Australian Institute of Superannuation Trustees

19 June 2015

Ms Jeanette Radcliffe
Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
CANBERRA ACT 2600

Email: community.affairs.sen@aph.gov.au

Dear Ms Radcliffe,

Re: Senate Community Affairs Legislation Committee inquiry on the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $600 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

In brief:
AIST welcomes the inquiry on this Bill. Our comments are limited to Schedule 3 which contains the proposed changes to the assets test. AIST points out that the proposed changes will have a negative impact on fairness in the superannuation system and recommend that changes be considered in the broader contexts of taxation and superannuation.

We write in response to the inquiry by the Senate Community Affairs Legislation Committee on the Social Services Amendment (Fair and Sustainable Pensions) Bill 2015 ("the Bill"). We write in respect to the changes in contained in Schedule 3 of the Bill, which relate to the changes to the assets test.

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AIST is considerably troubled by the proposed changes to the Age Pension assets test and believes that this will substantially widen the inequity gap in Australia's retirement income system.

Despite it being well-recognised that fairness is a key component of a sustainable retirement income system, the current cost of government support across our retirement income system is heavily skewed towards very high income earners. The proposed asset test changes significantly worsens this situation and highlights the dangers of making ad hoc changes to one part of the retirement system whilst ignoring other key components.

In AIST's submission to the tax discussion paper[1], we noted that:

> *Super tax concessions should be reviewed for fairness and sustainability alongside the costs and benefits of the age pension. The cost of government support to superannuation – as well as the age pension - impacts on all taxpayers.*

We further noted that the symbiotic relationship between the age pension and superannuation means that it is advisable to consider holistically all forms of government support for retirement incomes.

The European Union issued a White Paper in 2012[2] examining an agenda for adequate, safe and sustainable pensions. This paper examines a number of initiatives, including examining the sustainability of public pensions, supporting longer working life, and measuring the gender gap in savings. Following from this report, the EU issued guidelines, further reinforcing the notion that changes to pension systems should be viewed in the context of sustainability.

We reviewed this literature in our submission to the tax discussion paper[3] and have attached our submission for your reference. We concluded that[4]:

> *Any assessment of the taxation of superannuation should be conducted in tandem with an assessment of costs and benefit of the age pension – i.e. that the cost of government support across the entire retirement income system is assessed as a whole. Superannuation tax concessions –in respect of superannuation contributions, investment earnings and superannuation benefits - are a form of government support. This government support, as*

[1] AIST, (2015). *Response to Tax Discussion Paper Re:think*. [pdf] Melbourne: Australian Institute of Superannuation Trustees. Available at: http://tinyurl.com/nwf9kp2 [Accessed 18 Jun. 2015], p.4.
[2] European Commission, (2012). *White Paper: An Agenda for Adequate, Safe and Sustainable Pensions*. Brussels: European Commission. Available at: http://tinyurl.com/mmvnk26 [Accessed 25 May 2015
[3] AIST, (2015). *Response to Tax Discussion Paper Re:think*. [pdf] Melbourne: Australian Institute of Superannuation Trustees. Available at: http://tinyurl.com/nwf9kp2 [Accessed 18 Jun. 2015], p.9.
[4] AIST, (2015). *Response to Tax Discussion Paper Re:think*. [pdf] Melbourne: Australian Institute of Superannuation Trustees. Available at: http://tinyurl.com/nwf9kp2 [Accessed 18 Jun. 2015], p.11.

well as the government support provided via the age pension can – and should be – assessed for fairness and sustainability alongside each other. While superannuation is different to the age pension in that it is not a government expense, the government forgoes tax revenue to give super tax-advantaged status. This impacts all taxpayers.

AIST strongly believes that any changes to the Age Pension should be evidence based and made with consideration to their impact across the whole retirement income system.

We also point to Chapter 4 of our submission to the tax discussion paper[5]. In partnership with Mercer, AIST released the AIST-Mercer Super Tracker in March this year. The AIST-Mercer Tracker assigns Australia's retirement income system a "fairness score" based on the cost to government of the *Super Guarantee* tax concessions and the cost to government of the Age Pension over a lifetime. A score of ten out of ten – a maximum score - would represent a 'level playing field' of government support across all income percentiles, either in the form of Superannuation Guarantee tax concessions (during a working life) or age pension (during retirement) or a combination of both, as is the case for most part-pensioners and most retirees. That is, each individual should receive a similar level of support, when expressed in dollars, whether that is provided through the age pension or superannuation tax concessions or a combination of the two.

Prior to the Budget, the Super Tracker's fairness score was a worrying 3.3 out of ten, and was the weakest metric. This lack of fairness is displayed through showing how government support is unevenly distributed across income percentiles in the following table:

Table 1 – Tracker analysis of government support for retirement incomes: Lifetime cost of Government support (tax concessions on superannuation guarantee plus age pension) in today's dollars for different percentiles in the income range (Source: AIST-Mercer Super Tracker)

Income percentiles	10	30	50	70	90	99	Score
Cost of government support:	$404,000	$352,000	$306,000	$288,000	$489,000	$641,000	3.32/10

AIST notes once again that 'fairness' already has the lowest score of the 10 metrics in the Super Tracker. If the proposed assets test changes are implemented, the fairness score drops to just 0.34 out of 10. The Super Tracker provides the following results regarding the equity/fairness measure of government support, with 'base' being the current situation:

[5] AIST, (2015). *Response to Tax Discussion Paper Re:think*. [pdf] Melbourne: Australian Institute of Superannuation Trustees. Available at: http://tinyurl.com/nwf9kp2 [Accessed 18 Jun. 2015], p.18.

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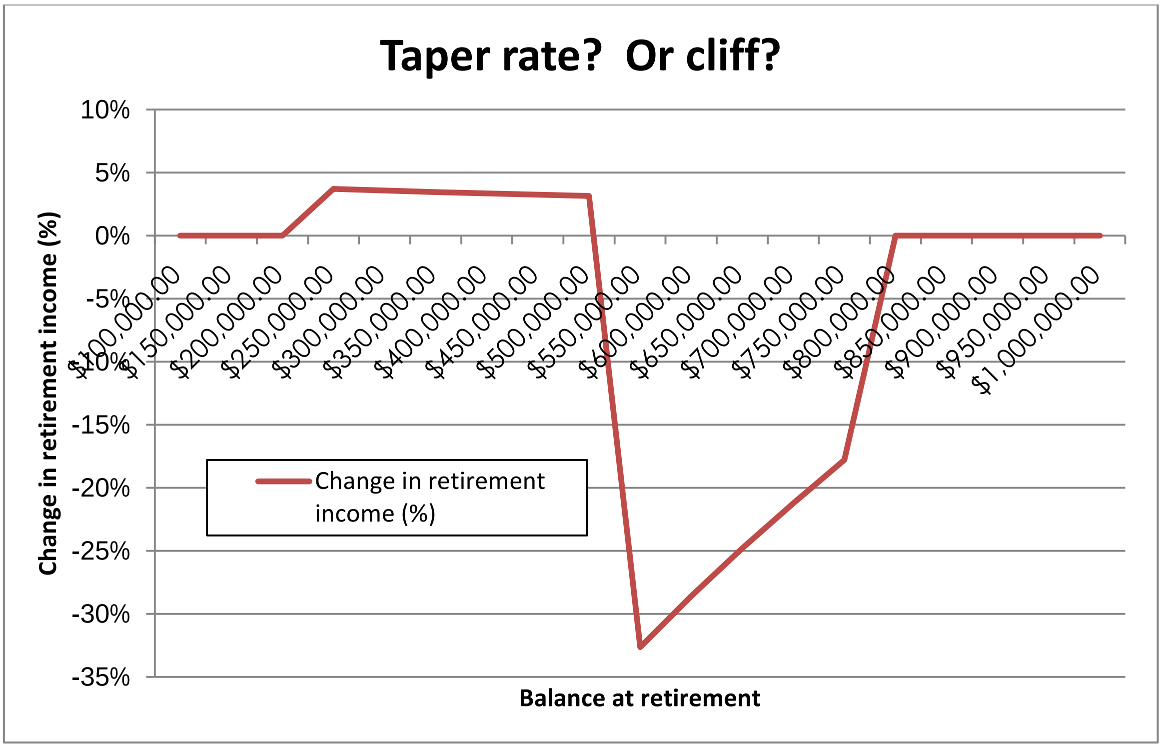
Table 2 – Tracker analysis of impact of proposed asset test on fairness of government support: Lifetime cost of Government support (tax concessions on superannuation guarantee plus age pension) in today's dollars for different percentiles in the income range (Source: AIST-Mercer Super Tracker)

	Description	10	30	50	70	90	99	Score
	Base	$404,000	$352,000	$306,000	$288,000	$489,000	$641,000	3.32/10
↓	Base with new assets test	$371,000	$239,000	$214,000	$257,000	$489,000	$641,000	0.34/10

The changes to retirement incomes are so pronounced that in a case where an Australian drawing the minimum retirement income retires with a retirement savings balance of $550,000, there is a 35% fall in retirement income compared to if they retired with a balance of $500,000[6]. This is due to the sharpness of the taper rate being greater than the accompanying increase in the drawdown minimum.

Figure 1 - Change in retirement income due to changes in the assets test for the age pension



[6] Difference in age pension eligibility is based upon the assumptions that pensioners are single, own their own house, retire at age 67, are fully entitled to accompanying supplementary payments and that pensioner has no other assets. Assumptions regarding retirement income assume that pensioners are drawing the minimum at all income levels, and that age pension eligibility is solely based upon the assets test. Eligibility for the age pension is assumed from the commencement of retirement at age 67 and that all other conditions are satisfied for eligibility.

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We have attached the inaugural AIST-Mercer Super Tracker for your reference.

Other points that we noted in our submission to the tax discussion paper:

- Under the proposed new asset test wealthy self-funded retirees will receive more than double the level of government support for retirement incomes than most middle income Australians.
- AIST-Mercer Super Tracker research reveals that the top 10% of wage earners currently receive government support to the value of more than $489,000 over a working lifetime. By contrast, the level of government support provided to middle income earners (30 to 70 income percentile) would fall to between $214,000 and $257,000 under the proposed new Pension Asset Test.
- Compared to the 27 OECD countries, the cost of Australia's age pension is low. The cost of age-related pension to Government in 2050 is projected to be 4.9% GDP, compared to an average of 11.7% of GDP making Australia the second lowest of 28 countries.
- Australia's super system is still a long way off from maturity. The age pension will continue to supplement retirement incomes for many decades ahead and play a key role in providing adequate incomes for retirees.

Finally, we refer to sentiments in a regular AIST column written last month for *Investment Magazine*. In it, we made the point that[7]:

> *Few people in the community understand how the age pension interacts with super, let alone the value of super tax concessions and how they work in practice. This makes it easy for politicians to dismiss new proposals no matter how economically sensible.*
>
> *Super is deferred wages and not 'government money' as such. But the government forgoes tax revenue to give super tax-advantaged status. Super is a 'deduction' – as opposed to the Age Pension being an 'expense' – but the costs to government come from the same pot, with the former set to outstrip the latter within four years.*
>
> *The fairness message doesn't have to be about class warfare, with talk of 'super fat cats' ripping off the system. Rather, the message should be evidenced-based with the focus on the legitimate need for policy change – a change that will benefit the vast majority of current and future taxpayers and make our system more sustainable.*
>
> *Arguably, many high income earners would be quite surprised or even shocked to learn that the total amount they are likely to receive in super tax concessions is worth more than a full-age pension in retirement.*

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[7] Garcia, T. (2015). AIST viewpoint: budget hits median income earners. *Investment Magazine*. [online] Available at: http://tinyurl.com/qfjyclx [Accessed 19 Jun. 2015].

We thank you again for this opportunity to respond to this inquiry.

If you have any further questions regarding this submission, please contact Richard Webb, Policy & Regulatory Analyst

Yours sincerely,

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Chief Executive Officer

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