



## TAX TALKS 4: Three foundations for a secure retirement

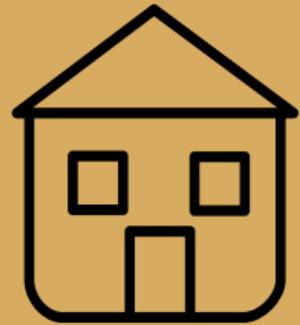
Submission to the Government's retirement incomes review



+



+



**Adequate  
income**

**Universal, affordable  
health & aged care**

**Affordable housing  
programs & rent assistance**



### **Who we are**

ACOSS is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

### **What we do**

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

First published in 2015 by the  
Australian Council of Social Service

Locked Bag 4777  
Strawberry Hills, NSW, 2012 Australia  
Email: [info@acoss.org.au](mailto:info@acoss.org.au)  
Website: [www.acoss.org.au](http://www.acoss.org.au)

ISSN: 1326 7124  
ISBN: 978 0 85871 108 2

© Australian Council of Social Service

This publication is copyright. Apart from fair dealing for the purpose of private study, research, criticism, or review, as permitted under the Copyright Act, no part may be reproduced by any process without written permission. Enquiries should be addressed to the Publications Officer, Australian Council of Social Service. Copies are available from the address above.



## Contents

Summary .....	4
Retirement income system.....	4
Universal health and aged care, and affordable housing .....	7
Recommendations .....	8
Challenges and risks: the big picture .....	12
Changing demographics .....	12
Declining home ownership .....	12
Rising costs for governments.....	13
A declining tax revenue base .....	14
The three foundations of a secure retirement: adequate income, universal health and aged care & affordable housing .....	16
1. An adequate retirement income .....	17
Income adequacy: is the object of the system clear? .....	17
Would higher paid workforce participation help? .....	21
Is the system equitable? .....	27
Is the system fiscally sustainable?.....	29
Directions for reform .....	31
2. Universal, affordable health and aged care .....	48
Closing the gap in future health and aged care funding.....	49
Recommendations: .....	50
3. Affordable, accessible housing .....	50
Recommendations: .....	51



## Summary

A secure retirement rests on three foundations: adequate income, affordable housing, and decent affordable health and aged care. Income alone is not enough. There is a serious imbalance in the Federal Government's support for retirement, with an estimated \$30 billion 'spent' each year on inefficient tax breaks for superannuation while health funding is being cut and funding for affordable housing programs has also been reduced.

As the population ages, Australia faces tough choices:

Do we continue to tinker on the edges with key parts of our retirement income system without clarity of purpose or long term outcomes? Or do we invest in major structural reforms to set us up for a system which will stand the test of time in delivering an adequate income for everyone in later life?

Do we give priority to investing in universal access to affordable health and aged care funded through shared revenue raising, or do we rely increasingly on individual user pays, increasing the divide between privatised higher quality services for people who can afford it, and an increasingly residual public system for those who cannot?

Do we allow more retired people to live in poverty as home ownership declines? Or, do we choose the alternative: investing in a coherent strategy to deliver more housing affordability and security, to reverse the trend of a widening divide between home owners and others?

Do we strengthen public revenue so that governments can properly support people of all ages at risk of poverty and ill health?

With much of the pressure on the federal Budget stemming from declining revenue, we need to grapple seriously with the challenge of comprehensive tax reform in Australia.

In our earlier submission to the Tax Discussion Paper, ACOSS set out a range of recommendations to progress tax reform in Australia.

In this submission, ACOSS sets out a range of recommendations for tax and related reform that specifically relate to the retirement income system, which is the focus of this stage of submissions to the Tax Discussion Process. In addition, ACOSS sets out proposals regarding health and aged care services, and housing systems, both key foundations to ensuring that everyone to live with dignity in later life.

### **Retirement income system**

The focus of this stage of the Federal Government's Tax Reform process is on the retirement income system. Australia's retirement income system is built on three components, the Age Pension, compulsory superannuation and voluntary superannuation savings.

With the recent tightening of the pension assets test, the Age Pension is better targeted for people with additional assets, while retaining adequacy for people fully reliant on the pension alone. However, the longer term structure of the Age Pension, including the rate, income and assets tests, and the interaction with other income support payments, will need to be



carefully considered as part of a more comprehensive review of the retirement income system, advocated by many for some time.

In the short term, the main flaw in the social security system for older people who are struggling to maintain paid work in later life is the adequacy of the unemployment payment. At just \$37 a day for a single person, the Newstart Allowance (which 1 in 7 social security recipients aged 55-65 now relies on), is clearly far too low. The \$64 a week private Rent Assistance is also well below housing costs for the 1 in 10 Age Pension recipients who rent privately.

The adequacy of Newstart needs to be urgently increased to address the gap with the Age Pension, certainly before any further consideration could be given to ideas such as lifting the eligibility age of the Age Pension, a proposal in the 2014-15 federal Budget that was resoundingly rejected by experts and the public

Compulsory superannuation will remain an important part of ensuring adequacy of income for people in later life. However, compulsory superannuation policy settings, together with associated tax concessions, are in need of major structural reform. There has been too much tinkering at the margins of superannuation, for example by adjusting tax rates for those at the top and bottom of the income range, without clarity about the outcomes to be achieved.

At the present time, there is no clear goal or any benchmarks regarding the level of income in later life that the compulsory superannuation system is designed to secure. Some superannuation providers advocate that public support, including tax concessions, should secure a 'comfortable' living standard. It is estimated that this would equate to almost \$60,000 annually for a couple who own their own home and who are in good health. The costs for this level of comfort in retirement often include discretionary items such as trips overseas and weekly restaurant meals. In the current debate about budgetary pressures, which will continue to grow, is this an appropriate goal?

It is essential that we secure consensus and deliver clarity about what level of income our retirement income system should deliver - a level that is commensurate with the community standards, placing the highest priority on protecting people from poverty. This also requires retirement income policy to give higher priority to the impacts of health and aged care policy, both key factors impacting on income adequacy. We should not give priority to supporting a living standard in retirement higher than that enjoyed by many throughout their working life.

In the immediate future, reforms to social security, compulsory and voluntary superannuation and associated tax concessions, should pursue the following goals:

1. Protecting people from poverty.
2. Maximising the number of people who can achieve a minimum acceptable retirement income (through pensions and superannuation together or separately) that is substantially above poverty levels but not above the living standard of the majority of households.



3. Ensuring the system requires people to contribute fairly to the collection of general public revenue over their lifetime.
4. Appropriately supporting people in later life to participate in paid work.

To achieve these goals, we need changes to the tax system to improve the efficiency and equity of personal income tax contributions throughout the life course. The government should address the depletion of the personal income tax base for older people, as less than one in five people over 64 currently pays income tax. The tax threshold for an older couple is \$58,000 and super fund earnings and benefits are tax free on top of that. This is not sustainable if governments are to fund health and aged care over the next 20 years.

In the retirement phase, superannuation has become a tax avoidance or estate planning system for wealthier people, instead of a retirement income system. High income earners can 'churn' their income and assets through their super accounts to reduce their tax rate to 15% or zero. Tightening up the tax treatment of super fund earnings in retirement would restore the principle that people should pay tax to fund essential services according to their ability to pay.

We recommend that the tax treatment of superannuation in the retirement phase should be reformed to refocus it on adequate and secure retirement incomes and ensure people with the capacity to do so are paying their fair share of tax.

The current tax concessions for superannuation are inequitable and inefficient and are not targeted to people who really need them. Overly-generous tax breaks for contributions extend to people who can afford to fund their own retirement while those on the lowest incomes receive little or no benefit. Those in the highest 10% income group receive one-third of the value of over \$30 billion in annual superannuation tax breaks and the highest 20% receives more than half. This is not only due to their higher contributions. The flat 15% taxes on superannuation mean that people on the highest tax rate usually receive five times the benefit as people on the lowest tax rate, per dollar contributed by employers. Women, who typically have lower earnings, are especially disadvantaged by these arrangements. The tax treatment of superannuation is entrenching inequality in retirement.

We recommend that the tax arrangements for both compulsory and voluntary contributions should be fully reset, in a revenue-neutral way, based on the proposals in the Henry Tax Review. Existing tax concessions for contributions would be simplified by replacing them with a two-tier rebate capped at a level which is adequate to enable a typical person to achieve an agreed level of income adequacy in later life. Reform of superannuation tax concessions should be a key element of a comprehensive Retirement Incomes Review.



## **Universal health and aged care, and affordable housing**

There is a growing imbalance in government support for a secure retirement. Public resources are being poured into superannuation for people who can afford to support themselves, while basic health and aged care and housing supports are withdrawn. Governments have devoted much effort to boosting retirement *incomes*, while their commitment to retirement *services* has faltered.

Governments are retreating from historical commitments to universal, affordable health and aged care. The Commonwealth Government announced in last year's Budget that it would cut indexation of health funding for the States and Territories – effectively reducing health grants by \$10 billion a year in a decade's time. Older people now have to use equity in their homes to secure a place in a nursing home.

On the housing front, Rent Assistance for the one in eight older people who rent privately is a maximum of \$64 a week, well below typical private rents. Waiting lists for social housing are large and growing.

Australia needs a new consensus on how to fund and deliver universal health and aged care services, and to deal with the chronic rise of people struggling to afford housing over their lifetime.

We recommend that, together with State and Territory and local governments, we need to strengthen guarantees about access to health and aged care. We also need a National Housing Strategy to drive the structural changes needed to address our growing housing crisis, including to deliver new affordable housing stock at scale.



## Recommendations

### (1) Income benchmarking commission:

1. Establish an independent statutory expert body to report and make recommendations to the Parliament every five years on the adequacy and indexation of social security payments, to prevent poverty and ensure that payments keep pace with increases in the cost of living and improvements in community living standards.
2. Task the Commission with the development of benchmarks for the adequacy of retirement incomes to inform policy on public support through the superannuation system as well as social security payments, including:
  - Income targets for compulsory saving for retirement (transfers of individual income from working life to retirement) taking account of the relative living standards of typical low and middle income households before and after retirement; and
  - Income targets for public support through the tax system for voluntary saving for retirement (transfers between taxpayers to support retirement income), taking account of typical incomes provided by pensions and compulsory superannuation, and typical living standards among taxpayers across all age groups.

### (2) An adequate social security safety net:

1. Raise Allowance payments by \$51pw for single people regardless of age, to alleviate poverty and reduce the gap between allowances and pensions.
2. Index pensions and allowances in a consistent way, to an index that reflects both prices affecting social security recipients, and wage movements.
3. Increase maximum rates of Rent Assistance by 30%, regardless of age, and index them to ensure they keep pace with rental inflation.
4. Keep the pension age at 67 years until Allowance payments are raised to pension levels and reasonable employment opportunities and supports are available to older people.

The proposed reforms to the taxation of retirement incomes detailed below should help fund these improvements in social security payments.

### (3) A well-targeted social security safety net:

1. Continue to target social security payments to people who are currently at risk of poverty, including during retirement.



2. Consider further reforms to simplify the assets test by exempting personal use assets up to a modest ceiling and/or by merging it with the income test to form a combined means test, with a stricter test for investment income than for earnings from employment.
3. Consider the introduction of age-based thresholds for the pension assets test, as it applies to people over Age Pension age.

**(4) Fairer, simpler and more cost-effective tax concessions for superannuation contributions:**

1. All tax concessions for superannuation contributions should be replaced in a revenue-neutral way by a two-tier annual rebate paid into the fund that is capped at a contribution level sufficient to support (along with the Age Pension) a retirement income for a typical worker at a benchmark level.
2. The rebate should be reduced to the extent that an individual withdraws funds from their superannuation account in the same year as they make a contribution, so that only net additions to savings attract a tax concession.
3. Reduce the non-concessional contributions cap from six times to three times the concessional cap.

**(5) More consistent tax treatment of superannuation fund earnings to restore the integrity of the personal income tax in regard to older people:**

1. Extend the 15% tax on fund earnings in the 'accumulation' phase to the 'pension' phase over a five year period (with a 3% increase each year)
2. The 15% tax on fund earnings should be offset, in either the pension phase or for all superannuation fund members over the preservation age, by a 15% rebate for any fund earnings that fall below that taxpayer's tax free threshold, taking account of their other income. The rebate would be calculated each year by the Australian Taxation Office (ATO) and deposited into a superannuation fund chosen by the taxpayer.
3. Ensure that accrued capital gains above a taxpayer's tax free threshold are taxed when assets held within superannuation accounts are disposed.

**(6) Progressively align the preservation age with the pension age:**

The preservation age should be progressively raised from 60 years (the present legislated target) to 67 years, subject to the following exceptions:

1. Allow earlier access to superannuation for individuals who are unable to continue in



paid work due to disabilities, poor health or caring roles.

2. Alternately, if superannuation guarantee contributions are increased above 9.5%, allow all superannuation fund members, after at least five years of saving, to withdraw a modest proportion of their superannuation balance for any purpose, within lifetime limits, before they reach the preservation age.
3. In raising the preservation age, make allowance for the lower life expectancy of Aboriginal and Torres Strait Islander peoples.

**(7) Help people to manage longevity risk and the orderly draw-down of their superannuation assets throughout retirement:**

1. Barriers to the use of life annuities and longevity insurance products should be removed.
2. Draw-down rules should be tightened.
3. Transfers from superannuation accounts to the estates of deceased fund members apart from spouses and dependent children (including children with severe disabilities) should be consistently taxed.
4. Subject to implementation of the above changes, remaining age-based restrictions on superannuation contributions should be removed.

**(8) Restrict the Senior Australian Pensioner Tax Offset (SAPTO) to those who need it:**

1. The SAPTO should be paid to pensioners only and renamed 'Pension Tax Offset', at a rate sufficient to exempt the pension together with private income within the income test 'free area' from income tax.
2. Alternately, both the SAPTO and the Beneficiary Tax Offset should be abolished and pensions and other income support payments exempted from income tax.

**(9) Mechanisms to strengthen and consolidate guarantees for universal access to essential health and aged care services should be considered, including affordable primary health care, hospital care, and aged care both at home and away from home. This could include:**

1. Legislating appropriate indexation of health funding for States and Territories (reversing the 2014 federal Budget decision to deny this), in return for legislative commitments to health care service guarantees from States and Territories.
2. Earmarking revenue from the above taxation changes (other than the revenue-neutral reforms) for this purpose.
3. Strengthening revenue for this purpose, adopting tax and revenue



recommendations from the ACOSS 2015-16 Budget Priority Statement,<sup>4</sup> and as a first step, possibly extending the Medicare Levy to tax-exempt and tax-sheltered personal income including superannuation benefits, income accruing in private trusts or companies controlled by an individual taxpayer, non-superannuation termination payments, and 'discounted' capital gains received by an individual.

**(10) Adopt a national affordable housing strategy including the following elements:**

1. Substantial new capital investment in social housing.
2. Replace tax deductions relating to negatively geared rental property investment with more efficient incentives for the construction of new, affordable housing, noting the gap left by the discontinuation of the National Rental Affordability Scheme.
3. Replace Stamp Duties on housing purchases with a broad-based Land Tax.
4. A substantial increase in Rent Assistance as proposed above.
5. Work with States and Local Government to ease constraints on the supply of affordable housing including planning rules and land release.<sup>5</sup>

---

<sup>4</sup> ACOSS (2015) *Budget Priorities Statement*.

<sup>5</sup> For more detail on our affordable housing proposals, see [http://www.acoss.org.au/wp-content/uploads/2015/06/Joint\\_housing\\_paper\\_March\\_2015\\_final.pdf](http://www.acoss.org.au/wp-content/uploads/2015/06/Joint_housing_paper_March_2015_final.pdf)



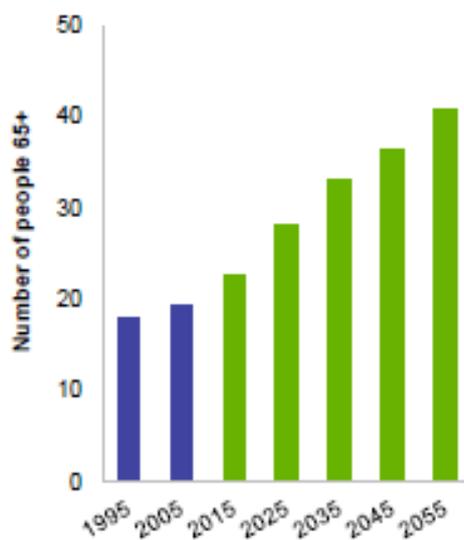
## Challenges and risks: the big picture

In order to grapple properly with what needs to be done to deliver on security in retirement for the Australian population, we need to understand the context in which the reform needs to occur. There are several key areas of challenges, and risks which need to be considered.

### Changing demographics

Over the next 40 years, the Australian population will age to the extent that there will be 40 people over 65 years for every 100 people of what we now know as 'working age' (16-64 years). All things being equal, this will put public budgets under pressure and slow the rate of growth in the economy.

Figure 1: People aged 65 and over as a % of people of working age



Productivity Commission (2015), [Superannuation policy for post-retirement](#).

### Declining home ownership

At the same time, some of the key foundations for a secure retirement are falling away.

First, *home ownership rates* are falling among new cohorts of older people. At present, 11% of Age Pension recipients rent privately.<sup>6</sup> The Australian Housing and Urban Research Institute (AHURI) warns that home ownership among older people will decline over the next decade:

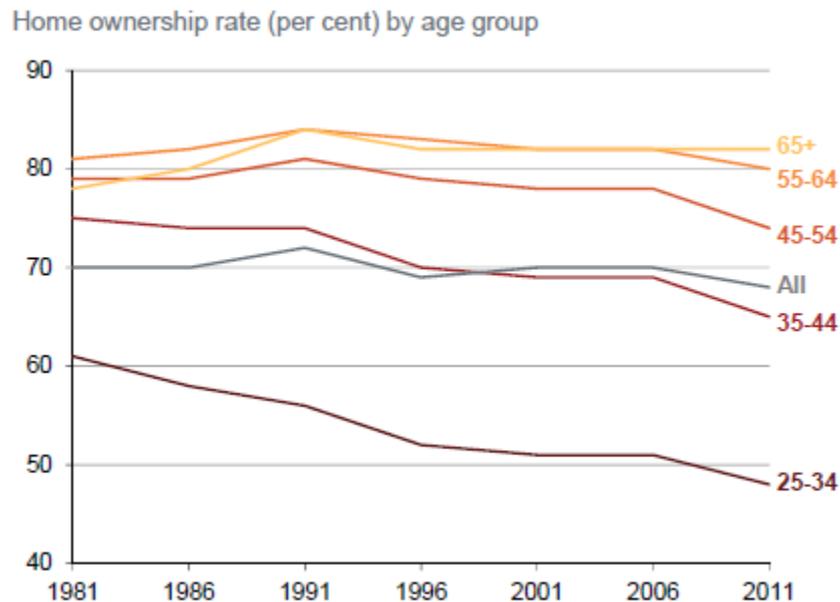
'The number of renters aged 65 or over living in low income households is projected to increase by 115 per cent from 195,000 in 2001 to 419,000 in 2026. The greatest

<sup>6</sup> FAHCSIA (2011), [Income support customers](#).



projected change is in the 85-and-over age range, where the number of low income renters is estimated to increase from 17,300 to 51,000, creating a continuing demand for affordable housing suited to older households.<sup>7</sup>

Figure 2: The decline in home ownership rates



Grattan Institute (2014), [The wealth of generations](#).

### Rising costs for governments

Second, the costs of *pensions and public support for health and aged care* will rise substantially as the population ages. In large part the rise in health costs is due to technological advances and improvements in the kinds health care interventions rather than ageing, but the lion's share of public health and aged care spending is still (appropriately) devoted to people over 65 years of age.

Health and social security expenses comprise the bulk of federal Budget expenditure for older people. The Parliamentary Budget Office (PBO) estimates that from 2012 to 2024, three major age-related expenditures will contribute one-third of all growth in federal Budget expenditure. Age Pension costs will contribute 12% of spending growth, health care costs will contribute 11%, and aged care will contribute 9%.<sup>8</sup>

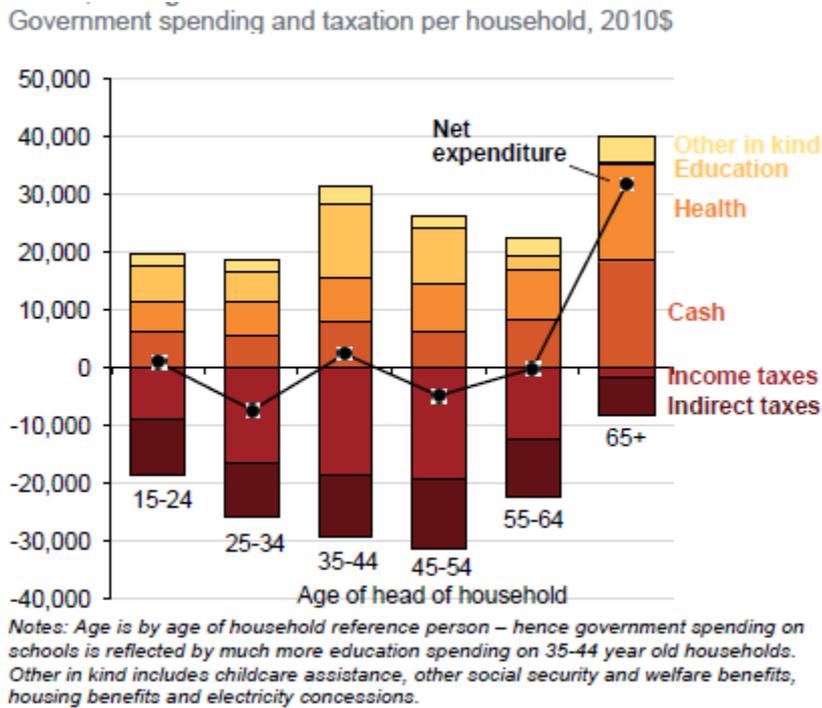
---

<sup>7</sup> AHURI (2008), [Rental housing for lower income older Australians](#).

<sup>8</sup> Parliamentary Budget Office (2014), [Drivers of growth in government spending](#). The estimate for pensions was made before the recent tightening of the assets test.



Figure 3: Commonwealth Government taxes and spending by age group



Source: Grattan Institute (2014), [The wealth of generations](#).

### A declining tax revenue base

Third, the *tax revenue base* for these expenditures is declining as the population ages. Less than one in five people over 64 years pays any income tax, and their average tax rates per household are very low, as the figure above indicates. This is partly due to their low incomes, but also increasingly due to income tax exemptions for older people, including the SAPTO and superannuation tax arrangements. The SAPTO provides an effective tax free threshold of \$32,000 for singles and \$58,000 for a couple *in addition to* any tax free superannuation payments.

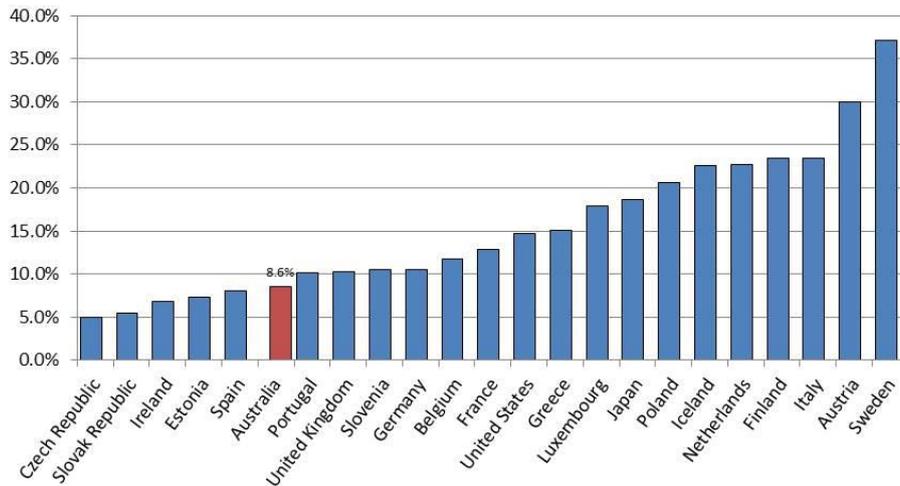
In 2008 the average income tax rate for households over 64 years was just 9% of their disposable incomes, the fifth lowest level among wealthy countries surveyed by the OECD.



Figure 4: Income tax as a proportion of household disposable income

**Direct taxes as % of mean household disposable income, households with head 65+, 2008 or nearest year**

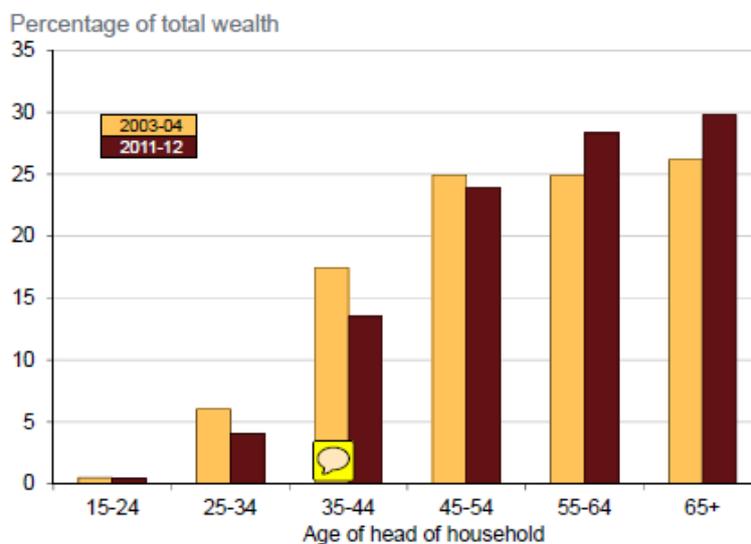
Source: Calculated from OECD Income Distribution database, <http://stats.oecd.org/Index.aspx?DataSetCode=IDD> , downloaded 2 April 2015



Source: Professor Peter Whiteford and OECD taxation statistics, April 2015

Notwithstanding the very low average income tax rates paid by households over 65 years, this cohort of the population currently holds 30% of all household wealth. As the superannuation guarantee matures, that proportion will rise.

Figure 5: Shares of household wealth held by different age groups



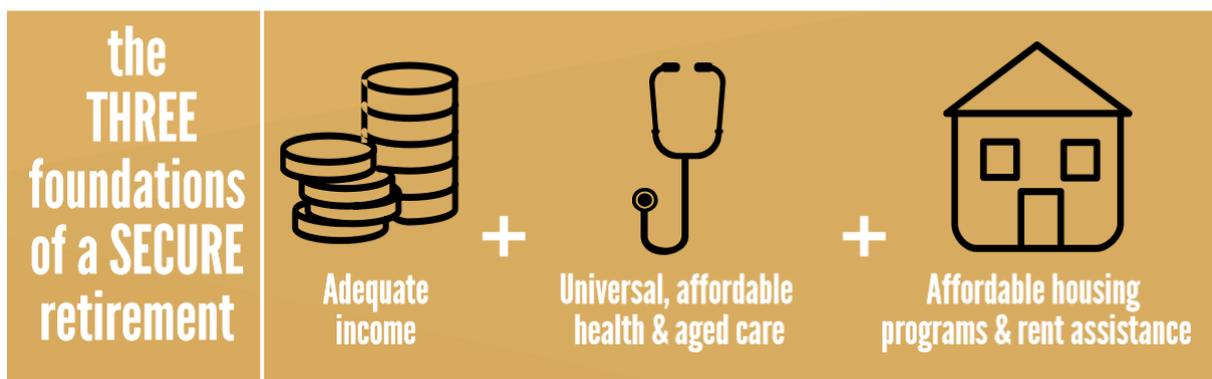
Grattan Institute (2014), [The wealth of generations](#).



## The three foundations of a secure retirement: adequate income, universal health and aged care & affordable housing

If we are to deal seriously with the risks and challenges we face as a country, we need to understand that an adequate income is a key foundation for a secure retirement but it is not the only one. In order to properly undertake a retirement income review, we need to make explicit that there are two other foundations: universal and affordable basic health and aged care services; and secure and affordable housing.

This is easy to grasp if we imagine what would happen to people's living standards and sense of security if any one of these foundations were pulled away. This is a growing concern for older people.



While this submission focuses principally on proposals to reform the retirement *income* system, it is essential that public policy addresses front and centre the other two foundations of security in retirement, health and aged care services and affordable housing. It is only by giving proper consideration to these three foundations together that we will maximise the likelihood of our retirement income system standing the test of time.



## 1. An adequate retirement income

The retirement income system itself has three pillars with different objectives:

1. *Social security payments* to provide a safety net for those older people who would otherwise live in poverty. This includes Newstart Allowance, Disability Support Pension and Carer Payment as well as the Age Pension.
2. *Compulsory superannuation* which allows people to achieve a decent living standard significantly above poverty levels (and to an extent replace their previous income), though at a cost of lower incomes throughout working life; and
3. A *superannuation tax system* to help make compulsory retirement saving financially worthwhile and encourage voluntary saving to further improve retirement living standards.

### **Income adequacy: is the object of the system clear?**

The objective of *social security payments* including the Age Pension is reasonably straight forward: to *prevent poverty*. It follows that maximum rates of payment should be adequate to keep at least those with the lowest housing costs (home owners) out of poverty.<sup>9</sup> Consistent with Australian social policy tradition, income support payments such as the Age Pension should be targeted towards people *at risk* of poverty. The pension is an income support payment for those who need it, not a minimum 'floor' for retirement incomes generally.

As the Financial System Inquiry pointed out, the goals of the *superannuation* system, and public support for it, are not clear.<sup>10</sup> The main goal of superannuation (including compulsory saving and tax concessions) should be to assist people to smooth their incomes across life in order to achieve an acceptable retirement income significantly above poverty levels. The superannuation guarantee is a form of compulsory insurance. In the long term it is mainly paid for, not by employers but by wage earners through foregone pay increases. The purpose of superannuation tax concessions is to facilitate compulsory saving for retirement and encourage people to save voluntarily, so as to achieve an acceptable retirement income.

The definition of income adequacy in this case is less clear than for social security purposes since it implicitly combines elements of a (flat rate) 'minimum acceptable income' and (proportionate) 'minimum income replacement rate'. Since the pension provides a safety net for people on low incomes, their income replacement rates in retirement are likely to be much higher than those of high income earners. On the other hand, typical retirement incomes for high income earners are much higher than what most people would regard as an acceptable 'minimum income' above poverty levels.

Therefore, to assess the adequacy of retirement incomes for superannuation purposes, we

---

<sup>9</sup> Affordable housing subsidies such as Rent Assistance should 'top up' income support for those with higher housing costs.

<sup>10</sup> Financial System Inquiry (2014), [Report](#).



need to use two lenses. We begin by examining appropriate targets for income replacement and then turn to the idea of a 'minimum adequate retirement income'.

### Income replacement

Setting targets for income replacement in retirement is an arbitrary exercise to a large extent. It is not obvious why a 70% replacement rate is more appropriate for this purpose than 60%, and how the 'benchmark' income on which this replacement rate is based should be defined.

A second problem in setting income replacement targets for retirement is that major fixed expenses vary substantially across life, especially the costs of children and housing. These costs are much lower for typical retirees. Any measure of income replacement in retirement should take this into account.

It makes no sense to require people to save (reduce current consumption) for their retirement if their current living standards are lower than their expected living standard after they retire. Given higher housing and child related costs during working life, and the availability of the pension safety net after retirement, the risk that compulsory superannuation will 'overshoot' in this way is greatest for people with low lifetime incomes.

Research by the National Centre for Social and Economic Modelling (NATSEM), published by CPA Australia shed some light on the trade-offs between income adequacy during working life and in retirement. This was one of the few studies of income replacement in retirement to properly take account of the impact of child and housing costs, as well as differences in lifetime income levels. It found that in typical cases the then superannuation guarantee (set at 9% of wages throughout working life), together with the Age Pension, yielded an average living standard throughout retirement ranging from:

- 90% of that of a single *low income* earner of working age with no children to 130% for a low income couple with two children;<sup>11</sup>
- 75% of that of single *middle income* earner of working age with no children to 120% for a middle income couple with two children.

These estimates demonstrate the importance of the costs of children for income smoothing across the life course. They suggest that for families with children the superannuation guarantee risks 'overshooting', especially for those on low incomes, though this range of income replacement rates is so wide that it is hard to draw clear conclusions for retirement incomes targets.

---

<sup>11</sup> CPA Australia (2007), 'Superannuation, the right balance?' This is one of the few studies to properly take account of the impact of child and housing costs, as well as variations in lifetime income levels, when comparing pre and post-retirement living standards. These findings illustrate the challenges facing policy makers in setting benchmarks for compulsory saving for retirement. Note that the estimates are based on a 'mature' superannuation guarantee (in the simulations people commenced employment at a time when the superannuation guarantee was already set at 9%).



### A minimum adequate retirement income:

An alternative approach to setting retirement income targets for both compulsory and voluntary saving supported by tax concessions is to set benchmark 'minimum living standards' above poverty levels for different types of retired households. This is a better way to set a 'ceiling' for the value of tax concessions for superannuation, since few would support taxpayer subsidies for people to achieve a living standard which is considered 'luxurious'.

The challenge here is that once retirement incomes are sufficient to cover the essentials of life (above poverty levels), household consumption is more discretionary, and it is harder to distinguish between a 'decent' and 'luxurious' living standard.

Researchers have developed two 'minimum income budgets' that are set significantly above poverty levels, by constructing budgets for different household types including single and couple retirees who are in good health and own their home. The first is the 'Modest but Adequate' living standard developed by the Social Policy Research Centre (SPRC). This was intended to represent a 'basic' living standard significantly above poverty levels.

The Association of Superannuation Funds of Australia (ASFA) has derived from this its own 'modest' retirement income standard which it describes as Budget for 'basic' activities for retired home owners in good health.

Table 1: Pensions compared with ASFA budgets (\$ per week, March 2015).

	Single home-owner	Couple home owners
Age Pension	\$420 (\$22,000 p.a.)	\$681 (\$35,000 p.a.)
ASFA 'modest Budget'	\$449 (\$23,000 p.a.)	\$648 (\$34,000 p.a.)
ASFA 'comfortable Budget'	\$816 (\$43,000 p.a.)	\$1,121 (\$58,000p.a.)

Sources: ASFA retirement standard, detailed Budget breakdowns, March 2015. Centrelink, Guide to Australian government payments, March 2015.

Note: Median disposable income estimates are not directly comparable with the other data presented here as they are for 2012, and not adjusted for housing costs.

As table 1 shows, following the substantial increase in pensions in 2009, the maximum pension rates are close to, or greater than the ASFA modest standard. While that standard may be appropriate for setting pension rates, it is arguably too low for superannuation purposes.

ASFA also developed a higher Budget standard which is calls a 'comfortable' living standard. This is often used in the superannuation industry as a 'target retirement income'. For example, Industry Superannuation Australia (ISA) recently used the 'comfortable' standard to assess the adequacy of superannuation for future generations of retirees.<sup>12</sup> This research

<sup>12</sup> ISA (2015), [Submission to Senate Community Affairs Committee inquiry into inquiry into the Social Services](#)



found that the Age Pension, together with a superannuation guarantee set at 9.5%, would not be sufficient for most households to achieve the 'comfortable' standard, even when the superannuation system matures in 40 years' time.

The ASFA 'comfortable standard' allows retirees to participate in a 'broad range of leisure and recreational activities', have regular restaurant meals, and to afford 'private health insurance, a reasonable car, and domestic and occasionally international holiday travel.'<sup>13</sup>

Budgets such as these provide useful guidance when setting benchmarks for income adequacy since they reveal what a given after-tax income would buy. The main drawback is that arbitrary judgements must be made as which items are needed to achieve an adequate standard of living.

A 'reality-test' that would bring more rigour into the setting of retirement income targets is to benchmark them against the living standard of households in 'middle Australia': those in the middle of the distribution of household living standards regardless of age. This is based on the idea that public support for retirement saving (through the Age Pension together with the superannuation guarantee and tax concessions) should, at most, support a 'middle' living standard. Otherwise, taxpayers would be required to subsidise a higher living standard in retirement than most have themselves.

A more logical starting point for measuring this 'middle income benchmark' may be median household disposable income. As discussed previously, adjustments should be made for the size of different households (whether single or couple, with or without children) and housing costs.

The leisure activities included in the comfortable standard (such as overseas holidays) suggest that it sits above the living standard of 'middle Australia'. It is currently pitched towards the living standards of high income earners rather than 'middle Australia'. If the superannuation guarantee and tax concessions were adjusted to enable most households to reach this standard, there is a risk that they would 'overshoot', at the expense of lower pre-retirement living standards and/or higher taxes or fewer services for people on modest incomes.

An adequate retirement income target for superannuation purposes could sit somewhere between the 'modest' and 'comfortable' standards.

Setting the appropriate income target for superannuation purposes is a core task yet to be undertaken through a sound public review of the retirement income system. Resolving this question is essential before designing the major structural changes required, which might then deliver greater stability and certainty for the system in the future.

---

[Legislation Amendment \(Fair and Sustainable Pensions\) Bill 2015](#)

<sup>13</sup> ASFA (2015), [ASFA retirement standard](#).



## Would higher paid workforce participation help?

Higher paid workforce participation among older people could significantly offset some of the risks we face, and substantially improve retirement incomes.

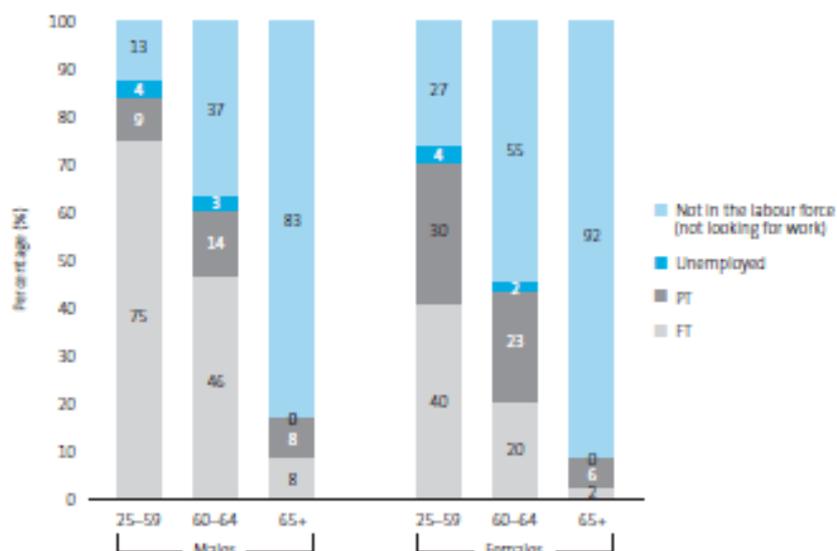
Retiring later, for example by continuing in full-time employment for longer and then transitioning into part-time jobs, has a greater impact on post-retirement incomes than raising the superannuation guarantee or increasing tax concessions for superannuation because the impact is two-sided: later retirement boosts savings and also reduces the period over which those savings are drawn down.

For example, NATSEM estimated that an immediate rise in the preservation age from 55 to 60 years in 2009 (instead of the gradual increase currently legislated) would have increased the private incomes of people retiring twenty years later by 30%, though their pension entitlements would be reduced.<sup>14</sup>

If overall workforce participation levels were maintained – rather than declining as the population ages – this would also strengthen economic growth and public budgets. The PBO estimates that if the overall labour force participation rate increased by 0.8 percentage points above the 2014–15 Budget assumption of 64.7 per cent in 2024–25, the projected underlying Commonwealth cash balance in 2024–25 would rise by 0.3 per cent of GDP.<sup>15</sup>

Currently, paid labour force participation drops away sharply by the age of 60, especially among women. A majority of women over 60 and men over 65 is no longer in the paid workforce.

Figure 6: Labour force status of older people (2014)



Source: AMP-NATSEM (2014), [Going the distance, working longer, living healthier](#)

<sup>14</sup> Harding et al (2009), [Population Ageing and Government Age Pension Outlays](#), NATSEM.

<sup>15</sup> Parliamentary Budget Office (2014), [The sensitivity of budget projections to changes in economic parameters](#).



As the health of each new cohort of mature age workers improves, and as each new cohort of mothers returns to paid employment more quickly after giving birth, there is much scope to raise paid workforce participation among people aged 55 to 65, especially women.

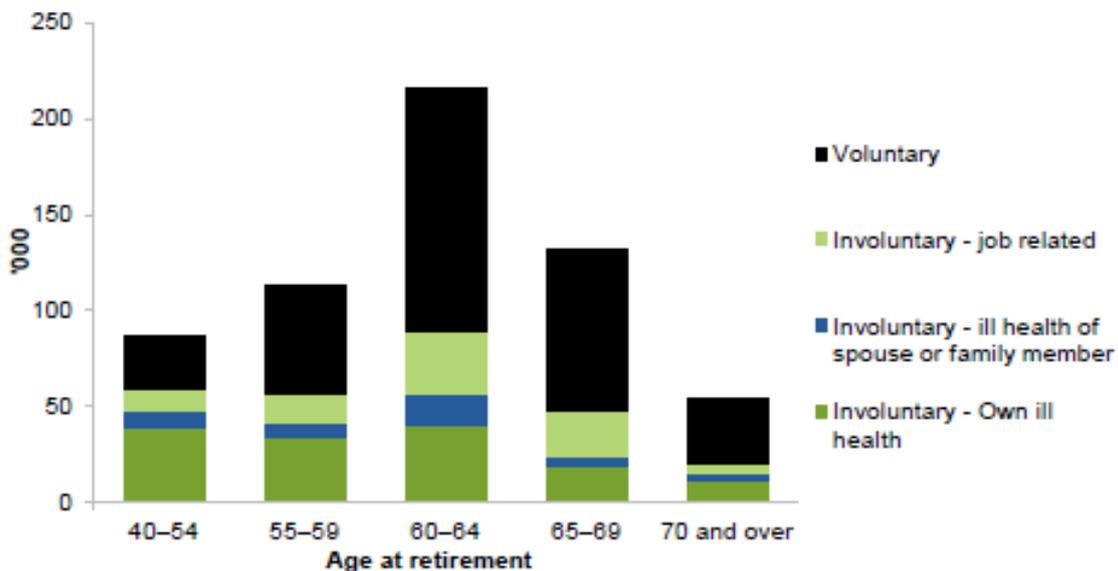
### Barriers to participation

The main barrier to higher workforce participation among older people is that the labour market has not adapted to the ageing of the workforce. Age discrimination is rife. Neither employers nor mature age workers invest sufficiently in updating their skills. Older workers and their employers have not adapted well to structural changes in the labour market, especially the decline of manual jobs.

One-third of 45 to 65 year old unemployed people in 2012 gave as their main reason for unemployment either that they were considered 'too old', or an illness or disability.<sup>16</sup>

These barriers to employment are neatly summarised in a recent Productivity Commission report on the retirement phase of superannuation<sup>17</sup>. The report found that just under half of people who retired between the ages of 45 and 70 did so involuntarily (though fewer people retire in their 40s and the proportion of involuntary retirees falls at higher ages). The main reasons were illness, disability, caring roles and retrenchment.

Figure 7: Reasons for retirement, by age (2013)



Productivity Commission (2015), [Superannuation policy for post-retirement](#).

<sup>16</sup> NATSEM (2013) [Unemployment underemployment and job search among baby boomers](#).

<sup>17</sup> Productivity Commission (2015) [Superannuation policy for post-retirement](#)



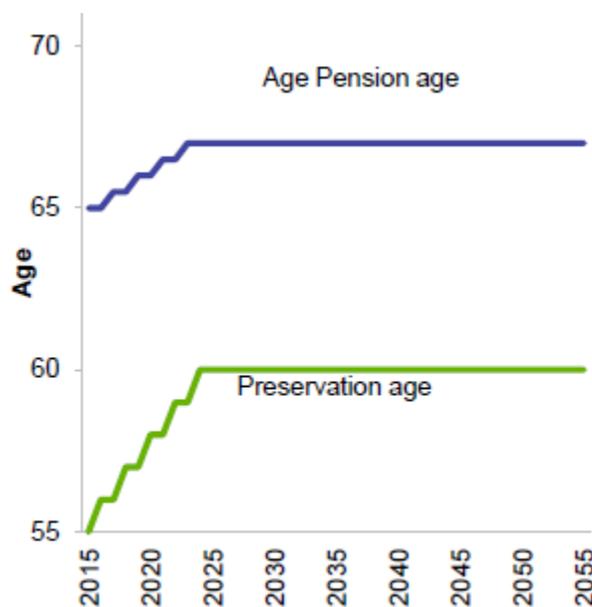
This suggests that the level of employment among mature age workers will depend on the availability and quality of career development, training and employment services, health and rehabilitation services and closer links between them. Above all, it requires the labour market to accept and welcome mature age workers. Anti-discrimination laws and demand-led employment services that interact as closely with employers as they do with people looking for paid work can assist here.<sup>18</sup>

Other key groups in society are particularly at risk of broken patterns of paid work, or of facing specific barriers to improved workforce participation, including women and others with family and caring responsibilities, people with disabilities, people from culturally and linguistically diverse backgrounds, and Aboriginal and Torres Strait Islander people. Barriers including the costs and accessibility of care, lack of suitable part-time and flexible work opportunities, training and skills and support services, and discrimination.

### The role of superannuation preservation and pension ages

The pension and superannuation systems also play a key role in signalling to workers and employers when it is 'time to retire'. The preservation age for superannuation benefits (55 years, gradually rising to 60) and the Age Pension age (65 years, gradually rising to 67) are key retirement markers.

Figure 8: Current Age Pension and preservation ages



Productivity Commission (2015), [Superannuation policy for post-retirement](#).

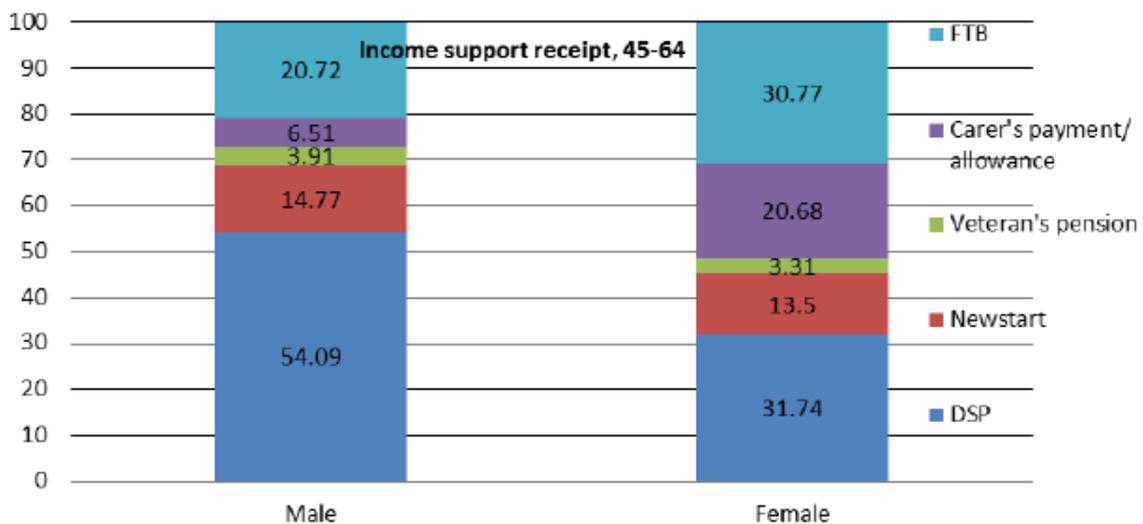
These affect two different groups of mature age workers in different ways. Raising the Age Pension age mainly affects those who already receive relatively low incomes, in many cases another social security payment. Currently, one-quarter of people aged 45 to 65 years

<sup>18</sup> Australian Law Reform Commission (2012), 'Gray areas,' Age barriers to work in Commonwealth law.



receives a social security payment, mainly Disability Support Pension, Carer Payment or Newstart Allowance.<sup>19</sup>

Figure 9: Distribution of 45-65 year olds receiving social security, by payment type (2013)



Source: ABS Survey of Income and Housing 2009-10

NATSEM (2013) [Unemployment underemployment and job search among baby boomers.](#)

Note: Overall, approximately one-quarter of people in this age bracket received one or more of these payments.

This first group of lower-income workers are more likely to retire involuntarily. The impact of a higher pension age on their retirement decisions will be limited. However, a higher pension age will have an impact on their incomes. Unless they qualify for another pension payment many will have to rely on the grossly inadequate Newstart Allowance, which is \$170 per week less than the pension for a single adult. For these reasons, ACOSS does not support a further rise in the pension age until policies are in place to improve the job prospects of mature age workers, and the level of the Newstart Allowance is increased to address the gap with pension payments.

A higher preservation age would have the greatest impact on a different group of mature age workers with higher incomes and larger superannuation balances. Since they are on average healthier and higher-skilled, they have more choice over the timing of their retirement. The Productivity Commission estimates that if the preservation age were further raised from 60 to 65 years by 2043, this would increase workforce participation by 2055 by around two percentage points. They estimate that it would save the federal Budget \$7 billion a year in

<sup>19</sup> NATSEM (2013) [Unemployment, underemployment and job search among baby boomers.](#)



current values (\$5 billion in higher tax receipts and \$2 billion in social security savings), and that most of this would be borne by the wealthiest quartile (25%) of mature age workers.

Figure 10: Increasing the preservation age from 60 to 65 years by 2043:  
Where the fiscal savings would come from in 2055



Productivity Commission (2015), [Superannuation policy for post-retirement](#).

The ten-year gap between the preservation age and pension age is hard to justify. Both the Age Pension and superannuation are supposed to provide income support in retirement, yet the 'retirement ages' in these two systems are different. As discussed, this difference benefits higher income earners who have more choice over the timing of their retirement. It disadvantages people who have the least, as long as the Newstart Allowance is much lower than the pension.

For these reasons, ACOSS has advocated a gradual increase in the preservation age to equal the pension age, which will rise to 67 years in a decade's time.

A significant minority of low income workers would be disadvantaged by a higher preservation age if they were not exempted from this change. While their typical superannuation balances are low, they are more likely to need access to superannuation before they reach 67 years. These groups include:

- people with disabilities;
- people caring for family members with disabilities;
- Aboriginal and Torres Strait Islander people, whose life expectancy is much lower than the general population; and
- people facing severe financial hardship.

Exemptions for these groups should be carefully considered. Ideally, these decisions would



be made by a single national authority (such as by Centrelink) rather than big individual superannuation funds, according to clear national guidelines to ensure fairness and consistency in decision-making. Applicants for early access to superannuation should have appeal rights. The present system for early access to superannuation on hardship or compassionate grounds is unfair and inconsistent, and should be reformed as part of this process.

An alternative to extending 'exemptions' to the preservation age for some of these purposes could be to allow all superannuation fund members access to a fixed share of their pre-retirement superannuation assets up to a modest cap, for any purpose, once they have saved in superannuation for at least five years. This would give people more scope to make their own decisions on 'income smoothing' across their lives to deal with contingencies such as the costs of children, home purchase, further education and career change, illness or disability, and marital separation. These decisions would involve a trade-off. People who take advantage of early access to part of their savings earlier in life would have lower superannuation account balances and less access to them later in their working lives.

### **Financial incentives**

The pension income test and tax settings may also influence retirement decisions, though not necessarily in the way that supporters of more liberal income tests and lower tax rates for older people believe. Such policies have two effects which work in opposite directions:

- They may boost workforce participation because people would keep a higher share of their earnings (the substitution effect); or
- They may encourage earlier retirement because people can reach their retirement income target sooner (the 'income effect').

Research by the Melbourne Institute suggests that, in the case of policies such as tax offsets for older workers that increase the after-tax incomes of mature age workers, these two effects cancel each other out. In that case, these policies would increase costs for government without yielding a commensurate improvement in paid workforce participation.<sup>20</sup>

Both the Melbourne Institute research and the above-mentioned Productivity Commission report also conclude that another policy intended to boost workforce participation among mature age workers, the 'transition to retirement' scheme introduced in 2004, is not achieving that goal. The 'transition to retirement' scheme allows workers aged 55 to 65 years to continue in employment while drawing a superannuation pension and enjoying the tax benefits of superannuation in the 'pension phase' which include the non-taxation of fund earnings and benefits. Its purpose was to facilitate a gradual transition from full-time to part-time employment followed by retirement, thereby delaying retirement. The Productivity Commission concluded that:

---

<sup>20</sup> Headey et al (2010), [\*Dynamics of Mature Age Workforce Participation: Policy Effects and Continuing Trends\*](#), Melbourne Institute.



'of the estimated 5 per cent of eligible Australians (workers between the ages of 55 to 65) who received transition to retirement pensions in 2011-12, the majority were working full-time and were relatively wealthy. This is borne out, too, in SMSF data, which show that around half of eligible SMSF users were using transition to retirement pensions at some point in 2013. This suggests that incentives relating to taxation may have been a more relevant consideration than reducing working hours in the lead-up to retirement.'<sup>21</sup>

An increase in the preservation age, with adequate protections for people who have little choice but to retire early, would be a fairer and more effective way to encourage people aged 55 to 67 years to retire from paid work later. Unlike the transition to retirement scheme, a more liberal pension income test, or special tax offsets for mature age workers, it would improve rather than weaken the federal Budget balance (as outlined later).

### **Is the system equitable?**

The retirement incomes system should protect people from the risk of poverty in retirement and old age, assist them to save in order to achieve a decent retirement income well above poverty levels, and it would do so in an equitable and fiscally sustainable way.

A combination of social security payments, compulsory superannuation, and tax support for compulsory and voluntary saving is needed to achieve these goals.

Now that pensions have been increased, proposals to abandon indexation of pensions to wage movements have been withdrawn, and income and assets tests have been tightened, the pension is reasonably well designed to prevent poverty in retirement at a sustainable cost to government. The main weakness of the social security system for older people and people of working age generally is the very low level of Allowance payments such as Newstart Allowance.

Beyond poverty alleviation, there is a lack of clarity about the overall purpose of the retirement incomes system, particularly superannuation and the associated tax concessions. The Financial System Inquiry has proposed a legislated objective for public support for superannuation.<sup>22</sup> We agree this should focus on improving the adequacy of retirement incomes, but as discussed there still a lack of clarity over the income level that should be targeted by public support for superannuation.

As ACOSS has argued now for two decades, the inequity and fiscal cost of tax concessions for superannuation is the main weakness in the overall retirement incomes system. This is increasingly recognised by policy experts, unions and business, and the superannuation industry.

The figure below shows the combined distributional impact of pensions and superannuation

---

<sup>21</sup> Productivity Commission (2015), [Superannuation policy for post-retirement](#), p39.

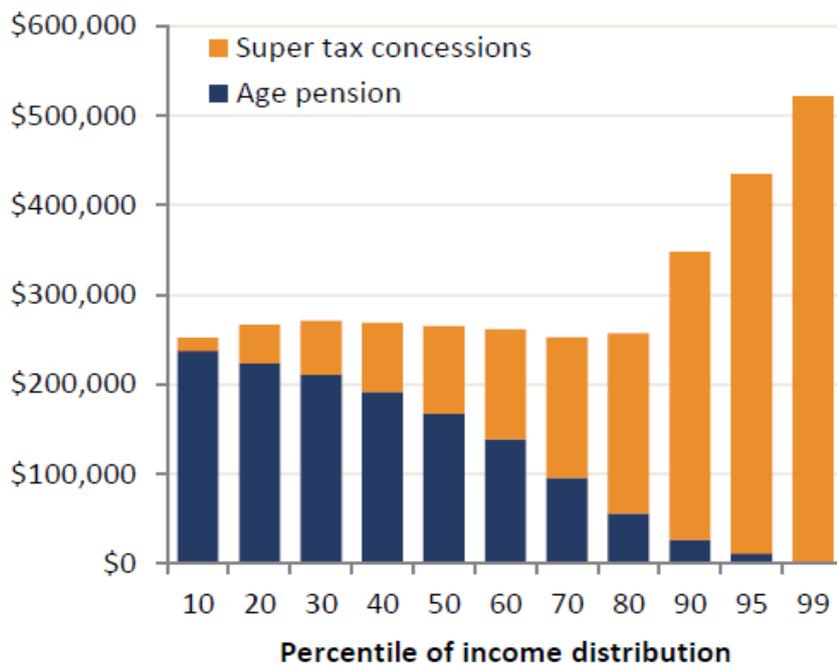
<sup>22</sup> Financial System Inquiry (2014), [Final report](#).



tax concessions in 2012. The combined impact is broadly proportional across the distribution except for the top 10%, who receive on average much more public support for their retirement incomes than the remaining 90% of the population. This cannot be justified on equity or efficiency grounds.

Public support for retirement incomes could still not be described as 'fair' if average benefits received were equal across the income distribution. Consistent with Australian public policy tradition, there is a strong case for higher public support for those who are otherwise unable to avoid poverty in retirement. Simply 'capping' public support for people with very high incomes will not make an inherently unfair system equitable.

Figure 11: Public support for retirement incomes by income level



Source: Treasury 2012, '[Distributional Analysis of Superannuation Tax Concessions](#)', Paper to the Superannuation Roundtable. Figures pertain to percentiles of the male income distribution.

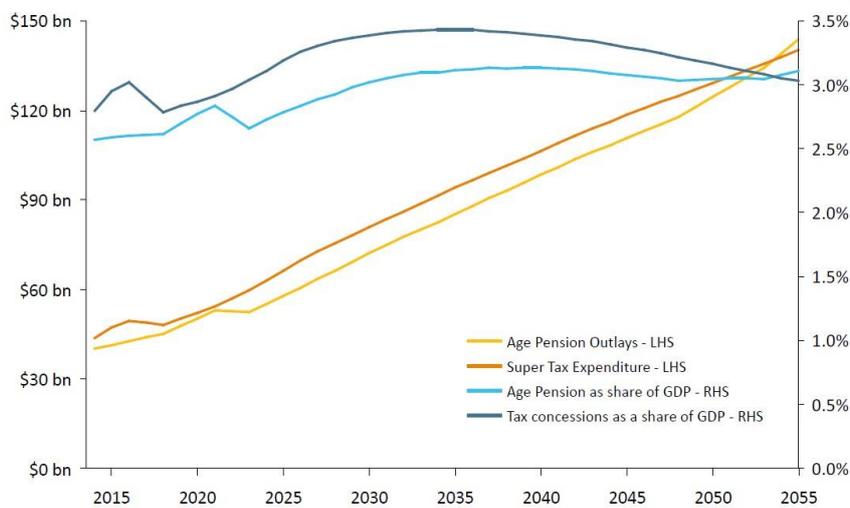
As discussed below, there are also serious inequities in retirement incomes between men and women. While the social security system works to reduce income inequality between men and women in retirement, the superannuation system helps entrench it because superannuation balances reflect past wages, which are unequally distributed between men and women, and the tax concessions favour people on relatively high incomes, most of whom are men.



## Is the system fiscally sustainable?

Since the assets test for the Age Pension was tightened recently, social security support for retired people is now on a more sustainable footing. However, the cost of tax concessions for superannuation is projected to exceed that of the Age Pension within a few years and is likely to continue to do so for the foreseeable future. If the main purpose of public support for superannuation was to ease future financial pressures on governments by lowering the cost of pensions, it has failed to achieve that goal.

Figure 12: Future costs of Age Pensions and superannuation tax concessions

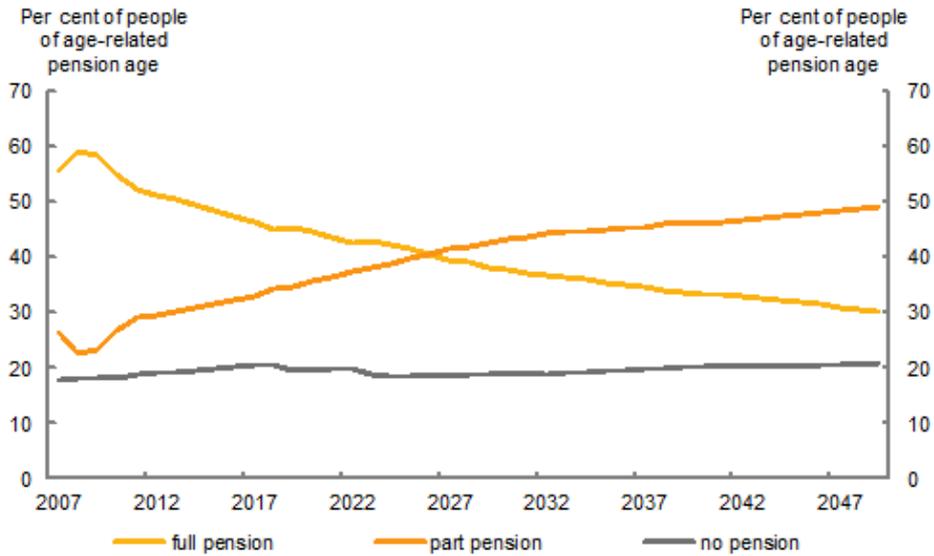


ISA (2015), 'Off target,' submission to the government's tax review.

Superannuation will not 'replace' the Age Pension as the superannuation guarantee matures, nor was it intended to. Rather, the goal was to increase retirement incomes for the majority of people through a *combination* of superannuation and part-pensions.



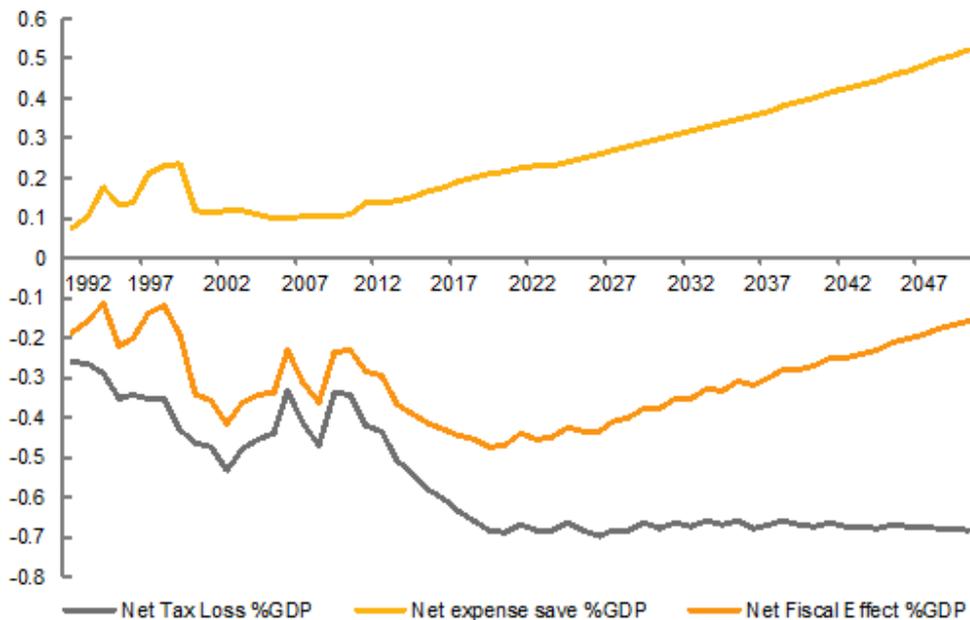
Figure 13: Proportion of older people eligible for pensions in future



Superannuation Charter Group (2013), *A super charter*, report to the Treasurer and Assistant Treasurer.

For the reasons discussed above, the superannuation guarantee will not reduce the overall cost of income support for older people through the federal Budget, at least in the foreseeable future. This was also known when the superannuation guarantee was legislated.

Figure 14: Fiscal impact of the superannuation guarantee



Superannuation Charter Group (2013), *A super charter*, report to the Treasurer & Assistant Treasurer.



The other main age-based tax concession is the SAPTO. This was originally restricted to pensioners, and its purpose was to exempt the pension together with the income test 'free area' from income tax. Since it was expanded to taxpayers who were too wealthy to receive a pension, its objective is unclear. As discussed previously, a tax rebate such as this one is unlikely to increase paid workforce participation among older people, and may reduce it by assisting people to reach their income target sooner. The Australia's Future Tax System (AFTS or 'Henry' Review) of the tax-transfer system recommended replacing this and other tax offsets for social security recipients with an exemption from tax for income support payments.

The SAPTO provides an effective tax free threshold of \$32,000 for singles and \$58,000 for a couple *in addition to* any tax free superannuation payments. This is 50% higher than the effective tax free thresholds for people of working age: \$21,000 for singles and \$41,000 for couples. Together with the tax free status of superannuation fund earnings in the pension phase and most superannuation benefits, this is a major reason that less than one in five people over 65 years pays any income tax.

Tax concessions for retirees that are solely based on age cannot be justified. Either the SAPTO should be replaced by a Pensioners Tax Offset restricted to pension recipients that exempts the pension and income within the 'free area' from tax, or pensions and allowances should be exempted from income tax and the SAPTO should be abolished.

## **Directions for reform**

There are several key elements of the retirement income system that require reform if we are to deliver on a minimum adequate income for people in retirement, and protect people from poverty, and to do so in a way that is both equitable and fiscally sustainable.

### **Social security payments**

Social security payments will remain a vital safety net for the majority of people in later life well into the 21st century, but their role is to prevent poverty, not to provide everyone with a universal 'floor' for their retirement income.

### **Adequacy**

The current maximum pension rate is reasonably effective in preventing poverty, provided the other foundations of a secure retirement are in place (affordable housing and universal health and aged care) and as long as it is appropriately indexed. ACOSS rejected the 2014 Budget proposal to index pensions to movements in the Consumer Price Index (CPI) only, which would have reduced the future value of pensions by \$80 a week in a decade's time. All income support payments for those on the lowest incomes, including Allowance payments and family payments, should grow in line with movements in wider community living standards, that is, both wages and consumer prices. The current wages benchmark used for pension indexation, Male Total Average Weekly Earnings (MTAWE), should be reviewed. There is a case for indexing income support payments to median rather than average wages (since



the median better represents 'middle income' living standards) and all full-time wages rather than male wages only.

The cost of the Age Pension is modest by OECD standards, though it is rising as the population ages.

The main gaps in the social security safety net for older people lie elsewhere.

The most important is the grossly inadequate level of Allowance payments for single people, including Newstart Allowance. A growing proportion of Newstart recipients is aged over 50 years, as other payments are 'closed off' for that cohort (including Disability Support Pension). The maximum rate of Newstart Allowance is \$37 a day, or \$170 a week less than the pension. People with the same living costs receive vastly different levels of income support without good reason.<sup>23</sup>

The second major gap in the safety net is the inadequate level of Rent Assistance for those income support recipients who rent privately. The maximum rate of Rent Assistance is \$64 a week, well below typical rent levels in virtually all of our capital cities, and it is only indexed to the CPI, not movements in rent levels. An improvement in Rent Assistance is vital for the 11% of recipients of Age Pensions (and the much higher proportion of Newstart recipients) who rent privately. It is this group of Age Pension recipients that faces the highest risk of financial hardship.

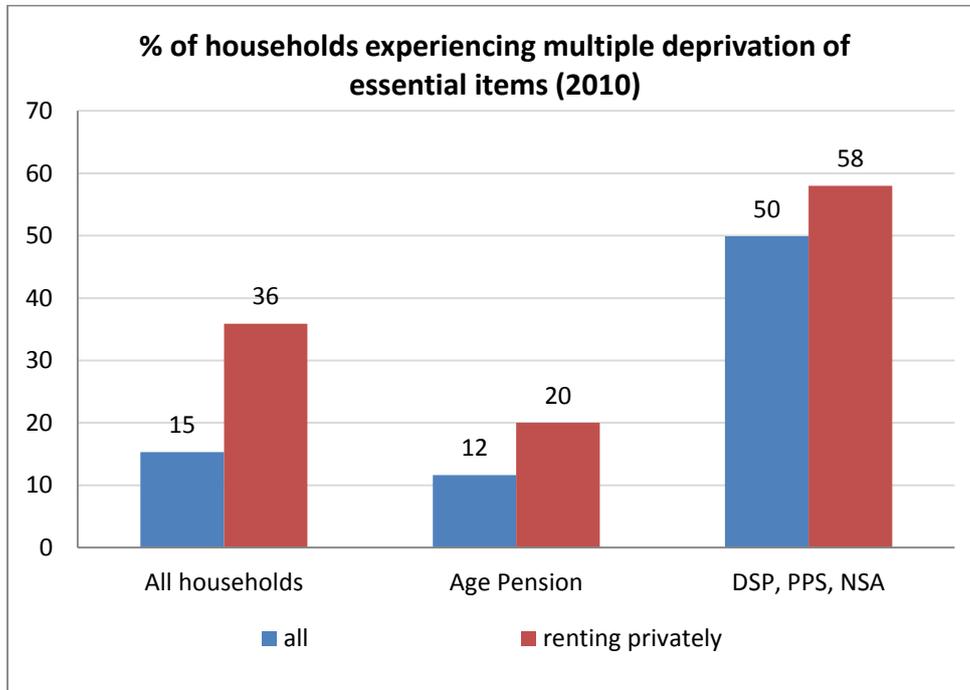
The proportion of recipients of Age Pensions who experience 'multiple deprivation' of essential items is almost twice as high among those renting privately as those in other tenures (figure 1). Similarly, 32% of pension recipients who rent privately identify as 'poor' compared with 18% of all pensioners. The risk of deprivation is higher for those in private rental relying on the Newstart Allowance or Disability Support Pension (58% of who experience multiple deprivation). The high risk of poverty among private tenants was confirmed by the 'Harmer Review' of pension adequacy in 2009.<sup>24</sup>

---

<sup>23</sup> ACOSS (2012), [Surviving not living](#), submission to Senate inquiry into the adequacy of Newstart Allowance.

<sup>24</sup> Harmer J (2009), [Pension Review Report](#), FaHCSIA.

Figure 15: Deprivation among different households



Source: ACOSS (2012), [‘Who is missing out?’](#) ACOSS Paper 187

Improvements in Allowance payments and Rent Assistance must extend to all recipients of those payments regardless of age. It is inequitable to pay one group of income support recipients more or less than others based purely on their age. A reduction in the gap between pension and Allowance payments is also needed to make room for wider reform of working age social security payments.<sup>25</sup>

### Targeting

In the 1990s, means tests for pensions struck a sensible balance between two competing goals: cost-effective poverty alleviation and work and investment incentives. Age and Veteran’s pensions excluded only the top 25% or so of retirees, who arguably had enough income or other resources to support themselves in retirement. However, during the long economic boom when public revenues were growing strongly the income test was eased (in 2000), followed by the asset test (in 2007). Both changes went too far and have now been reversed.

As discussed elsewhere the effect of income tests on paid work incentives is unclear. The current 50% taper rate (but not the more stringent ‘Allowance’ income test) strikes a

<sup>25</sup> ACOSS (2014), [Submission to the Government’s Welfare Review](#).



reasonable balance. The pension income test is reasonably well designed to facilitate phased retirement through part-time and short-term employment.

From a public policy standpoint, incentives to save are a lower priority in the 'decumulation' (retirement) phase of superannuation than the accumulation phase (during which superannuation assets and income are exempt from social security means tests). An important public policy objective at that stage is to encourage retirees to progressively draw-down their savings and reduce reliance on the pension.

The recent tightening of the pension assets test was supported by ACOSS on the grounds that it broadly restores the stricter pre-2007 arrangements. While, in the future, this will be the part-pension for some middle income earners as well as wealthier retirees, the reason for this is that the financial resources available to middle income earners will increase substantially as the superannuation guarantee matures. It follows that they will have less need to rely on a pension to avoid poverty, which is the objective of all income support payments.<sup>26</sup> The change will not affect the top 20% or so of wage earners because they did not receive a pension under the previous rules. They do, however, receive half the overall value of superannuation tax concessions, and this glaring inequity should be resolved by paring them back for people on high incomes, as discussed below.

While the tightening of the income and assets tests in recent years improves the targeting of the pension, problems remain with means testing.

One issue is that the exemption of the principal residence from the assets test compromises the equity of the pension, since people with substantial wealth tied up in their homes may receive a higher pension than those who are less wealthy overall. A major challenge for policy in this area is how to combine housing security with fair targeting of income support. To date, the policy response to this problem has been to offer non-home owners a higher assets test free area to partly compensate them for the disparity in asset test treatment of the principal residence and other assets.

A second issue with means testing is the 'sudden death' assets test that applies to Allowance payments and Parenting Payment Single. This means that an additional \$1,000 worth of assets can remove all entitlements to income support, which is inequitable. Solving this problem by 'tapering' the assets test for these payments would not be costly to the Budget, since few recipients of these payments have substantial assets apart from their homes.

Complexity in means testing remains a problem. For example, 'own-use' assets such as cars and furniture are included in the assets test. One option to simplify the system would be to exclude those assets up to a cap and reduce the overall assets test 'free areas' accordingly to maintain the target-efficiency of the assets test.

Another source of complexity and inconsistency is the use of separate income and assets tests. Previously, these were combined into a single 'means test'. It would be feasible to do

---

<sup>26</sup> ACOSS (2015) [Submission into the Fair and Sustainable Pensions Bill 2015](#).



so again by extending the 'deemed income' provisions that already apply within the income test. If this were pursued, the reform should be broadly 'target neutral'. Ideally, for the reasons outlined above, the taper rate for investment income should be higher (stricter) than for earned income.

## **Superannuation and associated tax concessions**

Compulsory superannuation is a form of forced saving to lift retirement incomes significantly above poverty levels. This is backed by tax concessions that have two objectives: to compensate for forced saving and to encourage voluntary saving to raise overall retirement incomes to an acceptable level.

As discussed previously, we support compulsory saving provided low income households are not forced to forego income at stages of life when they need it more. That is, people should not be required to save for a retirement living standard higher than that which they have throughout working life, taking account of housing costs and the costs of children.

The fundamental weakness of the superannuation system is that superannuation was expanded across the workforce without properly reforming the related tax concessions, which still privilege higher income earners. Had this been done as ACOSS proposed when the superannuation guarantee was introduced 20 years ago, much of the controversy and policy uncertainty that has bedevilled superannuation since then could have been avoided.

A related problem is that too little public policy attention has been paid to management of the de-cumulation (draw-down) phase after retirement.

### **The basis for taxation of superannuation**

Income that is saved over the long term should be taxed differently to other income such as wages, since it is 'locked up' for long periods during which the value of each dollar of savings declines, compared with that of a dollar that is spent today. A 'pure' income tax would at least take account of the erosion of the 'real value' of savings through price inflation, as our tax system once did when capital gains were more sensibly taxed.

The present tax treatment of superannuation aims to broadly achieve this by taxing contributions from pre-tax income (employer contributions) at the low flat rate of 15%, as well as fund earnings in the 'accumulation phase' (before a pension is paid out of the account). With dividend imputation credits, the effective tax rate of fund earnings in the accumulation stage is approximately half that level (7.5%). Since 2007, most superannuation benefits (whether paid as a lump sum or pension) are tax free.

Thus the current tax treatment of superannuation is a form of 'concessional income taxation', similar to the tax treatment of bank accounts but with low flat rates of tax on wages deposited into the account and annual interest earnings. Funds withdrawn from bank accounts are not taxed because they have already attracted income tax in the first two 'phases' (deposits and annual interest payments).



Some advocates propose a 'pure expenditure tax treatment' for superannuation, in which savings are not taxed until they are withdrawn for consumption after retirement, and they would then be taxed at normal marginal tax rates.

'Pure' expenditure tax treatment of superannuation has three major problems:

1. By delaying taxation it privileges those with greatest capacity to save throughout life, mainly those with high lifetime incomes.
2. It is politically challenging to fully tax retirement benefits, since taxpayers 'forget' that in return for the removal of taxes on contributions and fund earnings (which are less visible taxes) they must pay tax in full on benefits (a more visible tax). From 1983, successive governments have attempted to raise taxes on benefits, with limited results. By the time taxes on benefits were removed in 2007, little revenue was collected from these taxes because low tax rates applied above high thresholds (though more would have been collected as the superannuation guarantee matures). Grandfathering arrangements also gave rise to much complexity.
3. It is even more challenging to shift from a 'concessional income tax' model such as the one that currently applies to pure expenditure tax treatment of superannuation. Taxes on benefits could only be very slowly increased as 'new' cohorts of taxpayers move from an environment where contributions and fund earners were taxed to a tax free environment. This would take at least a generation, and would require elaborate grandfathering arrangements.

In any event, a shift from income tax treatment to expenditure tax treatment is unlikely to encourage more retirement saving. The reason for this is that high income earners (who understand how the tax concessions work and are more likely to respond to them) will save for retirement in any event. Tax concessions mainly shift their savings from one vehicle to another. Low and middle income earners are less aware of how the concessions on contributions and fund earnings work, so are less likely to respond to reductions in taxes levied at those two 'stages' of superannuation.<sup>27</sup>

Compulsion does increase retirement saving, mainly among low and middle income earners.<sup>28</sup> Similarly, policies that 'nudge' people to save, for example by making higher saving the 'default option', are also effective.<sup>29</sup> For a tax incentive for contributions or fund earnings to increase voluntary saving overall, it should be targeted to lower-income households, and

---

<sup>27</sup> OECD (2004), [Long term budgetary implications of tax-favoured retirement saving plans](#). OECD Economic studies 2004/2.

Chetty et al (2013), *Active Vs passive decisions and crowd-in retirement savings accounts, evidence from Denmark*, National Bureau of Economic Research.

<sup>28</sup> Connelly (2007), *The Effect of the Australian Superannuation Guarantee on Household Saving Behaviour*, RBA Research Discussion Paper No 2007-08.

<sup>29</sup> Chetty et al (2013), op cit.

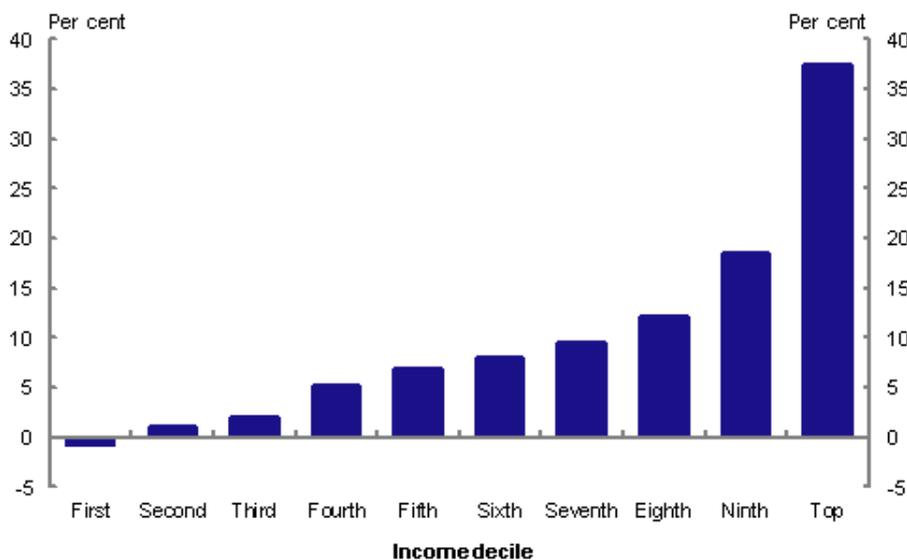
should be simple and transparent.<sup>30</sup>

As previously noted, there are two major problems with the present tax treatment of superannuation, apart from its complexity: it is inequitable and it is wasteful of public revenue. The main reason, in both cases, is that the present tax concessions are skewed towards high income earners, who have less need for support for their retirement saving, are less likely to rely on an Age Pension in any event. As discussed, they are unlikely to increase their overall saving level in response to the concessions.

## Equity

Existing tax concessions for superannuation contributions disproportionately benefit high income earners and penalise low income earners. One-third of the overall value of tax concessions for superannuation accrue to the top 10% of taxpayers while half accrues to the top 20%.

Figure 16: Share of total superannuation tax concessions by income level



Source: Treasury, based on an analysis of 2011–12 ATO data, as reproduced in Financial System Inquiry (2014), *op cit.*

This is in large part due to the flat 15% tax for employer contributions, which is worth *five times as much*, per dollar contributed, to a top marginal rate taxpayer than one on the lowest tax rate. For example, employer contributions for a taxpayer under the tax free threshold (approximately \$20,000) are taxed at 15% even though this income would not have been taxed at all if paid as wages.

Low income earners are penalised through the tax system for their compulsory

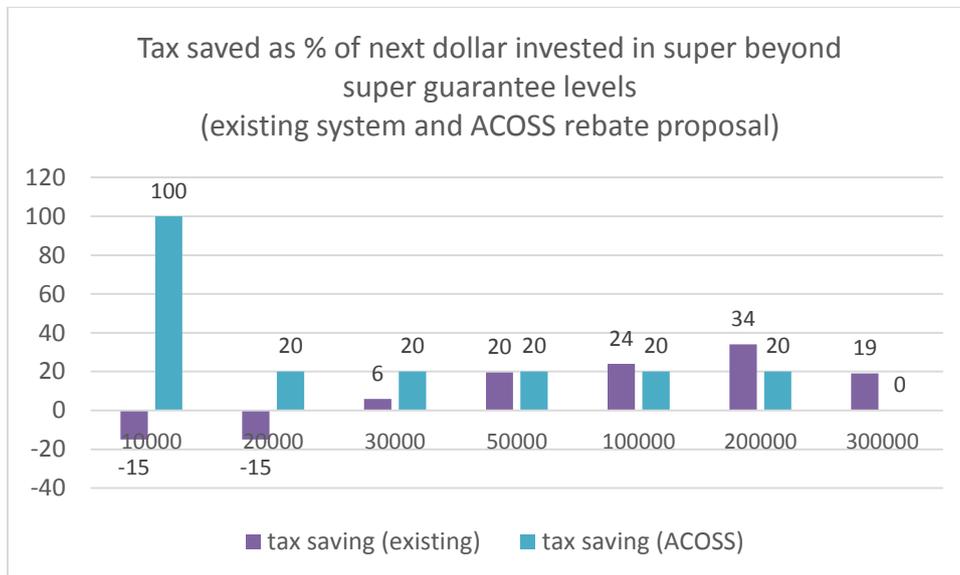
<sup>30</sup> OECD (2004), [op cit.](#)



superannuation saving.<sup>31</sup> Contributions made for a taxpayer on the top tax rate earning \$180,000 to \$300,000 are also taxed at a flat rate of 15%, a tax saving of 34 cents per dollar contributed. In addition, self-employed people can claim tax deductions that disproportionately benefit those on the high incomes. The only restriction is that concessional tax treatment of contributions is limited to contributions of up to \$30,000 (\$35,000 if over 50 years).

As the figure below shows, the result is that the existing tax concessions (shown by the left hand bars) for contributions are ‘upside down’ – they disproportionately benefit higher income earners.

**Figure 17: Current and proposed tax concessions per dollar saved in superannuation**



Note: This graph compares existing tax concessions on employer contributions to superannuation (left hand bars) with the ACOSS reform proposal described below (right hand bars).

It shows the tax saving per extra dollar invested in employer contributions above superannuation guarantee levels (9.5%). The proposed 20% rebate applies at all income levels (it is capped but not income tested).

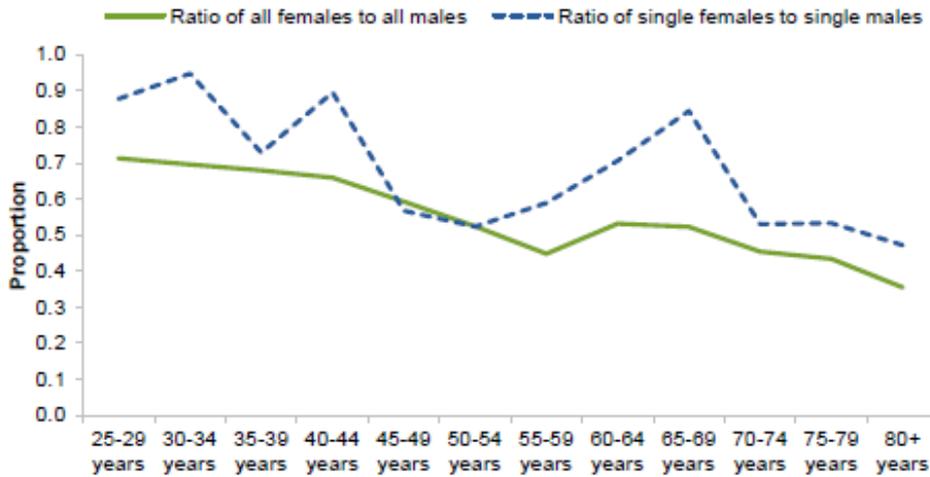
The tax bias in favour of higher income earners is a problem especially for women, since most who have much lower earnings from paid employment than men. The tax bias compounds that disadvantage, especially for women employed part-time – many of whom are only in paid work for one or two days a week. Only a relatively well-off minority of women are in a position to ‘catch up’ later in working life by making above-average contributions. As a result, the average superannuation account balance for women now reaching 65 years is half that for men. Due to the superannuation guarantee and higher participation levels in paid

<sup>31</sup> This tax penalty was previously offset by the Low Income Superannuation Contribution (LISC) but regrettably it was abolished as a result of a 2014 Budget decision.



work, average superannuation account balances are gradually increasing for younger cohorts of women, but they remain below three-quarters of average male super balances, even for the youngest cohort.

Figure 18: Ratio of female to male average superannuation balances, by age

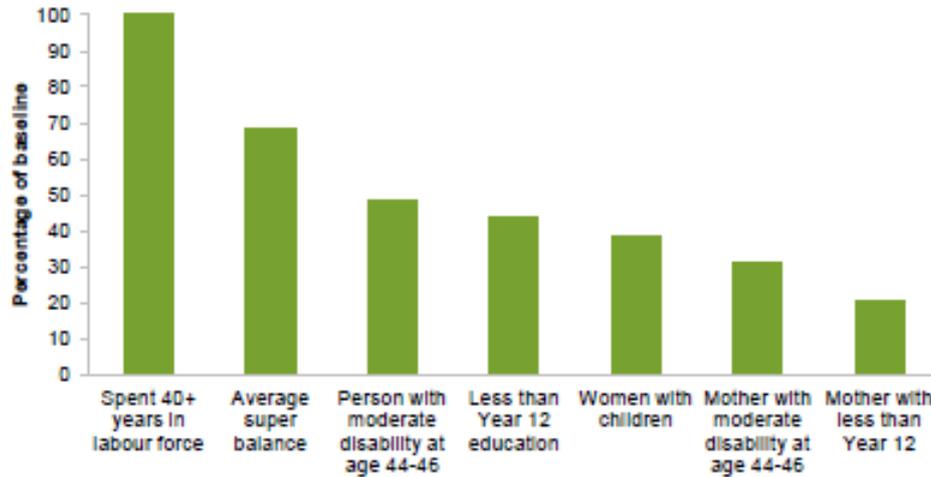


Productivity Commission (2015), [Superannuation policy for post-retirement](#).

Disparity between the superannuation assets of men and women will remain with us under current policies. The figure below compares future superannuation balances on retirement of a wage earner on an average full-time wage employed for 40 years (who is more likely to be male) with that of a woman on an average (female) wage who reduces her participation in paid work to raise children. The woman's superannuation account balance on retirement is still half that of the man.



Figure 19: Impact of workforce participation and wage levels on superannuation balances at age 64-66 in 2051 (mature superannuation guarantee)



Productivity Commission (2015), [Superannuation policy for post-retirement](#).

There is a need for specific reforms to address the major gender inequities that are inherent in the design of the superannuation system, in light of women's role in having children, and continuing to typically be the primary carer of children.

People with limited skills and people with disabilities are also disadvantaged by the present superannuation system. Occupational superannuation, and the tax concessions attached to it, magnify inequalities in the labour market.

The fundamental inequity of the tax treatment of superannuation contributions cannot be overcome by making adjustments at the margins – for example by increasing tax rates for those with very high incomes and reducing them for people below the tax free threshold, as welcome as such changes would be. One of the main reasons that governments have repeatedly 'tinkered' with the tax treatment of superannuation is that the inequity at the heart of the system – a flat 15% tax rate on contributions – remains in place. Until this is replaced by a fairer system, more 'tinkering' is inevitable.

The best solution is a policy similar to that proposed by the 'Henry Review' in 2009: to replace all tax concessions for contributions with an annual rebate calculated as a percentage of all contributions (whether compulsory or voluntary) up to a ceiling.

This would greatly simplify the present system, replacing the 15% tax on employer contributions, the deduction for self-employed people, and the employee co-contribution. There would be no need for a Low Income Superannuation Contribution (LISC) for low income earners or a surcharge for high income earners to inject equity into an inherently unfair tax system, because it would no longer be an unfair system. There would be no need for an income test. People at all wage levels would receive approximately the same tax concession per dollar contributed, up to an annual cap. This would greatly simplify the tax treatment of



superannuation and make the concessions for contributions more transparent, which in turn would encourage voluntary saving among low and middle income earners.

There is one element of the Henry Report proposals we do not support: the taxation of employer superannuation contributions each year in the hands of employees. This form of 'forced saving' would adversely affect the living standards of low and middle income employees. We favour a system where employer contributions are taxed at the employee's marginal rate by their employer, and this tax is deducted from the regular transfers made by employers to the employee's superannuation fund. This means that the tax comes out of savings rather than current income. The rebate would be calculated each year by the ATO and deposited into a superannuation fund chosen by the employee.

As figure 17 showed (above), a rebate of 20% would leave low income earners much better off, middle income earners in a similar position to the current system, and would reduce annual tax concessions for high income earners. We also propose that a \$1 for \$1 rebate apply to contributions up to a low annual level, to support the retirement saving of people in very low paid part-time and casual jobs. This would replace the present co-contribution (but would mainly apply to compulsory saving). It could also facilitate a reduction in the present \$450 a month threshold below which employers do not need to contribute to superannuation, which may be beneficial to employees with very low earnings.

The annual 'ceilings' for both the 100% and 20% rebates would be set initially on a revenue-neutral basis. It is likely that the present \$30,000 and \$35,000 contribution caps would have to be reduced to some extent to achieve this. Nevertheless, few taxpayers contribute above the present caps, and the vast majority of those who do are high income earners. Few workers on average full-time wages or less can afford to devote over a third of their wage to superannuation. While there is a role for 'catch up' on retirement savings later in working life, superannuation is fundamentally a *long term saving* system.

The main goal of this reform would be to improve the equity and efficiency of the tax concessions, not to raise more public revenue. It would however, yield future savings in pensions as superannuation balances for low income earners would rise substantially and those for middle income earners would also increase. The vast majority of superannuation fund members would be better off in retirement, at no extra cost to government.

### **Fiscal sustainability**

Our main goals for reform of the tax treatment of superannuation *in the 'retirement phase'* are to improve its coherence and strengthen public revenue by restoring the integrity of the personal income tax system for people over 65 years.

When the Howard Government removed taxes from superannuation benefits in 2006 it kept the exemption from income tax for fund earnings in the 'pension phase'. This means that fund earnings are taxed differently in the accumulation phase (taxed at 15%) than they are in accounts paying a pension (taxed at 0%). This is inconsistent with 'concessional income tax treatment' of superannuation, under which fund earnings would be taxed consistently in both 'phases'.



A key problem with the inconsistent taxation of fund earnings across the two 'phases' is that recent reforms have blurred the distinction between them. Fund members aged over 55 can now contribute to superannuation and draw a pension at the same time, for example through the 'transition to retirement' schemes discussed previously. Aged-based limits on contributions are being gradually removed. Currently, fund members are encouraged by the tax system to set up a separate account that pays a pension. If they keep another account in the 'accumulation phase' they can avoid the 'draw-down rules' which limit their discretion to withdraw funds, though that account would not attract the exemption for fund earnings. The different tax treatment of fund earnings in each so-called 'phase' generates needless complexity and opportunities to 'game' the system to avoid tax. Removing it would simplify the system for retired people.

Together with the non-taxation of superannuation benefits, the exemption for fund earnings in the pension phase gives rise to many opportunities for well advised taxpayers to 'game' the system and greatly reduce their income tax without saving more for retirement (and in many cases passing on 'retirement' assets tax free to non-dependent children).

An example of one strategy, which we call 'churning', was provided in a consultation paper of the AFTS Review:

'Individuals can access their superannuation from age 55 years as an income stream without the need to retire. This policy assists individuals in their transition to retirement, by using their superannuation to support a move from full-time to part-time work. An emerging strategy among older workers, aged 60 years or older, is to use this policy to receive a tax free income from superannuation at the same time as making salary sacrifice superannuation contributions from their work income. This reduces the effective rate of tax on part of their work income to the 15 per cent tax paid on their superannuation contributions. Table 3.2 shows the effect of this strategy on the amount of tax paid.'



Table 2: 'Transition to retirement' strategy: impact on income tax paid

	Salary	
	\$50,000 \$	\$100,000 \$
<b>Without transition to retirement</b>		
Income tax and Medicare	8,850	27,500
Net income	41,150	72,500
<b>With transition to retirement</b>		
Salary sacrifice	25,000	50,000
Superannuation income	16,525	31,350
Income tax and Medicare on remaining \$25,000/\$50,000	375	8,850
Tax on super contributions	3,750	7,500
Net income	41,150	72,500
Reduction in total tax	4,725	11,150

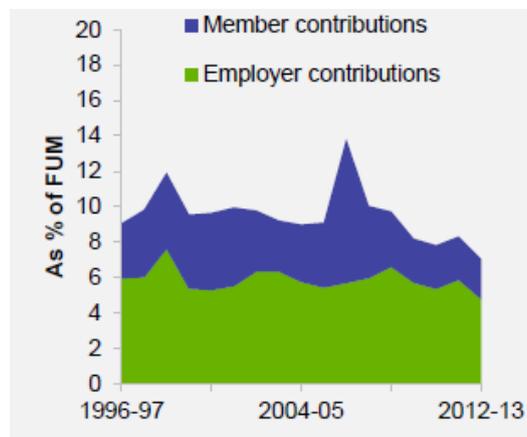
Note: 2008-09 tax scales are used. The individual is assumed to have no income other than salary and is aged 60 to 64 years. The examples are constructed to achieve the same after-tax income — that is, the tax saving is applied to achieve higher superannuation balances. To receive a transition to retirement pension of the amounts shown, the individual must have a superannuation balance of at least 10 times the pension.  
Source: Australian Treasury estimates.

Source: AFTS Review (2008), *Retirement incomes consultation paper*.

In this example, a taxpayer earning \$100,000 saves over \$11,000 in tax by sacrificing salary into superannuation in return for a pension which restores their previous income. Without actually saving more for retirement, they save on tax. As discussed, most people who use 'transition to retirement' strategies are high income earners and their main purpose is to avoid tax. Similar strategies are used by older people outside the 'transition to retirement' rules.

When taxation of benefits was removed in 2007, contribution caps for non-concessional contributions (those not attracting tax concessions) were temporarily increased. The attractiveness of the new tax arrangements for the retirement phase was demonstrated by a spike in contributions in that year, as shown in the figure below.

Figure 20: Superannuation contributions as a % of funds under management



Productivity Commission (2015), [Superannuation policy for post-retirement](#).

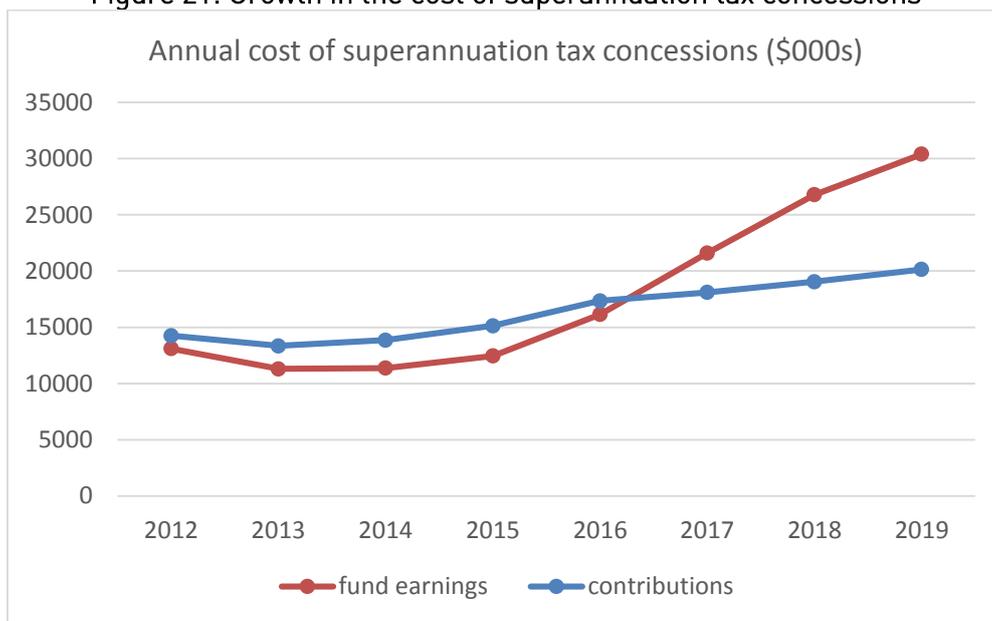


The exemption for fund earnings in the pension phase also facilitates avoidance of Capital Gains Tax. Once an asset is held within a self-managed superannuation fund, if its disposal is delayed until the fund pays a pension, then generally speaking no tax is paid on the gain – even though most of it may have accrued before the asset was shifted into superannuation.

The superannuation system has become a tax avoidance system in retirement and a succession planning system, rather than a retirement income system. As noted elsewhere, less than one-fifth of individuals over 65 pay income tax, due in part to the SAPTO and in part to the depletion of the income tax base by the tax treatment of superannuation post-retirement.

This is happening just as the balance of superannuation savings is shifting from the accumulation phase towards the retirement phase, as the baby boomers begin to retire. This is one of the reasons that the cost of the tax concessions for fund earnings now exceeds those for superannuation contributions, as shown in the figure below.

**Figure 21: Growth in the cost of superannuation tax concessions**



Source: Treasury (2015), Tax Expenditure Statement 2014.

Beyond 2014, these are projections based on economic parameters from the Budget's forward estimates.

The growing cost of fund earnings concessions is synchronised with the rise in the cost health and aged care services, since both are driven at least in part by the ageing of the population. If the tax exemption for fund earnings in the pension phase was removed this would help meet these budgetary costs.

The AFTS Report recommended a common 7.5% tax rate on fund earnings in the accumulation and pension phases. This is close to a zero tax rate when dividend imputation is



taken into account. We propose instead that the current 15% tax rate on fund earnings be extended to the pension phase. We understand the revenue gains would be modest in early years, but that they would rise substantially over the next decade.

One problem with this proposal is that assets held within superannuation after retirement by people with low overall incomes would attract a higher tax rate on the income derived from them than assets held in other savings vehicles. One way to deal with this problem, referred to in the Financial System Inquiry report, would be for the ATO to pay into their superannuation fund a 15% annual rebate for any fund earnings that fall within their tax free threshold for that year. The rebate could apply either to fund earnings in accounts paying a pension, or accounts in respect of individuals over the preservation age (which would be higher in our proposed system). The latter option would be simpler.

This is administratively feasible, as shown by experience with the LISC which worked in a similar way. In effect, there would be a two-tier tax scale for fund earnings in retirement: zero (subject to the individual's other income) and 15%. This would reduce revenue savings from the extension of the 15% fund earnings tax to the pension phase, perhaps by half. Over time, they would still be substantial.

A higher preservation age would also yield substantial long term Budget savings, estimated by the Productivity Commission to be \$7 billion in current values in 2055, by which time the superannuation guarantee will have fully matured and the baby boomers will have retired. With exemptions along the lines we propose, and removal of the gap between Newstart Allowance and pension rates, those savings would be reduced, again perhaps by half.

## Recommendations

### (1) Income benchmarking commission:

1. Establish an independent statutory expert body to report and make recommendations to the Parliament every five years on the adequacy and indexation of social security payments, to prevent poverty and ensure that payments keep pace with increases in the cost of living and improvements in community living standards.
2. Task the Commission with the development of benchmarks for the adequacy of retirement incomes to inform policy on public support through the superannuation system as well as social security payments, including:
  - Income targets for compulsory saving for retirement (transfers of individual income from working life to retirement) taking account of the relative living standards of typical low and middle income households before and after retirement;
  - Income targets for public support through the tax system for voluntary saving



for retirement (transfers between taxpayers to support retirement income), taking account of typical incomes provided by pensions and compulsory superannuation, and typical living standards among taxpayers across all age groups.

**(2) An adequate social security safety net:**

1. Raise Allowance payments by \$51pw for single people regardless of age, to alleviate poverty and reduce the gap between allowances and pensions.
2. Index pensions and allowances in a consistent way, to an index that reflects both prices affecting social security recipients, and wage movements.
3. Increase maximum rates of Rent Assistance by 30% regardless of age and index them to ensure they keep pace with rental inflation.
4. Keep the pension age at 67 years until Allowance payments are raised to pension levels and reasonable employment opportunities and supports are available to older people.

The proposed reforms to the taxation of retirement incomes detailed below should help fund these improvements in social security payments.

**(3) A well-targeted social security safety net:**

1. Continue to target social security payments to people who are currently at risk of poverty, including during retirement.
2. Consider further reforms to simplify the assets test by exempting personal use assets up to a modest ceiling and/or by merging it with the income test to form a combined means test, with a stricter test for investment income than for earnings from employment.
3. Consider the introduction of age-based thresholds for the pension assets test, as it applies to people over Age Pension age.

**(4) Fairer, simpler and more cost-effective tax concessions for superannuation contributions:**

1. All tax concessions for superannuation contributions should be replaced in a revenue-neutral way by a two-tier annual rebate paid into the fund, that is capped at a contribution level sufficient to support (along with the Age Pension) a retirement income for a typical worker at a benchmark level.
2. The rebate should be reduced to the extent that an individual withdraws funds from their superannuation account in the same year as they make a contribution, so that



only net additions to savings attract a tax concession.

3. Reduce the non-concessional contributions cap from six times to three times the concessional cap.

**(5) More consistent tax treatment of superannuation fund earnings to restore the integrity of the personal income tax in regard to older people:**

1. Extend the 15% tax on fund earnings in the 'accumulation' phase to the 'pension' phase over a five year period (with a 3% increase each year)
2. The 15% tax on fund earnings should be offset in either the pension phase or for all superannuation fund members over the preservation age, by a 15% rebate for any fund earnings that fall below that taxpayer's tax free threshold, taking account of their other income. The rebate would be calculated each year by the ATO and deposited into a superannuation fund chosen by the taxpayer.
3. Ensure that accrued capital gains above a taxpayer's tax free threshold are taxed when assets held within superannuation accounts are disposed.

**(6) Progressively align the preservation age with the pension age:**

The preservation age should be progressively raised from 60 years (the present legislated target) to 67 years, subject to the following exceptions:

1. Allow earlier access to superannuation for individuals who are unable to continue in paid work due to disabilities, poor health or caring roles.
2. Alternately, if superannuation guarantee contributions are increased above 9.5%, allow all superannuation fund members, after at least five years of saving, to withdraw a modest proportion of their superannuation balance for any purpose, within lifetime limits, before they reach the preservation age.
3. In raising the preservation age, make allowance for the lower life expectancy of Aboriginal and Torres Strait Islander peoples.

**(7) Help people to manage longevity risk and the orderly draw-down of their superannuation assets throughout retirement:**

1. Barriers to the use of life annuities and longevity insurance products should be removed.
2. Draw-down rules should be tightened.
3. Transfers from superannuation accounts to the estates of deceased fund members apart from spouses and dependent children (including children with severe disabilities) should be consistently taxed.



4. Subject to implementation of the above changes, remaining age-based restrictions on superannuation contributions should be removed.

**(8) Restrict the SAPTO to those who need it:**

1. The SAPTO should be paid to pensioners only and renamed 'Pension Tax Offset', at a rate sufficient to exempt the pension together with private income within the income test 'free area' from income tax.
2. Alternately, both the SAPTO and the Beneficiary Tax Offset should be abolished and pensions and other income support payments exempted from income tax.

## 2. Universal, affordable health and aged care

A secure retirement also rests on the foundation of universal access to basic health and aged care. This foundation was undermined by the recent decision of the Commonwealth Government to withdraw \$10 billion a year from future health funding to the States and Territories by cutting indexation. At the recent Council of Australian Governments (COAG) meeting held in response to that decision, the New South Wales Premier estimated that the overall shortfall in Commonwealth and State health funding by 2020 was \$20 billion. If this gap is not closed, it will be left to households to pay for the shortfall through out of pocket charges.

In Australia, one-sixth of all health spending is private (out of pocket) spending, one of the highest levels in the OECD. The average out of pocket expense (excluding health insurance premiums) in 2012 was \$1,200.<sup>32</sup>

The current consumer payments for residential aged care draw upon two of the three foundations of retirement security (the value of the home and current income) to support the other (aged care). There are limits to the extent the three foundations of retirement security can be traded off in this way. For example, if people had to sell their home to pay for nursing home or other health care services they would lose the 'safety net' of secure housing outside of institutional care. Also, people with low incomes and few assets – those who have nothing to 'trade' – may be left to rely on inferior-quality care.

It is vital that we avoid a two-tier health care system – one for the top half of the population and another for the bottom half – of the kind that has long existed in the United States and still exists in dental care in Australia. The experience of people with severe disabilities who have to queue for personal support services also demonstrates the value of a system that guarantees universal access to essential community services. That is the intention of the National Disability Insurance Scheme (NDIS), although the current trial phase is already

---

<sup>32</sup> Australian Institute of Health and Welfare (2013), [Health expenditure Australia](#).



indicating areas of unmet need.

Australia is relatively well placed to meet the health and aged care needs of an ageing population. We have strong public institutions and programs to share the risks associated with old age, poor health and disability across the community. They include universal access to publicly supported health care (Medicare, hospitals and the PBS), a national aged care program, and the NDIS.

A key strength of these programs is that they are mainly funded from general taxation revenue, including the Medicare Levy. This means the risks of ill health and disability are shared across the community. The compact between taxpayers and governments is that basic health care needs will be met if and when they arise. In return, people are taxed according to their ability to pay.

Sharing risk across the community is not necessarily more costly for governments. For example Australia's targeted social security system is among the least expensive in the OECD, and public health care systems based on this principle, including those in Australia and the United Kingdom, cost governments much less than the mainly private (but publicly subsidised) health care system in the United States.

### **Closing the gap in future health and aged care funding**

Proposals contained in this submission to ensure that people are contributing fairly through the personal income tax system rather than using superannuation to avoid tax, would contribute significantly towards closing gaps in federal and State budgets for health and aged care as the population ages. It is reasonable that older people who are in a position to do so contribute to those costs. An alternative option – increasing the Goods and Services Tax, while substantially increase taxation among older people, would do so indiscriminately, raising taxes for recipients of maximum rate pensions and social security allowances as well as those with more financial resources.

Another option to help fund future health and aged care services is to broaden the 'base' of the Medicare Levy, closing down a range of tax shelters and loopholes currently available for higher income earners to reduce their exposure to the Medicare Levy. Rather than increasing the rate, this would extend the levy to forms of tax-sheltered income such as capital gains, wages offset by deductions for negatively geared property investments, and income diverted into private trusts and companies. This is similar to the current treatment of tax shelters in some social security income tests. Ideally, these tax shelters would be comprehensively reformed, but broadening the base of the Medicare Levy in this way would be a first step in that direction.



## Recommendations:

(9) Mechanisms to strengthen and consolidate guarantees for universal access to essential health and aged care services should be considered, including affordable primary health care, hospital care, and aged care both at home and away from home. This could include:

1. Legislating appropriate indexation of health funding for States and Territories (reversing the 2014 federal Budget decision to deny this), in return for legislative commitments to health care service guarantees from States and Territories.
2. Earmarking revenue from the above taxation changes (other than the revenue-neutral reforms) for this purpose.
3. Strengthening revenue for this purpose, adopting tax and revenue recommendations from the ACOSS 2015-16 Budget Priority Statement,<sup>33</sup> and as a first step, possibly extending the Medicare Levy to tax-exempt and tax-sheltered personal income including superannuation benefits, income accruing in private trusts or companies controlled by an individual taxpayer, non-superannuation termination payments, and 'discounted' capital gains received by an individual taxpayer.

## 3. Affordable, accessible housing

Most people can meet their basic needs in retirement if they fully own their home. The level of the Age Pension, which is lower than typical national retirement income schemes in other wealthy countries, assumes home ownership.

As discussed previously (see figure 1), it is well known that those retired people at greatest risk of poverty are those renting privately

Serious leadership by the Federal Government, together with the States and Territories, and local governments, is required in order to address the structural drivers of declining housing affordability in Australia.

Early this year, ACOSS, together with National Shelter, Homelessness Australia, Community Housing Federation of Australia and the National Association of Tenants Organisations released a national policy framework for such leadership to occur.<sup>34</sup> Some reforms are clear,

---

<sup>33</sup> ACOSS 2015 Budget Priority Statement

[http://acoss.org.au/images/uploads/ACOSS\\_2015\\_Budget\\_Priorities\\_Statement\\_FINAL.pdf](http://acoss.org.au/images/uploads/ACOSS_2015_Budget_Priorities_Statement_FINAL.pdf).

<sup>34</sup> See ACOSS, National Shelter, Homelessness Australia, National Association of Tenant Organisations, and Community Housing Federation of Australia (2015), 'An affordable housing reform agenda.'



and should be given high priority.

They include improvements in Rent Assistance to alleviate the most severe hardship, and structural reforms to the tax treatment of housing and urban development policies to strengthen housing supply and ease pressure on the demand side.

### **Recommendations:**

#### **(10) Adopt a national affordable housing strategy including the following elements:**

1. Substantial new capital investment in social housing.
2. Replace tax deductions relating to negatively geared rental property investment with more efficient incentives for the construction of new, affordable housing, noting the gap left by the discontinuation of the National Rental Affordability Scheme.
3. Replace Stamp Duties on housing purchases with a broad-based Land Tax.
4. A substantial increase in Rent Assistance as proposed above.
5. Work with States and Local Government to ease constraints on the supply of affordable housing including planning rules and land release.<sup>35</sup>

---

<sup>35</sup> For more detail on our affordable housing proposals, see [http://www.acoss.org.au/wp-content/uploads/2015/06/Joint\\_housing\\_paper\\_March\\_2015\\_final.pdf](http://www.acoss.org.au/wp-content/uploads/2015/06/Joint_housing_paper_March_2015_final.pdf)



Australian Council of Social Service

[www.acoss.org.au](http://www.acoss.org.au)

@ACOSS