Keeping superannuation in perspective

By Tom Garcia | 11/04/2016

Tax reform and superannuation has been one of the more lively political debates of recent times.

AIST's views on this are well known: we think the taxation of super is unfair and that overly-generous tax concessions for very high income earners need to rebalanced in favour of those on middle to low incomes.

Many other individuals and organisations share these concerns and there is now widespread consensus that policy reform is needed, although ideally this would occur after we reach agreement on the super system objectives rather than in the upcoming federal budget as, unfortunately, seems more likely.

But the super tax debate is far from over.

Is the aim of super tax reform to optimise our retirement income system, or are we simply taking money out of super to plug a budget hole?

We hear an awful lot about the need to reign in the rising cost of Australia's retirement income system.

Conservative governments tend to focus on the cost of the age pension, while the other side of politics has been more concerned with reducing super tax concessions that benefit the wealthy.

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Forward estimates in last year's budget show the annual cost of the age pension and super tax breaks will approach $80 billion this year, with about $44 billion relating to age pension costs.

With big numbers like these, it is easy to mount an argument for government spending cuts. But these figures are a lot less scary when viewed through a global lens and as a proportion of our national income.

As recent AIST-Mercer Super Tracker research on global retirement spending has highlighted, Australia is tracking exceedingly well when compared to other similar countries. Our tracker model – which rates 10 key metrics of the Australian retirement income system – scores the cost of total government support to our retirement income system at a very positive eight out of 10. In other words, we are not overspending when compared with other countries.

Looking at the most recent OECD data on public expenditure on pensions in 2010-15, Australia's expenditure is 2.9 per cent of GDP compared with the United States at 4.9 per cent; Canada at 4.9 per cent; New Zealand at 5.5 per cent; Denmark's 10.3 per cent; and France's 14.5 per cent.

Even 30 or 40 years from now with Australia's rapidly ageing population, our expenditure is projected to remain at around 3 per cent of GDP. This compares to an average of 10 per cent of GDP of OECD countries and places Australia as the second lowest of the 32 countries.

Even 40 years from now and with Australia's rapidly ageing population, our expenditure is projected to rise to a relatively low 3 per cent (based on the soon-to-be-introduced age pension assets test) or 3.6 per cent (based on the current age pension assets test). This compares to an average of 10 per cent of GDP of OECD countries, and places Australia as the second lowest of the 32 countries.

While the value of our super tax concession is the highest of all countries (Australia is 1.9 per cent of GDP when many countries are as low as 0.2 per cent), when this cost is combined with our relatively low pension expenditure, the total cost of Australia’s retirement income system still looks modest.

Of course, international comparisons of retirement income systems can be fraught. We’ve seen this before, notably when overseas comparisons where made about the fees charged by Australian super funds.

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It is difficult to compare tax expenditure on retirement savings among different countries, and some countries have high taxes on pension benefits, which means their net spending on retirement incomes is significantly below their gross expenditure figure. Many countries also provide non-cash retirement benefits, such as housing.

And then there are questions about the integrity of our domestic data such as Treasury’s assessment on the cost to government of the super tax concessions.

But getting some idea of how Australia sits compared to other countries does highlight the need for further debate about our current and projected level of expenditure on retirement incomes – specifically whether we are spending too much or not enough.

There are good reasons why Australia can be confident that our current retirement income system is sustainable.

Unlike many countries we have a means-tested age pension and a Future Fund to meet the government’s future liabilities for the payment of superannuation for retired public servants. And then, of course, we have our compulsory superannuation system.

As Australia’s superannuation system matures and compulsory contributions increase, Australians will retire with much larger super balances. While the proportion of retirees receiving any pension is not projected to decline, the proportion of part pensioners relative to full pensioners is expected to significantly increase. Most Australians will be more heavily reliant on superannuation in the early part of their retirement, receiving a part-pension much later in life than is currently the situation for most retirees. This a significant and very positive shift.

We need to think very carefully about the long-term consequences of super tax reform. There is a clear case for making the system fairer by a more even distribution of super tax concessions across income levels.

There is less of a case to remove money from the super system or slash pension benefits for middle Australia as will occur next year when the government's new age pension assets test comes into effect. “Reforms” such as these are not in anyone's long-term interests, least of all future generations of taxpayers and retirees.

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