SMSF
Owners'
Alliance
Limited ABN 96 161 052 464
Not-for-profit public company

Media Release

27 March 2013

Hawke's Vision for Super Fading

The vision of the Hawke Government to make workers financially independent in retirement, sustained by the Howard Government, risks being extinguished by the Gillard Government if it taxes super savings more in the May budget.

Analysis conducted by the SMSF Owners' Alliance (SMSFOA) shows:

- The super system is falling far short of its aim to keep working Australians off the age pension during their retirement;
- A dollar spent by the Government on super tax incentives is paid back many times over in pension cost savings.
- Any additional tax on super would damage savings and end up costing government more in extra pension costs than the revenue it raises.

SMSFOA's Pension Sustainability Model (PSM) looks at the super savings potential for workers aged 30, 40 and 50 years, all retiring at 65, on three income levels: average earnings, 1.5 times average earnings and twice average earnings; all saving at the mandatory SG rate.

In each case the PSM shows there is a significant gap at retirement between what they will have managed to save and what they need to save to provide a reasonable pension.

This is assuming there are inadequate tax incentives, encouragement and certainty for people to contribute above the SG level.

For example, a 30 year old saving at the SG rate will have super worth $1.35 million at retirement but will need $2.27 million to have a reasonable pension. He or she will run down their super during their retirement and be forced onto the age pension, defeating the basic purpose of superannuation.

The analysis shows that a 30 year old on average earnings and saving at the SG rate will run out of super after 11 years, less than halfway through an expected 23 year retirement. He or she will then have to rely on the taxpayer-funded age pension.

The PSM also reveals that the cost to the budget of super savings tax incentives are far outweighed by the consequent savings in publicly funded age pension costs.

For example, for every extra $1 in super tax incentives given to a 30 year old on the average income, the Government will save $3.94 in age pension costs.

As every dollar invested in super savings tax breaks will pay off in lower pension costs, the Government should be encouraging people to maximise their super contributions, not creating uncertainty and threatening new taxes on super.

The super contribution cap has been halved by the Gillard Government for taxpayers under 50 and reduced by 75% for those over 50. This trend must be reversed in the May budget by doubling the contributions cap from $25,000pa to $50,000ps for under 50s. People over 50 nearing the end of their working life should be allowed to contribute up to $100,000pa to establish adequate superannuation.

If contribution caps are raised, there will be age pension cost savings across the board which exceed the cost of additional tax incentives. For example, for every extra $1 in tax incentive for a 40 yr old on average earnings, in order to encourage him or her to contribute up to the higher cap, there will be a saving of $26 in age pension costs.

It would be economically sensible, and socially responsible, for the Government to increase the contribution cap in the budget to provide a greater opportunity for people to invest in super.

Reports from Canberra suggest the Government is planning to impose a new tax on super fund earnings in the pension phase. If this happens, many older Australians who invested in super within the rules and timed their retirement in accordance with the rules, will face the prospect of a new tax diminishing the value of their savings and hastening the day when their super savings run out , forcing them to fall back on to the age pension.

The outcome would be worse for most Australians, particularly those on lower incomes, than the withdrawals tax recently floated by government sources and then ruled out by the Prime Minister. Furthermore, our modelling shows that in many cases, any extra tax revenue is more than offset by increased long-term pension costs.

Ms Gillard should also now rule out any extension of the tax on super fund earnings to retired people and any increase in the earnings tax on funds in the accumulation phase.

Contact:

Duncan Fairweather
Executive Director
SMSF Owners' Alliance Limited
dfairweather@smsfoa.org.au
0412 256 200
www.smsfoa.org.au

Attached:

SMSFOA Research Paper: 'Superannuation in Crisis' - March 2013