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Pensions at a Glance
Public Policies across OECD Countries

Australia

Australia's pension system has two components: a means-tested age pension plus the superannuation guarantee, a compulsory contribution to a private pension plan. These plans are mainly defined contribution.

Qualifying conditions

The age pension is paid from age 65 for men. Women's pensionable age – currently 62½ – will increase gradually to become 65 from 2013. The minimum age for withdrawing superannuation guarantee benefits is currently 55, but this will increase gradually to 60 by 2025.

Benefit formula

Defined contribution

The superannuation guarantee was introduced in 1992. It consists of a mandatory employer contribution to a private pension plan, which can be an industry-wide fund or a scheme operated by financial-services companies on the employer's behalf. The mandatory contribution rate has been 9% since the 2002-03 tax year.

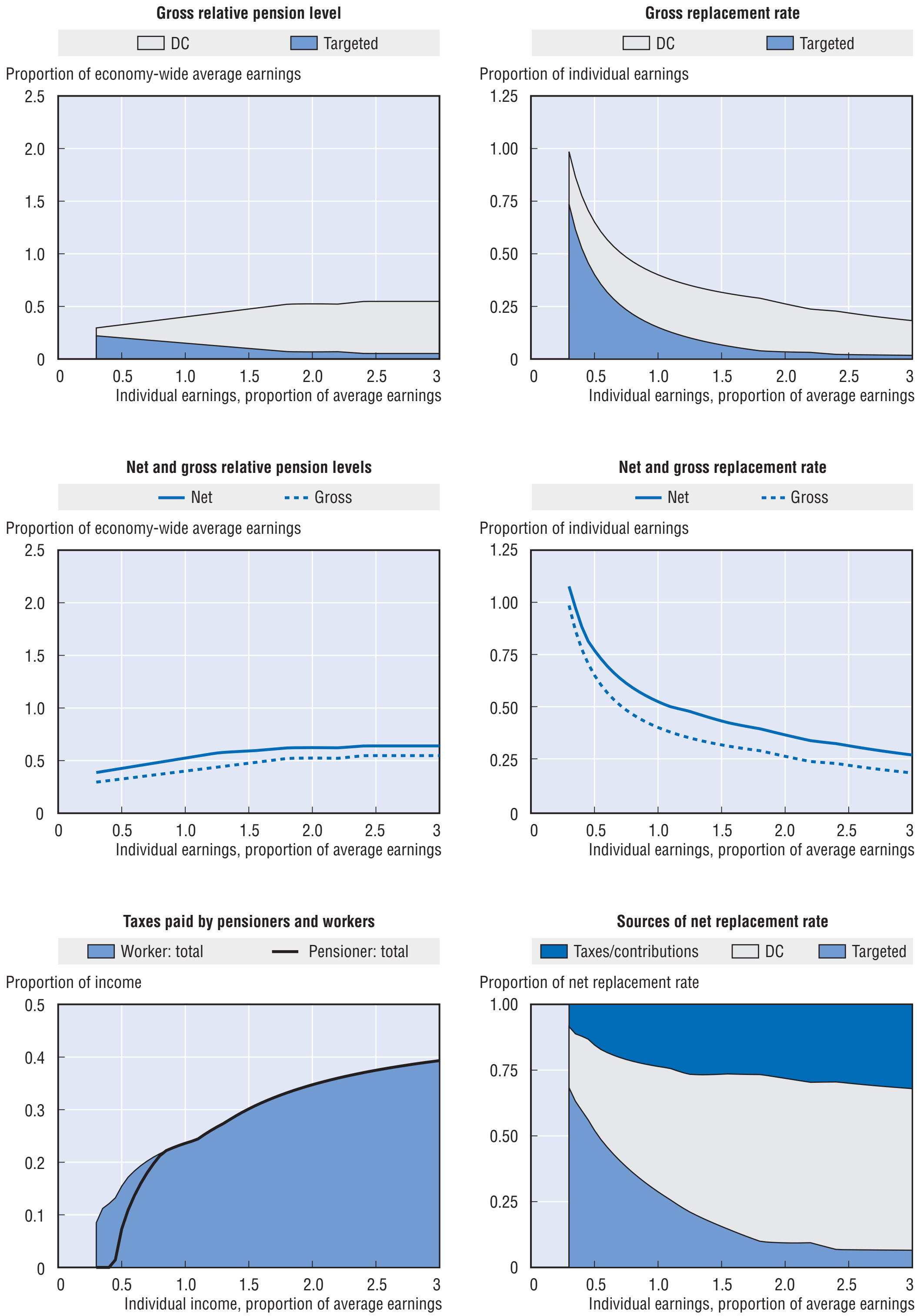
Employers need not contribute for workers earning less than AUD 450 in a month (equivalent to AUD 5 400 a year or about 12% of average earnings). But they can choose to contribute for these workers. (Note that this floor has not been up-rated in the past.) There is also a limit to the earnings covered by the superannuation guarantee: employers need not contribute for employees' pay above this threshold. For calendar 2002, this limit was AUD 113 460 (calculated from a quarterly limit of AUD 27 510 for 2001-02 and AUD 29 220 for 2002-03). This limit – worth around 2½ times average earnings – is indexed to earnings.

The withdrawal stage of the superannuation guarantee complicates the calculations. Although there are some defined-benefit occupational plans, most employees are members of defined-contribution plans. Members can take out the accumulated capital as a lump sum or some sort of income stream. Currently, most benefits are taken as a lump sum and phased withdrawals are the most popular form of income stream. For comparison with other countries (where defined-benefit plans predominate), the capital from the superannuation guarantee is converted to a price-indexed annuity. The annuity calculation is based on mortality data for Australia. Finally, the calculation is complicated by the tax treatment, described below.

Targeted

The value of the age pension is adjusted biannually. The age pension is paid fortnightly: from September 2001, the single rate of pension was AUD 411, increasing to AUD 422 in

Pension modelling results: Australia



Source: OECD, based on information provided by the countries.

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March 2002 and AUD 429 in September 2002. (All values have been rounded to the nearest dollar.) This gives an average for the calendar year of an annual benefit of AUD 10 984, equivalent to around a quarter of average earnings.

The age pension is withdrawn once annual income from other sources exceeds a threshold known as the "free area". This is adjusted annually in July. The values for 2002 were AUD 112 in the first half and AUD 116 in the second half of the year (again calculated fortnightly). The calendar year figure for 2002 was therefore AUD 2 964, or around 7% of average earnings. The withdrawal rate is 40%. There is also an assets test. However, over 90% of pensioners affected have their benefits reduced by the income rather than the assets test (and so it has been assumed in the modelling that the income test is binding). Around a third of pensioners have their benefit reduced by the means test, with the other two-thirds on the full age pension.

The age pension's value is increased in line with prices, but where necessary a special further increase is made to ensure that it does not fall below 25% of pre-tax male total average weekly earnings on the national definition (which is slightly different from the average production worker's earnings used for all countries in OECD analysis).

Personal income tax and social security contributions

Taxation of pensioners

Older Australians are entitled to two personal tax concessions in addition to the standard reliefs.

A credit (the senior Australians tax offset) is available for those of pensionable age (see under qualifying conditions above) who also satisfy a residency test. This is AUD 2 230 for singles in 2002 with income up to an income threshold of AUD 20 000 and is withdrawn at a rate of 12.5% for income in excess of the threshold. The credit is therefore fully withdrawn for incomes of AUD 37 840 and above.

There is a credit for pensioners in receipt of certain pension income (the pensioner tax offset) which has different eligibility criteria from the senior Australians tax offset. It is not possible to claim both of these offsets and the former is more generous for those eligible for both.

The effect of the credit is that all those receiving the full rate of the government pension will have no net income tax liability, and most of those who receive a part pension will have a reduced liability. The credit is non-refundable; it cannot create a negative tax liability.

Taxpayers eligible for the senior Australians tax offset benefit from a higher value of the low-income Medicare levy threshold (AUD 20 500). This means that pensioners receiving the full amount of the offset will pay no Medicare levy. The normal rate of the levy is 1.5% of income.

Taxation of private pensions

The superannuation guarantee has a complex tax treatment, with some tax extracted at all three possible stages: when contributions are made, when investment returns are earned and when benefits are withdrawn.

A 15% tax is levied on employer contributions to the fund. A superannuation surcharge is also applied to contributions for higher-income workers. The rate of the surcharge is determined by the degree to which earnings exceed a threshold. For 2002, the annual average of this threshold was an adjusted taxable income of AUD 87 885 (AUD 85 242 in the first half and AUD 90 527 in the second). For each of a set amount that earnings are above this threshold, the surcharge rate increases by one percentage point. The 2002 average of this amount, known as the "divisor", was AUD 1 257 (AUD 1 219, AUD 1 295 in each half of the year). The maximum surcharge is 15%. The threshold where the superannuation surcharge first applies is worth around 1.9 times average earnings and the full 15% rate applies once earnings reach 2.3 times the average. The superannuation surcharge (for defined-contribution schemes) is imposed on contributions to the superannuation account (and certain transfers into the fund). Although formally paid by the provider, the modelling assumes that this reduces the amount going into the individual pension account.

Investment earnings of the superannuation fund are taxed, again at 15%. (However, the effective tax rate may be lower through imputation credits and the capital-gains-tax discount.)

Benefits are taxable at normal rates on withdrawal, but subject to a 15% rebate. (However, the first AUD 1 000 does not attract a rebate.) The rebate is also subject to a "reasonable benefit limit". For 2003, this lifetime limit was generally AUD 562 195. There is a higher limit for people withdrawing at least half of benefits as an annuity that meets certain conditions. This higher limit is around twice the level of the first: AUD 1 124 384 in 2003. These ceilings are indexed to earnings. The proportion of the pension attracting the rebate is the proportion of the total within the reasonable benefit limit.

The reasonable benefit limit has not been modelled. The modelling gives the accumulated balance in the superannuation fund as around AUD 630 000 at the time of retirement for people earning the maximum amount on which employers must contribute. The assumption that benefits are withdrawn as a price-indexed annuity means that this is below the reasonable benefit threshold.

Social security contributions paid by pensioners

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

Pension modelling results: Australia

Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	2.5
Gross pension level	32.5	36.3	40.0	47.5	52.4	54.7
(% of average earnings)						
Net pension level	42.6	47.5	52.4	59.2	62.3	64.0
(% of average net earnings)						
Gross replacement rate	65.1	48.4	40.0	31.7	26.2	21.9
(% of individual earnings)						
Net replacement rate	77.0	61.2	52.4	43.1	36.5	31.3
(% of individual net earnings)						
Gross pension wealth	5.7	6.2	6.7	7.7	8.3	8.6
(multiple of average earnings)	*6.7*	*7.2*	*7.8*	*8.9*	*9.6*	*10.0*
Net pension wealth	7.5	8.1	8.8	9.6	9.9	10.1
(multiple of average net earnings)	*8.8*	*9.5*	*10.2*	*11.1*	*11.5*	*11.7*

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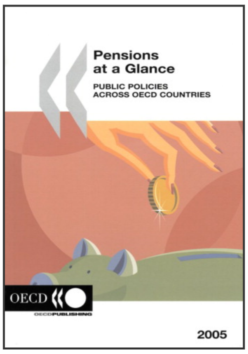

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