

Institute of Actuaries of Australia

Super Policy Forum

Retirement income Australia's future tax system

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Treasury



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Outline of presentation

- **Context of AFTS review**
- **Issues in retirement incomes policy**
- **Policy instruments and linkages**
- **Panel's approach**



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AFTS terms of reference

‘To examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia’s economic and social outcomes.’



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AFTS terms of reference

‘Consider improvements to the tax and transfer payment system ... for retirees’

‘Ensure there are appropriate incentives for individuals to save and provide for their future’



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AFTS process timeline



2020 Summit
April 2008

Budget
announcement
May 2008

Architecture paper
August 2008



Retirement income
consultation paper
December 2008

Consultation
Stage One
August to October 2008



Consultation
Stage Two
Early 2009

Retirement income
report to Government
March 2009

AFTS final report
December 2009



Pension Review

‘Investigate measures to strengthen the financial security of seniors’

Report on:

- **appropriate level of payments**
- **frequency of payments**
- **concessions and other entitlements**



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Early consideration of retirement incomes

‘allow the Government to consider a broader and complementary response to the issues facing the retirement income system’

Recommendations requested on:

- **adequacy**
- **appropriateness of taxation arrangements**



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The “triple narrative”

- **Sustainability**
- **Adequacy**
- **Complexity**

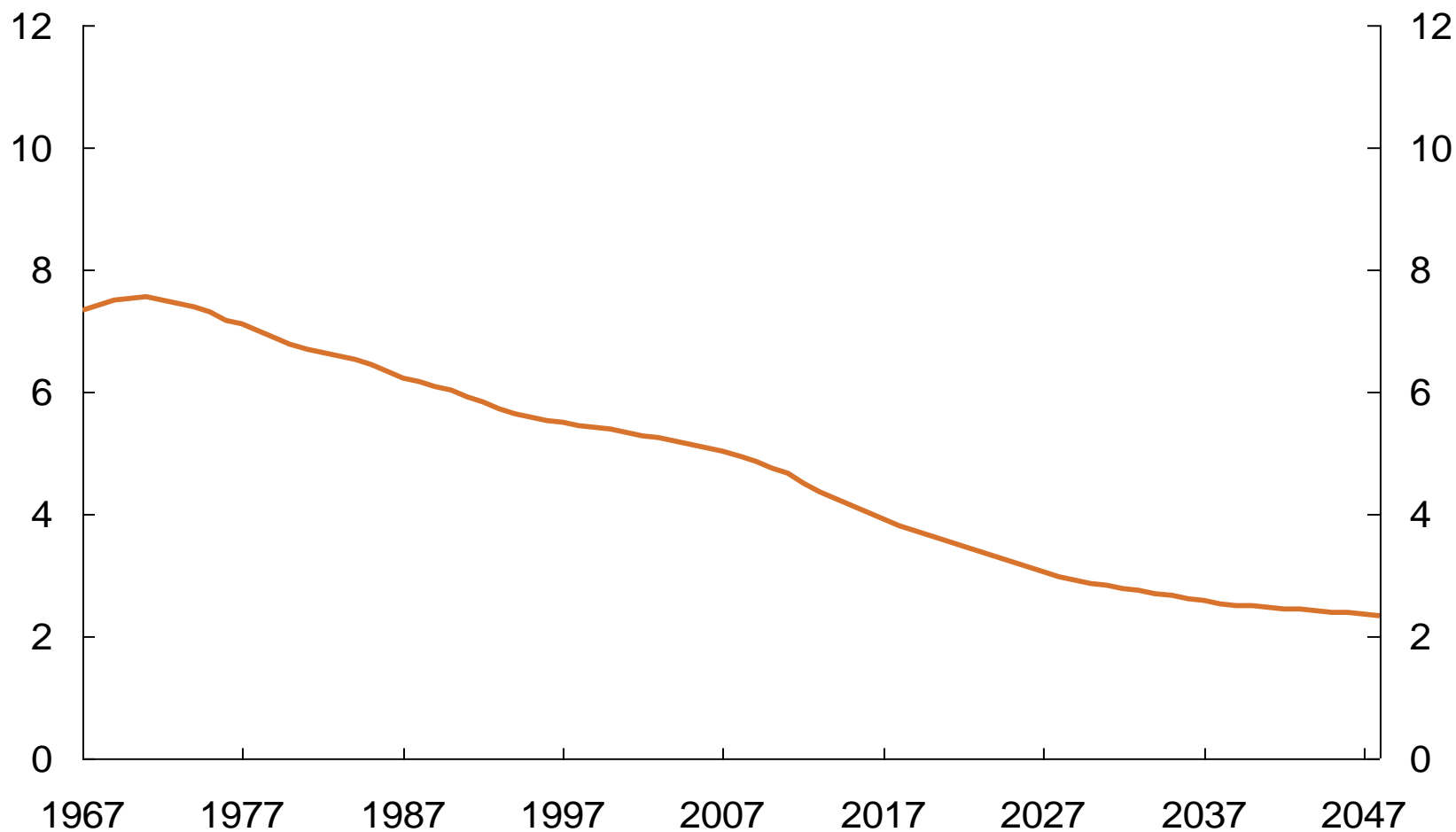


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Sustainability – fiscal gap

Number of working age individuals per individual aged 65 years or older



Sustainability – fiscal gap

Social spending as a percentage of GDP

Spending area	2006-07	2046-47	Difference
Health	3.8	7.3	3.5
Aged care	0.8	2.0	1.2
Age pensions (public)	2.5	4.4	1.9
Other payments to individuals	4.2	2.7	-1.5
Education	1.8	1.8	0.0
Total	13.1	18.2	5.1



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Sustainability

- **Fiscal gap**
- **Political sustainability**
- **Financial intermediation**



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Adequacy

- **Variety of conceptions of adequacy**
- **Coverage issues**
- **Non-monetary benefits**
- **Effects on pre-retirement living standards**
- **Risk**



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Adequacy - risk

- **Investment**
- **Longevity**
- **Inflation**
- **Long-term care costs**



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Complexity

- **Costs of complexity**
- **Trade-off between targeting/choice and reducing complexity**
- **Administrative complexity**
- **Integration of pillars**



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Complexity - integration

- **Ensuring the settings of the three pillars work in concert**
- **Retirement incomes settings are linked to the broader tax-transfer system**
- **Panel also considering participation incentives, taxation of saving ...**



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Key questions include:

- **Are current settings sustainable into the future?**
- **What is an appropriate concept of adequacy?**
- **In what ways does the system impose undue complexity and cost?**



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Potential instruments and linkages

- **Instruments include:**
 - Tax
 - Pension
 - Super
 - Enabling financial innovation
- **Linkages**
 - Tax
 - Service provision



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Potential instruments and linkages – some examples

- **Ages across the system**
- **Means tests**



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Panel's approach

- **Panel still formulating its views**
- **Long term, system level approach**
- **Trade-offs matter**
- **Reports in March and December 2009**



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Conclusion

- **Critical area of public policy**
- **Number of changes in recent years**
- **Review is an opportunity to reflect at a system wide level**
- **Views sought out**



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