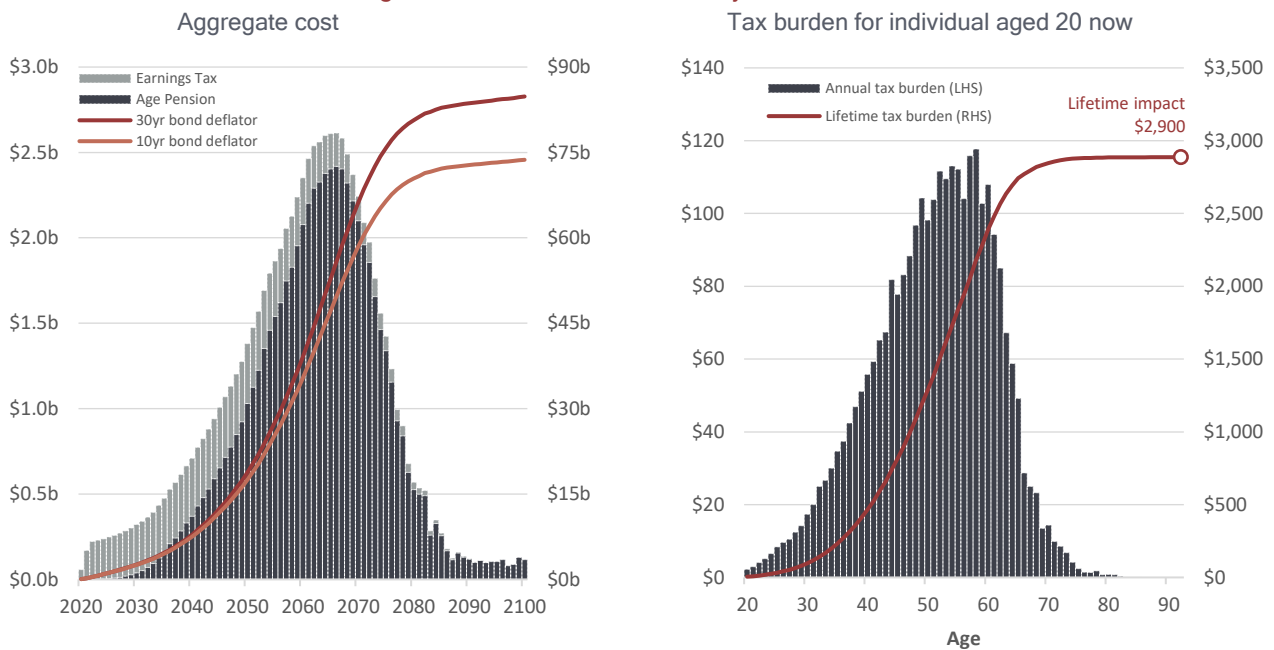


Briefing note: Long-term costs of the COVID Early Release Scheme

The COVID Early Release Scheme imposes significant long-term costs on future generations of taxpayers from an increase in Age Pension expenditure and forgone superannuation earnings tax. Using the Superannuation, Pensions, and other Retirement OUTcomes (SPROUT) model, we estimate the cumulative long-term costs of the Scheme to be between \$75 billion and \$85 billion in today's dollars by the end of this century - more than double the initial amount released (see appendix for modelling details).¹ Costs peak at \$2½ billion per annum (in today's dollars) in the mid-2060s when the last of the those who accessed the scheme, those currently aged in their 20s, begin to retire and qualify for the Age Pension. These costs are of course borne by future taxpayers, either explicitly via an increase in taxes or implicitly via a reduction in Government provided services (such as education or health care). We estimate the extra tax burden to peak at around \$150 per taxpayer per annum in the 2060s, with those in their late 40s and early 50s having the highest tax burden (see table 1). Over the course of a lifetime, a person currently aged 20 could be expected to pay an additional \$2,900 in income taxes in today's dollars (see chart 1b) as a result of the COVID Early Release Scheme.

Chart 1: Long-term cost of the COVID Early Release Scheme



Source: SMC analysis using the SPROUT model.

¹ We consider two deflators: (1) the median yield on 10-year Commonwealth Government bonds over the past 10 years; (2) a weighted-average yield on long-term debt (maturity to June 2051) issued during the COVID period, 2020-2022 (the Government issued close to \$19 billion of debt during this period).



Table 1: Additional tax burden per taxpayer per annum from COVID Early Release

	18-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	All ages
2020s	\$6	\$11	\$15	\$19	\$23	\$24	\$23	\$21	\$20	\$18
2030s	\$11	\$20	\$28	\$35	\$41	\$44	\$42	\$38	\$36	\$33
2040s	\$21	\$38	\$53	\$68	\$80	\$84	\$80	\$73	\$68	\$64
2050s	\$37	\$65	\$92	\$118	\$138	\$146	\$139	\$127	\$119	\$113
2060s	\$49	\$87	\$122	\$156	\$183	\$193	\$184	\$169	\$158	\$149
2070s	\$28	\$49	\$70	\$89	\$104	\$110	\$105	\$96	\$90	\$85
2080s	\$6	\$10	\$14	\$18	\$21	\$22	\$21	\$19	\$18	\$17
2090s	\$2	\$3	\$4	\$6	\$7	\$7	\$7	\$6	\$6	\$5
2100s	\$2	\$3	\$5	\$6	\$7	\$7	\$7	\$7	\$6	\$6

Source: SMC analysis using the SPROUT model.



Appendix: Methodology

Superannuation, Pension and other Retirement OUTcomes (SPROUT)

We use the SPROUT model (originally developed by RiceWarner and Industry Super Australia) to estimate the long-term fiscal cost of the COVID Early Release Scheme. SPROUT is a long-term, group-based microsimulation model covering the entire Australian population. It tracks the accumulation and decumulation of superannuation and non-superannuation savings and then calculates superannuation taxes, income taxes and Age Pension expenditure for males and females in 12 income-wealth quantiles by single year of age.

SPROUT begins with a population model that projects forward population and labour-force participation over the next 80 years for each age, gender and income-wealth quantile, taking into account births, deaths, migration and entry and exit from the workforce. It then uses the membership and asset models to project the number of superannuation accounts by sector and account type, and the asset values of these accounts, for each quantile, taking into account contributions, earnings, benefits, fees, insurance and taxes. Finally the model calculates superannuation and income taxes and Age Pension expenditure.

SPROUT produces output on the following variables for each financial year:

- Total superannuation funds under management in both the accumulation and pension phases
- Annual contributions, fees and gross earnings
- Annual withdrawals (both lump sums and income streams), and death benefits
- Average superannuation balances and average assets outside superannuation
- Total retiree population and superannuation balances at retirement
- Total Age Pension expenditure and number of Age Pensioners (both full-rate and part-rate)
- Tax on superannuation contributions and earnings and income tax

Tax burden estimates

To estimate the tax burden on future taxpayers we begin with table 3 of the 2020-21 Taxation Statistics which contains the number of individual taxpayers and the amount of tax collected by age, gender and taxable income bands. We project forward the number of individual taxpayers using the medium series (series B) from the ABS Population Projections (ABS Cat. No. 3222.0). In projecting forward the number of taxpayers, we make allowances for increases in female labour force participation, particularly for older age cohorts, based on the ABS's detailed Labour Force Survey (ABS Cat. No. 6291.0.55.001). We then calculate the share of net tax for each gender and age cohort based on the current distribution of net tax from the 2020-21 Taxation Statistics, and apportion the cost of the COVID Early Release Scheme (based on analysis using the SPROUT model) to each gender and age cohort based on these shares.

To estimate the lifetime impacts for a single-age cohort, we use the ABS Survey of Income to calculate the probability that an individual is a net taxpayer at a given age and multiply this probability by the age-based mean estimate of the tax burden (table 1). We assume a life expectancy of 92 as per the Retirement Income Review.