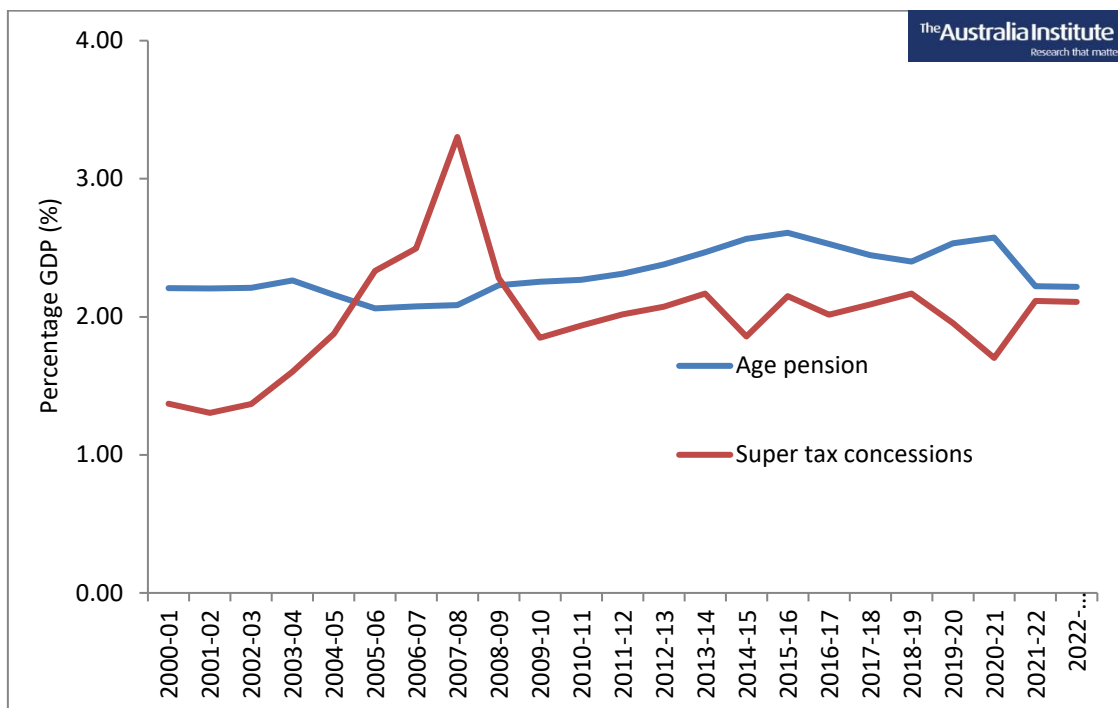
Sources: Treasury (2022) *Tax benchmarks and variations statement 2021*, Treasury (various years) *Tax expenditure statement*, and Australian Government (various years) *Budget Papers*.

Figure 1 shows that in 2022-23, super tax concessions included in the budget as large tax expenditures were estimated at \$52.6 billion, just under the value of the age pension at \$55.3 billion.<sup>6</sup> This puts tax concessions for super in the top three expenditure programs by cost. Tax concessions for superannuation dwarf items such as funding for the NDIS at \$35.5 billion, medical benefits at \$31.3 billion and assistance to the states for hospitals at \$26.6 billion.

As evident in Figure 1, the cost of super tax concessions is volatile, fluctuating by over \$10 billion between some years. This is especially the case for concessional treatment of income earned in super funds which varies with the fortunes of the share market - as the returns to funds fluctuate so does the value of the concessional tax treatment of those returns. Figure 2 presents the same data presented as a percentage of GDP rather than in absolute dollar terms.

<sup>6</sup> These and other items from Australian Government (2022) *2022-23 Budget Paper No 1*.

**Figure 2: Tax concessions for superannuation and age pension compared, % GDP**



Source: As for Figure 1 plus ABS (2022) Australian National Accounts: National Income, Expenditure and Product, 7 December.

Figure 2 highlights the volatility of super tax concessions and also shows that their cost has risen from less than 1.5% of GDP at the start of the century to over 2%. The cost of the aged pension has been relatively consistent at around 2.2% of GDP.

## CONCLUSION

Minister Jones has foreshadowed reforms to tax concessions for superannuation are on the government’s agenda. But talk is cheap. There have been decades of similar proposals. For example, the 2016 budget included caps transfers to tax-free retirement accounts, limits on concession contributions for people earning over \$250,000 and various other initiatives.<sup>7</sup> To date, such changes have done little to reduce the cost or improve the distribution of tax concessions for superannuation.

Major changes are required, such as abolishing concessions for people whose existing superannuation balance makes them ineligible for the age pension. This would lead to significant budgetary saving, significantly reduce wealth inequality, and significantly increase the ability of the Commonwealth Government to invest in solutions for other policy problems.

<sup>7</sup> See Treasury (2017) “Superannuation reforms” at <https://treasury.gov.au/superannuation-reforms>

Australia faces a myriad of policy problems ranging from the costs of climate change and nuclear submarines to the need to implement the recommendations of the Aged Care Royal Commission and providing adequate housing to women and children fleeing violence. But while it is often suggested that we 'can't afford' to solve these problems, the Commonwealth Government can seemingly afford to spend \$53 billion per year on a policy with no clear objective but looks like it has been designed to assist tax avoiders.