Response to Tax Discussion Paper *Re:think*

1 June 2015

AIST Submission

AIST

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $600 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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1 Executive summary

To assist with achieving greater fairness, sustainability and certainty in the superannuation system, AIST recommends the following:

- In line with overseas practices, transparent objectives for the superannuation system - coupled with agreed key performance indicators and a governance methodology for reviewing the outcomes - are needed to provide a sound platform for reviewing any proposed taxation changes to the Australian superannuation system.

- A nationally accepted benchmark of what is an adequate retirement is needed - stated in terms of income, rather than lump sums. Such a benchmark would assist with furthering the principles of fairness, transparency and certainty.

- Superannuation must always be concessionally taxed to reflect that that these savings have restricted access until retirement. Incentives will always need to be in place to ensure the super system can compete with the current tax-free threshold of $18,200.

- Super tax concessions should be reviewed for fairness and sustainability alongside the costs and benefits of the age pension. The cost of government support to superannuation – as well as the age pension - impacts on all taxpayers.

- Government support for retirement income over a lifetime is unevenly distributed across income percentiles. Proposed changes to the asset test – announced in the recent Federal Budget - significantly widen this inequity gap.

- Bundling of superannuation taxation changes rather than ad hoc measures would aide greater certainty and consumer confidence.

- A review of minor super tax measures is recommended in the interests of improving simplicity. However as general principle, the desire for tax simplicity must always be balanced against the need for fairness and the provision of an adequate retirement income in a sustainable way.

- Changes to rules implemented as part of the taxation system, such as preservation of superannuation, affect Australians decisions on remaining in the workforce. The tax system also needs to recognise and treat fairly those individuals who are unable to work to 'retirement age'.

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- AIST does not support any changes to the tax arrangements to bank accounts that would provide incentives for retirees to remove their money from the super system as this would impose longevity risk, credit and inflation risk, whilst also crystalizing reinvestment risk.

- AIST does not support changes to the dividend imputation system. Our analysis shows the removal of dividend imputation from super would reduce super balances by more than 6% in the case of the average male full time earner.

- AIST is currently analysing a range of policy options including (but not limited to) lifetime caps, tax rebates, changes to the investment tax rate and the impact of a tax on retirement benefits. This analysis will be contained in subsequent submissions.

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2 Introduction

AIST welcomes the opportunity to respond to the *Re:Think* Tax Discussion Paper("the paper").

AIST's vision is for a better retirement future for all Australians. The taxation of superannuation is an important component of achieving a dignified retirement for Australians in a fair, sustainable and transparent way. We therefore welcome a review of taxation measures in order to further the core principles of any sound taxation system – transparency, efficiency, fairness, simplicity and sustainability.

Our recommendations contained in this submission are underscored by the following tenets:

- Superannuation must always be concessionally taxed to reflect that these savings have restricted access until retirement. Our recommendations in this – and subsequent submissions – are concerned with achieving an optimum level of these concessions in a sustainable way and improving fairness of the system by improved targeting of concessions. A lack of proper targeting of concessions – as is the case now – erodes public confidence and generates ad hoc measures to change the system.
- Australia's retirement income system should deliver an adequate retirement income for most Australians. In order to achieve this, we support an accelerated increase in mandated Super Guarantee contributions to 12%.
- Any assessment of the taxation of superannuation should be conducted in tandem with an assessment of costs and benefit of the age pension – i.e. that the cost of government support across the entire retirement income system is assessed as a whole. Superannuation tax concessions –in respect of superannuation contributions, investment earnings and superannuation benefits - are a form of government support. This government support, as well as the government support provided via the age pension can – and should be – assessed for fairness and sustainability alongside each other. While superannuation is different to the age pension in that it is not a government expense, the government forgoes tax revenue to give super tax-advantaged status. This impacts all taxpayers.

Re:think raises a number of questions such as whether we can address the challenges our tax system faces by refining the tax system (question 1), or (as regards superannuation) how appropriate are the tax arrangements for superannuation in terms of their fairness and complexity (question 22).

It is difficult to properly answer these questions without going back to 'grass roots' questions such as:

- 'What are the objectives of the tax system?'
- 'What are the objectives of the superannuation system?'
- 'What principles should underpin the taxation of superannuation?'
- 'How are the costs and benefits of the superannuation system to be measured?'
- 'At what point should superannuation be taxed?'

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- 'To what extent do we expect superannuation to replace the age pension for most retirees?'

2.1 About this submission

This submission is divided into three distinct sections: The first examines and reviews objectives and principles of the tax and superannuation systems. The second section contains a suggested methodology for tracking the costs and benefits of the superannuation system (AIST-Mercer Super Tracker) which takes into account suggested objectives of the superannuation system. It also contains the first round of Tracker research in regards to fairness of the government support across the retirement income system and the impact of the proposed pension asset test changes. The final section of this submission directly addresses questions relevant to superannuation from the Re:Think discussion paper. More detailed analysis from the AIST-Mercer Super Tracker, including recommended policy options, will be covered in subsequent submissions.

AIST has also submitted a copy of the initial findings of the AIST-Mercer Super Tracker as an annexure.

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3 Objectives and principles

3.1 Objectives and principles for the tax system

AIST agrees with Re:think's objectives and principles for the taxation system:

Objective: Revenue raising.

Principles: Equity, efficiency, simplicity.

These principles are used across many countries. Additional principles which are used by other countries and which AIST believes are also important are:

Transparency: How well targeted tax reliefs are and visibility about a tax existing and how it is imposed.

Sustainability: The ability to meet changing revenue needs.

Neutrality: The effect of tax law's impact on how to carry out or decide to engage in a transaction should be kept to a minimum.

AIST agrees with these and also with the OECD's comment[1] that 'these desirable features can conflict with each other and, hence, an empirical assessment is likely to be desirable to establish what the trade-offs between them are and to inform policy choices between them.'

3.2 Objectives for the superannuation system

3.2.1 Australian context

In its Final Report[2], the Financial Services Inquiry (FSI) recommended that broad political agreement should be sought for (and enshrined in legislation) the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.

In our FSI submission[3], AIST agreed with this recommendation, and further recommended:

- The primary objective of superannuation is the provision of retirement income.

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[1] OECD, (2010). OECD Tax Policy Studies *Choosing a Broad Base – Low Rate Approach to Taxation No.19*. [online] OECD. Available at: http://tinyurl.com/myurpne [Accessed 25 May 2015].

[2] Commonwealth of Australia, (2015). *Financial System Inquiry Final Report*. [online] Commonwealth of Australia, p. 101. Available at: http://tinyurl.com/nx768z8 [Accessed 25 May 2015].

[3] AIST, (2014). *Response to the Financial System Inquiry Final Report 31 March 2015*. [online] Australian Institute of Superannuation Trustees. Available at: http://tinyurl.com/n4ozc4l [Accessed 25 May 2015].

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- This retirement income should be seen in the context of substituting or supplementing the Age Pension, both at an individual and a system level.
- Suggested subsidiary objectives, including the achievement of fairer outcomes (e.g. address the gender gap), and superannuation having a role in funding economic activity.

Superannuation as a long-term investment, coupled with a compulsory superannuation system in Australia, gives even greater weight to have certainty and stability when making taxation changes to superannuation. Superannuation should not be seen as a one-off Budget night decision. Instead, AIST recommends:

- Bipartisan support should be sought for superannuation system objectives.
- Superannuation system objectives should be enshrined in legislation.
- A method for assessing attainment of these objectives should be established. These objectives should – at a broad level – take into account key taxation objectives as well, e.g. fairness, sustainability, transparency, and simplicity.
- The AIST Mercer Super Tracker provides a robust example of how this could be done. An outline of the AIST Mercer Super Tracker is contained elsewhere in this submission.
- The assessment should be undertaken by an independent, publicly funded body.

3.2.2 European example

In 2012, the European Union issued a White Paper[4] examining an agenda for adequate, safe and sustainable pensions. This paper examines a number of initiatives, including examining the sustainability of public pensions, supporting longer working life, and measuring the gender gap in savings.

This paper forms part of a series examined by the EU, with three further reports being of particular interest in the context of Re:think:

- The Pension Adequacy Report[5] sets out the commonly agreed objectives for pensions, which are:
  - 'Adequate retirement income for all and access to pensions which allow people to maintain, to a reasonable degree their living standard after retirement, in the spirit of solidarity and fairness between and within generations;
  - The financial sustainability of private and public pension schemes, bearing in mind pressures on public finances and the ageing of the populations, and in the context of the three-pronged strategy for tackling the budgetary implications of ageing, notably by: supporting longer working lives and active ageing; by balancing contributions and benefits

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[4] European Commission, (2012). *White Paper: An Agenda for Adequate, Safe and Sustainable Pensions*. Brussels: European Commission. Available at: http://tinyurl.com/mmvnk26 [Accessed 25 May 2015

[5] European Commission, (2012). *Pension Adequacy in the European Union 2010-2050*. European Commission.

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in an appropriate and socially fair manner; and by promoting the affordability and the security of funded and private schemes;
    - That pension systems are transparent, well adapted to the needs and aspirations of women and men and the requirements of modern societies, demographic ageing and structural change; that people receive the information they need to plan their retirement and that reforms are conducted on the basis of the broadest possible consensus.'
- Adequacy and Sustainability of Pensions Report[6], which gives a concise overview of the key performance indicators of pension adequacy and sustainability in the EU. These indicators relate to adequacy of retirement benefits, the employment rate of older workers, and the sustainability challenge (the long term growth in pension expenditure as a per-cent of GDP).
- Implementation of the Pensions White Paper report, a process for reviewing the outcomes of progress, including the key performance indicators.

AIST strongly believes that such an approach – transparent objectives for the superannuation system, coupled with agreed key performance indicators and a governance methodology for reviewing the outcomes – would provide a sound platform for reviewing any proposed taxation changes to the Australian superannuation system.

We now turn to the principles which we believe should be underpin any proposed changes to the superannuation system – now or in the future.

3.3 Principles to underpin the taxation of superannuation

Here is an overview of the principles AIST considers to be appropriate when examining taxation of superannuation. Details regarding each principle as applied to superannuation follow:

1. Pillars underpinning retirement savings are inter-related.
2. Transparency
3. Efficiency
4. Fairness.
5. Simplicity.
6. Sustainability.

3.3.1 Principle 1 - Pillars underpinning retirement savings are inter-related

AIST strongly supports the philosophy behind the Three Pillars of the Australian Superannuation System:

[6] European Commission, (2013). *Adequacy and Sustainability of Pensions*. [online] European Commission. Available at: http://tinyurl.com/o9efgrl [Accessed 26 May 2015].

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- Means tested Age Pension.
- Compulsory superannuation.
- Voluntary contributions into superannuation.

With the growing ageing population, AIST supports comments from the World Bank[7] that there is a fourth non-financial pillar required for the ongoing success of superannuation systems, namely aged care, health care, and active community participation.

AIST believes that any review of the taxation of superannuation should take into account these pillars.

3.3.2 Principle 2 – Transparency (assisting confidence and consistency)

An effective and fair taxation system is underpinned by transparency and accountability. Public confidence is assisted through transparency and consistency. Methodologies which would assist improve transparency include:

- Transparency of evaluation of tax reliefs - AIST believes that there is a need for transparency regarding how the evaluation of taxation concessions is determined. As the OECD[8] says, when deciding on whether to provide targeted relief and how much, a key issue is the evaluation of such reliefs. Uncertainty about the impact of various policies can add to fragmentation of a reform approach.
- Need for a consistent evaluation methodology - The AIST-Mercer Super Tracker provides one robust methodology for evaluating the weighting and impact of various superannuation system metrics.
- Link key drivers of retirement incomes policy – examine policy impacts on adequacy, sustainability, and impact on workforce longevity.
- Improve consumer confidence - Greater transparency and consistency regarding how relief is (or may be) targeted may also assist with improving greater consumer confidence in making long-term savings.
- Bundling reforms rather than ad hoc measures - Consistency of approach may assist with 'bundling' of reforms into suitable packages. Bundling may also assist with distributional aspects of providing tax relief.

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[7] The World Bank, (2008). *The World Bank Pension Conceptual Framework*. [online] The World Bank. Available at: http://tinyurl.com/pkf3x3s [Accessed 1 Jun. 2015].

[8] OECD, (2010). OECD Tax Policy Studies *Choosing a Broad Base – Low Rate Approach to Taxation No.19*. [online] OECD. Available at: http://tinyurl.com/myurpne [Accessed 25 May 2015].

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3.3.2.1 The choice of tax benchmarks is critical to aiding transparency

A critical component in assessing the transparency of any taxation system is the identification, application, and disclosure of tax benchmarks. Tax benchmarks are important settings in any taxation system, as they both drive how costs and benefits are assessed, but also indicate what outcomes are important in meeting objectives of the taxation system.

Australia's taxation of superannuation is unique and is (for most superannuation fund members) using a "ttE[9]" approach[10]:

1. Contributions from employers and the self-employed are taxed at the concessional rate of 15%, denoted by the first lower-case letter "t". These rates are less than personal income tax rates.
2. Investment income is taxed at a concessional rate of 15% with a tax rate of 10% on realized capital gains. These concessional tax rates are denoted by the second lower case letter "t".
3. Benefits paid to those aged 60 and over are exempt from tax (denoted by the final letter, an upper-case "E"), except where any benefit remaining on death is not paid to a spouse or financial dependant. Such payments are normally subject to a 15% tax.

The above is simplistic and does not take into account additional irregularities, such as the tax rate on earnings in the pension phase (0%) or anti-detriment benefits on the death of a member which represent a return of tax.

The choice of tax benchmark has a significant effect on the cost/benefit assessment of concessions as well as the fair distribution of the concessions. The choice of how taxation is applied can drive various outcomes, including:

- Taxation benchmarks with either concessional or full taxation on contributions and earnings in superannuation with benefit payments being exempt (ttE or TTE taxation benchmark) do not favour lower to middle income earners.
- A full exemption from tax on contributions or earnings, but with tax at full marginal tax rates on benefit payments (i.e. an EET benchmark) encourages compounding of long-term savings.
- EET also enables deferral of tax until retirement to assist fiscal neutrality between current and future consumption
- Amounts of concessions are much smaller using an expenditure tax benchmark as compared to the income tax benchmark currently being used by Treasury.

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[9] Use of 't': lower case 't' = concessionally taxed; upper case 'T' = taxed at full rate. Use of 'E': exempt from taxation.

[10] The taxation of superannuation in Australia is also explained in greater detail in our response to question 23.

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As the OECD states[11]:

> *Ideally, the choice of the benchmark tax system would be linked to the objectives the government seeks when elaborating a TE (tax expenditure) report. In particular, tax expenditure reporting may assist policy-making in a number of areas, including:*
>
> - *The cost-benefit assessment of incentives.*
> - *The distributional assessment of tax incentives…*
> - *The management of budget allocations …*
> - *The management of overall fiscal position…*
> - *Increasing transparency and fiscal accountability by identifying tax provisions with policy objectives…; by assessing the effectiveness of TEs…*

Treasury is publishing both an income and expenditure benchmark in its annual publication.

AIST recommends that any review of the taxation of superannuation should examine the impacts of using various tax benchmarks.

3.3.3 Principle 3 - Efficiency

Taxation of superannuation needs to take into account a long-term view. This longer term view should also include establishing the objectives of the superannuation system:

- Take a longer term view - Because the impact of fundamental tax reforms may take some time for their effects to be fully felt, ad hoc measures may be politically attractive.
    - AIST firmly believes that packages of policies – rather than ad hoc measures – should be tested out to ensure the long term adequacy, fairness and sustainability of the superannuation system. This would lead to a less fragmented approach to what is a long-term savings system.
    - Tax reforms should as a rule be undertaken to achieve long-term rather than short-term objectives. Frequent tax changes increase enforcement and compliance costs and may increase efficiency costs.
- Minimise distortions of consumer behaviour - Minimise the costs of lost production through, for example, distortions of behaviour causes by taxes.
- Governance to monitor retirement incomes policy meeting objectives – AIST firmly believes that the objectives of superannuation should be enshrined in legislation, key performance indicators should be developed, and that an independent publicly funded body should monitor progress.

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[11] Cebreiro, A. (2010). OECD Tax Policy Studies, Choosing a broad base – Low Rate Approach to Taxation. Paris: OECD. Available at: http://tinyurl.com/pecgkpe [Accessed 27 May 2015].

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- Assess impact of policy proposals on regulators and also on external stakeholders through improved consultation processes regarding proposed policy changes.

3.3.4 Principle 4 - Fairness

AIST strongly believes that there should be a transparent and consistent methodology, which examines the re-distributional impacts of the taxation of superannuation:

- Minimise adverse re-distributional impacts - while balancing this against the overall fairness of the system. Poorly targeted concessions can lead to inefficiencies, a lack of fairness, as well as a reduction in consumer confidence.
- Link fairness to the concept of 'adequacy' – a fair superannuation system is taxed concessionally for the purpose of providing an adequate retirement benefit and no further. Superannuation was designed to provide income during retirement. It was not designed as an inheritance to be passed onto beneficiaries at the time of death.
- To encourage savings, consumers should not pay more tax on mandatory superannuation contributions than their marginal tax rate.
- Link fairness to transparent measures – One methodology is contained in the AIST Mercer Super Tracker. The Tracker examines 'fairness' from the viewpoint of how the Government's concessions are spread across income deciles.
- Ongoing assessment is needed – an ongoing assessment of how concessions are targeted is needed to ensure that any initial spread of concessions remains in place over time.

3.3.5 Principle 5 - Simplicity

AIST believes that where possible, tax rules should be clear and simple to understand. This may be assisted through:

- Reducing the number of tax provisions that provide preferential treatments – AIST suggests that a review of the various provisions which have a relatively minor impact on superannuation tax concessions should take place.
- Assess whether retrospectivity is needed of any change is needed.

3.3.6 Principle 6 - Sustainability

In any superannuation system, it is important to ensure that the methodology for tracking the costs and benefits of the system is transparent and consistent:

- Sustainability of concessions should be reviewed in a consistent way – AIST notes that the projected figure of the average public pension expenditure across OECD countries is expected to

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rise from 9.5% of GDP in 2015 to 11.7% of GDP in 2050[12]. The projected Australian figure of 4.9% in 2050 is the second lowest of the 28 countries. It is important to consistently track the impact of the cost of Government support in a consistent way. AIST refers to the point below regarding the tax benchmarks.

- Concessions should be biased in favour of income streams up to a point – income streams should be encouraged, but only where the consumer's benefit amount makes this appropriate.
- Having examined suggested objectives and principles, we now turn to examining a methodology for establishing metrics for the superannuation system.

[12] OECD, (2014). OECD Pensions Outlook 2014. [online] OECD. Available at: http://tinyurl.com/ntrluq2 [Accessed 27 May 2015].

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4 AIST-Mercer Super Tracker - a methodology to assess the superannuation system

Earlier this year, AIST and Mercer developed a methodology for tracking the costs and benefits of the Australian superannuation system. The result – AIST-Mercer Super Tracker – was launched at the 2015 Conference of Major Superannuation Funds.

Our aim with developing the AIST-Mercer Super Tracker was twofold:

- To develop a robust tool which could model various superannuation packages for AIST; and
- To examine the impact of policy changes on a series of metrics. AIST believes that proposed superannuation policies should be road-tested on the grounds of key drivers such as adequacy, fairness, gender impacts on retirement savings, and sustainability.

AIST believes that such a tool is one methodology for measuring the costs and benefits of the superannuation system. Such a tool- or indeed any form of metrics – can work best only where the key objectives of the system, which the tool is examining are known, accepted, and applied.

The Super Tracker was developed as a model that could be used dynamically to model the progress of Australia's retirement system based upon the available evidence and to determine the impact of potential policy changes that may affect the ongoing development of the system.

The Super Tracker examines a number of areas that affect the sustainability and adequacy of Australia's superannuation system. Currently, the Super Tracker rates the Australian superannuation system as having a rating of 64.9 out of a possible 100. This recognises that Australia's retirement income system has many attractive features. However, the Super Tracker identifies a number of areas where we believe improvements could be made. The metrics used within the Super Tracker and their impact on Australia's rating are provided in the following table.

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Table 1 - Adequacy and sustainability measures and their ratings (Source: AIST-Mercer Super Tracker, March 2015)

Tracker Indicator	Score (out of 100)
Adequacy measures	
Net retirement income for media income earners	8.48
Equity (fairness) measure of government support	3.32
Gender gap	6.26
Coverage of superannuation	8.08
Level of personal contributions	5.58
Sustainability measures	
Total cost of government support[13]	7.42
Current level of super assets	7.83
Labour force participation at older ages	5.53
Length of retirement	6.16
Age pensioner population	5.33

The methodology used in the Super Tracker is similar to that adopted by the EU, but has been adapted to Australia. A copy of the assumptions underpinning the Super Tracker are contained in the annexure to this submission.

As regards the sustainability of the superannuation system, it may be seen that the Super Tracker rates the total cost of government support metric quite highly. AIST notes that the projected figure of the average

[13] The total cost of government support includes the costs of both age-related pensions and superannuation tax concessions.

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public pension expenditure across OECD countries is expected to rise from 9.5% of GDP in 2015 to 11.7% of GDP in 2050[14]. The projected Australian figure of 4.9% in 2050 is the second lowest of the 28 countries.

It may be seen that the areas requiring the most attention relate to the fairness of the Australian superannuation system, and the need to close the gender gap. The AIST-Mercer Super Tracker assumptions include how each metric is weighted against each other. This reflects the OECD[15] comment that when deciding on whether to provide targeted relief and how much, a key issue is the evaluation of such reliefs. Uncertainty about the impact of various policies can add to fragmentation of a reform approach. Transparency regarding, for example, the distribution effects of taxation reliefs is highly important.

4.1 Super Tracker rating on fairness and proposed pension assets test

In this, and subsequent submissions, AIST recognises the need to examine the taxation of the superannuation system taking into account key objectives - transparency, efficiency, fairness, simplicity and sustainability. We outline below our particular concerns with the current lack of fairness in the superannuation system, and then identify various policy measures which we are currently having modelled through the AIST-Mercer Super Tracker. We will use the results of this modelling to propose in subsequent submissions several superannuation packages which we believe will assist with improving the fairness of the Australian superannuation system and help reduce the gender gap, while ensuring the ongoing adequacy and sustainability of the system.

4.1.1 Current fairness of the system is at a low level

The AIST-Mercer Tracker assigns Australia's retirement income system a "fairness score" based on the cost to government of the *Super Guarantee* tax concessions and the cost to government of the Age Pension over a lifetime. A score of ten out of ten – a maximum score - would represent a 'level playing field' of government support across all income percentiles, either in the form of superannuation guarantee tax concessions (during a working life) or age pension (during retirement) or a combination of both, as is the case for most part-pensioners and most retirees. That is, each individual should receive a similar level of support, when expressed in dollars, whether that is provided through the age pension or superannuation tax concessions or a combination of the two.

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[14] OECD, (2014). OECD Pensions Outlook 2014. [online] OECD. Available at: http://tinyurl.com/ntrluq2 [Accessed 27 May 2015].

[15] OECD, (2010). OECD Tax Policy Studies *Choosing a Broad Base – Low Rate Approach to Taxation No.19*. [online] OECD. Available at: http://tinyurl.com/myurpne [Accessed 25 May 2015].

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Prior to the Budget, the Super Tracker's fairness score was a worrying 3.3 out of ten. This lack of fairness is displayed through showing how government support is unevenly distributed across income deciles in the following table.

Table 2 – Tracker analysis of government support for retirement incomes: Lifetime cost of Government support (tax concessions on superannuation guarantee plus age pension) in today's dollars for different percentiles in the income range (Source: AIST-Mercer Super Tracker)

Income percentiles	10	30	50	70	90	99	Score
Cost of government support:	$404,000	$352,000	$306,000	$288,000	$489,000	$641,000	3.32/10

As the table above shows there is a highly uneven distribution of government superannuation taxation concessions across income percentiles. AIST reiterates its earlier comment that these concessions are a cost to taxpayers and need to be distributed more fairly in order to keep public confidence and ensure system sustainability.

4.1.2 Fairness of the superannuation system will worsen with proposed assets test changes

Following the announcements contained in this years' Federal Budget, we have modelled the proposed Budget changes to age pension means testing through the AIST-Mercer Super Tracker to provide a more complete picture of the impact across our retirement income system. These results show that fairness of the superannuation system would deteriorate further if the proposals are implemented. Additionally, the results show the need to review the taxation of superannuation alongside the age pension.

AIST notes once again that 'fairness' already has the lowest score of the 10 metrics in the Super Tracker. If the proposed assets test changes are implemented, he fairness score drops from a low 3.32 out of 10 to just 0.34 out of 10. The Super Tracker provides the following results regarding the equity/fairness measure of government support, with 'base' being the current situation:

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Table 3 – Tracker analysis of impact of proposed asset test on fairness of government support: Lifetime cost of Government support (tax concessions on superannuation guarantee plus age pension) in today's dollars for different percentiles in the income range (Source: AIST-Mercer Super Tracker)

	Description	10	30	50	70	90	99	Score
	Base	$404,000	$352,000	$306,000	$288,000	$489,000	$641,000	3.32/10
↓	Base with new assets test	$371,000	$239,000	$214,000	$257,000	$489,000	$641,000	0.34/10

The Super Tracker highlights the sharp impact of reducing government support for median income earners (via the proposed asset test changes) while leaving higher income earners untouched (by ignoring super).

Currently, the top 10% of wage earners receive around $489,000 in government support on their SG contributions during their time in the workforce. This is about $150,000 more than the support received by a median income earner, mostly in the form of age pension payments during retirement.

The Budget changes would see this gap widen to nearly $300,000 in lifetime support not including the tax concessions available on salary sacrifice/voluntary contributions above the SG limit. If they did, the "inequity gap" would be much higher.

The impact on middle Australia of haphazard changes to age pension means testing independently of changes to taxation, is further illustrated in the following chart. The effect of the proposed asset test changes is so pronounced that in a case where an Australian drawing the minimum retirement income retires with a retirement savings balance of $550,000, there is a 35% fall in retirement income compared to if they retired with a balance of $500,000[16]. This is due to the sharpness of the taper rate being greater than the accompanying increase in the drawdown minimum.

[16] Difference in age pension eligibility is based upon the assumptions that pensioners are single, own their own house, retire at age 67, are fully entitled to accompanying supplementary payments and that pensioner has no other assets. Assumptions regarding retirement income assume that pensioners are drawing the minimum at all income levels, and that age pension eligibility is solely based upon the assets test. Eligibility for the age pension is assumed from the commencement of retirement at age 67 and that all other conditions are satisfied for eligibility.

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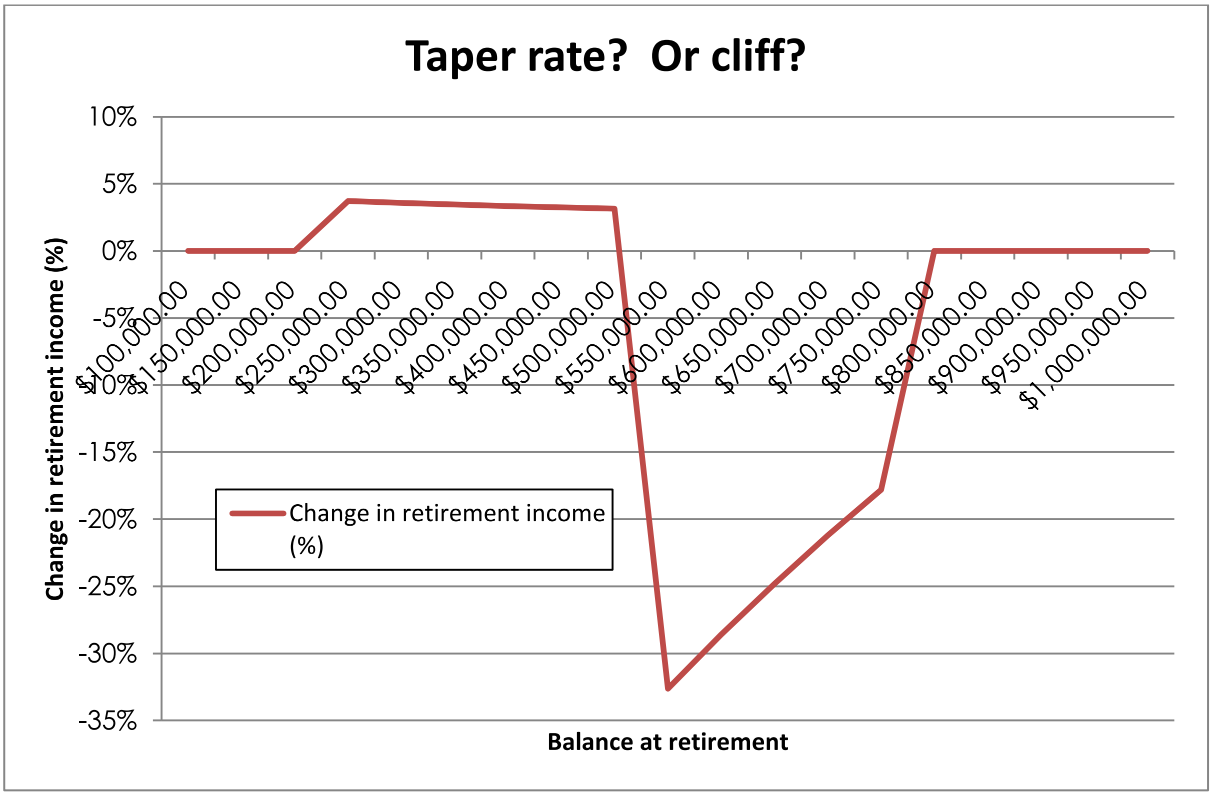
Figure 1 - Change in retirement income due to changes in the assets test for the age pension



4.1.3 Impact on adequacy

Similarly, the impact of the proposed new assets test has a deleterious impact on net retirement incomes (adequacy).) .

Table 4 - Net retirement income (i.e. super drawdown plus part pension) as a percentage of after-tax median income (male and female averaged, full time and part time) (Source: AIST-Mercer Super Tracker)

	Description	Male, full-time	Female, part-time	Male part-time	Female part-time	Comments
	Base	67.6%	62.1%	61.8%	55.1%	Starting point
↓	Base with new assets test	67.6%	54.6%	53.3%	52.9%	Reduction in the middle

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In the above table an adequate net retirement income in the first year of retirement is defined as 70% of the median income for full–time workers. With 'base' being the current situation, it can be seen that a male full-time worker retiring on 67.7% is close to achieving the maximum score on adequacy, while the rest of the workforce - female full-time workers and all part-time workers - fall short of this. As can be seen from the second row, changes to the age pension asset test significantly widens this gap.

The above information demonstrates that when reviewing the superannuation system, it is very difficult to view the system in isolation to the other 'pillars' of the system, including the age pension.

4.2 AIST's focus for next submissions

AIST is now using the AIST-Mercer Super Tracker to model a number of policy options and packages which we will cover in subsequent submissions. The range of options includes:

- Rebate of 19.5% (i.e. Contributions to superannuation taxed at a discount to marginal tax rates).
- Progressive tax rates on superannuation, so that those earning under the tax-free threshold would not pay tax on their superannuation contributions.
- Tax on benefits at the point of payment.
- Investment tax at the same rate on both accumulation and pension savings.
- Assets taper of varying amounts.
- Removing exemption for earnings on balances exceeding $1.5 million.
- Reducing the Higher Income Superannuation Charge threshold from $300,000 to $250,000.
- Payment of an additional 2 percent Superannuation Guarantee for women while in employment.
- Lifetime caps.
- Superannuation Guarantee on family benefits
- Superannuation Guarantee on disability support.

Our main view with regard to modelling these various options is to identify packages which assist with improving fairness within the Australian superannuation system and helping close the gender gap.

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5 Responses to questions raised in the discussion paper

Question 1: Can we address the challenges that our tax system faces by refining our current tax system? Alternatively, is more fundamental change required, and what might this look like?

As outlined above, AIST recommends that the objectives of the superannuation system should be considered as part of the review of our tax system, which includes the taxation of superannuation.

Any taxation system has a number of objectives which can conflict with one another. There is a need to have a transparent methodology for balancing the outcomes of these objectives. As regards to the taxation of Australia's superannuation system, AIST refers to the AIST Mercer Super Tracker as one methodology. The Tracker establishes ten metrics, examining both the adequacy and sustainability of the Australian superannuation system, and identifies the weighting of each metric. The Tracker may be used to either model the current state of the system or the impact either individual or packages of proposed policies would have.

In terms of the overall cost to Government of the superannuation tax concessions and age pension, AIST notes that the Tracker has a relatively good score for this. This finding is backed up by the OECD[17], which finds that the projected cost of the average public pension expenditure is the second lowest of the 28 countries reviewed.

As outlined earlier, the AIST-Mercer Super Tracker shows us that there are problems with our existing tax system in regards to super, particularly in regards to equity (fairness). AIST also draws attention to our earlier comments that the proposed changes to the assets test increase - rather than reduce – both the unfairness of the superannuation system and retirement income adequacy. AIST will be providing further evidence over the next few months of where these changes can be made.

Question 2: How well does Australia's utilisation of its available taxes align with the evolving structure of Australia's economy and changes in the international economy?

In relation to superannuation, AIST believes that the choice of tax benchmark affects how well the superannuation system meets the evolving structure of the Australian population and its needs. AIST refers to section 3.3.2.1 above (the choice of tax benchmarks is critical to aiding transparency).

[17] OECD, (2014). OECD Pensions Outlook 2014. [online] OECD. Available at: http://tinyurl.com/ntrluq2 [Accessed 27 May 2015].

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Question 3: How important is it to reform taxes to boost economic growth? What trade-offs need to be considered?

AIST notes that there is a need to have tax structures which are designed to support growth. AIST makes no general comment on whether such tax structures should be designed to shift the tax burden in full or in part from income to consumption. However, AIST believes that one key objective in any such review of growth structures is to ensure that distortions such as creating greater unfairness in the system do not occur.

In the superannuation space, 'growth' may be favoured through a pool of national long-term savings. We recognise that there is a trade-off between policies that are designed to provide for adequacy, as well as those that are designed to provide for sustainability. Our Tracker is a way of demonstrating how successful policy is at addressing this trade-off.

Question 4: To what extent should reducing complexity be a priority for tax reform?

Simplicity is valued as a good aim. However, this needs to be balanced against the need for fairness and the provision of an adequate retirement income in a sustainable way. In a progressive tax regime, such as Australia's income tax regime, we recognise that simplicity alone is unable to ensure that those who can afford it most are able to contribute to the effective running of Australia. Indeed, the relatively simple tax regime that applies to the superannuation system is presently seen to disadvantage Australians who are most in need of retirement support. Fairness and transparency is needed to engender public confidence in the system.

Question 5: What parts of the tax system are most important for maintaining fairness in the tax system? Are there areas where fairness in the tax system could be improved?

As described earlier, the super system presently favours high income earners compared to middle and lower income earners. The Tracker examines various metrics and is a useful methodology for examining how a policy or a package of proposed policies may impact on 'fairness' across both the age pension and superannuation

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Question 6: What should our individuals income tax system look like and why?

It is important to be mindful of the need for consideration of this as part of this review.

Important examples are the difference in tax between the superannuation and non-super tax environments: Low income earners who may be subject to low (or no) rates of taxation should be appropriately compensated for their decision to postpone consumption. Similarly, if policymakers are serious about retirees sensibly drawing down their retirement savings progressively as an income, incentives need to be put in place to ensure that the superannuation system can compete with the current tax-free threshold of $18,200.

Question 8: At what levels of income is it most important to deliver tax cuts and why?

A dignified retirement to all Australians in an adequate, fair and sustainable way should be the aim of our superannuation system. We acknowledge that tax cuts may occur to deliver this, but these should not be the primary aim: Rather, they should be an outcome that supports this aim.

Question 9: To what extent does taxation affect people's workforce participation decisions?

Tax on superannuation benefits may affect peoples' participation in the workforce. As we have previously discussed, the age pension forms part of Australia's retirement income system, and this is seen through the de facto recognition of the age pension age as Australia's retirement age.

Changes to taxation, as with changes to the age pension will directly impact Australians who are making decisions about whether to continue working or stop.

Similarly, changes to rules implemented as part of the taxation system, such as preservation of superannuation, also affect Australians decisions on remaining in the workforce. The tax system also needs to recognise and treat fairly those individuals who are unable to work to 'retirement age'.

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Question 11: How important is tax as a factor influencing people's decisions to work in other countries?

AIST points to recent consultations that have examined the impact of rule changes on workers transiting through Australia and how this can be improved. We draw attention to the following issues.

Trans-Tasman superannuation portability has seen great strides in the ability for Australians and New Zealanders alike to take their retirement savings between countries. However, we note that there are several requirements that do not necessarily support the notion of a trans-Tasman common market. The changes need to fix this are tax-related.

Related to the above issue, we note that there are significant problems related to the decision of Australians to bring foreign pension benefits to Australia, without being adversely affected by tax on the way through. These should be rectified, if an internationally mobile labour force is to be an aim of the taxation system.

Finally, we note that within Australia, administration hurdles such as the minimum requirement upon Australians to be paid more than $450 in a month before being eligible for superannuation appears to be an incentive for employers to restrict the hours of their staff.

Question 12: How important is tax as a factor influencing people's decisions to work in other countries?

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Question 18: What tax arrangements should apply to bank accounts and debt instruments held by individuals?

AIST is concerned that this question seeks to examine activity, which would seek to distort the taxation system. We note that the income tax regime should seek to tax all income fairly, and point to the imputation system as a simple yet effective way of ensuring that double taxation does not occur.

Our concern relates to the way that taxation applies to interest, noting that these amounts, when paid, are not only not taxed at their origin point, but also are eligible generally for giving rise to a tax deduction.

Applying a concessional taxation system to these payments would appear to provide further incentives for retirees to remove their money from the superannuation system, imposing not only longevity risk, credit risk and inflation risk, but actually crystallising reinvestment risk.

AIST would not support any changes.

Question 19: To what extent is the rationale for the CGT discount, and the size of the discount, still appropriate?

We believe that more can be done with the capital gains tax regime to encourage long-term investment in assets.

For example, the CGT discount that applies to assets held longer than a year could be shaded in over a longer period.

We note that the discount for assets held within superannuation is less than that for assets held outside of superannuation. We believe that this is an appropriate time to revisit why this discount is less, and whether it is appropriate.

Finally, we note the case of certain superannuation funds where assets can be assigned to member accounts, and migrated from accumulation divisions to pension divisions where a full exemption exists. We question whether the ability to move assets in this way without them ever being subject to CGT is sustainable, and recommend that a CGT event be imposed at the point of transition.

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Question 20: To what extent does the dividend imputation system impact savings decisions?

The Super Tracker demonstrates the reduction in net retirement income for all, if dividend imputation system was removed from the superannuation system:

Table 5 - Net retirement income (i.e. superannuation drawdown and a part pension) as a percentage of after-tax median income, which is averaging the average wage for men and women (Source: AIST-Mercer Super Tracker)

	Description	Male Full time	Female Full time	Male part time	Female part time
	Base – current situation	67.6%	62.1%	61.8%	55.1%
↓	No imputation (0.55%)	63.3%	60.7%	60.2%	54.2%

According to the above table, the removal of dividend imputation from super would reduce super balances by more than 6% in the case of the average male full time earner.

The evidence is strong that investors will base their investment decisions upon whether companies are paying tax-friendly dividend payments. Rehman and Takumi[18] point out that investors prefer companies with a dividend pattern that embraces their consumption patterns. It is reasonable to expect that the taxation of dividends forms part of this – indeed, Rehman and Takumi point to Masulis and Trueman[19] who note the dividend payout ratio's tax-related nature.

However, we also note that the taxation of dividends also affects the decision by companies to pay dividends to their shareholders. Edgerton[20] confirms the rise in companies paying dividends immediately following cuts in the dividend taxation regime by the Bush administration in 2003, although Edgerton also concludes that this effect is likely to be better seen in the context of a longer interval after the tax changes.

[18] Rehman, A. and Takumi, H. (2012). Determinants of dividend payout ratio: Evidence from Karachi Stock Exchange (KSE). *Journal of Contemporary Issues in Business Research*, 1(1), pp.20-27.

[19] Masulis, R. W., & Trueman, B. (1998). Corporate Investment and Dividend Decisions under Differential Personal Taxation. *Journal of Financial and Quantitative Analysis* , XXIII (4), 369-86.

[20] Edgerton, J. (2010). Effects of the 2003 Dividend Tax Cut: Evidence from Real Estate Investment Trusts. *SSRN Journal*, p. 3.

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Miller and Modigliani[21] emphasised that if available investment opportunities that increase future earnings are not available, management should distribute earnings to shareholders. However, the assumption made by Miller and Modigliani is that management are not beholden to their shareholders, a view which appears to be simplistic at best and unrealistic at worst.

Question 21: Do the CGT and negative gearing influence savings and investment decisions, and if so, how?

It has been argued by many that the CGT discount discourages short-termism. Minas[22] argues that any tax on capital gains provides the added difficulty that the taxation of assets can potentially be postponed indefinitely – indeed a widely promoted strategy in SMSFs and some APRA-regulated funds (notably superwraps and super-SMAs) is to migrate long held assets between divisions of a superannuation fund. This in turn, means that CGT liabilities may never arise.

We note the problem that the growing presence of investment gearing in superannuation funds has led to the exacerbation of this issue, as more and more funds are diverted into large bulky and illiquid assets, which are unable to be disposed of quickly. We noted in our response[23] to the final paper of the Financial System inquiry, led by David Murray, that the risks associated with leverage greatly magnified systemic risk. In particular, we pointed to the fact that a relatively unlevered superannuation sector greatly cushioned the impact of the global financial crisis.

We stand by our assessment of this and point to effective CGT collection as a way to reduce this risk. Furthermore, we reiterate our recommendation that leverage is not appropriate for superannuation, which is designed to be a retirement savings regime, not a borrowings regime.

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[21] Miller, M. H., & Modigliani, F. (1961). Dividend Policy, Growth, and the Valuation of Shares. *The Journal of Business* , XXXIV (4), 411-433.

[22] Minas, J. (2011). Taxing permanent capital gains in Australia: Is the discount ready for reform?. *Journal of the Australasian Tax Teachers Association*, 6(1), pp.59-67.

[23] AIST, (2015). *Submission to Treasury: Financial System Inquiry Final Report*. [pdf] Melbourne: The Australian Institute of Superannuation Trustees. Available at: http://tinyurl.com/k2tma3o [Accessed 27 May 2015].

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Question 22: How appropriate are the tax arrangements for superannuation in terms of their fairness and complexity? How could they be improved?

AIST is presently modelling a number of proposed changes to superannuation through our partnership with Mercer.

We plan to respond at length in a subsequent submission on specific recommendations. Our recommendations will focus on areas of Australia's superannuation system where we have already identified the most deficiencies, being in the areas of fairness and the gender gap, which affect adequacy.

Question 23: What other ways to improve the taxation of domestic savings should be considered? How could they be applied in the Australian context?

We note that Australia is unusual in that taxation of retirement savings are what can be described as a ttE[24] approach to taxation:

- Contributions to superannuation from employers and the self-employed is concessionally taxed (denoted by the first lower case "t"), compared to ordinary income tax rates. Presently, the rate of contributions tax which applies is 15%;
- Tax on investment earnings within superannuation are also taxed at a concessional rate, compared to ordinary income tax rates (denoted by the second lower case "t"). Presently, the rate of earnings tax which applies to investments is 15% on earnings, although realised capital gains may attract a discount of 1/3, making an effective tax rate of 10%; and
- Benefits paid in retirement, whether as lump sums, or as retirement income, are generally exempt from tax (denoted by the final letter, an upper case "E"), except where they are paid to third parties in the case of death. For example, non-dependent death benefit beneficiaries may be subject to a tax rate of 15% on benefits received.

The above is simplistic and does not take into account additional irregularities, such as the tax rate on earnings in the pension phase (0%) or anti-detriment benefits on the death of a member which represent a return of tax.

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[24] The 'ttE' nomenclature refers to the taxation that applies at the different steps in the superannuation cycle, conctributions, earnings and benefit payments. Lower case 't' = concessionally taxed; upper case 'T' = taxed at full rate, upper case 'E' = exempt from taxation.

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The choice of tax benchmark has a significant effect on the cost/benefit assessment of concessions as well as the fair distribution of the concessions. The choice can drive various outcomes, including:

- Neither ttE nor TTE does not favour lower-mid income earners;
- EET encourages compounding of long term savings;
- EET enables deferral of tax until retirement to assist fiscal neutrality between current and future consumption; and
- Amounts of concessions are much smaller using an expenditure tax benchmark as compared to the income tax benchmark currently being used by Treasury.

AIST recommends that the choice of tax benchmarks must be examined as part of this review.

We have modelled a number of scenarios utilising the AIST-Mercer Super Tracker, and will be presenting the findings of this in a subsequent submission.

Question 25: Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?

The imputation system prevents double taxation of Australian company profits in the hand of Australian shareholders, which includes super funds. Any change to this current system of taxation of dividends would have a significant impact on the after-tax returns of superannuation funds and could ultimately lead to lower retirement incomes or higher reliance on the age pension.

Many arguments have been advanced against the continuation of the dividend imputation system, however no strong case has been mounted. One frequently argued position is that Australia should discontinue this as very few equivalents exist outside Australia. However, taxation compatibility would require two problems to be solved in the event that imputation was discontinued:

- The problem of double taxation is widely documented, and another solution to this issue would need to be found;
- In addition, the action of corporate tax appears to work well as a withholding tax mechanism. As Australia opens its relationships with the world through tax and investment treaties, the need for a robust withholding tax mechanism becomes more pronounced;
- Finally, AIST notes that the removal of imputation could act to reduce retirement incomes by around 6% for full-time males[25].

[25] Source: AIST-Mercer Super Tracker. The difference reduction in Table 5 for full-time males from 67.6% to 63.3% of income represents an overall reduction of 6.36% on previous retirement income levels.

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To this, we add an additional consideration, being the unforeseen consequences of amending the dividend tax regime on the dividend policy of companies in Australia whose shareholders are superannuation funds. Changes in dividend payout ratios can, in turn, affect the liquidity risk of those funds, which would, similarly, affect investment decisions made by those funds.

Question 44: What are the most significant drivers of tax law compliance activities and costs for small business?

In the superannuation space, the compliance costs need to be weighed against the need to inform employees of their superannuation payments. While AIST notes employer concerns that compliance with superannuation arrangements may be time consuming, much of this burden will be removed with the ongoing implementation of SuperStream. In our submission[26] regarding compliance with Superannuation Guarantee obligations, AIST has recommended that it is critical that members are made aware of how much superannuation has been paid when, and to where.

Question 52: What are the relative priorities for state and local tax reform and why? In considering reform opportunities for particular state taxes, what are the broader considerations that need to be taken into account to balance equity, efficiency and transitional costs?

AIST wishes to draw attention to the issue of stamp duty on life insurance. As we state in a recent submission[27], Trustees who are members of AIST most commonly purchase life insurance in the form of a group life insurance policy. This allows members to move in and out of super funds without a new policy needing to be put in place. The normal level of default cover in place for new members of a super fund varies, but is generally a level of cover that includes cover for both death and Total and Permanent Disability (TPD).

In most cases, the part of the premium payable on a policy for death and TPD that can be solely attributed to the TPD cover is the higher proportion of the premium. Recent changes in Victoria mean that for new superannuation fund members who are in Victoria, their premium would be subject to a 10per-cent stamp

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[26] AIST (2014). *Promoting compliance with Superannuation Guarantee Obligations' audit in progress, 19 September 2014*. [online] Available at: http://tinyurl.com/oxru79t [Accessed 28 May 2015].

[27] AIST (2014). *Treatment of Life Insurance Policy Riders for the purpose of stamp duty*, 10 October 2014. [online] Available at: http://tinyurl.com/lzry2g5 [Accessed 28 May 2015].

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duty on that part of the premium which relates to TPD. This is likely to increase premiums across the board.

Apart from this issue, this also means that there is a different taxation regime in one area of Australia. One aim of MySuper was to avoid cross-subsidisation issues. It is not practical to charge different rates of premiums between groups of MySuper members. AIST suggests that various State taxes which impact on the superannuation system should also be reviewed to identify any areas of such inconsistency.

Question 56: What parts of Australia's tax system, and which groups of taxpayers, are most affected by complexity? What are the main causes of complexity?

AIST believes that it is appropriate that taxation provisions regarding superannuation be reviewed in terms of not just complexity, but fairness. As we have previously noted, any review should take into account the objectives of the superannuation system and how various principles are to be balanced against one another.

AIST suggests that it would be useful to reduce the number of tax provisions that provide preferential treatments – AIST suggests that a review of the various provisions which have a relatively minor impact on superannuation tax concessions should take place.

Additionally, given that superannuation is a long-term investment, the area of retrospective application of policy changes also adds to the complexity of the superannuation system. This should also be taken into account when reviewing any proposed changes to the taxation of superannuation.

Question 57: Would there be benefit in developing an Australian metric for tax complexity? What factors should be included? How should they be combined into a metric?

AIST believes that the development of such an index may be useful. In line with our comments regarding the need for transparency regarding the weightings of goals for the superannuation system, there is also need for transparency regarding the development of, and the weightings for any tax complexity metric. For example, fairness should be provided a higher weighting than policy complexity. AIST will address this issue in subsequent submissions.

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Question 58: What system-wide approaches could have the greatest impact on reducing complexity in the tax system? Why have previous attempts to address complexity in the Australian tax system not succeeded? How might it be done in a way that is more successful?

System-wide approaches within the superannuation submission such as examining the impacts of grandfathering could have the greatest impact on reducing complexity. The reduction of complexity through a no grandfathering approach may, however, cause greater unfairness within the system. AIST will be examining various policy packages within subsequent submissions and will also address the issues of implementation.

Question 59: In what ways can reforms of tax administration best assist in reducing the impact of complexity on taxpayers? Are there examples from other countries of tax administration reform to reduce the impact of complexity that Australia should adopt?

Question 60: What processes or systems currently being used by businesses and individuals could the ATO better utilise to lower the compliance costs of the tax system?

Question 61: Could administrative responses — such as embracing technology, harnessing data and taking the whole-of-government approach to administration — help address the issue of tax system complexity?

AIST supports a centralised model for digital identities, rather than a federated model. A centralised model would be cheaper and more efficient. Individuals and business are able to have single sign-on access to public and private sector services under a centralised model. As the inquiry noted, some countries have centralised models with high-assurance, government-issued credentials incorporating biometrics designed to enable digital service delivery.

We have welcomed a joint announcement from the Hon. Bruce Billson MP and the Hon. Josh Frydenberg MP that will see an increase in the use of ecommerce in tax and superannuation reporting. Along with the introduction of Single Touch Payroll, the changes will also include combining the Tax File Number declaration form and Super Choice form into one and offering an online lodgment service.

AIST has long been advocating for the Australian Tax Office (ATO) to streamline the new employee registration process and merging these forms is a major step toward increased efficiency in the system. Merging and putting the forms online will not only benefit employers, but will also simplify the process for workers and superannuation funds. Simplifying this process may lead to more people making active decisions to choose their own fund which could decrease the number of unnecessarily duplicated accounts.

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Any changes to the way contributions are made need to be in the best interests of employees – not just employers. SuperStream e-commerce is bringing greater standardization, simplification and efficiency to the payment of superannuation, Government changes should build on this.

Question 63: What changes could be made to provide greater certainty, transparency and accountability to tax policy development in Australia?

Question 64: Are current tax review arrangements appropriate? How could they be improved?

Question 65: Could the arrangements for developing tax policy in Australia be improved? If so, how?

As outlined in our submission, AIST recommends the following:

- The objectives of the superannuation system should be considered as a part of reviewing the taxation of superannuation.
- Australia should have metrics for the review of the Australian superannuation system, including a publicly funded independent oversight body.
- These metrics should be capable of not only testing the current state of the superannuation system, but enable the modelling of various policies against the metrics. The AIST-Mercer Super Tracker provides one robust methodology.
- There should be greater transparency regarding how policies impact superannuation benefits.
- Bundling of taxation changes rather than ad hoc measures would aide greater certainty and consumer confidence.
- Taxation benchmarks of the superannuation system should be reviewed and be set to promote long-term savings.

Given the detrimental impact which the AIST Mercer Super Tracker shows regarding the impact of the proposed assets test changes, AIST notes that the review is deficient through not examining all pillars of the retirement incomes system.

Question 66: Would the benefits of releasing more tax data and detail around costings outweigh the costs?

AIST believes that transparency regarding the taxation system is essential to engendering consumer confidence as well as promoting an even more stable system.

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