Actuaries Institute Maps the Generational Flow of Australia's $1 trillion Tax and Spending System

- Government spending follows a U-shaped pattern across Australians' lifetimes – highest for children and those in their 80s – while taxation peaks among working-age Australians.
- Two Australians with the same gross incomes of $100,000 – one aged 30, one aged 71 – end up with net incomes that differ by more than $42,000 once taxation, government spending and transfers are accounted for.
- The report identifies several policy considerations for the future, including age-based tax and spending settings that better consider means, broadening the tax base, overall fiscal discipline and supporting asset accumulation at younger ages.

As Australia's population ages, questions of intergenerational equity and fiscal sustainability are becoming increasingly important. New Actuaries Institute analysis examines how Australia's $1 trillion tax and spending system is distributed across generations, how those patterns have changed over time, and what they may mean for the future.

The report, *Spotlight on the Australian Tax and Transfer System*, is the first of two deep-dive papers expanding on the Australian Actuaries Intergenerational Equity Index (AAIEI) and contributes to the broader discussion ahead of the Government's Intergenerational Report due later this year.

Led by Actuaries Institute members Dr Hugh Miller, Dr Laura Dixie and Shams Mehry, the report analyses government budget data, the National Transfer Accounts and the Household, Income and Labour Dynamics in Australia (HILDA) Survey to provide a detailed picture of how Australians contribute to, and benefit from, the tax and transfer system at different stages of life.

The generational shape of Australia's tax and spending system

The report found government spending follows a distinct U-shaped pattern across age groups – with more spending on children and older Australians both per person and in aggregate, and less on working-age adults.

Government spending averages approximately $41,000 per child each year, driven by education costs. Spending drops to around $23,000 for a typical 30-year-old. Older people account for the highest levels of government spending – at around $93,000 a year for Australians in their 80s – due to health spending, aged care and the Age Pension.

Taxation follows the opposite pattern, with working-age Australians paying the most.

Australians aged 30–64 contribute 73.4% of total taxation, peaking at more than $50,000 for an average 43-year-old, based on current settings. In part, this reflects Australia's reliance on income tax, which is around double the size of consumption taxes. This highlights the central role working-age Australians play in funding government services.

"The overall patterns provide important insights into how the system is currently calibrated across generations, but we need to look in more detail to really understand the effects on intergenerational equity and fiscal sustainability," said Dr Miller. "We were surprised to see that these middle age groups also paid higher superannuation and housing-related taxes."

The $42,000+ gap and potential long-term structural budget deficit

The report examines average incomes by age, starting with a broad measure of income that includes wage and salary income, capital gains and, for owner occupiers, the value they would otherwise pay in rent. This converts into net income by also taking into account the value of government services and transfers received, less taxes paid.

It found that large differences in taxation and spending by age lead to vast differences in net income for people with the same gross income but different ages. It considered the example of an average 30-year-old and 71-year-old both with a personal private income of $100,000. After accounting for taxation, transfers and government spending, the 30-year-old's net income would equate to around $85,700, while the 71-year-old would have a net income of $128,100.

"Some of that $42,400 difference reflects genuine need, particularly higher healthcare spending for older Australians. But a significant part also reflects differences in eligibility for benefits and taxation settings," Dr Miller said.

The report also finds that, under current averages, the taxes an Australian pays over their lifetime cover around 73% of the government spending and transfers they receive – below the 85-90% needed for long-term budget neutrality. Significant demographic dividends from past fertility and migration mean Australia still has a fiscally favourable age distribution, with Millennials currently providing significant balance to the budget.

"Understanding the structure of these settings in detail is important for any informed discussion about the future of Australia's tax and transfer system and the role it plays in intergenerational equity."

Two decades of change

The report found that over the past two decades, government spending has risen faster than taxes and the impacts have been distributed differently across age groups.

Taxation has also risen, with working-age Australians bearing the brunt of the increases through higher income tax contributions.

"When you look at net income – after tax, transfers and government spending – Australians aged 20 to 30 stand out as the only age group not to have seen a gain over the past two decades," said Dr Dixie.

"That is a significant finding, and one that only becomes visible when you examine taxation and spending together and consider how outcomes vary across age groups."

The report also identifies important data gaps. Up-to-date estimates of household expenditure are needed. Further gaps include the impact of inheritances and gifts, discretionary trusts and the 'Bank of Mum and Dad', which may play an increasingly important role in shaping financial outcomes across age groups.

An ageing population and the road ahead

The report uses a simplified 10-year projection to examine what current policy settings could mean as Australia's population ages.

The proportion of adults aged over 65 is projected to increase from 22.1% to 24.8% by 2035. Over the same period, the share of government spending directed to Australians over 65 is projected to increase from 31.0% to 36.4%, while the proportion of taxes paid by people aged 30-64 is expected to decline from 73.4% to 71.0%, primarily due to more income tax being paid by people aged 65-80 as people work longer. The fiscal sustainability picture improves slightly, but based on strong assumptions such as zero real growth in spending and remains short of long-term budget neutrality.

These trends raise important questions for future policy settings.

The report identifies policy areas for consideration such as reviewing current age-based tax and spending settings to better consider an individual's means, broadening the tax base, overall fiscal discipline with restraint in government spending, and supporting asset accumulation at younger ages.

Actuaries Institute CEO Elayne Grace said the findings provide an important evidence base for national discussions about Australia's future.

"Australia faces significant demographic changes, making it increasingly important to understand generational dimensions of our tax and spending system and the challenges it will face," said Ms Grace.

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"Our analysis focuses on intergenerational equity, but it's important to note that wealth and income vary significantly within generations across all ages. We specifically recognise the high rates of poverty and significant health challenges experienced by many older Australians. This analysis informs national conversations we need to have by providing a clear picture of where we are, how we got here and what the future may look like," she adds.

A further Actuaries Institute spotlight paper is planned for later in 2026 examining housing.

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Notes to editors:

- For gross income (before the impact of government) we examine a broad definition of income that includes capital gains and imputed rent. Net income then examines how this changes given government taxes, transfers and spending.
- Government spending and transfers – Include direct spending on education, health and disability, aged care, general public services, defence, public order and safety, transport, and payments such as the Age Pension, Family Tax Benefit, JobSeeker and the Disability Support Pension. Some of these expenses do not naturally vary by age and have therefore been allocated evenly per capita across the population.
- A full breakdown of how government spending categories are defined is provided in Section 2.1 of the report. Definitions and allocation methodology for both government spending and taxation are provided in the Appendix.

About the Actuaries Institute and the Profession
As the peak professional body for actuaries in Australia, the Actuaries Institute represents the profession to government, business and the community. Our members work in a wide range of fields including insurance, superannuation and retirement incomes, enterprise risk management, data analytics and AI, climate change and sustainability, and government services.

Actuaries use data for good by harnessing the evidence to navigate into the future and make a positive impact. They think deeply about the issue at hand, whether it's advising on commercial strategy, influencing policy, or designing new products. Actuaries are adept at balancing interests of stakeholders, clients and communities. They're called upon to give insight on complex problems and they'll look at the full picture. Actuaries analyse the data and model scenarios to form robust and outcome-centred advice.

About the Australian Actuaries Intergenerational Equity Index (AAIEI)
The latest update to the AAIEI is provided in Cracking the Unsolved Generational Equation. That report, and this spotlight, have been prepared as part of the Actuaries Institute's Public Policy and Thought Leadership program. Reports prepared in this program involve the Institute Public Policy staff working closely with the lead authors and the Institute's volunteer network in order for the Report to present the Institute's contribution, on behalf of its membership, to the discussion of an important societal topic.

The AAIEI tracks the wealth and wellbeing scores of three distinct age groups over time: 25–34 year olds, 45–54 year olds, and 65–74 year olds. The Index considers 25 indicators across six domains - Economic & Fiscal, Housing, Health & Disability, Social, Education, and Environment - and combines these into a single score which is tracked in absolute and relative terms.

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