MEDIA RELEASE

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DISTRIBUTIONAL ANALYSIS OF AN UNINDEXED $3 MILLION SUPERANNUATION BALANCE CAP

New analysis of ATO data from the Financial Services Council (FSC) today shows over 500,000 current taxpayers will be adversely impacted by the Government's proposed 30 per cent tax rate on balances above $3 million.

CEO of the FSC Blake Briggs said: "If the Government does not index the proposed $3 million superannuation balance cap, 500,000 Australian taxpayers will breach the cap in their life and face a 30 per cent earnings tax, including 204,000 Australians under the age of 30.

"500,000 impacted Australians is over six times the current Government estimates, which only takes into account balances that are currently over $3 million.

"Leaving the cap stuck at $3 million will mean that in today's dollars a 30-year-old will have a real cap of around $1 million, calling into question the intergenerational fairness of an unindexed cap.

"Caps in the superannuation system are indexed to ensure generational fairness, so that each generation gets the same outcomes and benefits from the superannuation system."

The modelling also produces real examples of actual taxpayer impacts. Examples include:

- A 25-year-old IT professional earning $100,000 with a current superannuation balance of $35,000 would reach the $3 million threshold by the time they retire at age 65.
- A 45-year-old school principal earning $150,000 today with a current superannuation balance of $650,000 would reach the $3 million threshold by the time they retire at age 65.
- A 55-year-old dentist earning $220,000 today with a current superannuation balance of $1,400,000 would reach the $3 million threshold by the time they retire at age 65.

The FSC will work constructively with the Treasury through the consultation process on details that still need to be resolved, including:

- The long-term impact if the $3 million threshold is not indexed;
- The interaction with the transfer balance cap;
- How investment earnings will be calculated and whether they will be applied to unrealised gains;
- Impacts on consumers in accumulation phase who are unable to adjust their super balances; and
- How contributions from structured settlements on personal injuries will be treated.

- ENDS -

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About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services. Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advice licensees. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses. The financial services industry is responsible for investing more than $3 trillion on behalf of over 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is one of the largest pools of managed funds in the world.

Table 1: Impact of a superannuation balance cap – number of people affected.

It is estimated that a $3 million cap not indexed to inflation will adversely impact around 500,000 individuals that are currently saving for retirement or have already retired.

Age Range	Number of people affected at retirement age of 65	Total Individuals	Percentage
Under 30	204,092	3,943,904	5.2%
30-34	135,541	1,942,745	7.0%
35-39	65,126	1,830,875	3.6%
40-44	19,403	1,610,058	1.2%
45-49	13,973	1,644,205	0.8%
50-54	12,694	1,494,169	0.8%
55-59	7,849	1,430,428	0.5%
60-64	15,555	1,189,344	1.3%
65-69	18,148	863,531	2.1%
70-74	17,260	584,916	3.0%
75 and over	16,425	502,931	3.3%
Unknown	4	100,468	0.0%
Total	526,071	17,137,574	3.1%

Table 2: real value of the $3m cap for various age cohorts at the retirement age of 65

Age	Real value of $3m cap at retirement age of 65 and inflation 4%	Real value of $3m cap at retirement age of 65 and inflation 3%	Real value of $3m cap at retirement age of 65 and inflation 2.5%
25	$624,867	$919,671	$1,117,292
30	$760,246	$1,066,150	$1,264,113
35	$924,956	$1,235,960	$1,430,228
40	$1,125,350	$1,432,817	$1,618,172
45	$1,369,161	$1,661,027	$1,830,813
50	$1,665,794	$1,925,586	$2,071,397
55	$2,026,693	$2,232,282	$2,343,595
60	$2,465,781	$2,587,826	$2,651,563

Data Source

- ATO Taxation statistics 2019–20 Individuals:

Superannuation contributions, by total superannuation member accounts balance range, taxable income range and age range, 2019–20 financial year

Assumptions

- Start date of Projection – 1 July 2023
- Inflation – 2.5% per year
- Investment return on superannuation balance – 7.5% per year
- Effective tax on earnings – 7% per year
- Investment fee – 0.85% per year
- Administration fee – 1.01% of account balance + $74 (indexed by CPI) per year
- Insurance in superannuation fee - $214 (indexed to inflation) per year
- Investment earnings, fees and expenses are incurred halfway through the year
- Fees and expenses incurred by the superannuation fund are tax deductible
- With the exception of inflation (which assumes an additional 1.5% increase in costs each year due to rising living standards), the assumptions above are consistent to the ASIC Money Smart Superannuation Balance Calculator.
- Nominal salary growth of 3 per cent (0.5 per cent above inflation).
- Retirement Age - 65 years