Chalmers fights political battle for the future of super

By Lachlan Newland

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Treasurer Jim Chalmers has raised the prospect of enshrining an objective for superannuation in law. His promise that this will *“end the super wars once and for all”* is wishful thinking.

The discussion paper outlined his proposal as follows:

> *‘The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.’*

When former Treasurer John Dawkins introduced the *Superannuation Guarantee (Administration) Bill 1992*, he explained that the system would:

> *“...permit a higher standard of living in retirement... improve the retirement conditions for those Australians who were unable to fund adequately their own retirement incomes... increase the flexibility in the Commonwealth's Budget in future years...* [and] *increase our national savings overall...”*

This seems reasonably in line with Chalmers’ model, but the political battle is far from over.

Early access

The Turnbull Government, with Scott Morrison as Treasurer, introduced the Superannuation (Objective) Bill 2016 which would have legislated that *‘the primary objective of the superannuation system is to provide income in retirement to substitute or supplement the age pension’*, as recommended by the Financial System Inquiry.

This is significant given the Morrison Government later proposed three separate schemes to allow superannuants to access their savings early, including COVID-19 hardship, domestic violence victims and first-homebuyers.

A report in 2022 by superannuation peak body the Association of Superannuation Funds of Australia (ASFA) found that a 30-year-old who withdrew $20,000 from their super fund would lose out on $43,032 upon retirement. Clearly, the most effective way to *‘provide income in retirement’* is to leave money in the account to take advantage of compound interest.

The bill did not receive the support of the Labor Party and, after a round of industry consultation, it was quietly allowed to lapse and not re-introduced when Scott Morrison took the leadership and proposed these schemes.

By using the words *'preserve savings'*, Chalmers is ensuring that superannuation can *'not be accessed unless for the purpose of income in retirement, apart from exceptional circumstances'*, so that any future Coalition government would have to change the legislation if it wanted to reintroduce these schemes for which the Opposition has since reiterated its support.

Dignified retirement

In 2020, Treasury delivered its final report for the Retirement Income Review, which advised that *'looking at income alone will underestimate the adequacy of the retirement income system'* because a retiree's quality of life also depends on *'whether they own their home, what government services they receive and if they have assets to draw on'*.

It also found that home ownership status was the best indicator of financial stress in retirement and that *'the retirement income system does not appear to be delivering an appropriate minimum standard of living for renters'*.

As economist Saul Eslake notes in his report for The Australian Institute of Superannuation Trustees (AIST):

> *'Australia's retirement income system has long implicitly taken it for granted that the vast majority of retired people will have very low housing costs — in turn, reflecting a presumption that most of them will own their own homes... and that those who have been unable to become home-owners during their working lives will typically be accommodated in low-rental housing provided by state and territory governments.'*

At the moment, 12% of people over 65 are renters and recent trends are worrying.

Over the last two decades, home ownership without a mortgage fell by 9% while renting from the private sector rose by 6%. The Parliamentary Library estimates that in Sydney, the ratio of average disposable household income (Australia-wide) to median house prices has increased from approximately 3.3 in June 1981, to just over seven in June 2015.

By involving the superannuation system in ensuring a *'dignified retirement'*, rather than just *'income in retirement'*, the Government is broadening its scope to get involved in housing policy, but by qualifying that, it must do so in a way that *'preserve*[s] *savings'*, it is ruling out granting early access to fund mortgage deposits for first home buyers as a solution.

Instead, the Government wants superfunds to invest in social and affordable housing, which would charge residents 20-30% less rent than the private market.

Chalmers himself has made numerous public calls for them to do so and has promised to subsidise them through a co-investment, availability payment model with the Housing Australia Future Fund, should it pass the Parliament.

Tax concessions

As it is currently designed, superannuation involves regressive taxation because every superannuant who earns less than $250,000 per year pays the same level of tax – 15% – on their concessional contributions and earnings, and those who earn over this threshold pay 30% — still a significant discount from the 45% they would pay otherwise.

To take full advantage of the concessions, superannuants must contribute the full concessional contributions cap of $27,500 per year, every year until retirement, which is simply not realistic for most people when the median personal income is $52,338.

For this reason, The Australia Institute found that 41% of the tax concessions go to the top 10% of households. They propose more progressive tax brackets for contributions as a solution.

The objectives of an "equitable" and "sustainable" system must address its preferential tax treatment which disproportionately benefits the wealthy. The Treasurer says the Government *"has not ruled out making changes to superannuation tax concessions in the coming May Budget"* but has not made more specific comments in this regard.

Another problem is that some superannuants made concessional contributions to their accounts before the concessional contributions cap was introduced. These accounts have enormous balances that still receive those generous tax benefits on their investment returns.

The *Financial Review* revealed via FOI last year:

> *'Taxpayers are spending $200 million per year on concessions for Australia's 100 largest self-managed super funds, with new data showing the 32 biggest accounts each have more than $100 million assets, including one mega-SMSF with $401 million.'*

ASFA estimates that just $545,000 is needed to ensure a *'comfortable retirement'*.

Since the introduction of the transfer balance cap – currently $1.7 million – beneficiaries of these enormous funds can't even transfer money over that amount into their pension account to draw down on in retirement.

The aforementioned Treasury Retirement Income Review noted that:

> *'Provision of tax concessions for very large superannuation balances are not required for retirement income purposes... It appears that large balances are held in the superannuation system mainly as a tax minimisation strategy.'*

So far the Treasurer and the Assistant Treasurer have both made public comments hinting at plans to introduce a cap on superannuation balances to resolve this, but have not indicated whether it would be grandfathered in, or if funds over the cap would have to withdraw from their balances. ASFA recommends $5 million, The Grattan Institute recommends $2 million.

We'll just have to wait for the upcoming May Budget to know the final figure.

Lachlan Newland ***has worked in the Public Service for five years and is studying for a Bachelor of Economics at Macquarie University.***