The superannuation system is a poor solution to the problem of individuals who merely wish to preserve the purchasing power of their savings against the ravages of inflation and government taxation.

A morally and equitable system might permit savers to simply buy government bonds on which they are permitted to receive tax free interest up to the inflation rate, then pay normal taxation rates on any excess. No government subsidy would be needed, nobody would need expensive financial advice – and no superannuation industry would be needed. In fact, the UK already operates a similar system (google 'UK ISA' and find https://www.gov.uk/individual-savings-accounts/overview). The UK system seems overly generous in allowing all the included income to be tax free – going beyond the single issue of real vs nominal earnings. Interestingly the UK system allows withdrawals from ISA accounts, without loss of tax benefits.

Of course, there is no need to limit taxation of only the real interest receipts, to government bonds. Like the UK, the policy could also apply to earnings from any private sector investment product.

Australian taxation taxes nominal rather than real interest earnings. This bad policy seems to be the driver for having a superannuation industry with its special taxation, government subsidies, and complicated rules. By simply taxating only real interest earnings, many savers would be happy to purchase government bonds and not get involved in any convoluted tax driven savings strategies.

A policy of taxing only real interest receipts, would need to be balanced by a policy of only allowing business expense tax deductions for the real component of interest payments – rather than allowing the full nominal payment to be a tax deduction. And while we are being sensible, capital gains tax should be restored to involve adjustment of the purchase price for inflation, and discarding the current 50% rule which is a feable substitute for being fully sensible.

The benefits of taxing only real interest receipts are widespread:

1. Savers could focus on saving, and not get involved in financial complications, investments, risks and advisers.
2. The superannuation industry need not need to exist, with its costs to government and savers. The need for complicated rules would all disappear.
3. Savers would have a simple savings strategy and be less likely to become investor/landlords as a way of conserving their savings. A benefit for housing affordability – with no cost to governments.

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