



Fiscal and Household Impact of excluding complying assets from the pension asset test

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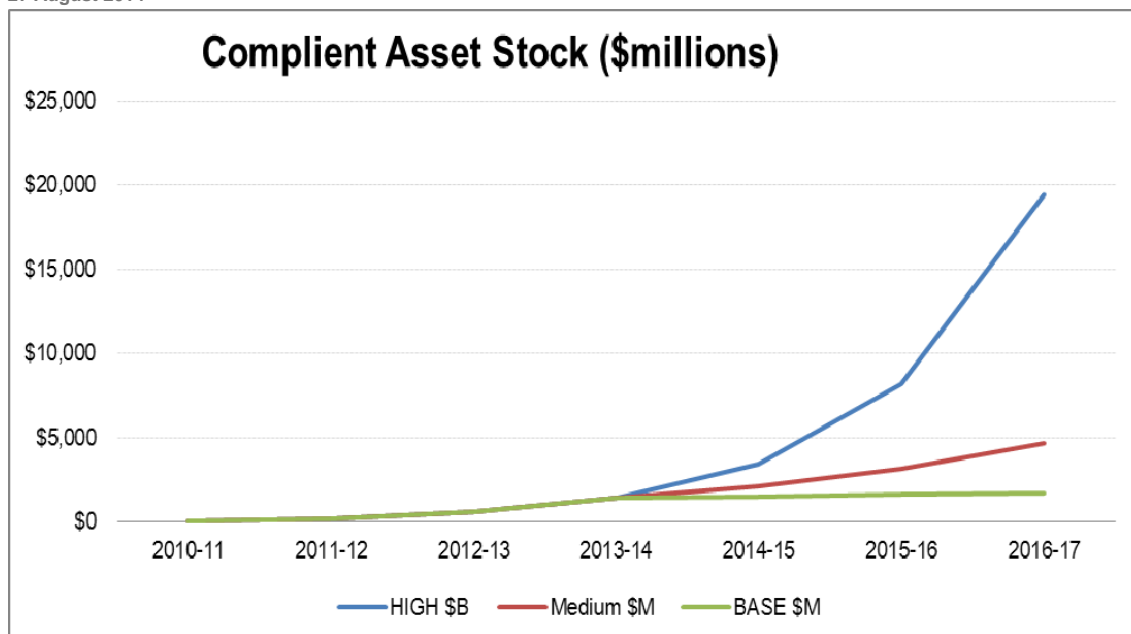
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Background: Currently new sales of assets with ‘complying income stream’ status are included in the assets test for the aged pension. Complying assets are currently only a relatively small element of the total stock of retirement income streams, however they are an asset class that is growing rapidly. It would be expected that if these annuity income streams were removed, or partially removed, from the aged pension asset test then there would be a behavioural response and growth would be much stronger. This research outlines the method and results for a range of scenarios for the household and fiscal impact of such a policy change.

Method: We use NATSEM’s STINMOD model of the Australian tax and transfer system to estimate the impact on pensions and other fiscal impacts through government payments and taxation. STINMOD is designed to estimate such impacts over the current year and ‘forward estimates’. NATSEM therefore estimates impacts from 2013-14 to 2016-17.

NATSEM modelled a range of scenarios for the exclusion – 100%, 50%, 40%, 30%, 25%, and 20% where the exclusion relates to the share of the asset that is excluded from the assets test. For each scenario NATSEM estimated a ‘base’, ‘medium’ and ‘high’ take up of the complying asset class through the forward estimates.

For 2013-14 we assume a constant number of families with complying assets for each level of take-up. For the Base scenario we assume growth for the asset that takes the base in 2013-14 from \$1.4B to grow at a rate commensurate with growth in the aged 65 plus population plus inflation. For the medium scenario we assume growth in the asset to \$19B by 2019-20 and a high scenario with growth in the asset of 136% per year. This high growth scenario is a projection of actual growth over the last 4 years from a very low base. The growth scenario is provided in the chart below with reference to the forward estimates.



To implement the various scenarios we assign the required assets to families aged 65 plus on the STINMOD basefile in a random manner until the sum of the assets equals the desired total. We did this by re-assigning a family’s super assets to a complying asset. Complying assets were either fully excluded from the pension assets test or partially excluded as determined by the scenario type.

Results: The table below outlines the full set of results. For the base scenario with 100% exclusion we find that pension liabilities increase by around \$18M in 2013-14, increasing to \$22.5M by 2016-17 for a total pension increase over the forward estimates of \$80.9M. There is a very small increase in taxation for an overall fiscal impact of -\$80.6M. For the ‘high’ take-up case the fiscal impact is significantly larger at \$430M over the forward estimates.

The results for the lower rates of exclusion are roughly in proportion, so that a 50 per cent exclusion reduces the fiscal impact by a half to \$215M for the ‘high’ take-up and \$40.3M for the ‘low’ case.

Conclusion: The current complying asset stock is relatively small, however it is growing quickly. The analysis provides a number of scenarios for the asset class were the means testing rules around complying assets to be relaxed. We do find that under each scenario there are modest increases in the aged pension as pensioners increase their pension levels. The median growth scenario shows around 17,765 families taking up the complying asset, with an increase in pension outlays of around \$149M over the forward estimates for a roughly equivalent fiscal impact. We find that the fiscal impact is proportional to the exclusion rate, so a 50% exclusion rate halves the fiscal impact. For the high scenario the fiscal impact is \$430M and for the base scenario \$80.6M (assuming full exclusion from asset test).

High

100% Exclusion	2013-14	2014-15	2015-16	2016-17	Forwards
Pension Increase	\$18,046,838	\$44,236,884	\$107,771,647	\$261,747,137	\$431,802,506
Tax Increase	\$55,440	\$135,896	\$331,074	\$804,087	\$1,326,497
Fiscal Impact	-\$17,991,398	-\$44,100,988	-\$107,440,572	-\$260,943,050	-\$430,476,008

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Families Impacted	5,512	13,180	31,328	74,230	
Average Family Impact	\$3,264	\$3,346	\$3,430	\$3,515	
Medium					
100% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$18,046,838	\$27,324,885	\$41,372,862	\$62,643,035	\$149,387,619
Tax Increase	\$55,440	\$83,942	\$127,097	\$192,439	\$458,919
Fiscal Impact	-\$17,991,398	-\$27,240,943	-\$41,245,764	-\$62,450,595	-\$148,928,700
Families Impacted	5,512	8,141	12,026	17,765	
Average Family Impact	\$3,264	\$3,346	\$3,430	\$3,515	
Base					
100% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$18,046,838	\$19,422,909	\$20,903,906	\$22,497,829	\$80,871,481
Tax Increase	\$55,440	\$59,667	\$64,217	\$69,113	\$248,437
Fiscal Impact	-\$17,991,398	-\$19,363,242	-\$20,839,689	-\$22,428,715	-\$80,623,044
Families Impacted	5,512	5,787	6,076	6,380	
Average Family Impact	\$3,264	\$3,346	\$3,430	\$3,515	
High					
50% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$9,023,419	\$22,118,442	\$53,885,823	\$130,873,569	\$215,901,253
Tax Increase	\$27,720	\$67,948	\$165,537	\$402,044	\$663,249
Fiscal Impact	-\$8,995,699	-\$22,050,494	-\$53,720,286	-\$130,471,525	-\$215,238,004
Families Impacted	5,512	13,180	31,328	74,230	
Average Family Impact	\$1,632	\$1,673	\$1,715	\$1,758	
Medium					
50% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$9,023,419	\$13,662,442	\$20,686,431	\$31,321,517	\$74,693,810
Tax Increase	\$27,720	\$41,971	\$63,549	\$96,220	\$229,459
Fiscal Impact	-\$8,995,699	-\$13,620,471	-\$20,622,882	-\$31,225,298	-\$74,464,350
Families Impacted	5,512	8,141	12,026	17,765	
Average Family Impact	\$1,632	\$1,673	\$1,715	\$1,758	
Base					
50% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$9,023,419	\$9,711,455	\$10,451,953	\$11,248,914	\$40,435,741
Tax Increase	\$27,720	\$29,834	\$32,108	\$34,557	\$124,219
Fiscal Impact	-\$8,995,699	-\$9,681,621	-\$10,419,845	-\$11,214,358	-\$40,311,522
Families Impacted	5,512	5,787	6,076	6,380	
Average Family Impact	\$1,632	\$1,673	\$1,715	\$1,758	
High					
40% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$7,218,735	\$17,694,754	\$43,108,659	\$104,698,855	\$172,721,002
Tax Increase	\$22,176	\$54,358	\$132,430	\$321,635	\$530,599
Fiscal Impact	-\$7,196,559	-\$17,640,395	-\$42,976,229	-\$104,377,220	-\$172,190,403
Families Impacted	5,512	13,180	31,328	74,230	
Average Family Impact	\$1,306	\$1,338	\$1,372	\$1,406	
Medium					

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40% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$7,218,735	\$10,929,954	\$16,549,145	\$25,057,214	\$59,755,048
Tax Increase	\$22,176	\$33,577	\$50,839	\$76,976	\$183,568
Fiscal Impact	-\$7,196,559	-\$10,896,377	-\$16,498,306	-\$24,980,238	-\$59,571,480
Families Impacted	5,512	8,141	12,026	17,765	
Average Family Impact	\$1,306	\$1,338	\$1,372	\$1,406	
Base					
40% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$7,218,735	\$7,769,164	\$8,361,562	\$8,999,131	\$32,348,593
Tax Increase	\$22,176	\$23,867	\$25,687	\$27,645	\$99,375
Fiscal Impact	-\$7,196,559	-\$7,745,297	-\$8,335,876	-\$8,971,486	-\$32,249,218
Families Impacted	5,512	5,787	6,076	6,380	
Average Family Impact	\$1,306	\$1,338	\$1,372	\$1,406	
High					
30% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$5,414,051	\$13,271,065	\$32,331,494	\$78,524,141	\$129,540,752
Tax Increase	\$16,632	\$40,769	\$99,322	\$241,226	\$397,949
Fiscal Impact	-\$5,397,419	-\$13,230,296	-\$32,232,172	-\$78,282,915	-\$129,142,803
Families Impacted	5,512	13,180	31,328	74,230	
Average Family Impact	\$979	\$1,004	\$1,029	\$1,055	
Medium					
30% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$5,414,051	\$8,197,465	\$12,411,859	\$18,792,910	\$44,816,286
Tax Increase	\$16,632	\$25,183	\$38,129	\$57,732	\$137,676
Fiscal Impact	-\$5,397,419	-\$8,172,283	-\$12,373,729	-\$18,735,179	-\$44,678,610
Families Impacted	5,512	8,141	12,026	17,765	
Average Family Impact	\$979	\$1,004	\$1,029	\$1,055	
Base					
30% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$5,414,051	\$5,826,873	\$6,271,172	\$6,749,349	\$24,261,444
Tax Increase	\$16,632	\$17,900	\$19,265	\$20,734	\$74,531
Fiscal Impact	-\$5,397,419	-\$5,808,973	-\$6,251,907	-\$6,728,615	-\$24,186,913
Families Impacted	5,512	5,787	6,076	6,380	
Average Family Impact	\$979	\$1,004	\$1,029	\$1,055	
High					
25% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$4,511,709	\$11,059,221	\$26,942,912	\$65,436,784	\$107,950,626
Tax Increase	\$13,860	\$33,974	\$82,769	\$201,022	\$331,624
Fiscal Impact	-\$4,497,849	-\$11,025,247	-\$26,860,143	-\$65,235,762	-\$107,619,002
Families Impacted	5,512	13,180	31,328	74,230	
Average Family Impact	\$816	\$836	\$857	\$879	
Medium					
25% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$4,511,709	\$6,831,221	\$10,343,215	\$15,660,759	\$37,346,905
Tax Increase	\$13,860	\$20,986	\$31,774	\$48,110	\$114,730
Fiscal Impact	-\$4,497,849	-\$6,810,236	-\$10,311,441	-\$15,612,649	-\$37,232,175

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Families Impacted	5,512	8,141	12,026	17,765	
Average Family Impact	\$816	\$836	\$857	\$879	
Base					
25% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$4,511,709	\$4,855,727	\$5,225,976	\$5,624,457	\$20,217,870
Tax Increase	\$13,860	\$14,917	\$16,054	\$17,278	\$62,109
Fiscal Impact	-\$4,497,849	-\$4,840,810	-\$5,209,922	-\$5,607,179	-\$20,155,761
Families Impacted	5,512	5,787	6,076	6,380	
Average Family Impact	\$816	\$836	\$857	\$879	
High					
20% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$3,609,368	\$8,847,377	\$21,554,329	\$52,349,427	\$86,360,501
Tax Increase	\$11,088	\$27,179	\$66,215	\$160,817	\$265,299
Fiscal Impact	-\$3,598,280	-\$8,820,198	-\$21,488,114	-\$52,188,610	-\$86,095,202
Families Impacted	5,512	13,180	31,328	74,230	
Average Family Impact	\$653	\$669	\$686	\$703	
Medium					
20% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$3,609,368	\$5,464,977	\$8,274,572	\$12,528,607	\$29,877,524
Tax Increase	\$11,088	\$16,788	\$25,419	\$38,488	\$91,784
Fiscal Impact	-\$3,598,280	-\$5,448,189	-\$8,249,153	-\$12,490,119	-\$29,785,740
Families Impacted	5,512	8,141	12,026	17,765	
Average Family Impact	\$653	\$669	\$686	\$703	
Base					
20% Exclusion	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>Forwards</i>
Pension Increase	\$3,609,368	\$3,884,582	\$4,180,781	\$4,499,566	\$16,174,296
Tax Increase	\$11,088	\$11,933	\$12,843	\$13,823	\$49,687
Fiscal Impact	-\$3,598,280	-\$3,872,648	-\$4,167,938	-\$4,485,743	-\$16,124,609
Families Impacted	5,512	5,787	6,076	6,380	
Average Family Impact	\$653	\$669	\$686	\$703	