Vanguard

Vanguard Investments Australia Ltd
L13, 130 Lonsdale Street,
Melbourne VIC 3000

Pre-Budget Submissions
Treasury
Langton Cres
Parkes ACT 2600

Via email: PreBudgetSubmissions@treasury.gov.au

Pre-Budget Submission 2026-27

Vanguard Australia welcomes the opportunity to contribute to the pre-budget submission process for the 2026-27 Federal Budget.

About Vanguard

For 30 years Vanguard has been serving financial advisers, retail clients and institutional investors in Australia.

Today we serve more than two million Australians and remain the largest provider of Exchange Traded Funds by assets under management. In 2022, Vanguard Super was launched to begin offering superannuation products and services directly to Australians.

Founded in 1975, The Vanguard Group Inc. ('**VGI**') – the parent company of Vanguard Australia – has offices worldwide and is one of the world's largest global investment management companies, managing money on behalf of more than 50 million clients.

VGI operates under a unique, investor-owned structure and adheres to a simple purpose: *To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.*

Vanguard advocates for systems that benefit investors - for an Australian market that is fair and efficient, so investors can easily save, invest, and spend; are protected from harm; and have access to quality, affordable investments, advice and related services.

Setting Australians on a better path to financial wellbeing

In this submission we are contributing a range of evidence-based recommendations to set Australians on a better path to financial wellbeing, by investing in improved financial literacy and capability, incentives to improve financial resilience and supporting greater transparency in super fees.

Summary of recommendations for the 2025-26 Federal Budget

Enhancing financial literacy and capability in Australia

1. Establish a new financial capability task force within the Department of Prime Minister & Cabinet, with support from the Department of Education and Treasury, to deliver and oversee a new whole of Government Financial Capability Strategy. The strategy should include consideration for how best to introduce financial literacy as a standalone subject on the national curriculum and drive greater investment in more financial literacy resources for different life stages.

Helping Savers invest to boost financial resilience

2. Support more young Australians to invest their non-retirement savings to improve their financial prospects and benefit Australia's capital markets by establishing new regulated investment accounts similar to other OECD countries.

Enhancing fee transparency in Australia

3. Invest in making superannuation fees more readily comparable and transparent through policy and regulatory reform including:
    - Enhancing the features of and promote the Australian Tax Office's YourSuper comparison tool.
    - As part of the current review of Regulatory Guidance 234 ensure:
        - that super funds only promote fees as a total, inclusive of administration, investment and transaction fees and costs in marketing and promotional activities; and
        - appropriate use of the phrase *low cost* in marketing and promotional activities.
    - Support reforms to compel super funds to provide a benchmark comparison in member statements alongside the total fees paid by the member and provide a standard fee calculator on their public website to allow members to more easily research and compare fees.

Enhancing Australian Financial Literacy and Capability

We recommend the establishment of a new financial capability task force within the Department of Prime Minister & Cabinet, with support from the Departments of Education and Treasury, to deliver and oversee a new Financial Capability Strategy. The strategy should include consideration for how best to introduce financial literacy as a standalone subject on the national curriculum and drive greater investment in more financial literacy resources for different life stages.

Vanguard's research shows about 45% of Australian adults lack basic financial knowledge, impacting their decision-making capacity. HILDA data from 2022 showed financial literacy levels are in decline rather than improving. New data from Deloitte Access Economics[1] shows nearly two thirds of Australians have low financial capability, with less than half of those even aware of this shortcoming.

[1] The Big Lift - A report prepared for Iress | Deloitte Australia

There are demographic disparities with younger Australians and women showing significantly lower financial literacy compared to older adults and men.

Many Australians, including those at retirement age, struggle to understand key aspects of the retirement system, such as the age they can access their superannuation. Most aren't confident in making financial decisions and in their understanding of financial products.

While most Australians are comfortable with basic products like savings accounts, confidence drops for superannuation, shares and investment products.

The consequences of these issues persisting are meaningful, with financial illiteracy and incapability leading to wealth inequality, poor retirement and financial planning, financial hardship, women's lack of economic independence, and greater scam, fraud and financial abuse vulnerability.

Conversely, the Deloitte Study showed that the opportunity of enhancing the financial capability of Australians is enormous - an increase of over $100k per household, $1.2 trillion in national net wealth, and up to five times greater wealth by retirement.

A Vanguard international study in 2025[2] considering the core components of a successful retail investing regime found that early education to build an understanding of numeracy and financial concepts along with just-in-time education at moments that matter, such as first job, life events and job transitions are key points that can help individuals make sound investment decisions and change the course of one's life trajectory for the better. Embedding decision environments with timely and relevant information to facilitate choices can be a powerful antidote to lack of knowledge.

National strategy recommitment

Its critical the Government re-engage on this issue and ensure non-partisan commitment to enhancing the financial literacy and capability of Australians. Without this commitment it's unlikely a national strategy will be invested in as it ought to be.

Through the establishment of a new task force to focus on the issue, the Government can secure a long-term dedicated focus on delivering for Australians, to track and monitor progress, and to evolve the strategy over time to ensure it remains relevant and targeted.

The task force would act as a research and advisory function to Government delivering insights that other agencies may not have the capacity for:

- raising public awareness of the importance of financial literacy,
- shape and influence future legislation and reforms including delivering a renewed financial capability strategy and tracking progress; and
- supporting national educational campaigns via Moneysmart.

An enhanced school curriculum with financial literacy as a stand-alone subject mandatory for all students up to Year 12.

In an increasingly digital financial world, younger generations have access to more financial products and services than ever before, but without the right support and education this may be harmful.

A 2025 OECD report[3] showed positive financial behaviour in young people was linked to students who had better financial literacy skills. They behaved more responsibly financially

[2] Vanguard 'Core Components of a Successful Retail Investment Regime' 2025
[3] OECD The role of financial literacy, 2025

and were more forward looking and financially proactive. High performers in financial literacy were 72% more likely than low performers to save money, and 50% more likely to compare prices in different shops before buying something.

Financial literacy is currently not included as a standalone subject in the Australian curriculum. Instead, '*consumer and financial literacy*' features across the Mathematics, Humanities and Social Sciences, and Digital Technologies subjects in Foundation to Year 10 and the onus is on teachers to integrate financial literacy concepts into these subject areas, and more senior year students who don't study these subjects are likely to miss out altogether on financial literacy education.

Front and centre of a new financial capability plan should be the delivery of an enhanced school curriculum, which is vital to ensure financial education in formative years.

Recommendation 1: That the Government invests in improving the financial capability of Australians and enhancing financial wellbeing. Funding should be directed via a new Prime Minister and Cabinet taskforce to design and execute a new Financial Capability Strategy; to introduce financial literacy as a standalone subject on the national curriculum, and to support research and the delivery of campaigns with MoneySmart and more financial resources for different life stages.

Helping savers invest to boost financial resilience

We recommend the Government introduce a new vehicle for Australians to invest and grow their non-retirement savings and support the economy, boosting financial resilience, deepening domestic capital markets and increasing financial literacy and security.

Superannuation remains an essential savings pool for Australians. Outside of this many have restricted other forms of wealth building during their working lives to home ownership and property investment, in addition to cash savings which currently outweigh non-super investments ($0.83 in equities for every $1 in cash).

Home ownership is increasingly out of reach for younger generations. The lack of effective motivation for non-retirement savings outside of high interest savings accounts, alongside other frictions holding people back from investing such as low financial literacy and a lack of advice, has resulted in a relatively basic household wealth composition and cash sitting on the sidelines rather than being put to more productive use.

Helping savers to invest some of this cash through tax incentives would mobilise capital more efficiently while deepening the capital pool available to businesses. Tax policy plays a crucial role in shaping participation in capital markets by directly influencing after-tax return on investments, which incentivises investment and reduces fear of participation by individuals. Several major OECD countries have used this policy lever to successfully grow retail participation in capital markets including the UK, Japan, Canada, Sweden and the US.

We propose the introduction of new tax incentivised investment accounts in Australia that enhance savings outside of superannuation by mobilising excess cash to capital markets. This regime could support more people to save for a home and put non-homeowners on a more equal footing to build wealth, with an alternative to home ownership.

This regime would have the dual benefit of enhancing individuals' financial wellbeing as well as strengthening capital markets and building national economic resilience. Importantly for budget modelling, investments in these accounts would be post-income tax, thereby reducing the tax loss to Government.

Investments within this regime would be regulated to ensure consumer guardrails are in place, especially for first time or less experienced investors. For example, it would set out eligibility criteria for investments in these vehicles, which would exclude risky or complex assets, and provide a straightforward menu of options of assets. This would also increase Australians confidence in investing.

Vanguard's consumer testing of this concept has shown there would be strong support for such a vehicle and that people would likely save more if such a vehicle existed[4].

Structure of the proposed Australian vehicle

We propose the Australian vehicle would be a capital gains tax-exempt structure maximising its appeal and effectiveness as a savings vehicle but importantly is a post-income tax proposal which seeks to minimise budget impact. To ensure the vehicle is more beneficial to low-and middle-income earners, we propose an annual contributions cap of $20,000 per annum of post-income tax savings.

To provide appropriate guardrails and consumer protections, the structure would require simplicity and standardisation across product offerings. This could follow a similar structure to the MySuper product regime in terms of a simple diversified low-cost product that issuers could apply for accreditation to promote as part of this regime. A simple approach would be to offer ETFs and Managed Funds that invest in listed securities with relatively lower investment risk as opposed to private assets and more complex investments. Investors would be free to withdraw their money out of the structure without restriction after 24 months, and if they choose to withdraw it earlier, no tax exemption would be applicable, and the withdrawal would be taxed at the relevant marginal rate.

The two-year period for tax-exempt status is to ensure the policy intent is achieved of encouraging capital mobilisation but also encouraging savers to hold investments for longer given potential for sharemarket volatility. After-tax contributions, interest, dividends and capital gains would be tax-exempt.

Modelling by NMG Consulting for Vanguard shows Australians using this vehicle could be $12.2bn better off financially after five years with $2.7bn attributed to tax saved and $9.5bn to returns from the more efficient allocation of assets (assumed they invest in a balanced portfolio).

We estimate an annualised cost to the budget of $540m ($2.7bn over five years).

In line with our findings through consumer research, and based on our modelling, we conservatively estimate a 5% population take up rate each year. Although based on other schemes from similar OECD economies, we would expect this to grow as it increases in visibility and popularity and estimate an uptake of up to 25%.

[4] Vanguard commissioned research of ~1200 Australians in April 2025.

Features of the Vehicle

	Annual Contributions Cap	Tax Treatment	Eligible Investments	Eligible investors	Access to capital
Proposed feature	$20,000	After-tax contributions, interest, dividends, capital gains (withdrawn or not) would be tax exempt.	ETFs and Managed Funds offering listed investments	The proposed vehicle would be accessible to all adult Australians	Unrestricted – tax exemption eligibility to investment gains held for 24 months or more
Feature Rationale	Right-sizing maximum allowable annual contributions is key to finding balance between meeting near-term needs (use cases) of Australians and the cost of the Government.	Tax exemption versus concession is proposed to ensure the right motivation exists to propel the success of the vehicle, and given the assets involved are post income tax savings.	Accredited standardised investments present a level of consumer protection which we propose given the vehicle can be accessed widely and exist in an environment where access to financial advice and financial literacy levels are low.	While we propose broad accessibility, the design of the vehicle (capped investment amount and standarised investments) is such that it is more likely to be attractive to low and middle income earning Australians versus the wealthy. Means and asset testing could be considered but this may increase the difficulty of administering the vehicle and limit the uptake. Age eligibility is likely to be easier to administer.	We propose unrestricted access to the capital invested, however propose the tax exemption is provided for capital invested for 24 months or longer. This is to encourage a minimum term given assets are invested in securities which carry more risk than cash holdings.

Potential of the vehicle

Projected take up rate	Potential benefit to Australians over 5 years
5% of population each year increasing to 25% in 5 years contributing $15k per annum.	Four million Australians would be **$12.2bn better off** - including $2.7bn in tax savings and $9.5bn in investment returns (balanced portfolio)

Use Cases of the Vehicle

A tax-advantaged structure is intended to support Australians in meeting a variety of savings needs without impacting the role of the Superannuation system in supporting retirement, including housing, education, a rainy-day fund, health and aged care and caregiving needs.

Potential Benefits of the Vehicle

Tax revenue forgone under the introduction of tax-advantaged savings structures (to the benefit of Australians) have the potential to benefit the Government in other ways, including offsetting (to an extent) reliance on social security programmes. Other schemes such as the First Home Saver Scheme and Help to Buy Scheme could be wound down and replaced by this, offsetting the impact to tax revenues further.

Benefits include:

Social Security	Economic Stimulus	Housing	Education	Financial Resilience	Health
Incentivising saving behaviour to support efficient	A more efficient allocation of savings results can	Supporting more Australians to attain home	Expect greater number of individuals to self-	Low-income earners who can save for a small rainy-day fund	Incentivising saving for expected or

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allocation of assets can result in Australians having a larger pool of assets. This could minimise reliance of Government benefits such as Centrelink.	also lead to greater capital deployment to Australian companies, supporting GDP growth (and associated company tax). Countries with higher savings pools are more able to withstand economic shocks; and individuals will be able to grow their wealth more efficiently and productively leading to stronger household balance sheets.	ownership would result in Government benefits (both revenue and costs). House purchases result in direct Government revenue via stamp duty. There may be less reliance on other stimulus such as the First Home Savers Scheme. There are also benefits for Australians who own their homes in retirement such as reducing need to pay rent and the eventual reliance on age pension due to greater income needs.	fund a proportion of education and related costs which would result in less reliance on HECs debt or youth allowance costs for university students.	may be less reliant on Government safety nets. This may mean Centrelink benefits and community housing costs are reduced if individuals are better able to self-support.	unexpected costs, including ability to invest in preventive health care. Improved health of Australians has potential to lead to less costly reliance on public healthcare.

Recommendation 2: That the Government invest $2.7bn over 5 years to introduce a new vehicle for Australians to invest outside of superannuation to grow their savings and support the economy, boost financial resilience, deepening domestic capital markets, and mobilising capital to more productive assets.

Making superannuation fees more comparable and transparent for consumers

We recommend that the Government invests in making superannuation fees more readily comparable and transparent through policy and regulatory reform.

Too many Australians are disengaged with, or completely unaware, of the fees that they pay for their superannuation account, and we believe a lack of transparency and comparability plays a substantial role in maintaining this situation.

Australians are generally very astute consumers – and increasingly so with the current cost of living crisis. Awareness of mortgage comparison rates, energy and insurance comparisons are now part of everyday life. Yet when it comes to what is most people's second biggest asset, their superannuation account, engagement and comparison is extremely low.

Vanguard's research[5] shows that some 34% of Australians have never reviewed or compared super fees, with 59% of those that have, reporting that they are difficult to compare. This is important because returns are decreased by every dollar spent on fees.

Our research[6] also shows that there is strong support in the community for further reform to make fees more transparent in super – 71% of Australians strongly or somewhat support reform, with only 3% opposing.

Vanguard recognises the meaningful reforms over the last decade to increase fee transparency through YourFuture YourSuper and the development of the ATO YourSuper

[5] Nationally representative survey undertaken by CT Group in May 2024 on behalf of Vanguard.

[6] Nationally representative survey undertaken by CT Group in November 2024 on behalf of Vanguard.

comparison tool, and through providing standardised fee disclosure rules in regulated documents for the super industry.

We also commend the Government on its recent commitment to invest in financial literacy as part of the retirement consultation update in November 2024 – an investment that we believe could be purposefully directed towards helping more Australians understand their super fund fees.

However, we believe there's more that can be done to ensure super fees are more readily comparable and transparent, as a critical aspect of fund selection research.

Enhancing and promoting the YourSuper comparison tool

The launch of the ATO-hosted YourSuper comparison tool in 2021 was an important aspect of the YourFuture YourSuper reforms and was designed to support comparison of the fees and performance of MySuper products.

The tool was launched with the primary default of being sorting by fees which the user could adjust to sort by net performance if preferred. This has recently been switched to a default sorting by performance, and the description now reads 'How to use the YourSuper comparison tool to compare super fund products and how they perform'.

While consistent performance is hugely important for retirement savings, Australians will be better off being able to more readily compare by fees, as one of the only controllable factors available to them. Performance will vary year to year and shouldn't be relied on solely to make future decisions, while fees can provide a better indication of likelihood of outperformance on a forward-looking basis.

One of the key original objectives of the comparison tool was to encourage funds to compete by lowering fees and increasing returns for members.

ASIC has long held a position[7] that past performance cannot be reliably used by consumers as a sole factor to predict future returns when considering whether to invest in a superannuation product.

Given the YourSuper comparison tool is intended to be used by consumers to compare superannuation products and may lead to consumers selecting a new product, sorting by fees is more appropriate and reduces the risk of misleading consumers about the future returns they could achieve.

Sorting by fees also encourages trustees to reduce their fees to improve their position on the table, delivering on the stated policy objective to encourage funds to compete by lowering fees. It would also increase the transparency of fees across the superannuation industry, noting there is currently no other objective source of truth for consumers to compare fees across the industry on a consistent basis.

In early 2022, the government announced[8] the tool had attracted 1 million users in its first 6 months. However, research[9] undertaken by Vanguard has shown that just 19% of Australians are aware of this tool, and of those only 40% have used the tool.

We believe the government should fund ASIC to run a national awareness campaign via Moneysmart similar to the successful *Energy Made Easy* campaign run to support Australians

[7] ASIC Regulatory Guide RG 53 : The use of past performance in promotional material
[8] Media Release, Senator Jane Hume: One million visits to the YourSuper comparison tool January 2022
[9] Nationally representative survey undertaken by CT Group on behalf of Vanguard in May 2024.

to compare energy costs and providers, to help Australians engage with and understand their super fees.

Total Fee Disclosure

It's not unusual to see a heavy focus on administration fees or one aspect of total fees being highlighted prominently in marketing and promotional materials and on super fund websites.

It is equally common to see super funds promoting their fund as low cost to members.

Rainmaker data[10] shows that administration fees represented between 15-23% of fees for members in 2024, while investment costs represented between 58-63% of the total.

This means it can be misleading to prospective members to single out one aspect of fees – especially a focus on administration fees - to promote their fund - as it may be nowhere close to the full picture.

Vanguard's research[11] shows that the majority of Australians (62%) with a super account would not feel confident explaining how fees are charged on their account and lack awareness of the total fees they pay on their superannuation fund and how this impacts their balance and retirement savings.

The same study also showed that most Australians (61%) are not aware that there are multiple fees charged by their super fund with uncertainty as to whether a fund is low cost.

While we commend the work that has been undertaken to ensure fee transparency through consistent disclosure in regulated documents as part of RG97, consumers still lack the simplicity required for ease of comparison and to make well-informed decisions, in non-regulated documents and promotional materials.

Full disclosure of all fees is critical for industry transparency, but so too is ensuring the public and our members can make sense of the information.

During focus groups[12], people described comparing funds as exhausting and comparing fees as 'almost impossible', due to the range of fees and confusing fee structures.

We believe it should be mandatory for funds to present total costs to members in all promotional material and activity and should be prevented from presenting one aspect of fees such as administration fees, directed by new regulatory guidance issued by the regulator.

Introducing fee benchmarks into member statements

Member statements remain a key tool for members to support their understanding of how their fund has performed for them.

In 2017, ASIC issued refreshed guidance under RG97[13] which mandated the disclosure of fees in member statements and PDSs. This stipulated the inclusion of a 'Total Fees and Costs You

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[10] Rainmaker Information's Superannuation Benchmarking Report, November 2025 Superannuation fees fall again - Rainmaker Information

[11] Nationally representative survey undertaken by CT Group in May 2024 on behalf of Vanguard. https://www.vanguard.com.au/corporate/media-centre/2024/greater-transparency-needed-on-super-fund-fees

[12] Four sets of focus groups in Melbourne and Sydney undertaken by CT Group in December 2024, commissioned by Vanguard.

[13] https://download.asic.gov.au/media/fckbncdw/rg97-transitional-version-published-29-march-2017.pdf

Paid' section which is helpful to provide members a total picture of the cost of their investment.

We believe that without context however, this total may not provide members with a sense of whether their fees were fair and reasonable. The inclusion of a benchmark to aid greater understanding of the extent of fees paid would support greater transparency and comparability.

A good example of benchmarking is the New Zealand Retirement Commission, Te Ara Ahunga Ora, who provide a fee benchmark in their fund selection tool, KiwiSaver Fund Finder[14], showing the average fees payable by members for the equivalent product type based on current fee levels and how far off retirement the user is. This sits alongside prompts and user education on fees.

Introducing standard superannuation fee calculators

Today, in order for members to find out what fee they will pay for a product choice with a super fund, they may have to review multiple pages of funds websites and product materials.

Because there is no consistency in the structure of super fund fees, members may need to calculate complex fee structures, often with combinations of dollar and percentage-based fees, and put together multiple fees to get to a total. This requires a high degree of financial literacy and is not optimal to serve the public.

By developing a standard set of parameters, funds could offer their members a simple user friendly calculator which allows the user to choose a product and input their super balance and find out the total fees (investment fee, administration fee and transaction fees) will pay each year.

Vanguard has offered this simple tool[15] since we launched our own superannuation fund and in our experience is neither complex nor costly to develop and maintain.

Recommendation 3: That the Government invest in making superannuation fees more readily comparable and transparent through policy and regulatory reform through:

- **Enhancing the features of and promote the Australian Tax Office's YourSuper comparison tool.**
- **As part of the current review of Regulatory Guidance 234 ensure:**
  - **that super funds only promote fees as a total, inclusive of administration, investment and transaction fees and costs in marketing and promotional activities; and**
  - **appropriate use of the phrase *low cost* in marketing and promotional activities.**
- **Support reforms to compel super funds to provide a benchmark comparison in member statements alongside the total fees paid by the member and provide a standard fee calculator on their public website to allow members to more easily research and compare fees.**

[14] The Sorted KiwiSaver fund finder is administered by Te Ara Ahunga Ora Retirement Commission - an autonomous crown entity that is government funded and independent of any KiwiSaver provider.

[15] Vanguard Super offers a fee calculator on its public website to allow visitors to calculate the total yearly fee they will pay https://www.vanguard.com.au/super/performance-and-fees/fees/superannuation

Vanguard appreciates the opportunity to contribute to the 2026/27 Federal Budget process measures which we are confident will enhance Australian's financial wellbeing.

Our team would welcome the opportunity to discuss the recommendations we have made in this submission further. Please contact Sara Dix, Vanguard's Australian Head of Public Policy, on sara.dix@vanguard.com.au.

APPENDIX 1: Discussion Paper: Helping Young Australians Become Investors

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Discussion Paper

Helping Young Australians Become Investors

Contents

Executive Summary

MyInvestment is a proposed tax-incentivised investment vehicle aimed at mobilising excess household cash into productive investments to deepen the capital pool in Australia, build financial resilience and diversify wealth beyond housing and superannuation. It targets everyday Australians, especially younger cohorts, to support economic growth, resilience, and competitiveness in the face of key challenges like an ageing population, wealth gaps, and low financial literacy.

- **Economic challenges facing Australians:** Australia faces issues including an ageing population, intergenerational wealth gaps, housing affordability, low financial literacy, and a volatile global economy, all impacting productivity and social cohesion.
- **Need for a fourth wealth pillar:** Australia's household wealth is concentrated in housing, cash, and superannuation. Vanguard proposes a fourth pillar – retail investments – using tax incentives to democratise and deepen capital markets.
- **Limitations of housing as wealth:** Home ownership remains the primary wealth avenue but is increasingly unaffordable, with tax concessions favouring higher-income groups and driving capital into less productive housing assets.
- **Cash savings inefficiency:** Australians hold a large portion of wealth in cash, which offers limited returns compared to equities and has its purchasing power eroded by inflation, highlighting an opportunity to reallocate cash into capital markets.
- **Superannuation's role and its limits:** While superannuation is a significant and growing wealth accumulation system, it is generally not accessible until retirement and does not support medium-term financial goals, underscoring the need for alternative investment avenues.
- **MyInvestment design:** Vanguard proposes a tax-exempt investment vehicle with up to $20,000 annual contributions, a minimum 24-month holding period for the exemption to apply, unrestricted withdrawals, and investment in listed equities, fixed income, listed property, and infrastructure via accredited vehicles, including ETFs and managed funds.
- **Projected benefits and uptake:** Modelling by NMG Consulting for Vanguard estimated different scenarios and under a best case scenario, the proposal could see a capital boost of up to $100bn over 10 years with 4.4 million Australians benefitting; the modelling estimates that individuals investing $20,000 annually over the same period could accrue around $276,000, which would leave them $40,000 better off than being in cash*.[1]
- **Public support and behavioural impact:** Research** shows 72% support for MyInvestment, with tax concerns and fear of loss as barriers to investing; over half of respondents would invest or save more under the regime, especially younger Australians aiming for a house deposit.
- **Policy targeting options:** To avoid disproportionate benefits to the wealthy, design options include age-based eligibility targeting younger Australians; means or income-testing are another option, but our recommendation is age-based eligibility for simplicity and effectiveness.

1 Assumes Balanced portfolio and asset-level expected returns per annum of 3.2% for cash, 6.4% for direct ETF and 4.3% for bonds.

* Estimate is under a 'best case' scenario which would see 25% take-up at a maximum contribution rate of $20,000 per annum over a 10-year period and assumes no withdrawals. The additional benefit consists of $7,800 tax benefit and $32,200 in additional (compounding) returns. Does not include a deflator.

** Survey conducted by SECNewgate in April 2025 for Vanguard. The survey comprises a representative sample of Australians aged 18 and over with a margin of error of +/- 2.9% (95% confidence interval). Quotas set on gender, age and location, data weighted to ABS Census population statistics on age, gender, location and occupation.

1. Facing the future

Australia will enter the 2030s facing key challenges: an ageing population, an intergenerational wealth gap exacerbated by a housing affordability challenge, changing work patterns and the coming of artificial intelligence (AI), and chronically low levels of financial literacy[2]. These are compounded by a volatile global economic environment and geopolitical uncertainty.

The challenge of an ageing population has likely implications for our productivity, our economic resilience and dynamism, and social cohesion. A shrinking base of working age Australians will now support a growing number of older Australians[3], but this is not the full picture.

The intergenerational wealth gap risks becoming an intra-generational one due to the great wealth transfer – inherited wealth of which only some will be beneficiaries. Low levels of financial literacy, an ongoing lack of access to affordable advice and guidance, and a culture of building wealth through housing which is now inaccessible for many – including some retiring Australians – all make this challenge even bigger.

Australia is well placed to tackle some of these, but efforts to make our economy more competitive and resilient require us to think about all possible solutions to future-proof it from unexpected shocks, including the role of capital markets in helping shore up resilience and improve economic dynamism.

This includes making Australians more financially resilient as they face a changing economic landscape.

Superannuation is part of the solution as over five million Australians continue to be or are nearing retirement[4]. However, these challenges highlight the importance of having avenues to build financial security outside of the super system, especially after the high inflation period of 2021 to 2023 saw the real value of Australians' cash savings eroded – a period of high overall sharemarket returns which many missed out on by not being invested.

Productivity remains a challenge and in the face of structural technological developments like AI having the potential to fundamentally restructure how labour contributes to productivity, the effective mobilisation of capital will play a key part in keeping Australia competitive and helping the 'productivity drive' into the 2030s.

2 National Financial Capability Strategy (2021).

3 Treasury (2023). Intergenerational Report 2023.

4 Ibid.

2. The fourth pillar – why we need it

The 3 pillars of Australian household wealth

Tax concessions drive investment behaviour and Australia's household wealth composition reflects this. Australians' wealth is broadly distributed across 3 pillars: housing, high levels of cash savings compared to similar economies, and superannuation. Housing and superannuation draw high levels of tax concessions which distort savings behaviour and, as we outline later in this section, tend to benefit higher income earners and older cohorts.

The flow of capital towards a limited stock of housing exacerbates some of the affordability challenges our society faces today, although enabling Australians to save for a home should not be discouraged. Vanguard considers, however, that of the capital flowing to housing, some of it could be re-allocated towards capital markets to deepen the pool of capital available to businesses while easing the federal burden of tax concessions going to a relatively unproductive economic asset.

> Vanguard proposes the enhancement of a fourth pillar to help younger cohorts who are more likely to miss out on existing tax concessions for super and housing: retail investments.

Using tax incentives to build this fourth pillar offers an additional tool to build wealth, democratise investing in capital markets, and fund vital lifetime expenses. The challenges in and limits of the other pillars (housing, cash, and superannuation) make it essential that Australia develop a stronger retail investing pillar to maintain broad and deep capital markets and contribute to a robust, resilient, dynamic and competitive economy.

High levels of cash relative to other financial assets, and the lower returns they deliver to savers compared to other financial assets like listed equities[5], highlight the need to enable savers to get their money working better for them. Low levels of financial literacy further highlight the need for Australians to get engaged with their finances, which the current investment landscape does not address as superannuation members remain generally disengaged from their retirement savings, and housing remains the main aspiration for building wealth.

In this section we outline some key elements of each pillar and how their limitations highlight the need for a fourth pillar.

Housing – increasingly out of reach

Housing and tax policy have made home ownership the main avenue for building wealth and the largest focus of private savings. Housing remains the single largest asset (financial or non-financial) for many Australians, with a collective value of land and dwellings of $11.6 trillion as of March 2025, according to ABS data[6]. This is more than the value of superannuation, cash, and equities combined[7].

Public attitudes towards housing to build wealth remain sticky as the dream of home ownership remains aspirational for many Australians[8]. Policy settings continue to incentivise capital flows into the private housing market, but home ownership is increasingly out of reach for many Australians.

5 Vanguard (2025). Index Chart.

6 ABS (2025). Australian National Accounts: Finance and Wealth, March 2025.

7 Productivity Commission (2022). Housing and Homelessness Agreement review – Study report.

8 Australian Institute of Health and Welfare (2025). Home ownership and housing tenure.

It is this group who not only loses out on home ownership due to unaffordable housing but does not benefit from any meaningful tax concessions for other forms of saving outside of superannuation. The 2024-2025 Tax Expenditures and Insights Statement shows that the tax benefit from rental losses (negative gearing) was around $2.2bn in 2021/22[9], while recent figures show negative gearing would cost around $6bn in 2024[10]. 81% of the total tax reduction went to people with above-median income, while one third went to those in the highest income bracket. More than half went to people aged between 40-59[11].

Housing remains a relatively unproductive asset which attracts much of Australians' wealth, who leverage themselves before considering if there are better alternatives to build wealth. A tax-incentivised retail investment vehicle is likely to influence savings behaviour and mobilise capital away from an unproductive asset like housing, towards capital markets.

Cash savings – at risk of erosion and unproductive

Data from the Organization of Economic Cooperation and Development (OECD) shows Australians' cash and cash equivalent holdings like term deposits is 25% of financial assets[12]. Similarly, data from the Australian Bureau of Statistics (ABS) for March 2025 shows that households hold around $1.8 trillion in currency and deposits compared to $1.5 trillion in shares and other equity (excluding superannuation)[13].

Put another way, for every dollar Australians hold in cash they hold 83 cents in shares and other equity. This shows that, outside of superannuation, there is limited participation in capital markets and there is an opportunity to reallocate some of this cash for capital deepening.

There is evidence that younger generations are looking to participate and invest more than ever[14], but current policy settings to encourage savers to invest outside of superannuation do not support this appetite towards investing.

Having a cash buffer remains a rational strategy for any individual or household but there are risks in holding more cash than is necessary, especially during periods of high inflation. Cash erodes and loses its real value with time, even before accounting for the tax on interest, if any, on that cash.

This highlights the need to consider ways to help Australians improve their financial security through investing. The data supports this position: the 2025 Vanguard Index Chart sketches out market returns from 1 July 1995 to 30 June 2025 and compares the returns of cash vs other capital allocations such as Australian Shares.

The Index Chart shows an initial $10,000 investment on 1 July 1995 could have returned $143,786 by 30 June 2025 when invested in Australian Shares compared to $33,677 in cash[15] (see Appendix A).

Targeted support for savers to build financial resilience and build wealth outside of superannuation and, for an increasing cohort, housing is key to unlocking this idle capital. Tax concessions are a way to address this investment gap.

9 Treasury (2025). 2024-2025 Tax Expenditures and Insights Statement.

10 ABC (2024). "One million Australians negatively gearing, new tax figures show". Article published 17 December 2024.

11 Ibid.

12 OECD (2022). Household financial assets. *Currency and deposits, % of total financial assets, 2022.*

13 ABS (2025). Australian National Accounts: Finance and Wealth, March 2025.

14 ASX Investor Study in 2023 showed 51 per cent of Australians (10.2 million people) hold investments in addition to their home and their super fund. This is a rise of 13 per cent (or 1.2 million investors) since the last survey in 2020.

15 The example of an investment of $10,000 into Australian Shares on 1 July 1995 and the corresponding outcomes as of 30 June 2025 is based on the past performance of the S&P/ASX All Ordinaries Total Return Index. They assume the $10,000 is fully invested (and remains fully invested). The calculations assume no acquisition costs, fees or taxes, with all distributions reinvested. All results displayed in nominal dollars i.e. inflation has not been taken into account. An actual investment would be subject to acquisition costs, fees and taxes.

Superannuation – a large and growing system meant only for retirement

Superannuation continues to grow as the system matures and the superannuation guarantee (SG) hits 12%. While the super system faces its own challenges, notably how it can effectively help Australians spend down their accumulated wealth in retirement, it will be for many their largest asset – one that is not accessible until retirement.

The 2023 Intergenerational Report recognises the importance of superannuation not only as an asset for individuals, but as "an important source of capital in the economy, contributing to the strength of financial markets through capital deepening"[16].

This thinking should also apply to savings sitting outside the superannuation system – namely, a portion of cash savings that can be deployed for the same purposes, but which provides Australians with flexibility, access, and liquidity over the short-and-medium term compared to superannuation.

The fourth pillar to unlock capital – Retail Investments

Building assets outside of superannuation is essential to building financial resilience, smoothing the consumption cycle throughout an individual's life, and having ready access to funds which, compared to super, are not exclusively preserved for retirement.

There is growing evidence that younger Australians are looking for ways of building wealth through investing, especially those who have become disillusioned with the diminishing prospect of home ownership. However, investing remains an important way for aspirational home buyers to save for a house deposit, and policy settings should encourage savers to invest and support them in doing so. Indeed, policy settings could also encourage behavioural change in how Australians invest.

While superannuation has been a successful retirement savings vehicle, it is not designed for medium-term goals such as saving for a home deposit, building emergency funds, or growing wealth.

16 Treasury (2023). Intergenerational Report 2023.

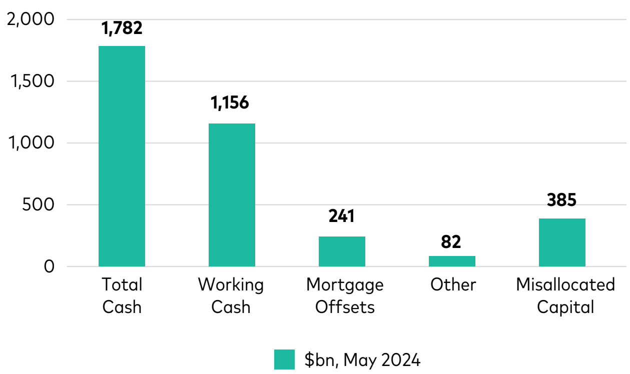
3. The size of the opportunity for Australians

Vanguard's research has identified a sizeable gap in how Australians save. Comparing the size of financial assets, cash remains the preferred method of saving. While cash savings remain essential, there is a level of excess cash that is idle and could be better mobilised towards capital markets.

Capital allocation in the current economic environment

Looking at the 2025 ABS data for cash holdings and equity holdings, Vanguard estimates that there is a misallocation of capital in the Australian economy. This misallocation of capital contributes to lower productivity growth and limits financial resilience for individuals as dollars are tied up in mortgage debt and/or cash. For cash and cash-like holdings, their value erodes at the rate of inflation which reduces the purchasing power of individuals.

FIGURE 1
Unlocking cash on the sidelines



Modelling by NMG Consulting for Vanguard estimates that of the approximately $1.8 trillion Australians hold in cash and term deposits, around $385.3 billion is sitting in cash which could be better deployed towards capital markets[17]. Another $82 billion is sitting in other capital segments which could also be reallocated, for a total estimate of $467 billion in misallocated capital[18].

The modelling acknowledges that a large portion of the $1.8 trillion in cash is necessary – that is, working cash that households hold for liquidity or a cash buffer. However, there is scope to unlock this large pool of excess cash which is likely to benefit Australians over the long term and deepen the capital pool available for businesses.

> To do so, Vanguard proposes the introduction of a tax-advantaged investment regime for retail investors to build a robust fourth pillar.

This would encourage saving in addition to superannuation, encourage Australians to engage with their finances, build financial resilience through likely higher returns than available to cash, and contribute to a resilient, dynamic and competitive Australian economy.

Increasing the savings capacity of Australians

Introducing a tax-advantaged regime for retail investors could provide a way for Australians to save for a range of non-retirement goals, including saving for a house deposit, education, health and financial security and rainy-day provisions while redirecting necessary capital to more productive uses.

17 Modelling by NMG Consulting for Vanguard as of May 2025.

18 Based on NMG estimates, NMG Stock and Flow model, ATO data, ABS data, APRA data, Challenger annual reports, Generation Development Group annual reports.

4. MyInvestment – Stronger Retail Investments

Vanguard proposes the introduction of MyInvestment: a simple, flexible regime where Australians can invest in public markets in a tax-exempt way.

TABLE 1
MyInvestment design parameters

Annual Cap	Up to $20k contribution (no min.)
Time Invested[i]	Minimum 24-month holding for tax exemption to apply
Tax	After-tax contributions; interest, dividends, capital gains exempt (excl. < 24 months)
Withdrawals	Unrestricted
Asset Class	Listed Equities, Fixed Income, Listed Property, Infrastructure. Excludes access to private equity and other riskier asset classes due to individual investor audience (this would include vehicles like ETFs and managed investment schemes)

i Relevant marginal tax rate to apply for withdrawals within 24 months.

We propose a capital gains tax-exempt regime for retail investors with a contributions cap of $20,000 per annum of post-income tax savings.

To provide appropriate guardrails and consumer protections, the vehicle would require simplicity and standardisation across product offerings. This could follow a similar principle to MySuper products in terms of a simple diversified low-cost product that issuers could apply for accreditation to promote as part of this regime.

A simple approach would be to offer ETFs and Managed Funds that invest in listed securities with relatively lower investment risk as opposed to private assets and more complex investments. Investors would be free to withdraw their money out of the structure without restriction after 24 months, and if they choose to withdraw it earlier, no tax exemption would apply, and the withdrawal would be taxed at the relevant marginal rate.

The two-year period for tax-exempt status is to ensure the policy intent of encouraging capital mobilisation is achieved, but also to encourage savers to hold investments for longer given the potential for sharemarket volatility. After-tax contributions, interest, dividends and capital gains would be tax-exempt.

TABLE 2

Features and rationale

	Annual Contributions Cap	Tax Treatment	Eligible Investments	Eligible investors	Access to capital
Proposed feature	$20,000	After-tax contributions, interest, dividends, capital gains (withdrawn or not) would be tax exempt.	ETFs and Managed Funds offering listed investments	The proposed vehicle would be accessible to all adult Australians	Unrestricted – tax exemption eligibility to investment gains held for 24 months or more
Feature rationale	Right-sizing maximum allowable annual contributions is key to finding balance between meeting near-term needs (use cases) of Australians and the cost to the Government.	Tax exemption versus concession is proposed to ensure the right motivation exists to propel the success of the vehicle, and given the assets involved are post income tax savings.	Accredited standardised investments present a level of consumer protection which we propose given the vehicle can be accessed widely and exist in an environment where access to financial advice and financial literacy levels are low.	While we propose broad accessibility, the design of the vehicle (capped investment amount and standarised investments) is such that it is more likely to be attractive to low- and middle-income earning Australians versus the wealthy. Means or asset-testing could be considered but this may increase the complexity of administering the vehicle and limit the uptake. Age capping may also provide a way to demographically target the vehicle and is administratively less complex than means-testing.	We propose unrestricted access to the capital invested, however propose the tax exemption is provided for capital invested for 24 months or longer. This is to encourage a minimum term given assets are invested in securities which carry more risk than cash holdings.

The model

We considered different scenarios to model to ensure a variety of outcomes could be measured.

5-year horizon

NMG modelled our proposal based on estimates where 5% of the employed population take up a MyInvestment account each year, increasing to 25% in 5 years. These assumptions are in line with our findings through consumer research and take up rates from other similar OECD economies' participation in similar schemes[19].

Once a full tax exemption on earnings and capital gains is applied, the model projects an additional capital boost of $12.2bn over 5 years. For individuals, it is projected that someone who invested $15,000 per year for five years would be $7,100 better off under this regime. Overall, it is estimated that 4 million Australians would benefit from this regime[20].

The modelling shows the improved returns are a result of an allocation of capital away from cash towards listed equities, assuming a balanced portfolio, and includes the benefit arising from the tax concession.

19 In the UK, take up as of 2023 was around 18% based on HM Revenue & Customs figures for September 2024 which showed around 12.4 million adult ISA accounts were subscribed to. Commentary for Annual savings statistics.

20 See Appendix B for assumptions and detailed modelling.

The benefits are further borne out by Vanguard's Index Chart which shows that over the past 30 years Australian Shares, for example, outperformed cash by 291%. It highlights that being invested is itself largely a better outcome, but the $385.3 billion pool of excess cash in the Australian economy suggests individuals need incentives to deploy this capital.

Providing a tax incentive for savers to invest would help in building financial resilience for individuals while also deepening the capital pool. We estimate that the annualised cost to the budget is $540m ($2.7bn over five years) of foregone revenue, a relatively small cost compared to existing tax concessions for housing and superannuation which range from around $11bn[21] to $60bn[22] per year in foregone revenue.

10-year horizon under a 'best case' scenario

Under a 'best case' scenario, where the estimate assumes a 5% take-up in year 1 increasing to 25% take-up to year 5, and holding steady at 25% through to year 10 at a maximum contribution rate of $20,000 per annum, the model estimates a capital boost of up to $100bn over 10 years with 4.4 million Australians benefiting from the proposal. At an individual level, the modelling estimates that Australians investing $20,000 annually over the same period could be $40,000 better off than being in cash. Under this scenario, the annualised cost of MyInvestment is around $2bn.

Vanguard considers that some of this cost could be offset by discontinuing other schemes such as the First Home Super Saver Scheme (FHSSS), estimated to have cost $250m over the forward estimates[23] when it was introduced; and the Help to Buy Scheme which has a government investment of $6.3 bn[24]. Our proposal would be simpler and less administratively burdensome for the ATO and replacing the FHSSS removes the potential conflict the scheme has with the objective of superannuation.

21 ACOSS (2025). Homes for living, not wealth creation.

22 Grattan Institute (2025). Why super should be on the tax reform table.

23 Federal Budget 2017-18 Budget 2017-18 - Budget Measures Budget Paper No. 2

24 Federal Budget 2025-26 Budget Paper No. 2

5. Australians want this

Beyond modelling the benefits and impacts, we undertook consumer research to test community attitudes to our proposal. The survey, conducted by SECNewgate, comprises a representative sample of Australians aged 18 and above and identifies community attitudes that support our proposal.

The first data point supports what the ABS and OECD data show: a majority of financial assets are held in savings or transaction accounts and while most Australians (83%) have money sitting in cash (i.e. savings accounts) only 41% have money invested in shares.

The survey asked about barriers to investing, with 66% saying the amount of tax paid on investment earnings was a barrier, highlighting the need to encourage savers to invest through tax incentives. Three quarters (75%) of respondents noted the fear of loss as another barrier, suggesting a regime like MyInvestment, with its accredited range of simple and low-cost products, would provide retail investors with a trusted framework within which they can invest and engage with their savings.

Most Australians support allowing a tax-free investment vehicle

Despite these barriers, 72% support the introduction of MyInvestment in Australia. Respondents were provided with a description of the proposal, which is modelled on the UK's individual savings accounts (ISA), with the highest level of support coming from the 18-34 cohorts – albeit support was strong across all age bands.

Impact on savings

Vanguard estimates that introducing MyInvestment would encourage Australians to save more. Survey responses suggest this is likely.

When asked how likely they would be to invest in an ISA if a similar regime was available in Australia, 54% said they would invest some money and 50% said they would save more than they currently do.

> Furthermore, 58% of 18–34-year-olds indicated they would use MyInvestment to help them save for a home deposit.

The survey responses provide us with a strong guide on the effectiveness of our proposal to influence savings and investment behaviour. In particular, it shows how younger cohorts would benefit from a MyInvestment regime through closing the investment gap, building financial resilience, helping those on the path to homeownership and providing an avenue for those who won't own a home to build wealth.

6. International comparisons

Vanguard's *Core Components of a Successful Investment System*[25] research paper looked at other economies which have implemented a tax-advantaged regime for retail investors. It found that countries that offer tax-efficient investing vehicles that allow investments to grow tax-free or tax deferred, such as Individual Savings Accounts (ISAs) in the UK, ISKs in Sweden and Individual Retirement Accounts (IRAs) in the US, tend to see higher levels of stock-market participation, as well as much higher savings pools that are not sitting in unproductive cash deposits.

The evidence globally shows that fiscal incentives can be an effective means by which to encourage increased investment in capital markets while improving outcomes for individual savers. Recent examples include the European Union's (EU) savings and investments union (SIU) strategy, adopted in March 2025, "to improve the way the EU financial system channels savings to productive investments"[26]. Crucially, the European Comission has set the SIU as a key priority to help the EU have a competitive economy by mobilising savings to more productive investments.

In addition to the EU's policy of integrating a savings and investments regime, two case studies stand out as examples of successful tax-advantaged regimes and which serve as a blueprint for Vanguard's proposal for the introduction of MyInvestment in Australia: the UK's individual savings accounts (ISA) and Sweden's individual savings account (ISK). Other non-retirement, tax-advantaged regimes are summarised in table 3 on page 13.

UK Case Study

In 25 years, more than £700 billion has been amassed in UK Investment Savings Accounts (ISAs), with Stocks and Shares ISA holdings accounting for just under 60% of the market value of ISA funds in the 2022 to 2023 tax year. There has also been substantial take up by low- and middle-income households. Data published in 2024 shows that 46% of households (or 10 million) contributing to an ISA have a household income below £20,000, well below the median full-time gross earnings of £37,430 per annum.

Sweden Case Study[27]

Introduced in 2012, the Swedish ISK has been a success in helping Swedish savers build wealth. Using figures from the Swedish Tax Agency, the Swedish Investment Fund Association estimates total wealth accumulated by 2023 was SEK 1.6 trillion under 3.8 million unique account holders[28], with estimates showing around 41% take-up by the population aged +15[29].

The success of the ISK is ascribed to its simplicity and flexibility, highlighting the need for simple vehicles that enable the mobilisation of savings to productive investments.

25 Vanguard (2025). Core Components of a Successful Investment System.

26 European Commission (2025). Savings and investments union strategy to enhance financial opportunities for EU citizens and businesses. Communication.

27 Swedish National Audit Office (2018). Investment savings account – a simple form of saving in a complex tax system.

28 Circa AUD $266 billion based on 2025 exchange rates.

29 New Financial (2025). Designing savings and investment accounts in the EU. Analysis of investment accounts and tax wrappers in Europe and worldwide – what EU and member states can learn from them.

TABLE 3

Jurisdictional comparisons of tax incentives for retail investors

National scheme	Launch	Contribution allowance	Tax treatment	Eligible assets for investment	Assets, % of GDP	Take-up, % of adult population
Canada TSFA	2009	**Annual:** CAD 7,000, indexed to inflation. **Lifetime:** Annual allowances accumulate from when people turn 18 to a maximum "contribution room" in 2025 of CAD 102,000	TEE		18.4 % (2022)	54.1% (2022)
France PEA	1992	**Lifetime:** EUR 150,000. A total allowance of EUR 225,000 applies to the combined value of PEA and a version of the PEA that is targeted at investments in SMEs	TET Withdrawals incur social security contribution payments. Account must be open for at least five years to qualify for tax benefit	Must be invested in equity issued by companies headquartered in the EEA or funds investing at least 75% of their assets in EEA equity	3.9% (2024)	12.3% (2023)
Italy Ordinary PIR	2017	**Annual:** EUR 40,000. **Lifetime:** EUR 200,000	TEE Account must be open for at least five years to qualify for tax benefit	70% of capital must be invested in securities issued by firms incorporated in Italy; 30% of this must be in SMEs	0.8% (2023)	No data
Japan Growth NISA	2014	**Annual:** JPY 2,400,000. **Lifetime:** JPY 12,000,000. A total allowance of JPY 18,000,000 applies to the combined value of Growth and Tsumitate NISAs	TEE	Listed equities and funds	4.9% (2023)	10.6% (2023)
Sweden ISK	2012	Tax-free allowance of SEK 150,000 (rising to SEK 300,000 in 2026).	TTE The first SEK 150,000 held in account are tax-free, rising to SEK 300,000 in 2026. Flat annual tax based on Swedish government borrowing rates applies to holdings above that (1.086% in 2024)	Listed securities (including bonds)	31.2% (2024)	45.4% (2024)
UK Stocks & Shares ISA	1999	**Annual:** GBP 20,000. Allowance applies to combined value of contributions to all ISA types.	TEE	Listed equities, listed investment trusts, UK/EU UCITS investment funds, listed corporate bonds, UK/EEA government bonds, cash	17.1% (2022)	6.8% (2022)

Source: New Financial Designing Savings and Investment Accounts in the EU (2025)

Note: T = taxed; E = tax-exempt. The three-letter sequence denotes: (1) whether contributions are made from pre- or post-tax income; (2) whether capital gains, dividends and/or interest are tax-exempt; and (3) whether investment withdrawals are taxed.

7. Policy Considerations for targeted tax concessions

The modelling and consumer survey outlined in this discussion paper assume a base case of open eligibility, which has been done for simplicity. However, Vanguard recognises the need for targeted measures and notes that MyInvestment could operate under stricter eligibility measures.

Having regard to examples in other economies, Vanguard views an opportunity to ensure that MyInvestment is a targeted policy that minimises the distributional effects of tax concessions on the wealthy. Our research suggests that younger and low-and-middle income cohorts would be better served by this policy, and our proposed design feature of annual contribution caps is intended to act as a disincentive for wealthy Australians to simply shift assets into a tax-advantaged setting.

To address the potential risk of further tax concessions being distributed to those who do not need them, we outline additional features that could be embedded into the policy design to ensure MyInvestment operates as intended.

Below we outline some additional features for consideration, including their feasibility and complexity, and make a recommendation for which option could be adopted.

Option 1 – Age-based eligibility

One option to mitigate against distributional unfairness is to introduce age-based eligibility for MyInvestment. This would ensure that the policy is targeted at the cohorts that need it the most, younger Australians who may be saving for a home, or may not be able to afford a house and are seeking to build wealth through other avenues.

This option would be relatively straightforward to administer compared to other mechanisms, and it would ensure that tax concessions other than superannuation are channeled to younger Australians. However, it excludes some potential investors in older cohorts who under a means or assets-test eligibility regime may benefit from MyInvestment.

Option 2 – Means-test eligibility

Another option is to means test eligibility for MyInvestment. Means testing would consider all income sources and determine eligibility based on a threshold.

This option would be complex to administer compared to age-based eligibility and add complexity to the regime, which is intended to be simple and flexible. In addition, it has the potential to be exploited by high income earners who are able to artificially lower their income.

Option 3 – Asset-test eligibility

The third option is to make eligibility for MyInvestment based on an asset test. The asset test would consider all assets under the individual's name and determine eligibility under a specified threshold.

Similarly to Option 2, this option is likely to be more complex to administer than age-based eligibility and risks excluding cohorts who may have illiquid assets but little savings such as some older cohorts.

TABLE 4

Comparison of options

Eligibility	Benefits	Drawbacks	Recommendation
Option 1: Age-based	• Simpler administration • Targeted policy • Intergenerational fairness	• Excludes older cohorts who may benefit	• Most feasible
Option 2: Means test	• Targeted mechanism • Distributional fairness of tax concessions	• Complex to administer • Dilutes policy impact on capital markets	• Feasible but with high administrative costs
Option 3: Assets test	• Targeted mechanism • Distributional fairness of tax concessions	• Complex to administer • Dilutes policy impact on capital markets	• Feasible but with high administrative costs

Vanguard recommends Option 1

This option is simpler, easier to administer, is targeted to younger Australians and remains flexible for users of MyInvestment.

8. Conclusion and Recommendation

The introduction of MyInvestment would represent a strategic opportunity to enhance financial resilience, democratise investment, and support economic growth. It is a policy for everyday Australians, especially younger cohorts, and addresses a clear gap in the current savings landscape.

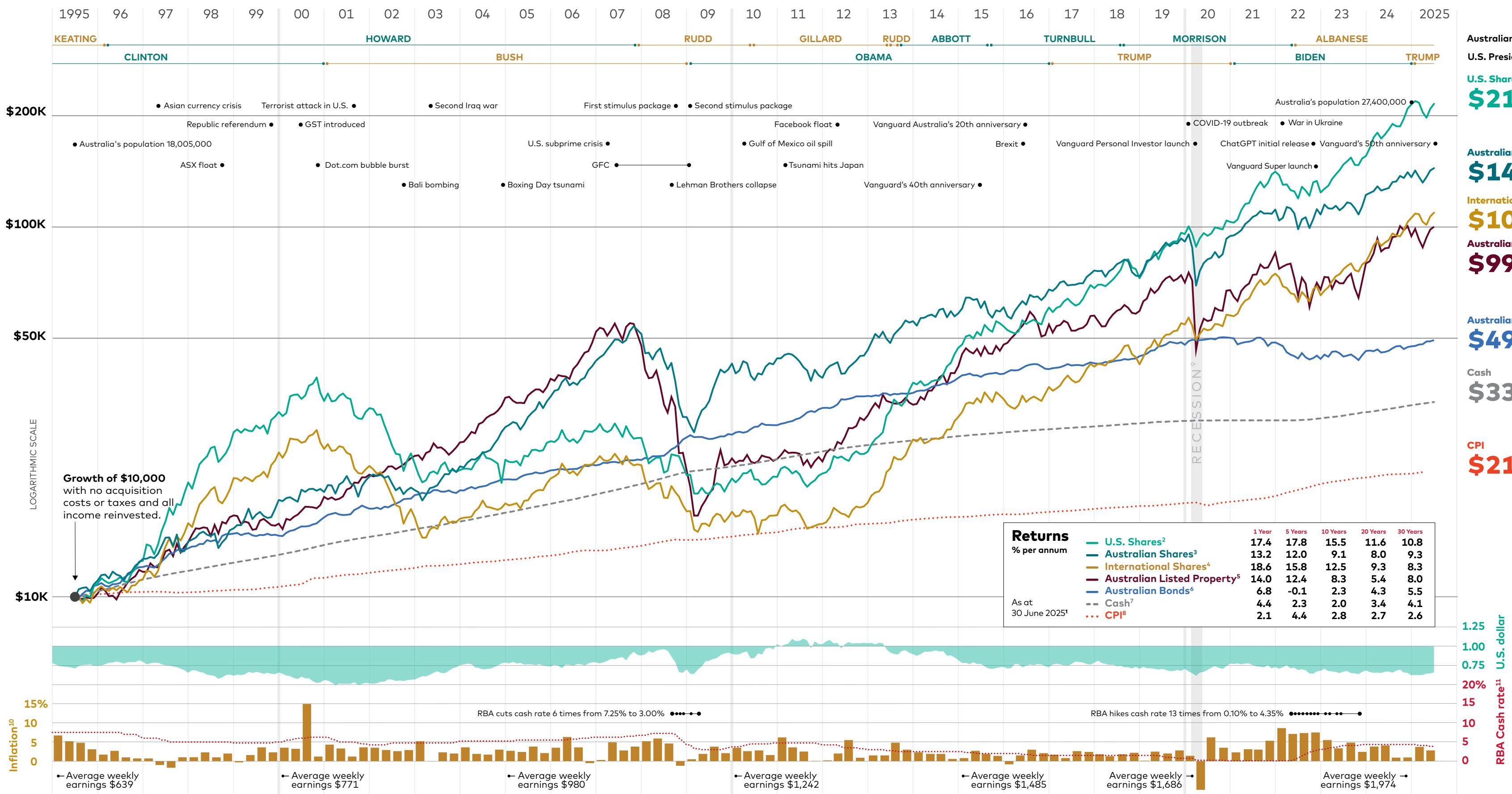
We recommend the government establish MyInvestment as a new tax-incentivised regime, drawing on international best practices and tailored to Australia's needs.

Please contact Vanguard's Australian Public Policy team for any queries: APP@vanguard.com.au

2025 Vanguard Index Chart

Market returns – 1 July 1995 to 30 June 2025

Vanguard
Strong and Steady



Returns
% per annum

	1 Year	5 Years	10 Years	20 Years	30 Years
U.S. Shares[2]	17.4	17.8	15.5	11.6	10.8
Australian Shares[3]	13.2	12.0	9.1	8.0	9.3
International Shares[4]	18.6	15.8	12.5	9.3	8.3
Australian Listed Property[5]	14.0	12.4	8.3	5.4	8.0
Australian Bonds[6]	6.8	-0.1	2.3	4.3	5.5
Cash[7]	4.4	2.3	2.0	3.4	4.1
CPI[8]	2.1	4.4	2.8	2.7	2.6

As at 30 June 2025[1]

Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance.

Sources: Australian Bureau of Statistics, Bloomberg Finance L.P., Melbourne Institute of Applied Economic & Social Research, MSCI Inc., S&P Dow Jones Indices LLC., WM Reuters.

Notes: 1. Per annum total returns to 30 June 2025. 2. S&P 500 Total Return Index (in AUD). 3. S&P/ASX All Ordinaries Total Return Index. 4. MSCI World ex-Australia Net Total Return Index AUD Index. 5. S&P/ASX 200 A-REIT Total Return Index. 6. Bloomberg AusBond Composite 0+ Yr Index. 7. Bloomberg AusBond Bank Bill Index. 8. ABS Consumer Price Index. 9. Recessions as defined by the Melbourne Institute of Applied Economic and Social Research. 10. Annualised Rate of Inflation. 11. Interest Rate is the Reserve Bank of Australia's O_cial Cash Rate. All figures are in Australian dollars. All marks are the exclusive property of their respective owners.

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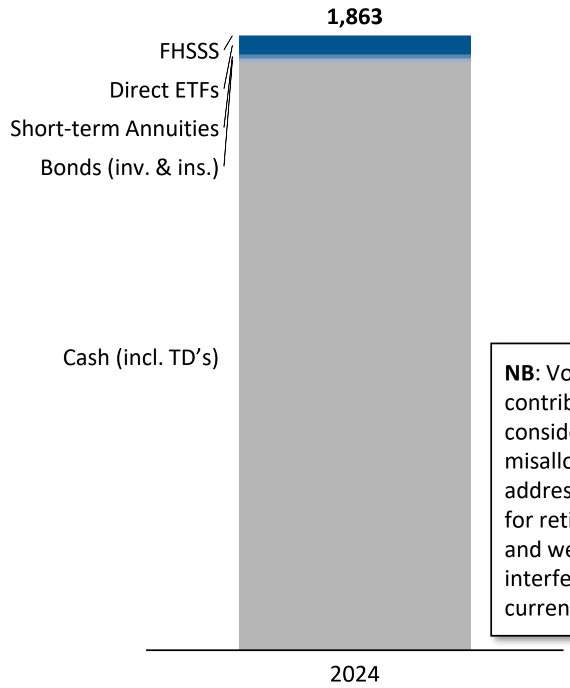
INDPOST_082025

Misallocated Capital

NMG estimates the current size of misallocated capital in the Australian market to be ~$1,863bn , with approximately ~$467bn being addressable for the purposes of introducing a tax-advantaged structure

Misallocated Capital

Estimated size of misallocated capital segments
($b, 2024)



NB: Voluntary Super contributions are not considered misallocated / addressable; they are for retirement saving and we are not interfering with current structures

Addressable Market

Segment	*Size*	*Addressable*	*Validity of Opportunity*
FHSSS[1]	~$1.4b	~$1.4b	▸ 100% addressable assuming same tax saving benefits setting offered ▸ Removes interaction with Superannuation
Direct ETFs	~$56.5b	~$56.5b	▸ Most contestable, assuming the same underlying ETFs are available within tax-advantaged structure ▸ Assumes wealthier investors are advised &/or holding direct shares
Short-term Annuities	~11.4b	~11.4b	▸ Safe to assume that majority of this is contestable, given a tax-advantaged savings structure gives greater benefit and more flexibility (e.g. investment term) ▸ May still receive contributions in excess of set caps
Bonds (inv. & ins.)	~11.9b	~$11.9b	▸ Insurance and investment bonds typically have lock-up periods, so a savings / investment tax-advantaged structure likely to be preferrable
Cash (incl. TD's)	~$1,781.8b	~$385.3b[2]	▸ Long horizon, non-offset (i.e. cash at bank and TDs), recognising offset serves purpose / cost reduction ▸ ~NMG estimates 20% addressable post mortgage offset and short-term working cash needs
Totals	**~$1,863.0b**	**~$466.5b**	

Sources: NMG Estimates, NMG Stock and Flow model, ATO, ABS, APRA, Challenger, Generation Development Group, SECNewgate, annual reports
Notes: [1] First Home Super Saver Scheme

Benefit and Tax Implications

A tax-advantaged structure will increase the savings capacity of Australians by incentivising savings behaviour and more efficient allocation of assets (whilst potentially mitigating reliance on social benefits)[1]. This must be balanced in considering lost Government tax revenue.

Scenario / Inputs

Scenario

- 5% of the employed population take up the new structure each year, increasing to 25% in 5 years
- Benefit to Australians and cost to Government is compared between this scenario, vs the current scenario, where Australians are invested across range of structures (slide 15)

Tax-advantaged Structure Settings

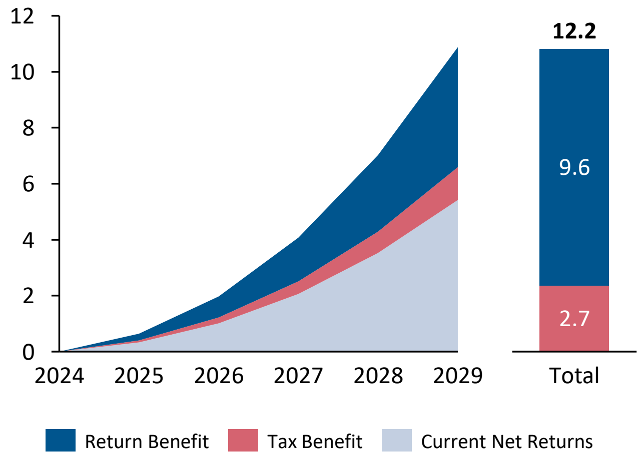
- Full tax exemption on earnings and capital gains
- Allocation into investment product achieving 5.82% returns[2]
- No withdrawals occur over the time period
- No total balance cap

Scenario Assumptions

- Individuals contribute $15k p.a. (25% less than max.)
- Investment vehicles achieve returns as set out on slide 22
- Weighting of 'current' scenario aligned to addressable market (slide 15)
- All individuals have Marginal Tax Rate of 21.3%[3] (flat rate)
- Investments taxed (current scenarios) at legislated rates w/ expectation that assets held >1y for CGT realisation rate

Aggregate Benefits

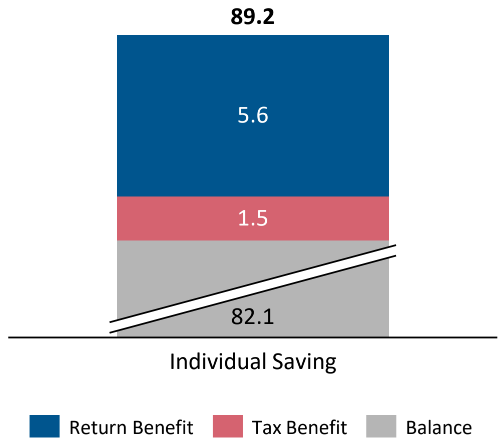
Projected net return of structure, vs misallocation
(2024-29F, $bn)



- Australians would be $12.2bn better off, with $2.7bn attributed to tax saved and $9.6bn to returns from the more efficient allocation of assets (assumed Balanced portfolio)
- Part of the return benefit includes interest on the additional returns and tax benefit

Individual Benefits

Projected benefit (individual) from year 1
(2024-29F, $000's)



- An individual who invested $15k per year for 5 years will be $7.1k better off; $1.5k attributed to tax savings, and $5.6k from re-allocation of invested assets
- The Government must ascertain if the additional cost worn by offering a tax concessioned structure is worth the benefit Australians will achieve

Sources: NMG Estimates, NMG Stock and Flow model, ATO, ABS, APRA, Challenger, Generation Development Group, SECNewgate, annual reports

Notes: [1] Considered outside the scope of this analysis; [2] Assumes Balanced portfolio and asset-level expected returns per annum of 3.2% for cash, 6.4% for direct ETF and 4.3% for bonds. [3] Based on average salary of expected take up members. For information regarding Slide 15 referenced on this page, refer to 'Misallocated Capital' in Appendix B. For information regarding Slide 22 referenced on this page, refer to 'Modelling Approach' in Appendix B.

Key findings and outcomes

In only 5 years, 4.0m Australians would be $12.2bn better off as a result of improved saving behaviour, via the introduction of a tax-advantaged savings structure

Key Findings

1. Super is only part of the puzzle

- Tax-advantaged structures exist for Australians through the Superannuation system
- Superannuation is for the sole purpose of retirement saving, with funds preserved to this point in time

2. Australians have other needs to save

- Home deposits, private education, aged care and rainy-day funds are all valid use cases for saving behaviour, which would be benefited by the introduction of an additional tax-advantaged structure

3. The misallocated capital pool is large

- To meet savings goals for these use cases, Australians invest into the FHSSS, ETF's, bonds, annuities and cash products
- In aggregate, these savings pools are sufficiently large to be warrant reallocation to a tax-advantaged structure

4. A tax-advantaged structure unlocks additional benefits for Australians

- Tax-advantaged structures allow Australians to receive greater benefits than what is achieved under current allocations, improving return and savings outcomes

Outcomes

Total (Additional) Benefit

$

$12.2bn

Over 5 years

across 4.0m people

Individual (Additional) Benefit

$7,100

Per individual who

contributed since Year 1

(total benefit from saving of $89.2k)

Australians would be $12.2bn better off over 5 years

- If 25% of employed Australians take up the tax-advantaged structure by year 5 and contribute $15k per year on average, they will be $12.2bn better off in aggregate

An individual who contributes $15k from year 1 will be $7.1k better off by year 5

- These additional benefits occur from:
  1. Tax advantages
  2. Higher return producing asset allocations
  3. Compounded returns on the above

An individual using this tax-advantaged structure (contributing the maximum) could achieve the following:

- Home deposit ($200k) in year 9
- Private education budget ($120k) in year 6
- Aged care budget ($50k) in year 3
- Rainy day fund / caregiving ($10k) in year 1

Sources: NMG Estimates, NMG Stock and Flow model, ATO, ABS, APRA, Challenger, Generation Development Group, SECNewgate, annual reports

Notes: This consists of $1.5k tax benefit, $5.6k additional (compounding) returns.

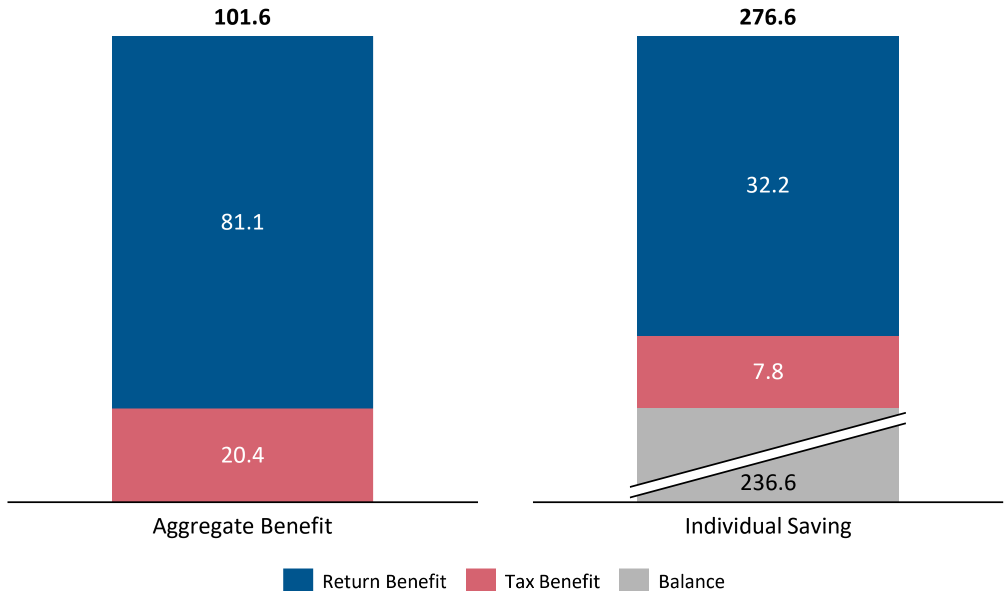
Upside Potential

A "best case" scenario results in 25% Australians taking up the tax-advantaged structure at the maximum contribution rate of $20k p.a., which equates to Australians being >$100bn better off in aggregate over a 10y period (assuming no withdrawals)

Projection

Projected additional benefit (aggregate) (2024-34F, $bn)

Projected benefit (individual) from year 1 (2024-34F, $000's)



***Take up**: 5% p.a. (to year 5, then held constant)*[1] ***Contributions**: 20k p.a.*

Outcomes

Total (Additional) Benefit

>$100bn

Over 10 years

across 4.4m people

Individual (Additional) Benefit

$40,000

Per individual who

contributed since Year 1

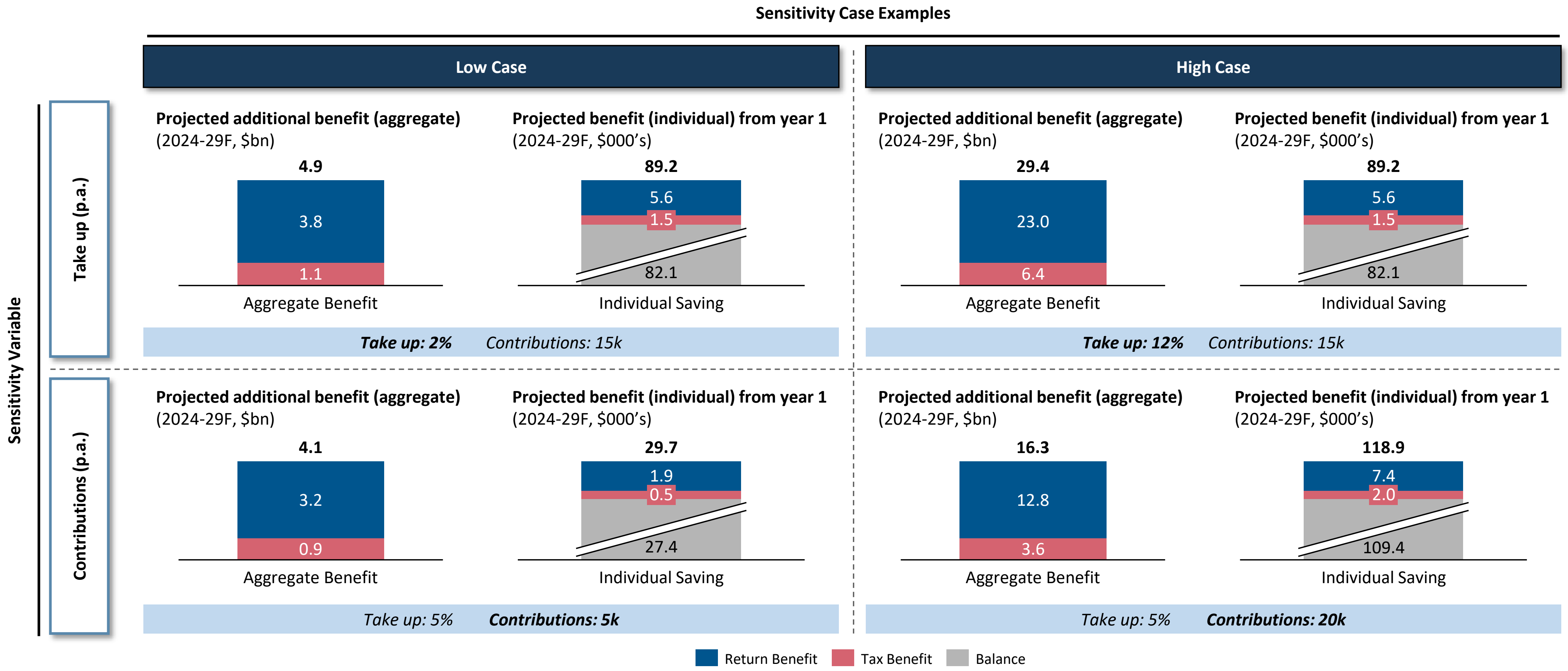
(total benefit from saving of $276.6k)

Sources: NMG Estimates, NMG Stock and Flow model, ATO, ABS, APRA, Challenger, Generation Development Group, SECNewgate, annual reports

Notes: [1] Includes impact of population growth; This consists of $7.8k tax benefit, $32.2k additional (compounding) returns; Does not include inflation impact

Sensitivity Analysis

A change in take-up rate (proportion of employed Australians) or change in contribution rates (by individuals) will impact the aggregate benefit and, in the latter scenario, the benefit of individual. Scenarios below demonstrate sensitivity vs. the base case of **$12.2bn** (aggregate) and **$89.2k** (individual savings).



Sources: NMG Estimates, NMG Stock and Flow model, ATO, ABS, APRA, Challenger, Generation Development Group, SECNewgate, annual reports

Modelling Approach

NMG has modelled the expected impact (benefit for individuals and in aggregate) of savings via a tax-advantaged structure under a range of scenarios; the model follows a bottom-up build of the Australian population, current household savings levels and proprietary market studies into savings behaviour

What are we trying to model?

We want to understand how the introduction of a tax-advantaged structure could benefit Australians (compared to traditional savings structures whilst sizing the impact on tax revenue to the Government. NMG has developed a bottom-up model leveraging a range of sources including population data, earnings and current savings behaviour (both public and proprietary data) to model expected take-up and investment in a tax-advantaged structure, sizing expected benefits and impacts at a population and individual level.

Approach

1

- Analysis of propensity to save / invest into a tax-advantaged structure (by income band[1]) was undertaken to determine the take-up rate and expected contributions amount p.a.
- This resulted in an expected average (across the population) of $15k p.a. and a base case of 5% take-up of the employed population per year

2

- We then modelled the expected cumulative investment into the tax-efficient vehicle over a 5y period (assuming no drawdown during this timeframe)
- Comparing to current savings behaviour (based on addressable asset pool) we determined the benefit from (1) tax saved and (2) additional return from expected reallocation to a Balanced portfolio

3

- Sensitivity analysis was then performed across high- and low-cases of potential contribution rates and take-up rates, to gauge the financial impact across a range of scenarios
- These rates were grounded in the same research from step 1 (i.e. current population data, earnings, savings rates and propensity to allocate to such a structure) to ensure realistic ranges

Assumptions (Base Case)

Contributions

- $15,000 p.a. (on average over 5 years)
- Based on expected savings incl. reallocation of existing savings, for demographics of take-up population

Take-up

- 5% employed population p.a. (2% expected pop. growth)
- Based on survey results[2] by salary, correlated to ABS data on employment earnings statistics, and population growth

Tax

- MTR 21.3% and legislated CGT rates (>1y invested)
- Tax rates apply to each structure as it would to an individual invested in each; tax-advantaged structure assumed zero tax

Annual Net Returns

- 5.82% for the tax-advantaged vehicle and FHSSS; 6.4% for Direct ETFs; 4.0% for Short Term Annuities; 4.3% for Bonds; 3.2% for Cash (incl. TDs)

Sources: NMG Estimates, NMG Stock and Flow model, ATO, ABS, APRA, Challenger, Generation Development Group, SECNewgate, annual reports

Notes: [1] ABS population statistics, correlated with SECNewgate research to determine expected monies to be transferred into this product; [2] SECNewgate

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