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asfa the voice of super

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Committee Secretary
Senate Standing Committees on Economics
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Dear Sir

INQUIRY INTO MINERAL RESOURCE RENT TAX BILL 2011 AND RELATED BILLS

At the hearing on 22 February on the Mineral Resource Rent Tax Bills ASFA undertook to provide additional information and material to the Committee.

The ASFA response in regard to each of the topics is set out below.

The ASFA estimates of the distribution of tax concessions for superannuation compared to ACOSS estimates

Contrary to the assertion made by the ACOSS representatives, the ASFA estimates of the distribution of tax concessions for superannuation contributions differ materially from those prepared by ACOSS.

One reason for this is that the ACOSS estimates relate to 2008-09 when a higher concessional contribution cap applied. The other reason is that ACOSS appears to have underestimated the number of employees receiving superannuation and who have incomes between $80,000 and $180,000 a year. This has led them to believe that the taxation concessions are more heavily concentrated on upper income earners compared to what they actually are.

It also is difficult to replicate the ACOSS estimates or understand exactly how they were derived as the primary source given for them is 2009 Treasury research paper which uses a sample of Australian Taxation Office data for 2005-06 and which then projects a variety of numbers for 2009-10 and later years based on policy settings as at May 2009. Accordingly, the connection of the ACOSS estimates to actual numbers in 2008-09 is somewhat tenuous.

In contrast the ASFA estimates are based on the relatively straightforward approach of using actual HILDA survey data for 2009-10 on employer contributions and taxable income collected as part of a very large survey of Australian households. ASFA published all the relevant components of the data in its submission and the derivation of the various aggregates is quite transparent.

ACOSS noted that the ASFA figures did not incorporate the tax concessions associated with superannuation contributions made by the self employed. ASFA did include figures for the self employed in its submission but these related to 2008-09 (the latest year for which actual numbers are available. If these had been added to the figures for employees this would have reduced the percentage of tax concessions attributable to, say, the top 2% or 10% of income earners given that superannuation contributions by the self employed tend to be more evenly spread across income levels.

In regard to specific figures the comparison between the ACOSS and ASFA numbers are in the Table below. It should be noted that ASFA has presented figures in this table which are for the same given percentages of contributors rather than for income bands by marginal tax rate.

Income Group	ACOSS estimate of percentage of total tax concessions on contributions	ASFA estimate of percentage of total tax concessions on contributions
Top 2%	17%	12.5%
Top 12%	47%	35%

ACOSS also claimed at the hearing that “ASFA acknowledges that the top 20 per cent receive more in tax breaks over their lifetime than if we had paid them the maximum rate of age pension”. This was not stated or acknowledged by ASFA in its submission nor is it shown by the Treasury research report on which ASFA drew. To quote the Dr George Rothman from the Treasury paper (at page 8) “there is a fairly even split of cost between men and women and by income the differences are not large, particularly for women”.

The ASFA Retirement Standard

The ASFA Retirement Standard is an independent initiative by ASFA benchmarking the annual budget needed by Australians to fund either a comfortable or modest standard of living in the post-work years. It is based on expenditure needs rather than income before or after tax. For instance, part of the expenditure might be financed by drawing down on savings over the period of retirement.

The Retirement Standard is updated quarterly to reflect inflation and provides detailed budgets of what singles and couples would need to spend to support their chosen lifestyle. It provides budgets at two different levels of the standard of living:

The budgets were developed having regard to current patterns of expenditure of retirees as indicated by ABS data but they also take into account views expressed by retirees in focus groups conducted for ASFA.

Modest lifestyle in retirement
Better than the Age Pension, but still only able to afford fairly basic activities.

Comfortable retirement lifestyle
Enabling an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household

goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

As at the December quarter 2011, a couple looking to achieve a 'comfortable' retirement will need to spend $55,249 a year, while those seeking a 'modest' retirement lifestyle need to spend $31,675 a year.

Average Account Balances

Figures compiled by the ABS for ASFA show the average account balance in 2009-10 was $71,645 for men and $40,475 for women, well up on the balances of $56,400 for men and $23,900 for women in 2003-04.

For those at retirement, average superannuation payouts in 2009-10 were approximately $198,000 for men and $112,600 for women, while in 2005-06 they were only $136,000 for men and $63,000 for women.

While men continue to have a higher incidence of superannuation, holding around 63 per cent of total account balances in 2009-10 compared to 37 per cent for women, there has been a significant improvement in the estimated share of women, which in 1994 was just 23 per cent.

Although improvements in the average superannuation balances of women were recorded across a range of age groups, the most significant increases recorded were for older women.

The figures indicate that the system of compulsory superannuation is delivering substantial benefits across age and income groups and for both men and women. It is not premised on delivering benefits primarily to males working full-time for 35 years or more.

Further details on both average account balances by age and gender and the distribution of account balances are available in a detailed report dated September 2011available from the ASFA website: http://www.superannuation.asn.au/policy/reports

Future Reliance on the Age Pension

According to the 2010 Intergenerational Report

- The number of people over the eligibility age for the Age Pension is projected to increase by around 150 per cent by 2049-50.

- There will be a decline in the proportion of pensioners receiving a full Age Pension (from around 60% of those in the relevant age bracket to just over 30% of the age group) because of the increased value of individuals' superannuation and other private assets and income.

- The proportion of people with a part Age Pension is projected to increase significantly while the proportion of the eligible age group not receiving any Age Pension (currently around 20%) is projected to rise slightly.

- While the projected increase in spending on age-related pensions (to around 3.9% of GDP by 2049-50) is substantial, it is relatively low compared with most other OECD countries. Australia is comparatively well-placed in relation to Age Pension spending because the Pension is means-tested and targets poverty alleviation. By comparison, many OECD countries pay age pensions based on pre-retirement individual earnings, resulting in greater fiscal pressure as their populations age.

Yours sincerely

Ross Clare

Director of Research