



Comments on Richard Disney:  
**Australia: Issues in the tax  
treatment of pensions and housing**

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# MAIN ISSUES ADDRESSED IN THE PAPER

- Should there be more or less means testing of the Age Pension?  
Disney's answer: depends on distortions vs. arguments for redistribution and for minimising the overall tax burden
- Should mandatory Superannuation savings be increased?  
Disney's answer: probably not
- Should Superannuation be more or less favoured by the tax system? Disney's answer: unclear
- Should housing assets be more or less favoured under the means testing rules for the Age Pension?  
Disney's answer: probably less favoured



## COMMENTS

- Many important insights; very balanced discussion of the many difficult trade-offs and offsetting incentive effects
- Yet the outside observer misses a more precise description of the actual rules for means testing of benefits and the taxation of retirement saving
- Further, estimates of the marginal effective tax rates resulting from the interaction of taxation and means testing would have been useful
- Finally, the author is very (overly?) cautious in his policy recommendations



# SHOULD SAVING FOR RETIREMENT BE FAVOURED BY THE TAX SYSTEM?

Arguments for government intervention in retirement savings decisions:

- Myopic (irrational) behaviour
- Strategic behaviour (moral hazard)
- Suboptimal overall level of saving

These arguments could justify mandatory retirement saving, but they do not justify tax concessions to such saving

Further, if people are rational and forward-looking, tax-favoured savings programmes will just crowd out non-subsidised saving, causing a revenue loss without increasing overall saving

**Bottom line:** Hard to justify tax subsidies to retirement saving



# SHOULD CAPITAL INCOME BE INCLUDED IN THE MEANS TEST FOR THE AGE PENSION?

*Example*: Nominal interest rate = 5%. Inflation rate = 2.5%.

Marginal tax rate = 46.5%  $\Rightarrow$

$$\text{Effective tax rate} = \frac{0.465 \times 5}{2.5} = 0.93 = 93\%$$

With means testing of benefits, the effective tax rate can easily exceed 100%

Idea: Should income from voluntary saving be excluded from the basis for means testing?