22 Mona Street
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Dear Sir/Mdms

Please find enclosed my submission on the taxation of superannuation

Yours Truly

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Superannuation

Objective

In the interests of 'fairness', Australian superannuation should be designed so that even those on the legislated minimum wage should be able to save sufficient in their superannuation to generate a lifetime income in retirement of at least the same as the age pension.

If this goal is achieved, then those employees will not be eligible for the age pension, but they will be no worse off either, as their superannuation pension payments will at least compensate for not receiving the age pension

Because employer superannuation contributions are a percentage of earnings, all employees earning more than the minimum wage will obviously have even greater superannuation balances on retirement and will exceed the criteria that would allow them to access the age pension.

Consequently, the age pension would only be available to people who have not been able to save the minimum superannuation balance required, either because they had periods of unemployment, ill health, disability, or they retired early for other reasons.

Ultimately, as the time approaches when all employees will have received employer contributions into super for all of their working lives, the cost to the government of funding the age pension will be very small indeed.

Minimum Superannuation Balance at Retirement

An 18 year old entering the workforce in 2015 earning the minimum wage, would earn $33,326 per annum and would also receive an employer superannuation contribution of 9.5%, equivalent to $3167 per annum.

Assuming the minimum wage increases at 2.5% per year to compensate for inflation, when the 18 year old retires at age 70, the minimum wage in 2067 will be $120,344.

Assuming the annual growth of the superannuation account averages the long-term historical average of 6% per year, at retirement, today's 18 year olds will have a superannuation balance of **$1,745,206**. This amount would purchase a lifetime annuity of **$87,260**

The Age Pension

The single age pension in 2015, including supplements is $22,365
Assuming this increases at the same rate as the minimum wage to compensate for inflation, in 2067 the age pension will be **$80763** per annum

Superannuation versus Age Pension

The calculations above show that 18 year olds entering the workforce this year and earning the minimum wage until they retire at age 70, will have sufficient superannuation to generate an annual pension of slightly more than the age pension.

However, no allowance has been made in the superannuation calculations for any tax.

For the overall objective to be achieved for these low-income earners, there would have to be zero tax on contributions, zero tax on earnings in the superannuation fund, and zero tax on withdrawals. To ensure that the target balance is achieved, no withdrawals can be permitted until age 70, and the maximum amount that can be withdrawn each year thereafter needs to be capped at the annualised single age pension rate with no lump sum withdrawals.

Conclusion

To ensure that the minimum superannuation balance is achieved for all employees, it would be necessary to establish a third 'Zero Tax' category alongside the 'Taxable' and 'Non-Taxable' categories in each superannuation account. Of the employers 9.5% contribution, the equivalent of 9.5% of the legislated Minimum Wage each year would be allocated to the 'Zero Tax' category every year and would incur no tax on contributions, earnings, or pension withdrawals.

This would ensure that all employees would save the minimum superannuation balance to fund the equivalent of the age pension from age 70.

Employer contributions in excess of 9.5% of the Minimum Wage, additional salary sacrifice and after tax voluntary contributions would continue to be treated as at present. These contributions will be available to be withdrawn as a pension from age 60, but the 'safety net' of the 'Zero Tax' category will always be there to guarantee the equivalent of the age pension from age 70 for everybody.

At age 70, should the total superannuation balance be less than the minimum required to generate a pension equivalent to the age pension, then a part age pension should be accessible to make up the difference.

The government liability to fund the age pension would eventually be close to zero.

To fund this tax benefit, the tax on the 'Taxable' and 'Non-Taxable' earnings components should be increased from a flat rate of 15% to be aligned with the taxation rates in the Personal Tax Tables. This would provide a significant net increase in tax receipts for the government