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General Manager, Superannuation
Retirement and Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear General Manager

2006 Budget proposals – Superannuation

My submission in relation to the 2006 Budget proposals is enclosed. It is purposely unstapled to facilitate copying, should that be desired.

I respectfully request an opportunity to meet with you to review my submission. It is my fervent hope that the Budget proposals are not locked in. They represent massive inequity and would change the nature of superannuation away from its purpose of providing income after cessation of employment towards creation of wealth for transmission to families and heirs.

I also respectfully request that copies of the submission be provided to Dr Henry and to Mr Costello.

Over the years, I have given evidence to the Senate Select Committee on Superannuation. It is my experience that these Committees welcomed evidence although final reports did not always make the crucial points or make them with sufficient emphasis. At least, one was able to make one's opinions known and obtain an immediate response from those who were seeking information and, dare I say it, help.

Meetings with ministerial staff were not at all productive. After a meeting, one was left with a clear impression that, no matter how cogent the arguments, no admission was to be made; no ground surrendered. I desperately hope that submissions on this subject, which is of massive importance to our Nation, will be fully examined with open minds.

I am so bold as to say that some parts of the Budget proposals are not sustainable. For example, no right-minded person could countenance the straight out gifts to directors of private companies and the self employed that flow directly from exempting emerging benefits from tax additional to the contributions tax.

I repeat here my offer to assist in every way possible with a review, without any reward or recoups whatsoever.

I also request an acknowledgement of my submission. A telephone call will suffice.

One of the problems with superannuation is the complexity of the issues. Few have the ability to fully comprehend those issues and fewer still, the tenacity and willingness to

work through them. Most of those who have the ability have much to gain from the Budget proposals, which prejudices proper analysis and wise outcomes. I felt that the Prime Minister was mindful of superannuation when he said that the reply to the Budget by the Leader of the Opposition was weak, or words to that effect. In my opinion, to have ignored the superannuation proposals shows the Opposition to fall fairly and squarely in the group that does not understand superannuation.

Finally, I express the hope that Treasury will publish a document along the lines of a Senate Select Committee report, to present an overview of the submissions and comment on the crucial factors.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Donald Steel', with a long, sweeping horizontal stroke at the end.

Donald Steel

**SUBMISSION TO THE DEPARTMENT OF THE TREASURY
IN RELATION TO
THE 2006 BUDGET SUPERANNUATION PROPOSALS**

1. INTRODUCTION

The author of this submission

This submission is made by Donald Charles Steel of Unit 15/102 Spit Road Mosman NSW 2088. I am a retired non-practicing actuary. For the last 35 years of my career, from 1965 to 2000, my work was focused on superannuation. I held the position of Superannuation Manager for the Mutual Life and Citizens Assurance Company Limited (MLC) for several years until I resigned in 1977 to take up the position of NSW Assistant Government Actuary. In that role, I planned and managed the projection of the long term outworking of the NSW State Superannuation Fund. The State Superannuation Fund provides a complex range of benefits and options, making the projection an extremely complex task. From 1985 to 1990, I worked as Actuary to two superannuation consultancies. In 1990, I set up my own business, Donald Steel and Associates Pty Limited, which provided superannuation advice and investment advice to corporations and individuals. The Company operated on a strict fee-for-service basis. All commissions including trailing commissions were refunded to clients.

In the early 1990's, I worked with the NSW State Superannuation Board to develop the Retirement Income Stream Account (RISA) now known as the allocated pension. It was my idea to relate drawings to the account balance and the age of the pensioner at the beginning of each financial year, with divisors diminishing as age increased. (My table of minimum pension valuation factors was 17.5 at age 60, reducing by 0.5 per year of age until reaching 8.0 at age 79 and remained constant thereafter. The purpose of the constant factor at older ages was to avoid forcing older pensioners out of the system.) Work by others on a similar product related drawings to the initial investment, a method that took no account of the progress of the account and was therefore unsatisfactory.

From 1996 until its abolition from 1 July 2005, I maintained vigorous opposition to the superannuation surcharge. I wrote many letters to my local member, Hon Tony Abbott and provided actuarial input, on an honorary basis, to the Society of Superannuants. I had nothing to gain from the abolition of the surcharge.

2. CHARACTERISTICS OF AN IDEAL OCCUPATIONAL SUPERANNUATION SYSTEM

The system should enable citizens to provide income sufficient to maintain an adequate standard of living, after income from employment has ceased and for employers to so provide for their employees. This is the fundamental purpose of occupational superannuation. It is noted that the Superannuation Guarantee has had the effect of reducing the paternalistic attitude of many employers, including governments, towards their employees.

Superannuation should support a surviving spouse during lifetime following the death of a citizen (whether death occurs before or after retirement). It should support a citizen whose working life is cut short by incapacity as a result of injury or illness and a dependant spouse of such a citizen. Therefore, an insurance component is appropriate for occupational superannuation.

The system should be easily comprehended by the workforce.

The system should be equitable. By this I mean that it should not include bias that favours any one group of citizens over others.

The system should not be capable of exploitation by any one or more groups of citizens.

Subsidy of the system from general government revenues should be moderate; sufficient to encourage long term saving without access to those savings until cessation of employment

The system should not be a means of wealth creation for citizens, their children and heirs. Residuals on cessation of income replacement should not be a planned feature of the system. In practice, residuals will be common because a true pension system would not be acceptable in Australia where the historical emphasis has been on lump sum benefits. Australians have shown reluctance to part with their capital, which is a feature of a true pension system.. (The employer financed pension of the Commonwealth Superannuation Scheme is a true pension system.)

The system must enjoy community support, making it stable and durable, not subject to change, particularly sudden change or review that leaves many citizens caught short or lamenting previous decisions that were made with the best of intentions under previous rules.

The system should minimize opportunities for spending superannuation so as to qualify for social security. The emphasis needs to be on income, not on lump sums. Income from the system should not be so high as to add to wealth in retirement.

In practice, many compromises will be found to be necessary to develop a system that meets the foregoing criteria to the maximum extent within the bounds of what is politically and economically achievable. The development of occupational superannuation in Australia, with its emphasis on lump sums, probably makes an income scheme politically unsaleable. Nevertheless, it has to be said that the fundamental purpose of the system is to provide sufficient income for an adequate standard of living in retirement.

3. A SUMMARY OF THE PRINCIPAL FINDINGS OF THIS SUBMISSION

This submission finds that

Reasonable Benefit Limits should be abolished subject to a practical solution to limit benefits from defined benefits funds

Deductible contributions should be restructured as proposed in the 2006 Budget. Issues arise, however, in relation to the unallocated employer contributions to defined benefits funds.

Limits should be imposed on undeducted contributions as proposed in the 2006 Budget

Contribution limits should be indexed in line with changes in AWOTE

Benefits should be taxed on the current basis, when drawn.

A rule of thumb that would be simple to administer should apply to eligible service prior to 1 July 1983, to overcome the complexity to which the unwarranted grandfathering has given rise.

Given abolition of Reasonable Benefits Limits and a practical rule for dealing with pre 1 July 1983 eligible service, the system would be greatly simplified.

Given the foregoing simplification, the taxation of benefits on the present basis would not be unduly complex.

The Budget proposals would lead to gifts from the revenue to directors of private companies and self employed persons at the time deductible contributions are made. These gifts would apply retrospectively to all past contributions and to future deductible contributions in respect of the named classes. These gifts are untenable.

The Budget proposals would make wealth creation for the benefit of families and heirs of the rich and well to do a major feature of superannuation that is outside its fundamental purpose.

The combination of tax free benefits after age 60 and taxable death benefits passing to non dependants leads to absurd anomalies.

Allowing three years' undeducted contributions to be paid in one year is an unnecessary complication.

The proposal that benefit drawings after age 60, whether lump sum or pension or a combination of the two, be tax free is grossly inequitable.

The combination of tax free accumulation in pension phase and tax free drawings of pension is absurd. In combination with allowing superannuation benefits to accumulate indefinitely, the lower rates of compulsory drawings and the absence of death and gift duties, the proposed structure is beyond the pale.

This arrangement would heavily subsidise the rich and well to do from the public purse, which is wrong and indefensible.

The man in the street would be no better off under the Budget proposals than under existing arrangements. Benefits at retirement falling within the first band of lump sums are already tax free at benefit emergence, and also tax free or nearly so if taken as a pension, the appropriate amounts of tax having been paid in full by way of the contributions tax.

Some aspects of the Budget proposals are commendable. However, the total Budget package is not a suitable format for occupational superannuation. We must work to get the system as close as possible to "right" before major changes are enacted. Mistakes in the format of superannuation are very difficult to correct. The long term nature of superannuation must be kept uppermost in mind when changes are framed.

This summary is not a substitute for careful study of the many issues that need to be considered when the detail of the adopted system is legislated. The adopted system

ought to differ from the Budget proposals in material respects. This submission aims to cover many of the issues.

4. SOME TAXATION THEOREMS APPLICABLE TO SUPERANNUATION

Income should be taxed when it is received. The Budget proposals offend this principle. The contributions tax also offends it. The next section of this submission explains the contributions tax. This tax has been widely misunderstood and the misunderstanding has given rise to false claims by people and organizations that superannuation in Australia is heavily taxed under the present arrangements.

As a corollary to the foregoing theorem, the contributions tax is benefit tax collected in advance.

Deducted contributions are deferred income that ought to be taxed when drawn. The Budget package offends this principle.

Investment income is assessable income that should be taxed when it is received. The Budget package offends this principle.

Financial engineers will use every conceivable means to exploit the taxation system. Exploitation naturally leads to rules to prevent exploitation, or at least confine it, and these preventive measures naturally lead to complexity.

5. THE CONTRIBUTIONS TAX

Full understanding of the contributions tax is essential when considering the overall taxation of superannuation.

When the contributions tax was introduced in 1988, benefit taxes were reduced to a fully compensating extent (except for one small corner that the Government has not corrected.)

It was universally agreed in 1983 that the basis of taxation of lump sum benefits, namely, the addition of 5% to assessable income, was inadequate.

From 1 July 1983, retirement lump sums (taken after age 55) were taxed at 16.5% on the first band and 31.5% on the remainder up to the RBL, on benefits accruing from that date. These rates include the Medicare levy of 1.5%. Undeducted contributions were deducted from the post 30 June 1983 proportion of benefit to arrive at the taxable amount. The foregoing rates of lump sum tax were negotiated by the superannuation industry with the government of the day, which initially stipulated a rate of 31.5% including Medicare for all retirement lump sums accruing from the date of change. (I was a member of the ASFA Legislation Committee at the time.) The emphasis was entirely on lump sums at that time.

The pre 1 July 1983 basis was grandfathered for pre 1 July 1983 “eligible service” as it is called.

In 1987/88 the Keating Government was strapped for cash and found a painless way to get it, the superannuation contributions tax; painless in that no one was worse off though painful in terms of the complexity that it caused. I have recently declared that the contributions tax has, in fact, brought mayhem in its wake.

The contributions tax, applicable from 1 July 1988, was 15% of deductible contributions. Compensation took the form of abolishing the tax on the first band of lump sum retirement benefits and reducing the tax on the remainder, up to the lump sum Reasonable Benefit Limit, to 16.5% including Medicare. A tax rebate of 15% applied to taxable pension, also up to the RBL. The lower rates of lump sum tax and the pension rebate applied to post 30 June 1983 components, not post 30 June 1988, because a pre and post 1983 split was already being made. The new rates were phased in, on this account. (The pension rebate was later extended to all taxable pension.)

The compensation is fully adequate except for some pensioners. Those who pay no tax simply lose the tax rebate and their compensation for the contributions tax. Low tax rate pensioners are also worse off. Those who are worse off are few.

The lump sum benefit compensation for the contributions tax is more than adequate. This is demonstrated mathematically in Appendix A. The principal reason for this is the fact that the first band was not altered – it would have been even handed to make it 85% of the pre contributions tax amount.

The fact that lump sum benefit recipients are better off in contributions tax conditions is illustrated by a simple example. Consider a benefit of \$85,000 today. It is tax free. The beneficiary has **\$85,000 to spend**.

The contributions tax reduced the gross benefit by 15%. Hence, if there were no contributions tax, the benefit would have been \$100,000, which lies in the first band and would have been taxed at 16.5% including Medicare. The member would have suffered tax of \$16,500 and would have had only **\$83,500 to spend**.

Death benefits are tax free if paid to a dependant (as defined) within 6 months of the date of death. There is no benefit tax in these conditions to offset the contributions tax. There is a special provision in the Income Tax Assessment Act for a claw back from the ATO to offset a detriment in a death benefit arising from the contributions tax (section 279D). This is proof, if any were needed, that the contributions tax was not intended to cause any benefit reduction.

Assertions by some, such as the Association of Superannuation Funds of Australia, that the contributions tax is eroding benefits are just plain wrong.

Except for the few anomalies mentioned, the contributions tax is returned together with the investment income that it would have earned when benefits are drawn.

The contributions tax is benefit tax collected in advance. The contributions tax grossly offends the principle that tax should be payable when income is received.

The first band of retirement benefits is not taxed at benefit emergence. It is usually referred to as tax free. It is not tax free. The tax was paid by way of contributions tax. It should therefore be referred to as “tax paid”. The remainder, up to the RBL, should be referred to as “tax reduced” at benefit emergence.

The contributions tax collected in a particular year is referable to the very long term future. A miniscule amount is referable to pension tax rebates in the very old age of

young taxpayers (say under age 20) at the time of collection, as far as 75 years after collection.

Because the contributions tax collected in a particular year is benefit tax collected in advance, the amount ought not to fall into current distributable surplus. Instead, it should be invested in ways that will bring future benefits such as education, health, water conservation, building provisions for a long term oil shock, the environment etc. It is appreciated that Government does not compartmentalize its revenues in this way. Nevertheless, the true nature of the revenue ought to be borne in mind when the Budget is drawn up.

It is not appropriate to use contributions tax revenue as a huge surplus item on superannuation account, to justify exempting benefits from tax additional to the contributions tax.

Sight must not be lost of the fact that deductible contributions give rise to the loss of about \$7 billions per annum in revenue from company tax and tax payable by self employed persons. The Budget proposals leave one with a clear impression that the cost to revenue of deductions is conveniently swept under the carpet.

The contributions tax is probably impossible to unwind. Those who have paid it since its introduction in 1988 have earned lower benefit taxes. To deal equitably with that problem would be very complicated.

The contributions tax pays all, or nearly all, of the benefit taxes for the majority of the workforce. I believe that this is the main reason why actual benefits taxes are low and will remain low for a long time to come.

6. BENCHMARKS FOR THE TAXATION OF SUPERANNUATION BENEFITS

Some of this section of the report is repetitious, for which I apologise. Repetition leads to easier comprehension than cross referencing. Indeed, I apologize for the repetition throughout this report. Many points call for comment under more than one heading.

I restate that deducted superannuation contributions are deferred income that ought to be taxed when the person in respect of whom the deferral occurred receives it.

Justification for allowing superannuation contributions as taxation deductions to the payer rests on the assessability of eventual benefits.

In 1983, there was mutual agreement between the superannuation industry and the Government that the basis of taxation of lump sum benefits, namely the addition of 5% of the benefit to assessable income, was too generous. Pension benefits, for practical purposes, were confined to the public sector and some large corporations, especially foreign corporations that were philosophically (and indeed, justifiably) opposed to lump sums and were treated as assessable income.

The Government proposed that lump sums be taxed at 30% plus Medicare. Undeducted contributions were not taxed, on the basis that the income from which they arose had already been taxed. Member contributions were normally paid out of after tax income. It will be noted that all investment income credited to members' accounts in accumulation funds fell into the assessable benefit.

The industry argued that 30% was too high for low income earners. Lump sum superannuation aggregates benefits accruing over periods that are usually quite long, in the year of receipt. (There is an analogy with the “concertina” effect of realized capital gains on investments.) The Government agreed to a rate of 15% plus Medicare on the first \$50,000 of taxable benefit. The \$50,000 first band amount was indexed in line with movements in AWOTE. The rates were thus set at 16.5% on the first band and 31.5% on the remainder of the benefit up to the maximum lump sum benefit allowed.

I am of the opinion that these rates were reasonable and that the underlying basis is appropriate to this day and for the long term future, for lump sum benefits.

In 1988, the contributions tax was imposed and the Government’s premise was that no one would be worse off because of it. The first band of lump sum benefit was made tax free (more properly, tax paid) and the rate on the remainder was reduced from 31.5% including Medicare to 16.5% including Medicare. These rates remain appropriate where a 15% contributions tax applies to deductible contributions.

It is hard to believe today how maximum lump sum benefits were administered at that time. There was a general seven times salary limit that applied only up to a moderate amount of salary. The Commissioner of Taxation had discretion to allow higher benefits. We would telephone the ATO and recite the salary and other details. “Hang on a minute”, the ATO officer would say. (I recall contacting Mr Ken Crannage) He would consult his secret table and come back with “he can have \$x”. Proper planning and funding were impossible.

Turning now to pensions, the basic premise is that the accumulation is tax free and pensions are assessable income. This is consistent with the treatment of purchased annuities. Also consistent with the treatment of purchased annuities, where there are undeducted contributions, part of the pension is deemed a return of capital and is exempt from tax. The exempt (deductible) amount is calculated by dividing the total undeducted amount by the number of years for which the pension is expected to be paid. I am of the opinion that the foregoing is an appropriate long term basis for the taxation of pensions.

When the contributions tax was introduced, a pension tax rebate equal to 15% of the taxable amount accruing after 30 June 1983 (phased in) was granted. The rebate was later extended to all taxable pension.

Strictly, the rebate was not correct. I do not think that it was properly analysed at the time but my analysis now shows that a tax credit of 17.647% treated in the same way as a franking credit on a share dividend was, and still is, the correct compensation for the contributions tax. A pension of 100 in conditions of nil contributions tax is reduced to 85 by a 15% contributions tax. Restoration of the pension calls for it to be multiplied by $100/85 = 1.17647$, ie, an increase of 17.647%. The following example illustrates the principles.

Consider a pension of \$40,000 per annum in no contributions tax conditions. Suppose an average tax rate of 20% say – any rate will do. We have

No contributions tax conditions			15% contributions tax conditions					
Gross pension	Tax	Net pension	Gross pension	Tax credit	Assessable income	Gross tax	Tax credit	Net pension
40000	8,000	32000	34000	6000	40000	8000	6000	32000

Notes

(1) 34000 is 85% of 40000

(2) The tax credit of 6000 is 17.647% of 34000

(3) The net pension of 32000 in taxed conditions is the reduced pension of 34000 minus tax of 8000 plus the tax credit of 6000.

Mathematically, this method is perfectly even handed. Those who have no tax liability do not lose the compensation for their contributions tax.

Under the rebate system, those on high tax rates are better off. Those who for one reason or another have no tax liability lose the rebate.

I assert that pensions ought to be assessable income, subject to a deductible amount in respect of undeducted contributions and a tax credit of 17.647% as compensation for the contributions tax.

In summary, the proper tax basis, an even handed basis, for retirement benefits is
For lump sums –

First band – no tax additional to contributions tax

Remainder – 15% plus Medicare, which rate reflects benefit tax paid in advance as contributions tax

For pensions -

Assessable income subject to a deductible amount in respect of undeducted contributions and a tax credit of 17.647%, treated in the same way as a franking credit, as compensation for the contributions tax.

The proper basis is straightforward and certainly is uncomplicated relative to many of the provisions of tax law.

Tax free accumulation in pension phase is justified by (and only by) assessability of pension drawings.

7. SUBSIDY OF THE SUPERANNUATION SYSTEM

If the eventual benefits are taxed fairly, the principal subsidies of superannuation from general tax revenues of the Government are:

the company and individual (self employed persons) tax forgone by way of deductions for contributions

the concessional rate of tax on investment income in the accumulation phase.

The pension tax rebate is applied to the full taxable pension. It can be thought of as comprising three components, that referable to taxed contributions made on and after 1 July 1988, that referable to earlier eligible service and that referable to undeducted contributions. The first is warranted but the other two are subsidies.

If eventual benefits are not to be subject to any tax additional to the contributions tax, very large subsidies will apply to those who have large benefits. These subsidies have been quantified in projections of benefits. An example is dealt with in section 21 of this report.

The lump sum benefits of the man in the street generally lie in the first band. Probably, most will continue to take the lump sum. The benefit tax is paid in full by way of contributions tax. The Budget proposals offer him precisely nothing.

If pension is selected, the pension rebate will generally result in little or no tax being payable by persons whose lump sums lie in the first band or fairly modest amounts above it.

The rich and well to do would select pensions if the Budget proposals were enacted. Any person with a substantial benefit would be crazy not to grab tax free accumulation and tax free drawings. This combination is absurd. Taken in conjunction with the absence of death duty and gift duty, the structure is ridiculous and will change the nature of superannuation to wealth accumulation for families and heirs.

The average rate of tax on superannuation is very low, certainly much lower than the prima facie rate of 15% applied to deductible contributions.

The tax on investment income is low in the accumulation phase. It will be noted that investment in Australian shares paying franked dividends reduces, and may eliminate, this tax in the accumulation phase.

Tax on investment income in pension phase is nil and imputation credits are refunded.

Deductions for certain contributions and the low average rate of tax on investment income are sufficient subsidy of the superannuation system, by the revenue. If additional subsidy is thought desirable, the pension tax credit could be increased, to say 20%.

The Budget proposals are grossly inequitable.

8. WHAT HAS CAUSED THE COMPLEXITY OF THE PRESENT SYSTEM

The complexity of the present system arises from Reasonable Benefits Limits and the grandfathering of the taxation of lump sum benefits referable to "eligible service" prior to 1 July 1983.

Tax free benefits would be simpler than the present system of taxation of benefits. Simplicity is too high a price for equity. Given abolition of RBL's and a practical means of dealing with pre 1 July 1983 eligible service, the taxation of benefits would not be unduly complex.

Exemption of benefits from tax over and above the contributions tax would be grossly inequitable and would change the character of superannuation from provision of income when income from employment ceases, to wealth creation for families and heirs. Other features of the Budget proposals exacerbate this feature. Reference to these other features is made elsewhere in this report.

Simplicity must not be allowed to dominate the equitable taxation of benefits.

9. ABSENCE OF DEATH DUTIES AND GIFT DUTIES IN AUSTRALIA

The fact that there are no death or gift duties in Australia must be borne in mind when considering the shape of occupational superannuation.

The 2006 Budget proposals lend themselves to wealth creation by the rich and well to do and to the passing on of untaxed and under-taxed wealth to families and heirs.

Please think about large amounts of investment income earned in pension phase of superannuation that would be drawn tax free and passed free of death duty to heirs, under the Budget proposals. Those heirs could use that money to make undeducted contributions to their superannuation. The concept of undeducted contributions having flowed from taxed money would cease to be true. The proposed system would allow recycling of money to benefit the rich and the well to do, their families and their heirs. The proposed system would change the character of Australian society. The last vestiges of an egalitarian society would disappear.

It is appropriate to note here the serious anomaly presented by the taxation of superannuation death benefits passing to non dependants. It appears that the Budget proposals do not change the existing feature whereby only benefits passing to a dependant as defined, are exempt from tax and then only if paid within six months of the date of death. If lump sum benefits can be drawn tax free, they will be so drawn before death and passed without payment of tax to heirs. It has even been suggested that persons should leave undated elections to draw tax free lump sums with their families or legal advisers, to be dated prior to death if the member dies suddenly or otherwise not having elected to draw. The financial white ants are already munching away.

10. TREATMENT OF ELIGIBLE SERVICE PRIOR TO 1 JULY 1983

It is totally unacceptable that the grandfathering of the pre 1 July 1983 basis be allowed to complicate the administration of superannuation for nearly half a century. The basis, the addition of 5% of a lump sum to assessable income in the year of receipt, was agreed by the industry at the time to be far too generous; to be indefensible.

Pre 1 July 1983 eligible service is on its way to being worked out of the system. However, the roll over of superannuation on change of employment means that it will remain a very real issue for nearly another two decades.

I recommend that a rule of thumb be adopted to deal with eligible service prior to 1 July 1983.

I propose that the tax paid lump sum (the first band) be increased by one third of 1%, or alternatively one half of 1%, for each month of eligible service prior to 1 July 1983. The remainder of a lump sum benefit would be taxed at the 15% plus Medicare rate.

The suggested treatment would not be equivalent to the pre 1 July 1983 basis of adding 5% to assessable income in the year of receipt. It gives something for the privileged treatment accorded to date, if a lump sum is taken.

An example comparing the existing treatment and the proposed treatment of pre 1 July 1983 eligible service is given in Appendix B. Appendix B demonstrates that my

proposal results in an improvement if pension is selected, given adoption of the proposed limitation of undeducted contributions..

I propose that the tax paid first band of a lump sum benefit be treated as an undeducted contribution if rolled over to purchase a pension. This amount would not be measured against the allowable undeducted contribution limit in the year of roll over provided it did not leave the superannuation system.

To give everyone tax free pensions to avoid the complexity of the pre 1 July 1983 problem and RBL problems is absurd.

11. REASONABLE BENEFITS LIMITS

The abolition of Reasonable Benefits Limits (RBL's) would be a significant benefit to the rich and well to do but no benefit to the man in the street.

The RBL's have given rise to serious anomalies. Benefits are tested at the point of benefit emergence and only at that point. A rise in the market values of investments has pushed many benefits into excessive territory and increased tax. There is no compensation for a later market correction. Similarly, a depressed market at the point of benefit emergence will reduce excessiveness or prevent it. If a pension is taken, the recovery accrues tax free.

The RBL system is extremely complex, confuses citizens about to draw benefits and is expensive for the industry and the Taxation authorities to administer. Citizens have suffered because their superannuation was not arranged in the optimum way. I remember detecting an error in a formula that produced a disadvantageous outcome if one RBL form was lodged instead of two, one for the RBL amount and another for the excessive benefit. I gave up trying to have the formula corrected.

It is arguable that it should be unnecessary to impose limits on both contributions and benefits. If contributions are reasonable, it should be accepted that the resulting benefits are also reasonable.

I endorse the abolition of Reasonable Benefits Limits subject to solutions being found to the problems of very large benefits from defined benefits funds and very large unallocated contributions for highly paid members of these funds..

It was reported recently that a retiring executive of a financial institution qualified for a superannuation benefit of about \$10 millions. This would not be unexpected from a defined benefits fund for a person with a salary of the order of \$2 millions per annum.

The maximum deductible contributions for a defined benefits fund have been calculated as the sum of the individual maximum deductible contributions of the members. This practical rule leads to highly paid members leaning on the total membership for full deductibility of employer contributions. These very large benefits were not exceptionable when caught by RBL's.

In my opinion, it would be absurd to allow very large benefits to be tax free and, where taken as a pension, absurd in the extreme to allow both tax free accumulation and tax free drawings.

The Treasurer made acidic comments about an executive of a public company whose salary is \$21 millions per annum. One wonders what his superannuation might be under a defined benefits scheme.

I have not been able to find a solution to problems of very large benefits from, and very large deducted contributions to, defined benefits funds. I am continuing to think about them. A letter received from the Institute of Actuaries of Australia states that it has devised a sensible means of calculating deductible and undeducted contributions without the problems of surcharge type calculation of notional contributions. I have requested advice of the method but am awaiting a reply.

Projections show that accumulation benefits that can be built up by wealthy persons under the Budget proposals are likely to be very large indeed, relative to what has so far been regarded as reasonable benefits. More information about these projections is given later in this submission.

All things considered, in my opinion the equitable taxation of benefits would be essential in conjunction with the abolition of RBL's.

It would be going over the top to allow very large benefits to accumulate tax free in pension phase and also to allow tax free drawings. To do so would be to change the character of superannuation for the wealthy, from income support in retirement to wealth creation for families and heirs.

I have noted elsewhere that the Budget package appears to allow a huge balance to be drawn when death is imminent and passed to heirs without diminution by any tax.

12. UNDEDUCTED CONTRIBUTIONS

I endorse a limit on undeducted contributions, as a tool to control exploitation of the concessional taxation of investment income in the superannuation system.

Allowing three years' undeducted contributions to be paid in one year is unnecessary in my opinion. I think that it introduces complexity, bearing in mind that contributions can be paid to several funds by one taxpayer. A breach of the rules would not show up in the audit of any particular fund. It seems fair enough to require a large sum of money, however derived, to be spread. Inheritances play a significant role in capital acquisition today and their role is set to increase. It is reasonable to expect that many citizens will be able to afford to pay the maximum permissible undeducted contributions on a regular basis.

I heard mention of someone with \$70 million in superannuation. I have no details at all but it really makes me sick to think that such a sum would be allowed to accumulate tax free (in pension phase) and drawn tax free. Possibly most of that money is undeducted contributions. Whether that is the case or not, the accumulation at the point of drawing or conversion to pension will escape RBL testing if the Budget proposals are enacted. The resulting pension includes very large drawings of investment income. The fundamental theorem "investment income is assessable income that must be taxed when drawn" is offended. The mind boggles at the thought of the residual in such a case and how it might be recycled in the superannuation system.

When I was providing advice, I described undeducted contributions paid as retirement was approaching as pure gold.

I have said that the benefit tax on the first band of retirement benefits has been paid by the contributions tax. I have recommended that the first band be referred to as tax paid, not tax free. Because it is tax paid and because it is referable to the whole period of fund membership, benefit in the first band ought to be treated as undeducted contributions if rolled over to secure a pension. Note that this proper treatment makes the widely practised “cash out and re-contribute” unnecessary.

13. MAXIMUM DEDUCTIBLE CONTRIBUTIONS

I endorse the restructure of maximum deductible contributions. The existing scale is too disjointed and the steps are too large. The incomes of some people are concentrated in their younger years. Sportspeople are a case in point. The existing scale has prevented them from making reasonable superannuation contributions when they are able.

In my opinion, five years is too short a period for persons over the age of 50 years to contribute higher amounts. Accumulated benefits of persons under age 50 have also been constrained by the current scale of deductible contributions. I feel intuitively that if higher deductible contributions are to be allowed for a limited period, they should not be restricted to only those who have attained age 50 at the time of payment. The lowest age might be 45 in 2007/2008, stepping up in later years. Mortgage payments and family obligations constrain the ability of many citizens to contribute to superannuation until their more senior years. It should not be assumed that persons seeking to build up their superannuation will be able to contribute the maximum amounts or that their health and ability will enable them to remain in the workforce well beyond age 65. A transitional period longer than five years is warranted. In the time available, I have not been able to carry out projections that would assist in determining a suitable longer period.

It is recognized that a longer period to assist deserving cases opens the door for unreasonably large contributions in undeserving cases. There is no correct answer.

The problem of large accumulations of benefit would be reduced if benefits are taxed on the current basis.

14. TAX REDUCTIONS FOR DEDUCTIBLE CONTRIBUTIONS ACCRUE DIRECTLY TO DIRECTORS OF PRIVATE COMPANIES AND SELF EMPLOYED PERSONS

This is a particularly important section of this report.

A deductible contribution of \$50,000 for a director of a private company gives rise to a reduction of company tax of \$15,000 at a company tax rate of 30%. The benefit of the tax reduction accrues directly to the owners of the business who are usually the directors.

The contributions tax is \$7,500.

The wealth of the director is immediately increased by \$7,500 by payment of the superannuation contribution, with no more tax to pay under the Budget proposals.

The position with self employed persons is even more advantageous for those paying tax at rates higher than 30%

This is an absurd, untenable situation that will lead to massive exploitation unless the proposal for tax free lump sums and pensions is dropped. These “gifts” would be retrospective to past deductible contributions by private company directors and self employed persons because the proposed exemption from benefit tax applies to already accrued benefits as well as benefits accruing in the future.

In accordance with the theorem that income must be taxed when received, I strongly recommend that the existing basis of taxation of benefits be continued subject to new treatment of eligible service prior to 1 July 1983 and, hopefully, abolition of RBL's if a solution to the problem of very large benefits and very large unallocated contributions can be found.

15. SUBSIDY INVOLVED IN TAX FREE BENEFITS

If tax free benefits, ie., no tax additional to the contributions tax were to be enacted, every cent of benefit that is in excess of proper compensation for the contributions tax would be a subsidy of the beneficiary from general taxation revenues.

I submit that this would be unwarranted subsidy of the rich and well to do.

Subsidy has been quantified in a particular case that is dealt with in section 21 of this report. The methodology is available to examine other cases. The case examined shows how much more advantageous a pension is where a large lump sum is available.

The Prime Minister commented that the Budget proposals were a reward for success. Reward for success comes from the rewards of the enterprise and must not come from taxpayers generally.

The average rate of tax on superannuation is already very low. The contributions tax is returned, with investment income, in reduced benefit taxes. In the case of pensions, the only tax suffered is the tax on investment income in the accumulation phase. That tax is reduced by imputation credits and can be erased altogether (and refunds of excess imputation credits received) where there is sufficient investment in Australian shares paying franked dividends.

Investment wholly in listed investment companies such as Argo Investments Limited and Australian Foundation Investment Company Limited is a thoroughly defensible investment strategy for the long term where the trustees and members understand that the realizable values of the investments will move in sympathy with the Australian share market. It will be noted that this strategy gives rise to refunds of tax on account of investment income throughout the accumulation phase (dividends are invariably 100% franked), and full refund of imputation credits in the pension phase. No liability to capital gains tax ever arises despite enormous capital gain during a long period of accumulation.

Please note that over the lifetime of the superannuation of a person who takes a pension, the tax rebate (tax credit) returns the contributions tax and the investment income is very lightly taxed indeed.

The proposed freedom of benefits from tax is absurd. It has the potential for untaxed and under taxed income to be recycled through families for generations.

I repeat, for emphasis, that for those who take pensions under the existing arrangements, the only tax suffered is the very light tax on investment income in the accumulation phase. The pension rebate offsets the contributions tax (except where the pensioner has no liability for tax and the pension rebate is lost.)

All those with substantial lump sums would be expected to roll over to pensions if they are tax free in conjunction with tax free accumulation.

The man in the street would probably take a lump sum in the future as he has in the past.

16. INDEXATION OF CONTRIBUTION LIMITS

Unfortunately, inflation is a fact of life. It has been said that only two things in life are certain, death and taxes. The adage should be expanded to include inflation.

Fixed limits will be progressively eroded by inflation. Periodic ad hoc adjustments are extremely unsatisfactory. For example, the maximum superannuation benefit was \$80,000 in my early days of superannuation practice. The limit was subject to a number of periodic reviews. Every review left the already retired and older persons who had no time to catch up, stranded.

I recommend that the limits, whatever they might finally be, be indexed. AWOTE has been used for indexation of important superannuation items and would be suitable. It is preferable to use an indexation basis that reflects salaries and wages rather than a basic inflation index such as a CPI number.

17. AN AGEING POPULATION

Australia's population is ageing. It is desirable to defer tax receipts that ought to be deferred.

It is not appropriate to exempt properly taxable future superannuation benefits from tax.

It is inappropriate to bring taxes forward as the contributions tax does but we are stuck with this.. (I have explained elsewhere why the contributions tax cannot be unwound.)

It would be a mistake to subsidise superannuation by making benefits that are properly taxable when they are received, exempt from tax.

18. JUSTIFICATION FOR PAY-AS-YOU-GO SUPERANNUATION FOR PUBLIC EMPLOYEES WHO ARE NOT EMPLOYED IN COMMERCIAL ENTERPRISES

This section is not directly relevant to the Budget proposals but is included because of its relevance to public investment of contributions tax revenue in infrastructure, which is advocated in this report.

Moderate Government deficits are not detrimental to good economic management provided Government is providing the services needed by the community, including capital works and good maintenance of the broad based infrastructure. A moderate supply of Government debt instruments is a healthy component of the financial system. A deficit is not indicative of irresponsible financial management but rather, is indicative of a willingness to borrow to do what needs to be done.

Where a Government is running moderate deficits but is providing the infrastructure to generate economic activity that will enable the debt to be serviced and duly repaid without increasing borrowings, the funding of the superannuation of public servants who work in non commercial activities is not meaningful. Funding would simply increase borrowings.

Thus, it is important that Government keep a weather eye on the liability, as an item of Government debt but not at all important that it borrow the money to fund the liability.

I am not in possession of all the relevant data, but I suspect that the unfunded liability of the superannuation of Commonwealth employees (non commercial employers) is not a matter of concern, provided the infrastructure is in place to provide the economy with the services that it needs to enable business to operate at a high level of efficiency and hence to generate tax to meet all proper budgetary requirements including benefit flow requirements for public sector superannuation. (For a variety of reasons that I will not go into here, I am not satisfied that the infrastructure is what it ought to be despite recurring surpluses that I think would be better invested in ways that will help the economy in future years than returned in tax cuts and tax free superannuation benefits.)

The largest superannuation system in Australia is the social security system. It is unfunded and there has never been any suggestion that it ought to be funded. Funding of the social security system is unnecessary and would be stupid as well as impractical. The system rests on the economy remaining efficient and vibrant, underscoring the importance of long term investment in health, education, and infrastructure in its broadest sense. Australia must eventually recycle its water and improve its environment. What value should be placed on the Murray-Darling Basin and on preventing damage of land by salination?.

The Future Fund has the potential to distort investment markets. Funds should only be available for investment if all services for an efficient long term economy are in place and in good order. If there are funds available for investment, I think that most of it should be invested offshore.

Commercial public sector employers must fund their superannuation liabilities as they arise to ensure that current users of services meet the costs of those services. My work on the financial outworking of the NSW State Superannuation Fund made possible the proper quantification of the accrued liability and ongoing costs of superannuation for NSW Government employers whose employees belonged to that Fund.

19. IMMATURITY OF THE SUPERANNUATION SYSTEM AND OF PENSIONS IN PAYMENT IN PARTICULAR

The Australian superannuation system is very immature. The Superannuation Guarantee commenced in 1992 at a level of 4% of earnings (3% for small employers). The rate progressed to reach the current maximum of 9% of earnings from 1 July 2002. This important part of the overall superannuation system will not reach maturity of its accumulation phase until about the middle of this century.

The level of the Superannuation Guarantee is inadequate to take much of the load off social security, even in the long term. Any increase in the Superannuation Guarantee would set the system off on another long term phase of progressive maturity.

The pensions part of the Australian occupational superannuation system is extremely immature. Until the introduction of allocated pensions about ten years ago, superannuation pensions were largely confined to the public sector and a small number of large corporations that were philosophically opposed to lump sums. The introduction of allocated pensions did not mean an immediate upsurge in conversion of lump sums to pensions. Those already retired could not enter the system. Growth was fairly slow. NSW State Super Financial Services, an offshoot of the NSW State Superannuation Board for whom I worked to develop the allocated pension, did not introduce an allocated pension until a few years after its approval by the Insurance and Superannuation Commission.

The immaturity of the pensions system and the impact that significant change will bring on choices, mean that current levels of pension tax receipts are not reliable indicators of the pension tax that would be forgone by those changes.

Quite apart from cost issues, inequity is a major reason why the 2006 Budget changes to the taxation of pensions should not be enacted.

20 AGE TO WHICH CONTRIBUTIONS MAY BE MADE, NO FIXED AGE TO COMMENCE DRAWINGS AND THE MINIMUM RATES OF DRAWING PENSIONS

The proposals to allow contributions to be made until age 75, to allow the drawing of benefits to be deferred indefinitely and the lower rates of required pension drawings all combine to change the character of superannuation from provision for retirement income to wealth creation for the benefit of families and heirs.

Wealth creation for families and heirs is not the purpose of superannuation.

I do not support any of these changes.

It is recognized that deferral of retirement will help to alleviate the problems of an ageing population. It is probable that many company directors, including directors of private companies would defer the drawing of their superannuation if deferral is permitted, but this will not mean change in the nature of their activities after age 65. Deferral of the retirement of skilled tradespersons and the general workforce is what is needed to respond to the needs of an ageing population. It is pure supposition that allowing the deferral of superannuation drawings and allowing additional contributions to be made will significantly alter the retirement choices of the general workforce. The existing rules allow contributions to be continued to age 70 provided employment continues, with deferral of drawings. I do not think that it is either necessary or desirable to move beyond that at this stage.

21. PROJECTIONS OF BENEFITS AND SUBSIDIES IN TAX FREE BENEFITS

Projections of the accumulation of the maximum deductible and undeducted contributions of a 45 year old to age 65 and of the conversion of the age 65 lump sum to an allocated pension with minimum drawings on the existing scale through to the age of 90 years are attached. There are separate schedules for the projection to benefit emergence at age 65 and the pension projection from age 65 to age 90. The assumptions are shown on each of the schedules. The assumptions are conservative. Alternative assumptions and different data can be fed into the spreadsheets without much trouble.

The estimates of the net present values of tax forgone do not include any amount for the abolition of the RBL.

The net present values at 1 July 2007 of the tax forgone are

If a lump sum is selected in 2027 - \$271,000 (rounded, as all such estimates must be) or

On pension drawings to age 90 after conversion to pension in 2027 - \$806,000.

These are the estimated subsidies in immediate value that are inherent in the Budget proposals, measured against the present taxation basis, excluding the benefit arising from abolition of the RBL's.

I would be pleased to work through these examples with Treasury and to provide the spreadsheets on disk to enable Treasury to work through a range of examples using different data and different assumptions. I respectfully request Treasury to work through a range of examples.

The example given is not extreme. The absence of death duty means that many families of deceased well to do persons are already well to do and would be able to take full advantage of the Budget proposals, if enacted.

Many rich and well to do citizens would make very large gains if the proposed tax free benefits are enacted. The case of a recently retired banker has been bandied about. There are undoubtedly some very large benefits in the system, particularly from defined benefits funds, which usually provide enormous benefits for senior executives.

I am firmly of the opinion that exemption of benefits from tax, additional to the contributions tax, at the time of payment is wrong.

I respectfully request the Government not to enact exemption of benefits from tax at the time of payment.

Australia has the best opportunity in the World to make a truly great society. We are all dependent on one another. The wealthy and well to do should enjoy the fruits of their labours, of their innovation and ingenuity. It is manifestly wrong to assist them to create wealthy and well to do dynasties with subsidy from the public purse.

22. A REQUEST

I express a heartfelt desire to meet with Treasury to work through the issues covered in this report and other issues that arise from its and my ongoing consideration of the best format for occupational superannuation in Australia.

It is absolutely vital that the Government does not feel locked in to the detail of the Budget proposals.

I am certain that the electorate would respect a Government that announced changes to the Budget format for superannuation following the full review that it invited. I would be pleased to work, on a confidential basis, with Treasury and Government on a statement explaining changes to the existing system and to the Budget proposals, to

reach the best and fairest structure for occupational superannuation in Australia, a structure that can be expected to stand the test of time.

No fees or other charges would apply to any service that I may be able to render. No recovery of expenses incurred would be requested or accepted.

I provided information, mostly related to equity and the contributions tax, to the Press in late May 2006. A little of that information was reported in the Sydney Morning Herald of 5 June 2006. I must reserve the right to oppose many of the Budget proposals but no further action in this regard will be taken until I have your response to this submission.

I cannot overstate the importance of what we are involved in here. It has the potential to change the shape of Australian society.

I wish to send a copy of this report to the President of the Institute of Actuaries of Australia but will not do so if you request that the report be kept confidential. I am also desirous of sending a copy to Ms Rosemary Vilgan, Chairperson of The Association of Superannuation Funds of Australia. I am of the opinion that ASFA is responsible for a great deal of misinformation about the taxation of superannuation in Australia. I will hold fire on this to give Treasury an opportunity to respond.

APPENDIX A

Demonstration that retirement benefits received after age 55 are greater under the contributions tax conditions than they were under pre contributions tax conditions

Let the gross retirement benefit from
post 1 July 1988 employer contributions
in nil contributions tax conditions be

X

Let the low rate tax limit in
pre 1 July 1988 conditions be

A

The lump sum tax in nil contributions tax
conditions including Medicare is

$$0.165A + 0.315(X-A)$$

The net after tax lump sum is

$$X - 0.165A - 0.315(X-A) \\ = 0.685A + 0.15A$$

This formula can be seen to be correct. The net benefit is the gross benefit reduced by
31.5% plus 15% of the low rate amount.

The gross benefit in conditions of
15% contributions tax is

$$0.85X$$

The lump sum tax in 15% contributions
tax conditions is

$$0.165(0.85X - A) \\ = 0.14025X - 0.165A$$

The net after tax lump sum in
15% contributions tax conditions is

$$0.85X - 0.14025X + 0.165A \\ = 0.70975X + 0.165A$$

The net after tax lump sum in
15% contributions tax conditions
minus

the net after tax lump sum in
nil contributions tax conditions is

$$0.70975X + 0.165A - 0.685X - 0.15A \\ = 0.02475X + 0.015A$$

Since both X and A are positive, the difference is positive. Therefore, the net after tax
benefit in contributions tax conditions is greater than it would have under the rules that
preceded the contributions tax.

The demonstration is not exhaustive. The same treatment of tax on investment income is
assumed. The net tax on investment income in contributions tax conditions may be
greater or less than the nil tax under the previous rules depending on the investment
strategy.

APPENDIX B

Illustrations of the effect of granting an increase of 1/3% for each month of pre 1 July 1983 eligible service in the tax free (tax paid) first band of retirement benefit

Data

Gross benefit	\$500,000
Undeducted contributions	\$100,000
Pre 1 July 1983 eligible service	16 years
Total service at exit	40 years

Existing basis

Pre 1 July 1983 component	500,000 x 16/40	\$200,000
Assessable amount (5%)		\$10,000
Tax at say 31.5%		\$3,150

Post 30 June 1983 component		\$300,000
Less undeducted contributions		\$100,000
Assessable amount		\$200,000
First band – tax free (tax paid)	say	\$142,000 in 2007/08
Taxable amount		\$58,000
Tax at 16.5%		\$9,570

Total tax	\$12,720
Net benefit	\$487,280

With 1/3% addition to the first band for each month of pre 1 July 1983 eligible service the net benefit would be:-

No of months of pre 1 July 1983 eligible service	192
Percentage addition to first band	64
Adjusted first band (= 142,000 x 1.64)	\$232,880
Gross benefit	\$500,000
Less undeducted contributions	\$100,000
Assessable amount	\$400,000
First band	\$232,880
Taxable amount	\$167,120
Tax at 16.5%	\$27,575
Net benefit	\$472,425

If the addition to the first band were ½% for each month of pre 1 July 1983 eligible service, the net benefit would be:-

Percentage addition to first band	96
Adjusted first band	\$278,320
Taxable amount	\$121,680
Tax at 16.5%	\$20,077
Net benefit	\$479,923

The difference between the existing and proposed treatments may be more or less than shown in this example. Equivalence with the over generous basis pre 1 July 1983 basis of lump sum tax is not proposed where lump sum benefits are desired.

If the gross benefit is rolled into a pension, my proposal leads to an improved pension if the tax paid first band is treated as an undeducted contribution..

Those with large benefits and large amounts of undeducted contributions would be most disadvantaged by my proposal, if a lump sum benefit is desired..

Undeducted contributions could be used to insulate the post 30 June 1983 component from tax, by those with a lot of pre 1 July 1983 eligible service but this opportunity is stymied by my proposal.

Under existing arrangements, a member would have to cash out and re-contribute to gain the benefit of the pre 1 July 1983 basis.. The gross benefit would be diminished by the tax, but the whole net amount would be an undeducted contribution when re-contributed. The proposed limits on undeducted contributions will outlaw the cash out and re-contribute strategy. Therefore, I am satisfied that my proposal leads to improved pensions for all those with pre 1 July 1983 service.

Pre 1 July 1983 is a situation which calls for a practical solution. It calls for a statement along the lines "the pre 1 July 1983 basis was, and is, untenable. Preserving an untenable basis for half a century cannot be allowed to complicate the superannuation system for all that time. Here is an increase in your tax free benefit that gives some compensation. You can roll over to buy a pension without diminishing your gross benefit and receive credit for an undeducted contribution that comprises the standard tax paid first band plus your compensation amount plus any undeducted contributions that you have made. Your pension will be larger and more tax advantaged than would otherwise be available. Those new limits on undeducted contributions will not allow you to cash out, receive the benefit of the pre 1 July 1983 basis and then re-contribute the net benefit."

The method outlined is far preferable to the massive give aways for all time, of the Budget proposals. I am of the opinion that 1/3% increase in the first band of lump sum, for each month of pre 1 July 1983 eligible service is sufficient.

PROJECTION OF SUPERANNUATION BENEFITS TO AGE 65

GOVERNMENT'S BUDGET PROPOSALS

Start date	1-Jul-07										
Age at start date	45										
Credit in fund at start date	60000										
Undeducted contributions at start date	4000										
Deductible contributions	50000										
Deductible contributions indexed to AWOTE	150000										
Undeducted contributions indexed to AWOTE	4 % pa										
Inflation	3 % pa										
Net investment earnings	6 % pa										
Net investment earnings net of investment expenses	2 % of gross contributions										
Expenses other than investment expenses	15 %										
Tax on deductible contributions	6 % pa										
Rate of interest for discounting 2027 tax											
Year comm 1 July	Age at beg of yr	Deductible conis for year	Unded conis for year	Expense for year	Conis tax for year	Investment income for year	Credit in fund at beg of yr	Credit in fund at beg of yr	Total unded conis		
2007	45	50000	150000	4000	7500	9255	60000	60000	4000		
2008	46	52000	156000	4160	7800	21347	257755	250248	154000		
2009	47	54080	162240	4326	8112	34625	475142	447866	310000		
2010	48	56243	168730	4499	8436	49180	713648	653089	472240		
2011	49	58493	175479	4679	8774	65107	974865	866155	640970		
2012	50	60833	182498	4867	9125	82510	1260491	1087310	816448		
2013	51	63266	189798	5061	9490	101496	1572339	1316809	998946		
2014	52	65797	197390	5264	9869	122182	1912348	1554914	1188744		
2015	53	68428	205285	5474	10264	144694	2282583	1801892	1386134		
2016	54	71166	213497	5693	10675	169164	2685253	2058023	1591419		
2017	55	74012	222037	5921	11102	195733	3122711	2323590	1804916		
2018	56	76973	230918	6158	11546	224554	3597471	2598889	2026953		
2019	57	80052	240155	6404	12008	255787	4112212	2884222	2257871		
2020	58	83254	249761	6660	12488	289604	4669793	3179902	2498026		
2021	59	86584	259751	6927	12988	326188	5273263	3486248	2747787		

2007 dollars beg of yr

Year comm 1 July	Age at beg of yr	Deductible con'ts for year	Unde'd con'ts for year	Expense for year	Con'ts tax for year	Investment income for year	Credit in fund at beg of yr	Credit in fund at beg of yr 2007 dollars	Total unde'd con'ts beg of yr
2022	60	90047	270142	7204	13507	365737	5925872	3803592	3007538
2023	61	93649	280947	7492	14047	408457	6631086	4132274	3277680
2024	62	97395	292185	7792	14609	454571	7392600	4472645	3558627
2025	63	101291	303872	8103	15194	504317	8214351	4825065	3850812
2026	64	105342	316027	8427	15801	557946	9100534	5189908	4154684
2027	65						10055622	5567554	4470712

Under current tax regime

Taxable amount	5584910
Tax paid amount in 2007, say	141000
Tax paid amount in 2027 (indexed to AWOTE)	308948
Taxable at 16.5% incl Medicare Tax	5275962
Tax in 2007 dollars	870534
Present value in 2007 of 2027 tax	481993
	271437

This is the present value in 2007 of the sum the Government proposes to forgo in lump sum tax

This calculation does not include the benefit arising from abolition of the RBL

A pension is the most effective way of drawing benefits.

A pension projection is shown on the next page

Year comm 1 July	Age at beg of yr	Credit in fund at beg of yr	Drawing factor	Pension per annum amount	Taxable amount	Expenses	Tax credit	Taxable income	Tax at 46.5% less pension tax credit	Net pension	Net pension 2007 dollars	Present value in 2007 of tax
2036	74	9046380	11.7	773195	569981	23196	100584	670565	211228	561967	234970	37864
2037	75	8812122	11.3	779834	576620	23395	101756	678376	213689	566145	229822	36137
2038	76	8555576	10.8	792183	589969	23765	103935	692904	218265	573918	226192	34822
2039	77	8269221	10.4	795117	591903	23854	104453	696356	219353	575765	220311	33014
2040	78	7961133	10	796113	592899	23883	104629	697528	219722	576392	214127	31198
2041	79	7631960	9.5	803364	600150	24101	105908	706059	222409	580956	209536	29792
2042	80	7273680	9.1	799305	596091	23979	105192	701284	220905	578401	202538	27916
2043	81	6896428	8.7	792693	589479	23781	104025	693504	218454	574239	195224	26043
2044	82	6501687	8.3	783336	580122	23500	102374	682496	214986	568349	187594	24179
2045	83	6091238	7.9	771043	567829	23131	100205	668033	210431	560612	179651	22327
2046	84	5667184	7.5	755625	552410	22669	97484	649894	204717	550908	171399	20491
2047	85	5231963	7.1	736896	533682	22107	94179	627861	197776	539120	162846	18676
2048	86	4788370	6.8	704172	500958	21125	88404	589362	185649	518523	152063	16539
2049	87	4350745	6.4	679804	476590	20394	84104	560693	176619	503185	143267	14844
2050	88	3910589	6.1	641080	437866	19232	77270	515136	162268	478812	132357	12866
2051	89	3483004	5.8	600518	397304	18016	70112	467416	147236	453282	121650	11013
2052	90	3070764	5.5	558321	355106	16750	62666	417772	131598	426722	111186	9286
									5038309			805730