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OPINION

The government's proposal to tax retirement savings is perverse

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If you want less of something you increase taxes on it," said Malcolm Turnbull. With this in mind, the government is now proposing to increase taxes on our retirement savings. It seems perverse.

As former Prime Minister Paul Keating once said: "You do not expect much from conservative governments but you do expect them to believe in thrift." Not any more it seems.

Don't worry, the government says. Only 4 per cent of people will be affected by our higher taxes and they will all be wealthy.

If you believe that, you may be interested in purchasing a handsome steel arch bridge gracing Sydney Harbour.

The government's modelling shows everyone from the third income decile up — that is, 70 per cent of the population — is worse off under its new retirement system.

That is because the government is making it harder to put money into superannuation at exactly the same time that it is making it harder for middle-income Australians to get the pension.

The new pension assets test comes into force in January next year. Instead of losing $1.50 of age pension for each $1000 over the full age pension asset threshold, retirees will lose $3 of age pension for each $1000 over the threshold.

As many as 300,000 retirees are expected to lose some or all of their pension entitlements. Not the poor, who will always get the pension, or the rich, who will never get it. This is a blow to middle-income Australians who have once again become Robert Menzies' Forgotten People.

But it is not just the higher pensions asset test that will hurt middle-income Australians.

It is the increased taxes on the transition to retirement provisions. The government has said there are 115,000 people on a transition to retirement income stream, but it may be double that and many are on average incomes, earning less than $100,000 a year.

Preventing people on modest incomes from boosting their retirement savings seems particularly unfair when the same people will have their pensions reduced.

But not only will these people be paying higher taxes on their transition to retirement contributions to superannuation, they will be able to put less into superannuation from their pre-tax salaries because the government is tightening the cap on concessional contributions.

And they will not be able to put anything into superannuation as an after-tax contribution if they have already put $500,000 into superannuation in after-tax contributions.

And this is where the government's modelling gets really interesting. The government's modelling shows that once the system is mature, a middle-income person should be able to save $713,000 in today's dollars.

Yet the average woman has a retirement balance in superannuation at age 60 to 64, at present, of about $120,000.

Under the proposed system she would be unable to catch up to this indicative middle-income retirement balance because the after-tax cap would limit her to putting in $500,000, giving her a total of $620,000. So if she had $500,000 in assets — for example, two small investment properties — she would have to pay tax on the income they generated.

That seems very unfair. People have low superannuation balances because of low wages or periods of unemployment, self-employment, part-time employment and unpaid employment in the voluntary or charity sector or caring for children or disabled or elderly relatives.

That affects a lot of women but it will affect more and more people as jobs for life become a thing of the past.

Why should these people be limited in their capacity to catch up and be forced to pay tax on income-generating assets in retirement when those who have been lucky enough to have unbroken employment histories and high incomes can pay no income tax in retirement on assets of up to $1.6 million?

But don't go imagining those with assets of $1.6m have it easy. The government likes to portray these people as wealthy, yet in the present low-interest environment those with $1.6m in superannuation will have to play retirement roulette to earn less than full-time average weekly ordinary time earnings of $78,832 a year.

That’s because $1.6m invested in a top earning superannuation fund generates an income of $77,360 including accessing the pension as savings are depleted.

But this is calculated assuming an investment return of 5.75 per cent, and to get that return you have to play retirement roulette and accept that when the next global financial crisis comes along your savings will probably be smashed.

To generate income with the same reliability as the age pension, the appropriate risk-free rate of return is the 10-year government bond rate, which reached a record low of 1.82 per cent in August this year.

With this rate of return, the $1.6m will generate a safe but much more modest return.

The government’s modelling shows that it assumes retirees will not only play retirement roulette but that they will secure a magical 5.5 per cent every year of their retirement. Good luck with that.

And don’t expect any better from Labor. Its assumptions are just as rosy and it is the party that invented retirement roulette, forcing us into compulsory defined contribution schemes that tell you how much you put in but not how much you will get out.

The government should allow all income-generating assets — whether saved inside or outside super — to count towards its transfer balance cap, which should be much higher.

But to really sort the system out, it should heed the call of the Treasury secretary to undertake a proper review of the retirement income system considering the interaction of the age pension, superannuation and the taxation of saving.

In his Forgotten People talk, Menzies spoke of a world that needed to have its sense of values “violently set right”.

“Have we realised and recognised these things or is most of our policy designed to discourage or penalise thrift, to encourage dependence on the state?”

As the government takes its superannuation reforms to the parliament, it should remember Menzies and stop punishing savers with higher taxes.

Rebecca Weisser is the author of Strangling the Goose with the Golden Egg: Why We Need to Cut Superannuation Taxes on Middle Australia, published by the Institute of Public Affairs.

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