SMSF Owners' Alliance
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More sound and fury – signifying nothing!

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There are no surprises in today's report from ASFA that wealthier people have higher superannuation account balances – mostly held in self-managed funds – and benefit from larger retirement income streams.

But the report does not give a balanced picture and doesn't help advance an objective tax debate.

What's lacking in ASFA's report, and in much commentary on this issue, is how much more tax these people pay in the first place. As the Treasurer has pointed out this week, 2% of taxpayers pay 26% of income tax. The top 20% of taxpayers pay 65% of income tax.

Fairness can't be judged by looking at superannuation tax benefits in isolation from income and other taxes paid.

A better perspective would be gained by taking into account all taxes paid over a lifetime and all tax concessions received. Hopefully a more objective picture will be gained through the current Tax White paper process.

A focus on the tax benefits derived from large superannuation account balances is looking at the issue through a very narrow prism.

These balances were legitimately accumulated in accordance with old rules. It is no longer possible, under current contribution caps, for people to amass very large amounts in superannuation.

ASFA estimates that a retired couple with their own home and in good health need $58,000 a year for a comfortable retirement. People will make their own judgement about whether a retirement income of 75% of average weekly earnings is sufficient for them.

ASFA's report doesn't point out that someone starting now will need to amass nearly $5 million in superannuation to fund such a pension in the future.

A better benchmark, which does not involve making subjective judgements about what is good enough for people in retirement, is what is known as a Reasonable Replacement Rate – generally around two thirds of pre-retirement income – which is a well-accepted international concept referred to by Ken Henry in his landmark tax reform paper in 2010.

ASFA queries whether it is fair for younger generations of taxpayers to be funding the tax concessions of older, high net worth individuals. It seems to ignore the fact that the superannuation system is much fairer in relation to intergenerational transfers that the Age Pension. Superannuation is built during a person's working life while the Age Pension is funded by taxpayers now and in the future.

The superannuation system is intended to provide a means, for the first time in our history, to enable the current generation of Australians to fund their own retirement and not be a burden to their children and grandchildren.

By and large, it is only SMSF owners who are achieving this objective with an average account balance of $500,000. An average account balance of less than $30,000 in the large APRA-regulated funds, represented by ASFA, is clearly falling well short.

As ASFA's report notes, the number of SMSF members with $2-5 million in their accounts is around 35,000 – 3.5% of the one million Australians with self-managed accounts. The number with balances of between $5 – 10million is 3,000 (0.3% of all members) and the number with more than $10 million in their accounts is 1,000 (0.1% of all members).

Instead of worrying about a small number of high account balances and retirement incomes, ASFA should be concerned about why most of the members of the managed funds it represents are not going to have enough superannuation to fund ASFA's own notion of a comfortable retirement.

This is due in some part to the high fees charged by APRA funds which concerned David Murray's Financial System Inquiry and is a key reason why people are deserting the major funds and setting up their own SMSFs.

SMSFOA believes that everybody – individuals and companies – should pay the taxes set by the Government. People who have accumulated savings through hard work, having paid their fair share of tax and more along the way, should not be penalised for their success.

Given the Government's intention to have an open and sensible conversation about tax so that we can have a lower, fairer and simpler tax system, stirring up envy with headline grabbing tall poppy numbers is not a constructive contribution to the debate which should be about how every Australian can be a taller poppy.

We attach an excerpt from SMSFOA's submission in response to the FSI's Interim Report which more broadly canvasses the issue of fairness.

Contact:

Duncan Fairweather
Executive Director
SMSF Owners' Alliance
dfairweather@smsfoa.org.au
0412 256 200
www.smsfoa.org.au