



MEASURING VARIOUS OPTIONS AGAINST THE AIST MERCER SUPER TRACKER

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Introduction

AIST Mercer Superannuation Tracker

Earlier this year, AIST and Mercer developed the AIST Mercer Super Tracker (the Tracker) as a tool to assess the progress of Australia's retirement income system against a number of key indicators.

Although an important purpose of the Tracker was to consider and measure the current arrangements, the Tracker was also designed to enable an evidence-based and objective analysis of new proposals affecting the Australia's retirement income system, and to measure the progress of the system over time.

Thus, whilst the initial scores provided an indication of possible areas for improvement, the real value of the Tracker is that it provides a framework within which the impact of different policies can be analysed and debated. With this in mind, the Tracker results are derived from publicly available data and an objective and transparent methodology, enabling them to be reproduced by other parties.

The Australian system as a whole is well regarded internationally: for example, the 2014 Melbourne Mercer Global Pension Index rated Australia second out of 25 countries. However, the Tracker is unique in that it looks at the Australian system in greater detail, and includes a number of indicators which it is not possible to include in an international comparison – for example, the fairness of the system, and the gender gap.

Key indicators used in the Tracker

The Tracker scores the Australian retirement income system against the following 10 key indicators:

- Net Retirement Income: a measure of the expected net retirement income in the first year of retirement, based on certain assumptions.
- Fairness of Government Support: a measure of the difference in the total level of government support (including taxation concessions and age pension payments) for individuals of different income levels. The maximum score would be achieved if the level of government support is the same (in dollar terms) across all income levels.
- Gender gap: this measure looks at the average female superannuation benefit compared to the average male benefit.
- Coverage of Superannuation: the proportion of the working age population covered by superannuation
- Level of personal contributions
- Cost of Government Support: the combined cost of Government Support, including both tax concessions and age pension payments
- Level of Superannuation Assets
- Labour force participation rates
- Length of Retirement
- Age pensioner population: the proportion of the population reliant on the age pension, with a higher proportion resulting in a lower score.

The Tracker can be used to show the 10 current scores, and then show what the scores might be if a proposed policy (or package of policies) were implemented. AIST and Mercer believe that this both provides robustness of methodology as well as a clear way to communicate proposed policy outcomes to consumers.

Further details of the scoring system and the assumptions used in the modelling are reproduced in Sections 5 and 6 of this report. Further information may also be found on the AIST website at http://www.aist.asn.au/media/14318/14041-IC_AIST%20super%20tracker%20_FIN-SEC.pdf or on the Mercer website at <http://www.mercer.com.au/insights/focus/AIST-merc-mercer-super-tracker.html>

The above indicators were chosen by AIST and Mercer as being important and measurable outcomes from the retirement incomes system. Whilst the choice of indicators and their weightings will always be subjective, the design of the Tracker is transparent, so that users are able to calculate the impact of changing the weights of different indicators.

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Modelling Undertaken

Areas of key concern to AIST

The 'fairness' and 'gender gap' are of particular concern to AIST as these items scored relatively poorly in the initial results. In addition, both of these issues have received coverage in the media in recent times, suggesting there may be increasing community concern about the fairness of the superannuation system.

In order to consider how these relatively poor scores regarding 'fairness' and the 'gender gap' might be improved, AIST asked Mercer to model a number of superannuation policies which have been considered by AIST or which have been proposed by other organisations. AIST has advised Mercer that the outputs of this modelling will be considered by AIST, but that AIST's first objective in gaining the outputs of this modelling was to demonstrate what a method for policy assessment might look like, and to underpin the need for transparency regarding tracking the costs and benefits of the Australian superannuation system.

Government and other party superannuation policy proposals

AIST requested Mercer to model the impact of the changes to the assets test announced in the 2015 Federal Budget (and now legislated), as well as the superannuation policies proposed by the Australian Labor Party and the Greens.

A description of the policies modelled, along with the results of this modelling are presented in Section 3 of this report.

Other policies put through the Tracker

AIST also requested Mercer to model a number of other superannuation policies which have been either considered by AIST or proposed by other organisations.

A description of the policies modelled, along with the results of this modelling are presented in Section 4 of this report.

3

Modelling of Government and other party proposals

2015 Federal Budget changes to the assets test

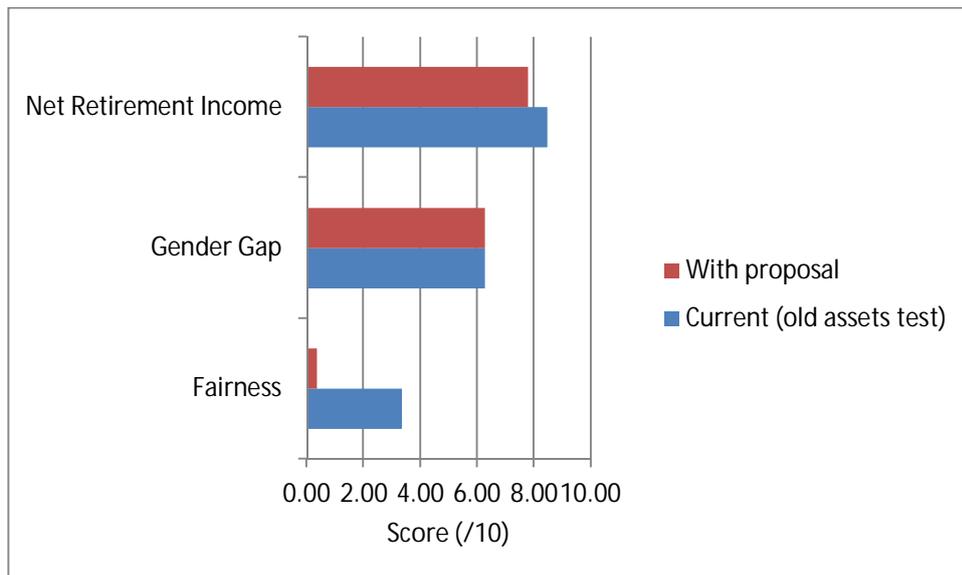
In the 2015 Federal Budget the Government announced changes to:

- increase the amount of assets pensioners can have before their pension starts to be reduced (the ‘threshold’ level); and
- double the ‘taper rate’ (i.e. the rate at which the Age Pension is reduced for each \$1,000 of relevant assets in excess of the ‘free’ level), so that part-pensions reduce more quickly as assets increase and cut out entirely at significantly lower levels than currently.

The results below show the impact of this change compared with the previous arrangements.

For modelling purposes we have assumed that these assets thresholds will be indexed using the same assumptions as used for the original Tracker: that is, 3% pa, aside from a three year freezing of the thresholds from 1 July 2017.

(i) Impact on current Tracker scores



(ii) Summary of Scores

	Current	With proposal	Impact	% Impact
Fairness	3.34	0.35	-2.99	-90%
Gender Gap	6.26	6.26	0.00	0%
Net Retirement Income	8.48	7.78	-0.70	-8%
Overall Tracker Impact	64.9	59.1	-5.80	-9%

(iii) Explanation of Outcomes

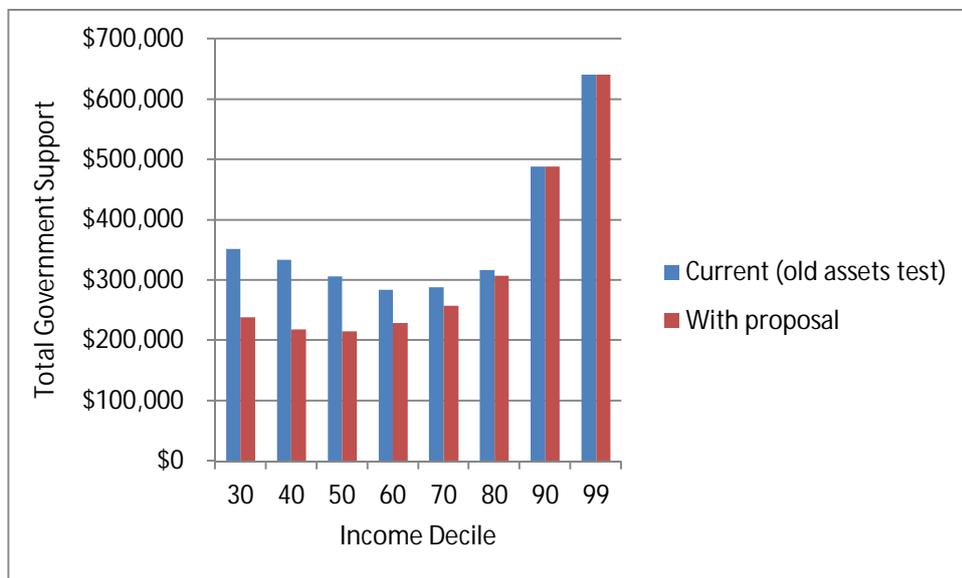
The most significant impact is the extreme deterioration in the fairness score. As illustrated below this measure has no impact on the highest income earners, but significantly reduces the level of support to lower and middle income earners.

The net retirement income score decreases due to the lower expected age pension payments for median income workers.

The gender gap score is not affected as this score is based on superannuation balances which will not be affected by this measure.

(iv) Detailed impact

The impact of this package on the Fairness indicator is illustrated in greater detail in the graph below.



(v) Potential impacts on consumer behaviour

This package may act as a disincentive to saving (whether via superannuation or other means) for those likely to be affected by the assets test. Once an individual reaches the threshold for the assets test, there may be little or no benefit in holding additional assets, as the increase in income which could be produced by additional assets is likely to be offset by a reduction in pension payments.

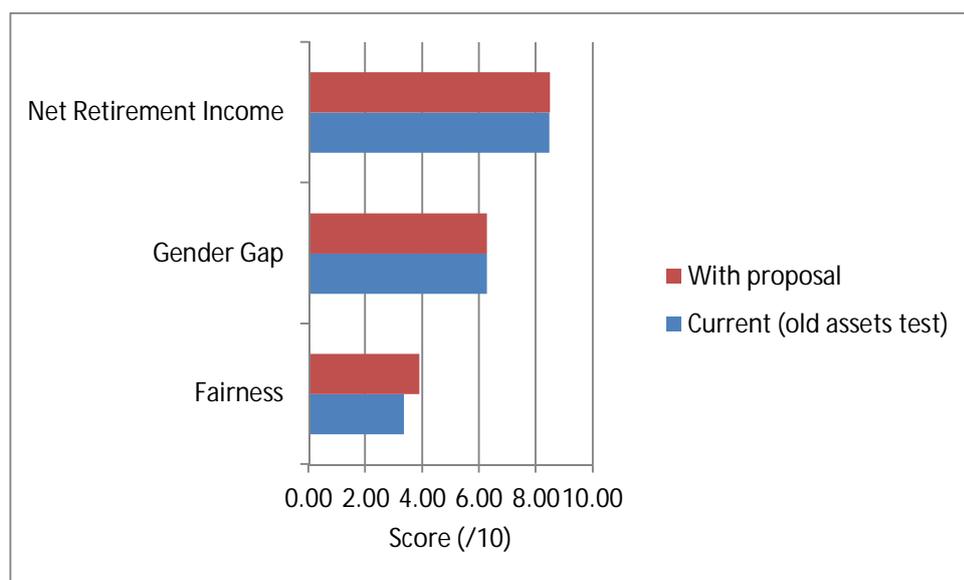
Australian Labor Party (ALP) superannuation policies

The ALP has recently proposed changes to the superannuation system which would:

- remove the tax-free status and levy 15 per cent investment tax on earnings in the post-retirement phase in excess of \$75,000 per annum; and
- reduce the income threshold for the 30 per cent tax rate from \$300,000 to \$250,000.

For modelling purposes we have assumed that both of these thresholds would be indexed in line with the income tax thresholds (as outlined in the assumptions in section 7).

(i) Impact on current Tracker scores



(ii) Summary of Scores

	Current	With proposal	Impact	% Impact
Fairness	3.34	3.88	0.54	16%
Gender Gap	6.26	6.26	0.00	0%
Net Retirement Income	8.48	8.48	0.00	0%
Overall Tracker Impact	64.9	65.8	0.90	1%

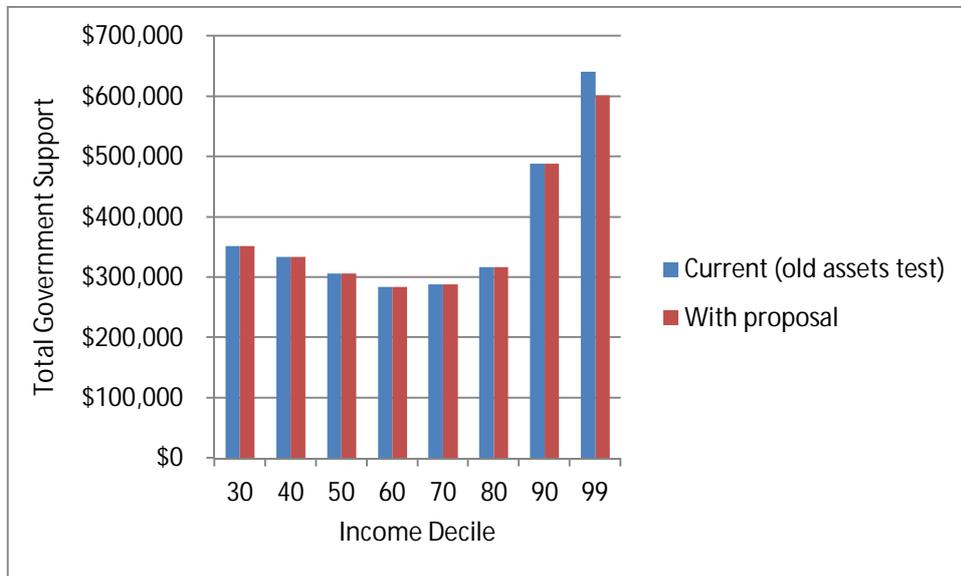
(iii) Explanation of Outcomes

The only impact is the improvement in the fairness score, as both measures will reduce the taxation concession on superannuation for very high income individuals.

There is no impact on the net retirement income or gender gap scores as these measures are not expected to affect the median worker (whether male or female).

(iv) Detailed impact

The impact of this package on the Fairness indicator is illustrated in greater detail in the graph below.



(v) Implications of the package

The additional tax on investment income above \$75,000 may be difficult to administer. In addition, it is not clear how this tax would apply to those receiving defined benefit pensions.

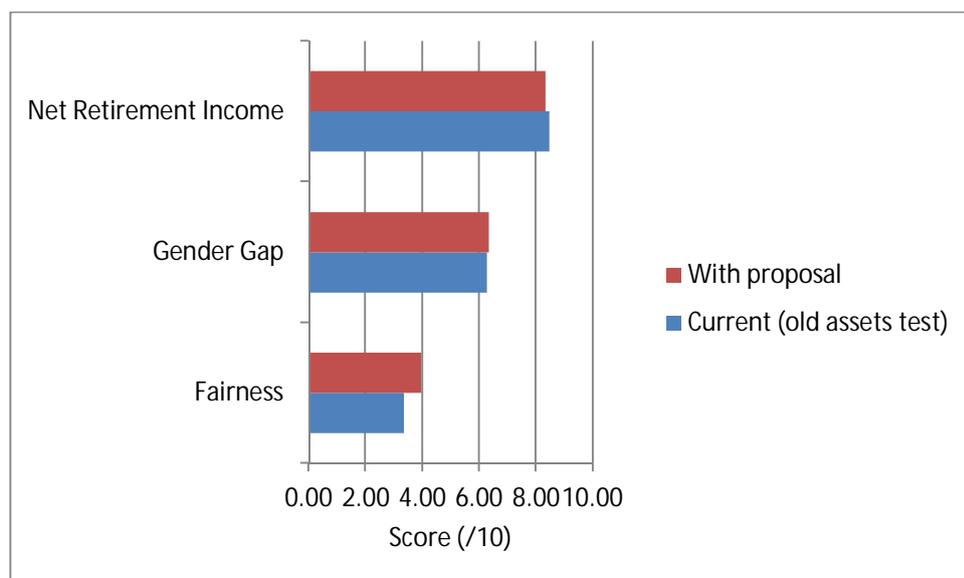
(vi) Potential impacts on consumer behaviour

We would expect limited impact.

Greens proposed superannuation policies

Under the Greens proposed changes, the current flat tax rate of 15 percent on superannuation would be replaced with a sliding scale (depending on income), ranging from zero for low-income earners to 30 per cent for people on incomes of \$150,000 and above. The \$30,000 concessional contributions cap will remain.

(i) Impact on current Tracker scores



(ii) Summary of Scores

	Current	With proposal	Impact	% Impact
Fairness	3.34	3.95	0.61	18%
Gender Gap	6.26	6.33	0.07	1%
Net Retirement Income	8.48	8.34	-0.14	-2%
Overall Tracker Impact	64.9	65.7	0.80	1%

(iii) Explanation of Outcomes

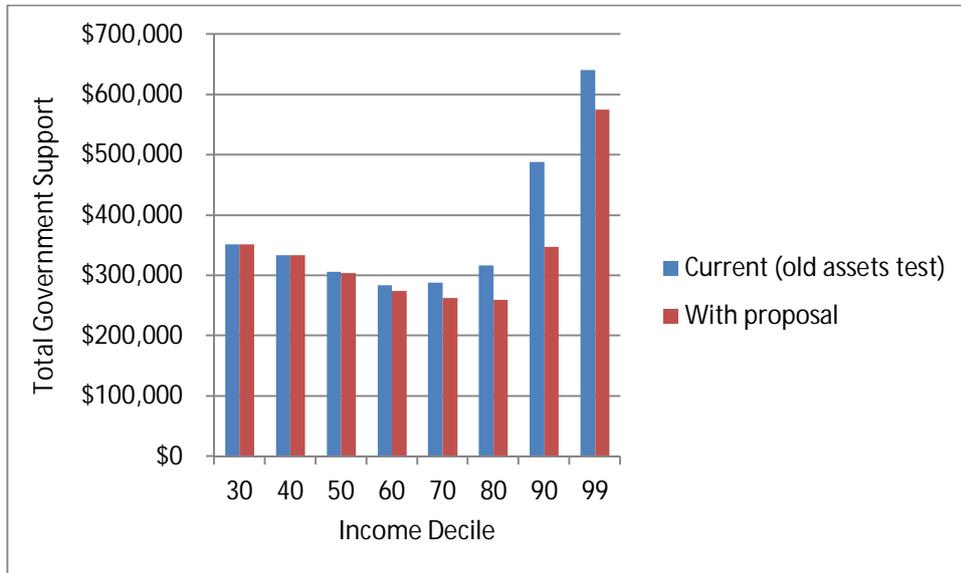
The fairness score improves slightly under this proposal. These measures decrease the tax concessions on superannuation for higher income earners, although the impact is limited by existing measures which affect these individuals (such as the existing caps on concessional contributions).

The net retirement income score decreases marginally due to a small increase in the contribution tax rates applicable to average workers.

The gender gap in score is only marginally affected as the impact on male and female median income earners is very similar.

(iv) Detailed impact

The impact of this package on the Fairness indicator is illustrated in greater detail in the graph below.



(v) Implications of the package

Some details of the package would need to be confirmed as they are not explained in the relevant policy description.

(vi) Potential impacts on consumer behaviour

We would expect limited impact.

4

Other policies put through the Tracker

Selected Indicators used to assess a range of policies

The 'fairness' and 'gender gap' indicators were of particular concern to AIST as these scores were relatively poorly in the initial results and seem to be the subject of increasing community concern. Fairness in particular had the lowest score (3.32 out of 10) in the initial Tracker, while Gender gap scored 6.26 out of 10.

Net retirement income was also included as another important indicator of the provision of adequate benefits from the retirement income system.

Thus, the AIST's view was that any changes to the taxation of superannuation should look to improve these important indicators.

Although there are ten indicators which contribute to the overall Tracker result, many of these are "point in time" measures which will not be directly affected by taxation policy. That is, although (in the longer term) they will be influenced by taxation, there is no immediate impact on these measures, and the longer term impact cannot be reliably measured in advance.

The other indicator is the "total cost of government support". It is recognised that this will be an important consideration for Government. However, the data needed to accurately model this indicator for a range of options is not currently available.

Policies tested via the Tracker

AIST has requested Mercer to model the results for a number of packages. These packages were selected by AIST on the basis of them been considered by AIST, advocated by other organisations, or mentioned by the media. These are not in any particular priority order of AIST preference.

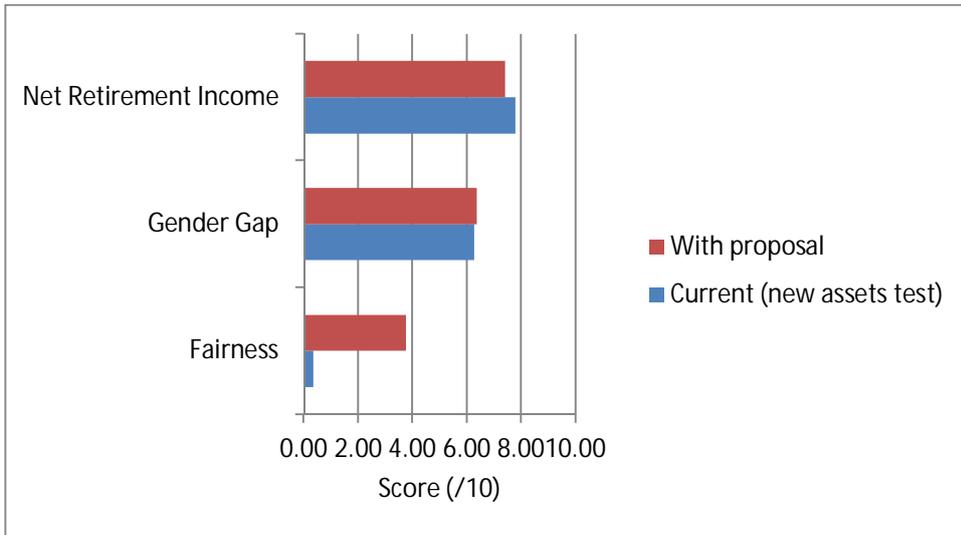
- i. 19.5% rebate on concessional contributions combined with cap on tax free withdrawals (15% tax on withdrawals > \$600,000)
- ii. Continue Low Income Superannuation Contributions (LISC)
- iii. 19.5% rebate on contributions
- iv. SG contributions paid on Family Tax Benefit
- v. SG contributions paid on Disability Support Pension
- vi. 7.5% investment tax (pre and post retirement)
- vii. 10% investment tax (pre and post retirement)
- viii. 15% investment tax (pre and post retirement)
- ix. Cap on lump sum withdrawals of \$185,000
- x. Tracker results for current 40 year olds (rather than new entrants)
- xi. 19.5% rebate on contributions, SG contributions on Family Tax Benefit and Disability Support Pension, 7.5% investment tax (pre and post retirement)
- xii. Keep LISC, 19.5% rebate on contributions, SG contributions on Family Tax Benefit and Disability Support Pension, 7.5% investment tax, results for 40 year olds
- xiii. Reduce fees (assumed to increase investment returns by 0.3%)
- xiv. Remove imputation credits (assumed to decrease investment returns by 0.5%)

- xv. Cap on tax free withdrawals (10% tax on withdrawals >\$500,000)
- xvi. 19.5% rebate on contributions, 7.5% investment tax (pre and post retirement), 15% tax on balances >\$500,000 at retirement*
- xvii. 19.5% rebate on contributions, 7.5% investment tax (pre and post retirement)*
- xviii. Cap on tax free withdrawals (15% tax on withdrawals >\$500,000)*
- xix. Cap on tax free withdrawals (15% tax on withdrawals >\$1,000,000)*
- xx. Additional 2% Superannuation Guarantee contributions for working women*
- xxi. Lifetime cap of \$1 million (indexed to wages) on concessional contributions, excess contributions taxed at marginal rates

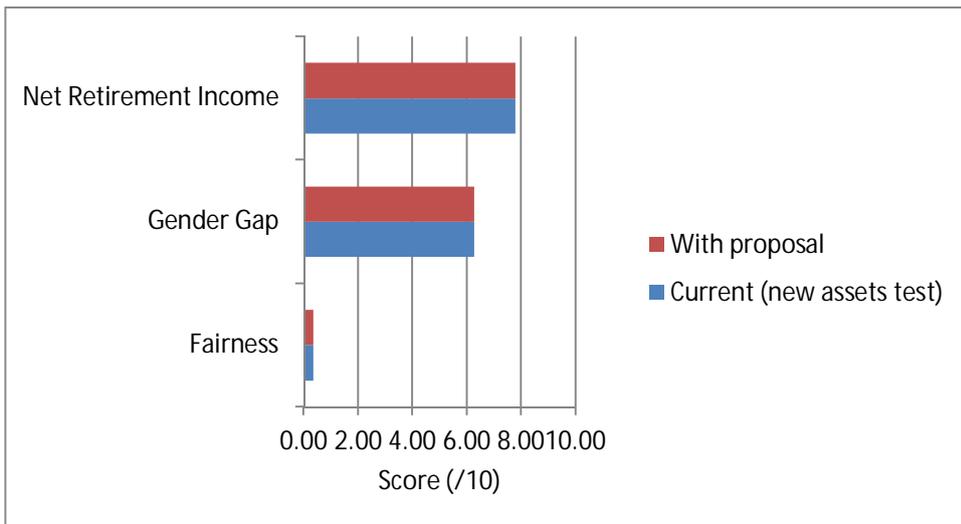
The results for each package are shown below.

Note that those packages marked with an asterisk (*) were modelled prior to the introduction of the new assets test. For these packages the impact is shown relative to the previous assets test. For all other packages the impact is shown relative to the current arrangements, allowing for the recent changes to the assets test.

i. 19.5% rebate on concessional contributions combined with cap on tax free withdrawals

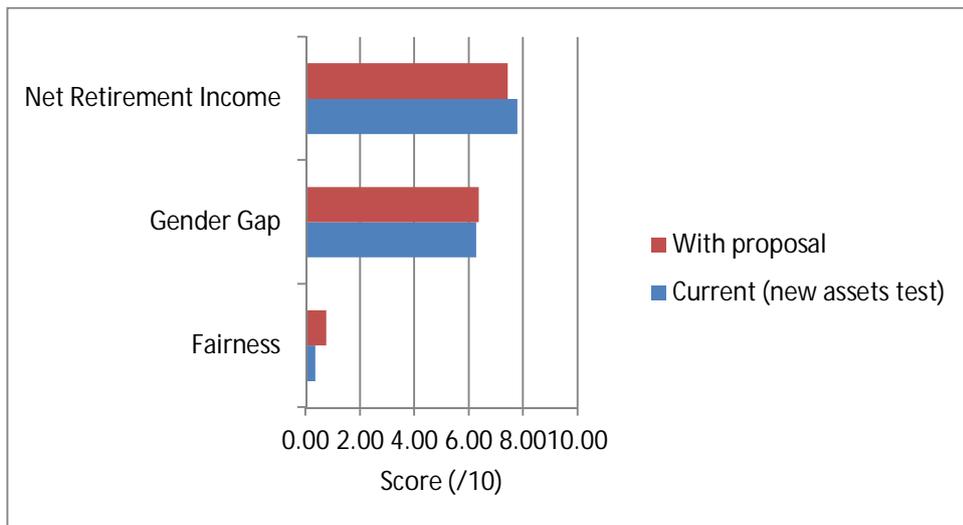


ii. Continue Low Income Superannuation Contributions (LISC)

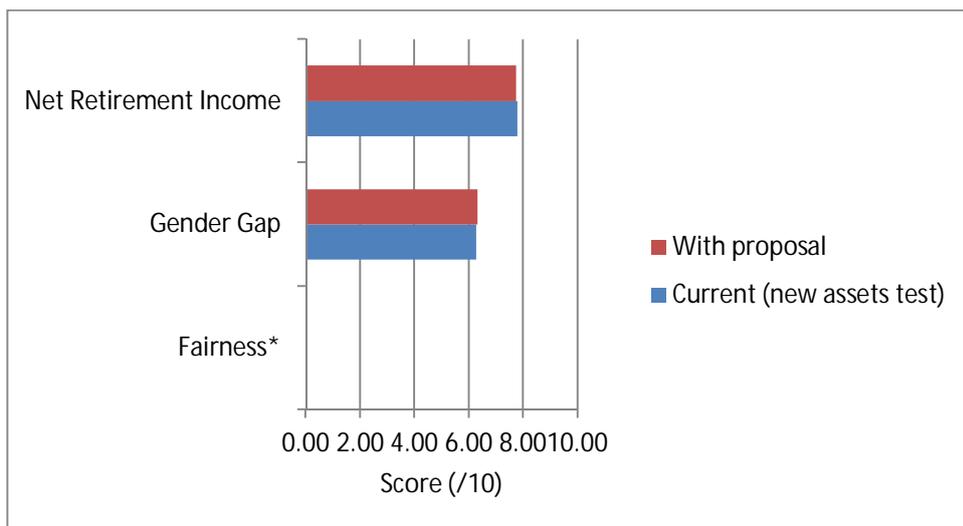


(No impact due to the indicators used within the Tracker.)

iii. 19.5% rebate on contributions

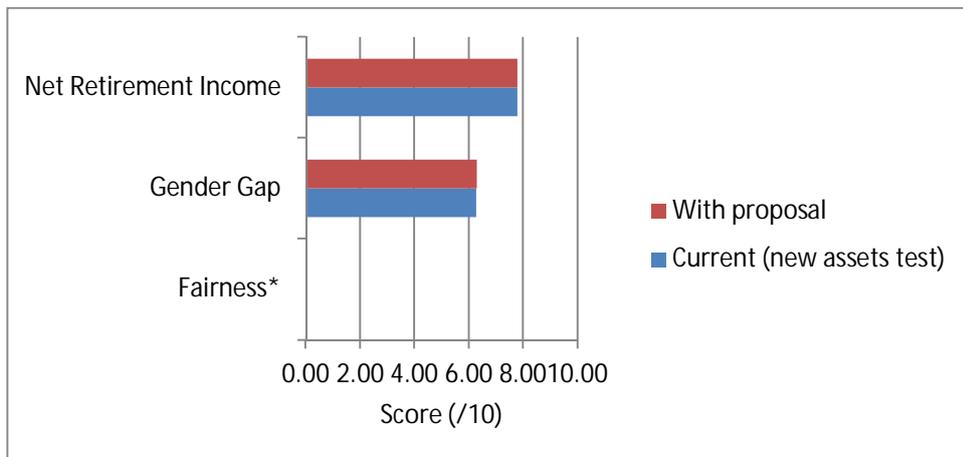


iv. SG contributions paid on Family Tax Benefit



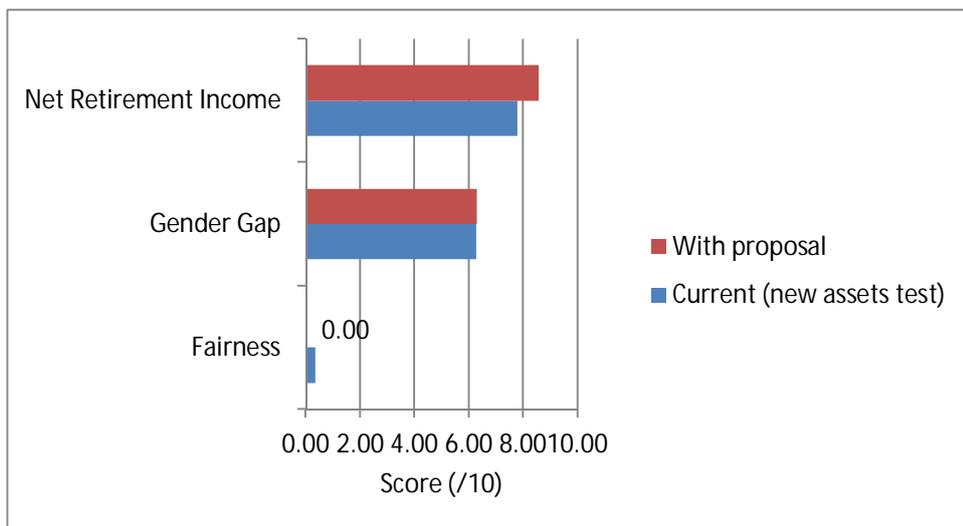
**not modelled due to lack of data*

v. SG contributions paid on Disability Support Pension

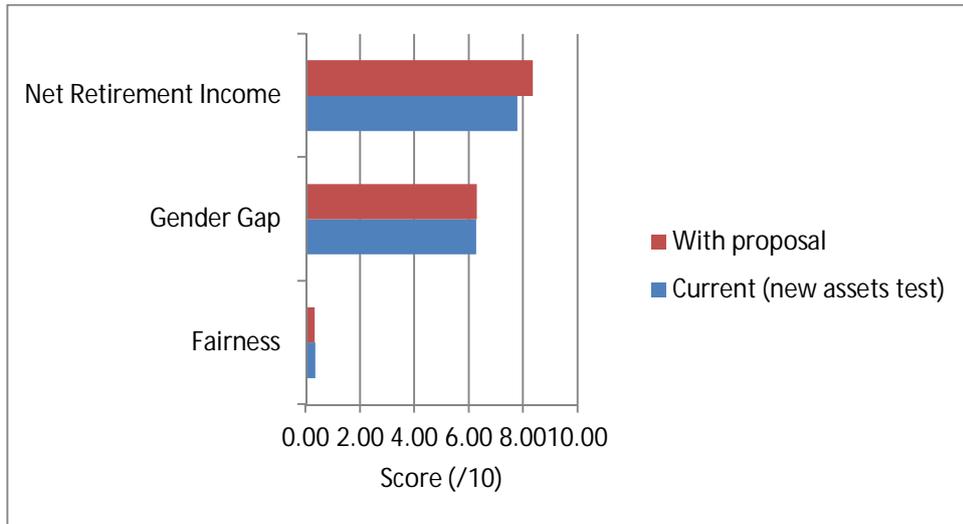


**not modelled due to lack of data*

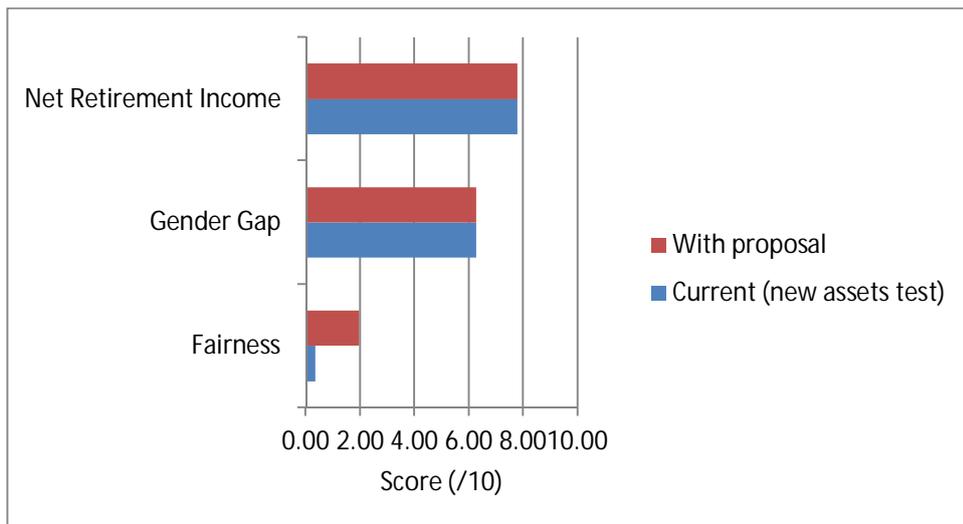
vi. 7.5% investment tax (pre and post retirement)



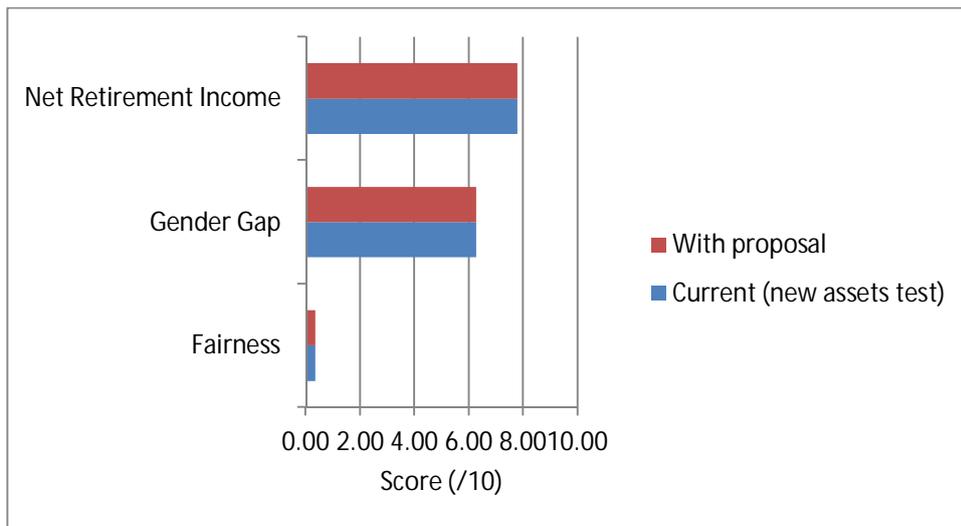
vii. 10% investment tax (pre and post retirement)



viii. 15% investment tax (pre and post retirement)

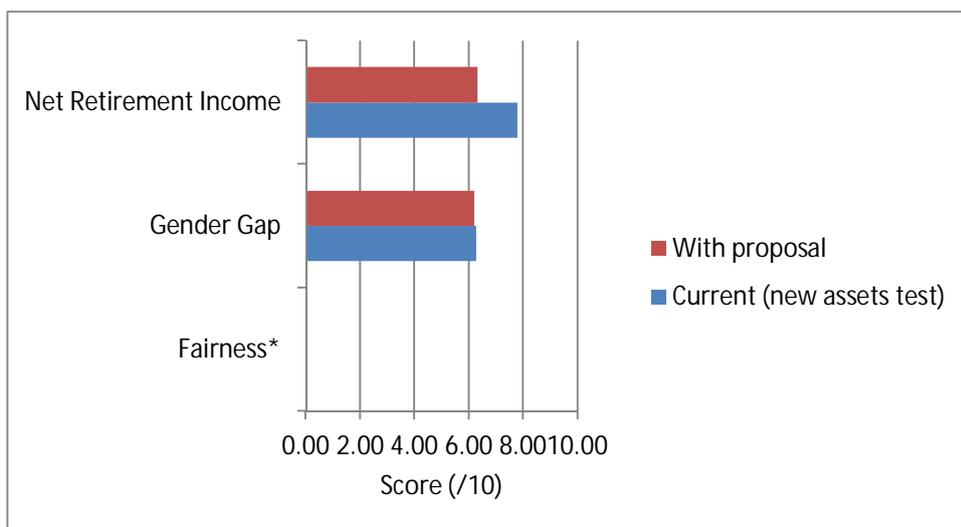


ix. Cap on lump sum withdrawals of \$185,000



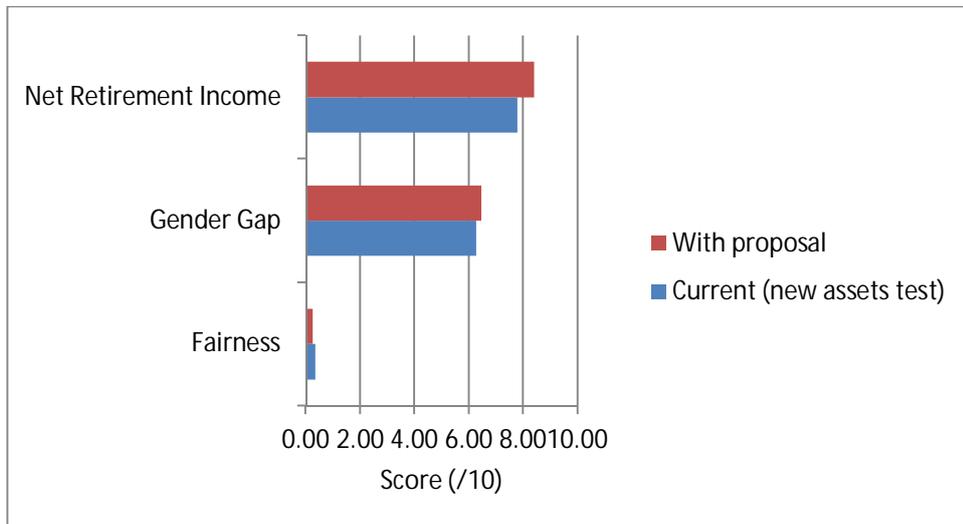
No impact due to assumed behaviour in the Tracker.

x. Tracker results for current 40 year olds (rather than new entrants)

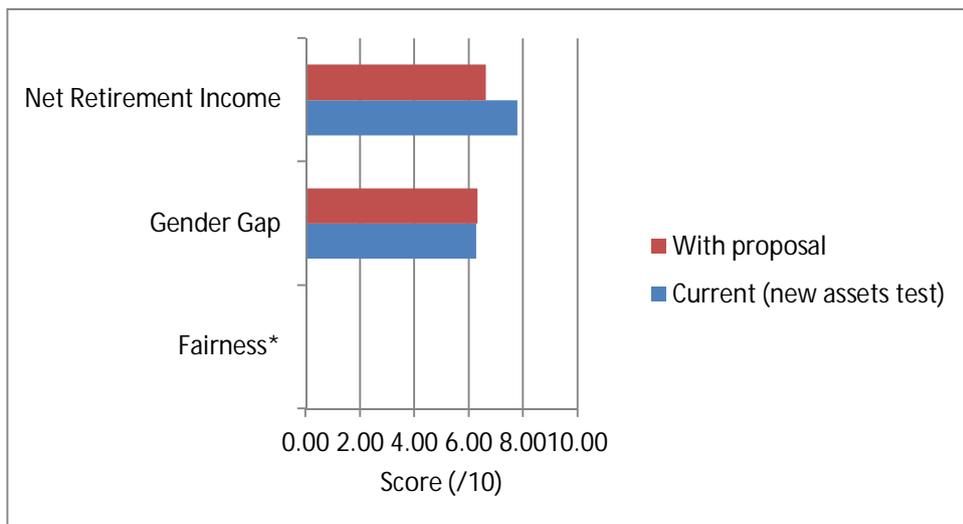


**not modelled due to lack of data*

xi. 19.5% rebate on contributions, SG contributions on Family Tax Benefit and Disability Support Pension, 7.5% investment tax (pre and post retirement)

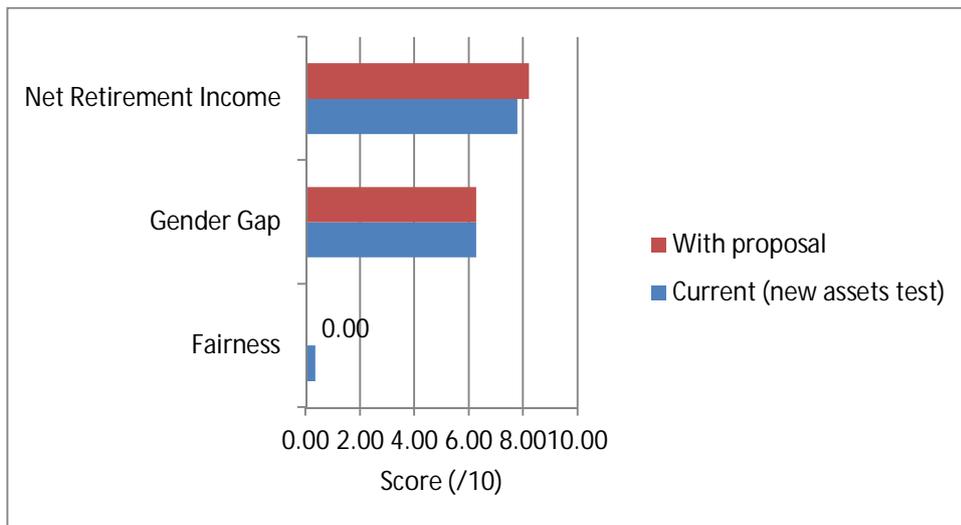


xii. Keep LISC, 19.5% rebate on contributions, SG contributions on Family Tax Benefit and Disability Support Pension, 7.5% investment tax (pre and post retirement), results for 40 year olds (rather than new entrants)

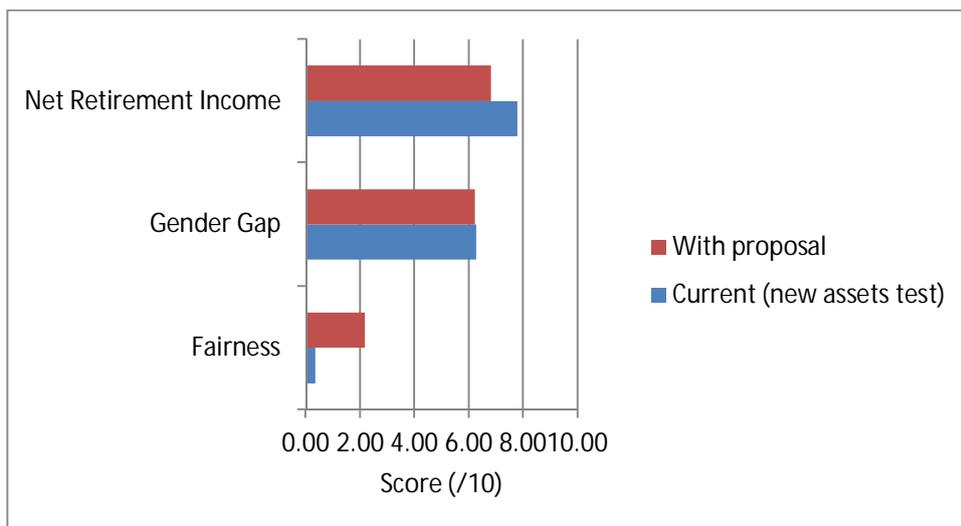


**not modelled due to lack of data*

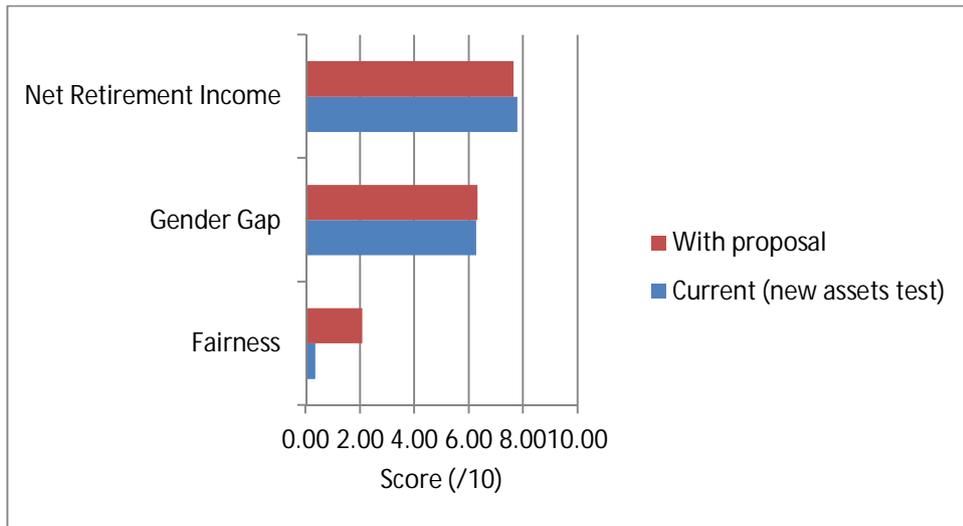
xiii. Reduce fees (assumed to increase investment returns by 0.3%)



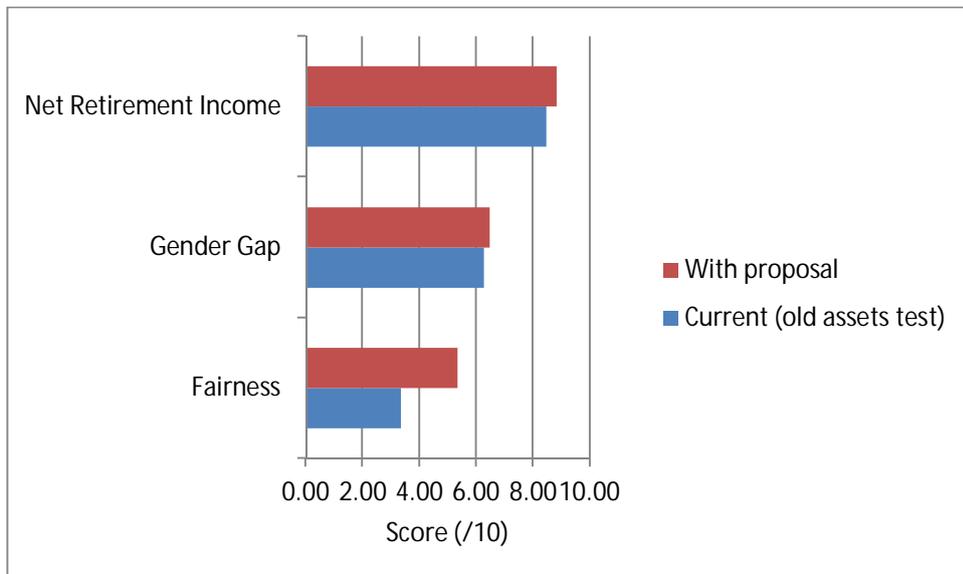
xiv. Remove imputation credits (assumed to decrease investment returns by 0.5%)



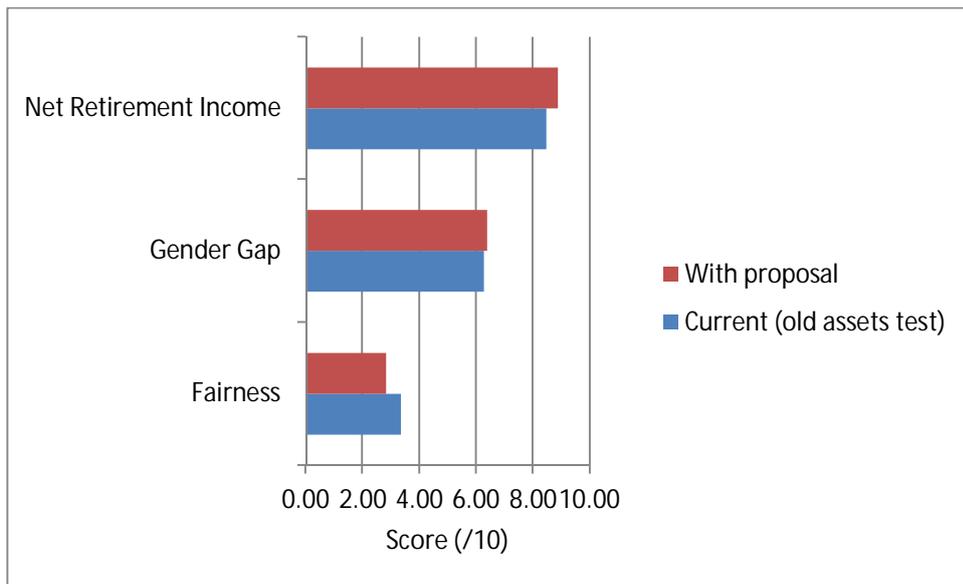
xv. Cap on tax free withdrawals (10% tax on withdrawals >\$500,000)



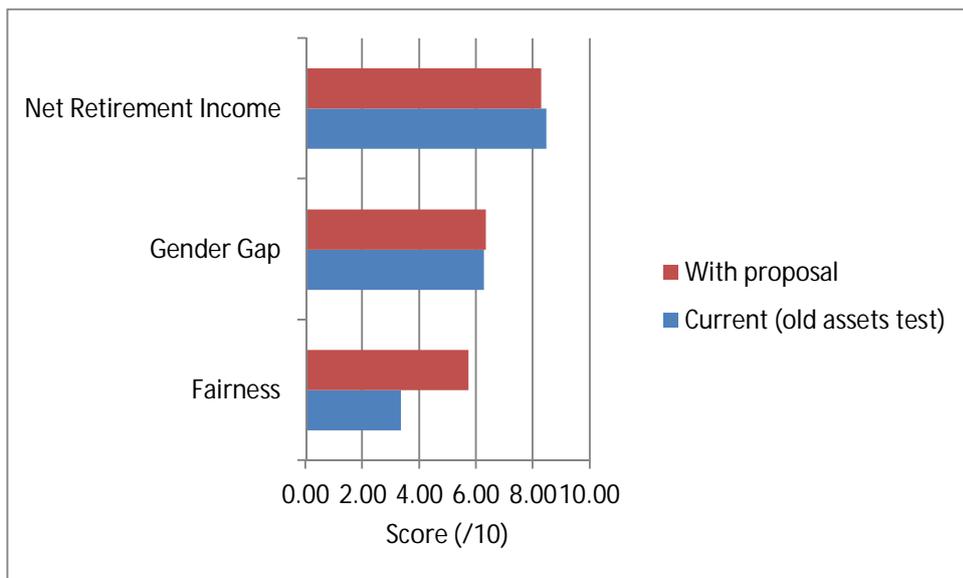
xvi. 19.5% rebate on contributions, 7.5% investment tax, 15% tax on withdrawals >\$500,000



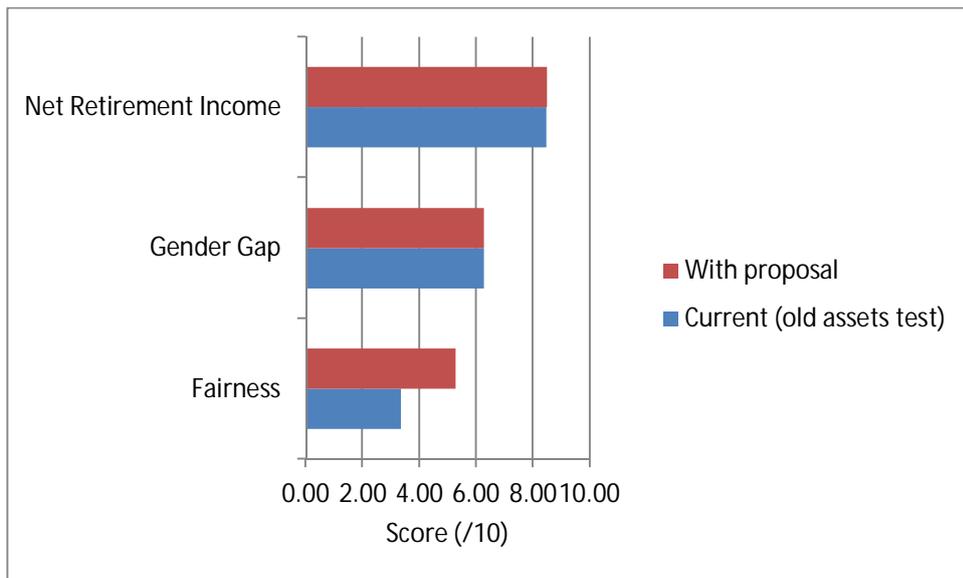
xvii. 19.5% rebate on contributions, 7.5% investment tax



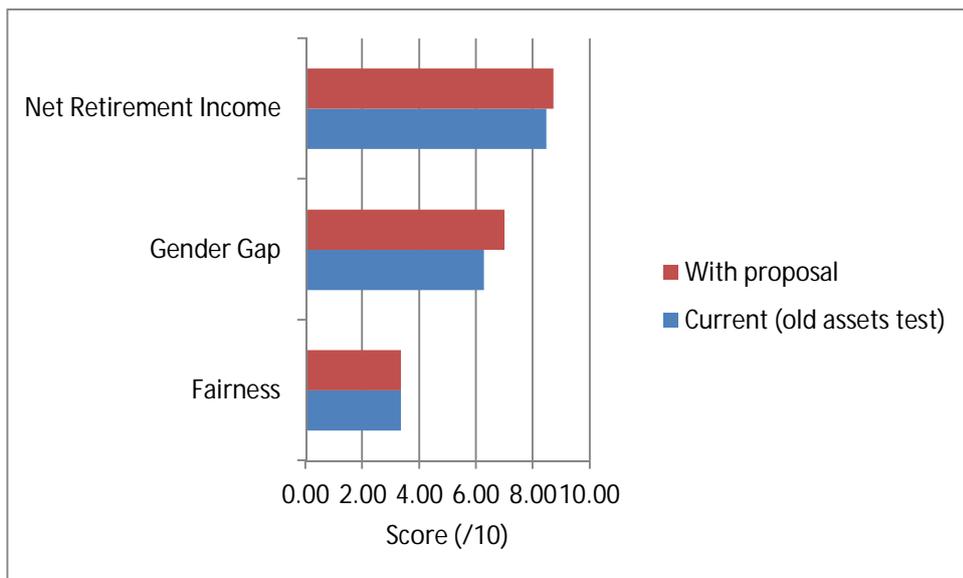
xviii. Cap on tax free withdrawals (15% tax on withdrawals >\$500,000)



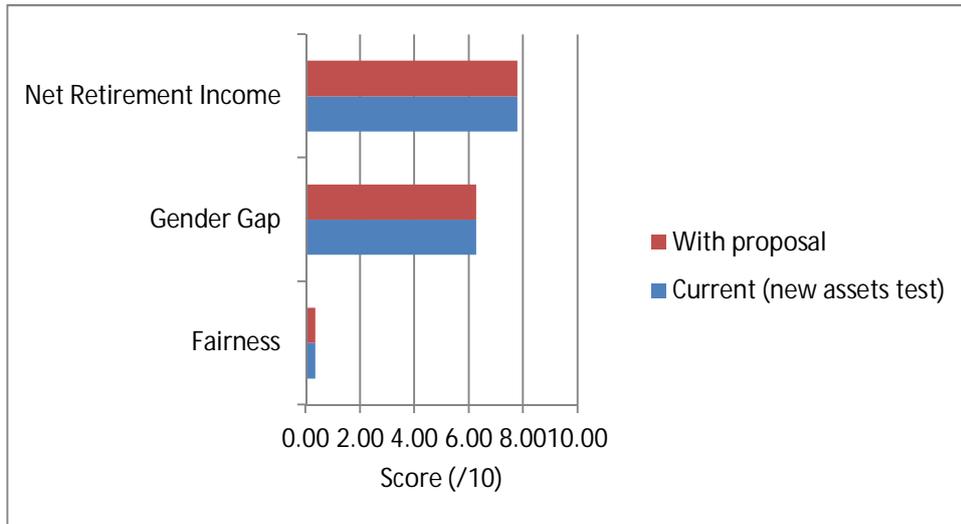
xix. Cap on tax free withdrawals (15% tax on withdrawals >\$1,000,000)



xx. Additional 2% Superannuation Guarantee contributions for working women



xxi. Lifetime cap of \$1 million (indexed to wages) on concessional contributions, excess contributions taxed at marginal rates



No impact due to assumed behaviour in the Tracker (and the way the indicators are calculated).

5

Scores for each indicator in the initial Tracker

The following tables show the scores in the initial Super Tracker published in March 2015.

Adequacy measures

Indicator	Overall Weighting	Score (/10)
Net Retirement Income <ul style="list-style-type: none"> • Full time male • Full time female • Part time male • Part time female 	7.5% 5% 2.5% 5%	9.52 8.42 8.36 7.02
Fairness measure of government support	15%	3.32
Gender gap <ul style="list-style-type: none"> • ABS data • Projections 	5% 5%	6.13 6.40
Coverage of superannuation	2.5%	8.08
Level of personal contributions (% of GDP)	2.5%	5.58

Sustainability measures

Indicator	Overall Weighting	Score (/10)
Total cost of government support (% GDP) <ul style="list-style-type: none"> • Total cost today • Projected pension cost 	10% 5%	7.58 7.10
Level of super assets (% GDP)	10%	7.83
Labour force participation at older ages <ul style="list-style-type: none"> • Ages 55-59 • Ages 60-64 • Ages 65 and over 	4% 4% 2%	5.24 5.48 6.20
Length of retirement (years) <ul style="list-style-type: none"> • Today • In 20 years (projected) 	5% 5%	6.23 6.09
Age pensioner population (full/part pensioners) <ul style="list-style-type: none"> • Today • In 2050 	2.5% 2.5%	4.67 6.00

6

Modelling assumptions

Economic assumptions

Inflation: 2.5% pa

This is the mid-point of the Reserve Bank's target for monetary policy in Australia which is to achieve an inflation rate of 2–3 per cent, on average, over the cycle.

Net investment returns (i.e. after investment expenses and taxes)

Pre-retirement years: 7% pa

Post-retirement years: 6.5% pa

The pre-retirement return is based on the average MySuper portfolio¹. Retirees are expected to have a slightly more conservative investment profile.

Salary increase: 3.5% pa

With the global economy under significant pressure and the Australian economy restructuring, together with the pressures of an ageing population, a slightly lower wage growth than historical averages is assumed for the future.

Deflator: 3.5% pa

The use of the long term salary increase rate to value an individual's superannuation benefit at retirement will ensure they are expressed in real dollars. This rate is also used to value the long term cost to government of the superannuation tax concessions and future age pension payments.

Demographic assumptions

Entry age and retirement age

Entry age to the labour force: 20

Retirement age: 67

The OECD defines a full career as entering the labour market at 20 and working until standard pension eligibility age². In the Australian labour market, the labour force participation rate increases from 53.7% for 15-19 year olds to 77.6% for 20-24 year olds and then to 82.4% for 25-34 year olds. Therefore most individuals have entered the workforce by age 20 or 21.

Although the current pension eligibility age is age 65, it is legislated to reach 67 by 1 July 2023.

¹ APRA, MySuper Statistics Selected Feature, June 2014, Table E.

² OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators*, p132.

Age of death

The current life expectancies for a 67 year old are 17.62 (males) and 20.33 (females)³. However we need to consider a 20 year old entering the workforce now and reaching age 67 in 2061. The Life Tables show figures for improvements in life expectancies for a 65 year old in 2060 of 5.4 years for males and 4.8 years for females, using the average of the 25 year and 125 year improvements from ALT. Using similar results for a 67 year old, this leads to a life expectancy of 90 for males (i.e. 23 years in retirement) and 92 for females (i.e. 25 years in retirement). We will therefore assume a date of death of 91.

Age pension

The current level of the full age pension for a single person is \$854.30 per fortnight or \$22,212 per annum.

However payment of the age pension is subject to an income test and an assets test, with the lower amount payable.

Indexation of pension

Currently the age pension is indexed to male wages under most circumstances. However, the Government has indicated a desire to index it to prices. Indeed most developed countries index their pension to prices.

We have therefore adopted a middle position, namely indexation at 3% pa; that is, half way between prices and wages.

Income test

The income test applies to income above \$160 per fortnight (i.e. a threshold of \$4,160 pa). It is reduced at the rate of 50 cents for every dollar above this level. The assumed level of income is based on a deemed income which is determined as 1.75% on the first \$48,000 of financial assets and 3.25% on assets above this level. The balance in a retiree's superannuation account is treated as a financial asset.

Assets test

For homeowners, the assets test applies to assets above a threshold of \$202,000. The assets test applies to assets above this level, with the pension reducing at the rate of 3.9%. This means that no pension is payable when the assets for a single person exceed \$771,750.

Indexation of thresholds

Historically the income and assets tests thresholds have been increased with wages. However the Government has frozen the threshold for the assets test for three years from 1 July 2017. After allowing for this three year freeze, we shall assume that the thresholds will be indexed at 3% pa; half way between prices and wages.

³ Australian Government Actuary (2014), *Australian Life Tables 2010-12*.

Superannuation model

Financial year

It is assumed that the individual enters the workforce on 1 July 2014 when the SG increased to 9.5%. It is also assumed that the SG will increase in the following way:

- 9.5% from 1 July 2014 to 30 June 2021 (years 1-7)
- 10% from 1 July 2021 to 30 June 2022 (year 8)
- 10.5% from 1 July 2022 to 30 June 2023 (year 9)
- 11% from 1 July 2023 to 30 June 2024 (year 10)
- 11.5% from 1 July 2024 to 30 June 2025 (year 11)
- 12% from 1 July 2025 (years 12 and beyond)

Consumption at retirement

At retirement it is assumed that the retiree immediately consumes 10% of their retirement account with the remaining balance rolled over into an account-based pension.

It is also assumed that the retiree is a homeowner and has no financial assets beyond their superannuation. However we will assume that the retiree has other assets (e.g. a car, house contents etc.) that do not generate an income but are considered assets for the assets test. The value of these assets will increase by income decile at the rate of \$10,000 per decile. This level of non-financial assets is indexed at the salary increase rate.

Drawdown from account-based pension

It is assumed that the retiree will draw down from their account-based pension each year using the prescribed minimum rate. Currently the minimum rates are as follows:

Ages 67-74	5%	(years 1-8 in retirement)
Ages 75-79	6%	(years 9-13 in retirement)
Ages 80-84	7%	(years 14-18 in retirement)
Ages 85-89	9%	(years 19-23 in retirement)
Ages 90-94	11%	(years 24-28 in retirement)
Ages 95+	14%	(years 29 and beyond)

Note: The last percentage is not relevant given the assumed age of death of 91.

Income tax rates

The following income tax rates (which include the 2% Medicare levy and 2% Budget repair levy for 3 years) are used for the first two years.

2014-15

\$0 - \$18,200	nil
\$18,201 - \$37,000	21% for income > \$18,200
\$37,001 - \$80,000	\$3,948 + 34.5% for income > \$37,000
\$80,001 - \$180,000	\$18,783 + 39% for income > \$80,000
\$180,000 +	\$57,783 + 49% for income > \$180,000

2015-16

\$0 - \$19,400	nil
\$19,401 - \$37,000	21% for income > \$19,400
\$37,001 - \$80,000	\$3,696 + 35% for income > \$37,000
\$80,001 - \$180,000	\$18,746 + 39% for income > \$80,000
\$180,000 +	\$57,746 + 49% for income > \$180,000

Indexation of tax thresholds: no indexation for 5 years and then at price inflation

Tax on superannuation contributions, investment income and benefits

Employer contributions	15% except for 0% where income is less than \$37,000 until 30 June 2017; 30% where income is greater than \$270,000 ⁴ (not indexed for 5 years and then at price inflation); 49% for employer contributions that exceed the cap.
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Investment income	
Accumulation	A net tax rate of 9% based on the portfolio discussed earlier
Post retirement	Tax exempt

Benefits	
Pension payments	Tax exempt
Death benefit	5.67% which is one third of the 17% tax (including Medicare) payable when the remaining balance is paid to non-financial dependants

Concessional contribution cap

For the 2014-15 year, the cap is \$30,000.

This cap will be indexed to wages but will only increase in \$5,000 jumps.

Superannuation fees and costs

Administration fees: \$75 pa (indexed to prices) plus 0.15% of assets

This fee is based on the current fees for the largest MySuper products.

Insurance costs

The following fees are based on the standard insurance offerings provided by the largest MySuper products. It assumes that the individual will not opt out or increase their insurance coverage.

Age	Annual cost
20-24	\$235
25-34	\$330
35-59	\$410
60-66	\$350

These costs are indexed to salary growth.

⁴ Div 293 tax commences at \$300,000, but this includes concessional contributions. Hence it has been reduced by the concessional cap as most high income earners are likely to reach the cap. In practice this affects the 99th income percentile only from age 37 onwards, assuming SG contributions only.

Income deciles

The following table shows the annual incomes for full time workers⁵. They have been increased by 4% to provide a starting income as at 1 July 2014.

Decile	Males	Females	Persons
1 st decile	\$38,397	\$35,152	\$37,856
2 nd decile	\$45,968	\$40,560	\$43,264
3 rd decile	\$54,080	\$45,968	\$49,754
4 th decile	\$59,488	\$50,565	\$54,080
5 th decile (median)	\$67,600	\$55,432	\$62,354
6 th decile	\$78,416	\$62,192	\$71,494
7 th decile	\$89,556	\$70,520	\$82,148
8 th decile	\$108,160	\$83,175	\$97,452
9 th decile	\$139,851	\$102,752	\$125,898
Mean	\$83,445	\$65,599	\$76,848

The median income is \$67,600 for males and \$55,400 for females which provides an average median of \$61,500.

The starting salaries for other income deciles are shown below:

Income decile	Income (rounded to nearest \$100)
1 st decile	\$37,900
2 nd decile	\$43,300
3 rd decile	\$49,800
4 th decile	\$54,100
5 th decile (median)	\$62,400
6 th decile	\$71,500
7 th decile	\$82,100
8 th decile	\$97,500
9 th decile	\$125,900

However it is also necessary to consider incomes above the 90th percentile (i.e. the 9th decile). The following table shows the 99th percentile for taxable income⁶ for different age groups.

Age bracket	99 th percentile (persons)
18-24	\$131,863
25-29	\$155,270
30-34	\$212,890
35-39	\$324,942
40-44	\$418,737
45-49	\$435,906
50-54	\$426,071
55-59	\$428,789
60-64	\$408,089

⁵ ABS (2013), *Employee Earnings, Benefits and Trade Union Membership*, 6310.0, August.

⁶ ATO (2014), *Taxation Statistics 2011-12*.

The Taxation Statistics also show that at very high income less than two-thirds of taxable income is from wages and salaries. Therefore in this extreme case, we will consider an individual who commences on a salary of \$100,000 at age 20, which then increases at 5% pa in real terms (i.e. in addition to the normal 3.5% p.a. wages growth) until it reaches about \$265,000 at age 40 (in today's dollars). From this point on, the salary increases at the normal 3.5% pa.

It is also noted that due to additional non-salary income, it is assumed that this individual will be subject to the additional 15% tax on employer contributions (i.e. Division 293) from age 37.

Part time workers

Based on labour force participation rates at various ages, the following part time profiles have been assumed:

Females

- Ages 20-29 Full time for 10 years
- Ages 30-34 Out of the work force for 5 years
- Ages 35-44 Part time for 10 years
- Ages 45-54 Full time for 10 years
- Ages 55-62 Part time for 8 years
- Age 63 Retirement

Males

- Ages 20-54 Full time for 35 years
- Ages 55-63 Part time for 9 years
- Age 64 Retirement

When working part time, we assume earnings at 50% of the full time level.

It is assumed that all part time workers will immediately consume 10% of their benefit at retirement and then withdraw an income equal to the age pension from their account-based pension through to the pension age.

Fairness Measure

The Fairness Measure will consider the total cost to government for eight individuals; namely from the third to ninth income deciles plus the 99th income percentile.

The first and second income deciles will be ignored as these full time income earners receive very limited benefit from the super tax concessions and are expected to receive the age pension in full. Furthermore, some of these individuals will spend relatively few years at these income levels.