INFORMATION BRIEFING — NATIONAL SAVINGS

Measure description

The measures to be adopted in response to the AFTS report will have a positive impact upon national saving in Australia. The gradual increase in the Superannuation Guarantee to 12% will result in a large increase in superannuation assets, but public saving is expected to fall as only part of the revenue forgone in tax concessions for superannuation will be offset by a reduction in pension outlays.

What the Australia's Future Tax System report says?

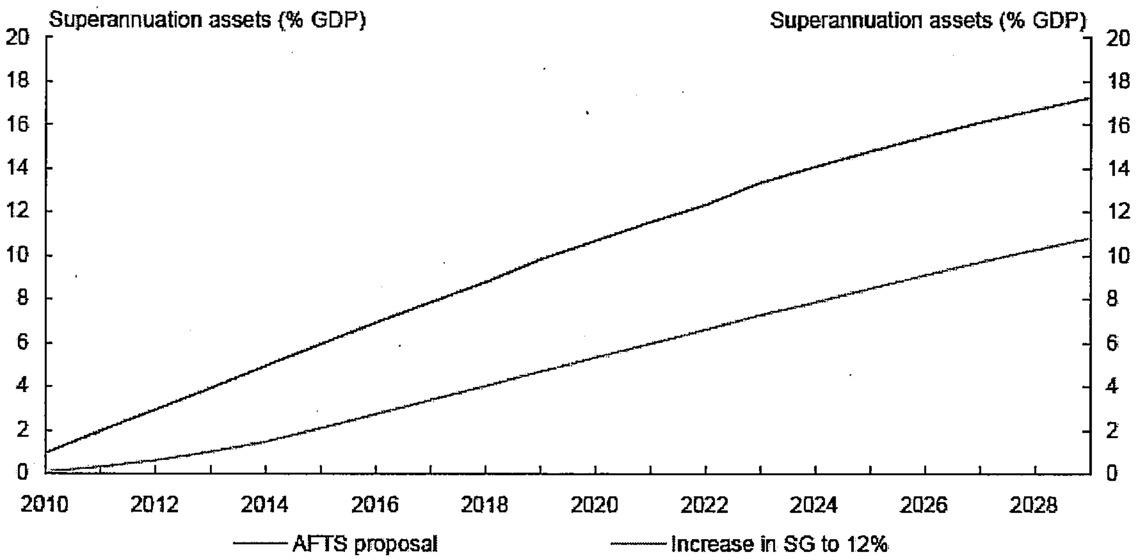
Superannuation is a significant contributor to Australia's savings pool.

Both the changes to superannuation tax recommended by the AFTS report and an increase in superannuation guarantee would increase retirement incomes and national saving. The recommended changes to superannuation tax (i.e. reducing earnings tax to 7.5%) would provide a greater benefit to national savings than an increase in the superannuation guarantee rate to 12 per cent.

Key Points

- The changes that will be implemented in response to the AFTS report will have a national savings benefit. This benefit is largely the result of the increase in compulsory superannuation contributions, starting in 2013-14.
- However, the AFTS recommendations would result in a greater increase in private savings than the measures to be adopted. This is largely the result of a proposed reduction of the earnings tax to 7.5%, which would increase superannuation assets and private savings. At this stage, the Government has no plans to make any changes to the taxation of superannuation investment earnings.
- According to the AFTS modelling, an increase in the superannuation guarantee rate to 12% is expected to increase superannuation assets by approximately $370 billion by 2029. This is demonstrated by Chart A2-9 from the AFTS report, reproduced below. Information on assumptions underpinning this modelling is available in **Critical Background**

Chart A2–9: Projected increase in superannuation assets

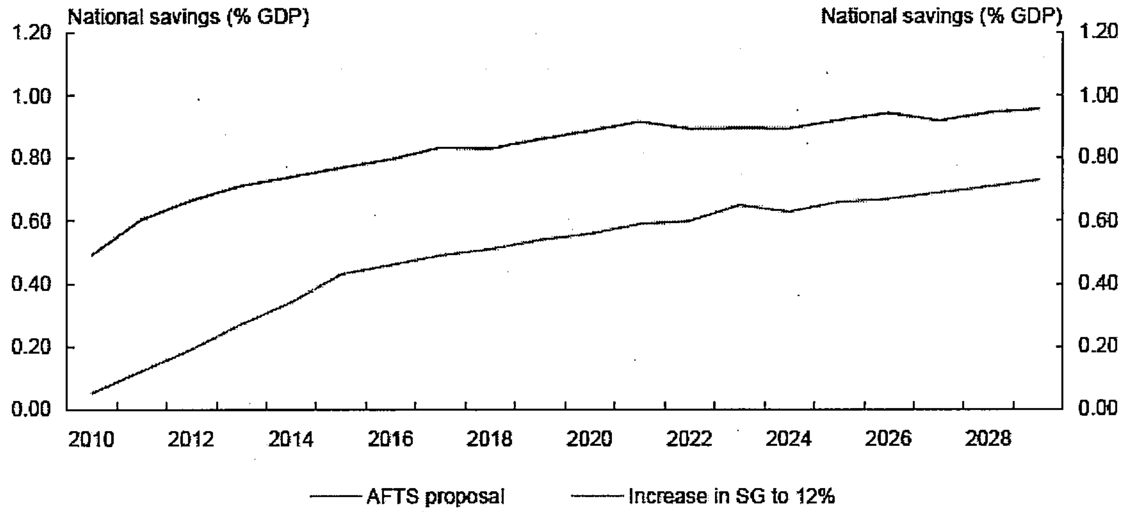


Source: Treasury projections.

Section 22 Not Relevant

- The Government's changes will increase national savings, as the changes to private savings are larger than the fall in public saving. This is highlighted by Chart A2-10 from the AFTS report (reproduced below). Detail on the relevant assumptions underpinning this chart in provided in Critical Background.

Chart A2–10: Projected increase in national saving



Source: Treasury projections.

Key Sensitivities

Section 22 Not Relevant

Q & A

Q. Will the changes to Superannuation increase national savings?

A. Yes. By increasing the superannuation guarantee, the changes will result in a significant rise in private savings. Superannuation assets are expected to increase by $370 billion by 2029 under these proposals.

Section 22 Not Relevant

Critical background

- The Charts A2-9 and A2-10 from the AFTS report are underpinned by a series of assumptions. The key assumptions are as follows:
  - Increases in compulsory saving, through either reductions in contributions tax or an increase in the superannuation guarantee, are offset by a reduction of 30 per cent in other saving.
  - Increases in saving resulting from halving the earnings tax rate are offset by a reduction of 5 per cent in other saving.

- When considering an increase in the superannuation guarantee rate to 12 per cent, the increase in superannuation guarantee contributions has been directly offset by a decrease in the growth of gross cash wages.
- More information on these assumptions can be found in Annex A2 of the AFTS report.