SUPERANNUATION AND OTHER PERSONAL SAVINGS

[This Note summarises a number of problems and options for action which have been identified by tax experts, leading community sector organisations and other analysts as needing attention in the Henry report. TaxWatch itself does not express policy views.]

SUPERANNUATION

Some key problems

The current superannuation tax concessions are wasteful, inequitable and ill-designed to promote greater national saving. They are especially harsh on low-income people, for whom the concessions are of very little or no value despite the fact that their compulsory contributions may have been made at the expense of much-needed take-home pay.

The current system is not appropriate for people with interrupted working lives, most of whom are likely to be women, because they will be less able to take full advantage of the concessions and develop adequate levels of benefit for their later years. It also, of course, does not provide adequate benefits for many people who were already middle-aged when the scheme commenced.

The global economic crisis has highlighted the severe hardship which can be experienced by people who reach retirement age when their funds are losing money. For these and other reasons the Age Pension must remain as the foundation of the retirement income system rather than a residual or supplementary element.

There is ground for considerable concern about the age and other circumstances which enable benefits to be withdrawn. The current access to lump sum withdrawals is far too generous. The recent provision of tax-free access to benefits for people from age 60 (even if they are still working) is especially wasteful and unfair. On the other hand, early access to some benefits should be permitted on broader and more transparent grounds than under the current "hardship" provisions.

Options for Action

- ☐ Substantially reduce the generosity of the current tax concessions for high-income people and strengthen the support provided for lower-income people by, for example,
  - taxing contributions at the contributor's marginal rate and then providing a government co-contribution which phases out at a modest level; or
  - taxing contributions at, say, 15% less than the contributor's marginal rate.
- ☐ Require government or employer contributions during some periods out of the paid workforce, such as parental leave.
- ☐ Tighten the restrictions on lump sum withdrawals (especially for people seeking to withdraw tax-free benefits after reaching the age of 60) and remove current disincentives to taking benefits in the form of annuities.

GENERAL SAVINGS

Some key problems

The tax system provides clearly inadequate support for saving to meet mid-life needs, especially by contrast with its treatment of saving through superannuation for needs in later life. This applies especially to saving by low- or middle-income people, who tend to be less able to take advantage of other tax-preferred ways of accumulating resources which can be drawn on without great delay or disadvantage.

Saving for mid-life needs may facilitate investment to reduce later vulnerability (eg, home purchase or further education) or provide access to supplementary finance during periods of unemployment, ill-health or withdrawal from paid work in order to raise children. Saving for home purchase has been singled out for tax concessions through the new system of First Home Saver Accounts but saving for other purposes may be at least as beneficial to a person's long-term security and self-sufficiency.

There is a growing practice of borrowing for mid-life needs with the intention of making repayments from subsequent superannuation benefits. This approach may be understandable in the absence of concessions focused on mid-life needs but it tends to negate the purpose of providing the concessions for superannuation.

There is an increasing trend towards mid-life savings schemes in other countries, some of which are unduly limited to particular purposes such as education, housing or health rather than recognising the great diversity of needs for which withdrawal of savings might be in the interests of both the particular saver and the broader community. As mentioned earlier, the current arrangements for early access to superannuation are haphazard and inequitable.

Options for Action

- ☐ Provide early access to specified amounts of accrued superannuation benefits without any, or at least many, restrictions on purposes for withdrawal.
- ☐ Broaden the First Home Saver Account system to allow savings and withdrawals for other purposes.
- ☐ Incorporate the superannuation and home saver systems into a broader system of tax-preferred Lifelong Savings Accounts, including government contributions for lower-income people.