Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

20-21 November 2013

Question: **SBT 69**

Topic: **Tax on Superannuation Pensions**

Hansard Page: **page 111, 20 November 2013**

Senator RUSTON asked:

69. Senator RUSTON: So, what would that then translate out into—the size of account that would have been affected? Is there a number?

Mr Gallagher: Although the number was often quoted as $2 million, given that capital gains were excluded in a design, with an account like that longer term, excluding capital gains you might expect a four per cent return. The effective asset threshold was about $2½ million.

Senator RUSTON: So what would have been the minimum account balance that this could have affected?

Mr Gallagher: It depends on the rate of return. In a period of high returns, it is going to apply to a lower account balance.

Senator RUSTON: So if you work on what has happened in recent history, and use a range of returns that have occurred over recent times, where would you ballpark it?

Mr Gallagher: I am saying that, on average, for an account without including capital gains—

Senator RUSTON: No, not on average; with that range.

Mr Gallagher: We thought a four per cent return on assets would be appropriate, excluding capital gains, and that would put the asset threshold on average at about $2½ million.

Senator RUSTON: Okay. If you cannot answer it now I would just be interested in what the difference would be with the lowest return and with the highest return in the last, say, 10 or 15 years.

Mr Gallagher: We will take it on notice.

Senator RUSTON: Thanks.

Answer:

69. Direct data on superannuation fund returns excluding capital gains is very limited. Using published material from the Reserve bank and other sources, the Treasury has constructed the following Table for key components of superannuation portfolios over the past ten years; all returns shown exclude capital gains.

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Dividend yield	3.7%	3.8%	3.8%	3.3%	4.3%	5.3%	4.2%	4.4%	5.1%	4.5%
5 yr Bond yield	5.6%	5.1%	5.8%	6.3%	6.7%	5.1%	5.0%	4.9%	2.5%	2.8%
Cash	4.4%	4.7%	4.7%	5.5%	6.6%	4.6%	5.5%	6.0%	5.2%	4.2%
Highest yielding asset class	5.6%	5.1%	5.8%	6.3%	6.7%	5.3%	5.5%	6.0%	5.2%	4.5%
Lowest yielding asset class	3.7%	3.8%	3.8%	3.3%	4.3%	4.6%	4.2%	4.4%	2.5%	2.8%

A typical superannuation portfolio will have a mix of investments, such as 60% shares, 30% fixed interest and 10% cash; the 4% average return (excluding capital gains) used by Treasury is quite a good fit to history for such a fund.

However, fund returns will vary depending on asset allocation between asset classes and within asset classes. Over the past ten years, the lowest and highest annual yields (excluding capital gains) for the broad asset classes shown are 2.5% and 6.7% respectively; for the lowest yield the effective asset threshold is $4 million, and for the highest historical yield, the effective asset threshold is around $1.5 million. While the above results are illustrative, the actual returns (excluding capital gains) of some funds over the past ten years may lie outside the range in the Table above.

It is also worth noting the treatment of capital gains. Transitional relief was announced for capital gains on assets purchased before 1 July 2014. However, capital gains not subject to transitional relief (especially capital gains on assets purchased from 1 July 2014) would, when realised, have become part of the tax liability calculation under the measure. This means that if an individual's realised capital gains (along with other investment earnings attributable to that individual) exceeded the $100,000 threshold in the relevant year of income, the excess would have been subject to tax at 15 per cent. The $100,000 threshold was to be indexed to the Consumer Price Index, with increases in $10,000 increments.