

# Australia

## Australia: Pension system in 2018

Australia's retirement income system has three components: a means-tested Age Pension funded through general taxation revenue; the superannuation guarantee, a compulsory employer contribution to private superannuation savings; and voluntary superannuation contributions and other private savings. Superannuation savings are encouraged through taxation concessions.

## Key indicators: Australia

		Australia	OECD
Average worker earnings (AW)	AUD	85 778	55 657
	USD	64 089	41 584
Public pension spending	% of GDP	4.3	8.0
Life expectancy	At birth	83.2	80.7
	At age 65	21.3	19.7
Population over age 65	% of working- age population	27.7	31.2

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## Qualifying conditions

The Age Pension is payable from age 65 and six months for men and women. The Age Pension qualification age will increase to 66 from 1 July 2019 and continue to increase by six months every two years until it reaches 67 by 2023. The minimum age for withdrawing superannuation benefits is 55 years for people born before 1 July 1960, but increases gradually for people born after that date, so that the minimum age is 60 for people born after 30 June 1964.

## Benefit calculation

### Defined contribution

The superannuation guarantee was introduced in 1992. It consists of a mandatory employer contribution to an employee's superannuation fund (a private pension plan). Superannuation funds may be operated by employers, industry associations and financial service companies or even by individuals themselves. The mandatory contribution rate has been 9% of employee ordinary time earnings from 1 July 2002 until 30 June 2013. On 1 July 2013, the rate increased to 9.25%, before increasing again on 1 July 2014, to 9.5%. The Government has legislated that the superannuation guarantee rate will remain at 9.5% until 30 June 2021. After this, the rate will increase by 0.5 percentage points each year until it reaches 12% on 1 July 2025.

Employers need not contribute for workers earning less than AUD 450 a month, but they can choose to contribute for these workers (this minimum has not been increased in the past). Employers need not also contribute for employees engaged in work of a private or domestic capacity (such as a nanny) for 30 hours or less per week or under the age of 18. There is also a maximum super contribution base ceiling to the earnings covered by the superannuation guarantee. Employers need not contribute for employees' pay above this ceiling. For each quarter of the financial year 2018-19 this amount was AUD 54 030. The maximum super contributions base is indexed in line with the average weekly ordinary time earnings each income year.

Low to middle-income earners who make personal after-tax (non-concessional) contributions to their superannuation fund may be eligible for the Government to make a matching 50 per cent co-contribution, up to a maximum of AUD 500 in 2018-19. Contributors with annual incomes less than AUD 37 697 in 2018-19 are eligible for the full co-contribution. For each dollar of income earned above AUD 37 697, the maximum co-contribution is reduced by 3.333 cents, up to a higher annual income threshold of AUD 52 697, above which no co-contribution was payable. If the co-contribution payable for an eligible contributor is less than AUD 20 the amount is increased to AUD 20.

The withdrawal stage of the superannuation guarantee complicates the calculations. Although there are some defined-benefit occupational plans, most employees are members of defined-contribution schemes. Members can withdraw the accumulated capital as a lump sum or as an income stream. In 2017-18, lump sum benefit payments were 48.3 per cent of total benefit payments, - and pension benefit payments were 51.7 per cent of total benefit payments. For comparison with other countries, the capital from the superannuation guarantee is assumed to be converted to a price-indexed annuity.

### *Targeted safety net*

The Age Pension is designed to provide a safety net for those unable to save enough through their working life and to supplement the retirement savings of others. An income test and an assets test (means tests) are used to target Age Pension payments to those most in need.

Australia's Age Pension cannot be compared directly to benefits for the aged provided by other OECD countries, which are primarily aimed at income replacement. Australia's Age Pension is a flat rate payment and redistributive in nature. It aims to provide Australian seniors with an income adequate enough to ensure a basic living standard. In addition to cash payments provided by the Age Pension, Australian seniors can be eligible for a comprehensive system of concessions and assistance for health, rent, pharmaceuticals and other living expenses. The Australian government supports private retirement incomes through its superannuation arrangements, subsidised by taxation concessions.

In September 2018, the maximum single rate of pension with the Pension Supplement and Energy Supplement was AUD 916.30 a fortnight equal to an annual entitlement of AUD 23 823.80. The maximum rate for pensioner couples combined was AUD 1 381.40 a fortnight or AUD 35 916.40 a year.

The value of the Age Pension is adjusted biannually. The Age Pension's value is increased in line with the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI), whichever is the greater. If necessary further increases ensure that the combined couple rate does not fall below 41.76% of national pre-tax Male Total Average Weekly Earnings. The single maximum basic rate of pension, excluding supplements, is 66.33% of the combined couple rate.

The Age Pension is reduced if annual income from other sources exceeds a threshold known as the 'income free area'. This is adjusted annually in July to the growth in CPI. In 2018-19, the fortnightly income free areas are AUD 172 for a single pensioner and AUD 152 each for members of a couple (or AUD 304 for a couple combined).

The Age Pension has a 'Work Bonus' income test concession designed to encourage people of pension age to continue to work. It allows pensioners to earn up to AUD 250 a fortnight without it being assessed as income under the income test. Pensioners who earn less than AUD 250 in a fortnight can accrue the unused amount of fortnightly concession up to AUD 6 500 to offset future employment income. The combination of the Work Bonus and the pension income free area, allows a single pensioner with no other income to earn up to around AUD 10 972 each year without it affecting their pension.

An assets test also applies. In 2018-19, the pension asset test thresholds for homeowners are AUD 258 500 for a single pensioner and AUD 387 500 for a couple combined. For non-homeowners the thresholds are AUD 465 500 for a single pensioner and AUD 594 500 for a couple combined. Assets above these amounts reduce the pension by AUD 3 00 per fortnight for every AUD 1 000 above the amount, for a single pensioner and for a couple combined. The family home is exempted from the asset test.

As at June 2018, almost 38% of all pensioners have their benefits reduced by the means test and are therefore on part-rate Age Pension. Within this group 66% have their pension reduced as a result of the income test and 34% as a result of the assets test. About 62% of pensioners are on the maximum rate Age Pension.

On 1 January 2017, the Australian Government made changes to the pension assets test to better target the pension system and make it more sustainable into the future. The changes provides better support for those who own less, and less taxpayer support for those who can support themselves. This was done through two main changes to the assets test:

- an increase in the assets pensioners are able to own before it affects their pension (the assets test free area) that assisted pensioners with more modest assets, including an additional increase for non-homeowners, to ensure fairer treatment for those who do not benefit from the principal home exemption, and,
- increasing the rate at which the pension progressively reduces once savings and assets go over the free area (the assets test taper rate).

The assets test exemption for the family home was not affected by the changes.

Rent Assistance is available for eligible private renters and community housing tenants whose rent exceeds a specified amount. It is paid as part of the pension payment and may be reduced by income and asset tests applying to that payment. The value of Rent Assistance is adjusted biannually in line with growth in the CPI and is paid fortnightly. In September 2018, the maximum rate of Rent Assistance for single person with no dependent children was AUD 135.80 a fortnight. This gives an accrued maximum annual entitlement of AUD 3 530.80.

Rent thresholds below which Rent Assistance is not payable are also adjusted biannually. In September 2018, the minimum rent for a single person with no dependent children for which Rent Assistance was payable was AUD 121.20 a fortnight. Rent Assistance is paid at a rate of 75 cents for each dollar of rent paid above the rent threshold until the maximum rate is reached.

Rent Assistance is not payable to people renting from a government housing authority, or to residents of Australian Government funded nursing homes or hostels.

## Variant careers

### *Early retirement*

Superannuation benefits can be withdrawn from age 57. The earliest age at which superannuation benefits can be withdrawn is increasing for all individuals born on or after 1 July 1962 (see the table below). Individuals who are still working can also access their benefits from preservation age, but only in the form of a non-commutable income stream. The Age Pension is not paid before the qualifying age.

Date of birth	Preservation age
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

### *Late retirement*

It is possible to defer claiming superannuation until after 65 years of age. Employers are required to make superannuation contributions under the superannuation guarantee arrangements for their eligible employees regardless of age. However, there are rules for the types of contributions individuals can make if they are aged between 65 and 74 years, or aged 75 years and over. In addition, the Age Pension has a ‘Work Bonus’ income test concession designed to encourage people of pension age to continue to work.

## *Childcare*

There is no specific protection for periods out of work in the superannuation guarantee system. Voluntary contributions are possible during periods without paid work.

## *Unemployment*

There are no credits in the superannuation guarantee system for periods of unemployment. Voluntary contributions are possible during periods without paid work.

## **Personal income tax and social security contributions**

### *Taxation of pensioners*

Older Australians and other Australians who receive a government pension may be entitled to personal income tax concessions in addition to the standard reliefs.

The Senior and Pensioners Tax Offset (SAPTO) is available to taxpayers in receipt of a taxable Government pension, as well as to Australians who are of Age Pension age and who meet all of the Age Pension eligibility criteria except the income and/or asset tests (see above). Since 2012-13, the SAPTO has been AUD 2 230 for singles with annual income up to a threshold of AUD 32 279 and is withdrawn at a rate of 12.5% for annual income in excess of the threshold. The offset is fully phased out for singles at an annual income of AUD 50 119 and above. The maximum offset for couples eligible for the SAPTO is AUD 1 602 for each member of the couple. Each member may have annual income of AUD 28 974 before the SAPTO is withdrawn at a rate of 12.5% until the credit is fully phased out at an annual income of AUD 41 790.

Taxpayers eligible for the SAPTO benefit from a higher Medicare levy low-income threshold (in 2016-17 AUD 34 244 for singles and AUD 47 670 combined for couples). This means that pensioners receiving the full amount of the offset pay no Medicare levy. The normal rate of the levy has been 2.0% of taxable income since 2014-15.

### *Taxation of private pensions*

Generally, superannuation is taxed at two stages: when concessional contributions are made and when investment returns are earned. Individuals who withdraw their superannuation before age 60, or receive benefits from an untaxed source (that is, where tax has not been paid on contributions and earnings), may also pay tax on the benefit payment.

Superannuation contributions are taxed as follows:

- When employers or members make *concessional* contributions (that is, contributions for which they claim a tax deduction), in general a 15% tax is levied on the contributions and is paid by the fund.
- Individuals with an adjusted taxable income up to AUD 37 000 receive a Low Income Super Tax Offset (LISTO): a government payment (in effect a tax rebate) of up to AUD 500 per year, effective 1 July 2017. The LISTO is calculated on 15% of the concessional (before tax) superannuation contribution that is paid into the employee's superannuation account. For the 2012-13 to 2016-17 financial years, individuals with an adjusted taxable income of AUD 37 000 or less a year may have been eligible to receive the Low Income Super Contribution.
- Individuals with a sum of income and concessional contributions above AUD 250 000 will pay an additional 15% tax on concessional contributions on the portion of the income that exceeds the AUD 250 000 threshold, starting from 1 July 2017 (known as the Division 293 tax). Prior to 2017, the threshold was AUD 300 000.

- When a member makes a *non-concessional* contribution (that is, a contribution from after-tax income) the member has already paid income tax on the contribution at their normal marginal tax rate. No further tax is applied to the contribution.

Investment earnings of the superannuation fund are also taxed at 15% during the accumulation phase (however, the effective tax rates are usually lower through imputation credits and the capital-gains-tax discount). Investment earnings on assets supporting a pension are tax free.

Since 1 July 2007, superannuation benefits paid from a taxed source (that is, where tax has been paid on contributions and earnings), either as an income stream or as a lump sum, are tax free for people aged 60 and over. Where benefits are paid from a taxed source to a person below the age of 60, those benefits are subject to taxation. Benefits paid from untaxed schemes (mainly affecting public servants) are also taxed, but at reduced rates when paid to those aged 60 or over.

The Government has legislated that from 1 July 2017 there will be an AUD 1.6 million cap on the total amount of superannuation savings that can be transferred to the (tax-free earnings) retirement phase. The cap will index in line with the consumer prices index in AUD 100 000 increments. This is not a cap on the amount of superannuation in the retirement phase – earnings in the retirement phase can grow above AUD 1.6 million, but no more than AUD 1.6 million can be transferred to the retirement phase. Superannuation savings in excess of the cap can either remain in the accumulation superannuation account, where the earnings are taxed at 15 per cent, or be removed from the superannuation environment. Members who breach the cap will be liable to pay tax on the notional earnings attributed to the excess capital.

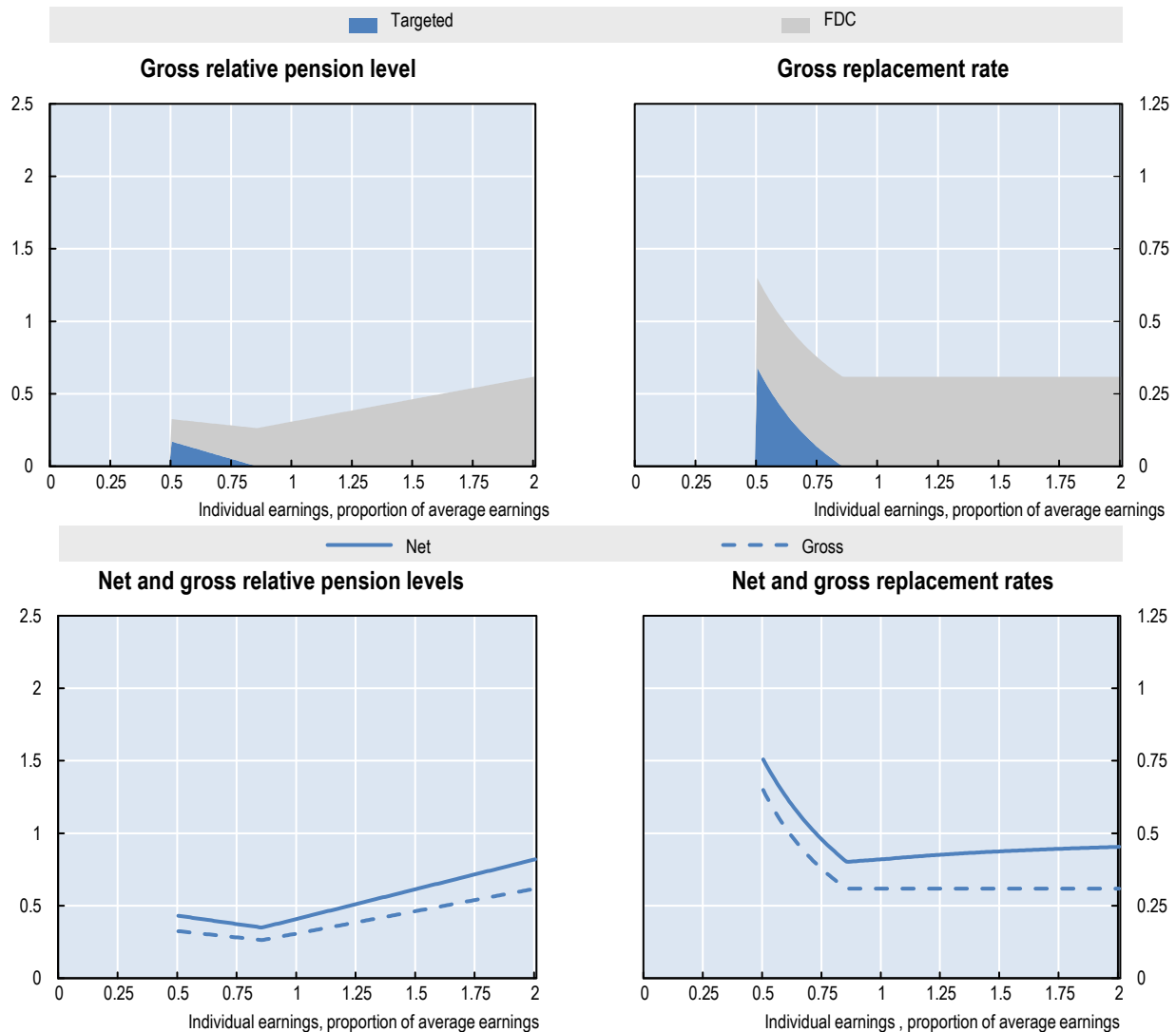
Furthermore, superannuation concessions are also limited by caps on contributions to superannuation.

- *Concessional* contributions that exceed an annual threshold are subject to an additional tax levied on the individual. The Government reduced the cap to AUD 25 000, effective 1 July 2017 for everyone regardless of age. Eligible individuals can also catch up contributions of unused cap space from the prior 5 years if they have a balance less than AUD 500 000, with effect for the 2018-19 and later financial years.
- *Excess concessional* contributions are taxed at the individual's marginal tax rate plus relevant levies, less an offset for tax payable by the fund, plus an interest charge. The individual may choose to pay this tax by withdrawing amounts from the fund.
- *Non-concessional* contributions are subject to a cap of AUD 100 000 per financial year for those with superannuation balances below AUD 1.6 million, with a 3 year bring forward period available for individuals under age 65 (allowing them to contribute up to AUD 300 000 in any three year period). Some personal contributions may be excluded from counting towards an eligible individual's non-concessional contribution cap, including contributions made from personal injury payments.
- An additional lifetime non-concessional contribution cap applies to contributions derived from certain capital proceeds of eligible small businesses.
- Excess non-concessional contributions are subject to tax at the top marginal personal income tax rate of 47 per cent plus relevant levies. From 2017 onwards, the administrator of Australia's superannuation policy, the Australian Taxation Office, will request superannuation funds to release the money to pay any tax or Australian government debts and refund any remaining balance back to the individual. The individual can also elect to release all excess non-concessional contributions and 85% of their associated earnings from the superannuation fund. Alternatively, the individual can choose not to release the excess non-concessional contributions, however, the excess amount will be taxed at the highest marginal tax rate.

***Social security contributions paid by pensioners***

There are no social security contributions in Australia. The Age Pension and other benefits are financed from general revenues.

## Pension modelling results: Australia in 2063 retirement at age 67



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	32.5	28.1	30.9	46.4	61.8	77.9
(% average gross earnings)	31.1	26.0	28.1	42.1	56.2	70.8
Net relative pension level	43.1	37.3	41.0	61.5	82.0	103.3
(% net average earnings)	41.2	34.5	37.3	55.9	74.5	93.9
Gross replacement rate	64.9	37.5	30.9	30.9	30.9	26.0
(% individual gross earnings)	62.1	34.6	28.1	28.1	28.1	23.6
Net replacement rate	75.5	47.6	41.0	43.8	45.3	40.9
(% individual net earnings)	72.2	44.0	37.3	39.8	41.2	37.2
Gross pension wealth	11.7	6.8	5.6	5.6	5.6	4.7
(multiple of individual gross earnings)	12.4	6.9	5.6	5.6	5.6	4.7
Net pension wealth	13.6	8.6	7.4	7.9	8.2	7.4
(multiple of individual net earnings)	14.4	8.8	7.4	7.9	8.2	7.4

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2018. Tax system latest available: 2018.

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