Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 401

Topic: Superannuation Guarantee

Hansard Page: Written

Senator EGGLESTON asked:

1. Can Treasury detail why the Henry Review did not recommend raising the Superannuation guarantee level?
2. What level of consultation did Treasury have with the Government in determining the Government's response to the superannuation recommendations in the Henry Review? Can the Treasury provide a date as to when the Government decided to increase the superannuation guarantee levy?
3. On page 115 of the Henry Report, a graph shows that national savings would be consistently over 20 per cent higher under the recommendations made by Dr Henry over the next 20 years. Who within Treasury completed this modelling and does Treasury stand by the figures suggesting a better performance of adopting Dr Henry's recommendation with compared to the Government's policy?
4. Can Treasury release all modelling and data used to create the graphs showing a better performance of Dr. Henry's recommendations compared to increasing the SG rate? In particular, the graph on page 114 entitled 'projected increase in superannuation assets' and the graph on page 115 entitled 'projected increase in national savings'?
5. The Henry review states that adopting recommendations 18 and 19 would have a budgetary cost. Can the Treasury release the modelling they undertook to demonstrate the cost of adopting these recommendations compared to the cost of raising the superannuation guarantee levy to 12 per cent?
6. The Government promised before and after the 2007 election campaign not to increase the superannuation guarantee because of the burden it will place on business. What modelling, if any, has the treasury completed with regards to the impact on business and the economy of increasing the superannuation guarantee to 12 per cent? What were the findings of this modelling?
7. To clarify, how will the increase to the Super Guarantee – that is the money flowing from employers to superannuation funds - be paid for? Will it be extracted from future pay rises or will it be extracted on top of the existing payroll of businesses?
8. If the increase to the SG will be paid for in lieu of future pay rises, how will the Treasury ensure that campaigns from trade unions to ensure that the increase is not paid for in lieu of pay rises? What measures will be put in place to avoid this?

9. In the Budget papers, Treasury detail that the budgetary cost of this measure will be $3.6 billion in the year 2019-20. How many businesses is this figure based on?
10. Will the funding committed to the ATO be made available if the Government's super profit tax does not get through parliament and the Government does not follow through with its commitment to raise the SG levy?
11. Has any modelling been undertaken with regards to the impact that raising the guarantee will have on the share market? Does Treasury believe that the increase will artificially inflate the prices of shares traded in Australia?
12. Has the treasury considered the implications that its super profits tax is having on superannuation balances? Does Treasury agree with the Treasurer who has said that the tax will have an affect on financial markets?
13. The projected saving from permanently reducing the superannuation co-contribution in both 2012-13 and 2013-14 is $175 million. Can treasury explain how many payments this is based on and why the two figures are the same?
14. What modelling has treasury completed relating to how this will impact on voluntary contributions? Will this measure decrease the willingness of taxpayers to make a voluntary contribution to super?
15. The co-contribution was set to increase back by a matching rate of $250 in 2012-13. Does the $175 million in saving indicate that 700,000 people will miss out on the additional $250 payment?
16. What advice has Treasury provided the Government about reinstating the $50,000 cap for worker's over the age of 50?
17. Treasury estimates that 275,000 people will benefit as a result of these reforms. How much does Treasury estimate will be saved by these 275,000 people?

Answer:

1. The final report on AFTS recommended changes to superannuation that would have increased retirement incomes via changes to the taxation arrangements applying to superannuation. It thus took an alternative approach to increasing adequacy.

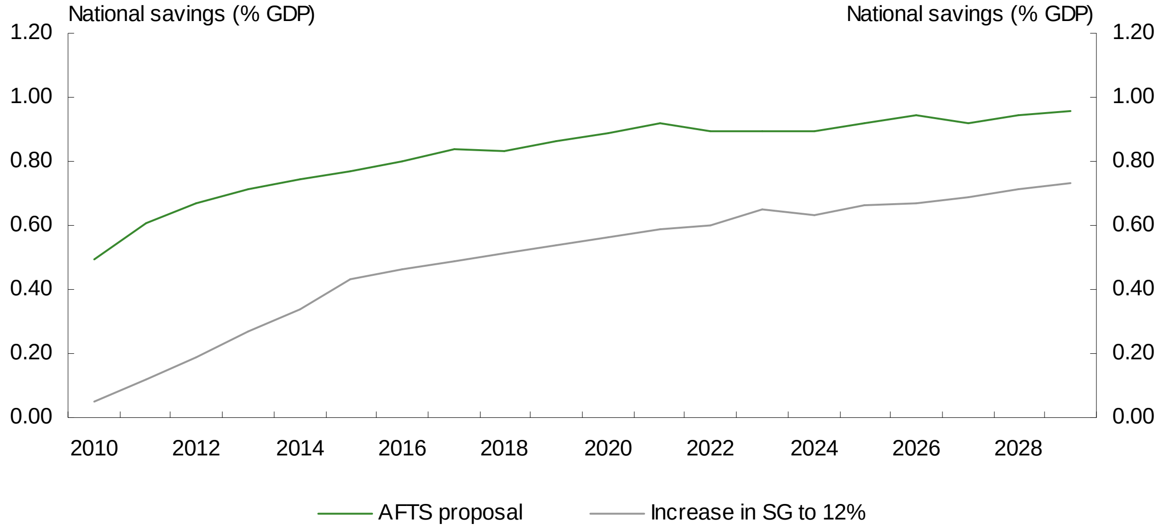
2. Treasury provided considered advice in response to requests by the Government. Treasury understands that the Government's decision on the increase to the superannuation guarantee rate was made on 27 April 2010.

3. The national savings analysis originated in the Retirement & Intergenerational Modelling Unit within Treasury. The results of that analysis were dependent on assumptions and Treasury believe these assumptions were suitable. The assumptions are contained in Australia's Future Tax System — Report to the Treasurer, December 2009, Part Two, Detailed Analysis (Volume 1 of 2), page 134-135 (Annex A2).

4. Yes. The impacts on national savings and superannuation assets of adopting recommendations 18 and 19, from 1 July 2010 (an assumption only), were considered and published – please refer to Chart 1 and 2 for further information. Tables 1 and 2 provide the plotting points for Chart 1 and 2, respectively.

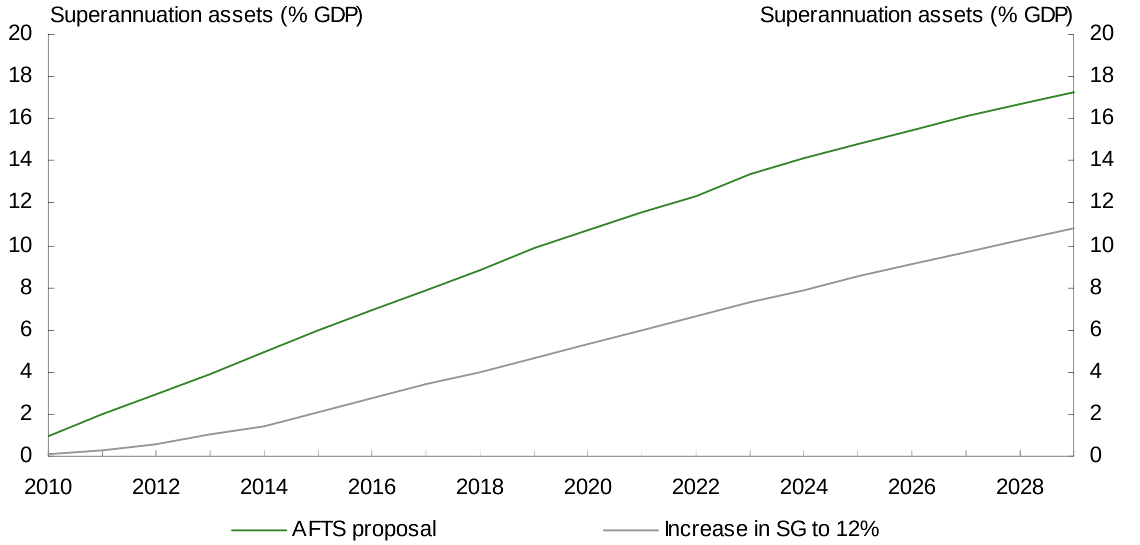
The assumptions underlying the modelling are contained in Australia's Future Tax System — Report to the Treasurer, December 2009, Part Two, Detailed Analysis (Volume 1 of 2), page 134-135 (Annex A2).

Chart 1: Projected increase in national saving



Source: Australia's Future Tax System — Report to the Treasurer, December 2009, Part Two, Detailed Analysis (Volume 1 of 2), page 115 (Chart A2-10).

Chart 2: Projected increase in superannuation assets



Source: Australia's Future Tax System — Report to the Treasurer, December 2009, Part Two, Detailed Analysis (Volume 1 of 2), page 114 (Chart A2-9).

Table 1: Projected increase in national saving (data from Chart 1)

	AFTS proposal	Increase in SG to 12%
2010	0.49	0.05
2011	0.61	0.12
2012	0.67	0.19
2013	0.71	0.27
2014	0.74	0.34
2015	0.77	0.43
2016	0.80	0.46
2017	0.83	0.49
2018	0.83	0.51
2019	0.86	0.54
2020	0.89	0.56
2021	0.92	0.59
2022	0.89	0.60
2023	0.90	0.65
2024	0.89	0.63
2025	0.92	0.66
2026	0.94	0.67
2027	0.92	0.69
2028	0.95	0.71
2029	0.96	0.73

Source: Treasury estimates and projections.

Table 2: Projected increase in superannuation assets (data from Chart 2)

	AFTS proposal	Increase in SG to 12%
2010	0.92	0.10
2011	1.95	0.29
2012	2.92	0.59
2013	3.92	1.00
2014	4.93	1.46
2015	5.94	2.09
2016	6.92	2.73
2017	7.86	3.37
2018	8.77	4.02
2019	9.82	4.67
2020	10.67	5.32
2021	11.53	5.95
2022	12.32	6.60
2023	13.35	7.27
2024	14.08	7.86
2025	14.78	8.49
2026	15.46	9.10
2027	16.12	9.71
2028	16.69	10.27
2029	17.25	10.80

Source: Treasury estimates and projections.

5. Yes. The income year impacts of adopting the Australia's Future Tax System final recommendations 18 and 19 (page 100 and 106 of the final report, respectively), from 1 July 2012 (an assumption only), were considered — please refer to Table 3 for further information.

Table 3: Income Year Estimates of Recommendations 18 and 19[1]

	2009-10 $m	2010-11 $m	2011-12 $m	2012-13 $m	2013-14 $m	Total $m
Recommendation 18	-	-	-	-3,155.0	-3,350.0	-6,505.0
Recommendation 19	-	-	-	-4,400.0	-4,700.0	-9,100.0
Total	**-**	**-**	**-**	**-7,555.0**	**-8,050.0**	**-15,605.0**

[1] The income year estimates are generally not the impact on the underlying cash balance or the impact on the fiscal balance. Differences would be due to the timing of collections and payments.

The revenue impact of increasing the superannuation guarantee rate to 12 per cent is published in the 2010-11 Budget Paper No. 2 (page 42).

6. The Treasury modelling generally assumes an SG increase has no impact on company profits. This assumption was the case for the 2010-11 Budget measure to increase the superannuation guarantee rate to 12 per cent (page 42 of the 2010-11 Budget Paper No. 2).

   The Treasury has looked at the revenue impact of increasing the SG rate to 12%. This impact is published in the 2010-11 Budget Paper No. 2 (page 42).

   The Treasury also looked at the impact on national saving and superannuation assets from increasing the SG rate to 12%. This analysis is published in the Australia's Future Tax System — Report to the Treasurer, December 2009, Part Two, Detailed Analysis (Volume 1 of 2), page 134-135 (Annex A2). The 2010-11 Budget also includes an analysis of the Government's proposed superannuation reforms, including increasing the SG rate to 12% by 2019-20. For example, there is a chart of the additional superannuation savings by year (Chart 3) on page 1-29 of Budget paper No 1.

7. The superannuation guarantee increases will be phased in with a three year lead time from announcement and over 7 years. There will initially be two smaller steps of 0.25 percentage points, in 2013-14 and 2014-15. Subsequently, these will be followed by steps of 0.5 in every year until the superannuation guarantee reaches 12 per cent in 2019-20.

   The lead time will allow employers and employees time to adapt and for the increased superannuation guarantee contributions to be taken into account when negotiating future wage agreements. At Budget Estimates on 27 May 2010, Dr Henry responded to this issue, noting that analysis suggests that, over time, superannuation guarantee increases have come out of wages rather than profits, and that the increase in the superannuation guarantee can be regarded as a different way of receiving an increase in wages. It is also noted that future wage productivity increases are expected to be sufficient to ensure that real wages continue to grow.

8. The lead time provided by the Government will allow employers and employees the opportunity to adapt and take the increases to the superannuation guarantee rate into account when negotiating future pay rises. Bargaining processes of individual workplaces and the setting of minimum wages are conducted in accordance to the provisions contained in the *Fair Work Act 2009*.

9. The Treasury modelling is based on estimates of employees, rather than businesses and the cost represents the increase in the level of concessionally taxed superannuation contributions relative to taxing those contributions as wages. Treasury did not estimate the number of businesses in 2019-20.

10. The Government is committed to its package of tax reforms of which the new superannuation measures are an element.

11. The Treasury did not undertake modelling of the impact of an SG increase on the share market.

12. The Treasury did look at the potential impact of the then Resource Super Profits Tax (RSPT) on superannuation assets. The Treasury agree with the Treasurer's comments on the then RSPT and financial markets.

13. The 2010-11 Budget savings measures relating to the Government co-contribution were based on around 1.2 million entitlements in each of years 2012-13 and 2013-14. The estimated expense saving does not change between 2012-13 and 2013-14 because there was no significant variation in the estimates.

14. The Treasury do not expect that the 2010-11 Budget measures relating to the Government co-contribution will have a significant effect on the level of non-concessional superannuation contributions as the matching rate continues to provide eligible individuals with a very generous incentive to make voluntary contributions.

    Treasury modelling suggests that when the matching rate and income thresholds were increased in 2004-05, over 95 per cent of recipients the following year could be attributed to the increase in the income threshold alone.

15. It is estimated that around 1.2 million individuals will be impacted in 2012-13. The maximum loss in the amount of the Government co-contribution following the 2010-11 Budget in relation to the matching rate and maximum payable is $250 in 2012-13 relative to the 2009-10 Budget announcement. However, not all individuals will be impacted to this extent due to the taper. Treasury did not estimate the number losing by exactly $250.

16. Treasury provided considered advice on the consequences of such a change including the impact on the revenue.

17. For the 275,000 people estimated to benefit from the change to the concessional contributions cap in the 2010-11 Budget in 2012-13, Treasury estimates an average increase in net superannuation contributions of around $11,000. The aggregate income tax and contributions tax benefit is shown in the 2010-11 Budget Paper No. 2 (page 41).