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Who benefits?

The high cost of super tax concessions

Super tax concessions exacerbate income and gender inequality. They come at a huge cost in foregone revenue and are set to become more expensive than the Age Pension. Targeted reform is necessary to ensure concessions are limited to those who really need them and to reduce the burden on the budget.

Discussion paper

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Introduction

According to The Treasury, the primary objective of Australia's superannuation system is to provide income in retirement to substitute or supplement the Age Pension. The government uses different incentives to encourage Australian workers to save for their retirement through superannuation. This includes giving tax concessions for contributions made to super, and concessions on the earnings made from super balances.

When releasing the 2023 Intergenerational Report, Treasurer Jim Chalmers argued that:

> Our population is ageing but our spending on the Age Pension will fall — that is the intergenerational genius of super. Super is delivering on its promise — providing a better retirement for more Australians and a better outcome for the budget over the next forty years.[1]

However, while it is true that the super scheme helps many people save for their retirement, the scheme disproportionately benefits wealthier Australians. Superannuation tax concessions come at a huge cost in foregone revenue that is growing so quickly they will soon become more expensive than the Age Pension. In coming years, the solution will become worse than the problem. To reduce the burden on the budget, reform is necessary to ensure super concessions are limited to those who really need them.

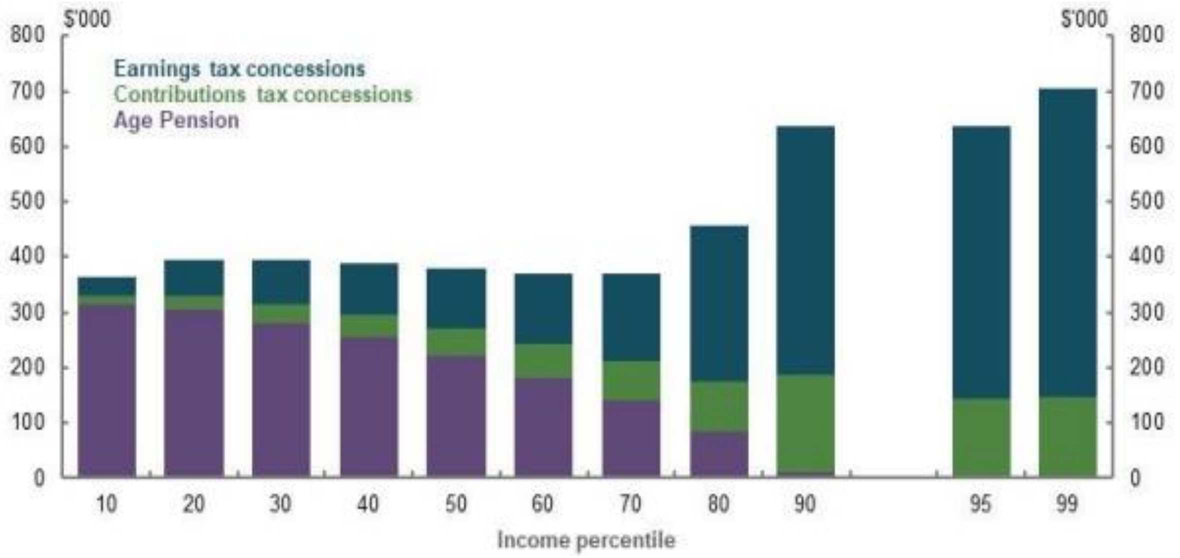
[1] Ransley (2023) *Aged pension spending to decline as Australia's economy looks to the future,* https://www.theaustralian.com.au/breaking-news/aged-pension-spending-to-decline-as-australias-economy-looks-to-the-future/news-story/6df0f882085a2d9cc54e60f33aeb4da3

Super concessions and inequality

INCOME INEQUALITY

High-income earners gain much more from superannuation tax concessions than low-income earners. Figure 1 shows that the top of 20% of income earners benefit the most from superannuation tax concessions over the course of a lifetime. The concession provided to high-income earners are so great that Treasury has estimated that they "receive more lifetime government support in dollar terms than lower- and middle-income earners".[2] In 2020-21, 54% of the benefit of concessional taxation of superannuation contributions and 57% of benefit of concessional taxation of superannuation earnings went to the top 20% of income earners.[3] In this way, Australia's super policies actually serve to increase the gap between the rich and poor.

Figure 1: Projected lifetime support provided through the retirement income system



Source: Treasury (2020) *Retirement Income Review Final Report*.

These concessions are also unnecessarily provided to those with large superannuation balances. In 2020-21, just 0.6% –of Australian workers (104,141 people) had a super fund above $2 million, including just 408 people under the age of 30.[4] But those 0.6% accounted for 14% of all funds held in superannuation. This is shown in Figure 2. All up, just 7.5% of all

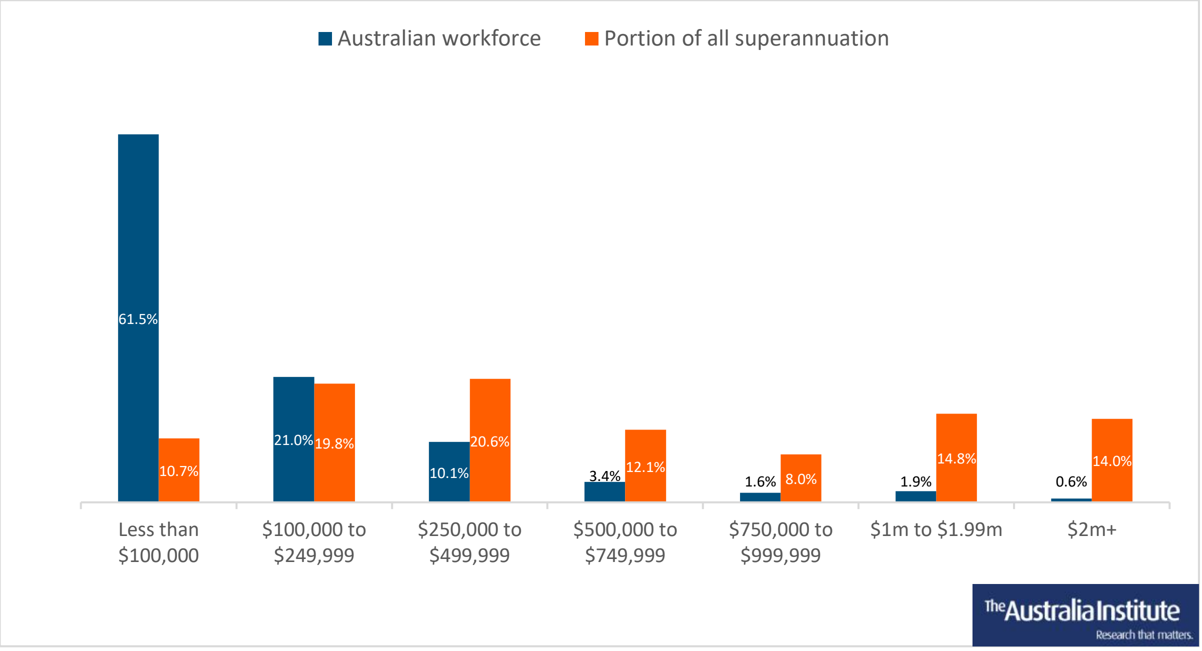
[2] Treasury (2020) *Retirement Income Review Final Report,* p247, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

[3] Treasury (2024) *Tax expenditures and insights statement*, https://treasury.gov.au/publication/p2024-489823

[4] ATO (2023) *Tax Stats 2020-21 Table 22*, https://data.gov.au/data/dataset/taxation-statistics-2020-21

people with a superannuation balance accounted for 49% of the total amount of superannuation held by Australians.

Figure 2: Share of all individuals and total superannuation balances by fund size, 2020-21



Source: ATO (2023) *Tax Stats 2020-21 Table 22,* derived.

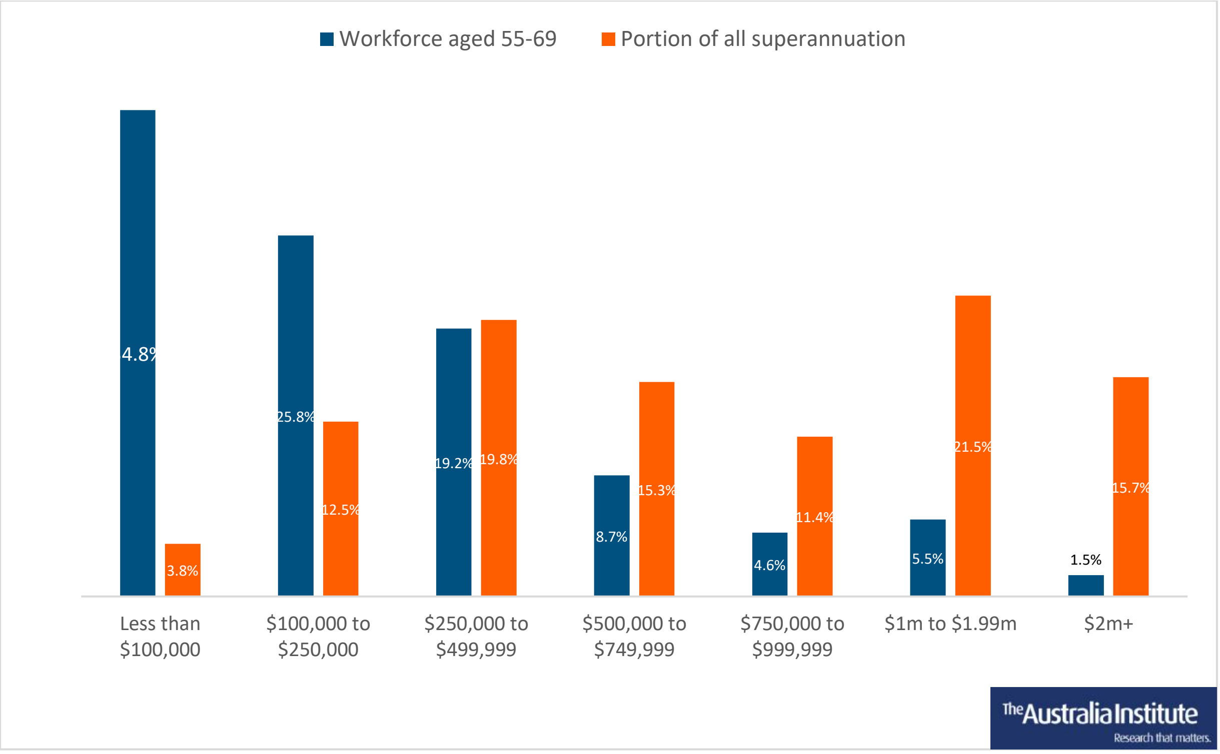
While this total includes many people who will not retire for a long time, this inequality is also present among people around retirement age. Figure 3 shows that while just 1.5% of Australians aged 55 to 69 have super balances above $2 million, they account for a disproportionate 15.7% of total super balances among this age cohort.

Importantly, this cohort are nowhere near eligible for the Age Pension. To be eligible for Age Pension, a person must pass both income and assets tests. The current asset threshold for a single person to be eligible for a part pension is $674,000 for a homeowner and $916,000 for non-homeowner. For a single person to be eligible for the full pension, the threshold is $301,750 for a homeowner and $543,750 for a non-homeowner.[5] So, the more super a person holds, the less likely they are to be eligible for Age Pension, and those with balances over $2 million are well past the point of qualifying.

This demonstrates the illogical nature of the current superannuation concessions. If the objective of superannuation is to provide income in retirement to substitute or supplement the Age Pension, then the Commonwealth Government does not need to provide concessions to those with such high balances. The concessions are only helping rich people become richer.

[5] Australia Government (2024) *Assets test*, https://www.servicesaustralia.gov.au/assets-test-for-age-pension?context=22526

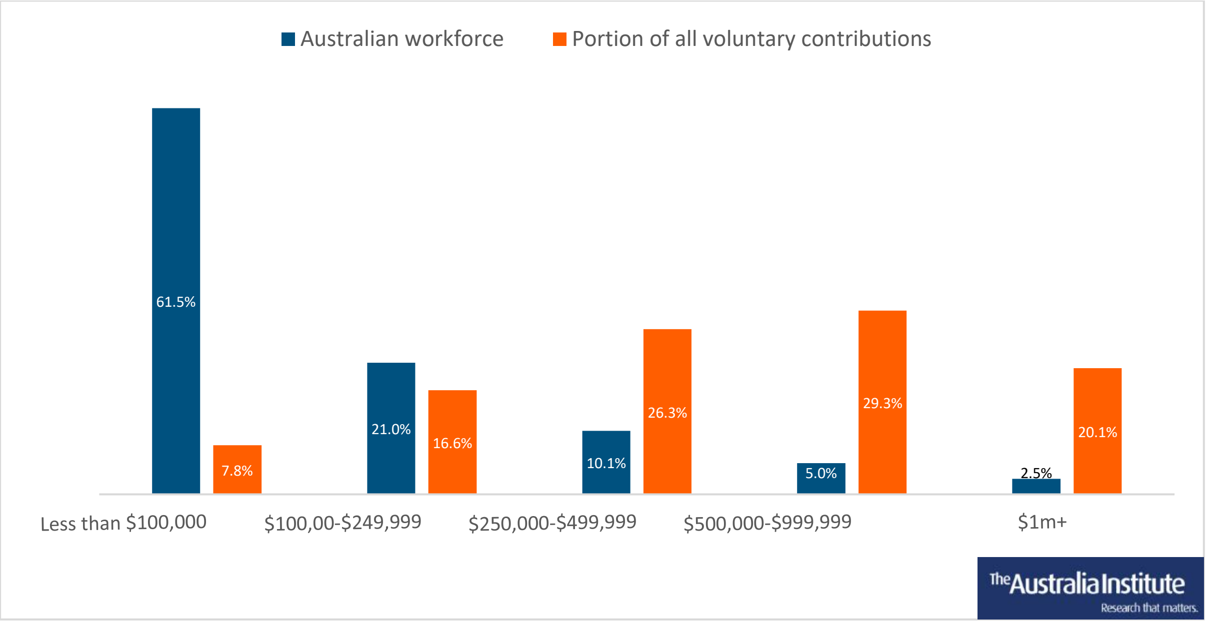
Figure 3: Inequality in super holdings among workforce aged 55-69, 2020-21



Source: ATO (2023) *Tax Stats 2020-21 Table 22,* derived.

Rather than provide incentives for saving, these super tax concessions are incentivising high-income earners with high super balances to avoid paying tax. People with such large super balances do not need to put away ever more money for their retirement. But they are enabled to take advantage of the concessions to lower their income tax rates for both superannuation contributions and earnings. This has led to a situation in which those with large super balances are also the ones most likely to make personal contributions. Figure 4 shows that just 2.5% of Australian workers hold more than $1 million in super, but that those people made 20.1% of all personal super contributions in 2020-21.

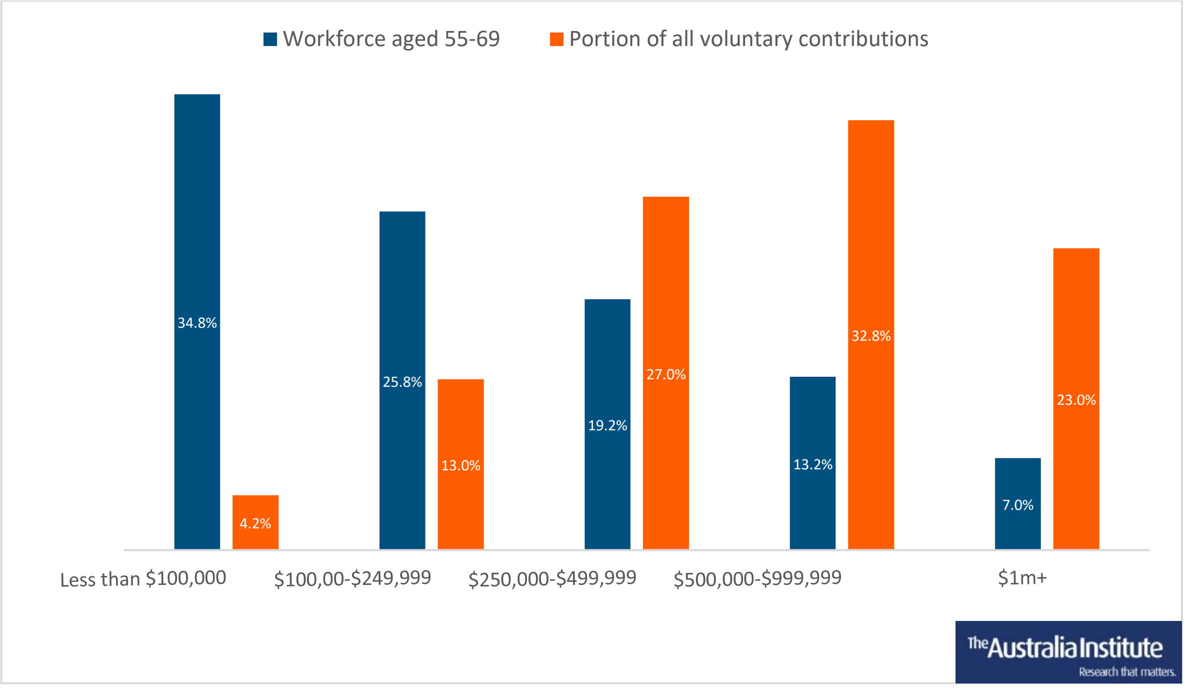
Figure 4: Share of voluntary contributions to superannuation funds, 2020-21.



Source: ATO (2023) *Tax Stats 2020-2021 Table 22,* derived.

When we focus on people aged 55-69, the story is the same: people with higher super balances contribute more to their super account. Figure 5 shows that just 7% of those aged 55-69 have a super balance above $1 million. But these people account for 23% of total personal super contributions made among this age group. By contrast, 34.8% of Australians aged 55 to 69 have super balances of less than $100,000, but those people made only 4.2% of voluntary contributions. Super concessions appear to be encouraging wealthier people to put money into their super fund to reduce their taxable income.

Figure 5: Share of contributions to superannuation among people aged 55-69, 2020-21



Source: ATO (2023) *Tax Stats 2020-21 Table 22,* derived.

GENDER INEQUALITY

Superannuation tax concessions also favour men over women. Despite making up just under half of the workforce, in 2020-21, women received only 42% of total concessional tax benefits from superannuation contributions, and 39% of total concessional tax benefits from superannuation earnings.[6] Consequently, women retire with substantially less superannuation than men. In 2019, the median superannuation balance for men aged 60 to 64 was around $178,800, but for women it was $137,050. This equates to a retirement savings gap of 23.4%.[7] On average, Australian women live four years longer than men,[8] which means their lower super balances often run out.

[6] Treasury (2024) *Tax expenditures and insights statement*, https://treasury.gov.au/publication/p2024-489823

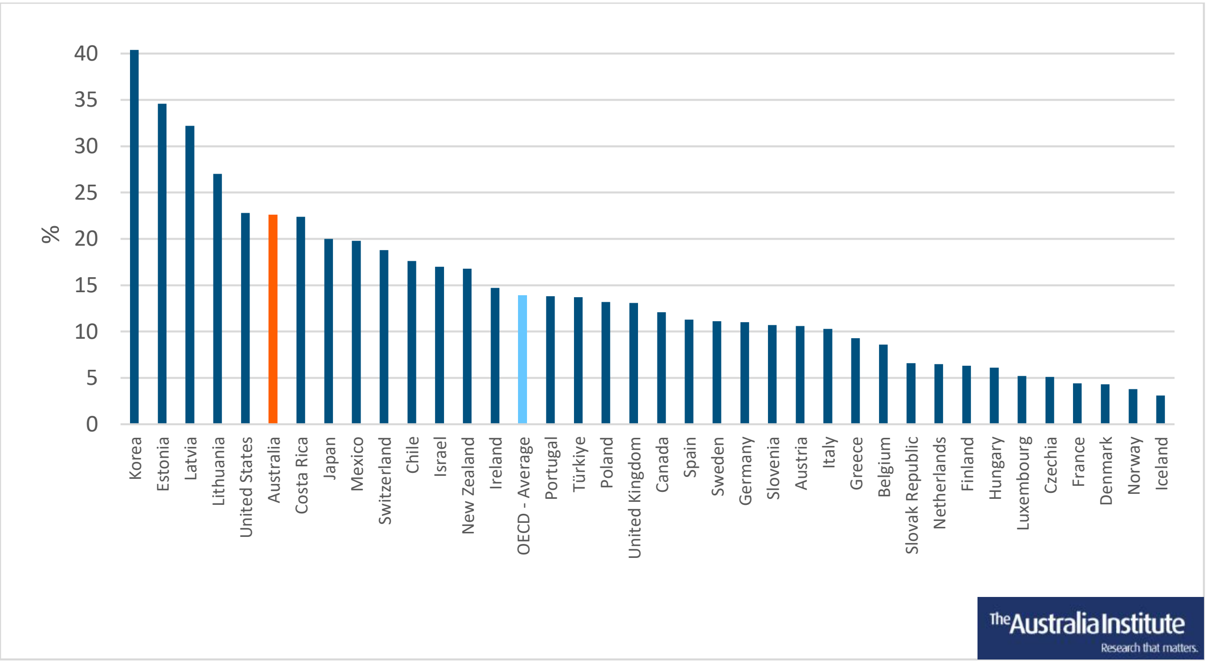
[7] ASFA (2022) *ASFA Pre-Budget Submission for the 2022-23 Budget,* p 9, https://www.superannuation.asn.au/ArticleDocuments/1877/Pre-budget%20submission%202022.pdf.aspx?Embed=Y%20

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

POVERTY IN RETIREMENT

Compared to similar nations, Australia has a high rate of poverty in retirement. The revenue forgone by giving superannuation tax concessions to already wealthy people could be better spent ensuring financial security for those who rely on the Age Pension. In 2022-23, superannuation tax concessions and the Age Pension were worth a combined $109.433 billion. This cost will increase to an estimated $121.602 billion in 2026-27.[9] This is more than the estimated cost of aged care services ($37.99 billion), medical benefits ($34.1 billion), assistance to the states for healthcare services ($32.2 billion), and support for families ($19.95 billion).[10] Despite this large expenditure, Australia still has above average rates of poverty in retirement. Of the 37 OECD nations, Australia has the sixth highest rate of poverty for retirees. This is shown in Figure 6.

Figure 6: Poverty rate among people aged 66 and over, OECD nations, 2020



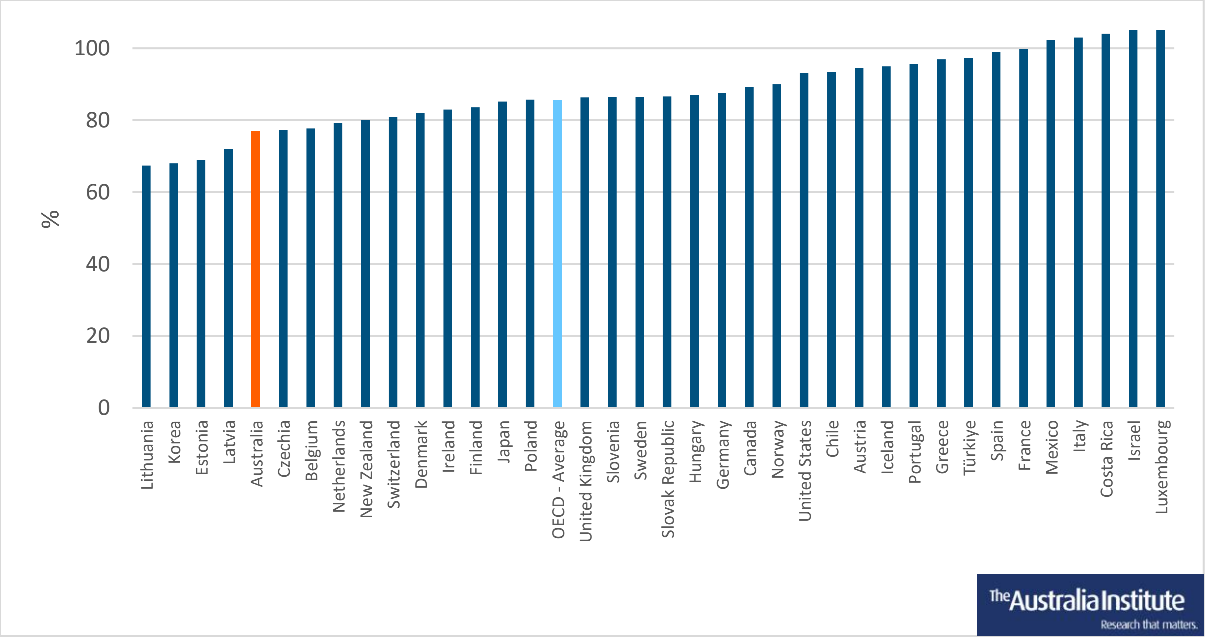
Source: OECD (2024) *Social protection and wellbeing, Social protection, Pensions at a Glance, Income and poverty of older people*, https://stats.oecd.org/.

[9] Treasury (2024) *Tax expenditure and insights statement*, p 121-125, https://treasury.gov.au/publication/p2024-489823 and Australian Government (2023), *Budget Paper 2023-24 no 1*, p 202, https://budget.gov.au/content/bp1/index.htm, derived.

10 Australian Government (2023), *Budget Paper 2023-24 no 1*, p 202, https://budget.gov.au/content/bp1/index.htm

Figure 7 shows that the income of Australian retirees is 23.1% less than the average income of the population as a whole. Among the 37 OECD nations, this is the fifth largest income gap between retirees and the general population.

Figure 7: Income of people aged over 65 as a percentage of average incomes, 2020

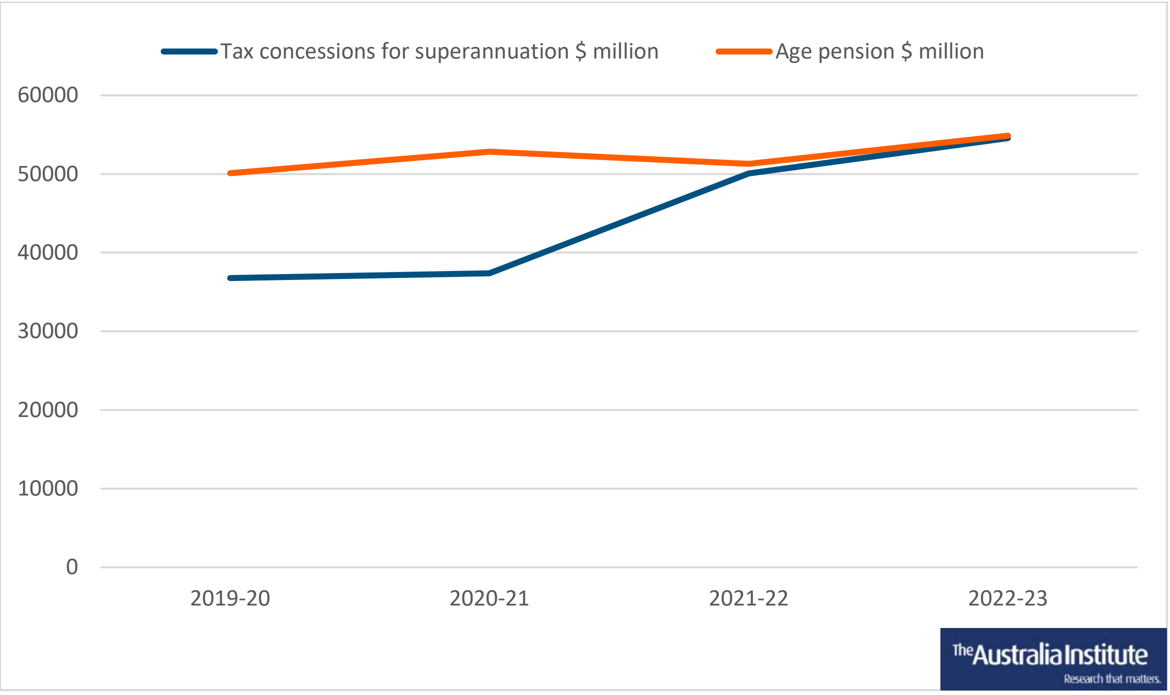


Source: OECD (2024) *Social protection and wellbeing, Social protection, Pensions at a Glance, Income and poverty of older people*, https://stats.oecd.org/.

Super tax concessions come at a huge economic cost

Super concessions do not save the Government money. Figure 8 shows that the amount of foregone revenue that goes to super concessions is so large that it is nearly equivalent to the cost of the Age Pension. This is despite the Commonwealth Governments recent superannuation reforms.[11] According to Treasury, superannuation tax concessions[12] cost $54.56 billion in 2022-23.[13] In Figure 8 this is compared to Commonwealth funding for assistance to the aged, which is made up almost entirely by the Age Pension,[14] and which cost $54.873 billion in 2022-23.[15]

Figure 8: Tax concessions for superannuation and Age Pension, 2019-23



Sources: Treasury (2024) *Tax expenditure and insights statement*, and Australian Government (various years) *Budget Papers*.

[11] Treasury (2023) *Superannuation Reforms*, https://treasury.gov.au/superannuation-reforms

[12] 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.

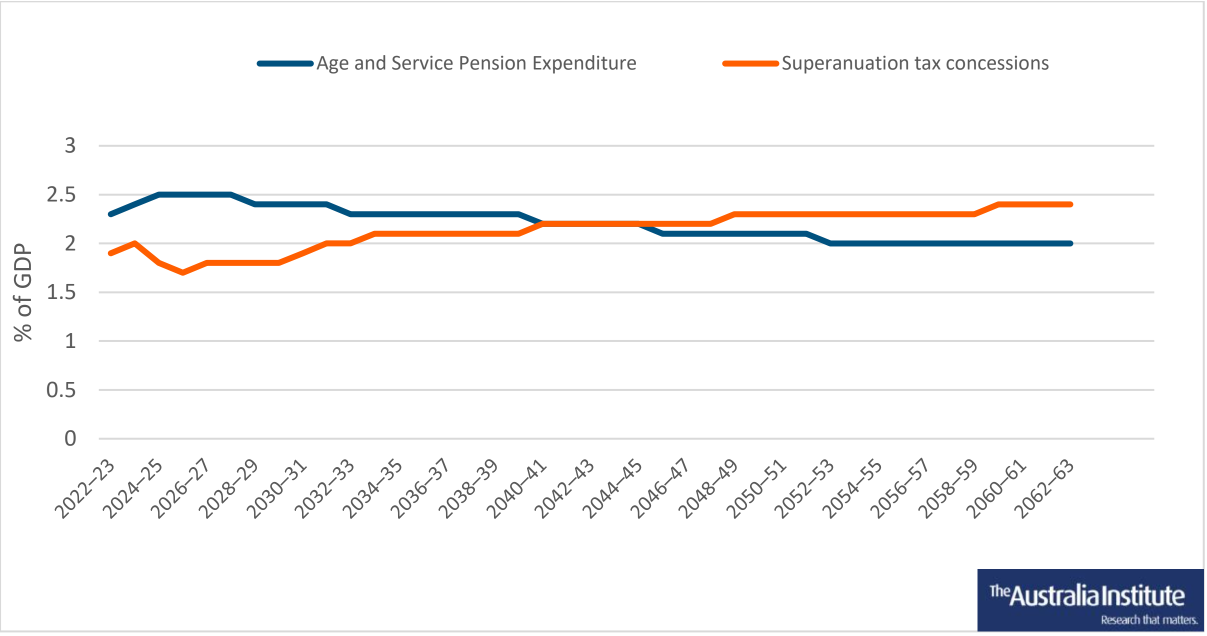
[13] Treasury (2024) *Tax expenditure and insights statement 2024*, p 121-125, https://treasury.gov.au/publication/p2024-489823

[14] 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 referring to support for seniors.

[15] Australian Government (2023), *Budget Paper 2023-24 no 1*, p 202, https://budget.gov.au/content/bp1/index.htm

Although Treasury forecasts show that revenue lost to super tax concession will remain lower than the Age Pension in the near term (2023-2027),[16] the gap will start to narrow in the 2030s. By 2045-46, tax concessions on super contributions and earnings, which make up almost entirely the super tax concessions, are projected to cost the Commonwealth budget more than the Age Pension.[17] Concessions are not reducing spending on retirement as they were supposed to and, in the future, the "solution" will become worse than the problem super was supposed to fix.

Figure 9: Forecast on tax concessions for superannuation and Age Pension



Source: Treasury (2023) *Intergenerational Report 2023.*

[16] Treasury (2024) Tax expenditure and insights statement 2024, p 121-125, https://treasury.gov.au/publication/p2024-489823 and Australian Government (2023), Budget Paper 2023-24 no 1, p 202, https://budget.gov.au/content/bp1/index.htm

[17] Australian Government, *Intergenerational Report 2023*, p 170, https://treasury.gov.au/publication/2023-intergenerational-report

Superannuation reform by the Commonwealth Government

Legislation passed in 2016 included a statement that the objective of the superannuation system is "to provide income in retirement to substitute or supplement the Age Pension".[18] Any Bill or regulation relating to superannuation must now include a statement of capability that sets out how it is consistent with this objective. This reform intended to focus tax concessions where they are need most. For example, in 2017, the threshold at which high income earners pay additional super contributions tax (Division 293) was lowered from $300,000 to $250,000.[19] However, these reforms did not address the inequitable distribution of benefit from the concessions, and the unnecessary support given to high-income earners with high-super-balances.

More recently, the Federal Government has proposed that, from 1 July 2025, earnings on super balances over $3 million will be taxed at 30% (an increase from 15%). Every dollar up to the $3 million mark will still be taxed at a rate of 15%, but the increased rate will need to be paid on anything more. If this proposal is legislated, it will affect an estimated 80,000 people, equivalent to about 0.5% of all super accounts.[20] While this change is encouraging, it will still not be enough to significantly address the problem. It is hard to see how these changes, which continue to allow high income earners to save hundreds of thousands in tax, comply with the objective of "substituting and of supplementing" the Age Pension system.

A super system that genuinely "substitutes and supplements" the Age Pension system would not give concessions to those whose income or super balances are high enough to make them ineligible for the Age Pension. If people with high incomes and/or super balances are ineligible for the Age Pension, there is no sense in allowing them to be eligible for super tax concessions. Removing or at least limiting concessions for these people would not only increase revenue but ensure the super system is meeting its stated purpose.

[18] The Treasury (2023) *Superannuation Reforms*, https://treasury.gov.au/superannuation-reforms#objective

[19] The Treasury (2023) *Superannuation Reforms*, https://treasury.gov.au/superannuation-reforms; ATO (2023), *Division 293 tax on concessional contributions by high-income earners*, https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions/division-293-tax-on-concessional-contributions-by-high-income-earners

[20] Steward (2023) *Superannuation tax changes will not be indexed, says treasurer. Here's what that means*, https://www.abc.net.au/news/2023-03-02/super-tax-changes-explained/102037738.

Conclusion

In general, super tax concessions benefit all Australian workers saving for retirement – but the distribution of this benefit is greatly unfair. High-income earners and men all receive a disproportionate advantage from current policies. People with high-super-balances, who do not need additional support for their retirement, receive unnecessary concessions notionally designed to encourage greater savings for retirement, but which have come to be used as a way to reduce taxable income. Super tax concessions have become so costly that they are set to become more expensive than the Age Pension. Reform is needed to ensure these concessions are limited to those who really need them. The income level or super balance at which tax concessions cut out should be lowered. This would lead to significant savings in forgone revenue, reduce inequality, and significantly increase the ability of the Commonwealth Government to properly fund the Age Pension system.