SMSF Owners' Alliance
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SUPER TAX CONCESSION IS ONLY HALF THE STORY

The ratcheting down of superannuation benefits to cover a current budget shortfall will cause larger problems for the budget in the future as superannuation savings will not be sufficient to keep Australians off the pension throughout their retirement.

Last week SMSFOA showed that Treasury numbers on the cost of super tax concessions that have been widely quoted in the current debate were flawed and gave an inflated picture of the cost of these concessions in the future. See our media release of 7 February at www.smsfoa.org.au

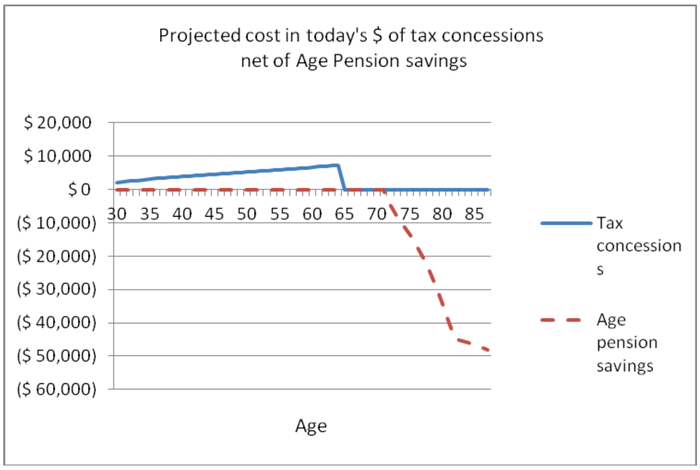
Another common mistake in thinking about the cost of tax concessions is to ignore the other side of the ledger - the benefits that will flow to the budget in terms of reducing future pension costs.

SMSFOA's modelling also illustrates the damage that can be caused over the long term to the Government's finances if it were not to provide superannuation tax concessions. The simple example below illustrates how the long-term savings to the government of age pension payments can more than offset the lower tax collections in the near-term due to super.

We look at how a person on an income of $100,000 would fare under the current super tax arrangements and also if super tax concessions were not provided.

Under the present arrangements, a person earning $100,000 and starting to contribute to super at the SG rate would build super savings of about $2 million over a 35 year working life. That amount of savings would pay a self-funded indexed pension of $57,000 (in today's dollars) and sustain him or her for his or her retirement.

The amount of tax paid by him or her over his or her lifetime would be about $2.2million, which is about $280,000 (13%) less than if there were no superannuation tax concessions because of the superannuation tax rates.

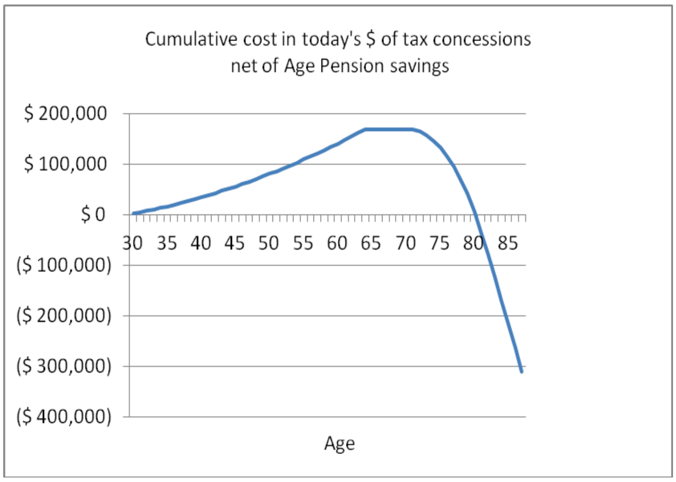


The same person making the same savings but without the benefit of the super tax concessions would build savings of about $1.1m giving an annual pension of only $32,680 (in today's dollars). Because this figure is so much lower he or she would become eligible for a public pension by age 72.

The graph projects the annual cost of tax concession and then the savings in age pension payments, both adjusted to today's dollars and as a result of the superannuation system

The taxpayer funded age pension for this person would total $1.7 million over the balance of his or her retirement.

So, although the super concessions means that the government would receive $280,000 less in tax over his or her lifetime, the super system leads to savings of $1.7million by the government in age pension payments that this person would be eligible for if there was no superannuation.



Those savings are further into the future than the reduction in tax receipts. However, even when these projected figures are adjusted back to today's dollars, the super system for this person results in overall net savings to the government of $311,000.

The second graph projects the cumulative cost in today's dollars to the government of the super system for this individual and illustrates how the final result is a net saving to the government.

This hypothetical example shows how misleading estimates of short-term loss of tax revenue are without taking into account the long-term savings in age pension payments as a result of a robust superannuation system. It invites a common sense conclusion: the more that super tax concessions are squeezed now, the greater the cost will be for the budget in the future.

Conversely, the more the Government provides incentives to invest in super, there will be more people able to support themselves financially in future retirement at a pension that reasonably relates to their pre-retirement income. This is the fundamental objective of the superannuation system.

Instead of trying to limit the benefits of super savings, the Government should be encouraging Australians to maximise their investment in superannuation. However, people will not be confident about investing in super if the taxation and other rules are constantly subject to change. People can't make important decisions about when to retire and how much they should invest in super if they can't be sure their savings will be safe and produce reliable returns.

SMSFOA urges the Government to take a broader and longer-term perspective on the social and economic advantages of a superannuation system and not be tempted to dip into the nation's savings to try to raise more taxes.

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