Australian Government
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Superannuation Savings across Couples: Insights from Taxation Data

Presentation to Australian Gender Economics Workshop

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Overview

- Today's presentation utilises recent ATO data at the couple level to consider implications for couples approaching retirement.
- 70 per cent of individuals in the 55-65 age group are coupled, and will have the opportunity to pool assets in retirement.
  - It is important to consider the possibility of this pooling when assessing adequacy.
  - This is not to dismiss the importance of discrepancies in assets between genders.
  - We will investigate both how pooling affects measures of adequacy; and how contribution patterns affect the distribution of assets within couples.

What system design means for couples superannuation

SYSTEM ARCHITECTURE

Superannuation: An individual system with scope for joint retirement planning

- System operates at level of individual accounts.
- While combined accounts are not available, this does not prevent couples from engaging in joint retirement planning.

Incentives based on current policy environment

- **Compulsory contributions:** proportional to income, so the higher income partner is naturally going to generate higher balance.
- **Voluntary Concessional:** Incentive is for partner in higher tax bracket to fill up their cap first, before secondary earner contributes. Exacerbates the disparity in balances.
- **Non-concessional:** Government co-contribution on first $1,000 provides some incentive for secondary earners (if low enough income). Otherwise does not provide incentive either way.

OUR EXCITING NEW DATA

Compulsory collection of spouse information in tax return and member contribution data began in 2013

Australian Government
Australian Taxation Office

Individual tax return **2013**

1 July 2012 to 30 June 2013

Please print neatly in BLOCK LETTERS with a black or blue ballpoint pen only.

Spouse details – married or de facto

If you had a spouse during 2012–13, you must complete **Spouse details – married or de facto**.
We need the information included in this section to assess your tax accurately.

If you did not have a spouse, go to page 8.

Your spouse's name

If you had more than one spouse during 2012–13 print the name of your spouse on 30 June 2013 or your last spouse.

Surname or family name

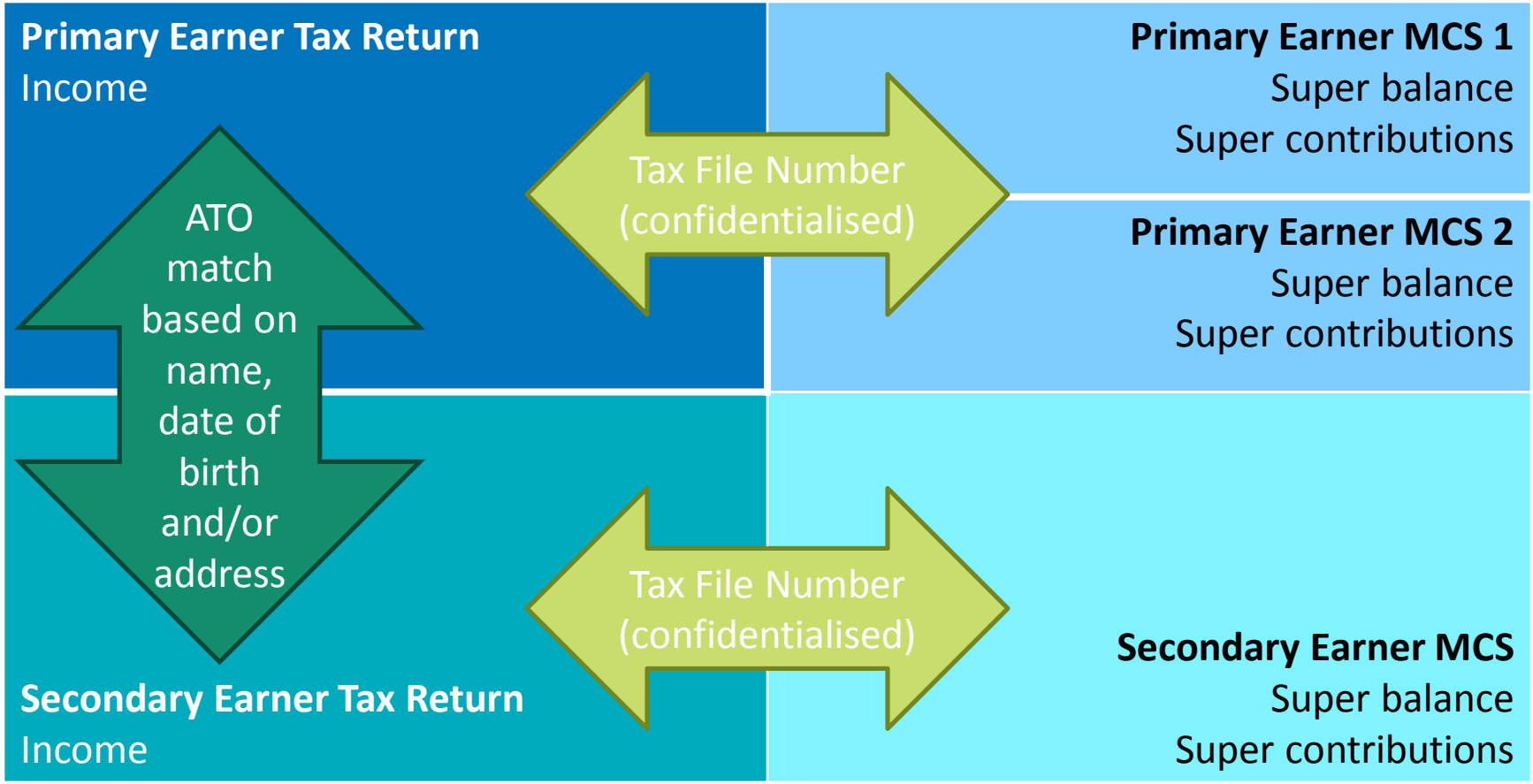
First given name

Other given names

Your spouse's date of birth K Day Month Year

Your spouse's sex Male Female

Data construction for a couple



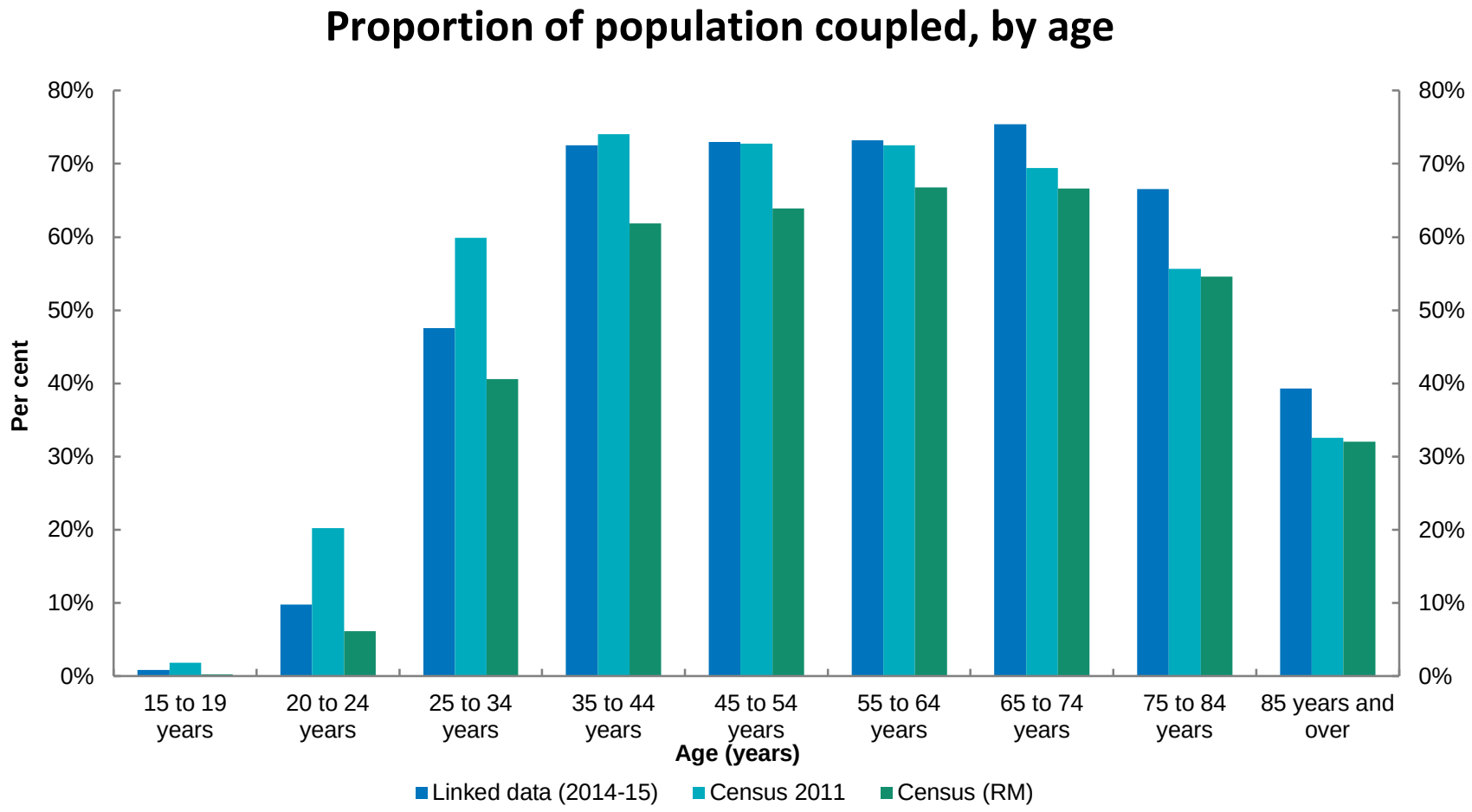
Match rates are pretty good

Did individual identify as coupled at some point during the year on their own tax return?	Did ATO match a spouse?	
	NO	YES
NO	91.8%	8.2%
YES	1.8%	98.2%

While overall match rates are pretty good, there appears to be some asymmetry in responses across some couples.

Source: ATO 2014-15 tax return and member contribution data.

Data corresponds fairly well with Census data especially in the 45-64 age range



Source: ATO 2014-15 tax return and member contribution data. 2011 ABS Census of Population and Housing.

POOLING OF ASSETS AND MEASURES OF ADEQUACY

Pooled super balances and adequacy

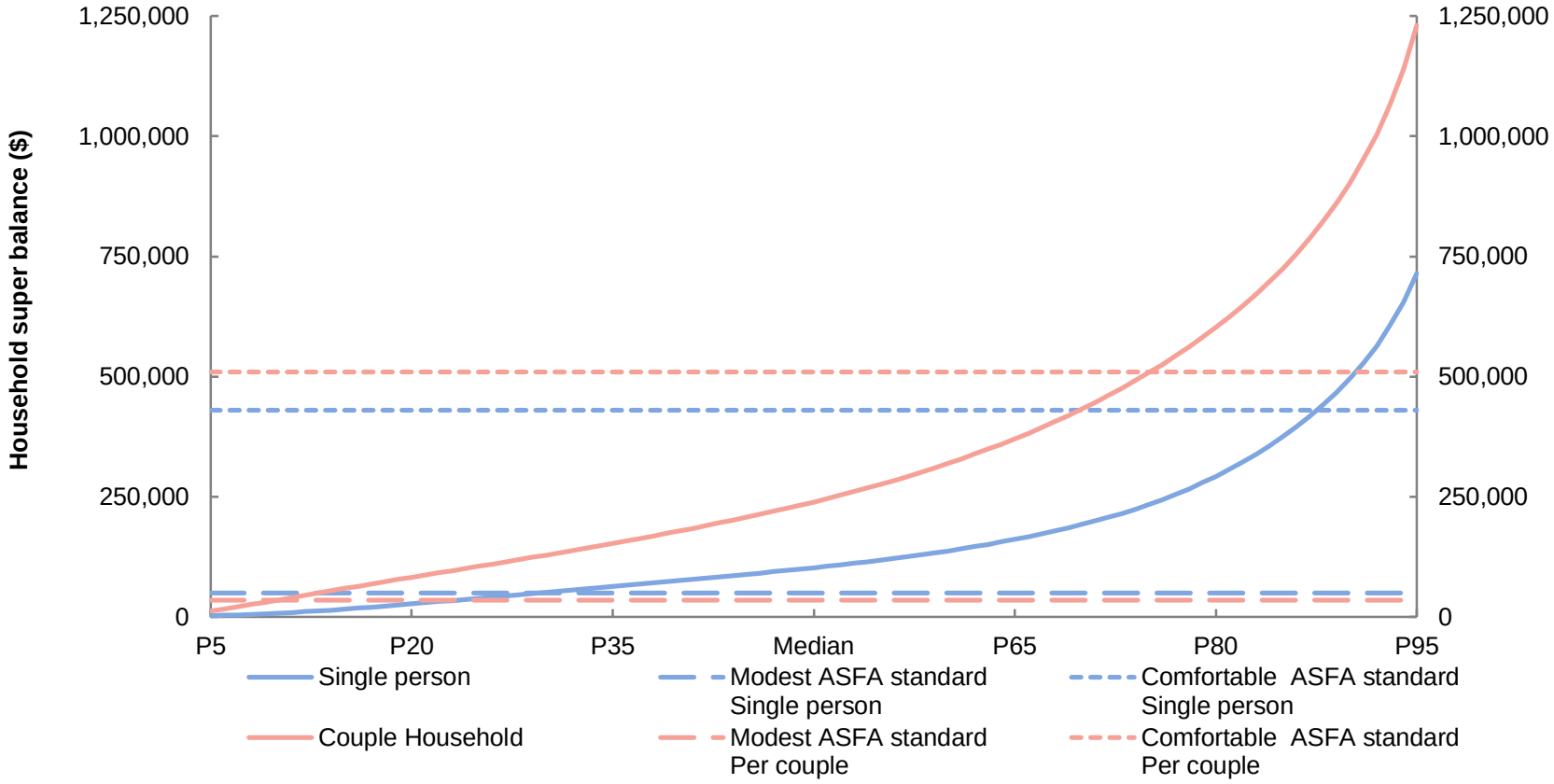
- Previous estimates of adequacy of super savings in retirement have relied on household survey data or super savings at the individual level.
- Our new dataset can add to the debate as it covers the full population with superannuation, so can investigate smaller populations, and is not subject to sampling error.
- However, admin data provides minimal visibility of other assets. This is a significant limitation in assessing adequacy as savings outside super (particularly housing) can have a significant impact in retirement adequacy.

Comparison with an absolute retirement standard

- We assess outcomes for households approaching retirement in our data against the lump sum *ASFA retirement standards* from November 2014.
- The standards give the balance of assets that together with the Age Pension can fund fixed standards of living in retirement for homeowner households.
- Because of the lack of information on assets outside superannuation, these results should <u>not</u> be interpreted as measuring the current adequacy of the retirement income system.

Coupled households fare better against absolute adequacy measures

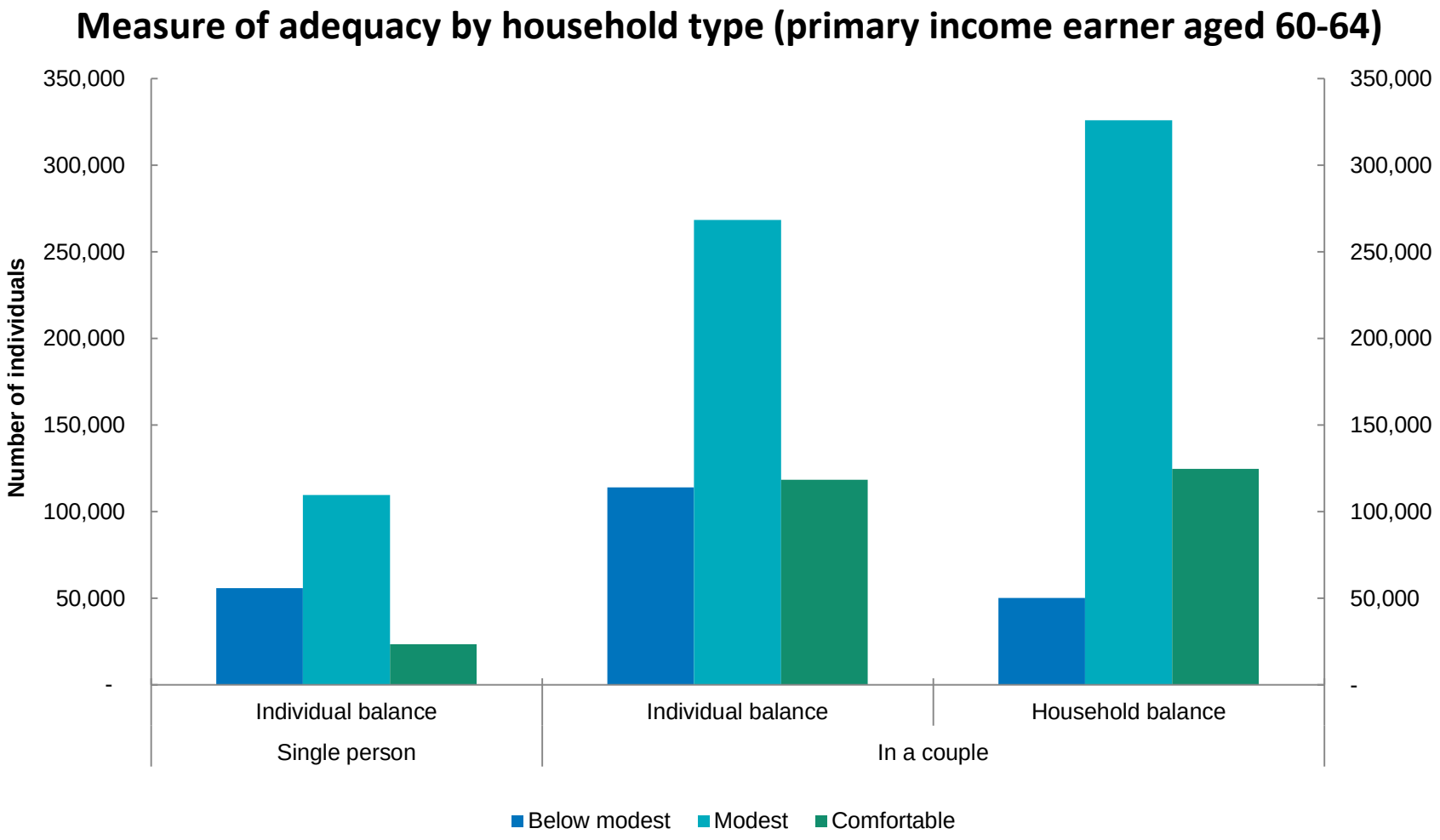
Distribution of household super balances (primary income earner aged 60-64)



Only includes couples with a positive combined superannuation balance where neither member of the couple has commenced a pension.

Source: ATO 2014-15 tax return and member contribution data.

This is in large part due to pooling



Source: ATO 2014-15 tax return and member contribution data. Only includes households with a positive superannuation balance where no member has commenced a pension and primary income earner aged 60-64.

CONTRIBUTIONS PATTERNS

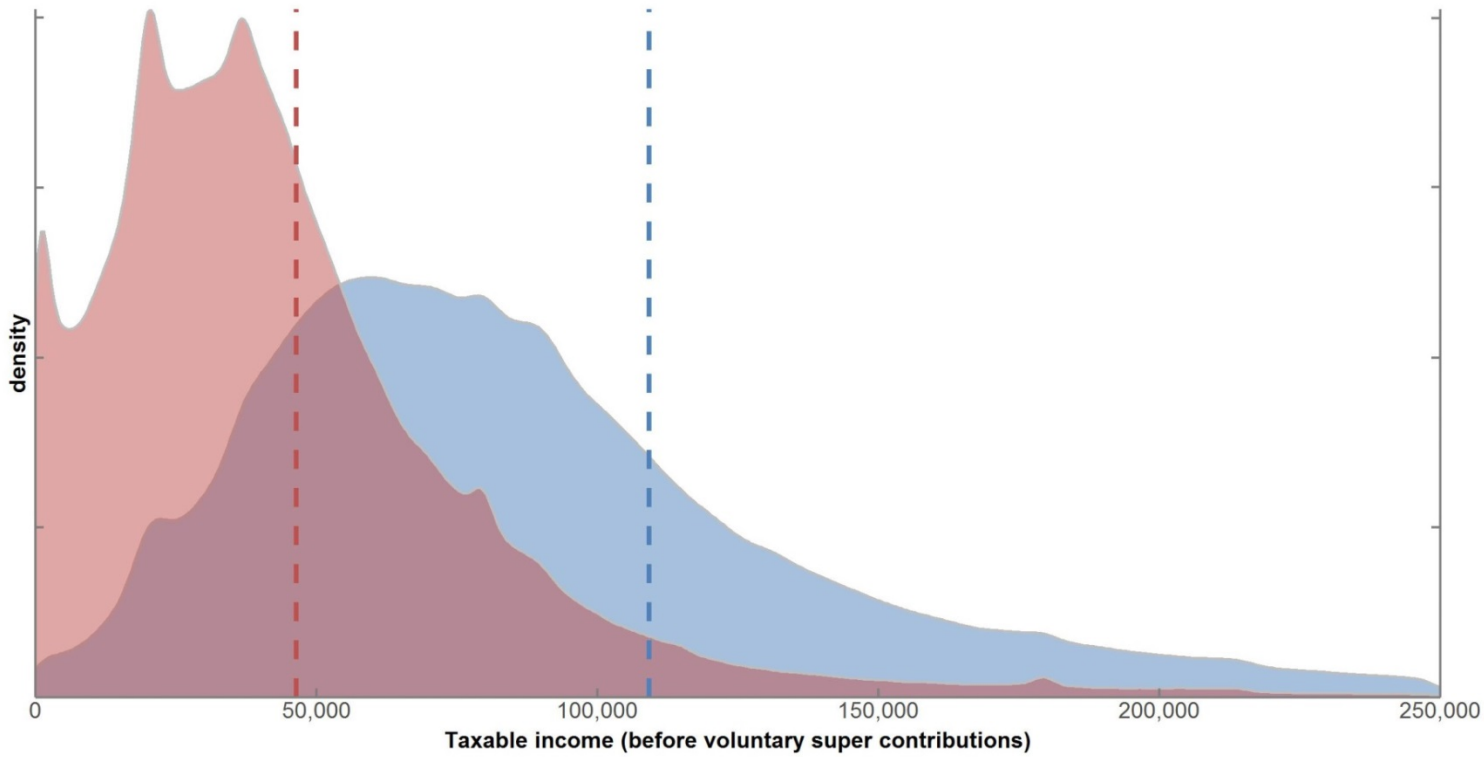
We focus on contributions of couples aged 45-64

- This corresponds with the ages where the rates of coupling in tax data is comparable with the Census data.
- It is also the age where rates of voluntary contributions begin to pick up.
- We only include data where both members of couple:
  - are in this age group;
  - have a super account; and
  - lodge a tax return.

Source: ATO 2014-15 tax return and member contribution data. Includes only individuals where both partners are aged 45-64 and lodged a tax return. For the purposes of this analysis individuals liable for Division 293 Tax are treated as a separate (highest) tax bracket.

Secondary earners are primarily female and have incomes below $50,000 per year

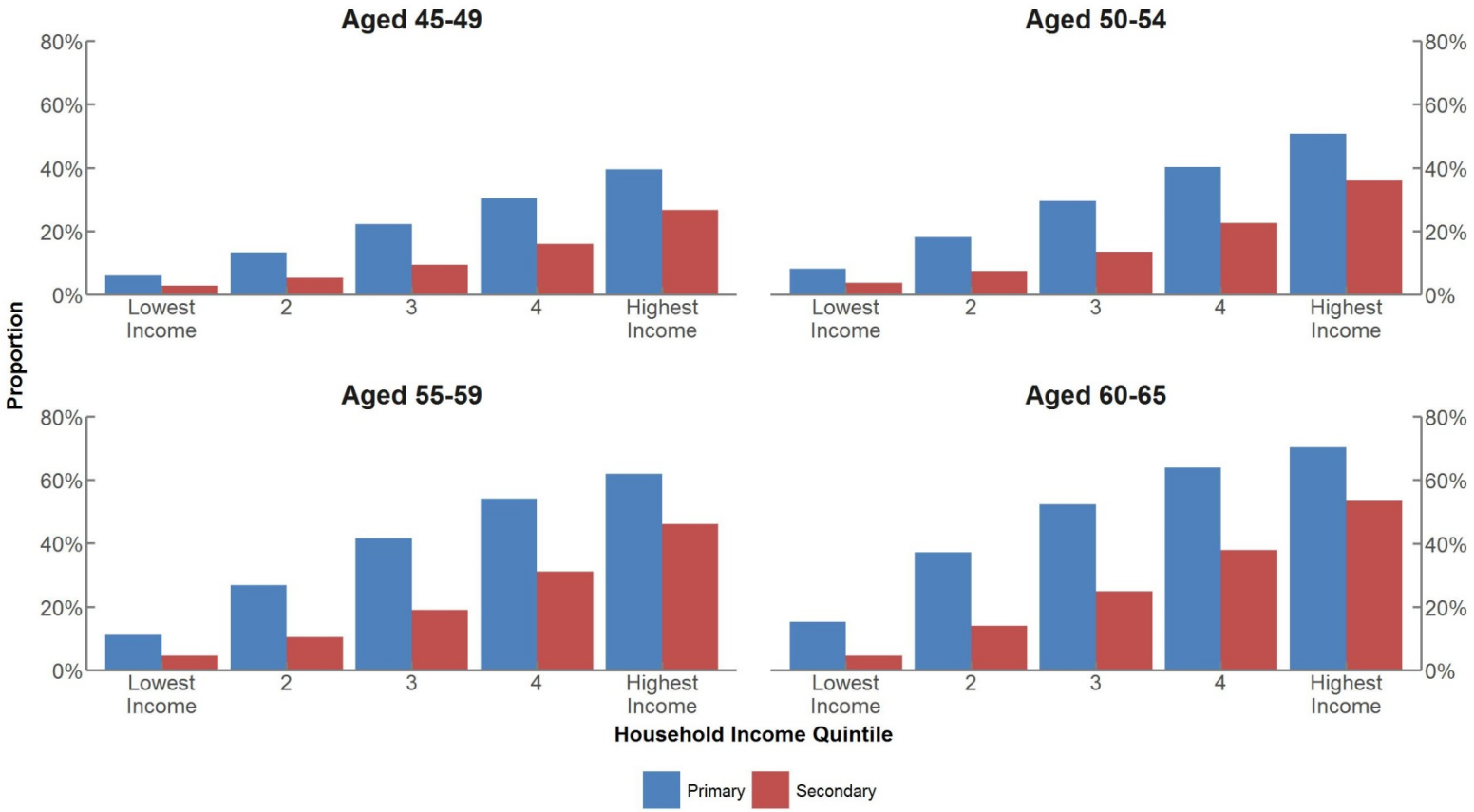
Income distribution 2014-15
(primary & secondary earners aged 45-64)



Source: ATO 2014-15 tax return and member contribution data. Includes only individuals where both partners are aged 45-64 and lodged a tax return.

Primary earners are much more likely to make voluntary concessional contributions

Proportion making voluntary concessional contributions, by age and household income



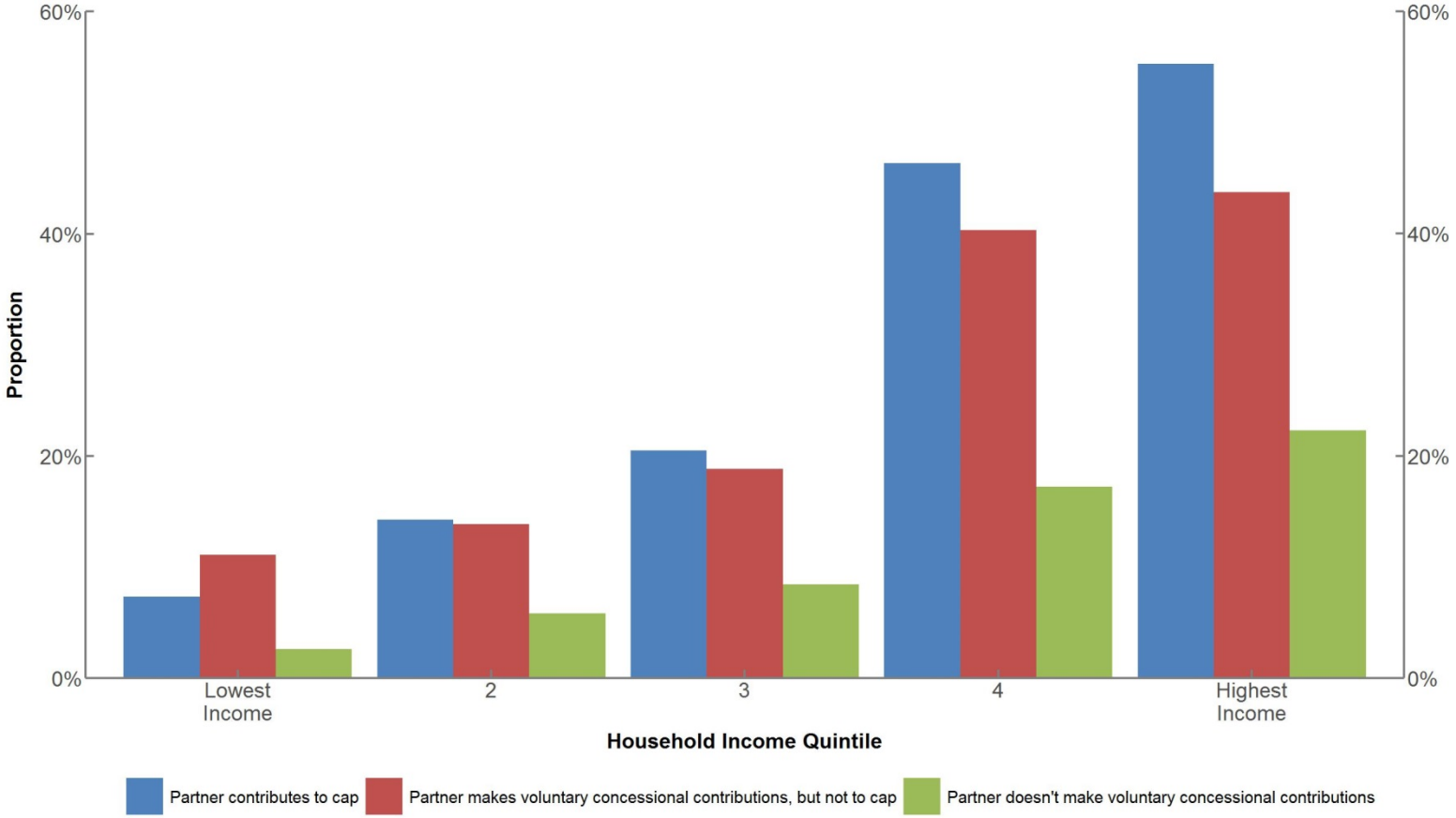
Source: ATO 2014-15 tax return and member contribution data. Includes only individuals where both partners are aged 45-64 and lodged a tax return. Household income quintile is calculated based on family ATI for couples in the sample.

Hypothesis: Households save to maximise their post tax savings

- Our prior: households want to save a certain amount of their income and will utilise the most tax effective savings vehicles available to do this.
  - In particular, the partner with the greater tax concession would fill up their concessional cap before their partner makes any concessional contributions.
- When access to a tax concessional savings vehicle is expanded we would expect saving to divert there from other sources.
  - In this case, increased concessional caps for the primary earner would reduce the concessional contributions of the secondary earner.

Secondary earners are more likely to voluntarily contribute if their partner does

Proportion of secondary earners making voluntary concessional contributions in 2014-15



Source: ATO 2014-15 tax return and member contribution data. Includes only individuals where both person and partner lodged a tax return. Only includes secondary earners in lower tax bracket than partner.

Do changes in concessional contributions cap affect rates of voluntary contributions?

- Concessional contributions caps changed for subgroups of the population over the period 2012-13 to 2014-15.
- We use this to conduct a "natural experiment".

Year	Aged under 50	Aged 50-59	Aged 60 and over
2012-13	$25,000	$25,000	$25,000
2013-14	$25,000	$25,000	$35,000
2014-15	$30,000	$35,000	$35,000
	↑ Control group	↑ Treatment groups	↑

Changes in concessional caps seems to have minimal effect on secondary earner concessional contributions rates…

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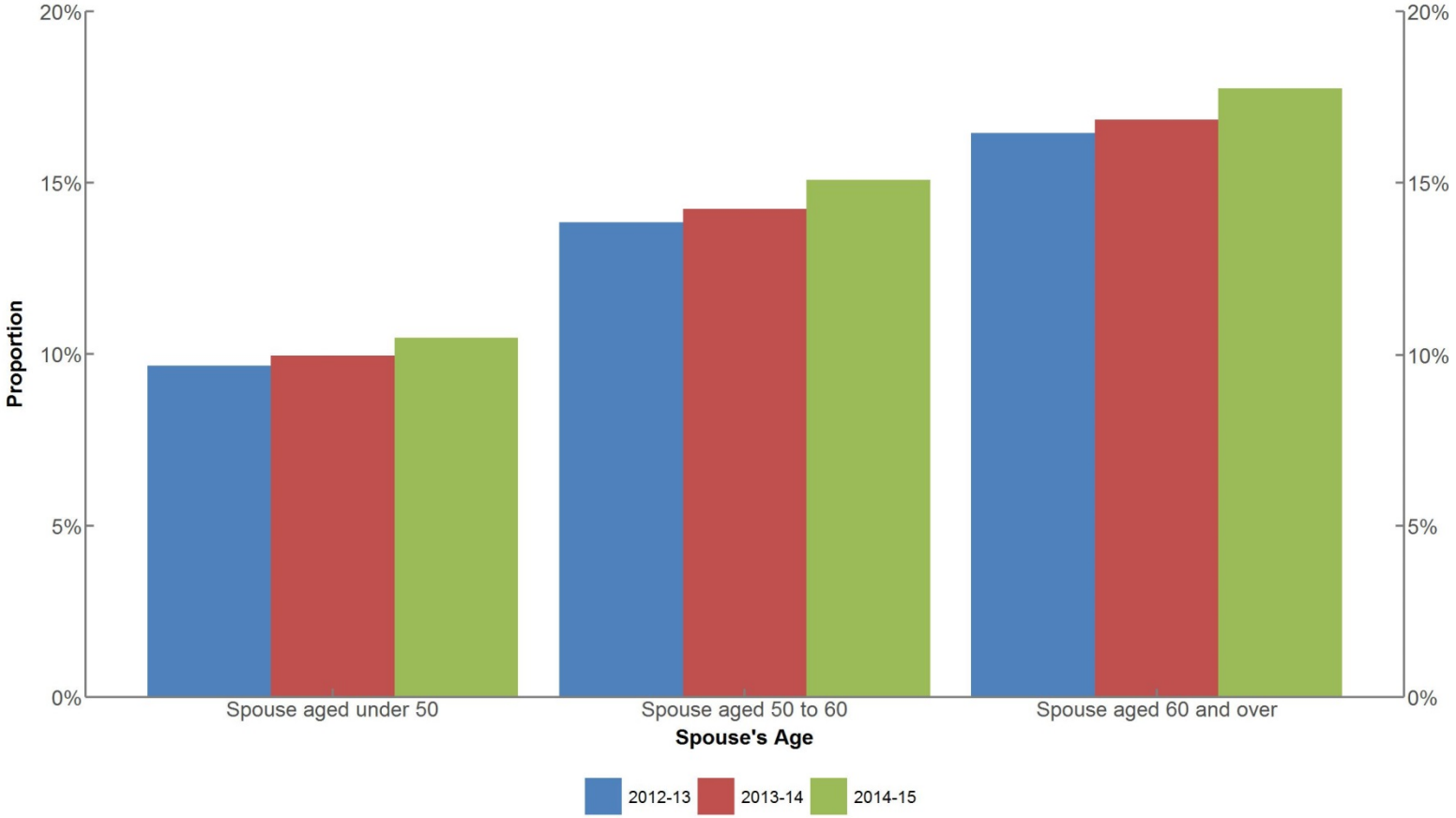
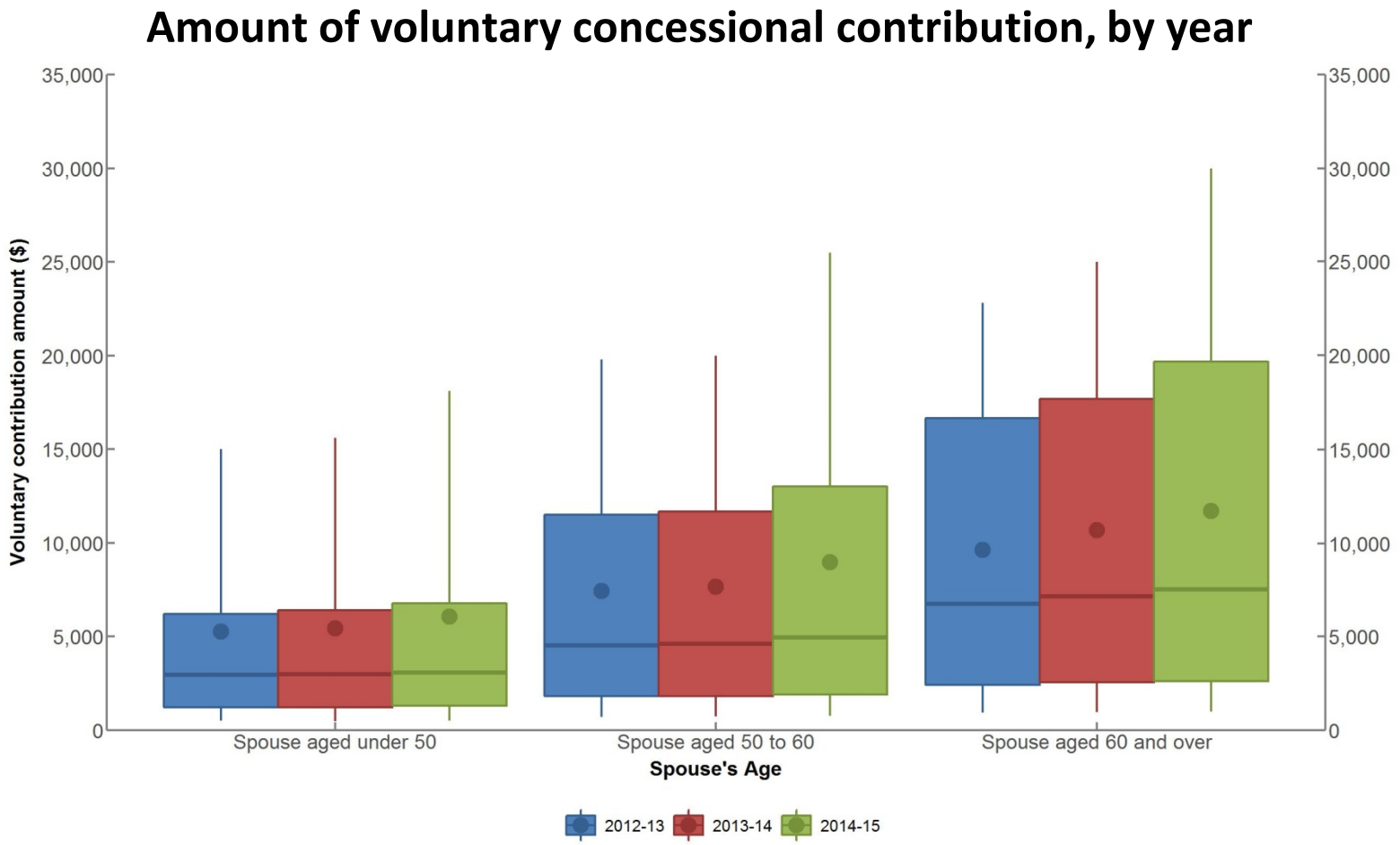
Proportion of secondary earners voluntarily contributing, by year



Source: ATO tax return and member contribution data. Only includes secondary earners in lower tax bracket than partner, space in cap and both person and partner lodged a tax return.

… or contributed amounts



Source: ATO tax return and member contribution data. Only includes secondary earners in lower tax bracket than partner, who made a voluntary contribution and both person and partner lodged a tax return.

Regression analysis supports this finding

- We ran a logistic regression on the probability of secondary earners contributing, controlling for age, gender, tax bracket of person and partner, household income.
  - Regression coefficients indicate likelihood of a secondary earner contributing increases if:
    - older
    - smaller difference in tax concession between person and partner,
    - higher income household
- No statistically significant evidence of higher partner cap reducing secondary earner's probability of contributing.

Source: Treasury calculations on ATO tax return and member contribution data. Model specification and regression results available upon request.

CONCLUSIONS

Conclusions

- Data quality seems good, particularly in cohort where voluntary super contributions are most prevalent.
- Considering adequacy at the household level increases the number of coupled individuals that meet ASFA standards.
- Examination of contributions data suggests that tax concessions do drive who makes voluntary contributions.
- However, split of contributions does not appear to be sensitive to level of contributions cap.
  - Would be interesting to repeat “experiment” in response to fall in contributions cap in 2017-18.

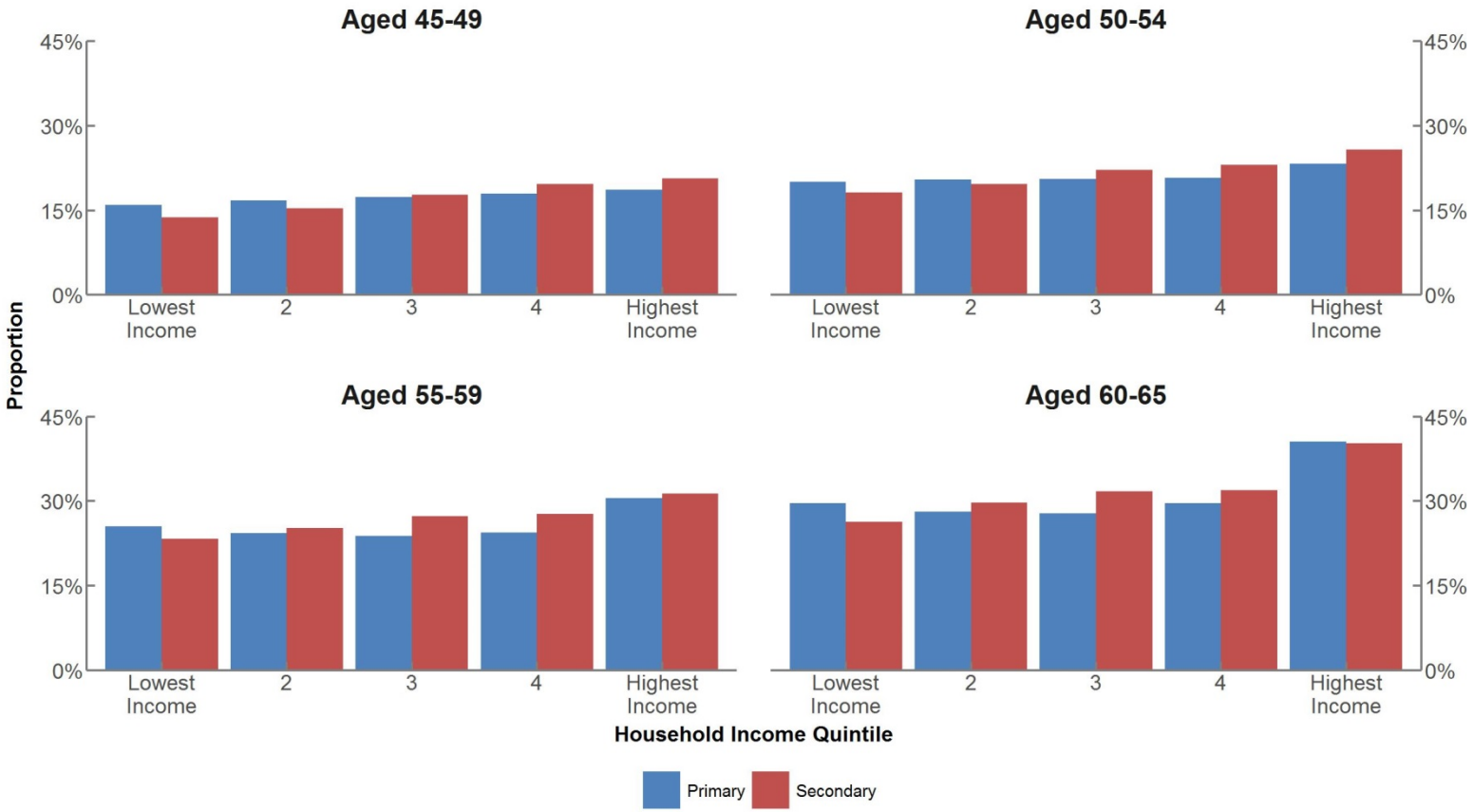
Future work with the data

- Some ideas for other projects with the data:
  - Examine contributions recycling strategies
    - Maximise tax-free component, to minimise tax on death benefits paid to non-dependents
    - Rebalancing prior to introduction of transfer balance cap
  - Examine benefit rollover data to determine utilisation of contributions splitting
  - Distributional analysis of Government assistance by household income

NON-CONCESSIONAL CONTRIBUTIONS

Incidence of non-concessional contributions is more evenly distributed

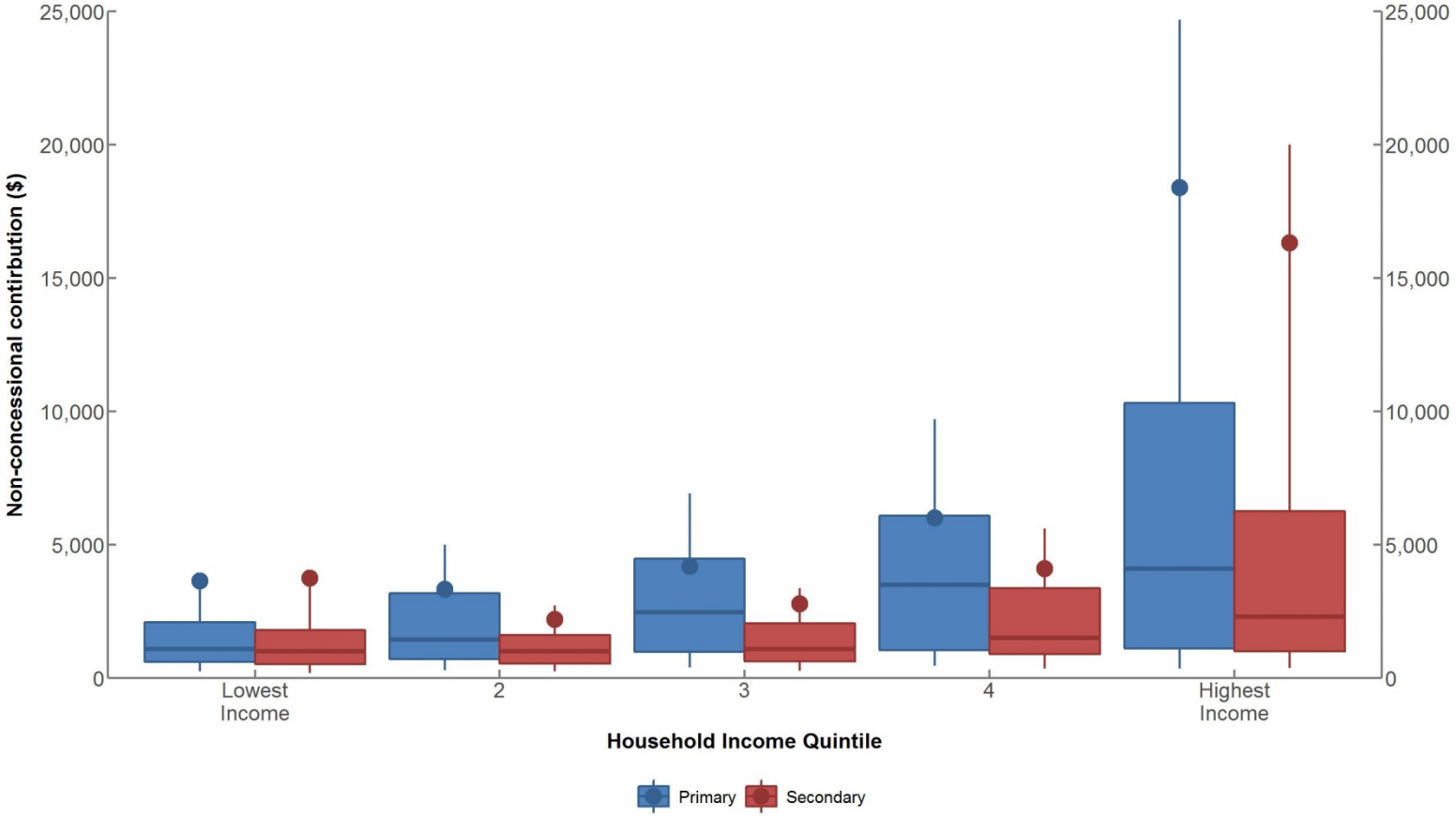
Proportion making non-concessional contributions in 2014-15, by age and household income



Source: ATO 2014-15 tax return and member contribution data. Includes only individuals where both partners are aged 45-64 and lodged a tax return. Household income quintile is calculated based on family ATI for couples in the sample.

In younger cohorts, primary earners are more likely to make larger contributions

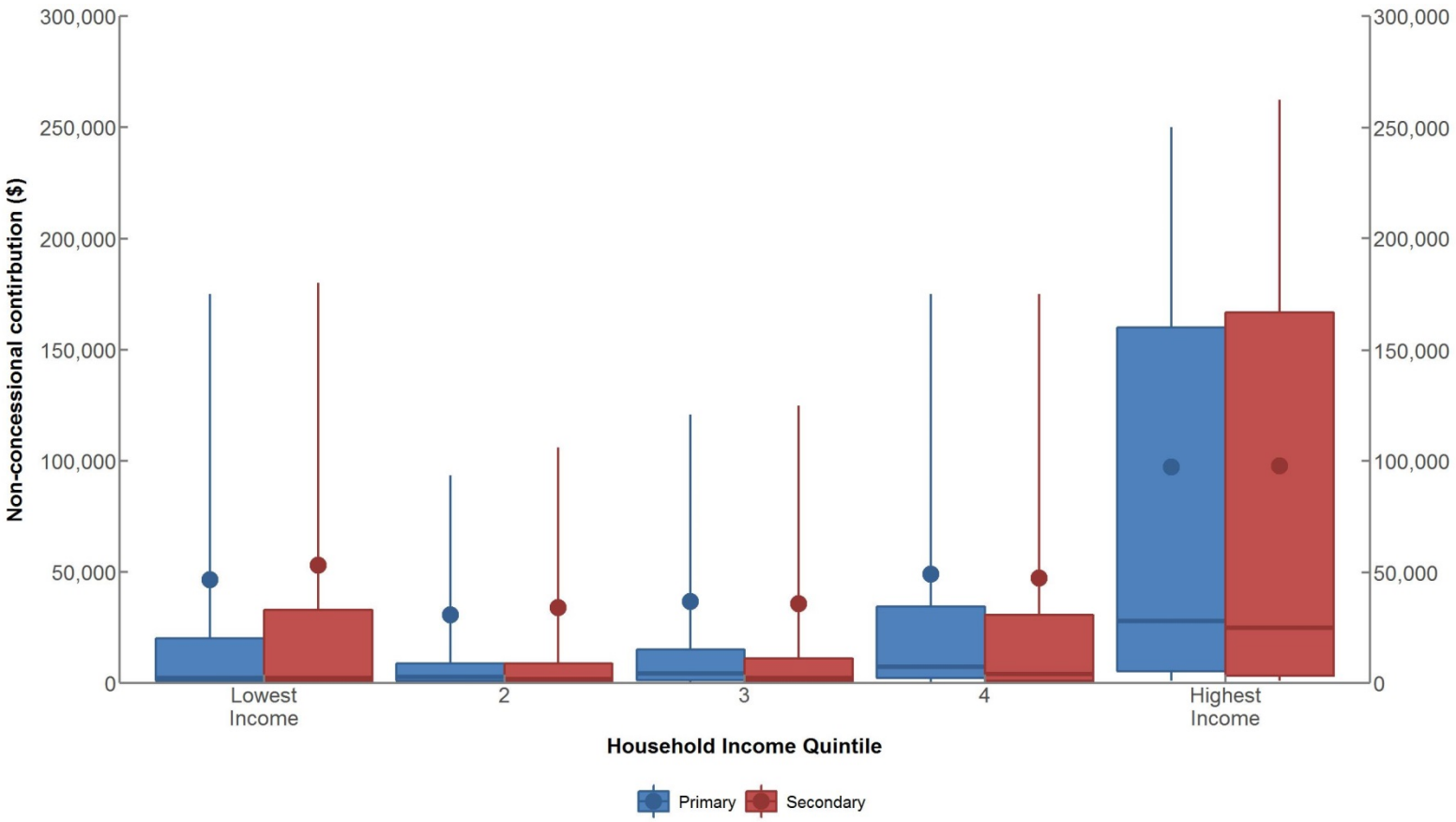
Amount of non-concessional contributions in 2014-15, individuals aged 45-49, by household income



Source: ATO 2014-15 tax return and member contribution data. Only includes individuals making NCC and where person is coupled and both person and partner aged between 45 and 64 and lodge a tax return.

In older cohorts, amounts are larger and there is a more even split

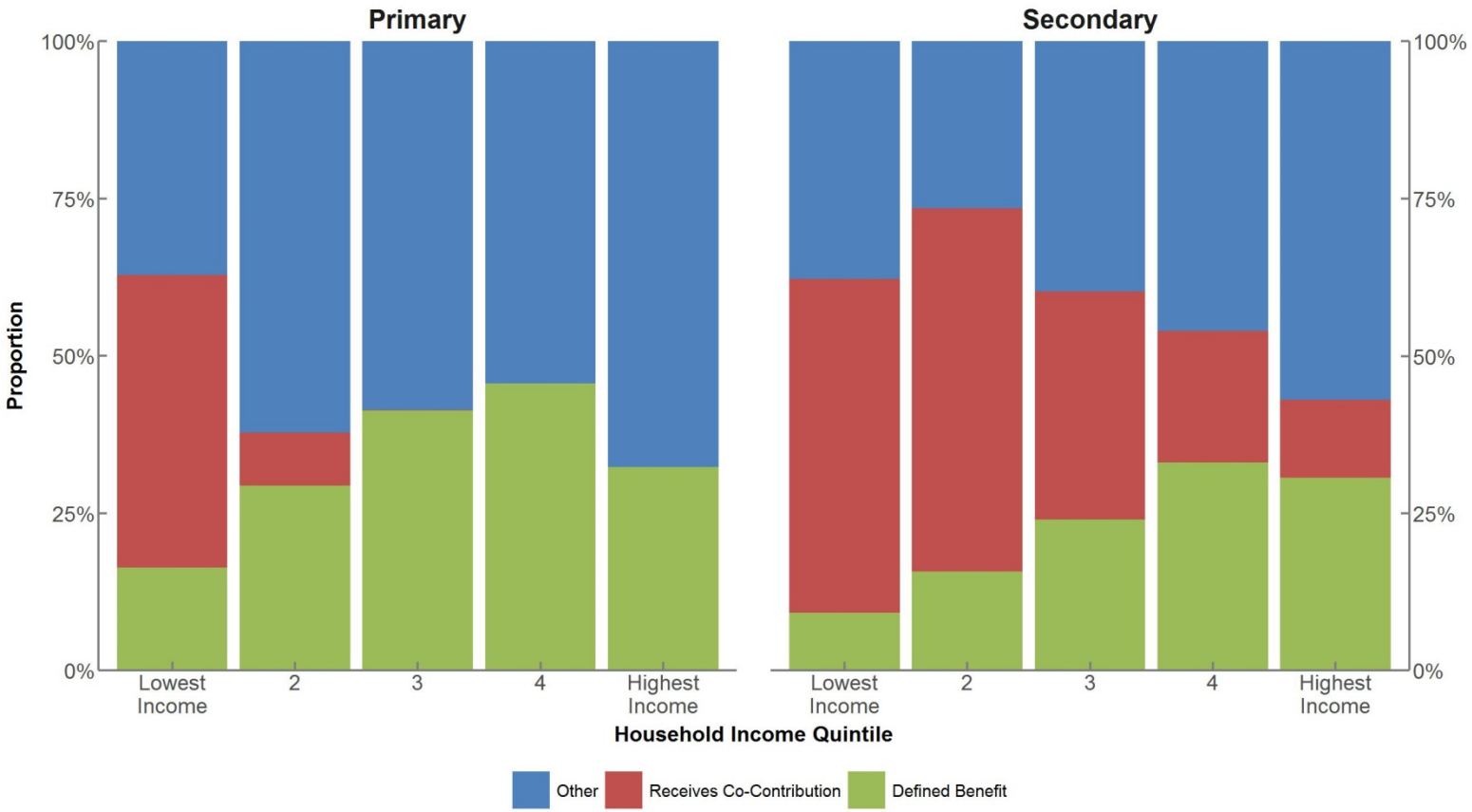
Amount of non-concessional contributions in 2014-15, individuals aged 60-64, by household income



Source: ATO 2014-15 tax return and member contribution data. Includes only individuals where both partners are aged 45-64 and lodged a tax return. Household income quintile is calculated based on family ATI for couples in the sample.

Co-contribution mainly supports low income secondary earners

Incentives to make non-concessional contributions, by primary/secondary earner



Source: ATO 2014-15 tax return and member contribution data. Includes only individuals where both partners are aged 45-64 and lodged a tax return. Household income quintile is calculated based on family ATI for couples in the sample.