



Super co-contribution—performance to date

Introduction

The Superannuation Co-contributions Scheme assists low to middle income earners making additional superannuation contributions. The government makes a contribution to a person's superannuation account if:

- that person makes a personal contribution to their superannuation fund or Retirement Savings Account,¹ and
- 10 per cent or more of their total income for the income year is from employment,² and
- their total income is below \$58 000 per annum in 2004–05 and following years (though in respect of the 2003–04 financial year a person's total income had to be below \$40 000 for their superannuation account to be eligible to receive a co-contribution amount), and
- the person is under 70 years of age.

The government will contribute up to \$1.50 for every dollar of personal contributions, up to a maximum of \$1500 per income year. The maximum co-contribution reduces by 5 cents for every dollar a person's total income exceeds \$28 000 (the low income threshold for 2004–05). Entitlement to a superannuation co-contribution ceases once a person's total income equals, or exceeds, \$58 000 per annum. These income thresholds will not increase until the 2007–08 income year.³

Income thresholds and average weekly earnings

Initially aimed at low income earners, the scheme was extended to benefit middle income earners after negotiations with minor parties in the Senate.⁴ The accuracy of the scheme's targeting of low and middle income earners can be gauged by comparing its income thresholds with current full time average weekly ordinary time earnings, and benefits available to persons at various income levels.

The most recent average weekly ordinary time earnings is \$1008.30, or \$52 432 per year.⁵ If this was a person's total income from employment, and they made a personal contribution of \$1000 to their superannuation fund in 2004–05, their superannuation fund would also receive \$278 as a superannuation co-contribution. If a person's total income for the year was \$30 000, and they made a personal contribution of \$1000 to their superannuation fund, the superannuation co-contribution for the 2004–05 year would be \$1400.⁶ While superannuation co-contributions are available to some middle income earners the scheme clearly favours low income earners.

Co-contributions paid for personal contributions made in 2003–04

In response to personal superannuation contributions made during the 2003–04 financial year, 605 734 beneficiaries' superannuation funds received approximately \$327 million in superannuation co-contributions payments (an average of \$540 per beneficiary):

- because the higher income threshold for the co-contributions purposes was \$40 000 in respect of this financial year, all beneficiaries had a total income below this figure
- about 55 per cent of beneficiaries had total individual incomes under \$30 000 per year. The largest average benefit was gained by those with total incomes between \$20 000 and \$30 000 per annum⁷
- 39 per cent of beneficiaries (233 450) were determined to be single (that is, a person with no spouse)
- 55 per cent of beneficiaries' spouses had a taxable income under \$40 000 per annum, while 81 per cent of beneficiaries' spouses had a taxable income of \$60 000 or less. Only 4 per cent of co-contributions beneficiaries' spouses had a taxable income above \$100 000 in this financial year⁸

Co-contributions expenditure and program estimates

The following table presents initial government projections, and the actual expenditure, for the Superannuation Co-contributions Scheme for 2003–04 and 2004–05.⁹

	2003–04	2004–05
Projected Expenditure	\$115m	\$265m
Actual Expenditure	\$309m	Not yet available

The costing for 2003–04 was done on the basis of different Superannuation Co-contributions Scheme design features to that which actually applied during the relevant financial year. As a result the 2003–04 projected expenditure figure is most likely to be an under-estimate. Consequently, the scheme's actual expenditure for the 2003–04 financial year is not comparable with the projected cost for that year. The 2004–05 estimate is based on projected costs at the time the legislation for the scheme was introduced into Parliament (29 May 2003) and additional expense estimates given in the 2004–05 budget papers.¹⁰

Treasury has noted that due to the changes in the design of the co-contributions scheme its costs have increased significantly, as follows:

The expansion of the co-contribution scheme for the 2004–05 and later financial years is projected to significantly increase the scheme's expenditure. The total value of co-contribution payments for the first year of the expanded policy is estimated to be about three times the value of the co-contributions made under the original legislation.¹¹

Gender outcomes

In 2003–04, 63 per cent of beneficiaries were female, with an average payment to their superannuation funds of \$570; 37 per cent of beneficiaries were male with an average payment of \$495.¹² There is no reason to assume that this general outcome will not be repeated in 2004–05, but as yet this information in respect of that particular financial year is not available.

Age outcomes

In 2003–04, 47 per cent of beneficiaries were aged between 46 and 65.¹³ This group of people come from what is known as the 'baby boomer' generation. Generally, this group has the lowest level of superannuation savings relative to their expected needs in retirement.¹⁴

Coverage

Not all eligible Australian employees are taking advantage of the scheme. As a recent ACTU submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration notes:

The take-up rate of the [co-contributions] scheme is still low relative to the eligible population. While an incidence analysis of the co-contribution scheme has not been undertaken, it most certainly is accessed by less than 10% of those eligible.¹⁵

Some issues arising

Co-contributions going to those with high income spouses

There has been some concern that superannuation co-contribution payments may be paid to beneficiaries with wealthy partners.¹⁶ Undeniably, this does occur. But the more important question is whether a significant proportion of co-contributions payments are going to beneficiaries whose partners' taxable incomes are well outside the designated income thresholds.

As already noted, in 2003–04 the proportion of co-contribution beneficiaries with a partner whose taxable income exceeded \$100 000 per annum was 4 per cent of all co-contributions beneficiaries' spouses. The proportion of those beneficiaries spouses with taxable incomes below \$60 000 per annum is about 81 per cent of all spouses of co-contributions beneficiaries in 2003–04. Thus, about 20 per cent of co-contributions payments appear to be made to superannuation funds where the spouse of the beneficiary has a taxable income which exceeds the current higher income threshold (\$58 000 p.a.) for co-contributions purposes.¹⁷ Two other points in connection with this issue require consideration:

- Australia's superannuation system is based on individual entitlement and an individual's ownership of their superannuation benefits, not the joint income or assets within a family. While it may be possible to devise a limitation on the eligibility of a person to receive a co-contributions payment by taking into

account a partner's taxable income, such an approach would cut across this fundamental principle, and

- given the significant proportion of marriages/de facto relationships that end in divorce or permanent separation it may be a far better outcome that people (particularly women, see below) with high income spouses accumulate larger superannuation balances than would otherwise be the case.

Women, superannuation and co-contributions

The parlous state of female superannuation fund balances has been well documented.¹⁸ Data from three industry superannuation funds suggest that at the same ages female superannuation balances are significantly less than male balances, and resulting pensions paid are significantly less than pensions paid to male members on retirement.¹⁹

While it is heartening to observe that more women than men are taking advantage of the co-contributions scheme, the generally low coverage of the scheme and the low base of superannuation savings which many women start from suggest that, by itself, the co-contributions scheme will not raise the general level of women's superannuation balances to that of their male counterparts.

Baby boomers and co-contributions

'Baby boomers' are the generation born between 1946 and 1965. It is an often stated fact that this generation has not saved enough to fund their retirement.²⁰ Again, it is heartening that a significant proportion of co-contributions beneficiaries belong to the baby boomer generation. But again, due to the co-contribution scheme's low coverage of the workforce the additional contributions gained will make little overall impact on the low superannuation balances of this group.

Projected costs

The following table shows projected expenditure for the co-contributions scheme as initially legislated in 2003, and after the scheme was expanded as part of the 2004–05 Budget, over the next few years.²¹

	2005–06	2006–07	2007–08
Projected Expenditure - Expanded Scheme	\$595m	\$730m	\$790m
Projected Expenditure - Original Scheme	\$235m	\$220m	\$205m

Most of the increases in projected expenditure are due to the changes in the scheme's design.

Conclusions

The co-contributions scheme has delivered a number of benefits. In particular, low income employees, particularly women, appear to have gained significant contributions to their superannuation fund balances. These benefits will compound over time via increased investment earnings.

However, the scheme is not necessarily a panacea for the perceived problem of low superannuation balances, particularly for women.

Endnotes

1. A 'personal contribution' is one that the person makes from 'after tax' income and for which the person does not otherwise claim a tax deduction (*Income Tax Assessment Act 1997*, subsection 26-80(3)).
2. 'Total Income' is defined in section 8 *Superannuation (Government Co-contributions for Low Income Earner) Act 2003* as the sum of a person's tax assessable income and a person's reportable fringe benefits for a particular income year. An 'income year' for taxation purposes is the 12 month period over which that person's tax liability is measured. For the overwhelming proportion of personal tax payers an income year is the same as a financial year. For the purposes of this paper the term income year is the same as financial year.
3. *Superannuation (Government Co-contributions for Low Income Earner) Act 2003*, section 10A. Thresholds then indexed to yearly increase in Adult Weekly Ordinary Time Earnings estimated by the ABS.
4. The Hon. Peter Costello MP, Treasurer, Explanatory Memorandum to the Superannuation (Government Co-contribution for Low Income Earners) Bill 2003 & Superannuation (Government Co-contributions for Low Income Earners) (Consequential Amendments) Bill 2003, p. 3; and Senator the Hon. Helen Coonan, *Landmark Agreement Delivers Super Benefits*, media release, 7 September 2003.
5. Australian Bureau of Statistics (ABS), *Average Weekly Earnings*, Catalogue 6302.0, ABS, Canberra, May 2005.
6. Co-contribution calculations carried out using the Australian Taxation Office Co-contributions calculator at <http://www.ato.gov.au/super/scripts/contributionCalcNew.asp#P1> (accessed 27 October 2005).
7. Department of the Treasury, 'Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of Under 40s', 16 September 2005, p. 19.
8. The Hon. Mal Brough MP, Minister for Revenue and Assistant Treasurer, *Super boon for Women, Baby boomers and Low Income Earners*, media release, 12 September 2005. These figures were released well after the close of the 2003–04 financial year, when most of the tax returns would have been processed (this is necessary for the assessment and payment of co-contributions) and co-contributions payments made in respect of that year. Accordingly, these figures are highly reliable. See also Australian Taxation Office (ATO), *Super Co-contributions Annual Report 1 July 2004 to 30 June 2005*, (published as a separate Parliamentary Paper) 24 August 2005, covering the 2003–04 financial year. The ATO must provide an annual report on the operation of the co-contributions scheme soon after the end of the financial year under section 54(1) of the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003*.
9. Sources: Explanatory memorandum for the Superannuation (Government Co-contribution for Low Income Earners) Bill 2003 and the Superannuation (Government Co-contribution for Low Income Earners) (Consequential Amendments) Bill 2003 (circulated 29 May 2003), and *Budget Paper No. 2 2004–05*, p. 266.
10. Further, the *Superannuation Budget Measures Act 2004* expanded the co-contributions regime for the 2004–05, and following, financial years. However, the costing provided in the relevant Explanatory Memorandum only alters the projected costs from the 2005–06 financial year onwards.
11. Department of the Treasury, op. cit., p. 22.
12. The Hon. Mal Brough MP, op. cit.
13. *ibid.*
14. S. Kelly and A. Harding, 'Funding the Retirement of the Baby Boomers', *Agenda*, vol. 11, no. 2, 2004, pp. 104–105.
15. N. Apple, 'ACTU submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', July 2005, p. 12.
16. See M. Davis, 'Super open to roorting: Crean', *Australian Financial Review*, 27 May 2004, p. 5; and more recently S. Wardill, 'Super support for well-heeled', *Courier Mail*, 12 September 2005, p. 4, and J. Gordon, 'Wealthy couples receive super bonus', *Age*, 15 September 2005, p. 4.
17. Note that these outcomes are in respect of the 2003–04 financial year when the upper total higher income cut threshold for co contributions purposes was \$40 000 per annum. Nevertheless, consideration against the \$60 000 figure is considered more relevant because the upper total income cut out threshold for the co contributions scheme is currently \$58 000 and the current average weekly ordinary time wage (per annum) is about \$52 400.
18. D. Olsberg, 'Women, Superannuation and Retirement: Grim Prospects Despite Policy Changes', *Just Policy*, no. 35, March 2005, D. Loxton, 'What Future? The Long Term Implications of Sole Motherhood for Economic Wellbeing', *Just Policy*, no. 35, March 2005; T. Jefferson, 'Women and Retirement Income in Australia: A Review', *The Economic Record*, vol. 81, no. 254, September 2005. More recently D. Olsberg, 'Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into superannuation savings of people aged under 40', 28 September 2005.
19. D. Olsberg, 'Women, Superannuation and Retirement', op. cit, p. 33. The three funds are REST, UNISUPER and ARF. Pension information in respect of UNISUPER only.
20. See, for example Kelly and Harding, op. cit., p. 105, or Investment and Financial Services Association, *Retirement Income and Long Term Savings: Living well in an ageing society*, Sydney, 2004, p. 1.
21. The Hon. Peter Costello MP, Treasurer, Explanatory Memoranda to the Superannuation Budget Measures Bill 2004, p. 3. These projections were based on the co-contributions scheme current design features and Supplementary Explanatory Memorandum and Correction to Explanatory Memorandum for the Superannuation (Government Co-contributions for Low Income Earners) Bill 2003 and Superannuation (Government Co-contributions for Low Income Earners) (Consequential Amendments) Bill 2003, p. 1. These costings were done on the basis of the scheme where the higher income threshold was \$40 000 per year and the lower income threshold was \$27 500 per year.

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