Australian Council of Social Service

Member brief on ACOSS policies for the retirement incomes review (February 2020)

This brief summarises ACOSS key policy positions that were put to the Government's Retirement Incomes Review. The full submission is at: https://www.acoss.org.au/wp-content/uploads/2020/02/200202-Retirement-Incomes-Review-ACOSS-submission.pdf

Most of our recommendations are **long-standing policy positions,** including increases to Newstart and related payments and Rent Assistance, questioning the value of an increase in the super guarantee for people with low incomes, and reform of superannuation tax breaks to make them fairer and raise revenue to properly fund aged care and health services.

The Review is a rare opportunity to develop and advocate comprehensive policy settings for retirement incomes, and to draw the connections between income support, superannuation, community services and housing – all of which contribute to a decent life for all after retirement. To summarise, we argue for:

- Principles-based goals and benchmarks for social security payments and compulsory superannuation;
- That **social security payments**, including pensions and Newstart, should protect people from poverty; including a $95pw increase in Newstart and related payments;
- That **compulsory super should continue as a universal system** (not excluding people with low incomes);
- That the level of compulsory saving for retirement should (along with the pension) be sufficient to ensure people reach an average living standard after retirement that's within reach of (but not greater than) their average pre-retirement living standard;
- That increases in the **super guarantee above 10% be conditional on evidence that this benefits people with low incomes across their lifetime (i.e. that they're not forced to save too much for retirement when they face financial challenges in working life) and reform of tax breaks for contributions to make them fair;**
  - Removal of the $450 per month pay threshold for exemptions from the super guarantee would be subject to the same conditions
- That **tax concessions for super contributions** should support compulsory retirement saving and modest voluntary contributions, but they should be reformed (replacing the flat 15% tax with a rebate) so that people on low incomes receive at least the same tax support per dollar contributed to super, as middle and high income earners (without increasing the cost of the concessions);
- That tax concessions for people with high incomes should be reduced, so that people on average incomes no longer have to subsidise retirement living standards that are higher than their own;
- A reduction in excessive **superannuation and other tax concessions after retirement** (removal of the tax free status of super fund earnings once the fund pays a pension – benefits would remain tax-free), in return for **service guarantees in aged care and health;**
- **Secure, affordable housing for all**, against the backdrop of declining levels of home ownership and rising levels of homelessness among older people. Includes a 30% increase in Rent Assistance and investment in social housing.

1. Social security payments to prevent poverty:

- Income support payments (pensions and allowances) should be sufficient to prevent poverty.

- As a first step, increase **Newstart** and related allowances for single people by at least $95pw.

- The **Age Pension** should continue to be targeted towards people at risk of poverty, so that around two-thirds of older people receive at least a part-pension but this would diminish as the superannuation guarantee matures and the private incomes of retired people increase

- Any easing of **assets tests taper rates** (as advocated by many in the superannuation industry) would be paid for by lowering assets test-free thresholds (free areas) for home-owners, as ACOSS advocated in 2015. Increasing Newstart and Rent Assistance to ease the most severe poverty is a higher priority than easing the assets test so that more people receive a part pension.

2. Universal compulsory superannuation for income-replacement above the pension level:

- **Compulsory super should be universal**, so that people with low incomes are not locked into retirement incomes close to poverty levels. It is unlikely that, if people on low wages were removed from the universal system, they would consistently receive higher wages in lieu of employer super contributions, given weak bargaining power and weaknesses in the enforcement of minimum wages.

- Since **compulsory super is a form of forced saving**, (see box below) the level of compulsory contributions should be sufficient to ensure people's average living standard across retirement is within reach of (but not greater than) their average pre-retirement living standard.

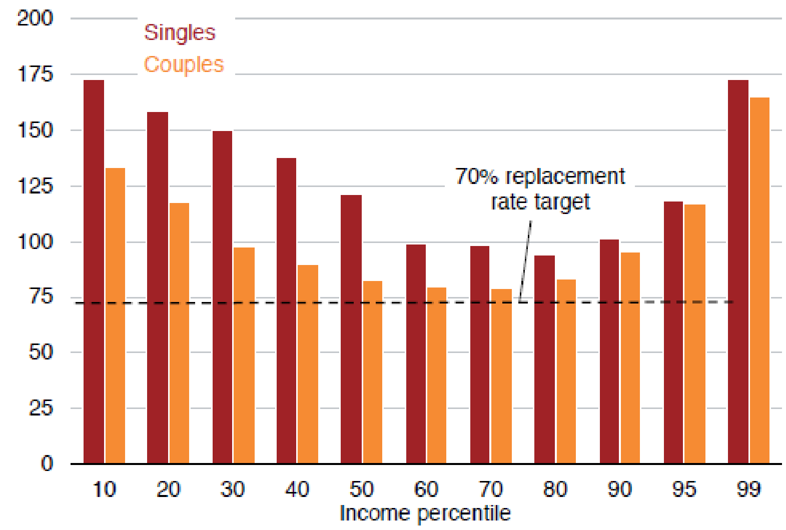
  The super guarantee is legislated to rise from 9.5% to 12% by 2025 but the benefits of this for people with low and modest incomes are questionable.

- Since we support a universal super system with a single rate of compulsory contributions for all, the super guarantee should be benchmarked to the contribution level required for a *'median fulltime wage-earner' to come within reach of their pre-retirement living standard*. This should take account of social security payments (usually higher after retirement), and housing costs and the costs of children (usually lower after retirement).

- Modelling by the Grattan Institute and Treasury (graph below) indicates the existing 9.5% contribution rate is sufficient to achieve this goal. They set a benchmark of 70% of previous income to take account of the lower costs of children and housing post-retirement (graph below). We are calling for the Review to undertake its own modelling to take those factors directly into account and argue that **the SG should not be increased above 10% unless it's shown to the worthwhile for people with low and modest incomes, and tax breaks for contributions are reformed to make them fair.**

- This is the position ACOSS took when the increase in the super guarantee from 9% to 12% was legislated in 2011.

Disposable income for households 65-84 years of age in 2015, as a proportion of that for households 45-54 years in 1995 (in 2015 dollars)

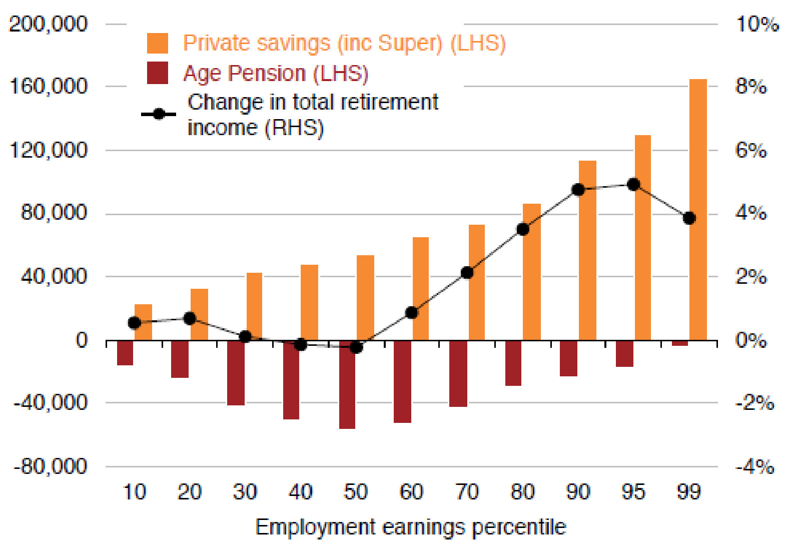


Grattan Institute (2019) Money for retirement

- The above modelling is for people retiring now. When the super guarantee matures in about 30 years, disposable income replacement rates will be higher.

- If the super guarantee is increased to 12%, a substantial portion of higher super contributions would be clawed back from people on low incomes after retirement (appropriately) through the Age Pension income and assets tests.

Change in retirement income from an increase in the superannuation guarantee from 9.5% to 12% in 2015-16 dollars (indexed to CPI)



Grattan Institute (2019) Money for retirement

- Many people, especially women, have broken paid employment patterns or are employed part time for much of working life. This cuts both ways: it means they have lower retirement incomes (unless they retire with a partner on higher pay) and it also means they have less capacity during working life to save for retirement. An example is the financial stresses faced by many sole parents as they struggle to raise children alone.

Who pays for compulsory employer contributions?

The conventional view, including from those who designed the Superannuation Guarantee and pressed to lift it from 9% to 12% of wages, is that in the long run, employees pay for most employer contributions via lower wage increases.

This was the accepted view of key advocates of the super guarantee, including Labor government Ministers and their expert advisors (including Treasury).

'The increased self-provision for retirement will permit a higher standard of living in retirement than if we continued to rely on the age pension alone,'
Treasurer Dawkins, First Reading Speech, Superannuation Guarantee (Administration) Bill 1992.

'Super's core objectives are implemented by: compelling people to save for the long term, by deferring access to a portion of current-day wages, in order to enjoy a better standard of living in retirement'
Superannuation Charter Group report to Treasurer Bowen (2011), p23

The Henry Report on tax and transfer reform reiterated this view in 2009, arguing against an increase in the super guarantee above 9%.

Recently, the conventional view has been contested.

Jim Sandford from the Centre for Future Work rightly argues that the conventional view has not been tested empirically in Australia. He cites international studies that found that around 70% of the cost of employer Payroll taxes is paid by employees. However, in his own research on employer contributions in Australia, he finds no correlation between higher superannuation contributions and lower wage rises in Australia since the Superannuation Guarantee was introduced in 1992. Given the many other factors impacting on pay increases (which the study aims to control for), there may not be enough data points in this study (around 30 years of data on *overall pay rises and SG increases*) to reach a firm conclusion.

The Grattan Institute uses data from a large number of enterprise agreements over around 30 years to assess the impact of the super guarantee on wages. It finds that, after seeking to control for other factors, around 80% of employer contributions were paid for through lower wage rises. While only 30% of workers are covered by these agreements, Grattan argues that they represent outcomes for workers in a relatively strong bargaining position. The Reserve Bank recently supported this conclusion.

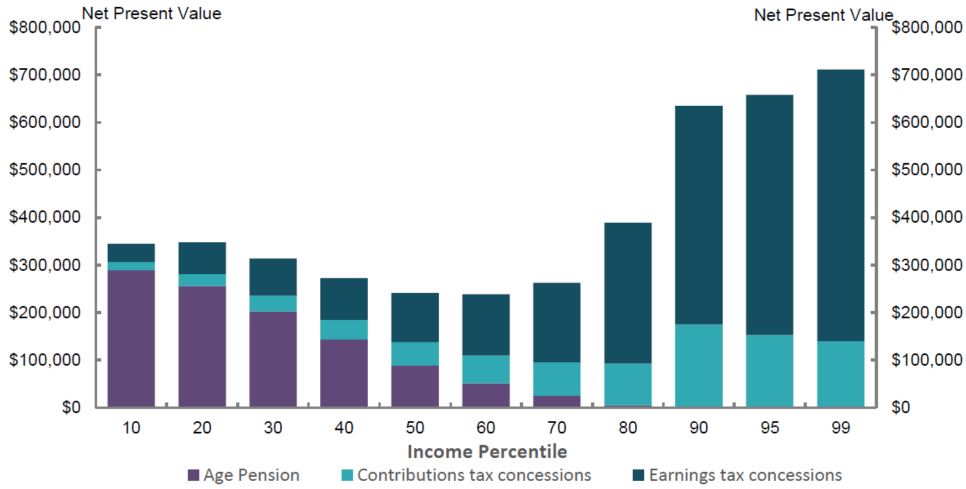
While some argue workers are unlikely to receive substantial pay rises in any event under the present economic and labour market conditions, those conditions weaken bargaining power and increase the chances that higher super contributions would be paid for from wages (or loss of jobs). In any event, most of the legislated increase to 12% is well into the future (up to 2025).

Our argument that there is a trade-off between living standards pre and post retirement still holds if 70-80% of employer contributions come from lower wage increases.

3. Tax concessions for superannuation

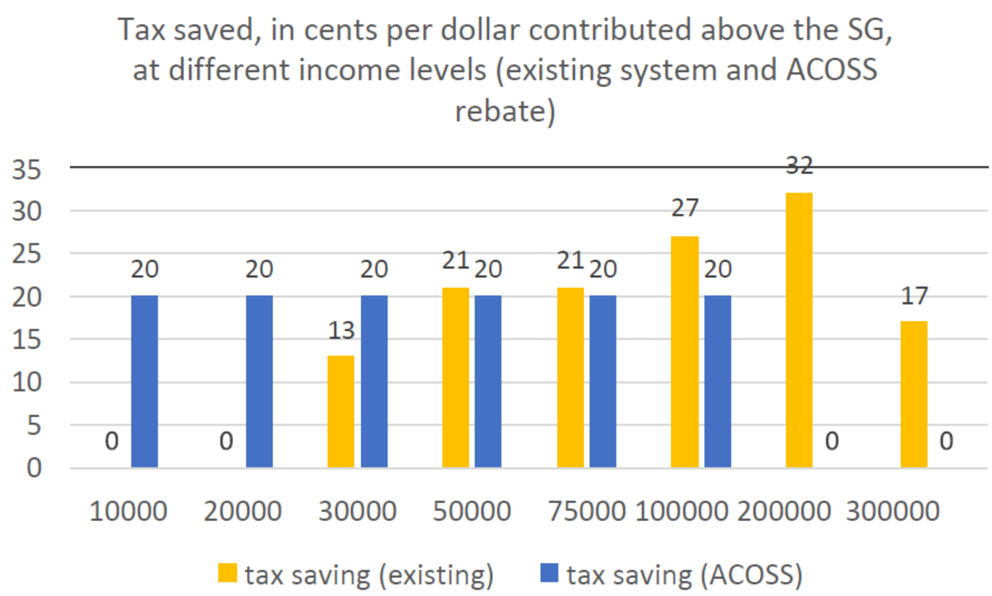
- Tax concessions for superannuation – which now cost about the same as the Age Pension (around $40B a year) mainly go to people with higher incomes (graph below).

Figure 4: Lifetime government support provided through the retirement income system[9]



Source: retirement Income Review Discussion Paper (2020)

- **Employer super contributions** are currently taxed at a flat rate of 15% (with a 15% surcharge for people with very high incomes). That means low income earners derive no benefit from these tax breaks (despite the Low Income Superannuation Tax Offset) and many high income earners save 32 cents in tax per dollar contributed (compared with the tax rate that would otherwise apply to their wages) – see graph below



- So in addition to foregoing wage increases for superannuation, people with low income receive little or no benefit from the tax breaks. Most of the benefit goes to people on high incomes.

- Reform of super contributions tax to make it fair (so everyone receives around the same tax benefit per dollar contributed, and tax concessions are capped at lower contribution levels) has been widely supported in the past, including by the ACTU and Industry Super Funds.

- We propose a revenue-neutral reform to replace all tax breaks for contributions with a simple rebate off people's marginal tax rates. The tax saving per dollar contributed above the super guarantee from this system is also shown in the graph above.

- We argue for tax breaks on contributions to be capped at a lower level (than $25,000 a year) so that average wage earners are not subsidising ('luxury') retirement living standards above those which they themselves have now.

4. Universal, good quality, affordable health, aged care and community services:

- Older people are increasingly being charged for out-of-pocket aged care and health costs, and the Aged Care Royal Commission demonstrates that the quality of services is often very poor. These are major concerns for older people.

- Governments will find it challenging to fund decent services, and reduce out-of-pocket costs, while the present tax treatment of retired people is in place. Only 16% of people over 64 years pays income tax.

- Along with people of working age, retirees should contribute through the income tax system to the costs of these essential services according to their ability to pay, so that quality services are guaranteed and reliance on user charges is limited. In return, they should have peace of mind that quality services are guaranteed and out-of-pocket costs will be strictly limited.

- The most serious gap in the taxation of retirement income is that the **income of super funds (interest, dividends and capital gains) are not taxed at all once a member retires** and the fund pays them a pension. Taxing this fund income at the same 15% tax rate that applies to the income of super funds before retirement would raise substantial public revenue (over $2B a year in the short term, if this reform is phased in) and greatly simplify superannuation.

- We have also advocated for some time reforms to **strengthen the Medicare Levy** (to make it harder to avoid it using tax shelters) and reductions in the Seniors and Pensioners Tax Offset, to help fund health and disability services.

5. Housing that is secure and affordable for all:

- In future, a lower proportion of older people will own their own homes, and we are already seeing an increase in rental stress and homelessness among older people.

- We are calling for an **immediate 30% increase in Rent Assistance and investment in 20,000 additional social housing dwellings over the next three years.** Along with the Newstart increase, this would alleviate the most severe poverty among older people.