Pensions at a Glance 2023

Australia

Australia: Pension system in 2022

Australia's retirement income system has three components: a means-tested Age Pension funded through general taxation revenue; the superannuation guarantee, a compulsory employer contribution to private superannuation savings; and voluntary superannuation contributions and other private savings. Superannuation savings are encouraged through taxation concessions.

Key indicators: Australia

		Australia		OECD
Average worker earnings (AW)	AUD	94 685		59 484
	USD	65 678		41 261
Public pension spending	% of GDP	4.3		7.7
Life expectancy	At birth	83.6		80.7
	At age 65	86.7		84.6
Population over age 65	% of working-age population	28.6		31.3

Qualifying conditions

The Age Pension is payable from age 66 and 6 months for men and women. The Age Pension qualification age will increase to 67 on 1 July 2023. The minimum age for withdrawing superannuation benefits is 55 years for people born before 1 July 1960, but increases gradually for people born after that date, so that the minimum age is 60 for people born after 30 June 1964.

Benefit calculation

Defined contribution

The superannuation guarantee was introduced in 1992. It consists of a mandatory employer contribution to an employee's superannuation fund (a private pension plan). Superannuation funds may be operated by employers, industry associations and financial service companies or even by individuals themselves. The mandatory contribution rate was 9% of employee ordinary time earnings from 1 July 2002 until 30 June 2013. On 1 July 2013, the rate increased to 9.25%, before increasing again on 1 July 2014, to 9.5%. The rate remained at 9.5% until 30 June 2021. From July 2022, the rate is progressively increasing by 0.5 percentage points each year until it reaches 12% on 1 July 2025.

Formerly, employers need not contribute for workers earning less than AUD 450 a month, but this minimum threshold was removed for eligible employees from 1 July 2022. Employers need not also contribute for employees engaged in work of a private or domestic capacity (such as a nanny) for 30 hours or less per week or under the age of 18. There is also a maximum superannuation contribution base ceiling to the earnings covered by the superannuation guarantee. Employers need not contribute for employees' pay above this ceiling. For each quarter of the financial year 2021-22 this amount is AUD 58 920. The maximum superannuation contributions base is indexed in line with the average weekly ordinary time earnings each income year.

Low to middle-income earners who make personal after-tax (non-concessional) contributions to their superannuation fund may be eligible for the Government to make a matching 50 per cent co-contribution, up to a maximum of AUD 500. Contributors with annual incomes less than AUD 41 112 in 2021-22 are eligible for the full co-contribution. For each dollar of income earned above AUD 41 112, the maximum co-contribution is reduced by 3.333 cents, up to a higher annual income threshold of AUD 56 112, above which no co-contribution was payable. If the co-contribution payable for an eligible contributor is less than AUD 20 the amount is increased to AUD 20.

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 schemes. Members can withdraw the accumulated capital as a lump sum or as an income stream. In 2020-21, lump sum benefit payments were 59.4 per cent of total benefit payments, - and pension benefit payments were 40.6 per cent of total benefit payments. (Lump sum benefit payments were unusually high due to a temporary COVID-19 pre-retirement early release scheme.) For comparison with other countries, the capital from the superannuation guarantee is assumed to be converted to a price-indexed annuity.

Targeted safety net

The Age Pension is designed to provide a safety net for those unable to save enough through their working life and to supplement the retirement savings of others. An income test and an assets test (means tests) are used to target Age Pension payments to those most in need.

Australia’s Age Pension cannot be compared directly to benefits for the aged provided by other OECD countries, which are primarily aimed at income replacement or maintenance. Australia’s Age Pension has maximum rates of assistance set relative to need. Rates are not dependent on factors such as a person’s tax contributions or previous earnings. It aims to provide Australian seniors with an income adequate enough to support a basic, acceptable living standard. In addition to cash payments provided by the Age Pension, Australian seniors can be eligible for a comprehensive system of concessions and assistance for health, rent, pharmaceuticals and other living expenses. The Australian government provides taxation concessions to support private retirement incomes through its superannuation arrangements.

In September 2022, the maximum single rate of Age Pension with the Pension Supplement and Energy Supplement was AUD 1 026.50 a fortnight equal to an annual entitlement of AUD 26 689.00. The maximum rate for pensioner couples combined was AUD 1 547.60 a fortnight or AUD 40 237.60 a year.

The value of the Age Pension is adjusted biannually. The Age Pension’s value is increased in line with increases in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI), whichever is the greater. If necessary, pension rates are further increased to ensure the combined couple rate does not fall below 41.76% of national pre-tax Male Total Average Weekly Earnings. The single maximum basic rate of pension, excluding supplements, is 66.33% of the combined couple rate.

The Age Pension is reduced if annual income from other sources exceeds a threshold known as the ‘income free area’. This is adjusted annually in July to the growth in CPI. In 2022-23, the fortnightly income free areas are AUD 190 for a single pensioner and AUD 168 each for members of a couple (or AUD 336 for a couple combined). For each dollar of income over the income free area, the pension is reduced by 50 cents (the taper rate).

The Age Pension has a ‘Work Bonus’ income test concession designed to encourage people of pension age to continue to work. It allows pensioners to earn up to AUD 300 a fortnight without it being assessed as income under the income test. Pensioners who earn less than AUD 300 in a fortnight can accrue the unused amount of fortnightly concession up to AUD 7 800 to offset future employment income. From 1 December 2022 to 31 December 2023, a one-off, temporary credit of AUD 4 000 applies to Work Bonus accrual balances. The maximum accrual balance increases to AUD 11 800 over this period.

An assets test also applies. In 2022-23, the pension assets test thresholds for homeowners are AUD 280 000 for a single pensioner and AUD 419 000 for a couple combined. For non-homeowners the thresholds are AUD 504 500 for a single pensioner and AUD 643 500 for a couple combined. Assets above these amounts reduce the pension by AUD 3.00 per fortnight for every AUD 1 000 above the thresholds, for a single pensioner and for a couple combined. The family home is exempted from the assets test.

In September 2022, around 32% of all pensioners had their benefits reduced by the means test and are therefore on part-rate Age Pension. Within this group 54% had their pension reduced as a result of the income test and 46% as a result of the assets test. About 68% of pensioners are on the maximum rate Age Pension.

Rent Assistance is available for eligible private renters and community housing tenants whose rent exceeds a specified amount. It is paid as part of the pension payment and may be reduced by income and assets tests applying to that payment. The value of Rent Assistance is adjusted biannually in line with growth in the CPI and is paid fortnightly. In September 2022, the maximum rate of Rent Assistance for a single person with no dependent children was AUD 151.60 a fortnight. This gives an accrued maximum annual entitlement of AUD 3 941.60. The maximum rate of Rent Assistance for couples with no dependent children was AUD 142.80 a fortnight. This gives an accrued maximum annual entitlement of AUD 3 712.80 for a couple.

Rent thresholds below which Rent Assistance is not payable are also adjusted biannually. In September 2022, the minimum rent for a single person with no dependent children for which Rent Assistance was payable was AUD 135.40 a fortnight. The minimum rent for couples with no dependent children for which Rent Assistance was payable was AUD 219.20 a fortnight. Rent Assistance is paid at a rate of 75 cents for each dollar of rent paid above the rent threshold until the maximum rate is reached.

Rent Assistance is not payable to people renting from a government housing authority, or to residents of Australian Government funded nursing homes or hostels, and special rules apply to people living in a retirement village.

Concession cards

Age Pension recipients receive a Pensioner Concession Card, which provides access to federal Government health concessions, including cheaper medicines. Some state and territory governments may also offer benefits to cardholders such as lower utility bills and transport costs.

Individuals who are of Age Pension age but do not receive the Age Pension due to the income or assets tests may receive a Commonwealth Seniors Health Card, which provides access to most of the concessions the Pensioner Concession Card attracts. As at November 2022, a single person must have income below AUD 90 000 a year, and a couple must have a combined income below AUD 144 000 a year, to be eligible for the card. These income limits are increased each year in line with the CPI. There is no assets test.

Variant careers

Early retirement

There is no official retirement age in Australia. Retirement decisions are a matter for each individual. Superannuation benefits can currently be withdrawn from age 59. The earliest age at which superannuation benefits can be withdrawn is increasing for all individuals born after 30 June 1964 (see the table below). Individuals who are still working can also access their benefits from preservation age, but only in the form of a non-commutable income stream. The Age Pension is not paid before the qualifying age.

Date of birth	Preservation age
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Late retirement

It is possible to defer claiming superannuation until after 65 years of age. Employers are required to make superannuation contributions under the superannuation guarantee arrangements for their eligible employees regardless of age. However, there are rules for the types of contributions individuals can make if they are aged between 67 and 74 years and are generally restricted for those aged 75 years and over. In addition, the Age Pension has a 'Work Bonus' income test concession designed to encourage people of pension age to continue to work.

Childcare

There is no specific protection for periods out of work in the superannuation guarantee system. Employers can make voluntary payments for periods of parental leave. Voluntary contributions are possible during periods without paid work.

Unemployment

There are no credits in the superannuation guarantee system for periods of unemployment. Voluntary contributions are possible during periods without paid work.

Self-employed

The self-employed are not mandatorily covered by the Superannuation scheme but they can opt in. For the modelled case, it is assumed the self-employed receive only the Age Pension.

Personal income tax and social security contributions

Taxation of pensioners

Older Australians and other Australians who receive a government pension may be entitled to personal income tax concessions in addition to the standard reliefs.

The seniors and pensioners tax offset (SAPTO) is available to taxpayers in receipt of a taxable government pension, as well as to Australians who are of Age Pension age and who meet all the Age Pension eligibility criteria except the income and/or asset tests (see above). Since 2012-13, the SAPTO has been AUD 2 230 for singles with annual income up to a threshold of AUD 32 279 and is withdrawn at a rate of 12.5% for annual income in excess of the threshold. The offset is fully phased out for singles at an annual income of AUD 50 119 and above. The maximum offset for couples eligible for the SAPTO is AUD 1 602 for each member of the couple. Each member may have annual income of AUD 28 974 before the SAPTO is withdrawn at a rate of 12.5% until the credit is fully phased out at an annual income of AUD 41 790.

In 2021-22 the SAPTO built on the statutory tax-free threshold, the low-income tax offset, and the low- and middle-income tax offset to ensure that eligible single senior Australians with incomes of up to AUD 35 232 (or AUD 31 926 for each member of a couple) pay no income tax.

Taxpayers eligible for the SAPTO also benefit from a higher Medicare levy low-income threshold (in 2021-22 AUD 36 925 for singles and AUD 51 401 combined for couples). This means that pensioners receiving the full amount of the offset pay no Medicare levy. The Medicare levy phases in at 10 cents for each dollar in excess of the above thresholds, until it is paid in full. The normal rate of the levy has been 2.0% of taxable income since 2014-15.

Taxation of private pensions

Generally, superannuation is taxed at two stages: when contributions are made and when investment returns are earned. Individuals who withdraw their superannuation before age 60 or receive benefits from an untaxed source (that is, where tax has not been paid on contributions and earnings), may also pay tax on the benefit payment.

Superannuation contributions are taxed as follows:

When employers or members make concessional contributions (that is, contributions for which they claim a tax deduction), in general a 15% tax is levied on the contributions and is paid by the fund.

Individuals with an adjusted taxable income up to AUD 37 000 receive a Low-Income Super Tax Offset (LISTO): a government payment (in effect a tax rebate) of up to AUD 500 per year, effective 1 July 2017. The LISTO is calculated on 15% of the concessional (before tax) superannuation contribution that is paid into the employee’s superannuation account. For the 2012-13 to 2016-17 financial years, individuals with an adjusted taxable income of AUD 37 000 or less a year may have been eligible to receive the Low-Income Super Contribution.

Since 1 July 2017, individuals with a sum of income and concessional contributions above AUD 250 000 pay an additional 15% tax on concessional contributions on the portion of the income that exceeds the AUD 250 000 threshold (known as the Division 293 tax). Prior to 1 July 2017, the threshold was AUD 300 000.

When a member makes a non-concessional contribution (that is, a contribution from after-tax income) the member has already paid income tax on the contribution at their normal marginal tax rate. No further tax is applied to the contribution.

Investment earnings of the superannuation fund are also taxed at 15% during the accumulation phase (however, the effective tax rates are usually lower through imputation credits and the capital gains tax discount). Investment earnings on assets supporting a member’s pension in their retirement phase are tax free.

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.

Since 1 July 2017 a transfer balance cap of AUD 1.6 million has imposed a lifetime limit on the total amount of superannuation savings that may be transferred to the (tax-free earnings) retirement phase. The cap is indexed in line with the consumer price index (CPI) in AUD 100 000 increments. On 1 July 2021, the general transfer balance cap was indexed to AUD 1.7 million. Since 1 July 2021, all individuals have a personal transfer balance cap between AUD 1.6 million and AUD 1.7 million. An individual’s personal transfer balance will be lower than AUD 1.7 million if they moved funds into retirement phase accounts under the previous general transfer balance cap level. This is not a cap on the amount of superannuation in the retirement phase. Savings in the retirement phase can grow above an individual’s transfer balance cap, but no more than the transfer balance cap can be transferred by the individual to the retirement phase. If an individual has reached their transfer balance cap, any other superannuation savings can either remain in the 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.

Furthermore, superannuation concessions are also limited by caps on contributions to superannuation.

Concessional contributions that exceed the annual concessional contributions cap are subject to an additional tax levied on the individual. Since 2021-22, the annual concessional contributions cap has been AUD 27 500. Eligible individuals can also make “carry-forward” contributions using unused concessional contributions cap space from the prior 5 years if they have a total superannuation balance of less than AUD 500 000, with effect for the 2018-19 and later financial years.

Excess concessional contributions are taxed at the individual’s marginal tax rate plus relevant levies, less an offset for tax payable by the fund. The individual may choose to pay this tax by withdrawing amounts from the fund.

Non-concessional contributions are subject to an annual non-concessional contributions cap of AUD 110 000 (2021-22) for those with a total superannuation balance below AUD 1.7 million, with a 3 year “bring–forward” period available for eligible individuals under age 67 (allowing them to contribute up to AUD 330 000 in any three-year period). Some personal contributions may be excluded from counting towards an eligible individual’s non-concessional contribution cap, including contributions made from personal injury payments and from the proceeds of selling a primary residence.

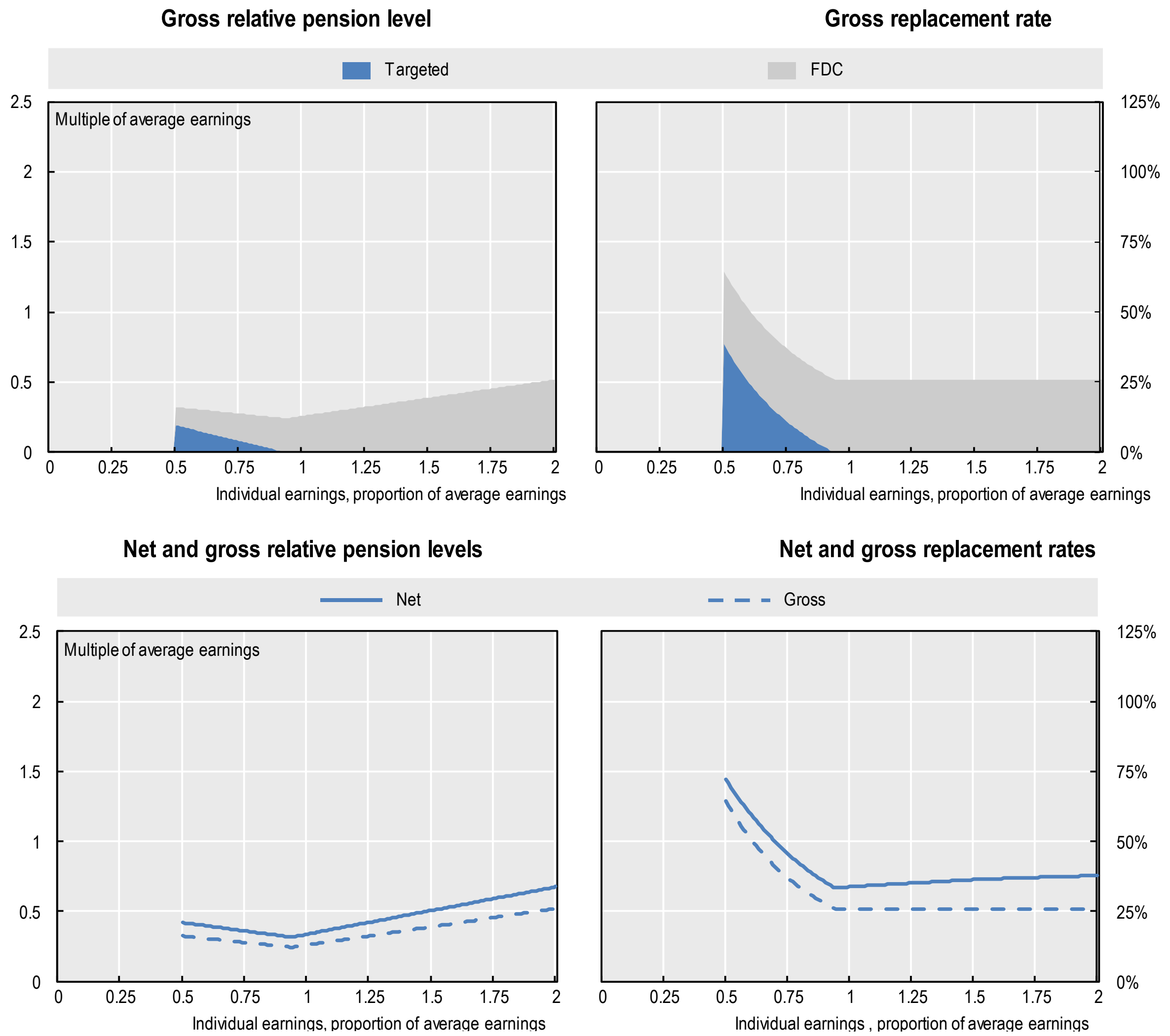
An additional lifetime non-concessional contribution cap applies to contributions derived from certain capital proceeds of eligible small businesses.

Excess non-concessional contributions are subject to tax at the top marginal personal income tax rate of 45 per cent plus relevant levies. The individual can elect to release all excess non-concessional contributions and 85% of their associated earnings from the superannuation fund. The administrator of Australia’s superannuation policy, the Australian Taxation Office, will then request superannuation funds release the money to pay any tax or Australian government debts and refund any remaining balance back to the individual. Alternatively, the individual can choose not to release the excess non-concessional contributions, however, the excess amount will be taxed at the highest marginal tax rate within the superannuation fund.

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 in 2065 retirement at age 65 (men)



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level	32.2	27.7	26.0	39.0	52.0	66.1
(% average gross earnings)	31.1	26.0	23.8	35.7	47.6	71.4
Net relative pension level	41.9	35.9	33.7	50.6	67.5	85.8
(% net average earnings)	40.4	33.8	30.9	46.3	61.8	92.7
Gross replacement rate	64.5	36.9	26.0	26.0	26.0	22.0
(% individual gross earnings)	62.3	34.7	23.8	23.8	23.8	23.8
Net replacement rate	72.2	45.5	33.7	36.3	37.9	34.8
(% individual net earnings)	69.7	42.8	30.9	33.3	34.7	37.6
Gross pension wealth	14.8	10.4	8.1	6.3	5.6	4.5
(multiple of individual gross earnings)	15.8	10.9	8.5	6.5	5.7	5.1
Net pension wealth	16.6	12.8	10.6	8.8	8.2	7.1
(multiple of individual net earnings)	17.7	13.5	11.0	9.0	8.3	8.1

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.