

The Aging Population

Many commentators miss the real point when addressing the issue of the aging population. They digress into subjects like immigration, falsely thinking that a larger future workforce of taxpayers will solve the pension and healthcare costs of the elderly over the coming decades. Overlooked is the fact that financially independent elderly people are not a burden to the general taxpayer, but in fact the capital that they have accumulated throughout their working lives is the basis for the employment of the current workforce. The facts are that a large proportion of retirees have other means of support and that their superannuation is not even a major part of their total income or assets.

Increase in Superannuation Guarantee unnecessary

The Superannuation Guarantee is, from a political perspective is proclaimed to be the saviour of society. Overlooked is the fact the Superannuation industry was alive and well long before the Keating government. ***It is an absolute disgrace on the part of the Labor Party and union movement that the blue collar and miscellaneous workforces had to wait until the early 90's to participate even at the rate of 3%. Equally, the Howard/Costello Government failed in over a decade to correct these obvious shortcomings.*** White collar and professional workers typically had superannuation for generations, usually at a level of around 10% of salary.

The clarion call for an increase in the Superannuation Guarantee to 12% and thereafter to 15% overlooks the best interests of our current and future work-forces.

The taxes on superannuation retard retirement potential by over 35%. This means that a superannuant retiring now on \$40,000 per year would otherwise retire on \$60,000 per year if there was no tax applied. It also means that the retiree's account would only have two-thirds as much money accumulated. ***These accumulations are an important part of our Nation's future savings.***

Given the above statement, a 9% contribution untaxed will yield the same as a 13.5% contribution taxed under the current arrangements.

Current tax points are in the wrong place

The aspiration to increase the Superannuation Guarantee eventually to 15% will rob a future generation of workers of up to 6% of their disposable income throughout their entire working life and will reduce tax revenue by around 1.8%. However I propose that the Superannuation Guarantee be increased from 9% to 10% sooner rather than later. This would create a similar future retirement benefit (and in some cases superior) to that which the proposed 15% Superannuation Guarantee would start to generate in several years time. The Superannuation Guarantee does not need to be increased to 15% if the tax points are changed to occur only after the members earnings accruals equal 80% of average weekly earnings. The "loss" of the 15% contribution tax will be more than compensated for by the fact that each and every worker will have an additional 5% disposable income upon which they would pay 1.5% tax at the 30% rate, which is the equivalent of the 15% tax upon a 10% of salary contribution. The attached tables illustrate both 9% and 10% Superannuation Guarantees.

The 15% tax on contributions causes a 17.65% reduction in investment funds. Our current system has generated over \$1.3 trillion in national savings. This could very well have been around \$2 trillion had the current system been in place since the early 70's. This 17.65% constitutes around \$350 billion at today's values in terms of loss in national savings had the contribution tax never existed. Surely this extra \$350 billion in savings would be in the national interest as well as the interests of every worker and pensioner, both rich and poor. A reduction in dependency and part-dependency on our Social Security system would be of significant benefit.

The "loss" of revenue is insignificant in terms of the benefits that would be derived by accelerating the growth of each and every worker's superannuation by this margin of 17.65%. As things now stand, a member's net contributions of 82.35% fails to break even until the passing of up to 4½ years.

The government has become accustomed to receiving about \$27b in revenue from our \$1.4 trillion superannuation industry. I am not suggesting that a cash strapped government should necessarily forgo any of the revenues that it is accustomed to receiving.

The laws of compound interest are being ignored

Long term savings are very sensitive to compound interest rates. I believe that *"the goose that lays the golden egg"* should be able to get fat before it is taxed. My proposal is that all superannuation accounts be allowed to accumulate to the point at which the income accruals reach 80% of average weekly earnings before being taxed. Thereafter, a tax of 30%, and not 15%, should apply. The initiatives that I proposed will very significantly reduce future dependency and part-dependency upon the aged pension system. The following tables are based on this premise.



RR
REVENUE
REVIEW
FOUNDATION

Richard Hackett-Jones
TAXATION REFORM ADVOCATE
REVENUE ANALYST

**BETTER
THAN HENRY**



Tel: (07) 5514 0052
Mob: 0405 405 110
PO Box 1075, Toowong, Qld, 4066
Email: info@revenuereview.com.au
Web: www.revenuereview.com.au

The following tables illustrate the current system under a 9% contribution. The tables thereafter demonstrate the outcomes that would be achieved under the proposed system at a 9% contribution rate (with footnotes illustrating retirement benefits based on a 10% contribution). Under these examples no tax is paid until the fund accumulation exceeds 80% of average weekly earnings (\$53,580 being 80% of \$66,980). Tax is then paid @ 30% and not 15% once earning exceed this point. Compound interest is calculated at 8.2%. Real wage growth of 1.5% is assumed (being CPI 4% - inflation 2.5%).

Current System @ 9% Contribution

\$9,000 contribution on an assumed income of \$100,000

Net growth of 1.5% being CPI 4% minus inflation 2.5%

YR	GROSS CONTRIB	15% CONTRIB TAX	NET INVESTED	GROSS EARNING	15% TAX ON EARNINGS	NET EARNINGS	ACCUMULATED BALANCE	TOTAL TAX
1	9,000	1,350	7,650	314	46	268	7,918	1,396
5	9,552	1,433	8,119	3,683	539	3,144	48,058	8,437
10	10,291	1,544	8,747	9,162	1,341	7,821	119,553	20,908
15	11,086	1,663	9,423	17,156	2,511	14,645	223,860	39,019
20	11,943	1,791	10,151	28,700	4,200	24,500	374,498	65,091
25	12,866	1,930	10,936	45,250	6,622	38,628	590,452	102,380
30	13,860	2,079	11,781	68,848	10,075	58,772	898,377	155,455
35	14,931	2,240	12,691	102,361	14,980	87,381	1,335,687	230,734
40	16,085	2,413	13,672	149,814	21,924	127,890	1,954,885	337,216

If no tax was applied in this example, then at 35 years the cash value would be \$2,042,589 (or 52% greater); or at 40 years would be \$3,128,417 (or 60% greater).

Proposed system

\$90,000 PA Salary

YR	CONTRIB	80% AWE	INTEREST	EARNINGS ABOVE 80% AWE	TAX	ACCUMULATED BALANCE	TOTAL TAX
1	8,100	53,580	332			8,432	
28	12,108	80,091	74,819			987,249	
29	12,289	81,293	81,962	669	201	1,081,300	201
30	12,474	82,512	89,689	7,177	2,153	1,181,310	2,354
35	13,438	88,889	136,260	47,370	14,211	1,783,750	47,656
40	14,476	95,759	199,188	103,429	31,029	2,597,282	166,974

Summary	Above System	Current Tax Regime	Difference
Tax Raised	166,974	303,495	(136,520)
Balance at retirement	2,597,282	1,759,397	837,885

This produces a further 35% for the superannuant (and our Nation's savings).

If the contribution was 10% of \$90,000 the outcomes would be as follows

Summary	Above System	Current Tax Regime	Difference
Tax Raised	216,158	337,216	(121,058)
Balance at retirement	2,837,416	1,954,885	882,531

This produces a further 42% for the superannuant (and our Nation's savings).

\$100,000 PA Salary

YR	CONTRIB	80% AWE	INTEREST	EARNINGS ABOVE 80% AWE	TAX	ACCUMULATED BALANCE	TOTAL TAX
1	9,000	53,580	369			9,369	
27	13,254	78,908	75,813			1,000,358	
28	13,453	80,091	83,133	3,041	912	1,096,944	912
29	13,655	81,293	91,069	9,776	2,933	1,198,735	3,845
30	13,860	82,512	99,433	16,921	5,076	1,306,951	8,921
35	14,931	88,889	149,805	60,916	18,275	1,958,416	72,128
40	16,085	95,759	217,810	122,051	36,615	2,837,416	216,158

Summary	Above System	Current Tax Regime	Difference
Tax Raised	216,158	337,216	(121,058)
Balance at retirement	2,837,416	1,954,885	882,531

This produces a further 42% for the superannuant (and our Nation's savings).

If the contribution was 10% of \$100,000 the outcomes would be as follows

Summary	Above System	Current Tax Regime	Difference
Tax Raised	274,162	374,685	(100,523)
Balance at retirement	3,104,232	2,172,095	932,137

This produces a further 40% for the superannuant (and our Nation's savings).

\$120,000 PA Salary

YR	CONTRIB	80% AWE	INTEREST	EARNINGS ABOVE 80% AWE	TAX	ACCUMULATED BALANCE	TOTAL TAX
1	10,800	53,580	443			11,243	
23	14,986	74,346	62,176			820,425	
24	15,210	75,461	68,522			904,158	
25	15,439	76,593	75,407			995,004	
26	15,670	77,742	82,875	5,134	1,540	1,093,549	1,540
27	15,905	78,908	90,975	12,067	3,620	1,200,430	5,160
28	16,144	80,091	99,759	19,668	5,900	1,316,333	11,061
29	16,386	81,293	109,283	27,990	8,397	1,433,604	19,458
30	16,632	82,512	118,919	36,407	10,922	1,558,233	30,380
35	17,917	88,889	176,895	88,006	26,402	2,307,747	129,395
40	19,302	95,759	255,054	159,296	47,789	3,317,685	322,848

Summary	Above System	Current Tax Regime	Difference
Tax Raised	322,848	404,660	(81,812)
Balance at retirement	3,317,685	2,345,862	971,823

This produces a further 39% for the superannuant (and our Nation's savings).

If the contribution was 10% of \$120,000 the outcomes would be as follows

Summary	Above System	Current Tax Regime	Difference
Tax Raised	398,690	449,622	(50,932)
Balance at retirement	3,637,864	2,606,514	1,031,350

This produces a further 37% for the superannuant (and our Nation's savings).

\$150,000 PA Salary

YR	CONTRIB	80% AWE	INTEREST	EARNINGS ABOVE 80% AWE	TAX	ACCUMULATED BALANCE	TOTAL TAX
1	13,500	53,580	554			14,054	
21	18,183	72,164	63,676			840,213	
22	18,455	73,247	70,411			929,079	
23	18,732	74,346	77,721	3,375	1,012	1,025,532	1,012
24	19,013	75,461	85,653	10,192	3,058	1,130,198	4,070
25	19,298	76,593	94,259	17,666	5,300	1,243,755	9,370
30	20,790	82,512	148,149	65,637	19,691	1,935,156	77,236
35	22,396	88,889	217,530	128,641	38,592	2,831,744	229,963
40	24,127	95,759	310,921	215,162	64,549	4,038,088	497,551

Summary	Above System	Current Tax Regime	Difference
Tax Raised	497,551	505,825	(8,274)
Balance at retirement	4,038,088	2,932,328	1,105,760

This produces a further 36% for the superannuant (and our Nation's savings).

If the contribution was 10% of \$150,000 the outcomes would be as follows

Summary	Above System	Current Tax Regime	Difference
Tax Raised	599,487	562,027	37,460
Balance at retirement	4,438,312	3,258,142	1,180,170

This produces a further 34% for the superannuant (and our Nation's savings).

\$180,000 PA Salary

YR	CONTRIB	80% AWE	INTEREST	EARNINGS ABOVE 80% AWE	TAX	ACCUMULATED BALANCE	TOTAL TAX
1	16,200	53,580	664			16,864	
19	21,179	70,047	62,111			819,562	
20	21,497	71,098	68,967			910,025	
21	21,819	72,164	76,411	4,247	1,274	1,008,256	1,274
22	22,146	73,247	84,493	11,246	3,374	1,114,895	4,648
23	22,479	74,346	93,265	18,919	5,676	1,230,638	10,324
24	22,816	75,461	102,783	27,322	8,197	1,356,237	18,520
25	23,158	76,593	113,110	36,518	10,955	1,492,505	29,476
30	24,948	82,512	177,379	94,867	28,460	2,312,079	134,827
35	26,876	88,889	258,165	169,276	50,783	3,355,741	341,268
40	28,953	95,759	366,787	271,028	81,308	4,758,491	682,990

Summary	Above System	Current Tax Regime	Difference
Tax Raised	682,990	606,989	76,001
Balance at retirement	4,758,491	3,518,793	1,239,698

This produces a further 34% for the superannuant (and our Nation's savings).

If the contribution was 10% of \$180,000 the outcomes would be as follows

Summary	Above System	Current Tax Regime	Difference
Tax Raised	810,541	674,433	136,108
Balance at retirement	5,238,760	3,909,770	1,328,990

This produces a further 32% for the superannuant (and our Nation's savings).

\$210,000 PA Salary

YR	CONTRIB	80% AWE	INTEREST	EARNINGS ABOVE 80% AWE	TAX	ACCUMULATED BALANCE	TOTAL TAX
1	18,900	53,580	775			19,675	
17	23,984	67,992	58,320			769,542	
18	24,344	69,012	65,099			858,984	
19	24,709	70,047	72,463	2,416	725	956,156	725
20	25,079	71,098	80,461	9,363	2,809	1,061,696	3,534
21	25,456	72,164	89,146	16,982	5,095	1,176,298	8,628
22	25,837	73,247	98,575	25,328	7,598	1,300,711	16,227
23	26,225	74,346	108,809	34,463	10,339	1,435,745	26,566
24	26,618	75,461	119,914	44,453	13,336	1,582,277	39,901
25	27,018	76,593	131,962	55,369	16,611	1,741,256	56,512
30	29,106	82,512	206,609	124,097	37,229	2,689,002	199,350
35	31,355	88,889	298,801	209,912	62,974	3,879,738	459,503
40	33,778	95,759	422,653	326,895	98,068	5,478,894	875,361

Summary	Above System	Current Tax Regime	Difference
Tax Raised	875,361	708,154	167,207
Balance at retirement	5,478,894	4,105,259	1,373,635

This produces a further 32% for the superannuant (and our Nation's savings).

If the contribution was 10% of \$210,000 the outcomes would be as follows

Summary	Above System	Current Tax Regime	Difference
Tax Raised	1,028,327	786,838	241,489
Balance at retirement	6,039,208	4,561,399	1,477,809

This produces a further 31% for the superannuant (and our Nation's savings).

\$240,000 PA Salary

YR	CONTRIB	80% AWE	INTEREST	EARNINGS ABOVE 80% AWE	TAX	ACCUMULATED BALANCE	TOTAL TAX
1	21,600	53,580	886			22,486	
16	27,005	66,987	59,523			785,415	
17	27,410	67,992	66,652			879,477	
18	27,821	69,012	74,398	5,386	1,616	981,696	1,616
19	28,239	70,047	82,815	12,767	3,830	1,092,749	5,446
20	28,662	71,098	91,956	20,858	6,257	1,213,367	11,703
21	29,092	72,164	101,882	29,717	8,915	1,344,341	20,619
22	29,528	73,247	112,657	39,410	11,823	1,486,527	32,442
23	29,971	74,346	124,353	50,007	15,002	1,640,851	47,444
24	30,421	75,461	137,044	61,583	18,475	1,808,316	65,919
25	30,877	76,593	150,814	74,221	22,266	1,990,007	88,185
30	33,264	82,512	235,839	153,327	45,998	3,065,925	268,509
35	35,834	88,889	339,436	250,547	75,164	4,403,735	582,375
40	38,604	95,759	478,520	382,761	114,828	6,199,298	1,072,367

Summary	Above System	Current Tax Regime	Difference
Tax Raised	1,072,367	809,319	263,048
Balance at retirement	6,199,298	4,691,724	1,507,574

This produces a further 31% for the superannuant (and our Nation's savings).

If the contribution was 10% of \$240,000 the outcomes would be as follows

Summary	Above System	Current Tax Regime	Difference
Tax Raised	1,250,347	899,244	351,103
Balance at retirement	6,839,656	5,213,027	1,626,629

This produces a further 30% for the superannuant (and our Nation's savings).