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Media Release

Intergenerational Report sets out stark reality of Australia's budget position

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The Charter of Budget Honesty Act 1998 requires the Intergenerational Report to model current Government policy – even if not all such policies are yet legislated.

This results in some stark messages in today's report because the report shows in detail the projected impact that the Government's proposed but as yet unenacted policies would have on Australia's future economic well-being in comparison with the a projection under policies prior to last year's Budget and a third projection that takes into account policies that the present Government has managed to legislate.

The Report concludes that the Budget would move into surplus if all the current Government policies were enacted.

This is quite consistent with the view we formed last July when we published a research paper "After the Budget Hysteria".

We repeat our conclusion then below:

> "*We conclude that the changes proposed in the 2014 Budget go a long way towards achieving a more sustainable superannuation system. Government Age Pension costs will be lower and tax receipts higher. Many more individual taxpayers will be able to retire independent of the Government.*

The Intergeneration Report has confirmed our conclusion and underlines the importance of the announced policy measures – or others of equivalent impact – being legislated.

It confirms our repeated assertion that the Government has a serious spending problem that will only get worse if action is not taken as attempted by the Government in last year's Budget. If this expenditure problem is not fixed future generations will not only have to fund their own government services, they will be funding the services used by Australians today.

In relation to the retirement system and superannuation, it is disappointing that the majority of reforms regarding the Age Pension entitlement remain unimplemented as our modelling last year showed the dramatic impact these would have on people's savings and the Federal Budget. These reforms are the minimum that should be implemented over time because it is startling and disappointing to read in the Intergenerational Report that in 2055 – forty years from now – the proportion of people receiving the Age Pension will still be 67%, down only slightly from the present level of 70%. This level is high internationally and unacceptable.

We recognise that the superannuation system has yet to mature but nonetheless we do not believe that the current system is the best one in the long-term for all Australians. In particular, as Age Pension entitlements for middle income earners reduce – as they must to allow the Budget to move to surplus – the effectiveness of superannuation savings must increase.

In this regard we note that the Intergenerational Report comments that there should be improvements in the effectiveness of the superannuation system in transforming savings into reasonable retirement incomes. We also note that it suggests the taxation system should deliver taxes that are ***"lower, simpler and fairer".***

These are matters that will be addressed in the upcoming Taxation White Paper. We sense that many commentators and perhaps Government do not adequately appreciate the significance of improvements in the **efficiency** of each superannuation contribution on the ultimate ability of retirees to retire on a reasonable fully funded pension without relying on the Age Pension. Improvements in competition between product and service providers – as proposed in the Financial System Inquiry Report – is one important aspect. However we believe there are many improvements the Government could make to reduce red-tape and improve the efficiency and effectiveness of super.

In conclusion, changes to Age Pension entitlements must be implemented but to improve the long-term effectiveness of the superannuation system for most Australians, changes to improve efficiency and fairness are required.

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