Retirement incomes

Submission to the Tax White Paper Task Force

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Executive summary

Background

The Australian retirement income system comprises three pillars:

- a publicly funded means tested Age Pension;
- a mandatory employer contributions to private superannuation; and
- voluntary saving, including voluntary superannuation.

Whilst the age pension provides an effective safety net, there are a number of limitations within this three pillar structure which reduces the economic efficiency of retirement incomes policies,. These factors include:

- very high effective marginal income tax rates (i.e. up to 240%);
- regressive tax scales;
- the exclusion of superannuation contributions from the progressive income tax scale;
- high tax rates on superannuation investments (i.e. between 15% and 43%);
- horizontal inequity; and
- distortion of investment and consumption decisions.

This submission demonstrates that we can increase the economic efficiency of retirement incomes by:

- maintaining the existing safety net provided by the age pension;
- reducing marginal tax rates;
- removing horizontal inequity; and
- minimizing distortions .

Recommendations

The following approach achieves an efficient tax structure for retirement incomes by reducing marginal tax rates, removing horizontal inequity and minimizing distortions.

- Increase the amount of the age pension to:
  - $924.20 per fortnight for a single; and
  - $705.20 per fortnight (each) for a couple.
- Abolish the existing assets test and the deeming provisions of the income test.
- Reduce the rate of withdrawal of the age pension under the income test from 50% to 39%.
- Introduce a new tax free threshold of:
  - $61,613 for a single; and
  - $47,013 (each) for a couple.
- Introduce a tax rate of 39% for all income above the tax free threshold.
- Tax superannuation contributions at the flat rate of 39%.
- Abolish the existing taxes on the earnings of superannuation entities.

More importantly, these recommendation are designed to be fully self funding and have the potential to reduce the existing Federal budget deficit by at least $2 billion per annum.

Current tax structure for retirement incomes

Introduction

The Australian retirement income system is made up of three pillars:

- a publicly funded and means tested Age Pension;
- a mandatory employer contributions to private superannuation; and
- voluntary saving, including voluntary superannuation and other long-term saving through property, shares and managed funds.

However, the existing taxation system does not treat retirement incomes holistically. There are separate tax arrangements affecting superannuation and other retirement incomes which result in excessive effective marginal tax rates, a regressive tax structure and horizontal inequity.

Given that high marginal tax rates generate distortions in the savings and consumption decisions of individuals, the existing taxation system adversely affects economic efficiency and therefore fails to maximize the welfare of retirees. This submission demonstrates that we can:

- lower effective marginal tax rates on both superannuation and other retirement incomes simultaneously;
- remove horizontal inequity;
- maintain the safety net of the age pension;
- maximize the welfare of retirees; and
- achieve this at no net cost to the budget deficit.

Existing income tax scale

Under the current taxation arrangements, the income of retirees is subject to the same income tax brackets as those which apply to working age tax payers.

The following table provides details of the current tax scales.

Income	($ p.a.)		Tax payable
0	to	18,200	0.0%
18,201	to	37,000	19.0% on taxable income above $18,200
37,001	to	80,000	$3,572 plus 32.5% on taxable income above $37,000
80,001	to	180,000	$17,547 plus 37.0% on taxable income above $80,000
180,001	to	+	$54,547 plus 45.0% on taxable income above $180,000

These brackets deliver a highly progressive taxation regime, however, this comes at the cost of high marginal tax rates for those on higher incomes.

It should be noted that the above table excludes the current 2% surcharge on high income earners, the Temporary Budget Reduction Levy, as this is scheduled to end following the 2016-17 fiscal year.

Additional tax provisions for retirees

In addition, the progressive nature of the taxation of retirement incomes is increased by the following benefits.

Low Income tax Offset (LITO)

- A non-refundable tax rebate of $445 payable on taxable incomes up to $37,000 per annum.
- At incomes above $37,000, LITO reduces at the rate of 1.5 cents per dollar earned until the offset is exhausted at $66,666.
- The effect of LITO is to increase the tax free threshold for low income earners to $20,542.

Seniors and Pensioners Tax Offset (SAPTO)

- A non-refundable tax rebate for in addition to LITO.
- For singles, the maximum offset is $2,230 on incomes up to $32,279 per annum after which the rebate reduces at the rate of 12.5 cents per dollar earned until the offset is exhausted at $50,119.
- For couples, the maximum offset is $1,602 each on incomes up to $28,974 per annum after which the rebate reduces at the rate of 12.5 cents per dollar earned until the offset is exhausted at $41,790.
- The effect of SAPTO is to further increase the tax free threshold for seniors and pensioners to $32,279 for singles and $28,974 for couples.

Medicare Levy

	Single	Couple
Exempt from Medicare Levy	< $32,279 p.a.	< $46,000 p.a.
Medicare Levy of 10% on income within these bands	$32,279 to $ 37,975 p.a.	$46,000 to $54,117 p.a.
Medicare Levy of 2% on full income	> $37,975 p.a.	> $54,117 p.a.

Existing age pension provisions

The age pension is paid to both men and women upon attaining the eligibility age of 65 years. The eligibility age is expected to rise progressively to 67 and there is a proposal to increase this further to 70 years, subject to legislation.

Pension payable per fortnight	Single	Couple (each)
Current pension	782.20	589.60
Current pension supplement	63.90	48.20
Current energy supplement	14.10	10.60
Total age pension payable	**860.20**	**648.40**

The age pension is subject to an income test which reduces the amount payable by 50 cents per dollar earned over $160 per fortnight for a single and $142 per fortnight each for couples.

Whilst the age pension addresses the issue of maintaining minimum consumption levels during retirement, it also adds to the distortions inherent in the standard taxation scales by delivering effective marginal tax rates of up to 106% for singles and 96% for couples. The table on the following page illustrates the effect of combining LITO, SAPTO, the Medicare Levy and the income test of the pension on effective marginal tax rates.

Effective marginal tax rates

Income ($ p.a.)			Income Tax	Medicare Levy	LITO	SAPTO	Marginal Tax Rate	Income test	Effective Marginal Tax Rate
Effective marginal tax rates for single retirees									
0	to	4,160	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
4,161	to	32,279	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	50.0%
32,280	to	37,000	19.0%	10.0%	0.0%	12.5%	41.5%	50.0%	91.5%
37,001	to	37,975	32.5%	10.0%	1.5%	12.5%	56.5%	50.0%	106.5%
37,976	to	48,890	32.5%	2.0%	1.5%	12.5%	48.5%	50.0%	98.5%
48,891	to	50,119	32.5%	2.0%	1.5%	12.5%	48.5%	0.0%	48.5%
50,120	to	66,666	32.5%	2.0%	1.5%	0.0%	36.0%	0.0%	36.0%
66,667	to	80,000	32.5%	2.0%	0.0%	0.0%	34.5%	0.0%	34.5%
80,001	to	180,000	37.0%	2.0%	0.0%	0.0%	39.0%	0.0%	39.0%
180,001	+		45.0%	2.0%	0.0%	0.0%	47.0%	0.0%	47.0%
Effective marginal tax rates for couples									
0	to	3,692	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3,693	to	28,974	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	50.0%
28,975	to	37,000	19.0%	0.0%	0.0%	12.5%	31.5%	50.0%	81.5%
37,001	to	37,409	32.5%	0.0%	1.5%	12.5%	46.5%	50.0%	96.5%
37,410	to	41,790	32.5%	0.0%	1.5%	12.5%	46.5%	0.0%	46.5%
41,791	to	46,000	32.5%	0.0%	1.5%	0.0%	34.0%	0.0%	34.0%
46,001	to	54,117	32.5%	10.0%	1.5%	0.0%	44.0%	0.0%	44.0%
54,118	to	66,666	32.5%	2.0%	1.5%	0.0%	36.0%	0.0%	36.0%
66,667	to	80,000	32.5%	2.0%	0.0%	0.0%	34.5%	0.0%	34.5%
80,001	to	180,000	37.0%	2.0%	0.0%	0.0%	39.0%	0.0%	39.0%
180,001	+		45.0%	2.0%	0.0%	0.0%	47.0%	0.0%	47.0%

Assets test

The income test includes a provision for deemed income to apply to financial assets, which is taxed at the 50% rate under the income test. Deeming rates are as follows.

- 1.75% of assets up to $48,000; plus
- 3.25% of assets over $48,000.

In addition, a separate assets test reduces the amount of pension payable by $1.50 for each $1,000 in assets in excess of the following thresholds.

	Single	Couple
Homeowner	$202,000	$286,500 (combined)
Non-homeowner	$348,500	$433,000 (combined)

From January 2017, the taper rate of the assets test will increase to $3.00 for each $1,000 in assets in excess of the following thresholds.

	Single	Couple
Homeowner	$250,000	$275,000 (combined)
Non-homeowner	$450,000	$575,000 (combined)

It should be noted that the family home is exempt from the assets test. However, there is an indirect assets test on the family home given the differential in thresholds for homeowners and non-homeowners which produces an implied assets test on some homes, valuing the home at a fixed amount of $146,500 under the current test, rising to $200,000 as of the January 2017 assets test.

Assets test (continued)

The combined income and assets tests produce an effective wealth tax for retirees as follows.

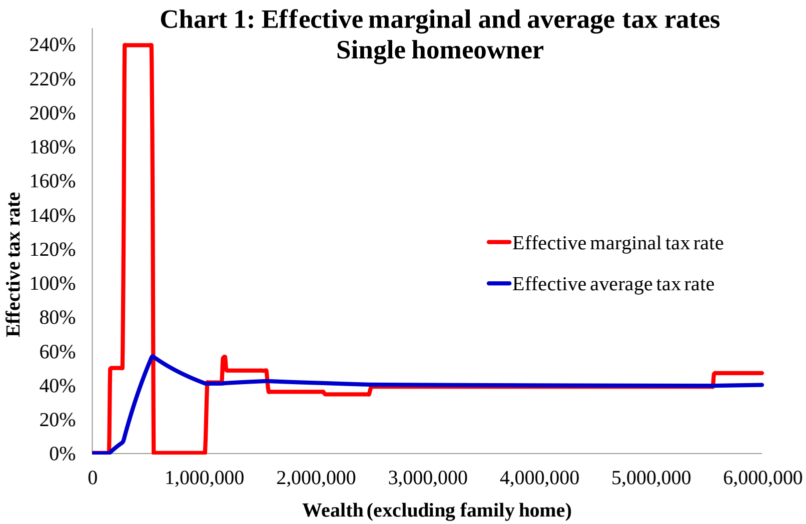
	Wealth bracket ($ 000's)			
Single homeowner	0 to 150	150 to 289	289 to 547	547 +
Single non-homeowner	0 to 150	150 to 537	537 to 747	747 +
Couple homeowner	0 to 264	264 to 451	451 to 823	823 +
Couple non-homeowner	0 to 264	264 to 699	699 to 1,023	1,023 +
	Tax rate payable on superannuation account balance			
	0%	1.625%	7.8%	0%

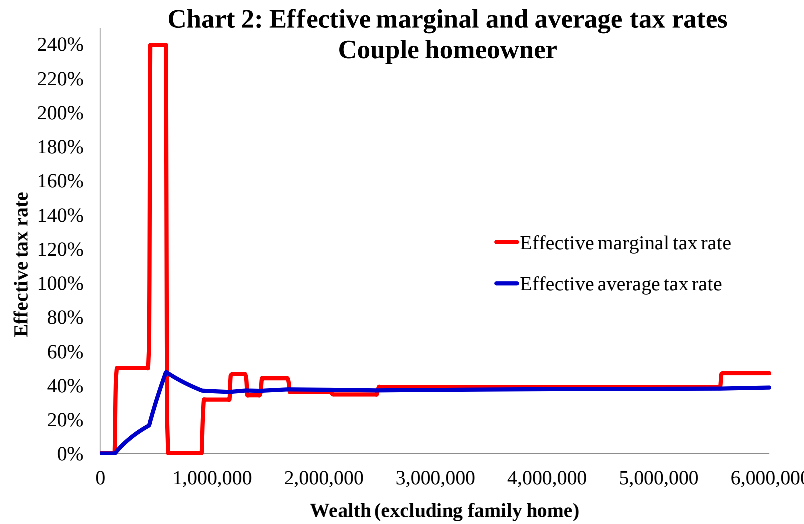
Note: this table assumes the rebalanced assets test applicable post January 2017.

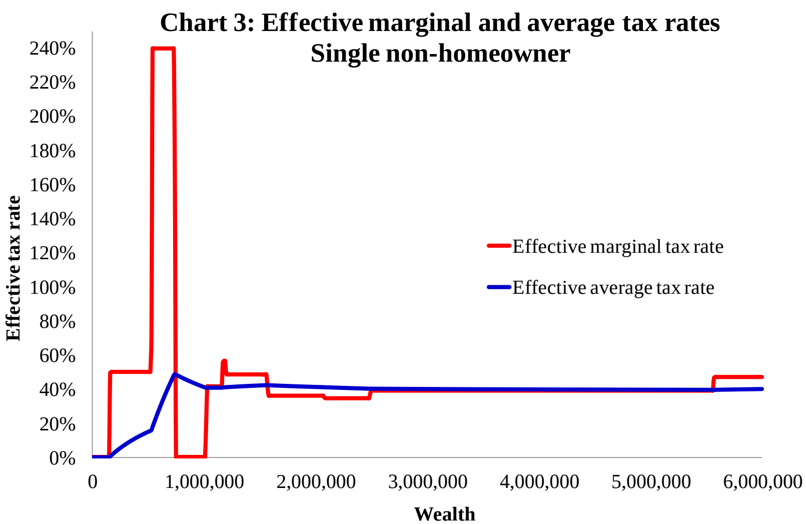
Assuming a retiree's assets are invested solely in bank deposits at the deemed income rates attributable to the existing pension income test of 1.75% up to $48,000 and 3.25% above this threshold, the maximum effective marginal tax rates on the earnings of financial assets would be 50% under the income test and 240% under the assets test. These rates are illustrated in the effective marginal tax rates provided in Charts 1 to 4 on the following page.

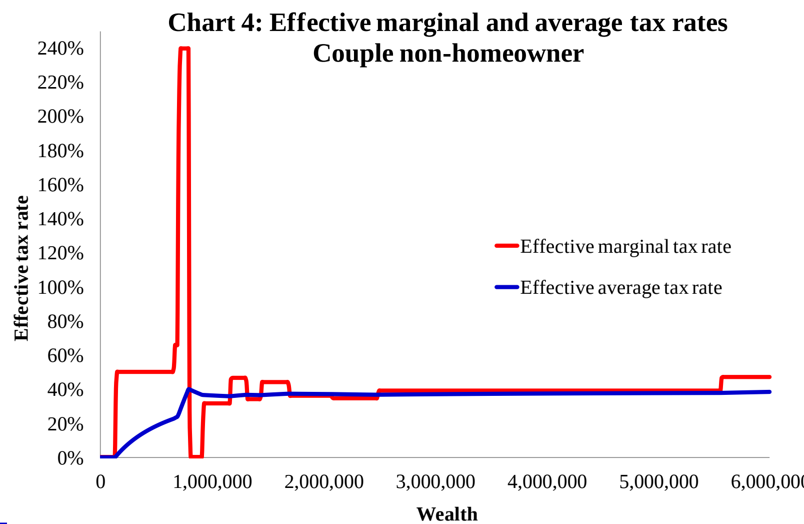
The graphs are based upon a retirees wealth position rather than income. This is to enable consolidation with the assets test and the deeming provisions of the income test as well as providing a consistent basis to use in in integrating with superannuation taxes. Where necessary, income has been estimated using returns on capital equal to 3.25% p.a., which assumes the return employed under the deeming rates of the income test.

Effective marginal tax rates









Conclusions

The existing tax and pension structure results in:

- very high effective marginal tax rates (i.e. up to 240%);
- regressive tax scales due to the high rates payable by low income earners;
- average tax rates for retirees with wealth in excess of the assets test threshold are 39% to 41%; and
- poor transparency (i.e. impact of LITO and SAPTO is difficult to understand).

Therefore, the tax and pension system introduces a significant level of distortion into the savings and consumption decisions of individual retirees. The outcome is a less efficient economy and sub-optimal welfare for retirees.

Current tax structure for superannuation

Superannuation

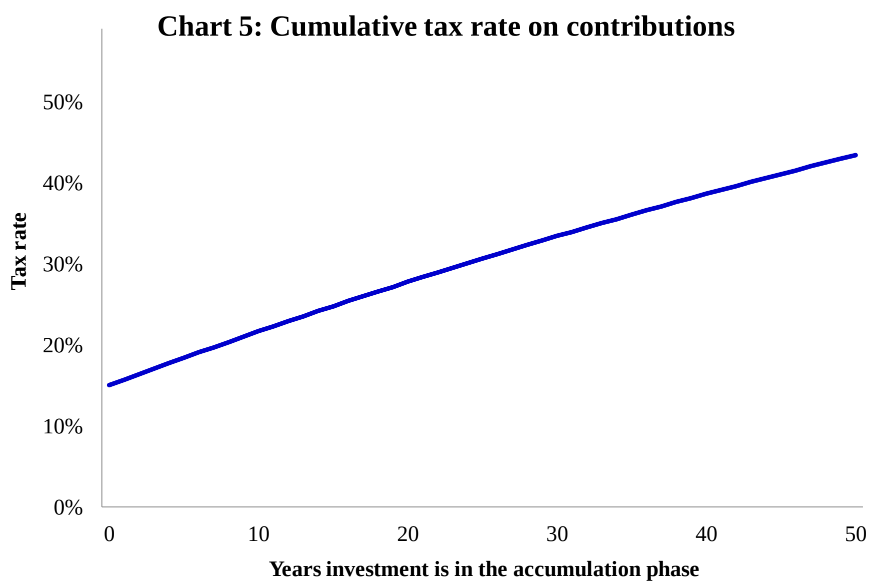
Superannuation is currently subject to separate taxation arrangements from the standard income tax scales. These taxes apply to all three phases of a superannuation investment.

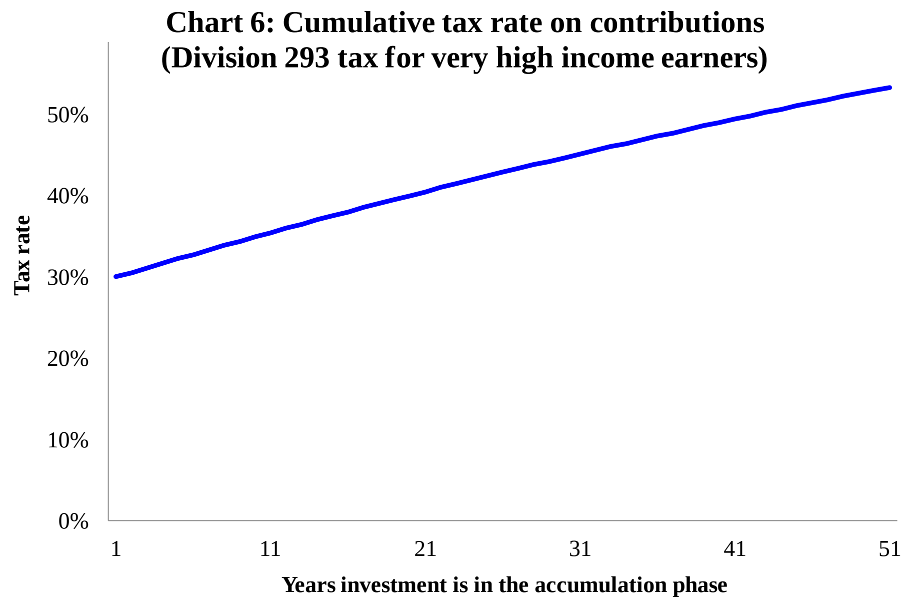
- **Contributions Phase.**
  - 15% on contributions up to the concessional contributions general cap, currently $30,000 per annum;
  - marginal tax rates up to the non-concessional contributions cap, currently $180,000 per annum;
  - 47% in excess of the non-concessional contributions cap; and
  - an additional 15% on contributions from individuals with adjustable taxable income for the year of contribution of $300,000 or more (the Division 293 tax for very high income earners).
- **Accumulations Phase.**
  - 15% of the annual earnings of a superannuation entity.
- **Distribution Phase**
  - Whilst here are no formal taxes on the distribution of funds from superannuation investments, there are indirect taxes since superannuation account balances are subject to the assets test as well as the deeming provisions of the income test.

There are two observation to be drawn from the above tax arrangements. First, tax on superannuation is considerably higher than that implied by the headline rate of 15% (i.e. affected by the combined effect of the taxes payable during the contributions, accumulation and distribution phases. Second, with the exception of Division 293 tax for very high income earners, the effective tax rates on superannuation are not dependent upon the earnings of the investor. Therefore, effective taxes are solely dependent upon the time funds are held in an account during the accumulation phase (i.e. how many years the account is liable for the 15% tax on superannuation earnings).

Tax on contributions

The effective rate is best determined by comparing the balance accruing to an investment over time without tax with a similar investment over the same time frame after applying the applicable tax rates. The results of this analysis are provided in Charts 5 and 6 below for the 15% and 30% contributions tax respectively.





It should be noted that the effective rate of taxation on superannuation ranges from 15% to 43% for most individuals and from 30% to 53% for those subject to Division 293 tax for very high income earners.

Tax on distributions

As discussed above, there are indirect taxes during the distribution phase given that superannuation account balances are subject to the assets test as well as the deeming provisions of the income test. As a result, superannuation account balances will be subject to taxes in accordance with the four categories of retirees described in the following table (assuming the post January 2017 assets test).

Retirees ($ 000's)	Low wealth	Middle wealth		High wealth
		Income test	Assets test	
Single homeowner	0 to 150	150 to 289	289 to 547	547 +
Single non-homeowner	0 to 150	150 to 537	537 to 747	747 +
Couple homeowner	0 to 264	264 to 451	451 to 823	823 +
Couple non-homeowner	0 to 264	264 to 699	699 to 1,023	1,023 +
Tax rate payable	**0%**	**1.625% p.a.**	**7.8% p.a.**	**0%**

It is important to note that few investments consistently yield 7.8% per annum such that tax rates of this order provide a strong incentive to take lump sums early in retirement. Further, the above tax rates apply to the balance of superannuation accounts on an annual basis. As a result, superannuation investments are subject to tax on the balance at up to the 7.8% rate each year, which means the effective tax would amount to as much as 100% within 13 years, assuming no distributions are made from the fund.

Clearly, for retirees in the middle wealth brackets in the above table, the taxation of superannuation during the distribution phase is a significant source of distortion in the saving and consumption decisions of individuals. This provides a considerable incentive to opt for a lump sum payout at retirement to avoid the punitive tax treatment and so provides a major discouragement for self funding of retirement.

The marginal tax rates and implied average taxes are illustrated in Charts 7 to 10 on the following page.

Tax on distributions (continued)

Chart 7: Tax rates on superannuation account balances during the distribution phase Single homeowner

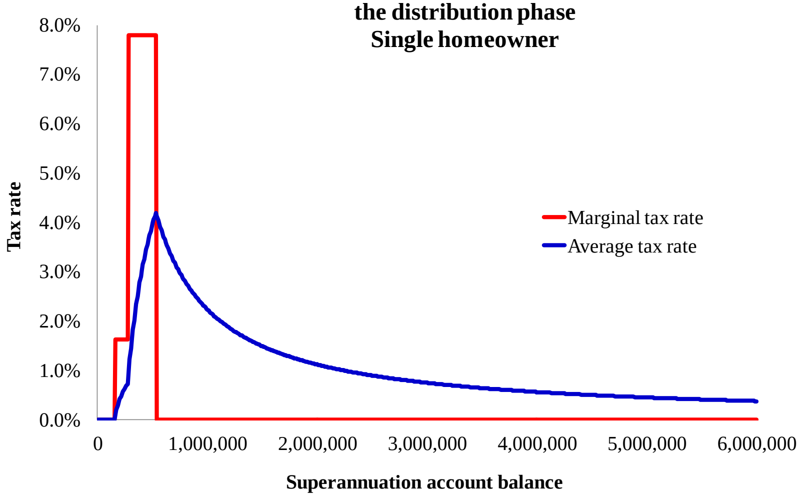


Chart 8: Tax rates on superannuation account balances during the distribution phase Couple homeowner

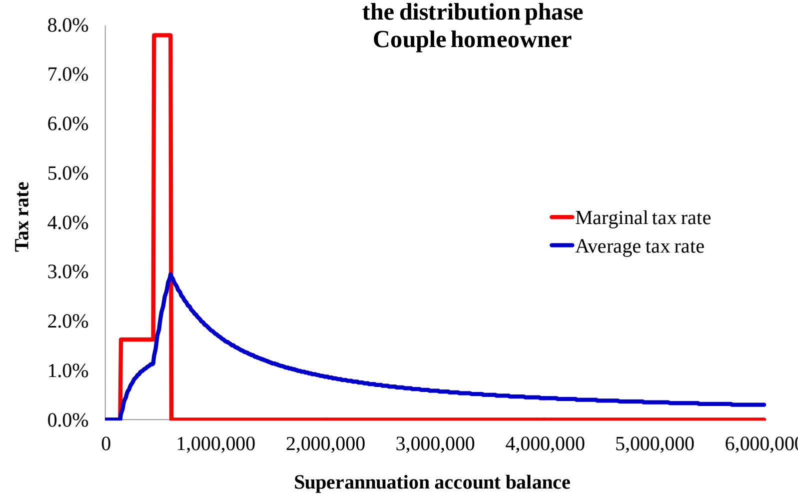


Chart 9: Tax rates on superannuation account balances during the distribution phase Single non-homeowner

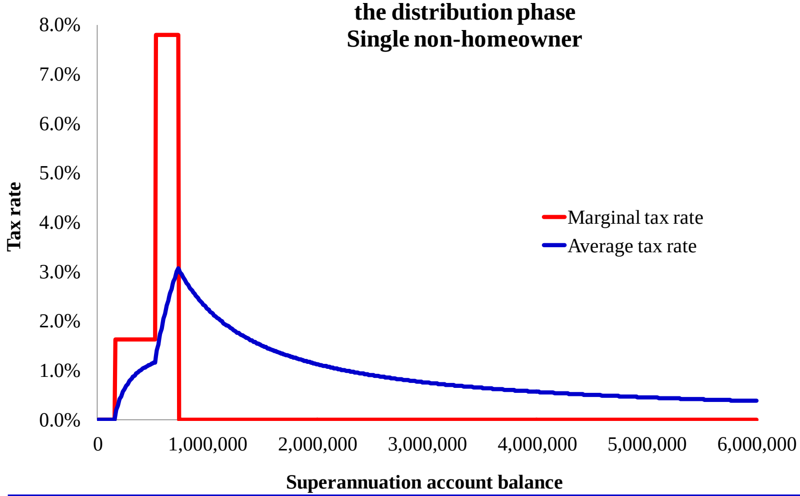
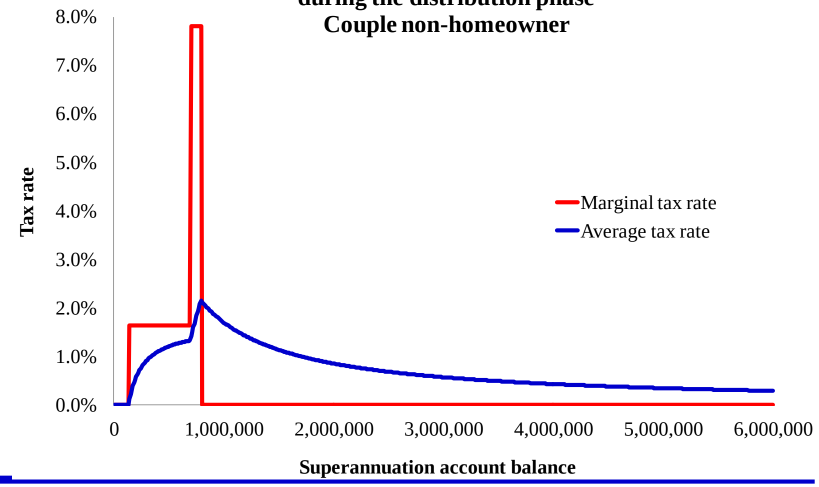


Chart 10: Tax rates on superannuation account balances during the distribution phase Couple non-homeowner



Accumulation and distribution phases

Combining all three phases of superannuation produces effective marginal tax rates dependent upon the time funds are held in the accumulation phase and the time in the distribution phase. This is illustrated in Charts 11 and 12 for those subject to the income test and the assets test respectively.

Clearly, the line for zero years of distribution (the yellow line in Charts 11 and 12) describe the tax payable by those with little wealth, those with high wealth and those who opt for a lump sun payment from their superannuation. While the remaining lines represent the tax position of the middle wealth cohort who are subject to either the deeming provisions of the income test or the assets test. This gives rise to two observations, the structure is:

- regressive (i.e. high wealth individuals pay lower tax than middle wealth individuals); and
- horizontally inequitable (i.e. individuals with the same wealth can achieve different tax outcomes by opting for a lump sum).

Chart 11: Tax on superannuation by number of years of accumulation and distribution subject to the income test

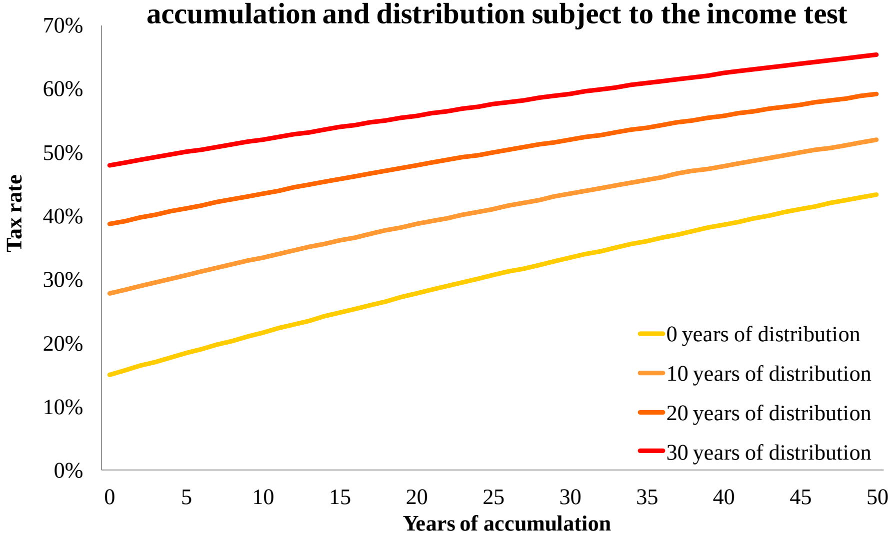
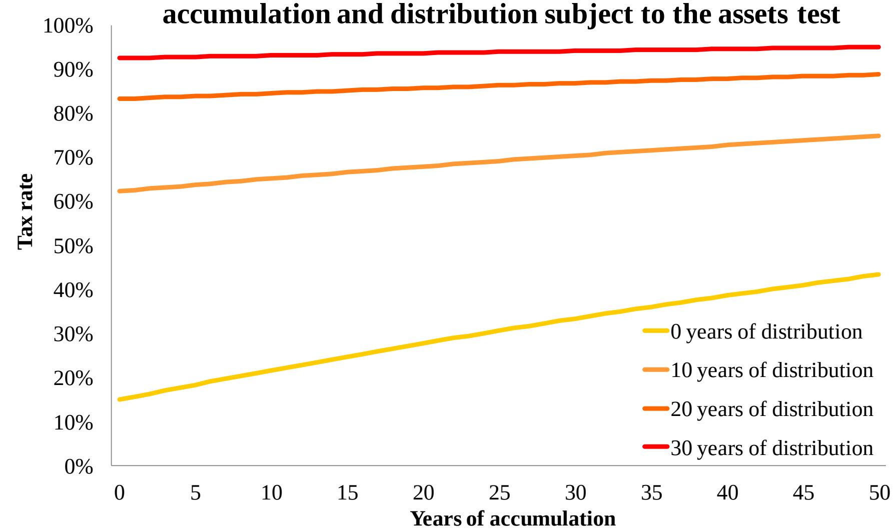


Chart 12: Tax on superannuation by number of years of accumulation and distribution subject to the assets test



Conclusions

The existing three pillar strategy provides an effective safety net via the age pension. However, there are a number of limitations in the system, including:

- with the exception of Division 293 tax for very high income earners, superannuation contributions are subject to a flat rate of tax and so separated from the progressivity of the general income tax scale;
- effective tax rates on superannuation investments over the contribution and accumulation phases range between 15% and 43%, somewhat higher than the 15% headline rate;
- distortions in investment and consumption decisions are generated by encouraging premature exhaustion of superannuation savings and subsequent reliance upon the age pension (i.e. lump sums);
- the taxation of superannuation demonstrates horizontal inequity; and
- taxes on superannuation are regressive in that the poorest 47% and the wealthiest 20% pay lower tax rates than the middle 32% of retirees.

Again, the taxation of superannuation introduces a significant level of distortion into the savings and consumption decisions of individual retirees. The outcome is a less efficient economy and sub-optimal welfare for retirees.

Recommendations

Approach

A well designed tax structure for retirement incomes should deal with taxation, pension and superannuation holistically. This should address the following points.

- Ensure an adequate safety net to support a comfortable living standard for all retirees.
- Minimize marginal tax rates.
- Reduce horizontal inequity.
- Minimize distortions in consumption and investment decisions during working and retirement stages.
- Minimize distortions in the timing of retirement and asset choice.
- Maximize flexibility for individuals.

In addition, the ideal treatment of superannuation is to tax investments at the marginal tax rates applicable in retirement rather than during working years. This approach takes into account the purpose of retirement incomes policies, to address the need to achieve consumption smoothing over the different stages of life given that incomes during working years are generally significantly higher than during retirement .

Further, it is important that changes to the structure of retirement incomes policies should grandfather any existing investments to ensure that decisions taken under the old policy do not result in individuals being worse off.

Recommendations

Simplify the existing taxation structure for retirement incomes as follows.

- A tax free threshold of:
  - $61,613 for a single; and
  - $47,013 (each) for a couple)
- A tax rate of 39% for all income above the tax free threshold.
- Increase the amount of the age pension to:
  - $924.20 per fortnight for a single; and
  - $705.20 per fortnight (each) for a couple.
- Abolish the existing assets test and deeming provisions of the income test.
- Reduce the rate of withdrawal of the age pension under the income test from 50% to 39% and remove the existing threshold for the income test.
- Abolish the existing 15% tax on superannuation entity earnings.
- Tax superannuation contributions at the marginal tax rate applicable during retirement (i.e. 39% flat rate).

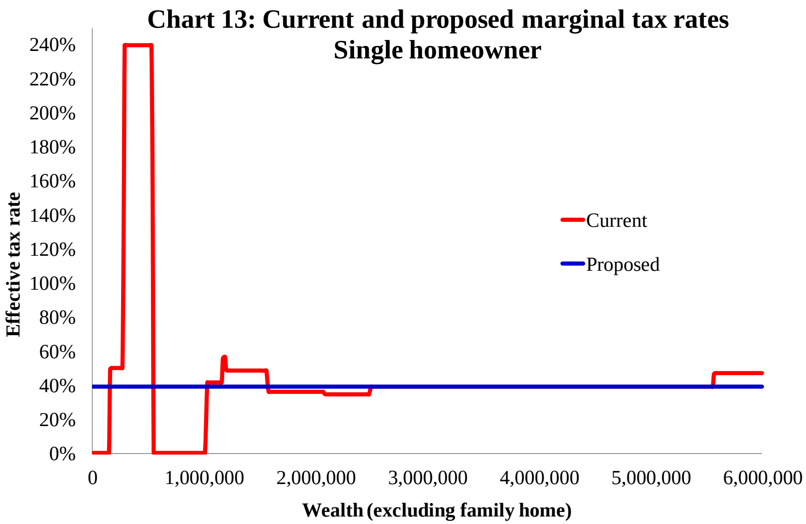
Impact on retirement incomes

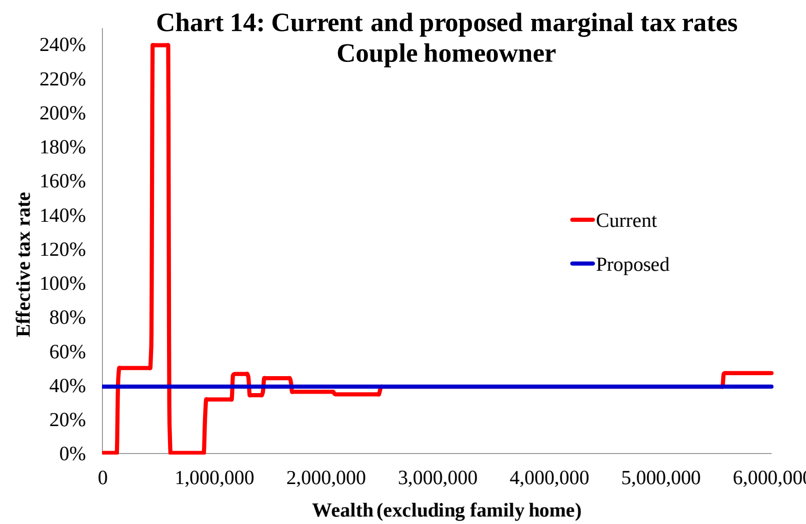
There are a number of implications inherent in the above recommendations.

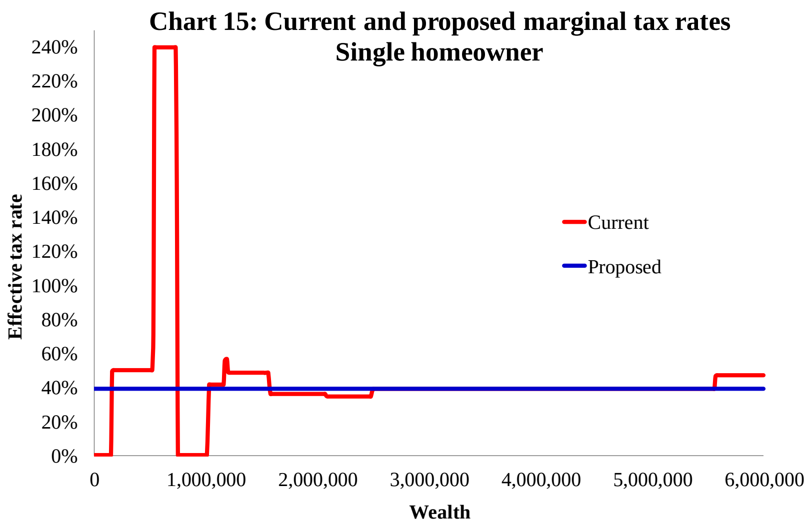
- Taxation of retirement incomes is simplified and becomes transparent.
- The maximum marginal tax rate for all retirees is 39%, including taxes on superannuation contributions.
- The maximum average tax payable by any retiree is 39%, including taxes on superannuation contributions.
- Multiple taxation of superannuation is removed by taxing at contribution only.
- Although superannuation is taxed at contribution, the rate is that applicable at distribution, addressing the lower incomes experienced in retirement.
- The increased tax on superannuation is applicable only to new contribution such that all existing investments are effectively grandfathered.
- Savings are encouraged by removing the incentive to take lump sum payouts from superannuation.
- Higher age pension rates mean that retirees with no additional income will be better off.
- Increases to the pension will fully offset the abolition of the income test threshold (i.e. no one is worse off).
- Equalizing the withdrawal rate of the pension with the tax rate eliminates the distortionary effects of the income and assets test. In effect, the pension becomes universal.

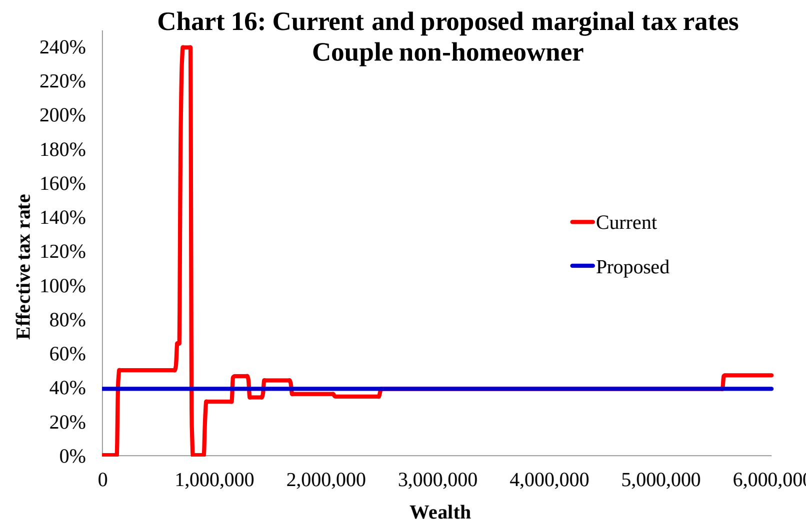
Charts 13 to 20 on the following pages illustrate the impact of the pension and tax changes on retirement incomes (i.e. no one is worse off).

Impact on retirement incomes (continued)

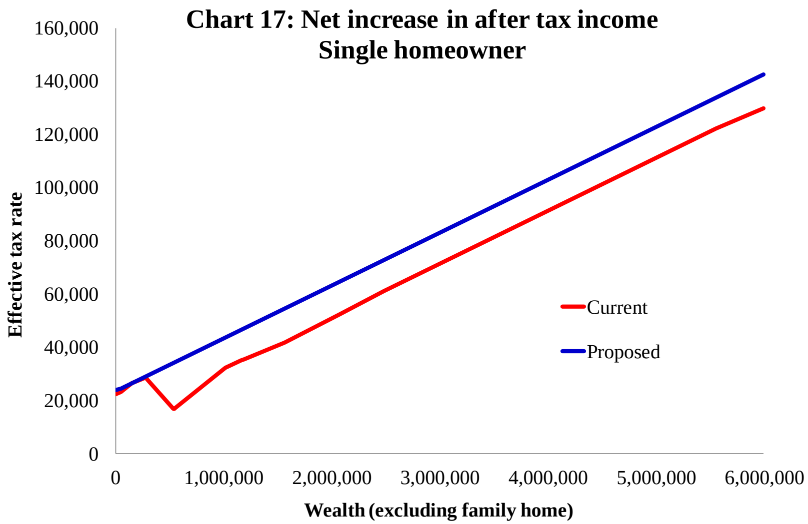


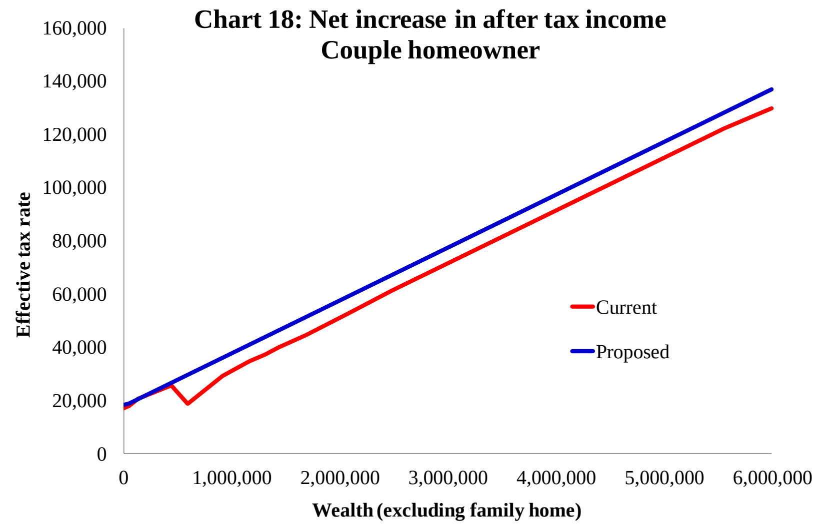


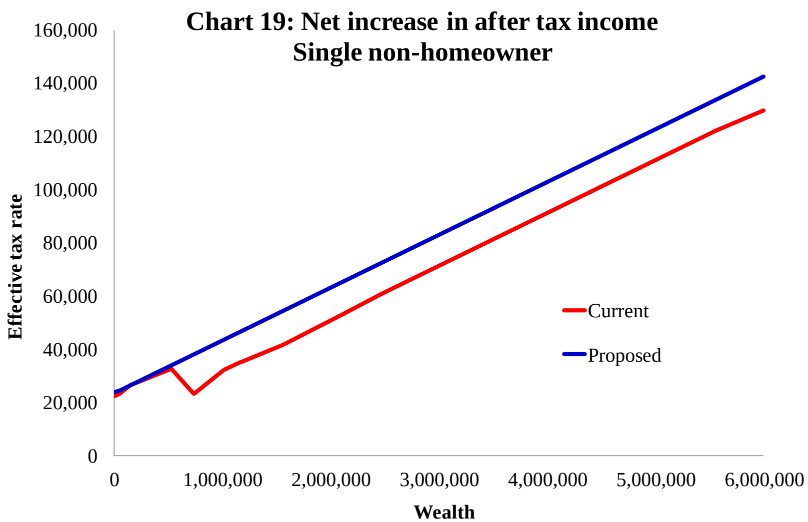


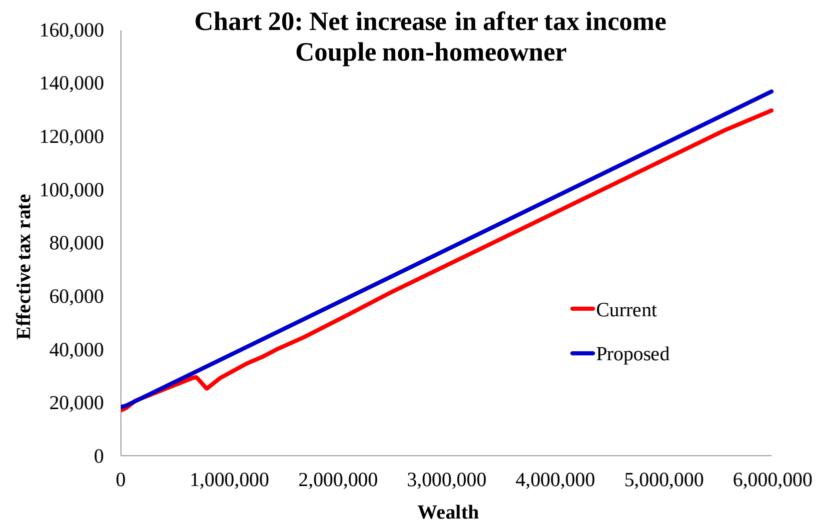


Impact on retirement incomes (continued)









Impact on superannuation

Existing taxes on superannuation include:

- 15% tax on contributions;
- 15% on the earnings of super funds; and
- 1.625% or 7.8% p.a. on superannuation account balances under the income and assets tests respectively.

It is proposed to replace these taxes with a single tax of 39% at the time of contribution.

In order to examine the effect of the new tax arrangements in individual retirees, we need to look at four categories of individuals:

- low wealth retirees (i.e. low income earners or those who opt for a lump sum on retirement);
- middle wealth retirees subject to the income test;
- middle wealth retirees subject to the assets test; and
- wealthy retirees with assets in excess of the thresholds for the existing assets test.

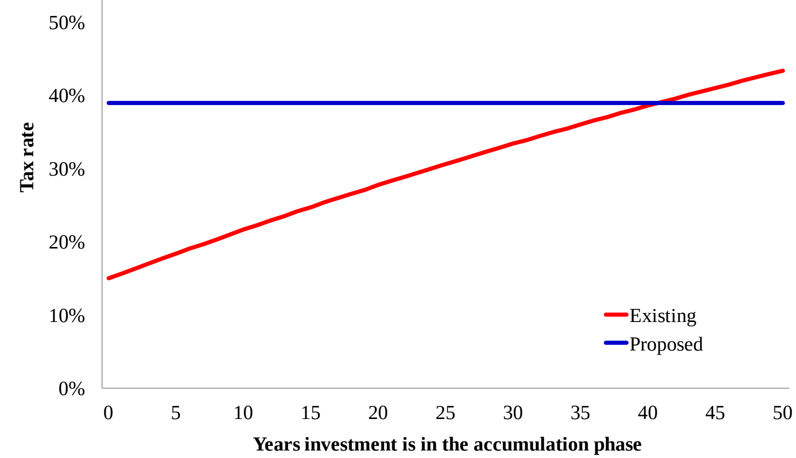
It should be stressed that no existing superannuation investments will be adversely affected by the increased tax rate applicable to contributions since this applies only to new contributions. In fact, it is expected that existing investments in superannuation funds will be better off given the abolition of the 15% tax on earnings.

Impact on superannuation (continued)

Low wealth retirees

For retirees with low wealth (i.e. those below the threshold for the deeming provisions of the income test, $150,000), the change in the tax rates applicable to superannuation is shown in Chart 21. Clearly, there is potential for some low wealth retirees to be subject to higher tax on their superannuation, however, the proposed increase in the pension amount of $1,622.40 per annum for singles and $1,439.88 per annum each for couples will offset this, at least in part. Given that the main driver of low wealth retirement is the decision to take a lump sum, this proposal constitutes a significant reduction in the existing incentives favouring lump sums.

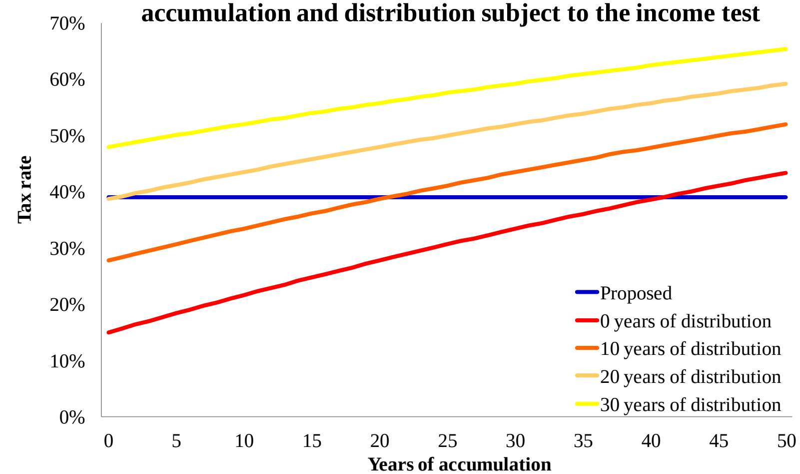
Chart 21: Tax rate on contributions with no income or assets tests



Middle wealth retirees subject to the income test

Chart 23 indicates the tax outcomes for retirees subject to the income test. Here, the red line represents a lump sum payout (i.e. Chart 21) with the 10, 20 and 30 year lines showing that the majority of such middle wealth retirees would be better off under this proposal. Again, all retirees will benefit from the increase in the pension amount which should offset any adverse tax costs

Chart 22: Tax on superannuation by number of years of accumulation and distribution subject to the income test



Impact on superannuation (continued)

Middle wealth retirees subject to the assets test

For retirees subject to the assets test, the change in the marginal tax rates applicable is provided in Chart 23. Again the red line represents a lump sum payout (i.e. Chart 21) with remaining lines showing that the majority of such middle wealth retirees would be better off under this proposal.

High wealth retirees

Chart 24 indicates the tax outcomes for retirees with assets above the cut off for the age pension, illustrating that the majority of such individuals would be subject to an increased tax liability.

As a result, there would be winners and losers under the proposed changes. In particular there would be a clear reduction in the existing incentives to take a lump sum payout.

Chart 23: Tax on superannuation by number of years of accumulation and distribution subject to the assets test

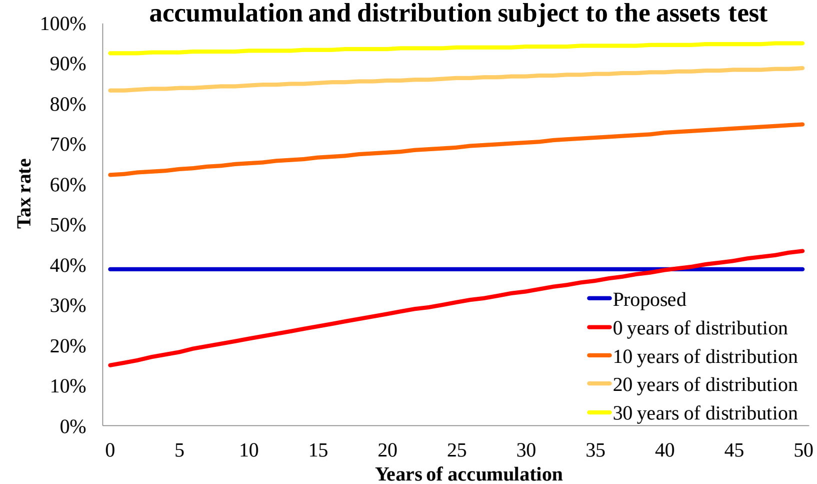
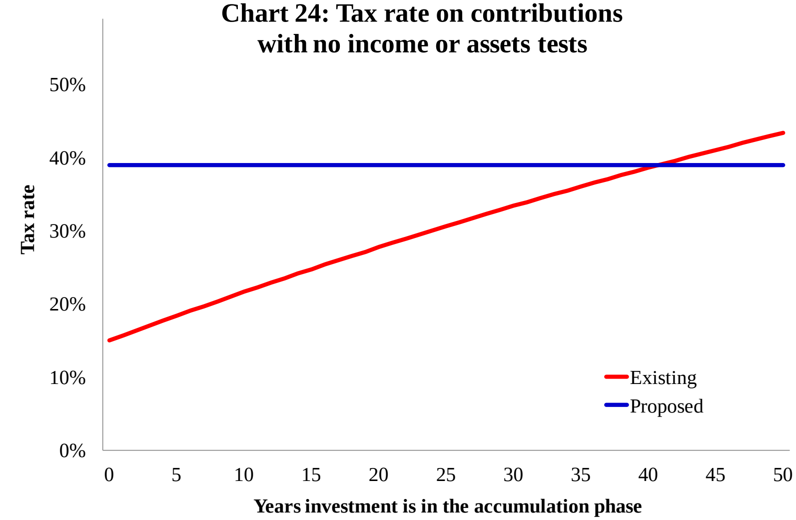


Chart 24: Tax rate on contributions with no income or assets tests



Number of retirees

There are an estimated 3 million persons eligible for the age pension as follows.

Number of pension recipients (000's)		
Full pension	1,441,597	45%
part pension (income test)	579,333	18%
Part pension (assets test)	420,174	13%
Other	6,328	0%
No pension	731,051	23%
	3,178,483	

It should be noted from the above table that

- 45% of retirees have less than $150,000 in financial assets and pay no tax;
- 31% of retirees are subject to effective marginal tax rates of 50% or more (under the deeming provisions of the income test this would be 1.625% of wealth and under the assets, 7.8% of wealth, payable on the same assets each year unless the savings are consumed); and
- the wealthiest 23% of retirees have effective marginal tax rates of between 0 and 47%, depending upon their assets (i.e. if their assets are invested in superannuation, their marginal tax rate is 0).

Revenue changes

The proposed increase in tax payable on superannuation contributions is expected to raise approximately $20 billion per annum. The abolition of taxes on the earnings of superannuation entities would cost about $3 billion, giving rise to a net increase in taxes on superannuation of $17 billion.

Estimated tax on contributions for 2015/16				**($ millions)**
Tax brackets	**Gross contributions**	**Gross tax payable at 15%**	**Gross tax payable at 39%**	**Net increase in tax revenue**
0 - 18,200	2,027	304	791	487
18,201 - 37,000	9,152	1,373	3,569	2,196
37,001 - 80,000	34,303	5,145	13,378	8,233
80,001 - 180,000	28,868	4,330	11,258	6,928
180,001 +	9,136	1,370	3,563	2,193
Total	**83,487**	**12,523**	**32,560**	**20,037**
Less earnings foregone on the tax on earnings of superannuation entities				3,039
				16,998

Expenditure changes

Net expenditure is expected to increase by approximately $15 Billion as a result of the abolition of the assets test, incomes test and introduction of the flat 39% tax rate on retirement income. Including superannuation contributions tax changes, the net change to the budget bottom line is expected to be a reduction in the deficit by approximately $2 Billion.

Estimated cost of pension and tax changes 2015/16				($ millions)
	Recipients	**Net increase in expenditure**		
Full rate	1,441,597	1,167	to	2,184
Part rate - income test	579,333	271	to	482
Part rate - assets test	420,174	3,042	to	5,663
Zero rate	3,268	29	to	45
Undetermined/manual rate	3,060	33	to	42
No pension	731,051	6,395	to	9,956
Total	**3,178,483**	**10,936**	to	**18,371**

It should be noted that the above table estimates the increased expenditure of between $11 billion and $18 billion. The low range is estimated by a pro rata allocation of individuals. The upper range is estimated by allocating individuals within each category based upon the maximum cost applicable to that category. The former underestimates the cost and the latter overestimates. The $15 billion figure is an average of the two estimates.

Conclusions

This submission demonstrates that we can increase the economic efficiency of the taxation treatment of retirement incomes by:

- maintaining the safety net provided by the age pension;
- lowering the effective marginal tax rate payable by retirees to 39%; thereby reducing distortions;
- reducing horizontal inequity by eliminating the current incentives for retirees to opt for a lump sum;
- minimizing distortions in consumption and investment decisions during working and retirement stages;
- minimizing distortions in the timing of retirement and asset choice;
- maximizes flexibility for individuals(i.e. treats all income equally);
- provides an holistic approach to superannuation and other retirement incomes by unifying the tax rates at 39%;
- taxes superannuation contributions at the marginal tax rates applicable in retirement; and
- no existing superannuation investments will be effected by the increased tax rate applicable to contributions since this applies only to new contributions.

This submission also demonstrates that we can deliver an economically efficient retirement incomes policy without a significant cost to the budget. Indeed, it is likely that the proposed changes provide net savings to the budget of approximately $2 billion.

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