Submission by Save Our Super in response to Retirement Income Review Consultation Paper - November 2019

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1. Summary

1. The Review's Terms of Reference seek a fact base on how the retirement income system is working. This is a vital quest. Such information, founded on publication of long-term modelling extending over the decades over which policy has its cumulative effect, has disappeared over the last decade.

2. Not coincidentally, retirement income policy has suffered from recent failures to set clear objectives in a long-term framework of rising personal incomes, demographic ageing, lengthening life expectancy at retirement age, weak overall national saving, low household and company saving and a persistent tendency to government dissaving.

3. A new statement of retirement income policy objectives should be:

- to facilitate rising real retirement incomes for all;
- to encourage higher savings in superannuation so progressively more of the age-qualified can self-fund retirement at higher living standards than provided by the Age Pension;
- to thus reduce the proportion of the age-qualified receiving the Age Pension, improving its sustainability as a safety net and reducing its tax burden on the diminishing proportion of the population of working age; and
- to contribute in net terms to raising national saving, as lifetime saving for self-funded retirement progressively displaces tax-funded recurrent expenditures on the Age Pension.

4. With the actuarial value of the Age Pension to a homeowning couple now well over $1 million, self-funding a higher retirement living standard than the Age Pension will require large saving balances at retirement. It is unclear that political parties accept this. It seems to Save Our Super that politicians champion the objective of more self-funded retirees and fewer dependent on the Age Pension but seem dubious about allowing the means to that objective.

5. Save Our Super highlights fragmentary evidence from the private sector suggesting retirement income policies to 2017 were generating a surprisingly strong growth in self-funded retirement, reducing spending on the Age Pension as a share of GDP, and (prima facie) raising living standards in retirement (Table 1). (Anyone who becomes a self-funded retiree can be assumed to be better off than if they had rearranged their affairs to receive the Age Pension.) Sustainability of the retirement system for both retirees and working age taxpayers funding the Age Pension seemed to be strengthening. These apparent trends are little known, have not been officially explained, and deserve the Review's close attention in establishing a fact base.

6. Retirement policy should be evaluated in a social cost-benefit framework, in which the benefits include any contraction over time in the proportion of the age-eligible receiving the Age Pension, any corresponding rise in the proportion enjoying a higher self-funded retirement living standard of their choice, and any rise in net national savings; while the costs include a realistic estimate of any superannuation 'tax expenditures' (this often used term is placed in quotes because it is generally misleading – see subsequent discussion) that reduce the direct expenditures on the Age Pension. Such a framework was developed and applied in the 1990s but has since fallen into disuse.

7. Policy changes that took effect in 2017 have suffered from a lack of enumeration of the long-term net economic and fiscal impacts on retirement income trends. They also damaged confidence in the retirement rules, and the rules for changing those rules. Extraordinarily, many people trying to manage their retirement have found legislative risk in recent years to be a greater problem than investment risk. Save Our Super believes the Government should re-commit to the grandfathering practices of the preceding quarter century to rebuild the confidence essential for long-term saving under the restrictions of the superannuation system.

8. Views on whether retirement policy is fair and sustainable differ widely, in large part because the only official analysis that has been sustained is so-called 'tax expenditure' estimates using a subjective hypothetical 'comprehensive income tax' benchmark that has never had democratic support.

9. This prevailing 'tax expenditure' measure is unfit for purpose. It is conceptually indefensible; it produces wildly unrealistic estimates of hypothetical revenue forgone from superannuation (now said to be $37 billion for 2018-19 and rising); and it presents an imaginary gross cost outside the sensible cost-benefit framework used in the past. It also presents (including, regrettably, in the Review's *Consultation Paper*) an imaginary one-off effect as though it could be a recurrent flow similar to the actual recurrent expenditures on the Age Pension.

10. An alternative Treasury superannuation 'tax expenditure' estimate, more defensible because it has the desirable characteristic of not discriminating against saving or supressing work effort, is based on an expenditure tax benchmark. It estimates annual revenue forgone of $7 billion, steady over time, not $37 billion rising strongly.

11. Additional to the four evaluative criteria proposed in the *Consultation Paper*, Save Our Super recommends a fifth: personal choice and accountability. Over the 70-year horizon of individuals' commitments to retirement saving, personal circumstances differ widely. As saving rates rise, encouraging substantial individual choice of saving profiles to achieve preferred retirement living standards is desirable.

12. We also restate a core proposition perhaps unusual to the modern ear: personal saving is good. The consumption that is forgone in order to save is not just money; it is real resources that are made available to others with higher immediate demands for consumption or investment. Saving and the investment it finances are the foundation for rising living standards. Those concerned at the possibility of inequality arising from more saving should address the issue directly by presenting arguments for more redistribution, not by hobbling saving.

13. While retirement income 'adequacy' is a sensible criterion for considering the Age Pension, 'adequacy' makes no sense as a policy guide to either compulsory or voluntary superannuation contributions towards self-funded retirement. Adequacy of self-funded retirement income is properly a matter for individuals' preferences and saving choices.

14. The task for superannuation policy in the broader retirement income structure is not to achieve some centrally-approved 'adequate' self-funded retirement income, however prescribed. It is to roughly offset the government's systemic disincentives to saving from welfare spending and income taxing. Once government has struck a reasonable, stable and sustainable tax structure from that perspective, citizens should be entitled to save what they like, at any stage of life.

15. The Super Guarantee Charge's optimum future level is a matter for practical marginal analysis rather than ideology. Would raising it by a percentage point add more to benefits (higher savings balances at retirement for self-funded retirees) than to costs (e.g. reduced incomes over a working lifetime, more burden on young workers, or on poor workers who may not save enough to retire on more than the Age Pension)?

16. The coherence of the Age Pension and superannuation arrangements is less than ideal. Very high effective marginal tax rates on saving arise from the increased Age Pension assets test taper rate, with the result that many retirees are trapped in a retirement strategy built on a substantial part Age Pension. Save Our Super also identifies six problem areas where inconsistent indexation practices of superannuation and Age Pension parameters compound through time to reduce super savings and retirement benefits relative to average earnings. These problems reduce confidence in the stability of the system and should be fixed.

17. Our analysis points to policy choices that would give more Australians 'skin in the game' of patient saving and long term investing for a well performing Australian economy. Those policies would yield rising living standards for all, both those of working age and retirees. Such policies would give more personal choice over the lifetime profile of saving and retirement living standards; fewer cases where compulsory savings violate individual needs, and more engaged personal oversight of a more competitive and efficient superannuation industry.

2. Save Our Super's origins and perspectives

Save Our Super was formed in 2016 in response to announced policy changes to the Age Pension and superannuation which took effect in 2017 and which seemed to us poorly justified, lacking in published modelling of their long-term effects on retirement income, and likely to have the perverse policy outcome of encouraging many retirees' dependency on a part Age Pension at a high percentage of the full Age Pension rates.

The retirement income area involves complex interactions among the policies governing the Age Pension, superannuation, aged care, health and housing. No other area of policy takes longer to achieve its full effects – some 40 years in accumulation of life savings and some 30 years of drawdown of them. Consequently, no other area of policy is more dependent on long-term trust in the policy framework and the rules by which policy is changed.

Forming good policy in this area is critically dependent on long term, published, peer-reviewed and contestable modelling and sound consultation practices. Save Our Super therefore warmly endorses the Review's quest to establish an agreed factual base for what is happening to retirement incomes.

Even with published long-term modelling, there is a need for grandfathering any future changes in policy with significant adverse effects on individuals, so that those who committed in good faith to lawfully build their life savings are not blindsided by policy change with effectively retrospective effects. Grandfathering helps build agreement for changes that might otherwise be defeated. For over a quarter century from 1975 onwards, such grandfathering was a feature of superannuation policy changes with any adverse effects for some, after the principles had been outlined in the Asprey report to the Whitlam Government.

Attachment A cites the Asprey grandfathering principles, which Save Our Super has advocated as a timeless guide to fairly implementing change in retirement income policy.

Against this background of Save Our Super's perspective, this submission addresses the 7 key topics raised in the *Consultation Paper*, injecting some additional perspectives Save Our Super considers necessary to achieve a proper conception of sustainability and equity.

Attachment B summarises shorthand answers from this submission to the 26 questions posed at the end of the *Consultation Paper*.

3. The changing Australian landscape

Demographic trends

The rise in life expectancy is well known: over about the last two decades, the most common age of death of Australians went up by a year roughly every two years.

Prior to the 1970s, the primary driver of improvement was rising life expectancy at birth, which increased the number of people who reached retirement age. But since the 1970s, there has been marked growth in life expectancy at 65, increasing the average time spent in retirement by more than 6 years for women and nearly 7 years for men.[1] Since 2012, more Australians die each year aged 100 or more than aged 1 or less.

For a retiree, there are particular longevity puzzles arising from the variability of individuals' ageing. Using 2012 data, Jeremy Cooper observed that while the mean age of death for someone who has reached 65 is about 83, the mode – the age at which most die – is 87, and just one standard deviation above the mean is 92.

Thus, life savings at the point of retirement need to be considerably higher now if they are to fully self-fund a longer life in retirement.

Health trends

Australian life expectancy in full health has been rising almost as much as life expectancy itself, so people aged 65 in 2011 could expect just over three-quarters of their remaining years to be lived in full health. However high-cost terminal illnesses such as dementia and Alzheimer's disease have also grown (and are already the leading cause of death for women). Other significant unpredictable health expenditures such as on joint replacements are also becoming more common and are an important reason why many prefer to save for higher super balances at retirement and maintain private health insurance where possible, rather than join public hospital waiting lists.

So for retirees aspiring to self-fund their retirement, saving to fund uncertain longevity, accommodation and health issues loom larger than ever. Both current savers towards retirement and retirees are unlikely to reward any government seeking to prescribe acceptable superannuation savings or retirement income flows.

Housing trends

The *Consultation Paper* mentions declining rates of home ownership among other changes in the Australian retirement landscape. Like any emergent trend in a complex society, there are doubtless many influences at work, especially: high

[1] From 1890 to 2015, males aged 65 years and over enjoyed 5.3% of total male life expectancy gain, which accelerated to 59.4% during 1997 to 2015.

migration; restrictive land zoning, development approval and regulation processes; rising expectations of housing standards; and the general inflation of asset prices, including of real estate. Such challenges should be addressed directly, not through retirement income policy.

We caution against open-ended extrapolation of recent declines in home ownership to suggest an ever-worsening problem. Some of the decline arguably represents post baby-boom generations responding rationally to being born into smaller families later in the lives of richer parents and placing more weight on inheritance (including of housing in desirable addresses) than in the past.

National saving trends

At least since 1975, when Australia formalised its foreign investment policy, there have been periodic peaks in concern over Australia's national savings levels, with worries that low savings leave us excessively reliant on the vagaries of foreign borrowing and foreign direct investment to finance the gap between profitable national investments and the sum of government, household and business savings. This concern was important in the evolution of our current superannuation arrangements, as further discussed below.

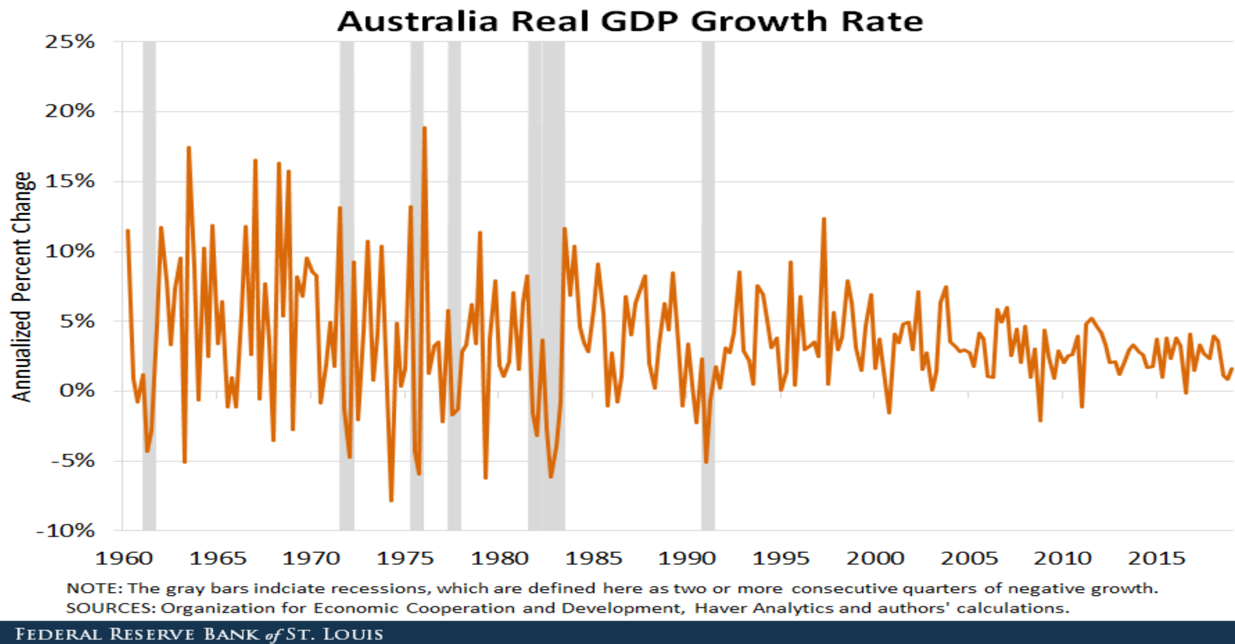
For the moment, we note that the national savings picture is in several dimensions worse than when the issue was central in policy debate at the time of birth of the Superannuation Guarantee Charge in 1992 and the FitzGerald report to the Treasurer on the national saving challenge in 1993.

First, over a quarter century of effort, successive Commonwealth Governments have shown that Australia cannot sustain fiscal balance over the course of the economic cycle, which has been asserted to be an important anchor for fiscal policy since 1996. Since the FitzGerald Report, the Melbourne Institute of Applied Economic and Social Research has identified 7 business cycles of average length of about 4 years, using the Leading Index of Economic Activity as its indicator. On the broader (but backward-looking) measures of either real GDP growth or real per capita GDP growth, Australia has either been in continuous expansion (Figure 1) or has had three recessions (Figure 2).

Whatever the definition chosen for the measure of an economic cycle, the Commonwealth budget should have averaged a balance over the years since the FitzGerald Report. Instead, it has been in underlying cash deficit for 17 years, and in surplus 11 years (counting the pre-bushfire forecast $5 billion surplus for 2019-2020 as 'in the bank').

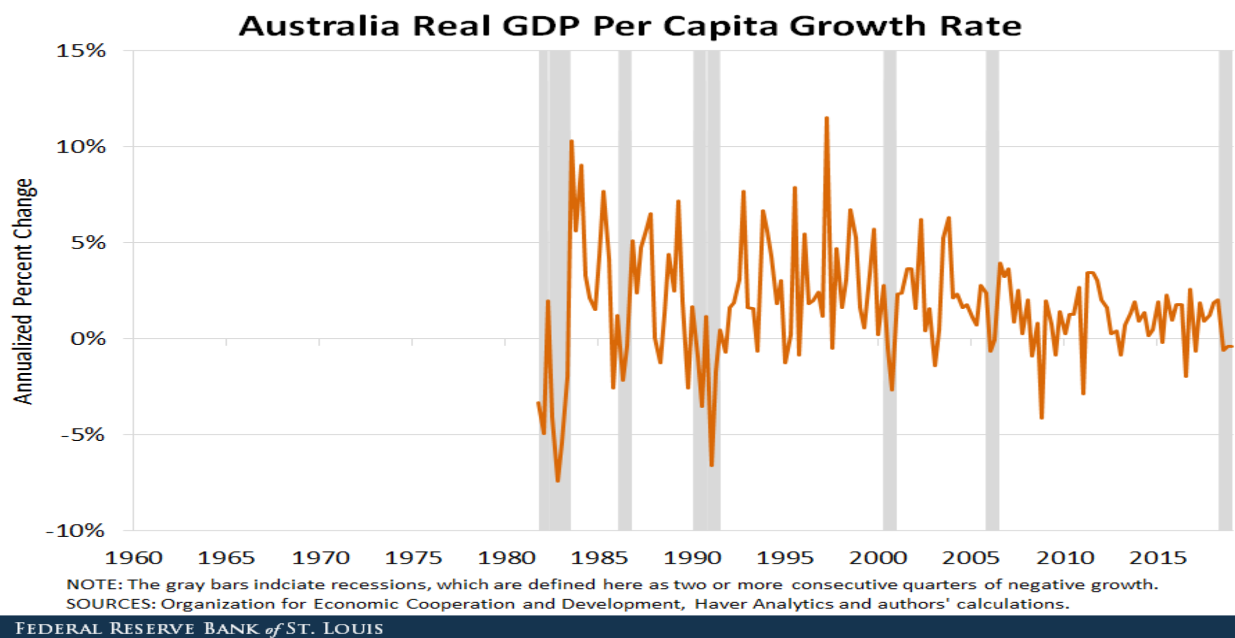
The average annual deficit has been two and a half times as big as the average annual surplus, and cumulative deficits have been some $43 billion, compared to cumulative surpluses of about $11 billion. Thus, although Australian Government general government sector net debt was paid off from 12.5% of GDP in 1992-93 to a net surplus of almost 3.5% of GDP in 2007-08, is it now back over 19% of GDP. This is not a worrying level by international standards, but it is sufficient to illustrate that formally anchoring fiscal policy to the objective of fiscal balance over the course of the cycle is easier said than done, given the short Australian electoral cycle.

Figure 1: Australian real GDP growth and recessions (two or more consecutive quarters of negative growth)



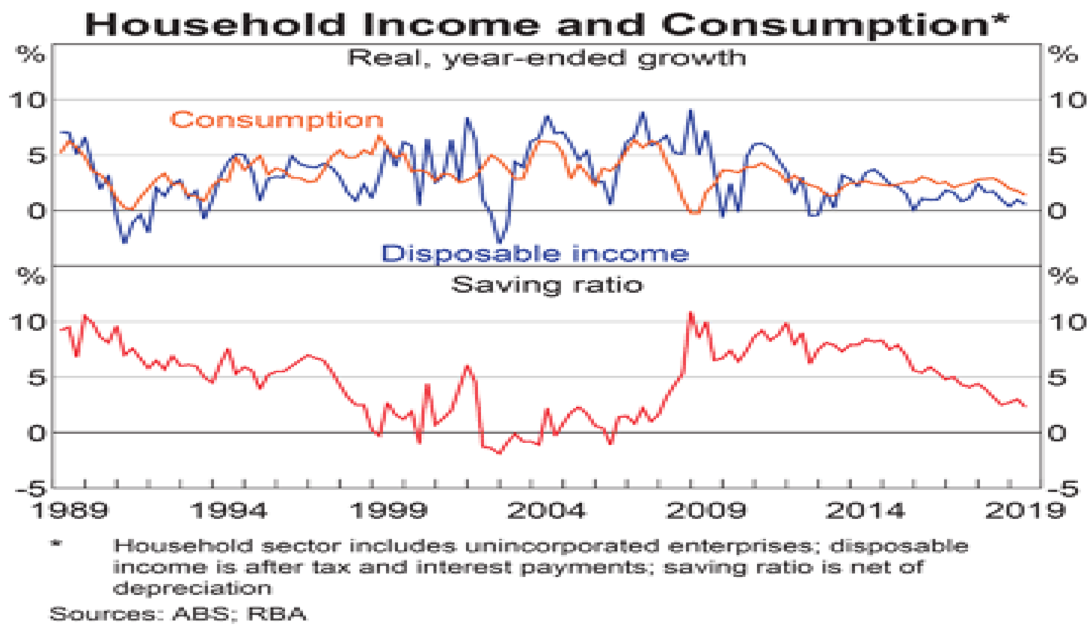
Source: Restrepo-Echavarria, Paulina; and Reinbold, Brian: *Has Australia really had a 28-year expansion?*, Federal Reserve Bank of St Louis, 26 September 2019.

Figure 2: Australian real per capita GDP growth and recessions ((two or more consecutive quarters of negative growth)



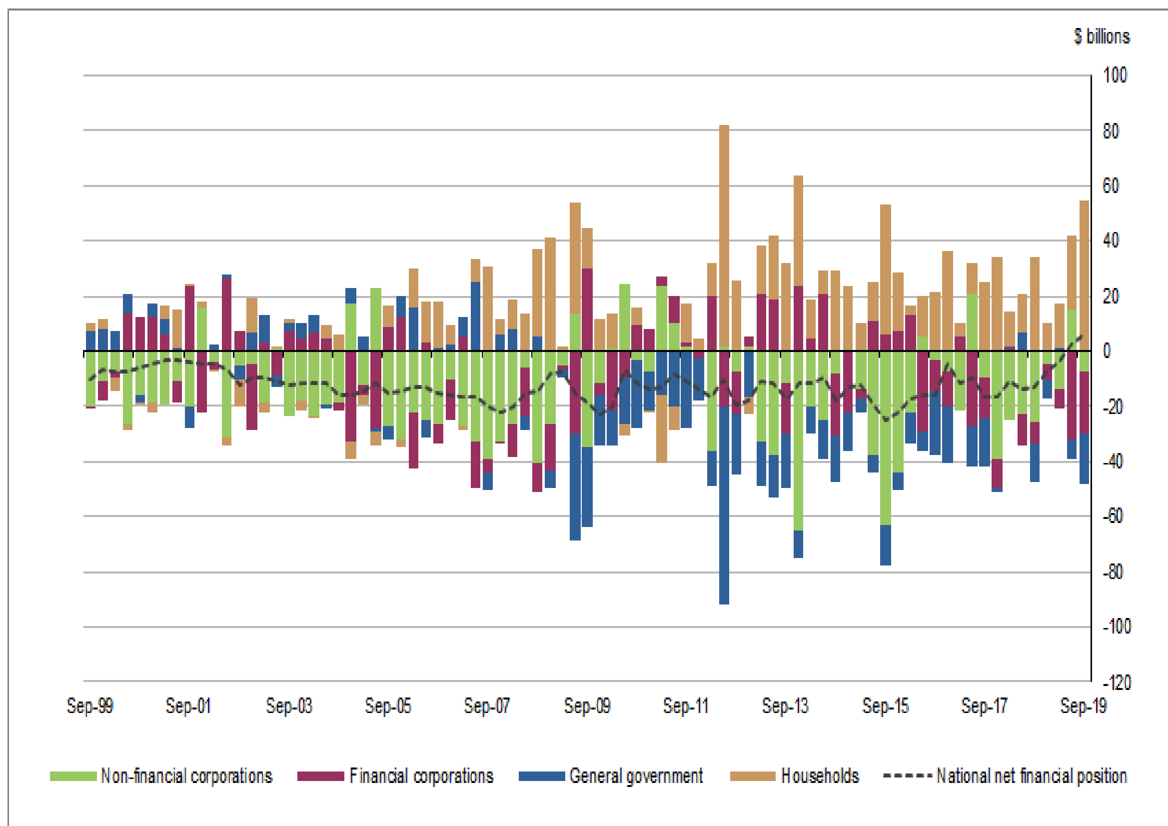
Source: Restrepo-Echavarria, Paulina; and Reinbold, Brian: *Has Australia really had a 28-year expansion?*, Federal Reserve Bank of St Louis, 26 September 2019.

Figure 3: Household Saving Ratio, 1989 to date



Source: [Reserve Bank of Australia Chart Pack](), December 2019.

Figure 4: Australian net lending (+) and net borrowing (-) by sector



Source: Australia Bureau of Statistics: *Australian National Accounts, Finance and Wealth September quarter 2019*, 19 December 2019.

Second, Australia now has the second highest level of household debt (mortgage debt combined with consumer debt) in the world after Switzerland, according to statistics for 2018-19 from the Bank of International Settlements: about 120% of GDP, and rising. After a precautionary, brief recovery following the global financial crisis, the overall household saving ratio has again declined to near zero (Figure 3). Even though now only slightly positive, household saving is still the predominant contribution to national saving in most years (Figure 4).

The third component of national saving, the retained profits of the corporate sector, has been volatile, with both financial and non-financial corporations dis-saving in many years. While business savings have been on a slightly rising trend though the first decade of this century, business still tends to be a net borrower from households and overseas investors.

Against this backdrop, the role of higher superannuation savings in contributing in net terms to higher household savings and assisting national savings both directly and through reducing budget pressure from the Age Pension should not be dismissed from retirement income policy debate.

4. Establishing retirement income trends

It may be helpful to approach a complex, much-reviewed subject by initially trying to look at it from some novel angles.

How our grandparents thought about savings

Our grandparents saved as a precaution against many of life's vicissitudes and as funding for some opportunities that are now assisted or provided by Commonwealth or State spending, frequently means-tested in some way. They saved for (or used friendly societies to insure against) the risk of losing their job; against the risk of someone in the family having to visit the doctor, or being hospitalised; and against the cost of having to send their children to school. Some perhaps saved to fund an opportunity for their children that had been mostly a dream for them: attending university. Some may also have saved against the possibility of a short retirement (a man born around 1900 had a life expectancy of about 50 years and the Age Pension introduced in 1909 was only available from age 65).

However, they saved in a very different environment. The Commonwealth income tax introduced in 1915 had a relatively high threshold which exempted most wage and salary earners. The rates of tax imposed ranged from 3 per cent through to 25 per cent, and individuals in the top income quintile accounted for the vast majority of personal income tax paid.

In just two generations, we have moved from a world where citizens needed to save for most contingencies, and the tax system did not discourage saving for most, to today's world: houses, cars and holidays are about the only major needs government does not supply in a basic safety net, and saving without specific

protection as applies to superannuation is now discouraged by rising marginal tax rates on the nominal returns to saving.

The Age Pension as a 'defined benefit superannuation fund'

A further interesting perspective for thinking about retirement incomes is to think of the modern evolution of the Age Pension as if it were a superannuation fund.

It is a remarkable product. On reaching 'preservation age' (ie qualifying age for the Age Pension), it provides a secure, modest income however long the recipient lives: it has no 'longevity risk'. It provides that income with government-guaranteed certainty, regardless of possible Australian market downturns, global economic crises or exchange rate fluctuations. It is protected against inflation, and indeed its indexation by Male Total Average Weekly Earnings (when that rises faster than the price indexes, as it usually does) increases its real purchasing power over time in line with rising real wages in the broader community.

Age Pensioners (including part-Pensioners) also receive the Pensioner Concession Card, likely to be worth thousands of dollars per year in concessions ranging from health costs and government charges, through to opera tickets.

All that is necessary to receive an Age Pension is to 'fail' the relevant income or asset test (whichever is the more binding in the individual's case). 'Failure' can be achieved by timely and astute professional financial advice and optimising superannuation income together with a large part Age Pension.
The Age Pension can be considered a defined benefit superannuation fund, with zero contributions.

That is a retirement income product that takes some beating. Little wonder it has grown to cost taxpayers almost 10% of all Commonwealth spending.

Jeremy Cooper, a senior retirement income specialist with experience in the development and pricing of market annuities, estimated in 2015 that for a couple who owned their own home, the income stream provided by the Age Pension would cost over $1 million if sold as a lifetime annuity. Moreover, it is hard to imagine an annuity providing the open-ended assurances enumerated above. The high cost arises in part because steady payouts of annuity income require the purchase value be placed in relatively liquid, low-risk assets, so the cost of the annuity at current near zero nominal interest rates (or negative real interest rates) is actually higher than when the $1 million estimate was first made.

So if against this background we consider the interaction of the Age Pension and superannuation, the objective of fully funding one's own retirement only makes sense if one can accumulate, over a lifetime of saving, a capital sum that would give a higher sustained retirement income than the Age Pension. Otherwise, it would be better to settle for one of three strategies: self-funding in early retirement and later full Age Pension dependency; or some combination of part Age Pension and part superannuation funding; or some mixture of the first two approaches varying over time.

Professor Judith Sloan quickly arrived at this same conclusion in April 2015, before Treasurer Hockey brought down the 12 May 2015 Budget which increased with effect from 2017 the assets test taper to introduce effective marginal tax rates on savings of over 100%:

> *I think everyone is underestimating the politics here: middle income couples who have amassed financial assets by working hard and saving will suddenly be worse off financially than couples on the age pension. I don't think this works.*
>
> *On the face of it, the most rational thing for older couples who will be unable to amass a very significant stash of cash (even after downsizing their homes) is probably to give money to their children and then rely on the full age pension. Maybe the children will throw Mum and Dad a bone from time to time.*

Retirement income in transition

Since the Super Guarantee Charge was introduced at 3% in 1992 and the Simplified Superannuation reforms took effect in 2007, many Australians have in effect been in transition among the three strategies above. And as for individuals' choices, so too for the nation as a whole. Australia has gone from:

- retirement income based on the Age Pension for many and superannuation for a privileged few white-collar workers, government employees and professionals;
- through some superannuation for all from the Superannuation Guarantee Charge, mixed with a part or full Age Pension for those for whom the Superannuation Guarantee Charge had accumulated to only modest super balances at retirement;
- to a potential future with superannuation as the principal retirement income for most if not all of retirement, with the Age Pension as the safety net for those whose employment history has not permitted a higher standard of retirement income from their own lifetime savings alone.

The fundamental facts for the Review to establish are: how far and fast has this transition progressed, and how is it trending? Will the 2017 tax and assets test taper rate increases crimp the trends?

Accelerated progress towards higher, self-financed retirement incomes

Treasury began to build retirement income long-term modelling expertise in the early 1990s.[2]

The 1993 FitzGerald Report drew on that early Treasury work to conclude that progress in building self-funded retirement under the newly-implemented

[2] Paul Tilley's *Changing Fortunes: A History of the Australian Treasury* gives a good account of the birth of Treasury's ability to analyse and project long-term retirement income responses to policy. See pp 252-255.

Superannuation Guarantee would inevitably be very slow, only fully maturing "as much as five decades from now" (p 51). The Superannuation Guarantee Charge was scheduled to rise to 12 percent, and FitzGerald proposed for discussion that it would need to rise to 18 percent to make most Australians independent of the Age Pension (p 49). The Report expected that superannuation would cost tax revenue for 20 years, before higher self-funded retirement incomes would offset savings in Age Pension expenditure from about the middle of the 21st century (p 53).

The most recent official projections of Age Pension and superannuation trends seem to have been made around 2012. They still envisaged only a small and slow reduction in the proportion of those age-eligible for the Age Pension who drew any Age Pension (at full or part Pension rates).[3]

Private sector modelling published in 2018 drawing on data emergent since 2012 shows a much faster transition. It seems the combination of policies that applied until 2017 (a maturing Super Guarantee in place for almost 30 years and the Simplified Super reforms in place for 10 years from 2007 until their substantial reversal in 2017) was more successful than commonly understood in raising retirement savings.

Policies were moving successive waves of retirees who were age-eligible for a full Age Pension, first to a part Age Pension and part self-financed retirement from modest superannuation balances, and then (as successive cohorts' lifetime savings steadily grew) towards fully self-funded retirement. Those trends were proceeding much faster than originally forecast. Table 1 summarises the acceleration of expected progress in increasing self-funded retirement. The majority of recently age eligible Australians (66-year-olds) do not get any age pension at all, and the expenditure on the Age Pension as a share of GDP is falling below earlier projections.

In Save Our Super's view from the policy sidelines, these beneficial trends look like a policy triumph that both the Super Guarantee Charge at its levels to date and the Simplified Superannuation measures could rightly claim credit for. The desirable trends could continue or accelerate if individuals' lifetime savings are allowed to build to levels sufficiently high to finance a retirement at better living standards than the Age Pension.

Save Our Super fears, however, that the Age Pension and superannuation changes that took effect in 2017 may instead slow or reverse this progress. First, they directly created perverse incentives that created a 'savings trap' and favoured persistent reliance on a part Age Pension at a high proportion of the full Pension rate.[4] Secondly, they destroyed confidence in the stability and coherence of retirement income policy making and created the serious risk that significant adverse

[3] The 2012 conference paper projections referenced here was subsequently cited in the Cooper Report, *A Super Charter: fewer changes, better outcomes*, 2013, p 11.
[4] In 2017 and using Age Pension rates then applying, Save Our Super estimated that a couple owning their own home could save $650,000 more in superannuation than a 'sweet spot of $400,000, and earn barely any more retirement income. This is because of effective marginal tax rates of over 150% arising from the re-imposition of high assets test withdrawal rates of the part Age Pension.

Table 1: Accelerated progress towards self-funded retirement: 2012 and 2018 projections

The key trends as projected	*Year and source of projection*	*Projections for 2018*	*2038*
1. Funds saved in superannuation are rising strongly.			
Funds under management in superannuation as % of GDP	Rice Warner 2018	140%	190%
2. As life savings accumulated by retirement age in super balances rise, that funds more self-funded retirement at higher standards of living, and for those old enough for the Age Pension, reduces the proportion who receive a full Pension. The fall projected by 2038 is much more now than seemed likely in 2012.			
Those receiving full Age Pension as % of age-eligible	Treasury, Rothman 2012	46%	35%
	Rice Warner 2018	51%	29%
3. Nevertheless, the proportion of those age-eligible for an Age Pension who receive a part Age Pension is still rising, as not all savers will quickly achieve high enough super balances by retirement to remain entirely independent of the Age Pension for their entire (still-lengthening) life expectancy. But notably, the proportion accessing a part Age Pension is much lower, both now and in the future, than was projected in 2012			
Those receiving part Age Pension as % of age-eligible	Treasury, Rothman 2012	34%	46%
	Rice Warner 2018	18%	28%
4. The net effect of more self-funded retirees, fewer retirees receiving a full Age Pension but somewhat more receiving a part Age Pension is that the proportion of those age-eligible who receive any Age Pension is already much lower, and is projected to fall far further by 2038 than seemed likely in 2012.			
Those receiving any Age Pension as % of age-eligible	Treasury, Rothman 2012	81%	80%
	Rice Warner 2018	69%	57%
5. A consequence of these changes is that the proportion of GDP spent on the Age Pension, which was projected in 2002 to be high and rising, is already much lower and still falling, despite an ageing population.			
Age Pension spending as % GDP	IGR 2002	3.2%	4.4%
	IGR 2007	3.0%	4.1%
	IGR 2015	2.9%	2.5%
	Rice Warner 2018	2.7%	2.5%

Notes: *Intergenerational Report* projections quoted are for years closest to 2018 and 2038. 2018 numbers were projections where earlier reports are cited, but are estimates of current data where a 2018 source is cited.

Sources: *Intergenerational Reports* for 2002, 2007 and 2015; Rothman. G. P., *Modelling the Sustainability of Australia's Retirement Income System*, July 2012 (published again in the Cooper Report, *A Super Charter: fewer changes, better outcomes*, 2013); Rice, M., *The Age Pension in the 21st Century*, Rice Warner, 2018; Roddan, M., *Pension bill falling as super grows, Treasury's MARIA modelling shows*, The Australian, 24 March 2019.

changes could be applied, effectively retrospectively, to lifetime savings lawfully accumulated under Parliament's previous laws.

An important task for the Review is to help re-establish the published, peer-reviewed, contestable, long-term official modelling of retirement income issues that was common in the period from about 1990 to 2010.[5]

There should be no further retirement income policy change without formal, public examination of its long-term effects through these modelling tools. The Forward Estimates period is misleadingly short for retirement income policy setting. Every important consequence of any significant change in superannuation and Age Pension law takes decades to build to its full impact. Short-term impacts can easily be in the opposite direction of longer-term impacts.

5. Purposes of the system

Neither the Age Pension's role nor the role and upside potential of superannuation is at present explicitly defined. Nor is the transition between them and the preferred evolution of each outlined.

Retirement income provision should be considered in the context of demographic ageing and Australia's persistent national savings challenge, both of which have shaped Australian policy debate for a quarter century. But the national savings picture seems to have been dropped from the framework of recent retirement income policy changes, and the *Retirement Income Review Consultation Paper* also dismisses the issue (at p 8, quoted below).

As Australians grow richer and live longer, households' saving for retirement will likely bulk larger in household saving. Not only does this allow higher self-funded living standards in retirement, it also has the potential to increase national savings in net terms. A supply of patient savings invested for the long run has the potential to reduce exposure to the volatile costs of international borrowing and to reduce the pressures to sell off Australian assets to foreign investors.

Against that backdrop, there should be a government statement of objective that as living standards grow, more should aim to be self-funded in retirement and fewer over time should rely on the Age Pension safety net. It should be an objective of retirement income policies to ensure the Age Pension is sustainable as a safety net providing rising real retirement living standards to those dependent on it, but of diminishing importance as a share of GDP in overall retirement income provision. Larger balances in superannuation at retirement age are the means to the end of reducing expenditures on the Age Pension.

To achieve this outcome, savers must be given confidence in the tax and regulatory framework for their chosen lifetime saving targets and encouraged to build

[5] By 'peer review', we mean the presentation of model specification and results in open conferences of actuaries, accountants, economists or retirement income specialists who can test and critique the use of models.

sufficiently large retirement balances to finance retirement at living standards above those provided by the Age Pension.

Recent data shown in Table 1 confirm that outlays on the Age Pension are indeed now shrinking as a share of GDP, contrary to earlier projections.

The retirement income system design had two objectives, not one

The *Consultation Paper* claims (p 8):

> *Australia's retirement income system aims to allow older Australians to achieve adequate income in retirement, in a way that is sustainable for current and future generations. Although individuals often focus on accumulating assets for a retirement 'nest egg', generating income to support consumption in retirement is the primary purpose of the system.*
>
> *The retirement income system is not intended to boost private savings per se, nor is it intended to be a source of savings for the purchase of large assets during an individual's life (such as housing), or to assist with wealth accumulation in order to provide for inheritances. This is reflected in policy settings such as the restricted access to superannuation before preservation age, minimum drawdown rules for superannuation, and the means testing of the Age Pension.*

This statement strikes Save Our Super as a disappointing closing off of a discussion that should be examined afresh. It is a conclusion, not a quest for a fact base. It seems to imply an underlying suspicion of retirement saving itself (apparently because it allegedly receives large tax breaks compared to a hypothetical benchmark), and to contain a logical fallacy or circular reasoning. What is to be proven as a suitable objective of retirement income policy is itself asserted as the proof of suitability, and what is rightly said to be the primary purpose of superannuation is presented as if it is only purpose.

Given a primary superannuation objective of providing income, it is axiomatic that there must be a corresponding - and no less important - objective of generating the capital ("retirement nest egg") from which to draw that income. Rather than not being "intended to boost private savings *per se*", superannuation necessarily does exactly that.

The Paper's claim does not sit well with the historical justifications of the current superannuation policy architecture that were offered when it was being shaped. At key points in the evolution of the superannuation system, Social Security Minister Brian Howe and Treasurers Paul Keating, John Dawkins and Peter Costello all noted the virtue of superannuation policy in making a net contribution to national savings (and in the case of the Simplified Super package, increasing work effort).

For example, Social Security Minister Brian Howe argued in the 1989 statement 'Better Incomes: Retirement Income Policy into the next Century':

> *Increased saving for retirement not only improves retirement income adequacy but also improves investment and future economic growth and*

hence our capacity to finance retirement income outlays. (Cited in Gallagher, Rothman and Brown, 1993, p 2)

Treasurer Dawkins observed in his June 1992 statement 'Security in Retirement: Planning for Tomorrow Today':

> *Over the long term, our measures will also generate a larger pool of investible funds -*
> *Australian funds for investing in Australia. It will diminish our need for foreign borrowings and enhance Australia's capacity to develop industry and create employment.* (Cited in Gallagher, Rothman and Brown, 1993, p 2)

At the analytical level, Vince FitzGerald's 1993 analysis, *National saving: a report to the Treasurer* and various Treasury officials' analysis of the impact of the Superannuation Guarantee Levy[6] have also highlighted the likely net positive national saving implications of more superannuation saving (after allowing for some partly-offsetting reduction in voluntary saving following the introduction of the Superannuation Guarantee). As FitzGerald noted,

> *As it stands, the Superannuation Guarantee is projected to raise national saving by a net ¾ of 1 percent of GDP within 10 years, and by 1 percent within 20 years ….. This effect on national saving is not a 'by-product'. Indeed the Superannuation Guarantee* ***cannot*** *effectively serve its retirement income objectives in the face of a rapid ageing of the population* ***unless*** *it raises national saving, so as to finance a build-up of the capital stock per employee in the economy ahead of time.* (Emphasis in original; page 51)

The role of the Age Pension

The Age Pension should be defined as a safety net for those unable because of limited or punctuated lifetime earnings to have saved sufficiently to fund their own retirement. As at present, the Age Pension should continue to be set at a rate to fund a decent living standard in retirement and be indexed as at present to ensure recipients share in rising community living standards over time.

The Age Pension should continue to be income and assets tested to ensure the receipt of a full Age Pension is a safety net. Those tests should taper as was established in the 2007 Simplified Superannuation reforms, so as not to create disincentives that limit savings growth and maintain access to a part Age Pension as a retirement income strategy.

The role of superannuation

Superannuation should be the primary vehicle to encourage self-provision in retirement and to protect long-term savings from the discouragements of increasing marginal tax rates on nominal returns to saving and government provision of many of the services for which people used to save.

[6] For officials' comments on the national savings benefits of superannuation savings, see for example *Gruen and Soding (2011)* and *Gallagher, Rothman and Brown (1993)*.

At present, there is little understanding of the large sum needed to save for a self-funded living standard in retirement higher than the default availability of the full Age Pension.

To put this in a quantitative context: consider someone who retires in their late 60s or early 70s, relying on an allocated pension from which they draw the minimum 5% as income. To achieve a 70% replacement ratio, they would need to begin retirement with an allocated pension balance equal to 14 times their final salary. That would exceed the $1.6 million transfer balance cap if the final salary exceeds $114,000.

If voluntary contribution limits continue, they should be sufficiently generous to enable savers to quickly build late-career savings and secure higher retirement incomes than provided by the full or part Age Pension.

Over time, superannuation should be made more responsive to individual choice in the light of individual circumstances, and less dependent on continued rising Superannuation Guarantee Charges applied uniformly over a person's entire working life from the earliest period of very low earnings.

Because of superannuation's uniquely long savings commitments, its effective prohibition on access to super savings during accumulation and required minimum drawdown rates in retirement, citizens need assurance that any future changes in policy will not have significantly adverse effects on lawful prior savings. Such an assurance of protection against "effectively retrospective" adverse changes should be provided by a government commitment to the principles of grandfathering that applied successfully for the last quarter century.[7]

Other private savings don't have the restrictions that force accumulation of super, limit access to it and ensure its minimum rates of draw-down in retirement. They are therefore best viewed as providing the flexibility in accessing discretionary savings through working life that super cannot provide. Access to superannuation balances before preservation age should not be further liberalised.

6. Principles for assessing how the system is performing

Common discussion of retirement income policy is bedevilled by mistaken understanding of the facts of what is happening in the system and a faulty framework for analysis, which together feed subjective views of unfairness and interact with the notion that the system is unsustainable.

Conceptually the four principles proposed in the *Consultation Paper* – adequacy, equity, sustainability, and cohesion – potentially cover many of the appropriate dimensions for assessing the retirement income system.

[7] We use the useful concept of "effective retrospectivity" as outlined by then Treasurer Morrison in an address to self-managed super funds in 2016.

A fifth principle: freedom of choice and personal accountability

We would suggest adding a fifth principle, 'freedom of choice and personal accountability'. Judged against that principle, saving for chosen living standards in retirement should ideally be flexible and responsive to individual responsibilities at different stages of life. Freedom to adjust lifetime saving for retirement to circumstances and tastes is as important as the freedom to choose study or training, to choose a career, to adjust work effort, income paths, and saving for other phases of life.

Personal accountability for retirement saving and investing is supportive of economic dynamism and efficient financial market allocation of the resources made available through forgoing consumption to their highest value uses.

Implications of the suggested fifth principle

Because we favour freedom of choice and personal accountability, we tend to favour (at the margin, and going forward) more reliance on voluntary superannuation saving under a stable tax and regulatory regime in preference to more reliance on progressively higher rates of Superannuation Guarantee Charge.

The benefits of freer choice of superannuation saving rates in the presence of other avenues of saving and spending include:

- encouraging the superannuation industry to be more attentive to the importance to savers of higher net returns, low administrative charges and good governance, in a way that a rising Superannuation Guarantee Charge compelling rising contributions does not.
- allowing citizens to adjust to changing individual pressures over their life cycles as they encounter periods of part-time work and juggle the costs of study and training for a career, family formation, house purchase and educating their children. Greater variability of individual lifestyles over time favours more resort to voluntary super rather than a compulsory levy at high and rising rates
- avoiding a rising and inequitable impost on those who suffer enduring low incomes from whatever causes, and who will not therefore accumulate a large enough super balance by retirement under any practical level of Superannuation Guarantee Charge to enjoy a larger income than provided by the full Age Pension. The Age Pension exists to protect the retirement living standards of these citizens.
- Avoiding creating a perverse demand in low income households disadvantaged by a rising Superannuation Guarantee Charge for offsetting Commonwealth expenditure growth (eg for housing or childcare) to compensate them for expenses they could otherwise have met themselves.

The policy objective of rising real incomes over time in retirement can be better met by a stable policy framework for flexible, voluntary saving than by a rising, one-size-fits-all Superannuation Guarantee Charge. It is striking to us that the Centre for Independent Studies, the Institute for Public Affairs and the Grattan Institute all argue for halting the rise in the Superannuation Guarantee Charge. They use a large

core of common arguments and evidence, as well as smaller groups of arguments appealing more specifically to those tending to the right or the left of policy preferences.

The foregoing comments reflect a judgement at the margin about desirable future developments. Save Our Super has no hostility to the idea of a compulsory superannuation at sensible levels as some part of the retirement income policy structure. But we see it as an issue for marginal analysis. Its greatest marginal benefits and its smallest marginal costs occurred historically at its lowest rates, and its marginal costs rise and its marginal benefits decline as its rate rises. At some point – we suggest about now – the curves cross and further increases in the Superannuation Guarantee Charge produce greater costs of the type outlined above than benefits in higher retirement incomes.

Those who argue we already save *More than enough* for retirement have an alternative world view to Save Our Super. In their view, savers and retirees are allegedly too risk averse, save too much and spend too slowly. In that alternative view, self-funded retirement allegedly ends in intra- and inter-generational inequity and often in financial, housing and health choices in later life beyond the cognitive and financial means of many attempting to retain their financial independence. The Grattan Institute argues it is best to address such end-of-life problems with the assumption that we will mostly end up in taxpayer-funded nursing homes, hospitals and hospices, so we might as well embrace that destiny.

Save Our Super argues that the Retirement Income Review should reject those values.

7. Analytical issues: navigating by modelling, or tax expenditure estimates?

For the sake of argument, we take the objectives of retirement income policy to be:

- to raise real retirement incomes for all;
- to raise savings in superannuation so progressively more of the age-qualified can self-fund retirement at higher living standards than provided by the Age Pension;
- thus reducing the proportion of the age-qualified receiving the Age Pension, improving its sustainability as a safety net and reducing its tax burden on the diminishing proportion of the population of working age; and
- contributing to national saving.

Such objectives clarify what we would seek as a fact base for retirement income policy:

- Are real retirement incomes rising for all?
- Are life savings at retirement rising sufficiently to support more in self-funded retirement?
- Is expenditure on the Age Pension falling as a share of GDP? Of Government spending? In absolute terms?
- Are the benefits above being achieved at acceptable cost in terms of the taxation of saving and retirement incomes?

- Given the long times to maturation for retirement income policy changes, how might current trends evolve over decades to come?

Such a cost-benefit framework was used in the mid-1990s, in developmental, published long-term modelling work by officials including Brown (1993) and Gallagher, Rothman and Brown (1993), and in the FitzGerald Report (1993).

The mistaken focus on gross costs rather than net benefits

Instead of such cost-benefit work, today we see reporting which highlights only the estimated gross costs of retirement policy: expenditures on the Age Pension plus problematical estimates of the 'tax expenditures' on superannuation. There is no measure anywhere of the fiscal and broader economic benefits in moving, over time, significant numbers of those age-eligible for the Pension to a higher living standard in self-funded retirement from increased saving.

The *Consultation Paper* for the Retirement Income Review itself repeats this approach: it discusses policy objectives and policies, then highlights the alleged gross costs of the polices to the Commonwealth budget at each decile and some percentiles of the income distribution, with no evidence on whether the policies are working and, if so, how well they are working.

Treasury briefly addressed the issue of gross costs compared to net benefits after an extended internal review of the tax expenditure process with external submissions. In a special chapter of the *Tax Expenditures Statement 2017* devoted to superannuation, it concluded rather lamely (p 14) that a full budget costing was beyond its scope, but that one had been attempted in 2013 (see Figure 5 below). That 2013 estimate showed a negative but shrinking net fiscal impact over some 50 years as tax expenditures on superannuation (with the Super Guarantee Charge rising to 12%) exceeded the diminishing expenditure on the Age Pension (all expressed as a share of GDP). But as we have seen in Table 1, that dated picture is well behind the recent trends.

Note also that Figure 5 does not address broader economic impacts. Public income transfers such as the Age Pension require higher taxes, supress work effort and allocate resources through lobbying and elections, often inefficiently, rather than through competitive markets. An economy more dependent on the Age Pension financed by ever higher taxes on a dwindling share of the population of working age will be less wealthy and dynamic over time that one more dependent on self-funded retirement at rising living standards through private saving. Private saving rests on individual accountability and allocates resources and finance to the highest value uses in consumption and investment through competitive financial markets. We all understand that the financial sector and superannuation companies are far from perfectly efficient machines for allocating capital. But we know how to make them work far better, with the sorts of measures recommended by the Productivity Commission.

The *Consultation Paper* approaches the issue of equity and sustainability with a discussion (at pp18-21) framed by its Figure 4, reproduced as our Figure 6 below.

The Figure is explained as being calculated using a hypothetical cameo model. We spend some time considering the implications of this model, as in Save Our Super's view it embodies much that is conceptually misleading about the retirement income policy debate.

The first point to note about the *Consultation Paper*'s scene-setting presentation in Figure 6 is that it is very opaque.

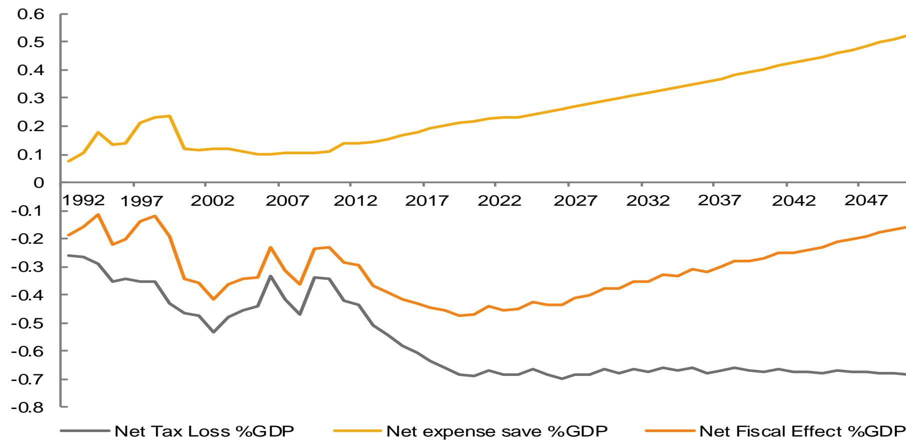
No assumptions are stated for wages growth and prices growth over the 40 years of the assumed working career, or the 25 years of assumed retirement, though there must be some such assumptions to be consistent with using nominal GDP assumed growth at 5% per annum for the purposes of discounting Age Pension payments and superannuation tax concessions to a present value. (As we show in a following section, wage and price growth are very important for retirement income trends, for example for the evolution of citizens' liability for a doubled tax rate on their superannuation contributions. With about 30 years of typical nominal wage growth, the current $250,000 annual income at which the doubled contribution tax rate applies (presently a very high income) will be triggered just by Male Total Average Weekly Earnings.)

Figure 6 has led to typical journalistic excitement, such as 'superannuation costs government more than the Age Pension'. Even if true, that would be an irrelevant comparison without any consideration of the benefits and of the demographic, saving and retirement income trends mentioned above. This popular view is, in the assessment of Save Our Super, conceptually wrong and leads in practice to wildly exaggerated claims that themselves do damage to the sustainability of the retirement income structure.

The cameo model is said to assume that individuals commence work in 2018-19 at age 27 and work until age 67, with a predicted life expectancy of 92.[8] It assumes no non-concessional contributions. Accumulated superannuation benefits (with unspecified investment returns) are invested in an account-based pension and individuals are assumed to draw down their assets at current age-based prescribed minimum drawdown rates. The level of tax assistance and Age Pension entitlements (which presumably grow over 65 years with various indexing by inflation and wage growth of the retirement system's parameters) are discounted by nominal gross domestic product (around 5 per cent per annum) to give a net present value in 2018-19 dollars. Annual incomes are calculated for each percentile based on the distribution of earners at each single year of age.

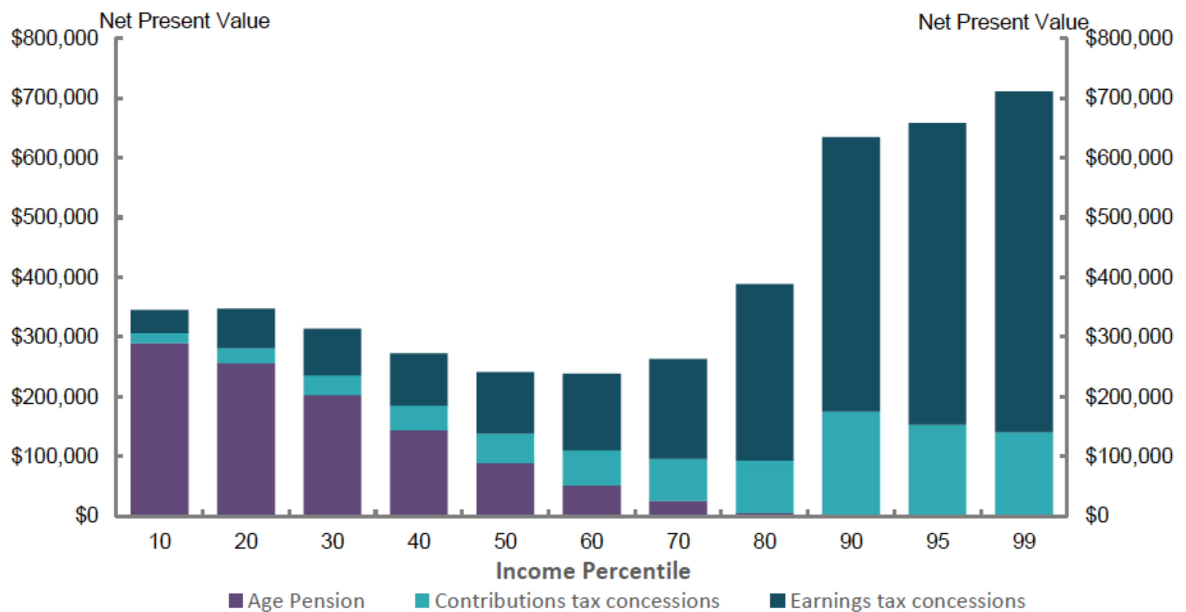
[8] While the retirement age and life expectancy illustrations are realistic, we note that many young or unskilled low-income workers are caught in the Superannuation Guarantee Charge well before age 27, for example in part time work while undertaking tertiary education.

Figure 5: Cooper Report's net fiscal impact of Superannuation Tax Expenditures and Age Pension outlays: 2013 (Treasury estimates)



Source: Cooper, Jeremy: *A Super Charter: Fewer Changes, Better Outcomes*, Canberra 2013, p 11. Accessed 15 December 2019.
Notes: The top, light orange line represents the fall in expenditure on the Age Pension as a share of GDP. The bottom, dark grey line represents the 'revenue forgone' estimate of tax expenditures on superannuation, measured against the hypothetical benchmark of a Schanz-Haig-Simons comprehensive income tax but making no allowance for behavioural change after an imagined abolition of special tax treatment of super contributions and super fund income.
The middle, dark orange line represents the estimated net effect on the Commonwealth Budget of the two outlying lines.

Figure 6: Claimed lifetime Government support provided through the retirement income system



Source: Treasury calculations; Retirement Income Review *Consultation Paper*, p 18.

Perhaps the model assumes super contributions are only made at the rate of the Super Guarantee Charge, as no assumption is specified for concessional contributions. It is unclear if the model includes scheduled future increases in the Super Guarantee Charge.

What does it mean to say, "Annual incomes are calculated for each percentile based on the distribution of earners at each single year of age"?[9] The position of any individual income earner in the overall income distribution would typically change markedly over 65 years with lifecycle effects. (See, for example, the Productivity Commission's *Rising inequality? A stocktake of the evidence*, Chapter 5 on intragenerational mobility.) If so, what drives such intragenerational change? It would clearly be misleading to attribute to the richest (constant) cameo percentile representative over each of the 65 years the maximum superannuation 'tax expenditure' received in any one year by the ever-changing individuals in the actual top percentile of the population. If the Figure 6 analysis is indeed static in this sense, it is like performing 'Hamlet without the Prince' as far as overall community benefit is concerned: a key purpose of saving for the individual is to grow richer, and a key consequence for the economy of more individual saving (ie deferred consumption) is greater resources and corresponding financing for investment and higher national income tomorrow.

Before turning to a consideration of the estimated tax expenditures, we note in passing a presentational trick that deserves a place in the timeless 1954 classic *How to Lie with Statistics*, notably in its Chapter 5 on "The Gee-Whiz Graph". In figure 6, the poorest 10% get a bar to themselves, but the top 10% get three bars, one for the person at the 90th percentile, one for the person at the 95th percentile and one for the person at the 99th percentile. This visually enlarges the right-hand end of the distribution to exaggerate an impression of "unfairness".

The exaggeration of gross tax expenditures on superannuation

Figure 6 speaks of "government support" for superannuation; this support is by so-called "tax expenditures". While the cameo modelling presumably generates its estimates at a micro level for each 'person' representing a percentile in the income distribution, the exact same concepts of tax expenditures are also estimated in aggregate in Treasury's annual *Tax Expenditure Estimates Statement* (eg for 2017), renamed for the most recent edition *Tax Benchmarks and Variations Statement 2018*.

A key issue in considering both the equity and sustainability of retirement income policy is the estimated gross cost of the tax treatment of superannuation, frequently claimed to be some $35 billion a year or more in aggregate, and rising year after

[9] We assume the cameo model effectively takes 100 imaginary 'persons' as data points, and attributes to each person the income (and wealth? – highly relevant to Age Pension assets testing) that accrues to the corresponding percentile of the population income distribution each year.

year as deposits into super accounts rise, and earnings on the stock of deposits rise.[10]

Unfortunately, understanding tax expenditures takes considerable effort.

A tax expenditure is the amount by which a legislated tax treatment differs in the actual revenue it raises from some hypothetical benchmark tax system's assumed revenue.

Obviously, the key issue is the choice of the hypothetical benchmark, and a secondary issue is guessing the revenue the hypothetical benchmark might produce, both in year one and on a sustained basis as taxpayers respond to the hypothetical treatment.

For Australia, Treasury assumes as its preferred benchmark a hypothetical Schanz-Haig-Simons comprehensive income tax, which is applied not to income as normally conceived, but rather to a person's annual consumption plus the change in their wealth over the year.[11] It is really a comprehensive consumption tax without exemptions plus an accruals wealth tax.

That benchmark is then subjectively varied by Treasury to allow for what Treasury considers to be "structural features" of the actual Australian tax system. For example, Treasury does not consider imputed rent from owner occupied housing or unrealised capital gains as part of the hypothetical Australian benchmark tax structure, though they are clearly a central part of a Schanz-Haig-Simons comprehensive income tax. They are treated as "structural features" of the actual Australian system. Oddly, though, Treasury does consider the lack of a capital gains tax at 100% of the realised gain on the family home to be a tax expenditure rather than a structural feature of the tax system, despite there never having been any capital gains tax on the family home, nor any serious proposal to introduce one.

The guessed revenues conjured up by Treasury judgements about a hypothetical tax system are eye-watering, and have predictably feverish effects on the imaginations of some journalists:

10 *Money in retirement: More than enough* p 19 and fn 44. Grattan's use of a $35 billion estimate apparently arises from adding together (against Treasury advice) the 2017-18 'revenue forgone' estimates from a comprehensive income tax benchmark for the tax treatment of super contributions ($16.9 billion) and super fund earnings ($19.3 billion), and deducting $1 billion for 'double counting'.

11 Schanz was a late 19th century German legal scholar. Haig and Simons were early 20th century American economists. Their ideal hypothetical tax (which has never been applied anywhere in the world) was envisaged to improve equity before today's comprehensive welfare state expenditures, progressive income taxes and comprehensive consumption taxes.

Treasury says Tax Expenditures cost $150 billion

'If abolished, they would close the budget deficit four times over.'
Peter Martin, Economics Editor, The Age

Headline and story lead carried in The Age and the Sydney Morning Herald, 30 January 2017

Treasury's various estimates of the tax expenditures vary widely from year to year, and with differences in the concept being estimated. Attachment C shows three recent sets of estimates of three different concepts of tax expenditure.

For 2018-19's estimates, the $37 billion 'revenue forgone' tax expenditure on superannuation is dwarfed by a $67 billion tax expenditure on the family home (*Tax Benchmarks and Variations Statement 2018*, p19). So, if an analyst convinced by the tax expenditure methodology were attracted to raising revenue by removing the specific tax treatment of superannuation embedded in the Australian tax law, they might also enthusiastically consider removing the 80% more costly legislated capital gains tax exemption of the family home.

Treasury notes "The tax benchmark should not be interpreted as an indication of the way activities or taxpayers ought to be taxed" (*Tax Benchmarks and Variations Statement 2018* , p 1). But like the stricture not to add together separate estimates whose estimation is interdependent, that advice is honoured more in the breach than the observance, including in Figure 6.

The concept of a tax expenditure on superannuation is inevitably highly subjective, and is analysed at greater detail in *The Tax Expenditure Statement and the treatment of savings*, a contribution by one of this submission's authors to Treasury's internal review of tax expenditure methodology in 2017.

Stripped of its theoretical camouflage, Treasury's preferred tax expenditure estimates for superannuation are based on treating superannuation as if it were a bank deposit. For the various tax expenditure estimates, superannuation savings are hypothetically taxed as if made out of after-tax income (ie, taxed at the saver's top marginal rate); earnings within the super fund on savings are also hypothetically taxed at the saver's top marginal rate; but withdrawals are free of a third layer of tax (just like making a withdrawal from a current bank account at an ATM, and as is legislated for allocated superannuation pensions paid to those over 60 which qualify for tax exemption).

The first problem with applying this hypothetical benchmark to superannuation is that superannuation would then no longer exist. The benchmark would kill the goose that laid the golden eggs.[12] Using the cameo modelling assumptions for illustration, no

[12] In Aesop's fable, a couple own a goose that lays one golden egg every day. Out of greed, they kill the goose to obtain 'up front' all the gold they supposed to be already inside it, and that they would otherwise have received over the long run. But once butchered, the goose

one would accept quarantining their savings for 40 years and accept drawdown rules governing their access to it over 25 years of retirement through an allocated pension when they could instead either save the money in a current account with no restrictions or, more likely given the discouragements to saving, spend it and ultimately go on a whole or part Age Pension.

Rebecca Weiser and Henry Ergas have noted:

> *…. no advanced country taxes long held retirement savings at standard income tax rates because it would result in cripplingly high effective tax rates. For example, for an Australian taxpayer facing a 45 percent marginal rate, applying standard income tax rates to retirement savings would lead to a situation in which each $1 of retirement consumption would cost savers nearly $5 in taxes over a lifetime of saving, implying a consumption tax rate of a staggering 465 per cent.*
>
> *If those tax rates were imposed, voluntary superannuation savings would plummet, so the revenue raised by the government would fall far short of the amount reported by Treasury.* (p 28)

We shall return to this rather basic problem below, in the context of the various competing versions of superannuation tax expenditure estimates. But we note here a critically misleading element of Figure 6 reproduced from the *Consultation Paper*: by showing the hypothetical 'tax expenditures' on super contributions and income within super funds on the same basis as recurrent actual annual expenditure on the Age Pension, the diagram implies that the tax expenditures continue year after year, or conversely, that their abolition would yield a comparable revenue gain in perpetuity.

This impression from the *Consultation Paper's* Figure 4 (reproduced as our Figure 6) is clearly illusory, and was recognised as such by academics as long ago as 1987, and by Treasury analysts as long ago as 1993.[13] Treasury's retirement income modellers of that era noted a proper national cost benefit analysis of retirement income policy needed to address:

> *the long term costs and benefits of retirement income policy and whether there is a positive overall return, in terms of improved retirement incomes, reduced age pension outlays, increased tax receipts from retirement incomes* [i.e., the benefits] *and the accumulated cost to Government of the tax concessions* [i.e. the costs]. (Brown, Colin: *Tax expenditures and measuring the long term costs and benefits of retirement income policy*, Paper to Colloquium of Superannuation Researchers, University of Melbourne, 1993, p 8)

proves to be like any other goose inside. It only produced the golden eggs by its daily effort, not from some privileged endowment of a lifetime's gold.

13 Professor David Knox, *Taxing Superannuation in Australia: cost and benefits of the alternatives*, Research Paper, No 354, Department of Economics, University of Melbourne, October 1992, cited in Brown, Colin: *Tax expenditures and measuring the long term costs and benefits of retirement income policy*, Paper to Colloquium of Superannuation Researchers, University of Melbourne, 1993.

Competing tax expenditure estimates

In response to criticism of tax expenditure estimates using a comprehensive income tax benchmark for superannuation, such as made in the 2009 report to then Treasurer Swan on *Australia's Future Tax System*, Treasury has on two occasions produced three major alternative forms of superannuation tax expenditure estimates (see Attachment C).

Its first 'experimental estimates' were published in *Tax Expenditure Statement 2013*. The most recent estimates for all three were for 2017-18, and were published in the *Tax Expenditure Statement 2017*, Chapter 3. The three concepts estimated are:

- Revenue forgone against a comprehensive income tax benchmark. This makes no behavioural adjustment for the higher hypothetical tax - ie although people face a higher hypothetical tax on superannuation, they don't save less or differently, or work less or spend differently. This produces tax expenditure estimates for 2017-18 of the order of $36 billion;
- Revenue gain estimates, also against a comprehensive income tax benchmark. This estimates a behavioural response to the higher hypothetical tax - eg people may work less, save less, save in other forms and spend more. This produces tax expenditure estimates for 2017-18 of the order of $35 billion.
- Revenue forgone estimates against a comprehensive expenditure tax benchmark. Under this benchmark advocated by *Australia's Future Tax System*, superannuation earnings are also tax free. Instead of being 'undertaxed' by $19 billion on their earnings, they are 'overtaxed' by $9 billion. This produces aggregated superannuation tax expenditure estimates for 2017-18 of the order of $7 billion instead of $36 billion.

Treasury has not to date produced a fourth estimate logically necessary to round out this suite: a revenue gain estimate against a comprehensive expenditure tax benchmark. That would presumably be even lower than $7 billion, because of different work, saving and spending choices caused by the higher hypothetical tax.

The argument for regarding the expenditure tax benchmark as better for estimating the notional tax expenditures on superannuation is essentially that, unlike the comprehensive income tax benchmark, it does not supress saving relative to consumption.[14]

In 1993, FitzGerald stressed the problem with the comprehensive income tax benchmark for estimating superannuation tax incentives, and made his case for the consumption tax benchmark:

> *The question naturally arises 'incentives relative to what?' The benchmark conventionally adopted is the full application of the income tax, yet it has long been held that income taxation taxes saving twice:*
>
> > *'Unless savings are …. exempted from income tax, the contributors are taxed twice on what they save and only once on what they spend.'*

[14] For the evidence behind these views, see: *Australia's Future Tax System: Report to the Treasurer, Part Two: Detailed analysis, Volume 1 of 2.*

John Stuart Mill, *Principles of Political Economy.* (p 65)

……

Expenditure taxation treatment – taxing saving when drawn down to spend – is the ideal incentive structure for voluntary savings, This is because the after tax return to the saver is equal to the underlying return on the investments in the economy – there is no bias to consuming now. (*Executive Overview*, p 16)

Similarly, *Australia's Future Tax System* concluded its assessment of these arguments by stating bluntly:

Comprehensive income taxation, under which all savings income is taxed in the same way as labour income, is not an appropriate policy goal or benchmark. (p 12) …

Superannuation and owner-occupied housing should continue to be taxed at relatively low rates or be exempt from income tax, consistent with an expenditure tax benchmark. (p 13)

The earnest reader, by now doubtless thoroughly bewildered by the range of concepts and the widely varying possible numbers shown at Attachment C, might note that Treasury's behavioural adjustments to allow for taxpayers working less, saving less, saving differently and spending differently under the hypothetical comprehensive income tax treatment are comparatively small: only about $1 billion.

The reason for such a small adjustment is both remarkable and incredible: savers are assumed to continue to save pretty much as at present into super despite the hypothetical abolition of special tax treatment, because Treasury assumes the Super Guarantee Charge would continue, and continue rising. Savers would have no choice. But this is a fantastic assumption in our view: the electoral tolerance of the Superannuation Guarantee Charge would instantly disappear if savers were legislatively compelled to put ever-larger amounts of income into super from their earliest days in the workforce, taxed as if they had put their money in a current account, but then legislatively forbidden to access it for 40 years, even then to draw it down only under prescribed conditions.

Critics of 'tax expenditures' on superannuation prefer the estimates of revenue forgone against a hypothetical comprehensive consumption tax base: that yields the biggest numbers, which they point out rise strongly through time. Every dollar saved in, or earning within, a superannuation fund pays more tax, but the hypothetical 'tax expenditure' nevertheless rises, by about one third between 2017-18 and 2021-22.

Strikingly, the alternative estimates of revenue forgone against a hypothetical expenditure tax base are not only one-fifth as large, they are also flat over time (Attachment C, *2017 Tax Expenditures Statement* estimates). This is because under the hypothetical consumption tax benchmark, the 'undertaxing' of super contributions rises in step with the 'overtaxing' of earnings within the super fund, so the net tax expenditure is roughly constant. Little wonder these estimates are ignored by the proponents of big government.

Treasury concludes (*Tax Expenditures Statement 2017,* p 14):

> *The determination of a benchmark tax system for superannuation requires judgement; there are reasonable arguments for both the comprehensive income tax benchmark and the expenditure tax benchmark. Given the considerable differences in tax expenditure estimates between the benchmarks, caution should be exercised when drawing conclusions on the size of the superannuation tax expenditures.*

Regrettably, this caution is practically never observed, and it has not been observed in Figure 6 above from the *Consultation Paper*. Most recently, the 2019-20 Mid-Year Economic and Fiscal Outlook published, without any description, explanation or qualification, what appear to be the superannuation tax expenditures 'revenue forgone' estimates for 2019-20 of $39.250 billion (p 312, Table D1, addition of C2 and C4). Thus, the 'zombie accounting' of the tax expenditures on superannuation lurches on, after more than 30 years of unrebutted radical criticism.[15]

However, Figure 6 does show the contributions tax concessions (light green) and the earnings tax concessions (dark green) separately. As a rough first approximation, one can visualise the impact of using a hypothetical expenditure tax benchmark to estimate tax expenditures by simply omitting the uppermost, dark green rectangles. The distribution of retirement income fiscal costs across the income deciles would look completely different. Instead of being U-shaped and rising strongly to the right, it would slope downward to the 40th or 50th percentile and continue essentially flat from there to the 100th percentile.

Moreover, this rough visual adjustment would be only a first approximation. Under a hypothetical expenditure tax benchmark, the annual tax expenditure at the superannuation earnings phase is not zero; it is minus $9 billion. So Figure 6, properly recalculated, would have the distribution of retirement income fiscal costs becoming zero or negative for the upper quintiles. By the journalistic standards cited above, a more valid Figure 6 would imply retirement income policy is supressing self-funded retirement and subsidising Age Pension recipients.

Because the contributions tax is levied on the accumulation account, not the individual, its nature is that of a tax on contributed capital rather than a tax on the individual's income.

[15] An American critic of the US Treasury's tax expenditure methodology (also using the Schanz-Haig-Symons benchmark copied by the Australian Treasury) memorably described the process:

> *Now a zombie accountant shambling through the corridors of power, the tax expenditure budget has become an object of derision where it was once hailed as a champion.*

Dean, S. A., *The Tax expenditure Budget is a Zombie Accountant*, quoted in Paul Palisi's Treasury Working Paper, *Tax Expenditure Analysis – Origins, Debates and Future Prospects*.

Thinking of the contributions tax as a tax on the fund's capital helps clarify that the taxation of concessional contributions directly reduces the amount of capital in the fund, throughout the accumulation phase and ultimately in retirement. Unavoidable mathematical consequences are the reduction in earnings tax through the accumulation phase and an increase in age pension costs in retirement, neither of which are accounted for in the calculation of 'tax expenditures' / 'tax benchmark variations.'

Save Our Super's view is that the specific tax treatment of superannuation should be regarded objectively as a structural feature of the tax system, not a tax expenditure against a subjective, hypothetical and essentially arbitrary tax system that has never received any democratic endorsement. Particular tax treatment of superannuation has been specified in Commonwealth law for 105 years, since the very inception of the Commonwealth income tax in 1915.[16]

On this Save Our Super view, the tax expenditures on superannuation are zero (just as the Treasury assesses there is no tax expenditure in not taxing capital gains on accrual, because the Australian tax system has never been designed that way).

An alternative argument leads towards a similar conclusion: if super saving had not always received a specific tax treatment and had not been in part compulsory (through the Superannuation Guarantee Charge since 1992), the funds being saved in super might have been saved in the family home (paying zero tax) or in other forms of saving that moderate the disincentive effects of income tax at rising marginal rates on nominal returns to saving. These alternative scenarios are of course very uncertain, but the prospects that savings in super would instead go into current accounts at a bank to be taxed at the saver's top marginal rate are vanishingly small.

At the very least, the most defensible of the published tax expenditure estimates for a one-year impact is the expenditure tax benchmark: for 2017-18, some $7 billion in the first year, rather than $36 billion. And in subsequent years, the tax expenditure on superannuation would trail off as savings in superannuation stagnated or declined and the benefits in rising retirement incomes and falling expenditures on the Age Pension also stagnated or reversed.

This is not to argue that the tax treatment of superannuation, either in 1915 or now, is perfect or immutable, but rather that any policy changes should be:

16 See *A brief history of Australia's tax system*. The initially specified treatment was that "superannuation funds were exempt from paying tax on their earnings provided the fund was set up for the benefit of employees in any business. At that time, unlimited deductions were allowed for employer contributions to a superannuation fund for employees, while a capped concessional deduction was allowed for personal superannuation contributions."
The Age Pension predated the creation of this income tax law by about 5 years, so the income taxation of superannuation immediately needed to address the provision of a (then very limited) retirement safety net 'for free'.

- examined openly, not by the subterfuge of disguising subjective judgements by officials as abstruse technical analysis;
- studied using published, contestable, peer reviewed long-term modelling such as was common in the 1990s that illustrates the important interconnections between the economy-wide costs and benefits of the retirement income system over the many decades that changes take to have their full effect; and
- implemented with grandfathering where any significantly adverse effect would otherwise be inflicted on savers who have lawfully trusted their life savings strategies to earlier policy settings.

8. Adequacy

The *Consultation Paper* groups the two very different building blocks in retirement income policy, the Age Pension safety net and the mechanism for building commitment to saving for self-funded retirement over a working life, as if both can be judged by the same broad concept of 'adequacy'.

The Paper's claim overlooks an important alternative view, last prominently expressed in *Australia's Future Tax System*: government should tax long-term saving stably in a way that reduces or eliminates the disincentives to saving inherent in a large welfare state and the imposition of income tax at rising marginal rates on the purely nominal component of the return to saving. The distortionary impact of income tax on the nominal returns to saving is worse the longer the term of the saving. Thus, the suppression is worst of all for superannuation, absent the special tax treatments for it that Parliaments have legislated since the birth of the Commonwealth income tax in 1915. But ideally, all forms of saving should be taxed in a way that better approximated a level competitive playing field across different forms of saving.

In Save Our Super's interpretation of this argument, the task for superannuation policy in the broader retirement income structure is not to achieve an 'adequate' self-funded retirement income, however prescribed. It is to reduce the government disincentives to saving. With Government having struck a reasonable and sustainable tax structure, citizens should, on this view, be entitled to save what they like, at any stage of life. Individuals are the only proper judges of self-funded retirement income adequacy in their own cases.

Saving is as important an element of personal choice and responsibility as studying for higher skills or working harder for more income or taking more holidays. The act of saving is not merely financial: saving is forgoing consumption. Forgoing consumption is providing both real resources and a financial pool of savings for others with more urgent needs to use those resources productively in the short run, and to raise society's income over time. On this view, saving is a good that should not be discouraged, not a bad that should be hobbled.

The argument against unfettered saving

If Save Our Super understands the issues correctly, there is just one argument against the foregoing pro-superannuation view: saving for a self-funded retirement

might be good up to a point, but it comes at an allegedly enormous cost to government revenue in 'tax expenditures' – some $36 billion a year and rising year by year with the amounts being saved in super.

In this common view, saving in superannuation is too costly to the Government and must be constrained by contribution limits or taxes so that self-funded retirement is no more than 'adequate', or the structure might become unsustainable and be brought down by its (hypothetical) cost to tax revenue.

We regard this objection as fanciful, for reasons explained in the section 7 discussion of tax expenditure methodology.

Adequacy in the Aged Pension compared with adequacy in self-funded retirement

Save Our Super contends that the idea of adequacy for the Age Pension makes obvious policy sense and is already well met. The Age Pension is a safety net, and the objective is to ensure that those with insufficient savings to fund retirement, whether through broken workforce participation, low earnings over a career, ill health or other factors, can live decently in retirement and share in community productivity growth and rising incomes. This is achieved by the indexation of the Age Pension by Male Total Weekly Earnings (when that raises faster than the price indexes, as it usually does). This increases real purchasing power over time. And Parliament can further increase the rates of the Age Pension at any time.

The idea of adequacy for the superannuation income of a self-funded retiree is an entirely different matter. Save Our Super considers there is no sensible answer to the question of adequacy in self-funded retirement income. It is a matter for the lifetime work and savings choices of individuals, with their markedly different tastes and opportunities.

Financial advisors' guidelines to individuals as to what proportion of their working incomes they might like to save for as a retirement income may be useful. But there is no legitimate public policy interest in the choices individuals make in this area. There is no more case for attempting to devise a Government prescription of adequacy in self-funded retirement income than there would be for a 'salary adequacy' guideline for people's career earning paths.

We discern one reason for the idea that a Government judgement of adequacy of self-funded retirement income is necessary: the notion that Government needs to steer between the Scylla of too low a Superannuation Guarantee Charge and the Charybdis of excessive tax expenditures on voluntary superannuation saving. On the one hand, voluntary saving for a retirement judged excessively opulent needs to be restrained, because of the cost in 'tax expenditures'. But on the other hand, the Superannuation Guarantee Charge needs to be raised high enough that everyone who saves only at that rate will retire on an 'adequate' income of more than the Age Pension.

The challenge needs only to be stated in these terms to show that government would be well advised to avoid the notion. As we have argued, there is no basis for the tax

expenditure exercise, and its implied conclusion that $36 billion a year could be raised from superannuation is groundless. And if the Superannuation Guarantee Charge is to be raised to produce a super balance on retirement of more than $1 million, there are going to be many people in poverty through their working careers in order to retire comfortably.

Too much saving?

We have sought to remind the Retirement Income Review that since at least the 1993 FitzGerald Report to the Keating Government, there has been a concern that, for want of sufficient household, business and government saving, Australia's total saving is insufficient. The Super Guarantee Charge was introduced both to boost self-funded retirement in the face of demographic ageing, and to contribute to raising national saving. It might surprise those who have followed that history that some now worry that when it comes to saving for retirement, Australia is saving *More than enough*.

These ideas seem heavily influenced by 28 years of uninterrupted GDP growth, booming asset values in a low interest rate environment and strong performance in equity markets. Typically, those claiming that Australians already save 'more than enough' for retirement are too young to have experienced the volatility of markets over a saving and retirement lifetime.

A person now in their 70s pondering how rapidly to run down their savings or shape their bequests against a life expectancy of some 90 years, will have experienced over their lifetimes:

- interest rates on 1-year term deposits swinging from 15.9% to 2.2% (effectively zero, in real terms);
- inflation ranging from 23.9% in 1951 to -1.3% in 1962, then back to 17% in 1975;
- some 6 or so bear markets in shares, each wiping out from one-fifth to one-half of any sum invested and requiring some years to recover to its previous high in the next bull market. (Bull markets typically run longer than bear markets, but that is of declining reassurance to an ageing retiree);
- fashions in the macroeconomic frameworks influencing government policy ranging through Keynesianism, monetarism and rational expectations; practices ranging from monetary targets through inflation targeting to quantitative easing in major economies; attempts to improve predictability and discipline of fiscal and monetary policies through strategic frameworks and policy 'anchors'; and efforts to improve the transparency of policy settings through a charter of budget honesty now more honoured in the letter than the spirit.

Most importantly, such a retiree will have experienced wide and totally unpredictable variations in retirement income policy, and particularly in the regulation and taxation of superannuation. According to one compilation of changes in the Age Pension and superannuation parameters and taxes, we judge well over 100 major changes between 1915 and today have been made that would significantly affect a working person's saving profile or a retiree's living standards.

9. Equity

Equity is subjective, and views on it should be considered in the context of broader political and economic philosophy. A body of empirical work on moral psychology and political attitudes originating in the United States observes that ideals of equity and justice tend to differ between the political left and right. For the left, fairness tends to weight equality heavily, whereas on the right, the concept of fairness is more heavily concerned with proportionality of reward for effort.[17]

It is the misfortune of retirement income policy debate that it focuses exactly on these contrasting ideas of fairness. The 'tax expenditure' estimates exaggerate the tensions. For those focussed on the ideal of the Age Pension as the safety net protecting against low or punctuated earning and savings opportunities over a working lifetime, 'tax expenditures' to help the more fortunate save for a higher retirement income are intrinsically bad. In contrast, those who have worked and saved to build capital to fund retirement income believe that honouring the rules under which they saved and enjoying the rewards for their effort are important.

Given that backdrop, the problems detailed in section 7 above with exorbitant 'tax expenditure' estimates of revenue forgone measured against a hypothetical comprehensive income tax benchmark exacerbate a natural fault line in debate. It would be a valuable contribution of the Retirement Income Review to establish a fact base of sensible social cost benefit analysis, in place of the last decade's focus on exaggerated claims of gross costs.

Should retirement policy compensate for differences in working life?

The *Consultation Paper* asks to what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?

It could be said the Age Pension exists entirely to compensate for inequities experienced during working life. Superannuation policies exist to reduce the discouragement to saving and should not be used not to address other perceived problems such as racial or gender inequalities in work history.

People who work harder, or work longer, or earn more, or have better health or better luck, might choose to save more over a long working life than those with worse luck or different choices. The welfare consequences of these events is addressed year by year in the tax and transfer system, and in retirement, by the Age Pension. People who save more over a working lifetime, for whatever reason, expect to enjoy a higher living standard or more opportunities in self-funded retirement.

We see no point in trying to compress the difference in returns between those who make higher lifetime savings and those who made lower savings. Those who see

[17] See, for a summary: Haidt, Jonathan: *The Righteous Mind: Why good people are divided by politics and religion*, Penguin Books 2013, pp 330-331.

inequity in the different earnings and savings profiles of men or women, or people of different racial backgrounds, should argue to close those differences through changing workplace experience and opportunities so the disadvantaged can earn or save more if they wish, not reverse them in retirement by damaging the proportionality of reward for the effort of saving.

10. Sustainability

Sustainability will be improved, the more retirees who are age-eligible for the Age Pension instead move to higher self-funded retirement, ideally for all of their retirement or otherwise for as long as possible.

But what of the 'tax expenditures' on superannuation? May they be too high a price for the Commonwealth to pay for a declining expenditure on the Age Pension? To Save Our Super, this seems a fanciful concern.

An extra dollar of superannuation saving does not cost the government revenue; it pays the government 15% or 30% tax on each dollar saved, and a further 15% tax on the earnings from that saving as it compounds within the fund over the 40-odd years of the saver's working life.

It is an odd concept of 'sustainability' in which more saving generates more tax revenue for the government, but the situation is said to be unsustainable because under a hypothetical tax regime imagined by officials but never legislated, the government hypothetically might have gained even more revenue, imagining that the hypothetical saving still took place at the original rate despite being hypothetically more heavily taxed. (For another robust statement of this view, see *Throttling Superannuation*.)

11. Cohesion

Retirement income policy would be largely coherent in the short to medium run if its major design features were implemented sensibly. Regrettably, a single decision has been principally responsible for introducing incoherence into the heart of the system: the decision in the 2015-16 Budget with effect from 1 January 2017 to double the assets test's withdrawal rate for a part Age Pension. As noted at the outset, that decision has created, presumably inadvertently, a wide savings trap over a practically important range of superannuation balances which many people reaching retirement age fall within. Very high effective marginal tax rates over that range create powerful incentives, well understood by retirement financial advisers, to build a saving and retirement spending policy based around maximising access to a part Age Pension at a large percentage of the full Age Pension income.

As bad or worse, that change along with the other damaging changes which took effect in 2017, were introduced with effective retrospectivity, destroying confidence in retirement income policy and the rules under which it may evolve in future,

Inconsistent indexation: the erosion over time of superannuation savings limits and living standards relative to the Age Pension

There is an additional family of problems that damage long-term confidence in the retirement income policy parameters. The Age Pension and superannuation systems are subject to an odd mixture of indexation practices listed and analysed in detail in the Save Our Super paper *Retiree time-bombs* by Jim Bonham and Sean Corbett. Because retirement income is a long game of some 40 years saving followed by some 30 or more years' drawdown, how the retirement income system adapts to the compounding effects of inflation and wages growth (generally faster than prices growth) becomes very important to credibility of the overall system and to building savings and sustaining self-funded retirement income in the long run.

This submission briefly highlights the general consequence of six retiree time-bombs: under current policies, a retirement strategy drawing on the Age Pension is better protected against inflation and will more assuredly share in rising community living standards than one based wholly on self-funded retirement from superannuation. This will tend to force superannuation savers 'along the risk curve' to more volatile investments in the hope of sufficiently high returns to outweigh more onerous restrictions and higher taxes on contributions.

That is another perverse aspect of system design that should be changed to improve trust in the retirement income system and ensure it better supports increases in self-funded retirement at rising income levels.

We have noted that the Age Pension is indexed by Male Total Average Weekly Earnings (MTAWE) when that rises faster than the price indexes, as it usually does. This increases the Pension's real purchasing power over time in line with rising real wages in the broader community.

Compared to that benchmark, there are six time-bombs driven by inconsistencies in indexation practice:

1. No indexation of the point at which the Division 293 tax on super contributions doubles from 15% to 30%. The threshold affects only those with annual income above $250,000, which is currently about 4 times the annual equivalent of current MTAWE. But at typical rates of wage growth (just over 3% p.a.), even the average male earner will be paying the 30% tax rate on their contributions in about 35 years.
2. Shrinking of the $1.6 million transfer balance cap, relative to average wages. The cap is indexed, but only by the CPI and in $100,000 increments, so the maximum tax-free allocated pension a retiree can purchase will fall from about 100% of MTAWE today to only about 70% of MTAWE in about 30 years. If a saver trusts super enough to save over $1.6 million, the excess will have to be held in an accumulation account paying 15% tax on earnings, limiting total super savings growth while working.
3. By reducing compound growth on savings within superannuation through the tax on accumulation account income, shrinking the transfer balance cap relative to wages will also reduce income in retirement.
4. Prohibiting non-concessional contributions when the total superannuation balance exceeds the transfer balance cap. While the annual non-

concessional contributions cap of $100,000 is itself indexed by wages, the fact that the transfer balance cap is only indexed by prices means that superannuation balances will become more constricted over time.

5. The Age Pension will become less accessible, because the assets and income tests are only indexed by the CPI. (More precisely, the income test deeming threshold, the assets test threshold, and the assumed value of the home — or, equivalently, the homeowner's asset threshold — are all indexed to the CPI.)
6. Part Age Pensions, for a given value of assets relative to wages, will reduce. This is because only the full Age Pension is indexed to wages growth and the means tests' parameters are indexed to CPI.

These effects are all subtle and build up gradually over time through compounding, which is perhaps why they have escaped comment to date. But the longer paper from which this summary is drawn illustrates them graphically, including for the informative case in which a retiree commences with only income from an allocated pension, but becomes eligible as the retiree ages for a part Age Pension as the allocated pension depletes the sum saved in super. The time-bombs noted above mean the point at which the retiree becomes eligible for a part Age Pension is pushed back over time, and the amount of Age Pension ultimately received falls relative to MTAWE.

All six time-bombs have the effect of surreptitiously increasing taxation, decreasing superannuation income in retirement and making the Age Pension harder to get and less generous. If the aim is to build a sustainable system which people trust to base their life savings and retirement income on, the current complex and inconsistent indexation framework does not inspire confidence. The time-bombs would be disarmed by indexing all aspects of the Age Pension and superannuation systems consistently, in the same way as the rates of the Age Pension itself are indexed.

12. Conclusions

In the light of the principles discussed above, we think the Review's highest priority in establishing a fact base on retirement income is to secure a return to published, peer-reviewed, contestable long-term modelling of retirement income trends and their social costs and benefits.

Secondly, it should lay to rest the pernicious misuse of incredible and misleading tax expenditure estimates of the cost to revenue of specific tax treatments of superannuation. That misuse focusses attention on hugely overstated gross costs, presented as if they are an ongoing annual cost. It ignores the benefits of moderating the tax system's disincentive to long-term saving, facilitating saving for more self-funded retirement at higher future living standards than the Age Pension. It ignores the benefits of reducing reliance on the Age Pension and reducing the burden of funding it by tax paid by the declining proportion of the population of working age.

The Retirement Income Review's terms of reference highlight the Government's quest for a fact base rather than for policy recommendations. However the issues

raised in the *Consultation Paper* do suggest to us paths forward for better retirement income policy.

Some potentially useful measures (without any implied prioritisation) might include:

- Build confidence in the strategic coherence and predictability of Age Pension and superannuation policies by moving to consistent indexation practices.
- Remove the discouragement of saving from effective marginal tax rates of over 100%, encouraging saving by those who can save to escape reliance on the full Age Pension. This would require reversing the increased taper on the Age Pension assets test imposed on 1 January 2017 and reinstating the Costello reform of 2007.
- Commit to return to the process of grandfathering any future policy changes that would significantly adversely affect those close to or in retirement, along the lines of the original Asprey guidelines.
- Reduce the impost of the Superannuation Guarantee Charge on the youngest (who have longest to fund their own preferred retirement living standards and face the highest competing demands on their early-career budgets) and the poorest (who will in any event accumulate insufficient savings over their working lifetimes to become ineligible for the Age Pension). This could involve either raising the cut-in point for the Superannuation Guarantee Charge, halting its programmed rate increases, or both.
  - Against the merits of the Superannuation Guarantee Charge must be set the cost that it forces a constant rate of saving for employees by their employers over the employees' working lifetimes. In any event (but especially if the Government raises the Superannuation Guarantee rate), this is a particular burden on the young, those in tertiary study, those seeking to buy their first home, those establishing a family and those with low or punctuated career earnings.
  - One curious and little noted feature of the Superannuation Guarantee is that (broadly speaking) it applies to any employee over 18 who earns $450 gross or more a month. This extraordinarily low threshold has not been altered since the Super Guarantee was introduced at 3 per cent in 1992 - over a quarter of a century ago. At that time, the monthly $450 trigger corresponded to the then annual tax-free threshold in the income tax of $5,400. With the Superannuation Guarantee now at 9.5 per cent and scheduled to increase to 12 per cent, it is now a significant impost that falls as forgone wages on young and/or poor workers, when they have priorities of education, housing and family expenses much more pressing than commencing saving for retirement more than 40 years in the future. If the Superannuation Guarantee cut in at the monthly gross earnings equivalent to the current tax-free threshold, the trigger would now be $1517 a month, not $450 a month.
- Acknowledge that self-funding a retirement standard of living which is higher than the Age Pension requires a large capital sum at retirement. At present, all political parties say they want to achieve an end (increased self-funding of retirement) but seem to attack the means to that end: a large capital sum accumulated at the end of the saver's working career. With the continuing drift of interest rates towards zero, whatever unexplained calculations arrived in 2016 at

the $1.6 million cap on superannuation in the retirement phase should be re-examined, with a view to grandfathering the cap, raising it or abolishing it. The interest earnings from a $1.6 million sum is now almost 40% lower than it was in early 2016. Abolishing the $1.6 million cap would recapture many of the simplification benefits of the 2007 Simplified Superannuation reforms, which were destroyed by the 2017 changes.

- Allow those who are able to save for their desired retirement standard of living, in the latter parts of their career, access to higher concessional and non-concessional superannuation contribution limits.

Strategic direction of future policy change

The changes outlined above have clear strategic directions: they are pro-individual-choice, pro-personal responsibility and support rising living standards in retirement and a declining tax burden for the Age Pension. They reduce emphasis on forced savings at a high and constant rate over the whole of working life from the earliest age and the lowest of incomes. They increase emphasis on saving at the rate chosen by individuals over their working careers in the light of their circumstances. They reduce the tax burden on those of working age for financing the Age Pension and make that Pension more sustainable for those dependent on it. They generate rising tax revenue from rising savings in superannuation, from which those of working age also benefit. And higher superannuation savings would likely contribute to a net increase in national savings with a long-term, patient focus on funding Australian investment.

Such a strategy would likely result in slower early-career savings and faster late-career savings after educational, family formation and mortgage commitments have been met. The shift would be pro-equity, in that it would avoid reducing the living standards of the youngest and poorest in the workforce, without ever helping many of them achieve retirement income living standards above the Age Pension. And it would reduce the constituency of voters denied growth in their own disposable incomes by a high Superannuation Guarantee Charge and consequently supportive instead of increased government transfers to them for their early-career expenditures (such as childcare and other family benefits).

Budget effects

Of these changes, the Superannuation Guarantee Charge changes might raise revenue for the government budget, since higher incomes paid as wages would be taxed under normal income tax provisions, rather than at the lower rate for superannuation contributions, except to the extent the recipient voluntarily saved some or all of the increase as concessional super contributions.

The other measures would have a gross cost to budget revenue relative to the current measures but would continue and likely accelerate the recent and faster-than-projected exit of retirees from dependence on the full Age Pension. That will save some future budget outlays, and it is unclear until public, contestable long-term modelling is published what the net effect on the budget would be, and its time frame.

Whatever the net budget effects and their timing, it is clear such a package would raise Australian’s retirement incomes, protect the sustainability of the Age Pension and reduce the tax burden of financing it.

Attachment A: Justice Kenneth Asprey on principles of grandfathering and superannuation

> *21.9. Finally, and most importantly, it must be borne in mind that the matters with which the Committee is here dealing involve long-term commitments entered into by taxpayers on the basis of the existing taxation structure. It would be unfair to such persons if a significantly different taxation structure were to be introduced without adequate and reasonable transitional arrangements. . . .*
>
> *21.61. . . . Many people, particularly those nearing retirement, have made their plans for the future on the assumption that the amounts they receive on retirement would continue to be taxed on the present basis. The legitimate expectations of such people deserve the utmost consideration. To change suddenly to a harsher basis of taxing such receipts would generate justifiable complaints that the legislation was retrospective in nature, since the amounts concerned would normally have accrued over a considerable period—possibly over the entire working life of the person concerned. . .*
>
> *21.64. There is nonetheless a limit to the extent to which concern over such retrospectivity can be allowed to influence recommendations for a fundamental change in the tax structure. Pushed to its extreme such an argument leads to a legislative straitjacket where it is impossible to make changes to any revenue law for fear of disadvantaging those who have made their plans on the basis of the existing legislation. . . .*
>
> *21.81. . . . [I]t is necessary to distinguish legitimate expectations from mere hopes. A person who is one day from retirement obviously has a legitimate expectation that his retiring allowance or superannuation benefit which may have accrued over forty years or more will be accorded the present treatment. On the other hand, it is unrealistic and unnecessary to give much weight to the expectations of the twenty-year-old as to the tax treatment of his ultimate retirement benefits.*
>
> *21.82. In theory the approach might be that only amounts which can be regarded as accruing after the date of the legislation should be subject to the new treatment. This would prevent radically different treatment of the man who retires one day after that date and the man who retires one day before. It would also largely remove any complaints about retroactivity in the new legislation. . .*

Source: The Taxation Review Committee Full Report 31 January 1975, Chapter 21: Income Taxation in Relation to Superannuation and Life Insurance . Quoted passages are shown with the original report's paragraph numbering.

Attachment B: Summary of Save Our Super comments on Consultation Paper questions

Retirement Income Review Consultation Paper Questions	Summary of Save Our Super comments
The retirement income system 1. Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?	1. The alternative most often cited is New Zealand's system: the NZ income tax has no tax-free threshold and there is no capital gains tax. Its national pension is paid to all without means testing but is taxable like any other income. Presumably this system involves greater 'churn': more tax raised to pay more benefits to more people with more tax collected to capture back some of those benefits from the higher income brackets. This system illustrates the interaction of retirement income design with the rest of the tax system. Examining it would encourage thought about overall tax burdens, tax system distortions and deadweight losses, and the vulnerability of retirees to unforeseeable future government policy changes in a high-churn system.
Purpose of the system and role of the pillars 2. Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?	2. No. There should be a statement of an overall objective that as living standards grow over time, more should aim to be self-funded in retirement and fewer should rely on the Age Pension safety net. The Age Pension is a remarkable product: a defined benefit scheme providing real income growth and insured against inflation, market crashes, exchange rate risk and unusual longevity of the recipient. It also awards significant discounts in some areas of consumption. At present, there is little understanding of the large sum needed to be saved by over a working lifetime for a self-funded retiree to enjoy a higher living standard in retirement than the default provided by the full Age Pension.

3. In what areas of the retirement income system is there a need to improve understanding of its operation?	3. Neither the Age Pension's role nor the role and upside potential of superannuation to lift national living standards is properly defined. The Age Pension should be defined as a safety net for those unable because of limited earnings history to have saved to fund their own retirement. Superannuation and other private savings should be defined to be the means for self-funding higher retirement living standards chosen by those able to save for them.
4. What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes?	4. The Commonwealth's role should be to encourage continued reductions in reliance on the safety net of the Age Pension and a stable taxation and regulatory environment to encourage growth in household saving. Savers could then have confidence in the framework for their chosen lifetime saving targets, free from effectively retrospective adverse policy changes.
5. The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom?	5. Retirement income pillars should be considered in the context of the national savings challenge. As Australians grow richer and live longer, saving for retirement will likely (and should) bulk larger in total national savings. There should be an expectation that more should achieve self-funded retirements and that the take up of the Age Pension safety net should continue to reduce as a proportion of the age-eligible. Superannuation should be the primary vehicle to insulate savings from the distortion of increasing marginal tax rates attracted by nominal savings growth and to encourage self-provision over a full retirement. Super should be more responsive to individual choice in the light of individual circumstances, and less dependent on rising compulsory Superannuation Guarantee rates applied rigidly over a working life. Other private savings towards retirement don't have the restrictions that limit access to super and ensure its minimum rates of draw-down in retirement. They are therefore best viewed as providing flexibility that super cannot provide in making and accessing discretionary savings through working life.

6. What are the trade-offs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?	6. The Age Pension should continue to be income and assets tested to ensure that eligibility for a full Age Pension is a safety net. Those tests should taper as prescribed in the 2007 Simplified Superannuation reforms, so as not to create high effective marginal tax rates that limit savings growth and create a perverse incentive to access to a part Age Pension as an important part of a retirement income strategy. If voluntary contribution limits for super are to continue, they should be sufficiently generous to enable savers to quickly build late-career savings and secure higher self-funded retirement incomes than provided by the full or part Age Pension.
The changing Australian landscape 7. Demographic, labour market, and home ownership trends affect the operation of the retirement income system now and into the future. What are the main impacts of these trends? To what extent is the system responsive to these trends? Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?	7. The main impacts are to improve each successive generation's capacity to self-finance a full retirement to their chosen standards. We caution against extrapolation of recent modest declines in home ownership to suggest an ever-worsening problem. Some of that decline probably represents post baby-boom generations responding rationally to being born into smaller families later in the lives of richer parents and placing more weight on inheritance (including of housing) than in the past. A key trend to evaluate though systematic long-term modelling is the unexpectedly rapid transition from reliance on a full Age Pension, through a recent intermediate period of reliance on a part Age Pension, to fully self-funded retirement. (We note that transition in Table 1.) Those trends arose from the interaction of the 2007 Simplified Superannuation reforms with the maturing Superannuation Guarantee system. The key question for today and the future is whether that desirable and rapid transition can continue after the higher effective tax rate on saving introduced in 2017 through the Age Pension assets test and the increased taxes and more restrictive regulations on superannuation.
Principles for assessing the system 8. Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion)	8. Conceptually the four principles potentially cover most of the appropriate dimensions for assessing the retirement income system. The devil is in the interpretative detail, and we caution against 'adequacy' being used not only sensibly to judge the suitability of the safety net, but also to

appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future? Are there other principles that should be included?	impose targets, ceilings or tax limits on self-funded retirement incomes, as some are already suggesting. We would suggest a fifth principle, 'freedom of choice and personal accountability'. Judged against that principle, saving for chosen living standards in retirement should be flexible and responsive to individual circumstances, needs and tastes. Citizens should be free to save for and in retirement, just as they are free to choose work effort, income paths, and saving at other phases of life. Personal accountability for saving and investing is supportive of economic dynamism and the allocation of resources to their highest value uses. In contrast, higher reliance on the Age Pension leads only to lower saving, higher taxes, and less economic dynamism. 9. The adequacy of the Age Pension safety net is ensured (roughly) by the indexation system which adjusts its rate. (We have suggestions on how adequacy should be better protected.) However, the ability to save for self-funded retirement has been restricted since the 2017 changes, including by subtle differences in indexation that will reduce self-funded retirement living standards relative to broader community standards. (We suggest how that should be changed to consistent arrangements.) The system's balance up to 2017 was producing unexpectedly rapid shifts away from full Age Pension reliance towards self-funded retirement. The balance since 2017 is likely to reduce future growth in super balances through damage to policy credibility and as inconsistencies in indexation compound over time.
9. How does the system balance each of the principles and the trade-offs between principles (e.g. sustainability and adequacy) under current settings? What is the evidence to support whether the current balance is appropriate?	
Adequacy 10. What should the Panel consider when assessing the adequacy of the retirement income system?	10. The Age Pension safety net should continue to be indexed to maintain pension generosity relative to rising community living standards. The concept of 'adequacy' for self-funded retirement through superannuation and other private savings is otiose. Within a stable and sustainable tax and regulatory framework, people should be able to work and save for the retirement living standards that they choose (including gifts and bequests). Saving, properly understood, is not an evil engine of inequality that needs to be capped or discouraged, but the provision of real resources for investment and growth in living standards.

11. What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflects a proportion of pre-retirement income (and if so, what proportion of pre-retirement income); or matches a certain level of expenses?	11. The false notion that public policy requires a prescription of 'adequate retirement income' for the self-financed arises from the notion that the tax treatment of superannuation is a gigantic, recurrent 'tax expenditure'. (Over $35 billion per year is often mentioned as the 'tax expenditure'.) The concept and estimation of tax expenditures on superannuation are fundamentally false, using a hypothetical and indefensible tax benchmark that has never been proposed by any political party or endorsed at any election. A better view is that specific legislated tax treatments of superannuation, which have applied for over a century since Commonwealth income tax was introduced in 1915, represent Parliament's evolving best judgements of the appropriate taxation of a uniquely restricted form of long-term saving in the face of growing government provision of many of the things people once saved for, and the way income tax at rising marginal rates on nominal returns to saving particularly damages long-term savings in the presence of inflation. On this alternative view, the reality is that tax on superannuation raises revenue at 15 cents or 30 cents per dollar saved and the subsequent earnings on that saving over a patient 40 years of the employee's career. Superannuation doesn't cost revenue, it pays tax.
12. What evidence is available to assess whether retirees have an adequate level of income?	12. For recipients of a full Age Pension, the choice of pension rates and their indexation ensures adequacy as a safety net, allowing recipients to share in rising community living standards over time. For the self-financed retiree, the question of adequacy is otiose under a well-designed system: the self-financed are, prima facie, better off than if they received the Age Pension. They receive the living standards and opportunities in retirement that they have chosen to save for. It makes no more sense to talk of some Government-endorsed standard of adequacy for self-funded retirement than to talk about the adequacy of the myriads of incomes from employment that individuals' study, train and work for over their working lives.
Equity 13. What should the Panel consider when assessing the equity of the retirement income system?	13. The question cannot be answered without resolving the issue at Q 11 above. We argue it is fair and equitable that people should enjoy in retirement the opportunities they have worked and saved for over their working lives, having fully met their obligations under law to pay tax under a stable

	system. The Age Pension provides a fair safety net against inadequate lifetime savings, misfortune or interrupted employment opportunities.
14. What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (e.g. women, renters, etc.)?	14. It would be a mistake to try to redress differences in life circumstances and choices that have already been addressed through the tax and transfer systems by compressing retirement living standards. Inadequate incomes (from whatever causes) to self-finance retirement at a chosen level above the Age Pension safety net could only be addressed in retirement by unfairly restricting others' choices. The reference to renters alludes to the vexed question of how home ownership is addressed in the assets test of the Age Pension. There may be scope to examine that question in depth, in the framework of the very wide geographic variation in house values and savers' need to access large amounts of capital to finance income for extended life spans, smaller increases in health-adjusted years, and high expenses for health care and age care in later life. Save Our Super has no preconceived views on that question, beyond noting that it provides very difficult challenges in implementation and has multi-decadal impacts. We stress the need for careful attention to: implicit marginal tax rates arising from any changes; long-term modelling of the likely impacts; and rigorous grandfathering of any changes significantly adverse to those who have built their life savings and intended retirement on the existing rules.
15. Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age?	15. Not to our knowledge.
16. To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?	16. Does this question make sense? People who work harder, or work longer, or earn more, or have better luck, might choose to save more over a long working life than those with worse luck or different choices. The equity of these events is all addressed year by year in the tax and transfer system. People who save more over a working lifetime, from whatever source and for whatever reason, will enjoy a higher living standard or more opportunities in self-funded retirement. We see

	no point in trying to repress that benefit from lifetime savings and query whether the question does not point towards, in effect, a retirees' income tax or wealth tax, or inheritance tax or death duty.
17. What are the implications of a maturing Superannuation Guarantee system for those who are not covered by compulsory superannuation?	17. Those not covered by the Superannuation Guarantee would need to save more if they were to keep pace with the rising self-funded retirement living standards supported by a rising Superannuation Guarantee Charge. That poses an interesting question of whether current (and future indexed) restrictions on concessional and non-concessional contributions permit sufficient voluntary savings to be built up.
Sustainability 18. What should the Panel consider when assessing the sustainability of the retirement income system?	18. It should consider, among other things, demographic ageing, life expectancy rising faster than quality life years, the projected long-term costs of the Age Pension, the projected long-term tax revenue from superannuation contributions and earnings, and rising superannuation balances.
19. What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?	19.These are questions for long-term, published, contestable and peer-reviewed modelling, as used to be conducted through to around 2012, and as Save Our Super has argued to be essential, and sketched at greater length in separate papers. Only such modelling can attempt to show which elements of the system have the greatest impact on its long-term sustainability.
20. How can the overall level of public confidence be assessed? What evidence is available to	20. There is no precise measurement possible. Save Our Super considers that the 2017 changes to the Aged Pension assets test and increased super tax and regulatory restrictions have heavily damaged confidence in voluntary saving for self-funded retirement.

demonstrate the level of confidence in the system?	This assessment is based on financial modelling of rational behaviour, correspondence, media analysis (including in reader commentary on media reports) and analysis by financial analysts and advisers. Confidence in voluntary super has been damaged more than confidence in the Age Pension, which is seen as having greater political protection than superannuation. Confidence in super has been damaged by the lack of rationale for, and modelling of the 2017 changes, their rushed implementation and the total lack of grandfathering. Since 2017, there has been a popularly-advised 'Aged Pension first' strategy, which aims to build assets in forms preferred by the assets test rules, limit savings in super, access a substantial part Age Pension, and top it up with limited superannuation income. Behind the retirement income policy debate leading up to the 2016 election and the 2017 policy changes, people now understand that politicians of all parties claim to support the objective of increased saving for self -funded retirement but oppose the inevitable foundation for that objective: accumulation by retirement of a large capital sum in superannuation. In short, politicians talk about an end, but not the means to that end. Save Our Super can illustrate to the Review Panel the evidence on which this judgement is based. Most importantly, the problem since 2017 is incontrovertibly a matter of arithmetic and incentives, rather than mere opinion. Once the arithmetic and the incentives point to an 'Age Pension first' strategy for maximising retirement income, behaviour will change to exploit the incentives Government built into the retirement income system in 2017, apparently inadvertently. The more rapid than expected contraction of reliance on the Age Pension that was underway will likely reverse in the face of today's policy settings and the loss of confidence in policy making affecting retirement incomes.
Cohesion 21. What should the Panel consider in assessing whether the retirement income system is cohesive? 22. Does the retirement income system effectively incentivise	 21. Published, contestable, peer-reviewed long-term modelling showing how policy changes are like to affect savings over a forty-year horizon. 22. No. The Aged Pension for a home-owning couple has an actuarial value well above $1 million at current and prospective low interest rates.

saving decisions by individuals and households across their lifetimes?	The 2017 process of un-grandfathered, un-modelled, poorly consulted, inexplicable and effectively retrospective changes, and their future evolution under inconsistent indexation arrangements, discourage building the capital that is necessary to support self-funded retirement income better than the Aged Pension.
23. What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?	23. See comment at Q 20 above.
24. What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?	24. None. A large industry of accounting, financial, superannuation, and aged care advisers attest to the impossibility of a lay person understanding the interactions among superannuation, the Aged Pension, the tax system and the aged care system.
25. What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?	25. None. See comment at Q 24 above.
26. Is there sufficient integration between the Age Pension and the superannuation system?	26. They are ‘integrated’ at some levels, but still have interactions which create perverse incentives against the national interest.

Attachment C: Treasury’s recent estimates of major superannuation ‘tax expenditures’ ($ million)

Source			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Tax Expenditure Statement 2013, first 'experimental' expenditure benchmark estimates	Revenue forgone, income benchmark	Contributions tax	16000	17800	19150	20700	-	-	-	-	-
		Earnings tax	16100	18450	21700	24100	-	-	-	-	-
		Total	32100	36250	40850	44800	-	-	-	-	-
	Revenue gain, income benchmark	Contributions tax	13550	14900	16000	17350	-	-	-	-	-
		Earnings tax	14100	15250	17250	18150	-	-	-	-	-
		Total	27650	30150	33250	35500	-	-	-	-	-
	Revenue forgone, expenditure benchmark	Contributions tax	16000	17800	19150	20700	-	-	-	-	-
		Earnings tax	-5800	-6750	-7450	-8300	-	-	-	-	-
		Total	10200	11050	11700	12400	-	-	-	-	-
Tax Expenditure Statement 2017, second expenditure benchmark estimates	Revenue forgone, income benchmark	Contributions tax	14500	16050	17150	16150	16900	17750	19400	20900	-
		Earnings tax	11350	12250	16400	18350	19250	23250	26050	28950	-
		Total	25850	28300	33550	34500	36150	41000	45450	49850	-
	Revenue gain, income benchmark	Contributions tax	-	-	-	-	16300	17050	18600	20050	-
		Earnings tax	-	-	-	-	18300	21300	233300	25600	-
		Total	-	-	-	-	34600	38350	251900	45650	-
	Revenue forgone, expenditure benchmark	Contributions tax	-	-	-	-	16900	17750	19400	20900	-
		Earnings tax	-	-	-	-	-9450	-10800	-12200	-13450	-
		Total	-	-	-	-	7450	6950	7200	7450	-
Tax Benchmarks and Variations Statement 2018	Revenue forgone, income benchmark	Contributions tax	-	15500	16850	15950	16950	17750	19100	20450	22700
		Earnings tax	-	11600	15150	14950	17200	19550	20150	21100	22650
		Total	-	27100	32000	30900	34150	37300	39250	41550	45350
	Revenue gain, income benchmark	Contributions tax	-	-	-	-	-	17050	18250	19600	21700
		Earnings tax	-	-	-	-	-	19250	18750	19150	20400
		Total	-	-	-	-	-	36300	37000	38750	42100

Sources: Treasury *Tax Expenditure Statements* for 2013 and 2017, and the corresponding *Tax Benchmarks and Variations Statement* for 2018. See references for details. The expenditure benchmark exercise was not repeated in the 2018 estimates. It is unclear whether it will be repeated in future.

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Jack Hammond LLB (Hons), QC is Save Our Super's founder. He was a Victorian barrister for more than three decades. He is now retired from the Victorian Bar. Prior to becoming a barrister, he was an Adviser to Prime Minister Malcolm Fraser, and an Associate to Justice Brennan, then of the Federal Court of Australia. Before that he served as a Councillor on the Malvern City Council (now Stonnington City Council) in Melbourne.

Jim Bonham (BSc (Sydney), PhD (Qld), Dip Corp Mgt, FRACI) is a retired scientist (physical chemistry). His career spanned 7 years as an academic followed by 25 years in the pulp and paper industry, where he managed scientific research and the development of new products and processes. He has been retired for 14 years has run an SMSF for 17 years.

Sean Corbett has over 25 years' experience in the superannuation industry, with a particular specialisation in retirement income products. He has been employed as overall product manager at Connelly Temple (the second provider of allocated pensions in Australia) as well as product manager for annuities at both Colonial Life and Challenger Life. He has a commerce degree from the University of Queensland and an honours degree and a master's degree in economics from Cambridge University.