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Super reform: Mercer warns against cuts to tax concessions

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International consultant Mercer has warned the federal government that any move to cut back tax concessions to the bulk of superannuation savers risks adding to the government's age pension bill in the future.

Mercer senior partner David Knox in his Melbourne office. *Source:* News Limited

There are strong moves to review superannuation tax concessions in the wake of the change in prime minister, boosted by former treasurer Joe Hockey's valedictory speech in which he said tax concessions on super should be carefully pared back.

Mercer senior partner David Knox, a Melbourne-based actuary, told a House of Representatives Committee that it's vital to consider the likely impact on pension obligations if savers lose the incentive to put money away for their retirement.

"It's like a household choosing to install solar panels on the roof of the family home," Dr Knox told *The Australian* yesterday. "The household spends $5000 on the panels but its future power bills are going to be lower.

"It's the same with the government. By giving away tax concessions now it's effectively making an investment in the future, by reducing its future pension liability."

He said he made that point in discussing the Tax Expenditure Statement with the House of Representatives Tax and Revenue Committee. There are two types of concession, both currently worth $16 billion a year in nominally forgone revenue, one being the tax break on concessionary contributions and the other coming from the relatively low 15 per cent tax on superannuation investment earnings.

"They should not be added together, because if you remove one, there will be less of the other,'' he warned, adding that if savers lose one tax break, they will inevitably look for another outside superannuation.

And he noted that the way the government formulates the Tax and Expenditure Statement, which makes no allowance for future pension savings thanks to the burden being picked up by increased personal super savings, is "flawed and misleading".

"These annual estimates of the value of superannuation tax concessions mislead the debate and have the potential to cause considerable harm to the development of a sustainable retirement income system in Australia,'' he told the committee.

Dr Knox said he was not specifically cheering for high-balance members, noting that the low-income superannuation contribution due to be phased out in 2017 was an equity measure. It compensates low-income earners who would otherwise pay a higher rate of tax on their employer's compulsory contributions, at 15 per cent, than they pay on their regular earnings.

He said there were a number of important reasons why the bulk of super savers should get a tax break on their savings. "Firstly, they should be compensated for the lack of access they have to their savings until they retire. That was stressed in the Henry Review.

"Secondly, there has to be an incentive for people to put money away for their retirement. At this stage in the evolution of our super system, the 9.5 per cent employer contributions alone won't be enough to provide a comfortable retirement for people leaving the workforce now. Super savers know that, and on average, are making extra contributions of about 1.5 per cent.''

Dr Knox also shot down the common suggestion that our pension system is unsustainable.

The government currently pays out $41bn in age pensions every year, a figure which is likely to hit $50 billion in four years.

Dr Knox referred to the Intergenerational Report, published in March, which states that age and service pension payments account for 2.9 per cent of GDP. If proposed changes are made, such as a lift in the pension age to 70, that would drop back to 2.7 per cent of GDP in 40 years (2054-55). But if changes were not made, it would rise to 3.6 per cent by the same date.

“Our pension system is much more sustainable than many in the OECD because it is means tested,’’ he said. “In many OECD countries it’s closer to 8 or even 10 per cent because of the extensive social security system that pays pensions to all retirees.’’

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