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Submission to Senate Community Affairs Legislation Committee

Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015

Dear Committee Secretary

I attach a Submission on the specific issue of the pension asset test reform included in the *Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015* (Schedule 3, Part 1), authored by me and Dr David Ingles of the Tax and Transfer Policy Institute.

Please contact me with any queries or to discuss.

Sincerely

Miranda Stewart

SUBMISSION

Introduction

This Submission addresses the specific question of the proposed asset test changes to the age pension. The Submission develops arguments that we made in a recent published piece in The Conversation, which we also attach.[1]

The principled framework for this Submission proposes that a coherent treatment of income and assets should be the goal across tax and transfer systems. Particular attention should be paid to the net incentive to save for retirement, taking into account both the tax and transfer systems.

The proposed asset taper test changes penalise savers, particularly those who have saved outside of tax-advantaged vehicles such as superannuation or (to a lesser extent) housing, and may induce behaviour changes among savers which undermine the hoped-for budget savings of this measure.

This Submission proposes an alternative to the proposed asset test change. This is a **deemed income approach to means testing the age pension**, as better able to achieve the budget and equity goals of the government. This alternative would augment an existing feature of the means test, being the deeming regime now applying to financial assets in the income test.

The current income and asset tests

The age pension is subject to an income test and an asset test. The budget proposes to substantially tighten the asset test, while raising the threshold at which this asset test applies.

Under the current asset test, single and combined couple rates are reduced by A$1.50 per two weeks ($39 a year) for every A$1000 of additional assets above the allowable assets limit.

This current test amounts to a form of annual wealth tax for pensioners with a relatively high threshold - $202,000 for single home owners and $286,500 for couple home owners - and a rate of 3.9 per cent. This is analogous to a deeming rate of 7.8 per cent, allowing for the 50 per cent pension taper.

Deeming in the current regime

The income test for the age pension currently incorporates deeming for the full range of financial assets. Essentially, a deemed return is included in income for application of the income test. Financial assets for the purpose of deeming are defined as:

- bank, building society and credit union accounts

[1] https://theconversation.com/why-pensioners-are-cruising-their-way-around-budget-changes-42544

- cash
- term deposits
- cheque accounts
- friendly society bonds
- managed investments
- assets held in superannuation and rollover funds held if you are of Age Pension age
- listed shares and securities
- loans and debentures
- shares in unlisted public companies
- Gold, silver or platinum bullion.

As recommended by the Henry Tax Review (see discussion below), in the 2013-14 budget deeming was extended to superannuation-based income streams.[2]

Effective 20 March 2015, deeming is done under the current income test at a rate of 1.75 per cent to the following thresholds and then 3.25 per cent for financial investments above these thresholds.

- $48,000 of a single person's total financial investments;
- $79,600 of a couple's total financial investments if at least one member of the couple is receiving a pension;
- $39,800 of each member of a couple if neither is receiving a pension, in relation to each member's share of jointly owned financial investments.

The deeming rate is adjusted with general movements in interest rates. If the actual income received from investments exceeds the deemed income, the extra income is not counted in assessing entitlement to the pension.

Deeming exemptions are granted to financial investments under special circumstances including where a financial investment has failed; some superannuation investments where funds are fully preserved or inaccessible; and an account which only contains funds paid to participants for a funded package of support through, the National Disability Insurance Scheme. If an investment is given an exemption, then your assessable income is the return you actually earn from the investment, not the deemed amount. Exemptions are not granted because of poor investment performance, such as shares producing negative returns, or companies or funds in short term difficulties. Deeming exemptions do not alter the assessable asset value of an investment.

[2] Budget 2013-14: Superannuation Reforms - Extending the normal deeming rules to new superannuation account-based income streams: From 1 January 2015, the normal deeming rules will be extended to superannuation account-based income streams. This will mean all financial assets are assessed under the same rules. This change will start on 1 January 2015. Account-based income streams held by pensioners and allowees prior to 1 January 2015 will continue to be assessed under the existing rules unless they choose to change products or buy new products from 1 January 2015." Source: www.dhs.gov.au

The deemed income is added to any income the person has from other sources such as income from employment. This total income is then used to work out how much pension, benefit or allowance can be paid to the person under the income test.

The proposed amendment

The Government proposes changes to asset test taper rates that deliver benefits at the low end but are quite draconian at the top end. This is because the asset free areas rise but the taper rate doubles.

The assets free areas are to rise from $202,000 to $250,000 for single home owners and from $286,500 to $375,000 for couple home owners. Pensioners who do not own their own home benefit from an increase in their threshold to $200,000 more than homeowner pensioners. However the asset test taper doubles, from $1.50 per fortnight ($38 a year) per $1,000 to $3 ($78 per year) per $1,000.

The effect is to reduce the asset cut-out point where pension ceases; for example a home-owner couple will see their pension cease at assets of $823,000 compared to over $1.1 million currently.

Understanding the effect of the asset test

The pension, together with the income and assets tests is conceptually:

- a universal payment plus
- a special income tax with a 50% tax rate up to the cut out point plus
- a wealth tax (the asset test), which operates as an alternative minimum tax. Whichever test gives the lower rate is applied.

Assets, or wealth, can be taxed either applying an annual wealth tax on the value of assets, or by deeming (or imputing) income, or a rate of return, from wealth.

Under current asset test rules the wealth tax rate on assets computes to be 3.9% on wealth above the threshold.

The proposed asset test tapers effectively doubles the rate of the wealth tax on pensioners while simultaneously narrowing the tax base, contrary to generally accepted good principles of tax and transfer design.

Specifically, the proposal of a taper rate of $3 per $1,000 implies a wealth tax rate of 7.8% ($78 per $1,000) on wealth above the new thresholds. This is a very high marginal rate in a context where, with real returns of less than 5% on many investments like superannuation, the effective wealth tax exceeds the whole of the real return.

Assuming a return to savings of 5%, a consequence of the asset test is that income from savings is heavily taxed at an effective marginal rate around 160% (7.8 divided by 5).

Can pensioners compensate for the changes by running down assets?

The Government proposal is explicitly aimed at encouraging wealthier pensioners to use their assets to maintain living standards in retirement.

Modest and comfortable living standards in retirement are estimated by ASFA. Their latest estimates for annual income for home owner couples are (see Table 1):[3]

- $33,766 (modest) - comparable with the current pension rate of $33,717
- $58,364 (comfortable).

According to the Minister's Second reading speech, "People with higher levels of retirement savings have the capacity to draw down on their assets, as intended, to support themselves in retirement rather than calling on the taxpayer for a pension for support. Those most affected by the changes would only have to draw down a maximum of 1.84 per cent of their assets to make up for the loss of their part-pension and maintain their current levels of income."[4]

This effect of the proposed change is illustrated below. The example shows that many savers with private assets will need to run down their assets substantially to maintain a comfortable standard of living in retirement. The Minister's figures appear to involve optimistic assumptions about the real returns pensioners can achieve.

Example

Assume a 5% nominal return and 2.5% real return on assets (a reasonably conservative assumption). We compare Couple A with $823,000 of assets to Couple B with $375,000 of assets, this being the new threshold (Table 3 at the end of this submission). Our examples refer to home-owners, as these represent around 80% of all pensioners.

> Couple A, with $823,000 of assets, has income of $20,575 in Year 1.
>
> Couple B, with $375,000 of assets, has income of $40,543 in Year 1 (maximum age pension of $42,343 less approximately $1800 due to their deemed income).

So, Couple A has an income deficit of $19,968.

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[3] www.superannuation.asn.au/media-release-6-march-2015 and Table 1 below.
[4] http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F494c836a-e9b4-4f50-9c2b-57185780ab51%2F0008%22

To maintain the same living standard as Couple B with $375,000 of assets, Couple A must run down their assets by the amount of $20,000 annually. This implies a total rundown period of approximately 22 years for Couple A, before assets reach the threshold at which they are eligible for the full age pension. This is within their (combined) life expectancy.

Assuming Couple A does this, then during (and after) this whole period their living standard is not higher than that of the couple on $375,000. At the end of this period, Couple A would need to rely on the (near) full age pension like Couple B.

To sustain a living standard during this period that is higher than the living standard of Couple B, Couple A would need to run down their assets more quickly.

For example, if Couple A wish to sustain a living standard at the "comfortable" standard suggested by ASFA ($58,444 – see Table 1), the rate of annual rundown is $37,869. This can be sustained for approx. 12 years before Couple A reach the $375,000 threshold.

The rundown period is not a simple calculation, as the annual rundown gets lower as the asset decreases and their part-pension is increasing over this period; consequently, it could be longer or shorter. The rundown for any given target income assumes access to a larger portion of their diminished capital. We have not modelled these effects.

Earnings replacement rates in retirement

We can also look at the issue in terms of the earnings replacement rates (ERRs) available to households of different income levels in retirement.

The ERR is calculated as the ratio of income in retirement to income in the final few years of work. Normally, we aim to achieve relatively high ERRs for low-income earners but we are not concerned if ERRs taper off as income rises, as high income earners can supplement their compulsory savings to achieve any desired ERR.

Treasury projections for the Henry Tax Review suggest ERRs of 81.5% at 0.75 average weekly ordinary time earnings (AWOTE), which was $60,000 p.a. in 2009 and is now $76,000; 70.7% at 1.0 AWOTE; 59.3% at 1.5 AWOTE and 52.9% at 2.5 AWOTE (Table 2). This shows that the combined 2-pillars of age pension and superannuation currently produce reasonably defensible results across income groups.

The impact of the Government asset test proposal will be to flatten the income achievable from savings in the range for assets from $375,000 to $823,000, such that ERRs take a marked dip over the middle income range. The lower figure is consistent with the lump sum achievable for someone on median earnings, and the higher for a male on above average earnings or a couple both on median earnings[5].

For the conservative investor, the situation is worse, as risk free rates of return, for example from term deposits, are only slightly higher than the rate of inflation. It has been suggested that the cost of an indexed annuity is such that a $1 million lump sum will only buy the (indexed) married rate of pension - a return of 3.3% in real terms.[6]

Potential savings effects of the proposed assets test

More savings do lead to higher living standards. However, the policy issue here is the extent to which the increment to living standards is consistent with a fair reward for savings in the tax/transfer system as a whole. Why incentivise savings dramatically on the tax/superannuation side and then be extremely harsh on the transfer side?

These offsetting incentives may create serious distortions to pensioner's behaviour. Specifically, the proposed tighter assets test may promote risky savings and consumption behaviour. Recent press reports have suggested that pensioners are already thinking of ways to run down their assets.

Effective average and marginal tax rates on savings

We set out in Table 3 (at the end of this Submission) effective tax rates on pensioners' incomes from assets, under assumed real yields of 6 and 3 per cent respectively. Average rates are calculated over a range of income; marginal rates measure the tax take on an extra small increment to income. Average tax rates over the whole range from zero to the cut-out point, and average tax rates over the range from the asset threshold to the cut-out point, are shown in Table 3.

Table 3 shows average tax rates over the eligible asset range from 53% (single, 6% real return) to 137% (couple investing at 3% real return). These average rates include the impact of the higher asset thresholds.

However, beyond the thresholds the average and marginal rates are much higher, ranging from 130% (6% real yield) to 260% (3% real yield).

[5] We calculate a lump sum of $650,000 (current dollars) for a worker starting on half AWOTE whose salary rises by 4% a year (real). His salary catches up with AWOTE after roughly 20 years. This assumes a working life from 25 to 65 years, minimum SG contributions at 9.5% and a 4% real return in the super fund.

[6] Jeremy Cooper http://www.afr.com/opinion/columnists/before-super-tax-changes-remember-the-pension-is-worth-1-million-20150419-1mo76p

Our assumption of returns to saving

We note that our assumption of 6% real (8.5% nominal) is at the high end of returns for a reasonably prudent investor; even a 3% real return corresponds to 5.5% in nominal return, which is a high rate in today's interest rate climate.

For example, today a term deposit might generate a 1% real return (3.5% nominal). A 3% real return is consistent with a reasonably conservative allocation in a super fund. The Treasury typically assumes a 4% real net returns from superannuation; if management fees are not payable, a 5% real return is achievable (e.g., in a SMSF).

A 6% real return is consistent with an aggressive growth allocation in a super fund. The historic real return on equities in Australia is 7% and property shows a similar return. Whether such returns will be achievable in the future is doubtful.

The Minister suggests that the proposed test merely returns us to the marginal wealth tax rates that prevailed over 1994-2007. However interest rates were very much higher in this period compared to where they are now.

The asset test taper is equivalent to a very high deemed income return

The asset test can be converted to the equivalent of a deeming approach, for purposes of comparison. An asset test (wealth tax) rate of 7.8% and pension taper of 50% give an implied deeming return rate of 7.8/.5 = 15.6%. This stands in stark contrast to current deeming rates for financial assets in the income test, of 1.75% and 3.25%.

An alternative approach: A deeming approach to assets

We suggest an alternative approach to the asset test, being inclusion of a deemed income return from assets under the income test. This would starting at a much lower threshold than the Government's proposed asset test. This proposal does not include the home as an asset. The specific deeming return is a matter for policy, and may change over time (as is currently done for deemed returns on financial assets).

Deeming rates can be set to achieve the sort of savings sought by the Government with much less unfairness. A deeming rate of say 6% combines with a pension taper of 50% to give an effective marginal wealth tax rate of 3% - much less than the new 7.8% rate proposed. This 6% deemed return is much more in line with current rates of return, but it is sufficiently high that it will force rundown of assets in most cases. This required rundown will however be very much less than the Government proposal.

For comparison, Table 3 shows average and marginal tax rates under our 6% deeming proposal. The average tax rates range from 42% to 103%, and marginal tax rates are either 50% (6% return) or 100% (3% return). The deeming approach cuts in at a much lower threshold than the new asset test, this being $69,333 single and $123,067 couple under 6% deeming.[7] If the initial deeming rate were lower the thresholds would be correspondingly higher. We note that there could also be disregards for non-home owners, if desired.

Why a deeming approach is preferable

The advantage of deeming is that it integrates the wealth and income tests. This reduces the scope for people to game their entitlements and will provide a smoother treatment of income and assets by enabling a lower tax rate on a broader base. At the moment pensioners are assessed under both the income test and the asset test, and whichever test gives the lower rate is applied. This allows considerable scope for sophisticated pension planning. Deeming, by contrast, allows a pensioner to have either modest income or modest assets, but not both.

There is a wider base under deeming, and for this reason it has potential to raise as much revenue at an effective wealth tax rate less than half that proposed by the Government.

We note that base broadening and rate lowering is also achievable under a revised asset test (rather than deeming). For example, with thresholds comparable to the deeming thresholds set out above, the wealth tax rates could be halved compared to the Government proposal and still reap comparable savings to those sought by the Government. This would not impact the average tax rates set out in the table very much, but would halve the marginal rates shown. However they would still be very high, ranging from 65% to 130%. However in general we regard the asset test options as inferior to the deeming alternative.

The Henry Tax Review concluded that the separate asset test should be replaced by a general regime of deeming for pensions. We set out the full Recommendation here:

> **Recommendation 88:** The current income and asset tests for income support payments should be replaced with a comprehensive means test based on a combined measure of employment income, business income and deemed income on assets. The comprehensive means test would:
>
> a. extend deemed income on assets in addition to financial assets, including superannuation income streams, rental housing and other asset classes (whether income-producing or

[7] The thresholds are calculated by dividing the annual income free areas by the deeming rate. Hence for singles they are $4160/.06 and for couples $7384/.06. If the initial taper were say 3% then the thresholds become $4160/.03= 138,667 single and $7384/.03= 246,134 couple.

not). Superannuation income streams where deeming income would be difficult to apply would be tested on gross income but with an actuarially fair deduction for capital;

b. have low and high deeming rates based on the returns expected from a portfolio of assets held by a prudent investor. These rates should be set by reference to an appropriate benchmark;
c. continue the means test exemption for owner-occupied housing up to a high indexed threshold;
d. set a high capped exemption for personal-use assets;
e. retain the current concessional treatment of employment income for certain allowances and pensions;
f. have different free areas for pensions and allowances; and
g. remove the liquid assets waiting period and the sudden-death cut-out that applies to people on certain payments.

Previous policy: the old 'merged means test'

Under the 'merged means test' applicable during the 1970s, assets (apart from housing) were deemed to yield 10% per annum and actual income from assets was disregarded. Ten per cent was the assumed yield on an annuity purchased at age 65. Currently, an indexed annuity at that age would yield around a third of that in real terms, and even a 'growth' investment strategy will yield only 5-6% so a much lower deeming rate around 5-6% could be justified.

After pension deeming was abolished in 1976 (and replaced by the inclusion of actual income from capital) pensioners with substantial assets found many and varied means to get around the pension income test, a practice sometimes called income rigging. This led to a variety of ad-hoc responses by governments including the introduction of a specific asset test and later the re-introduction of deeming for (initially) a limited range of financial assets.

The Henry Tax Review proposal is that deeming under the pension income test be extended to a fuller range of assets (specifically all assets apart from the home) and that the assets test be abolished. The deeming rate is not specified by the Review who argued that "deeming rates would be based on the returns expected from a portfolio of assets that would be held by a prudent investor". There is a similar recommendation in the Shepherd (NCOA) Report.

Shepherd, like Henry, would include some part of housing assets in the base. Henry does not specify the level at which housing assets would impact the test; Shepherd suggests levels of $500,000 single and $750,000 couple. In general including part of housing assets is better than having asset disregards or (equivalently) higher thresholds for non-home-owners. We recognise that this is a politically sensitive area and do not address the treatment of the home in this submission.

Deeming could be at a common rate for all assets or at different rates for different assets. Lower rates could apply to bank accounts, for example, or up to an initial threshold as now.

Conclusion

The Henry and Shepherd proposals to extend deeming to all assets under the pension means test are sensible and practical, albeit that they merely return us closer to the 'merged means test' that prevailed before 1976. The deeming rate for most assets should reflect real returns in the range of 5-6 per cent, and a lower rate could apply to bank accounts.

Australia's current retirement income system is highly generous on the tax side and becoming harsher on the pension side. A system based on offsetting distortions is inefficient. We note also that the pension means test does not touch the top cohort (as much as 20% of savers), who receive a disproportionate share of superannuation tax breaks. We propose that deeming and superannuation tax reform should both be on the table in retirement system reforms. To ensure fairness, the government proposal requires a high threshold before high wealth tax is levied (a narrow base and higher rates). To ensure fairness, a deeming approach should be considered together with tax and superannuation changes in the policy mix.

Miranda Stewart and David Ingles

12 June 2015

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Treasury 2010c Australia's future tax system Report to the Treasurer Part Two Detailed Analysis Volume 2 http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm

Why pensioners are cruising their way around budget changes

June 3, 2015

https://theconversation.com/why-pensioners-are-cruising-their-way-around-budget-changes-42544

David Ingles (Senior Research Fellow, Tax and Transfer Policy Institute, Crawford School of Public Policy at Australian National University and Miranda Stewart (Professor and Director, Tax and Transfer Policy Institute, Crawford School of Public Policy at Australian National University)

Age pensioners have always gone on cruises. But since the budget, we have seen stories emerge of age pensioners changing their behaviour in response to the proposed rebalancing of the age pension asset tests.

Sydney pensioner Noelene has bought a holiday cruise to Alaska. Seemingly contradicting sensible living strategies for many older people, financial advisers are now proposing part-pensioners upsize and buy a more expensive house.

It's surprising behaviour, especially in light of new research from CePAR using government data that demonstrates many age pensioners actually live very frugally. Many pensioners live below even the "modest" retirement standard proposed by ASFA ($23,469 for a single and $33,766 for a couple, who own their own home). Indeed, many pensioners are cautious and keep a cushion of assets, whether because of concern about risk, to pay for age care when frail, or to leave a bequest to children or grandchildren.

What's changed

Why would age pensioners choose to spend big now? Well, it's a rational response by part-pensioners to the proposed budget asset tests. If the anecdotal behaviour is writ large, a lot of the potential revenue gains (estimated at A$2.4 billion over 5 years) from the asset test changes may disappear.

Apart from the home, the financial and other assets of age pensioners are tested above a limit, so as to target the pension. The age pension is also subject to an income test. At the moment pensioners are assessed under both the income test and the asset test: whichever test gives the lower pension rate is applied. This allows considerable scope for sophisticated pension planning.

The 2015 budget includes changes to the age pension asset tests which deliver benefits at the low end but which are quite draconian for those who have accumulated some assets.

For homeowners, the asset free areas are to rise from $202,000 to $250,000 for single home owners and from $286,500 to $375,000 for couple home owners, but the asset test taper rate will double, from $1.50 per fortnight ($38 a year) per $1,000 to $3 per fortnight ($78 per year) per $1,000.

Pensioners who do not own their own home – and who are much less well off than those who own a home – will benefit from an increase in their threshold to $200,000 more than homeowner pensioners.

On a superficial view, these seem like reasonable changes. But they may have significant behavioural effects and there could be a better way to achieve the government's policy goals.

Savings taxed: how the government is changing behaviour

The age pension can be thought of as a universal payment combined with an in-built income tax (the income test, which has a 50% tax rate up to the cut out point) and an in-built wealth tax (the asset test).

The effect of the change in policy is to reduce the asset cut-out point where the age pension ceases. Under current asset taper rules, the effective wealth tax rate in the asset test is 3.9% above the threshold. The budget proposal of a taper of $3 per fortnight per $1,000 implies a wealth tax rate of 7.8% ($78 per year per $1,000) above the new thresholds. With real returns of around 5% on many investments currently, the wealth tax effectively confiscates the whole of the real return above the thresholds.

A home-owner couple will see their pension cease at assets of $823,000 compared to over $1.1 million currently. But this home-owner couple with $823,000 in savings would not necessarily have a higher living standard than a home-owner couple with $375,000 in savings; indeed, it could well be lower.

Overall, under the proposed new system, income from savings would be very heavily taxed. Assuming a return to savings of 5%, the effective marginal tax rate could be as much as 160% (the wealth tax rate of 7.8% divided by a 5% return). This creates a disincentive to save. For the conservative investor the situation is even worse, as products like term deposits offer rates only slightly higher than inflation.

An alternative approach: deeming an income return

The Henry Tax Review and the Shepherd National Committee of Audit both recommended that the separate age pension asset test should be replaced by a comprehensive means test that deems income from assets.

A deeming approach disregards actual income from an asset. Only deemed income is included, based on a sensible choice of rate of return, such as the return on bank interest. At 1.75% and 3.25% rates, this is quite a conservative rate of return.

In fact, we already deem income returns in the current pension system, for assets including bank accounts, term deposits, shares, managed funds, loans to family members and superannuation funds (if you are age pension age).

Widening the deeming rules would return us to the "merged means test" which operated in Australia up to the 1970s. Under the test, all assets apart from the home were deemed to yield 10% per annum and actual income from assets was disregarded. The assumed yield on an annuity purchased at age 65 was 10%. Currently an indexed annuity at that age would yield around a third of that in real terms, and even a “growth” investment strategy will yield only 5% to 6%, so a deeming rate around 6% could be justified.

Deeming rates can be set to achieve the sort of budget savings sought by the government with fewer issues for fairness and perverse incentives. A deeming rate of, say, 6% combines with a pension taper of 50% to give an effective marginal wealth tax rate of 3%. This is much less than the effective 7.8% wealth tax rate in the budget measure.

Deeming allows a pensioner to have either modest income or modest assets but not both. It does not unfairly advantage those who maximise their entitlements by planning under both income and asset tests, as the current system allows. A wider deemed base could save as much at a lower effective wealth tax rate than that proposed by the government.

The bigger picture

Australia has highly generous tax concessions for retirement saving, but quite harsh treatment on the pension side. Why incentivise savings through super tax breaks and then penalise savers under the means test?

Home owner retirees are much better off than those who do not own their home and the age pension means test does not touch the top cohort of superannuation savers who receive a hugely disproportionate share of superannuation tax breaks. In contrast to most middle income savers who eventually need some level of age pension with its implicit wealth tax, the top cohort who don’t need the age pension are never subject to any wealth or bequests tax.

Table 1: ASFA Retirement Standard

The **ASFA Retirement Standard** benchmarks the annual budget needed by Australians to fund either a comfortable or modest standard of living in the post-work years. It is updated quarterly to reflect inflation, and provides detailed budgets of what singles and couples would need to spend to support their chosen lifestyle.

Table 1: Budgets for various households and living standards for those aged around 65 (March Quarter 2015, national)

	Modest lifestyle		Comfortable lifestyle	
	Single	**Couple**	**Single**	**Couple**
Total per year	**$23,438**	**$33,799**	**$42,569**	**$58,444**

The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures.

Source: https://www.superannuation.asn.au/resources/retirement-standard

Table 2: Illustrative projected replacement rates under the Age Pension and superannuation guarantee for people with different periods in the superannuation system

Income as a proportion of AWOTE	Replacement rate by individual's age (in years) in 2009 (per cent)				
	20	30	40	50	60
0.75	81.5	77.7	76.4	67.6	58.1
1.00	70.7	67.2	65.9	57.5	49.8
1.50	59.3	55.4	54.7	47.0	39.9
2.50	52.9	47.0	42.4	34.4	27.6

A replacement rate compares an individual's spending power before and after retirement (that is, after tax is paid). For example, a replacement rate of 75 per cent would mean that an individual would be able to spend in a given time period $75 in retirement for each $100 spent before retirement. AWOTE is average weekly ordinary time earnings and is around $1,150 per week ($60,000 per year). Around half of workers earn less than three-quarters of AWOTE. The projections are for people of different ages, who spend different proportions of their working life covered by the superannuation guarantee. The scenarios are: male aged 20 years now who enters the superannuation system now; male aged 30 years now who entered the superannuation system in 2003; male aged 40 years now who entered the superannuation system in 1992; male aged 50 years now who entered the superannuation system in 1992; and male aged 60 years now who entered the superannuation system in 1992. In all cases, the person retires at age 65 years and purchases a wage indexed life annuity. This implies that the person aged 20 years has a 45 year working life covered by the superannuation guarantee. The incomes used to calculate the illustrative replacement rates are deflated by the consumer price index to 2008-09 dollars. Actual outcomes will vary depending on factors such as workforce participation, investment performance, inflation, longevity and whether an individual accesses their superannuation before Age Pension age.

The base case assumes the hypothetical individual retires in 2035 and lives for a further 22 years (a total life expectancy of 87 years). This is based on Treasury projections of age-specific probabilities of death for each year of age, calculated using the 2005-2007 life-tables and various historical life tables published by the Australian Bureau of Statistics. The projections factor in improvements in mortality factors.

Source: Treasury Table f.1
http://taxreview.treasury.gov.au/content/StrategicPaper.aspx?doc=html/Publications/Papers/Retirement_Income_Strategic_Issues_Paper/Appendix_F.htm

TABLE 3		**Income at cut-outs**			**Income gain vs pension**				Implicit tax rates %			
Assumed 6% and 3% real returns	**Asset test cut-outs**	**at 6%**	**at 3%**	**Pension max**	**At cut-out**		**Gain as % income**		**Zero to cut-outs**		**From asset test thresholds**	
	$,000	**$pa**	**$pa**	**$pa**	**6%**	**3%**	**6%**	**3%**	**6%**	**3%**	**6%**	**3%**
New asset test												
Single non-home owner	747	44820	22410	23775	21045	-1365	**47%**	**-6%**	**53**	**106**	**130**	**260**
Single home owner	547	32820	16410	20437	12383	-4027	**38%**	**-25%**	**62**	**125**	**130**	**260**
Couple non-homeowner	1023	61380	30690	38537	22843	-7847	**37%**	**-26%**	**63**	**126**	**130**	**260**
Couple home owner	823	49380	24690	33717	15663	-9027	**32%**	**-37%**	**68**	**137**	**130**	**260**
Deeming proposal at 6%												
Single non-home owner	815	48888	24444	23775	25113	669	**51%**	**3%**	**49**	**97**	**50**	**100**
Single home owner	815	48888	24444	20437	28451	4007	**58%**	**16%**	**42**	**84**	**50**	**100**
Couple non home owner	1247	74820	37410	38537	36283	-1127	**48%**	**-3%**	**52**	**103**	**50**	**100**
Couple home owner	1247	74820	37410	33717	41103	3693	**55%**	**10%**	**45**	**90**	**50**	**100**
At 3%, this is normally negative under the Govt proposals												