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Let's call a spade a…hammer and sickle!

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I have just realised why so much of the debate about superannuation reform appears to go around in circles.

A lot of the opinions, analysis and "research" reported on this subject are based on two very different views of the objectives of reform and, unless the proponents of change are more open about their fundamental view of society, the debate will continue to be clouded and confused.

One view is that there should be equal opportunity within society with the progressive income tax structure and social security system being the drivers of redistribution to assist those who are truly vulnerable and unable to survive without such assistance; the other view is that the proceeds of one's efforts should be distributed based on need using all possible means available to the Government.

The former provides reward for effort which leads to a healthier economy to everyone's benefit whilst providing a safety net for those who are really vulnerable in today's society. A liberal democracy.

The latter results in a wilting economy with initiative and enterprise stifled. Enthusiasm to strive fades if people perceive that their rewards for effort are redistributed unreasonably to others just because they have less. This is socialism. It has been proven over again that this system does not produce a healthy society.

I give credit to the Grattan Institute for this "light-bulb" moment after reading their latest research piece (Yes, I did Grattan the courtesy of reading all 93 pages plus a number of the articles referenced in the 230 footnotes. I hope Grattan's directors reciprocate and read some of our reports. Our first submission to Tax White Paper or a shorter version "Equal super tax concession for all can work").

The Grattan report almost appears to be written by two people! Dr Jekyll and Mr Hyde. On the one hand, it provides an excellent detailed description of the current superannuation system and some very good economic analysis.

On the other hand, its conclusions don't always seem to flow from its analysis and sometimes appear to contradict the results of its analysis.

It is then that one realises that, whatever the economic analysis, the Grattan Institute's overriding aim is to take from those who have more and redistribute based on need. This is the principle justification for its recommendations – repeated many times. Presumably a super system will only be "fair" in the Grattan Institute's eyes when everyone has the same result regardless of the effort they have made to work harder, forgo consumption and save. An alternative view is that it is fair for people to have equal opportunity and it is unfair to those who through luck, ability, hard work or responsible consumption have accumulated more in super to then take it away so that it can be redistributed to those who have less – based only on the fact that they have less.

With everyone having the same tax benefit, it is generally recognised that in a civilised society the retirement system should encourage and allow everyone to retire on a pension that bears some relationship to their income during their working life – the so-called replacement rate pension being 60% to 70% of after tax income. We should improve our system to achieve this – not kill it off.

The following paragraphs briefly describe some of the strange conclusions and inconsistences that appear to be in the Grattan report.

Notwithstanding that Dr Jekyll agrees with all serious economists that the *"system should promote retirement savings so that people enjoy a higher standard of living in retirement"* and that *"taxes on the income from savings reduces the incentive to save"* Grattan's Mr Hyde then says that *"taxes on savings have limited influence on how much people actually choose to save"* and recommends **more taxes and higher taxes** and much tighter constraints on superannuation savings!

Dr Jekyll acknowledges that the current system is not yet mature, that *"Australian superannuation funds played a significant role in financing the de-leveraging of corporate Australia during the global financial crisis",* that *"funding of economic activity is a consequence of a well-designed long-term savings vehicle",* that *"it is widely agreed that the system should promote retirement savings so that people enjoy a higher standard of living in retirement, while reducing government's future Age Pension liabilities"* and that *"superannuation encourages people to save while they are working so that they have more to spend in retirement".* He also quotes research showing that *"superannuation leads to higher total savings at retirement"*.

All good stuff. But, Mr Hyde then later says the opposite and quotes current figures to claim that the *"it is unreasonable to expect the superannuation system alone to fund a comfortable living standard in retirement"* and shows current graphs showing that *"superannuation is the least important 'pillar' in Australia's retirement system"* and that *"the superannuation system should not seek to replace the Age Pension entirely for all, or even most, retirees"!* Also that *"Although it is beyond the scope of this report, it is possible that government funds would have more impact if they simply contributed to increasing the full Age Pension or Rental Assistance for pensioners"*! It is also possible that pigs could fly!

This last paragraph appears to illustrate a lack of understanding of the cost-trade-offs between Age Pensions and tax concessions. The Government has to provide 100% of Age Pension funding but over 90% of superannuation pensions are funded by an individual's savings and earnings thereon with the tax concessions just providing the incentive. The smart thing for any liberal democratic government to do is to ensure the superannuation incentives and structure encourage enough people to save their own money and minimise the amount the Government has to pay out in Age Pensions.

Part of the reason for Grattan's misperception may be because they believe the "cost" to the government of superannuation tax concessions is $25bn a year. I give them credit for appearing to address the issues of 'double-accounting', benchmark choice and behavioural impacts that bedevil attempts to put a budget cost on superannuation tax concessions, but some major errors are made in their analysis. I am happy to talk them through it if they are genuinely interested in basing their research and conclusions on facts.

In this regard they should have taken note of very clear comments made by Treasury and the Treasurer that the figures reported in the annual Tax Expenditures Statement do not represent the savings in taxes that would flow to the Government without that concession and should not be relied upon.

The report uses rather emotive language to persuade us – rather than clear logic. I personally find its 53 uses of the word "old" offensive and ageist and their stance that they are trying to minimise intergenerational wealth transfer from the "young" to the "old" self-serving and misleading. What the 30 something economist may forget is that everyone gets old – hopefully. For example, Mr Hyde suggests that his suggestion of adding a new tax to earnings in pension phase will tax "old" people and such taxes can be transferred to the "young".

However, he forgets that everyone will pay this tax sometime! If anything, his idea will be a "windfall" (to use one of his rather emotive terms) once off transfer of taxes from currently retired people to a "younger" generation when the former did not have such transfer in their favour when they were young. Indeed, it appears to have escaped Grattan's notice that "old" retirees have worked hard all their life with far less social welfare and support than the current generation of young people Grattan appears to feel sorry for. Mr Hyde arrogantly claims to know retirees' decision-making process but I doubt he has spoken with many retirees to really understand this. We could introduce him to some of our members to set him straight.

Grattan's Dr Jekyll does state clearly that *"superannuation requires governments to give up tax revenue today so that governments do not have to spend so much on the Age Pension in future"* and that *"this encourages intergenerational equity."* These statements leave us confused as why Mr Hyde then tries to kill off super and **proposes nothing to improve superannuation for Australians**.

Mr Hyde's clever use of innuendo to get his point across is also upsetting for an organisation that has "Institute" in its name. For example, he talks about the *"rationale for exempting earnings for retirees ceased to apply since tax on benefits were removed in 2007."* What isn't made clear – and should be – is that **there have never been taxes on earnings in pension phase** since superannuation started. We had the EET system right up until a Labor government introduced a new tax (albeit only at 3%) onto contributions and earnings in accumulation phase. It was the introduction of these taxes that started distorting the system and finally led to the removal of taxation of benefits to try to improve the superannuation incentives.

In a similar vein, it is disconcerting to read Grattan's claim that *"the effective tax rate on superannuation fund earnings in the benefits phase is negative since funds pay no tax on earnings but receive full refunds on any unused dividend imputation credits."* This appears to show a lack of understanding of the imputation system. Imputation credits are NOT a negative tax. They are income for all purposes paid by companies in the form of a "credit note" rather than cash. A shareholder then claims back from the ATO this income which has been withheld by the ATO. This system avoids the double taxation of dividends and ensures the cost of equity capital vs debt capital more accurately reflects its risk and is not distorted by taxes. Superannuants are treated no differently to any other shareholder. They are taxed on their income (including imputation credits) at their relevant tax rate.

One final point: Grattan dismisses a range of ideas to assist those with broken work patterns – often women. In particular Grattan says that *"the current tax breaks are an expensive way for government to boost retirement incomes for a relatively small group of lower income women making 'catch up' payments"!* What an astounding attitude!

The other area in which Grattan's arrogance becomes obvious is the way in which it starts to state its view of the purpose of superannuation as already being *"the policy purpose of superannuation."* Whilst acknowledging early on (Dr Jekyll no doubt) that there has been and should be some debate regarding the purpose of super, Mr Hyde quotes the suggestion in the Financial System Inquiry report that it should be to *"supplement or replace the Age Pension".* He claims that *"most people believe this"* and ends up stating it as already government policy. He appears to interpret this as being that the superannuation system should just provide enough incentive to save enough for a super pension just larger than the Age Pension.

I would hope that most Australians would aspire to save enough to have a pension considerably larger than the Age Pension and that the government would provide adequate incentive for people to do so rather than spend earnings during their working life.

My bottom line is that anyone who wants to add constructively to this debate should first declare their belief of the purpose of super and their definition of 'fairness'.

In particular, do they believe super should be used as a mechanism to redistribute income based on need or do they believe that the rewards of effort should substantially remain with the individual subject to redistribution using the income tax scale with those most vulnerable supported by the social security safety net.

We believe that latter approach leads to a stronger and healthier economy and society and that the focus of tax reform should be on making taxes more efficient; that is, should minimise disincentive for those working to advance themselves and minimise impact on long-term savings. 'Fairness' in relation to tax concessions should focus on providing an equal opportunity for all.

There is **nothing** in Grattan's proposal that improves the efficiency of the superannuation system.

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