IOPS COUNTRY PROFILE: AUSTRALIA

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)[1]	**47 000**
Population (000s)[2]	**24 200**
Labour force (000s)[2]	**12 700**
Employment rate[2]	**94.3**
Population over 65 (%)[2]	**15.3**
Dependency ratio[2,3]	**29.3**

1. Source: OECD, calculated on a PPP basis, 2015 calendar year.

2. Source: Australian Bureau of Statistics, September quarter 2016.

3. Ratio of over 65-year-olds / labour force.

AUSTRALIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Means-tested social security pension

Private pensions: occupational (mandatory)

- Occupational trustee managed superannuation fund: corporate
- Occupational trustee managed superannuation fund: industry
- Public sector occupational pension plans, often compulsory for public sector employees

Private pensions: personal (mandatory)

- Trustee managed public offer superannuation fund: retail funds
- Trustee managed superannuation fund: small APRA fund
- Trustee managed superannuation fund: self-managed superannuation fund (SMSFs)
- Trustee managed superannuation fund: approved deposit

Private pensions: personal (voluntary)

- Retirement savings accounts (RSAs): capital guaranteed individual savings account

Source: OECD/IOPS Global Pension Statistic

AUSTRALIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The cost of the public pension - known as the Age Pension - is solely covered by Australian government's general revenue (i.e. there are no social security contributions in Australia). The eligibility age for men and women is currently 65 and from 1 July 2017, will begin to rise gradually by six months every two years, reaching 67 years by 1 July 2023. Individuals must be an Australian resident for 10 years with 5 of those years being continuous. Income and assets tests are applied to target the pension to those with limited means. The maximum Age Pension benefit is AUS$ 888.30 per fortnight for a single person, and AUS$ 669.60 per fortnight for each member of a couple. The value of the Age Pension is adjusted biannually to increases in prices and wages.

OCCUPATIONAL/PERSONAL MANDATORY

Coverage

Employers are mandated to pay superannuation contributions for all eligible employed persons that are 18 years or over and are paid AUS$450 or more (before tax) in a calender month. The employer must also pay if the individual is under 18, is being paid AUS$450 or more and are working more than 30 hours per week. Self-employed individuals participate on a voluntary basis.

Contributions

The required contribution is 9.5% of Ordinary Time Earnings (OTE) up to a maximum of AUS$52 760 OTE per quarter (this maximum superannuation contributions base is indexed in line with Average Weekly Ordinary Time Earnings each income year). This is paid solely by employers, although employees may make voluntary contributions. From July 1 2017, concessional contributions, including employer and personal voluntary contributions, are subject to an annual cap of AUS$25 000. People with a total superannuation balance of less than AUS$500 000 are also able to make 'catch-up' superannuation contributions by carrying forward unused concessional cap space amounts from 1 July 2018. These unused caps can be used on a rolling basis for a period of five years. From 1 July 2017, individuals under the age of 75 are also able to make non-concessional contributions into their superannuation funds up to an annual cap of AUS$100 000. Individuals under the age of 65 will be eligible to bring forward up to three years of non-concessioanl contributions. Individuals with a balance of AUS$1.6 million or over will no longer be able to make non-concessional contributions.

The Government provides a contribution up to AUS$500 to eligible individuals with taxable incomes up to AUS$37 000, to effectively refund the contributions tax their superannuation fund pays on their concessional contributions. This is through the Low Income Superannuation (LISC) up to 30 June 2017, and through the Low Income Superannuation Tax Offset (LISTO) from 1 July 2017.

The Government also offers a tax offset to individuals who make contribtuions to the superannuation of their low income spouses. From 1 July 2017 they can claim a tax offset of 18 per cent (up to a maximum of AUS$540) if their spouse earns AUS$40 000 or less.

Benefits

Although some defined benefit schemes do still exist, most funds are now defined contribution occupational pension plans. Benefits are fully funded and portable. Benefits are withdrawn in the form of a lump sum or income stream once members reach preservation age and are permanently retired. Preservation age is 55 years for people born before 1 July 1960, but increases gradually for people born after that date, so that preservation age is 60 years for people born after 30 June 1964.

The Australian Government has never fully funded its public sector superannuation liabilities in relation to defined benefit schemes. A financial asset fund, known as the Future Fund, was established in 2006 with the main objective of making provision for projected public sector unfunded superannuation liabilities in the future.

Taxation

Concessional contributions are taxed at 15 per cent in the superannuation fund. Any excess concessional contributions above the contribution cap of AUS$25 000 are taxed at the marginal tax rate plus an excess concessional contributions charge. From 1 July 2017, individuals with an income over AUS$250 000 also pay an additional Division 293 tax of 15 per cent on concessional contributions. Non-concessional contributions are not taxed in the the superannutation fund, reflecting that these contributions generally come from income that has been taxed at the individual’s marginal tax rate. Excess non-concessional contributions above AUS$100 000 are also levied with an excess contributions charge. Earnings from investment in the superannuation fund are taxed at 15 per cent.

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 AUS$1.6 million cap on the total amount of superannuation savings that can be transferred to the (tax-free earnings) retirement account phase. The cap will index in line with the consumer prices index in AUS$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 AUS$1.6 million, but no more than AUS$1.6 million can be transferred to the retirement phase. Superannuation savings accumulations in excess of the cap can either remain in an 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.

OCCUPATIONAL VOLUNTARY

Voluntary personal superannuation contributions may also be paid into existing employer superannuation funds or into separate plans.

Individuals are able to make voluntary concessional contributions through their employer (if the employer offers) to their superannuation accounts through salary sacrifice arrangements. The employee is able to forego part of their future entitlement to salary or wages to be paid into their superannuation account. This sacrificed component of their total salary package is not counted as assessable income for tax purposes and is taxed at a maximum rate of 15 per cent.

PERSONAL VOLUNTARY

Individuals are able to make personal non-concessional (post-tax) voluntary contributions to their superannuation accounts. From 1 July 2017, the Government will cap the annual non-concessional contributions to AUS$100 000 and those with a balance of AUS$1.6 million or more will no longer be able to make non-concessional contributions.

From 1 July 2017, individuals under the age of 75 will also be able to claim an income tax deduction for any personal superannuation contribution into an eligible superannuation fund. These contributions will count towards the indiviudals concessional contributions cap of AUS$25 000, and be subject to 15 per cent contributions tax. Individuals can make contributions to their superannuation fund or to a Retirement Savings Account (RSA). RSAs receive the same tax treatment as other superannuation accounts. They are a contractual form of low-cost saving similar to term deposits. They are capital-guaranteed products offered by deposit-taking institutions or life insurance companies.

MARKET INFORMATION

Occupational/personal mandatory

As at June 2016, the total number of member accounts was 29 million, and total assets within the superannuation fund system were AUD 2.10 trillion (USD 1.56 trillion). Among the different types of schemes small funds had the largest share at 30 per cent of assets, while the retail funds – the second largest market player – represented 26 per cent. Small funds account for 99.95 per cent of the total number of entities. By June 2016, there were 579 291 small funds, 30 corporate funds, 38 public sector funds, 41 industry funds and 135 retail funds.

RECENT REFORM

- Simplification of tax on superannuation funds in 2007.
- The Government announced a superannuation reform package in the 2016-17 Budget to improve the fairness, sustainability, flexibility and integrity of the superannuation system. Legislation to implement the package passed the Parliament on 23 November 2016.

REFERENCE INFORMATION

KEY LEGISLATION

- 2006: Future Fund Act. Legalised the establishment of the Future Fund (strategic pension reserved fund) in Australia, with details as to objectives, investment strategies, structure of the board, etc.

http://www.futurefund.gov.au/about-us/legislation-and-governance

- 1998: Australian Prudential Regulation Authority Act. Established the functions and powers of the Australian Prudential Regulation Authority.

http://bar.austlii.edu.au/au/legis/cth/consol_act/apraa1998477.

- 1992: Superannuation Guarantee (Administration) Act. Forms the basis of Australia's mandatory superannuation system and establishes the superannuation guarantee system.

http://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol_act/sga1992430/

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Australian Prudential Regulation Authority: http://apra.gov.au

Australian Taxation Office: http://www.ato.gov.au

Australian Securities and Investment Commission: http://www.asic.gov.au

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

APRA (2007), *Annual Superannuation Bulletin*, June: www.apra.gov.au/statistics.

OECD, Global Pension Statistics project: www.oecd.org/daf/pensions/gps.