



DR HAZEL BATEMAN
ASSOCIATE HEAD
School of Economics

30 July 2002



Sue Morton
Secretary
Select Committee on Superannuation
Parliament House
Canberra, ACT 2600

Dear Ms Morton

I refer to the hearings of the Senate Select Committee on Superannuation into 'superannuation and standards of living in retirement', held in Sydney on 10th July 2002. At this hearing we were asked two additional questions by Senator Hogg:

1. What figure (contribution rate) would one have to go to, in order to achieve a reasonable level of contribution (without changing taxation and the administrative charge structure that we currently have)? (Hansard page 306).
2. Can Table 1 be expanded to separate contributions and earnings taxes, and replicated for contributions rates of 12% and 15%? (Hansard page 209).

In answer to the first question, under the current superannuation tax regime (of a 15% contributions tax and a net earnings tax of 8%) with administrative charges and insurance premiums of 2% assets per annum, a **gross contribution rate of 17.7%** is required to generate the same retirement income as a **9% net contribution rate**. Including lump sum taxes, the gross contribution rate increases to **19.9%**.

The answer to the second question is set out in Table 1, which summarises the effective contribution rate and retirement replacement rates for a number of taxation and administrative charge and insurance premium scenarios. I note here that the numbers reported for the 9% case are slightly different from those presented in our submission of 10th July 2002 (due to a previous programming error).

Also enclosed are the corrected Hansard proofs.

I would like to thank you for the opportunity of presenting our submission and this supplementary evidence to the inquiry.

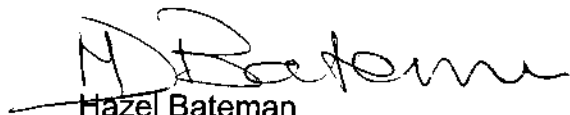

Hazel Bateman
Associate Head, School of Economics

Table 1: Effective contribution rates (and replacement rates) for an AWE employee*

9% gross contribution rate

Taxation	Administrative charges and insurance, % assets pa				
	0%	0.5%	1.0%	2.0%	3.0%
No taxes	9.0 (0.69)	8.0 (0.61)	7.1 (0.55)	5.7 (0.44)	4.6 (0.35)
Contributions tax only	7.6 (0.59)	6.8 (0.52)	6.1 (0.46)	4.8 (0.37)	3.9 (0.30)
Earnings tax only	8.2 (0.63)	7.4 (0.56)	6.6 (0.51)	5.4 (0.41)	4.4 (0.34)
Contributions and earnings taxes	7.0 (0.53)	6.2 (0.48)	5.6 (0.43)	4.6 (0.35)	3.8 (0.29)
Including lump sum taxes	6.3 (0.48)	5.7 (0.44)	5.2 (0.40)	4.3 (0.33)	3.6 (0.28)

12% gross contribution rate

Taxation	Administrative charges and insurance, % assets pa				
	0%	0.5%	1.0%	2.0%	3.0%
No taxes	12.0 (0.92)	10.7 (0.82)	9.5 (0.73)	7.6 (0.58)	6.1 (0.47)
Contributions tax only	10.2 (0.78)	9.1 (0.70)	8.1 (0.62)	6.4 (0.49)	5.2 (0.40)
Earnings tax only	10.9 (0.63)	9.8 (0.56)	8.8 (0.51)	7.2 (0.41)	5.9 (0.34)
Contributions and earnings taxes	9.3 (0.71)	8.3 (0.64)	7.5 (0.58)	6.1 (0.47)	5.0 (0.39)
Including lump sum taxes	8.3 (0.64)	7.5 (0.57)	6.8 (0.52)	5.6 (0.43)	4.7 (0.36)

15% gross contribution rate

Taxation	Administrative charges and insurance, % assets pa				
	0%	0.5%	1.0%	2.0%	3.0%
No taxes	15.0 (1.15)	13.3 (1.02)	11.9 (0.91)	9.5 (0.73)	7.6 (0.59)
Contributions tax only	12.8 (0.98)	11.3 (0.87)	10.1 (0.77)	8.0 (0.62)	6.5 (0.50)
Earnings tax only	13.6 (1.05)	12.2 (0.94)	11.0 (0.85)	9.0 (0.69)	7.4 (0.57)
Contributions and earnings taxes	11.6 (0.89)	10.4 (0.80)	9.4 (0.72)	7.6 (0.59)	6.3 (0.48)
Including lump sum taxes	10.3 (0.79)	9.3 (0.71)	8.4 (0.64)	6.9 (0.53)	5.7 (0.44)

* Assumptions: Single male contributing continuously for 40 years, 5% real rate of return, 1% real wages growth, no inflation, contributions taxed at 15% and fund earnings subject to an effective tax rate of 8%.