THE ENTITLEMENT OF AGE

Emily Millane

LORD MAYOR'S CHARITABLE FOUNDATION

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percapita research paper

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About Per Capita

Per Capita is an independent progressive think tank which generates and promotes transformational ideas for Australia. Our research is rigorous, evidence-based and long-term in its outlook, considering the national challenges of the next decade rather than the next election cycle. We seek to ask fresh questions and offer fresh answers, drawing on new thinking in science, economics and public policy. Our audience is the interested public, not just experts and practitioners.

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Executive Summary

Australia's retirement income system is becoming unsustainable. This is not because too much money is spent on the age pension. Australia spends an average of 3.5 per cent of its GDP on age-related spending against an OECD average of 7.8 per cent.

Per Capita's detailed analysis shows that unsustainability and inequality are the two emergent trends in Australia's retirement income system. The changes being proposed by the federal government will make both of these problems worse because they ignore the role of private wealth in shaping people's chances later in life.

The proposals currently in the budget will make the pension inadequate, and the retirement income system more regressive. This will stoke inequality and undermine the sustainability of Australia's pensions and superannuation system, which has been regarded as world leading.

Our analysis shows that Australian life expectancies have consistently outstripped official projections due to rapid declines in mortality. A comparison between average life spans and official projected life expectancies using steady mortality rates produces a difference of approximately 8 years for men and 12 years for women.

Superannuation savings will be insufficient for certain groups in society under a mature system and on the generous assumption that people work until 70. A woman who spends a significant proportion of her life outside full-time work will have a superannuation balance of approximately $516,000 compared to approximately $874,000 for a man working full-time until retirement.

The system of superannuation taxation favours the wealthy. Over 50% of superannuation tax concessions go to the wealthiest quintile of income earners (Treasury, 2012). At the same time, people in higher income groups consider that tax concessions are the preferable way to pay for longevity. The results of the Per Capita Tax Survey show that the majority of people earning $200,000 and over believe that the way to pay for longer life expectancies is further tax concessions, in preference to working longer or saving more for retirement.

The age pension is not sufficiently targeted to assist those most in need. People with significant assets are being paid an age pension while those who rely exclusively on the pension and have minimal asset wealth live in poverty.

The answer to the challenge of longevity is to make the retirement income system fairer and more flexible by targeting public support more clearly at people who need it, while increasing incentives to save for the future.

Our recommendations show how this can be achieved, by guaranteeing a decent income for everyone in later life and making sure that private assets beyond the family home are counted in working out who can contribute to their own income. This change is reinforced by reforming superannuation rules to ensure that those who most need superannuation – those on low and insecure wages – can build up decent

private savings, and that subsidies to those who can afford to provide for themselves do not run out of control.

We propose a government loans scheme based on a tighter pension assets test. These loans would be up to the value of the pension a person would have received, but for the new assets test and would be secured against the person's assets. They would accrue a nominal rate of interest in line with the Treasury 10 year bond rate. Loans would be payable out of the estate.

For homeowners, we consider that there is considerable merit in the recent Australian Council of Social Service (ACOSS) proposal that new limits for assets other than the home should be set at $100,000 for singles and $150,000 for couples, with an increased taper rate of $2 for each $1,000 above the assets free zone. Tightening the pension means test in this way represents a public saving of approximately $1.3 billion for 2014-15.

To ensure that the welfare system is protecting those most in need from poverty, we recommend that the government consider increasing the full rate of the age pension over time to align with accepted standards of a 'modest' lifestyle[1]. For those on a full age pension who are in the rental market, the government should consider additional assistance to the current rental supplement that falls far below estimated income needs of pensioners who rent.

Superannuation contributions should be taxed progressively, assisting low-income Australians to save and tightening concessionality for high income Australians. The Low Income Superannuation Contribution (LISC) should be reinstated, contributions tax be increased for the top two income brackets[2], and the concessional contributions caps reduced to $25,000 for all ages. The combined elements of this proposal represent a net public cost of approximately $350 million for 2014-2015.

To address longevity risk, we propose that half of a person's superannuation lump sum be allocated to a pension income stream or to purchase an annuity, at the discretion of the individual. We also propose that the government support the annuities market by issuing long-dated government securities, and through removing tax and regulatory barriers to the take-up of annuities.

We recommend that the government provide grants for a best practice program incorporating flexible work practices, training and staged retirement. The public benefit of programs which increase participation among older Australians by 5% would result in approximately $48 billion in extra GDP (Deloitte, 2012: i).

Finally, we propose that the government invest in technologies which educate younger Australians about superannuation and the retirement income system.

Although the purview of this report is the retirement income system and longevity, the issues of income, taxation and welfare which permeate it are relevant to a broader discussion about the role of government in Australian society. We hope that this report contributes to that debate.

1. Including, for example, the standard for a modest lifestyle set out by the Association of Superannuation Funds of Australia.

2. Marginal rate minus 5% (32%) for second-highest tax bracket, and marginal rate (45%) for highest tax bracket, levied marginally on superannuation guarantee contributions for each income tax band.

Introduction

Out of the myriad of issues that relate to increased life expectancy and ageing, money looms large. Will people have sufficient private savings to stretch across longer lives? Will governments be able to pay for rising health and welfare expenditure? The prevailing feeling is of uncertainty, not least because people recognise that they are likely to live longer, but also because they don't have a gauge of just how long that is likely to be.

This report is concerned with incomes in later life and securing a minimum baseline standard of living for people in that phase. It stems from a normative position that all people in our society are entitled to a good quality of life across longer lives, with a minimum income that keeps them out of poverty.

Australians are living much longer than either they or the policy-makers ever contemplated. Not a couple of years longer, but whole decades longer. Private savings and public benefits have to stretch further.

For some Australians the prospect of longer lives won't matter too much. They will float along into retirement as if nothing much changed; their lives will look much the same as they did before. In fact, from their vantage point things look very good indeed.

For a whole other group of Australians, the changing conditions are keenly felt. Although the social compact promised them a decent standard of living across their lives, things just didn't work out that way.

This class of Australians is the most financially vulnerable in later years. They are the women who have had children, carers, the long-term unemployed and those who are in part-time, casual or contract work. Their income has been patchy and, when they are earning, it is often below the average wage, meaning that their superannuation payments are sporadic and low. At various times during their lives they have been paid no superannuation at all. They are the people who are more likely to have rented property rather than being homeowners and, while they would have liked to have worked into their 60s or later, they struggle to retain or find work.

Unsurprisingly, the amount of superannuation savings which this section of society retires on is not enough to provide an adequate standard of living. Even when you take into consideration that the superannuation system will mature and private savings will accrue across whole working lives, the nature of their circumstances during working life prevents them from saving enough.

The result of inadequate private savings is a lower standard of living. But what does this mean in human terms, in the experience of everyday life? It means putting on the heater for only an hour a day in the middle of winter. It means saying no to the invitation to go out for dinner, or to see a film. It means only buying meat or fish once a month. It means putting off that doctor's appointment, again.

This paper argues that the current retirement income system is inadequate to meet the longevity challenge. It does not allow people to sufficiently manage longevity risk and it promotes financial inequality. It is manifestly unfair that people who do not need public money should receive it, through either the age pension or superannuation tax concessions, when others who are more needy are struggling.

So, what of it? What does it matter that certain people have less in retirement, when these are the same people who are most likely to have had less all their lives?

It matters because our retirement income system was established so that all Australians would have enough for a modest standard of living in retirement. It matters that the system is not fulfilling its aims. A second reason, which informs the former, is that there is a moral basis for saying that vulnerable people should be able to live their later years with a decent standard of living. This is a question of ensuring that all people age with dignity.

Findings on Australia's retirement income system

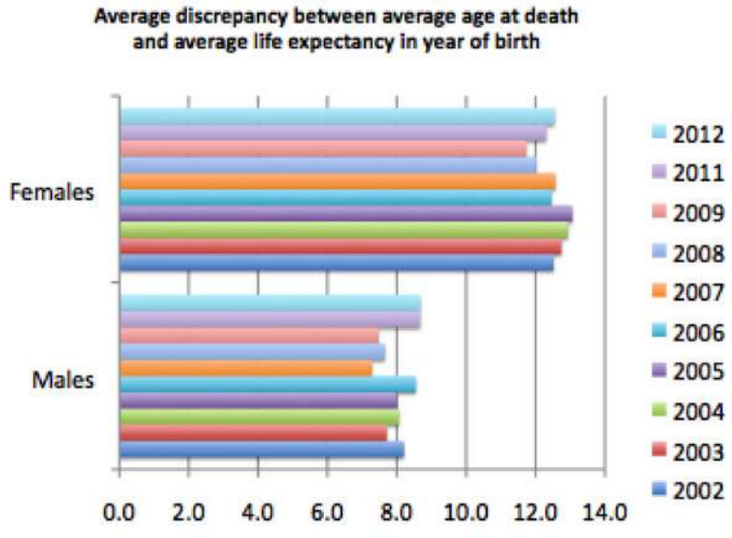
Life expectancy has been even higher than official statistics projected

The longevity shortfall is most often understood in monetary terms. It is the difference between the income a person needs to fund their retirement and the amount which that person is likely to have. Another, more far-reaching, shortfall that exists is the difference between how long people have been projected to live and how long they have actually lived to. We are all familiar with the headline: "A boy born today can expect to live to 85!" Unfortunately, it's not so simple.

Australian life expectancies have been even higher than official projections, based on steady mortality rates. This is borne out by the shortfall which exists between past projections of life expectancy and actual years lived. We looked at the mean age of death for men and women over a period of ten years between 2002 and 2012, comparing this to their projected average life expectancy in the years in which they were born[3].

Figure 1 shows the difference between mean age at death and projected average life expectancy in the year of birth for people who died between 2002 and 2012. During this period, the discrepancy for men was around 8 years remaining roughly steady; for women around 12 years and increasing. In 2012, for example, men lived to age 74 rather than 65 as projected in 1938; women lived to age 80 rather than 67 in 1932.

Figure 1



Source: ABS Australian Historical Population Statistics 3105.0.65.001, Deaths, Australia 3302.0

3. For men, between 1931 and 1938; for women, between 1924 and 1932.

Our historical analysis illustrates one of the limitations of official life expectancy projections: they are based on an assumption that mortality rates will remain steady over time. As we know, however, mortality changes over time due to factors like advances in medicine and people's lifestyles. Over the course of the 20th century, but particularly since the 1970s, life expectancy at age 65 has been increasing (AIHW, 2013). Put another way, mortality has been declining at older ages because people are living longer. As the ABS notes:

> Life tables based on assumed improvements in mortality are produced by the ABS using assumptions on future life expectancy at birth, based on recent trends in life expectancy. These are not the ABS's official life tables and are only used as inputs to ABS population projections (ABS, 2013).

Accordingly, the possibility of underestimated life expectancy needs to be considered, a view supported by the International Longevity Centre (ILC) UK (Sinclair et al, 2014: 3).

Secondly, life expectancies are an average (mean) only. It is possible that people conflate average life expectancy with 'their' life expectancy, without taking into account individual factors. It is already established, for example, that gender, education and lifestyle choices contribute to longevity. Wealth is also linked to higher life expectancy (Chomik: 2014).

A final complication is the lack of consensus between, and within, scientific disciplines such as epidemiology and demography as to whether life expectancies will continue to rise. So even when we use projections that take into account mortality changes, known as 'cohort life expectancy', it is very difficult to say with certainty just how long people will live. According to Willets et al,

> "As a result of such different approaches, and variations in views on the forces shaping mortality change and the implications for likely future improvements, a best-estimate rate of improvement for males aged 75 in 2030 varies from 1.0% to 3.0% p.a." (ILC UK, 2009: 6).

With advances in medicine and public health, life expectancies could foreseeably continue to rise at similar rates to recent years. However it is important to acknowledge that a number of factors may mean the rate of increase is not as high. For example, poor diets and sedentary lifestyles are contributing to obesity and a range of other chronic diseases like diabetes and heart disease.

While we can see the causes of mortality changing, it is very difficult to predict to what extent these will impact on mortality. As the UK Institute of Actuaries noted, 'mortality rates at some ages are now just 2% of the rates that applied 100 years ago. This magnitude of change can scarcely have been thought possible at the beginning of the last century. Would our actuarial predecessors have imagined such an improvement was possible?' (Willets R. C. et al, 2004: 85).

Implications of the shortfall in longevity projections

Given the difficulty faced by experts in projecting life expectancies, it is little wonder that individuals don't have a good idea of how long they will live. ILC UK found that individuals routinely underestimate how long they will live and what their health is likely to be like at a given age (ILC UK, 2009: 19). This view was supported through submissions made to the Treasury review of Australia's taxation system (the 'Henry Review',Treasury, 2009).

The uncertainty around life expectancy clouds people's capacity to plan for retirement because they don't have a sufficiently accurate idea of how long they will spend out of the workforce before they die. Nor do people know what their likely superannuation balance will be at retirement, and how long that will last. What will their age pension entitlement be, and what standard of living will a combined pension and superannuation provide?

We looked at the spending patterns of those aged 65 and over to see what trends are emerging as people's lives grow longer. The areas where spending grew among over 65s is instructive. Spending on health and medical costs grew from about 5% of income in the late 1980s to just over 8% of income in 2009-2010 (ABS: 2009). For the first time, it is becoming common for older Australians to move into the draw down phase of superannuation with debt.

Per Capita analysis of the HILDA datasets for our first longevity report, *Still Kicking*, showed that between 2002 and 2010, the average debt among all households with at least one person aged 65 or over grew by more than 250%, from $8,400 to $21,172. Our findings are supported by research conducted by the Australian Housing and Urban Research Institute (AHURI), showing that it is low-income households which continue to shoulder a high degree of debt – particularly mortgage debt – across long periods of time (OECD: 2013, 80).

Furthermore, private transfers of money to over 65s by younger generations were very minimal over time (National Seniors, 2012: 11), indicating that families are not filling the superannuation gap when private savings fall short. Research by the CPA found that over the same period from 2002 to 2010, property debt of those in the pre-pension phase of 50-64 years increased by 123% to an average of $114,000. As property values had only increased by approximately 60%, the increase in property debt appears to be due to higher borrowing against properties rather than adding value to the properties (CPA, 2012:19).

What does all of this tell us? On current trends, people are not going to put enough into private savings early to fund their (longer) lives. More people will reach the drawdown phase of superannuation with debt, and will use their superannuation to try and pay this off. We acknowledge that of itself, debt is not an indication of financial precariousness. However we do know that just over 30% of people use all or part of their superannuation lump sum to pay off the home, undertake home renovations or buy a new home (ABS: 2013). Those who are not hampered by debt will continue to try and tip in more private savings as they reach retirement age rather than save moderately more over their life course. This is problematic, because the nature of compound interest in superannuation favours those who save more, earlier in life.

Vulnerable groups will continue to struggle under a mature superannuation system

This section of the report deals specifically with private savings for retirement. It looks ahead to see how different groups in our society are likely to fare when the superannuation system has matured. This section also discusses the interaction between superannuation and the age pension for these groups.

Our analysis shows sections of our society will struggle to eke out a decent standard of living in retirement on account of their insufficient private savings, even with very generous assumptions, for example a pension age of 70. This is notwithstanding planned increases in the level of compulsory superannuation and an increase in the pension age which will have the effect of encouraging people to stay in the workforce and accumulate private savings for longer.[4]

Still Kicking showed how increasing longevity meant that certain groups in our society who were retiring in 2013 would not have an adequate income to finance a comfortable retirement across their lifespan. For the purposes of this report, we projected the superannuation balances of four people at the early stages of their working lives in 2014, in order to estimate the savings people will have under a mature system. Although it is well known that different groups in society can expect different income levels in retirement, we sought to model the precise effect on income which different personal circumstances can have. The variables we used were:

- Gender
- Type of work (full-time or part-time)
- Consistency of work (time in and out of workforce)

4. Financial security is the most important reason people cite for deciding when they leave the workforce to retire: ABS 2013.

The Scenarios

The scenarios we modelled were as follows:

Scenario	1	2	3	4
Gender				
Age	35	35	35	35
Years of Full-Time Work	35	9	25	35
Years of Part-Time Work	0	23	7	0
Years out of Work	0	3	3	0
Age at Retirement from Workforce	70	70	70	70
Super-annuation Balance in 2049	$645,000	$516,000	$592,000	$874,000

The Assumptions

The assumptions built into these scenarios are as follows. As you will see, these are very generous assumptions.

1	A starting superannuation balance at age 35 of $22,000 for men and $13,000 for women (current average balances according to ABS, 2013b)
2	An increase to the pension eligibility age from 67 to 70 in 2035
3	Each person works until age 70
4	A gradual increase to the superannuation guarantee from 9.5% to 12% in 2021
5	A steady return on investment of 4.3%.[5]
6	Workers earn the average salary for their gender
7	A part-time wage which is half of the average full-time wage

5. We used an average real rate of return across all fund types as reported by APRA. The rate of return is calculated using the net earnings after tax, divided by cash flow adjusted net assets (APRA, 2013: 25).

Our analysis shows the difference between a man earning an average full-time salary across his working life (Scenario 4), compared to a woman in the same situation (Scenario 1). The difference between these two people is a result of the lower average wages earned by women.

The difference is more marked between this man and the two women who have gone in and out of the work-force and had varying periods of full-time and part-time work (Scenarios 2 and 3). The woman in Scenario 3 has 68% of the retirement savings which the man does. The woman in Scenario 2, who goes out of the work-force and only ever returns to part-time work, will have 60% of the savings which the man does.

The reasons for the women in Scenarios 2 and 3 having significantly lower retirement savings have been well traversed[6]. The superannuation system is designed around full-time employment and favours those on higher incomes. People who go out of the workforce do not accumulate compulsory savings for those periods out of work. The particularly concerning element of these projections is that they are based on a mature superannuation system where people accumulate savings across their working lives.

In addition, these projections factor in a longer working life (to age 70) and a gradual rise to the superannuation guarantee: these are both generous assumptions. At the moment, women are retiring on average at age 56.4 (ABS, 2013). Without a boost to women's participation they will continue to leave the workforce at a relatively early age compared to men and will accumulate less for retirement as a result. It also remains to be seen whether the government will in fact increase the superannuation guarantee contribution rate to 12%, and when. If it is not increased, compulsory savings will naturally be lower.

Retirement Standards

This report uses the ASFA retirement income standard as a benchmark for 'comfortable' and 'modest' lifestyles. ASFA defines these terms as follows:

- **Comfortable retirement lifestyle**: "Enabling an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel."

- **Modest retirement lifestyle**: "Better than the Age Pension, but still only able to afford fairly basic activities."

The ASFA standard does have its limits. It is based on the assumption that the person or couple owns their house outright. As ASFA itself acknowledges, its 'modest' benchmark is better than the current maximum rate of the age pension, but it still only enables a person to afford fairly basic activities. For example, it only permits a limited range of leisure and recreational activities, and it does not allow for new technology purchases.

6. See, for example, Australian Human Rights Commission, *The Gender Gap in Retirement Savings*, available from https://www.humanrights.gov.au/publications/gender-gap-retirement-savings.

To give some context to these projections, Deloitte (2013:28) has estimated that, taking into account existing life expectancies, a comfortable retirement would require retirement benefits (in 2048) of $1,580,000 for a single male and $1,760,000 for a single female[7]. This would require an additional savings rate of 5.4% and 7.5% of income respectively, on top of the superannuation guarantee contribution across a whole working life.

When longer life expectancies are factored into this mix, the financial situation for these people becomes even more dire. Policy development needs to focus on the drawdown phase of superannuation (Cooper, 2011), but also the ways in which these groups of people can save more.

Over 50% of people surveyed by Per Capita in its *2014 Tax Survey* said that they are less confident than five years ago that their superannuation savings would cover their retirement needs. The other findings show that it is the middle classes who are most concerned about their superannuation, and indicate that people on very low incomes may not be as engaged with the superannuation system. Of note was that people earning between $60,000 - $80,000 and $100,000 - $150,000 who were least confident about their superannuation covering their retirement needs. People earning from zero up to $40,000 were fairly evenly spread between being less confident about the adequacy of their superannuation and being unsure. While men and women were both concerned about their superannuation, more men than women said that they were less confident about their superannuation savings being enough.

Using the ASIC Retirement Planner[8] we looked at what a combined retirement income from superannuation and the age pension would be for our four cameos. Our woman in Scenario 2 will have an income of about $42,000 per annum until age 90. If she retires earlier, say at age 60, her income per annum is approximately $33,000 until age 90. This would mean that her income is above the ASFA 'modest' standard but below a 'comfortable' standard of living.

Consider, then, her likely income if some other factors were present. For example, what if she didn't own her own home and had to pay rent? What if she had debt to service? What if she lives beyond 90? Then her standard of living drops and she is at risk of poverty.

Compare this to our man in Scenario 1, with a superannuation lump sum at retirement of around $874,000. He will have around $56,000 of income for each year of his retirement. Even if he retires earlier, at age 60, he will still have around $42,000 per year of income, which places him in the ASFA 'comfortable' standard of living.

Other research conducted in the area of superannuation adequacy supports these findings. The Melbourne Institute has described Australia's private retirement savings as 'grossly inadequate', even taking into account the increase to a 12% superannuation guarantee (Burnett et al, 2013: 15). Similarly, Rice Warner (for the FSC) has found that the increased superannuation guarantee would serve to mitigate, but not remove, the retirement savings gap (Rice Warner, 2012: 1). Deloitte has said that on current settings, superannuation will not deliver the lifestyle that most retirees expect (Deloitte, 2013: 1).

7. On account of women's longer life expectancies.

8. https://www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/retirement-planner

The taxation of superannuation further disadvantages vulnerable groups

The system of superannuation taxation is unsustainable and it is unfair. Under the policy settings planned by the current government it will provide no concessions to the lowest paid to enable them to save more. At the same time, it gives concessions to Australia's highest earners.

The flat tax of 15% provides an inbuilt concession to high-income earners. The higher a person's marginal tax rate, the greater the level of concession on their superannuation tax. For example, an individual with an income of $180,000 pays a marginal tax rate of 45% and pays 15% on their superannuation contributions. This is a concession of 30 percentage points. A person earning $37,000 pays income tax of 19% and pays 15% on their superannuation contributions. This is a concession of 4 percentage points[9]. The regressive nature of this system led the Henry Review to recommend the abolition of a flat rate of taxation. It was recommended that superannuation contributions be included in employee earnings, to be taxed at the person's marginal rate, minus a fixed percentage-point concession (Henry et al, 2009: Recommendation 18).

A series of recent policy decisions has served to further skew the tax advantages of superannuation towards the wealthy. As part of the repeal of the Minerals Resource Rent Tax, the government has proposed to abolish the Low Income Superannuation Contribution. If passed by the Senate, this bill means that people who earn less than $37,000 will no longer receive a government co-payment of up to $500 to support them to save for retirement. The government has also announced that it is not going to proceed with two other reforms announced by the previous government which attempted to make the system fairer. Firstly, it will not proceed with the Superannuation Concession Reduction, whereby people earning $300,000 or more would be taxed at 30% of earnings rather than 15%. Secondly, the government is not going ahead with the proposed taxation on superannuation assets which provide an income of $100,000 and above.

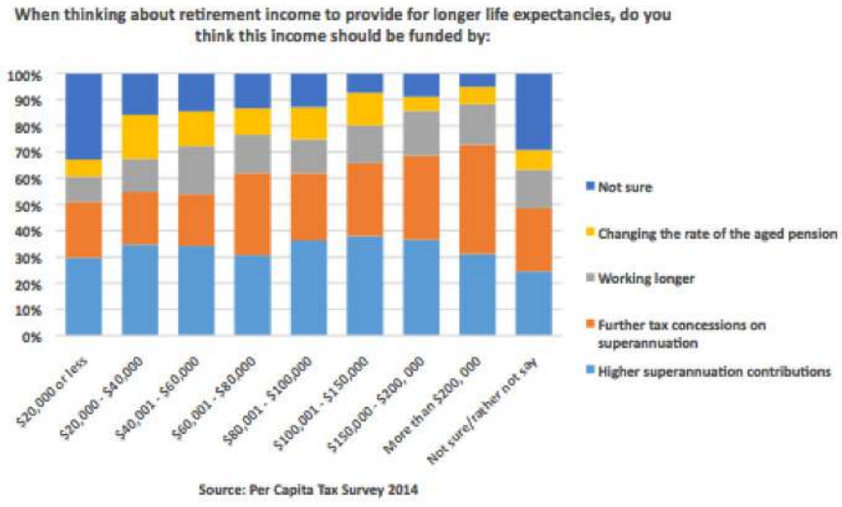
People with a self-managed super fund, comparatively the wealthiest group of superannuants[10], do not have to pay any capital gains tax on the realisation of an asset, or earnings tax on their investments, at all. Treasury projects that the public cost of superannuation concessions will be $42.4 billion in 2015-2016, by which stage these concessions will cost the government more than the age pension (Treasury, 2013: 9).

Over 50% of superannuation tax concessions are paid to Australia's top 20% of income earners (Treasury, 2012). Our analysis shows that people on higher incomes have come to regard superannuation concessions as an entitlement. Figure 3, below, shows that those on higher incomes believe this is the way to pay for longevity, before working longer and saving more themselves.

9. Example adapted from Cowgill, 2013: 7.

10. In the year to 2013, 'small funds' (which include SMSFs) accounted for 31% of all superannuation assets, the largest single share of assets across all funds. In addition, members of small funds had the largest average fund balances: APRA, 2013: 6-7.

Figure 3



Source: Per Capita Tax Survey 2014

At the same time, it demonstrates the political difficulty of redistributing superannuation tax concessions to make them more progressive. However, 20% of our survey respondents also said that if governments need to raise revenue for public services, then that money should be raised by removing superannuation concessions. This shows there is some support for more progressive superannuation taxation.

Irrespective of the levels of support for progressive taxation of superannuation, political difficulty should not be a factor which alone prevents necessary policy changes being made to restore the integrity of the system. There is a moral imperative to redesign superannuation so that it benefits all income and wealth groups. The task of doing this will require political will. Continually shying away from such reform will only make the unbalanced and unsustainable nature of the system more entrenched.

The age pension is helping some people who don't need it, while not sufficiently helping people who need it most

This section looks at the adequacy of the age pension for vulnerable groups and considers flaws in its current design which mean that it is being paid to recipients who may not need government assistance. In considering adequacy, the focus of this section is on people reliant on the full age pension[11].

Since 2009, the Age Pension for singles has been set equal to 27.7 per cent of average weekly total earnings of male employees, while the Age Pension for couples is 150 per cent of the single rate (Barnett, J et al, 2014: 10). Notwithstanding this important increase, older Australians in vulnerable groups still live on incomes which are either very basic or insufficient.

11. i.e. people with little to no private savings or asset wealth. Modeling from the Melbourne Institute using the HILDA datasets has shown that the majority of people who are completely reliant on the age pension have a median net worth of approximately $10,335 and tend to be women (Burnett, J et al, 2014: 34).

People aged over 65 in Australia have the lowest disposable incomes among all OECD countries (OECD, 2013: 70). As the Australian Council of Social Services has commented:

> "the risk of living below the 50%[12] poverty line has decreased since the age pension increase in 2009. However… over a third people over 64 still live below the 60%[13] poverty line. Home ownership provides a significant protection against poverty for many older people but the minority who rent face a higher poverty risk." (ACOSS, 2012: 19).

In dollar terms, 60% of the poverty line is approximately $24,648 per annum[14]. The current maximum age pension is approximately $22,000 per annum, including supplements. As ACOSS rightly points out, people who do not own their home face a higher risk of poverty. Together with rental assistance, a single pensioner on a full rate takes home approximately $25,000, placing them just over 60% of the poverty line. Another group at risk of poverty is the growing number of people nearing retirement age with mortgage debt, as outlined on page 8 of this report. Using the HILDA datasets, we found that among over 65s the lowest income quintile had an average household debt of $15,600, exceeding the average debt in the next two income quintiles. In the highest income quintile the average household debt was $27,160. These findings suggest that household debt is not characterised by high debts in high-income households.

There are, however, legitimate criticisms of measures which reference pre-retirement income levels. People's needs and spending patterns change in retirement, meaning that it is more instructive to consider a baseline basket of goods, services and other spending for a person to live well in retirement. As Burnett et al note, 'It is more critical from a policy perspective to assess whether people are meeting certain *levels* of living standards'.[15] (Burnett, J et al, 2014: 31). This is the reason we have adopted the ASFA standards as the reference points for retirement income in this report.

In their work on poverty, Saunders and Wong argue that people are 'deprived' when they do not have, and cannot afford, items regarded as essential by a majority of Australians – including medical needs, housing, social participation and savings for one off annual costs like car insurance (OECD, 2013: 66). The current maximum age pension payment per week is $383 for singles and $577 for couples. The minimum per week which is required to achieve a modest standard of living in retirement, according to ASFA, is $446 for singles and $642 for couples. Recall that the ASFA standard does not factor in housing costs like rent or debt repayments, so the amounts required are in fact higher for the vulnerable groups we have described.

The government has foreshadowed that it plans to index the pension to CPI rather than the way it currently does: the higher of male average full time weekly earnings, the Pensioner and Beneficiary Cost of Living Index (PBCLI), and CPI. This would see the strata of people dependent on the pension plunged further into relative poverty.

The 2009-2010 Budget provided an age pension increase of $32.49 per week for singles and $10.14 per week for couples on the full pension. Even taking into account these significant changes, the maximum pension rates fall below the ASFA standards for a modest retirement, and will fall further below when the pension is indexed to CPI.

12. Below 50% of the median equivalised disposable household income, which is currently $41,080 – ABS, 2012
13. Below 60% of the median wage
14. 60% of $41,080.
15. Their emphasis.

As UK think tank Policy Network has rightly noted, it is not old age itself which creates poverty but disadvantage across the life course (Policy Network, 2014). It is likely that households dependent on income support will become reliant on the age pension when they reach pension age (Headey et al, 2005:40). However, disadvantage is further entrenched by an age pension which disregards the housing wealth of pension applicants and treats them on an equal footing to people with minimal net worth.

By international standards, Australia spends a low proportion of GDP on the age pension. According to the OECD, Australia spends 3.5 per cent of GDP on the age pension, with only Iceland and Mexico spending less (OECD, 2013:171). At the same time, Australia is one of the wealthiest countries in the OECD, and one of the lowest taxing. At the most recent time data was compared, in 2010-2011, Australia had the fifth-lowest tax burden of all OECD countries (25.6 per cent of GDP compared to an average of 33.8 per cent) and has typically ranked in the bottom third of countries since comparable data was first available in 1965 (Treasury, 2013a: 3).

Against this backdrop where people are exclusively reliant on the age pension and at risk of poverty, people with large pools of asset wealth can claim the age pension. Despite the fact that Australia has the most targeted welfare system in the OECD (Whiteford, 2014), the wealthy are permitted to have a primary residence of any value and other assets of approximately $1 million while also claiming the age pension. This is a failure of system design which is distorting the fair allocation of public benefits.

At the time of the Harmer Pension Review, 15% of people in the top net wealth quintile reported receiving the age pension (Harmer, 2008: 52). This finding is in line with research by NATSEM showing that 13.8% of all people receiving the age pension were living in households where the average net worth is more than $1.6 million (Kelly, 2009: 15).

By exempting the family home from the pension means test, the pension favours people with large amounts of wealth tied up in their primary residence. A couple with a multimillion-dollar primary residence and up to $1 million in other assets can receive public support. At the same time, people with minimal superannuation savings who do not own their home will be more reliant on the age pension. In this way, they are doubly at a disadvantage: they do not have assets from which they can derive income, and they have to pay rent.

Public attitudes towards the age pension vary depending on a person's income, and demonstrate the role that self-interest plays in attitudes to tax and expenditure. As depicted in **Figure 3**, the greatest level of support for raising the rate of the age pension was among the people most likely to be claiming the full pension – those earning between $20,000 - $40,000. Similarly, our survey results showed that a majority of people earning from $0 - $40,000 favoured more government spending on social security and welfare (which includes the age pension). By contrast, people on incomes of $100,000 or above favoured the same, or less, government spending on social security and welfare.

Australia's wealth and its comparatively low spending on the pension tell us that any increase in the age pension rate is primarily a question of political will. Spending on the full age pension is targeted, sustainable, and can be increased. Tightening eligibility for the pension is one measure to support this, as is changing the system of superannuation taxation.

A fair retirement income system for longer lives

This section of the report sets out our recommendations for a modern Australian retirement income system which is adapted to increasing longevity and is based on fairness. These recommendations are interlocking and are therefore provided as a package.

In its origins and intent, Australia's system is based upon sound principles. It seeks to enable all people to achieve a reasonable standard of living in their later years. It recognises that the state owes a responsibility to people who have paid taxes over the course of their lives, but it also mandates that people have a degree of responsibility to look after themselves.

However the system is operating in such a way as to provide further cushioning for wealthier Australians and to leave already-struggling people with not much at all. The age pension was never conceived of as another tool in the retirement income kit for financial planners and their clients. The state simply cannot continue to fund superannuation tax concessions which cost $32.1 billion in the last year - the second-highest area of revenue foregone - when the majority of those concessions are primarily going to people on already-high incomes (Treasury, 2014: 12). This is especially so when we consider that those concessions are not operating to help the poor, at all. This is a system with structural failings which are whittling away its integrity.

At the moment, public funds are being used to provide a very comfortable lifestyle for people who are already asset rich. We acknowledge that these same people may be income poor; the issue is when people are permitted to have significant assets while also accessing public benefits. In the area of the pension, rectifying this situation means changing the existing system of eligibility for the pension so it aligns better with the values it purports to espouse. The pension should act as a safety net for the neediest in society, providing freedom from want. In the area of superannuation, this means removing some of the features which deliver concessionality to the wealthy and challenging a perceived entitlement to these concessions.

People who retire wealthy should support themselves to the greatest extent possible. They should be encouraged to free up the equity in their assets in order to derive an income, and to secure private annuities. The cumulative effect of this is that their drawdown on public funds is diminished. People who will never retire wealthy should be supported to be able to save more. If they still can't achieve an adequate retirement income, the age pension should provide that.

Responses to recent recommendations relating to retirement incomes

Before setting out our recommendations, we respond to some of the recent proposals in the area of retirement incomes. These are as follows:

Increasing the eligibility age for the pension to 70

Increasing the pension age to 70 is a policy lever which cannot work in isolation; it must be accompanied by measures to generate jobs, training and work practices which cater to an older workforce. Our Recommendation 5, below, presents one suggestion for how the government might invest in workplaces to keep older people in work.

The increase must also be accompanied by an increase to the superannuation preservation age so that it does not create the situation where people whittle away their private savings before they are eligible for the pension.

As life expectancies increase, postponing the time at which people become reliant on the age pension is reasonable; 70 is the 'new 60'. This is especially so when one has regard to the scale of increasing longevity which we canvassed in the first section of this report.

A further increase to the pension eligibility age must account for the people who cannot continue to work because of factors like age discrimination, or due to the nature of their work. The Government should consider whether a pension eligibility age of 70 is appropriate for all people, or whether there are certain groups who should be able to eligible earlier – jobs which require physical labour are an obvious example of this.

Simply increasing the pension eligibility age from 67[16], to 70 will not keep people in the workforce until age 70. This is evidenced from the ABS series Retirement and Retirement Incomes, which shows that although many people[17] intend to retire around the time they become eligible for the pension, the average age people are actually leaving the workforce is earlier (currently 59.5 for men and 56.4 for women).[18] The series also shows that the sort of jobs people are likely to stay in longer are managerial and professional jobs, whereas very few people in sales, community work or machinery operation work to a later age.

Of the people who remain in the workforce beyond the current average retirement age, they can be roughly split into two groups: the people who want to work for longer and those who do not. In the first group, people may want to adopt shorter hours or do different types of work. Then there are the people who either do not want to, or do not feel that they can, continue in their jobs beyond a certain age. Ged Kearney, president of the ACTU has queried, 'How can workers be expected to haul concrete around a work site or a childcare worker keep up with a room full of kids until they're 70?' (ACTU: 2013).

Without further measures to deal with age discrimination and to provide for continued education and re-skilling over their working lives, older people will be forced onto other state benefits like the disability pension or Newstart. They will sit on those benefits until the time they turn 70, and will then be reliant on the age pension. This is a highly undesirable situation for individuals who want to work for longer, but cannot find work. As Chief Executive of National Seniors, Michael O'Neill has commented, 'raising the age pension is a simplistic approach to a deeper problem, and it is not a solution to the national welfare bill' (SBS: 2014).

The IMF has noted that increases in pension eligibility ages disproportionately affect the poor. We support the IMF's suggestion that this might be mitigated by strengthening labour regulations which protect older workers and by strengthening disability and social assistance programs for those approaching retirement age (IMF, 2014: 29).

16. Which it will reach in 2023.
17. 44% of men and 30% of women: ABS, 2013: 5
18. Industry Super Australia, 2013: 5. Note that 25% of people are retiring at 65 years or older

Increasing the superannuation preservation age to 70

In the same vein as the increase to the pension eligibility age, the proposal to align the preservation age with the (higher) pension age is aimed at encouraging people to work for longer and to save more for retirement. In so doing, people will also postpone the drawdown phase of superannuation. This proposal is based on the finding that there is a noticeable increase in the number of people moving out of the workforce at the time that they become entitled to draw down on their superannuation (Daley, 2013: 29).

The existing five-year gap between the superannuation preservation age (60) and the age pension eligibility age (65) has implications which justify aligning the two. The gap means that individuals can access their superannuation savings before their reach the age pension age and are therefore exclusively reliant on superannuation for this period. The Henry Review estimated that this results in approximately one third of superannuation savings being drawn down before the age of 65 (Henry, 2009: 5.2). When cast against a likely life expectancy into the 90s, this is a highly undesirable situation.

This proposal to align the pension eligibility age with a superannuation preservation age therefore makes sense in the context of longevity risk. As we outline below in our recommendations, one of the core principles of a sustainable retirement income system is that it should encourage people to save more to pay for longevity. Even with a mature system, private savings need to be boosted if life expectancies continue to increase.

We need to bear in mind, though, that quarantining private savings for longer is only a partial means to keep people in the workforce; it is not a guarantee of further superannuation accumulation. Older workers must deal with age-based discrimination which, as the Human Rights Commission has noted, is most prevalent in the workplace (AHRC, 2013: 24). They must also deal with issues facing the workforce as a whole, such as the rise of insecure and casual work. Quarantining private savings also fails to address the way that people can still churn through their savings very quickly. Examples of how people can be encouraged to use private savings across longer lives are set out in **Recommendation 3(a) and Recommendation 3(b)** below.

Indexing the age pension to the consumer price index (CPI)

From 2017, all pension payments will become indexed to the CPI. This should be reversed. The rationale behind the change of indexation is to introduce consistency across all social security payments, however it is not consistency which is required to ensure pension recipients receive adequate public support over time. Age pensioners spend their money on a different bundle of goods to those in other age groups, a fact which was reflected in the introduction of the PBCLI in 2009. The age pension should be indexed as it currently is.[19]

This response is made in conjunction with Recommendation 1(b) – that is, the age pension should be increased in a targeted way, and be indexed in the way it currently is.

19. That is, indexation should remain the higher of male average full time weekly earnings, PBCLI and CPI.

Recommendations

Australia's retirement income system is becoming unsustainable as a result of increasing longevity and inequality. We propose alternative recommendations to make sure that every Australian can access a decent income as they age, while making fairer and more flexible use of private savings and assets.

Our specific recommendations are set out below. Where appropriate we have set out our estimate of the public cost or public benefit of the recommendation.

The majority of our recommendations involve systemic change to the operation of the current retirement income system. As such, we recognise the difficulty involved in their implementation, especially when the recommendations are taken together. Where possible, we therefore suggest that these proposals be grandfathered and implemented progressively to allow the public time to adjust.

It is our intention in making these recommendations, that they serve as a springboard from which to have a renewed public debate about our retirement income system as a whole.

1. Pensions

a. *Recommendation: tighten the pension assets test for homeowners*

The exclusion of the family home from the pension means test, together with a high allowance for other assets, has created a situation where people who are asset-rich are able to access public funds to pay for their retirement. This has led to a distortion in age pension payments, making the system unfair and unsustainable.

To ameliorate this situation and tighten eligibility for the pension, we support the Australian Council of Social Service's recommendation that the assets-free area for homeowners be reduced to $100,000 for singles and $150,000 for couples and that the taper rates be increased from $1.50 to $2 per $1,000 of assets over the assets limits. This recognises the comparatively large asset wealth of older Australians; Recommendation 1(b) is directed towards releasing that asset wealth to derive income.

Including the family home in the assets test relies on self-reporting of home values. Further, even when the threshold for including the family home is set at a high index to try and capture only house values of a very high level, it is open to gaming where people seek to report home values which are just under the relevant value. Finally, homes of a relatively low value might be caught in the assets test by exceeding the index for that area, whereas homes of a high value might be excluded by virtue of being under the index for that area. This has negative implications for equity.

By focusing on assets other than the family home, this recommendation avoids these issues.

Estimated Public Saving of Recommendation 1(a): $1.3 billion[20]

20. The assumptions contained in this recommendation are contained in the Appendix.

b. *Recommendation: provide government loans for people excluded from receiving the pension under the new means test up to the value of the pension they would have received*

People who are excluded from taking the pension as a result of the lowered assets limits would be eligible to take out a government loan. The components of the government loan would be as follows:

(i) annual loans would be available up to a cap which moves in line with the pension that the person would have otherwise received, but for the new assets test;
(ii) loans would be secured against the person's home;
(iii) include loans would accrue interest at the Treasury 10 year bond rate, so that borrowers do not incur any real interest, with loans payable out of the sale of the estate.

c. *Recommendation: consider increasing the maximum age pension rate over time so that it meets commonly used benchmarks of a 'modest' living standard*

The government should consider increasing the maximum age pension rates for singles and couples over time so that they are at least in line with the widely accepted benchmarks of 'modest' standards of living, indexed to movements in these standards over time.

Although there is no disputing the large proportion of the federal budget directed to the age pension, Australia's share of age pension spending is low by international standards. For example, age-related spending, which is mostly on the age pension, is estimated to be 2.6% of GDP in 2013-14, against an average spend among developed economies of 3.9% (IMF, 2014: 81). Furthermore, the proportion of people who are reliant on a full pension is declining as the superannuation system matures.

The government should also consider an additional housing supplement for people who are reliant on the full age pension and in the rental market. As a starting point, we refer to ASFA's modelling for annual incomes required in retirement for those in the private rental market. This modelling shows that a further $13,000 is required for singles and couples to achieve a modest standard of living, above the usual ASFA modest standards of $23,383 for singles and $33,509 for couples.

2. Superannuation

Recommendation: superannuation should be taxed progressively, assisting low-income earners to save and tightening concessions available for high-income earners

As set out earlier in this report, superannuation tax concessions are unfair and extremely costly to the government.

To introduce fairness in the taxation of superannuation system we propose the following:

(i) Reinstate the Low Income Superannuation Contribution to assist people on low incomes to save for their retirement.

(ii) Tax superannuation contributions by those in the top two income tax brackets as follows:

a. $80,001 to $180,000 at 32% (marginal rate minus 5%); and

b. $180,001 and above at 45% (marginal rate).

The rationale behind this change is to incorporate concessionality up to the highest income tax bracket. We consider that it is fair and reasonable that those whose earnings are in the highest tax bracket pay contributions tax marginally at their marginal income tax rate.

Cumulative cost of (i) and (ii): approximately $850 million p.a (Per Capita modelling: see Appendix).

(iii) Reinstate the concessional contribution caps of $25,000 per annum for all age groups.

Saving of (iii): $500 million p.a. (ACOSS, 2014: 23).

Tax on earnings in, and withdrawals from, the fund are two other areas which could be tackled to promote greater progressivity and to generate revenue savings.

Estimated cumulative public cost of Recommendation 2: $350 million p.a.

Managing longevity risk

3.

a. *Recommendation: the government should support the development of the private annuity market by issuing long-dated securities to support private sector issuers, and through removing regulatory and tax impediments for consumers*

Existing levels of private retirement savings are not going to provide an adequate retirement income for many people who experience considerably longer life spans. As this report has shown, this is especially the case for certain at risk groups.

Annuities are an important insurance tool because they provide people with a guaranteed income for each year that they live, irrespective of how long that lifespan is. In addition to managing longevity risk, annuities encourage people to use their wealth to pay for retirement. It has been five years since the Henry Review noted that private sector opportunities for longevity insurance – especially annuities – have not been fully realised in Australia.

The annuities market needs to be more attractive for private providers and it needs to be more attractive for consumers. One way the government could stimulate the private annuity market is, as Henry suggests, by issuing long-dated government bonds as a form of reinsurance for private annuity providers. This allows providers to better hedge their risks through long-term liability matching. We recognise, however, that issuing long-dated bonds is not a 'silver bullet' to grow the annuities market. Other levers are required, for example by removing some of the tax and regulatory burdens for consumers and providers, discussed below. Bonds are helpful though, in the sense that they provide a more orderly market and a well-informed yield curve (Cooper, 2014a).

In the context of fiscal tightening, it appears unlikely that governments will want to accept the liability of having to pay back bonds; the age pension alone contains an unpalatable amount of exposure for them. As Sherris and Evans have noted, however, the risk which the government exposes itself to through supporting private annuity providers can be offset against the lower drawdown on the age pension as a result of more people using private savings:

> "*Although the government may not be a natural supplier of such securities – because of its exposure to longevity risk through the age pension – providing such instruments and creating a viable annuity and longevity risk market will reduce the potential future call on government revenues from ageing Australians running out of retirement savings*." (Sherris & Evans, 2009: 14).

On the consumer side, by issuing long-dated securities, the government will also assist in reducing the cost of annuities because providers can better hedge their risks. Making annuities less costly for consumers will likely generate more consumer demand, overcoming the lack of interest in them: a Rice Warner survey this year showed that 80% of people are aware of, but uninterested in, annuities (Rice Warner, 2014: 4).

The government also needs to remove tax and regulatory barriers to more innovative income stream and longevity risk products (Cooper, 2014). For example, the pension means test should provide at least a partial exemption for annuities so people are not discouraged from purchasing them. Although this goes against the thrust of the public benefits system taking more account of people's wealth, it is distinguishable from taking into account the family home or other illiquid assets. In the instance of annuities, a full or partial means test exclusion encourages people to manage their own longevity risk.

Another way to encourage the take up of annuities is through the tax system. Provision was made in the 2013-2014 Budget to give deferred lifetime annuities the same concessional tax treatment that applies to investment earnings on superannuation assets supporting retirement income streams. This measure should be retained. The Abbott government announced in 2013 that this measure would require further consultation, and is now part of the Review of Retirement Income Stream Regulation being conducted by the Treasury.

b. *Recommendation: over time it should be compulsory for people to take part of their superannuation to either purchase an annuity or take a superannuation income stream*

By allowing people to spend all of their superannuation as a lump sum, superannuation can be spent soon after the drawdown phase begins, thereby failing to protect against longevity risk. It defeats the purpose of superannuation for private savings to be spent quickly and for people to then become reliant on public benefits. To protect people from longevity risk we propose that a proportion – we suggest one half - of superannuation lump sums be compulsorily applied to purchase either an annuity or to take a superannuation income stream.

The United Kingdom has recently moved in the opposite direction, by abolishing compulsory annuitisation in their pension system. In the context of increasing longevity, we consider that this is a concerning move.

As we canvassed in the first section of this report people do not have an accurate understanding of their likely longevity shortfall. It is also common for people to feel overwhelmed by the implications of longevity.

When they 'do the sums' on their likely retirement income, even if on the basis they save more, they feel disenchanted with the system. Per Capita's *Tax Survey 2014* shows, for example, that a majority of people in all income groups are less confident that their savings will meet their retirement needs than they were five years ago. By mandating the purchase of an annuity or to take a superannuation income stream, people will be forced to engage with the system and will be given another means of protection against longevity risk in addition to the age pension.

The choice to purchase an annuity will, along with tax and regulatory changes, foster the take-up of annuities and therefore competition among providers will help to make annuity prices more attractive. It will also foster the growth of different types of annuity products. At the moment the number of annuity products in Australia is limited. International longevity risk specialist Professor Moshe Milevsky has said that the limited annuity products available in Australia is akin to a family which has taken out home and contents insurance but not included the car: it just doesn't make sense in the context of Australia's longevity (Milevsky, 2014).

Why should it be compulsory? It is in the public interest for people to use their savings to the greatest extent possible to finance longer lives. Superannuation is taxed concessionally for this very reason. By accumulating private savings, people are less reliant on state benefits, meaning that the public cost of ageing is lower.

Another reason supporting a compulsory income stream or annuity is because people do not manage longevity risk well on their own. Without compulsory superannuation people would not put aside recommended amounts for their later years. The reason why there is a small pool of people who tip in more money into their superannuation above the superannuation guarantee is because it is taxed at a concessional rate, subject to the superannuation caps of $25,000 for under-60s and $35,000 for people aged 60 and over.

We have recommended that only half of people's superannuation be applied to a pension or a lump sum so that there is a level of control which people retain over their money. By only apportioning half of superannuation to a pension this proposal takes into consideration that people may need to access a portion of their

superannuation lump sum for large expenses such as paying off the mortgage. It also recognises that there are people who will have different needs when they go into the superannuation drawdown phase – for example some people may need to access more money to pay for medical treatment.

4. Turning assets into income

Recommendation: the government should facilitate equity release for people to turn assets into income

The majority of Australia's wealth is tied up in property. This wealth should be used to provide a source of income for people to fund their longer lives. It is worth noting that the options outlined here apply to Australians with asset wealth and ways to free up that wealth. Counterbalancing measures are also required so that people are required to use that wealth before accessing state benefits, or have a disincentive from taking state benefits.

This proposal does challenge some sacred precepts of Australian life. You work hard. You buy a house. You leave the house to the kids in the hope it gives them a leg up in their lives. Against a backdrop of increasing longevity and a rising population with limited housing stock, this urge has to be placed in perspective. The reality of demographic change necessitates a change in traditional attitudes towards the accumulation and use of wealth.

People should be encouraged to downsize the family home. Doing this provides a number of benefits. It allows people to derive a profit from the sale of the home which can be added to their private savings for retirement. It permits people to change to a form of housing, and potentially another area, more suited to their needs as they age. It also frees up housing stock for younger generations.

Government should support the development of reverse mortgages and equity purchases, or 'reversion contracts' where lenders purchase a portion of home equity for the vendor to use as income. It could do so through appropriate management of innovation risk, including by ensuring that appropriate regulation is in place that offers protection to consumers and that product designs are transparent to the general population (Ong et al, 2013: 81). Government could also invest in the development of the reverse mortgage market through, for example, providing grants to companies to securitise (Australian School of Business, 2014).

5. Mature age employment

Recommendation: identify and invest in businesses to be part of a best practice program incorporating flexible working models, training and staged retirement

Staging retirement over a period of time, or changing the type of work a person does before leaving the work-force altogether, means that they can retain an attachment to the workforce while scaling down. This would have the effect of increasing personal savings for retirement. It would also increase income tax receipts and lower demand for the age pension.

be 'compensated' for hiring older workers, which affirms the idea that older workers are a 'burden'. Incentives, of themselves, do not change work practices and attitudes towards older workers. Finally, offering incentives does not guarantee a take-up from employers. By investing in, and publicising the changes made by, a select group of (possibly, medium and small) enterprises, the government creates realistic models for other businesses to emulate.

Staged retirement is something people want. Although there is not a large amount of data on staged retirement, indications are that workers support the scaling down of work, or a shift to a different sort of work (or a combination of the two). For example, 65% of Australian Public Service (APS) workers surveyed said that changes to their workplace such as more flexible conditions and changing the type of work they do would keep them in the APS for longer than they currently intended (APS, 2003: 41). Research done using the HILDA datasets also found that 'many people would be content to make a gradual transition to retirement' (Headey et al, 2010: 5).

However there are a number of issues that need to be worked through for staged retirement to be feasible. The first is overcoming discrimination against older workers, and a reluctance on the part of employers to adapt roles and workplace practices to accommodate staged retirement. For example, the Australian Human Rights Commission has found that where difficulties exist in requesting phased retirement options, the result can be less work, or being forced out the job altogether due to pressures from increasing caring responsibilities (AHRC, 2010: 15). Similarly, research by the ACTU has found that the right conferred under section 65 of the Fair Work Act (2009) (Cth) for older workers to request flexible working arrangements 'has not operated effectively' (ACTU, 2012: 13). Discrimination against older workers must be dealt with, and employers must be educated to challenge predispositions toward younger workers.

Certain jobs and workplaces are more conducive to staged retirement than others. The Watson Wyatt Worldwide Retirement Survey found that the healthcare/social assistance, education and manufacturing industries have the largest number of people in phased retirement (Watson Wyatt Worldwide, 2004: 5). Continued education and re-skilling of older workers is a preliminary step in overcoming these issues. Targeted support programs for people who have gone out of one sort of work, but would like to go into other area of the workforce is one way of achieving this. Another idea which has received relatively less policy consideration is to take sabbaticals regularly across a working life, rather than seeing education as something which is mainly undertaken prior to work. Epidemiologist Alexandre Kalache has suggested a coordinated approach to life-long learning that governments nationally should adopt and promote:

> "*For people to continue to learn throughout their lives, there needs to be flexible and multiple pathways into and out of formal education…Current training routes are simplistic, and options for mature students are very limited. Governments, employer associations, workplaces and education institutions should be doing everything in their power to make it easy for people to gain new skills throughout the life course*" (Kalache, 2013:49).

Further training is also most likely to assist the vulnerable groups described in this report. Research by National Seniors shows that the groups of mature age people out of the workforce which considered they would benefit most from training were those with non-school qualifications and women (National Seniors, 2014, v).

6. Education

Recommendation: government and business should invest in technology which enables young people (those aged 30 and under) to use smart phones and tablets to learn about superannuation and longevity

The public interest necessitates a decent level of financial literacy among citizens. Understanding of, and engagement with, the superannuation and retirement income system in Australia needs to be improved. This is especially so at younger ages, where people regard retirement income as something disconnected from where their lives are at present.

The trend in technology use is away from computers and towards tablets and smart phones. This is especially so in the area of personal banking and financial services. Government and business should invest in the development of applications which could be marketed to people from school age up to age 30 to improve their understanding of the retirement income system.

One of the most important reasons for developing widely available education programs on retirement incomes is the effect of compound interest. If people do not grasp the concept of saving as much as they can early in life, their superannuation savings will be hampered. Another reason to develop this technology is because the existing financial planning instruments for people to educate themselves are complex and take time for people to use. These factors combine to mean that young people don't educate themselves about retirement and longevity as much as they could. Making the technology accessible, easy to use and even enjoyable would create more engagement with the retirement income system from an early age.

Conclusion

For some time now, public discourse has centered on what needs to be done to secure Australia's finances in a time of increasing economic uncertainty. The heady days of the mining boom and consecutive income tax cuts are well and truly gone.

In the new climate, the default position of the government is self-sufficiency, and there's an easy convenience to this: confront fiscal pressures by reducing the size of government. This approach will create entrenched inequalities for Australians as they age.

A below-adequate level of income for the increasingly long 'third phase' of life has implications for health, for social inclusion and for the community as a whole. Without it, people may not see the doctor or the dentist, when they should. They may decide that they cannot participate in the regular social or sporting activity which had been a part of their lives for so long. They may not continue to volunteer because of the costs of transport. Life becomes smaller, less meaningful, more isolated.

This paper has shown how people are living longer – much longer – than we have predicted. It has explained the way that people in vulnerable groups such as women, the low paid and those in insecure work, will not have enough in private savings to enjoy a decent level of financial security as they age. It has argued that the taxation of superannuation is further disadvantaging these groups of people while providing concessions to the wealthy. Finally, it has shown that the age pension is not providing an adequate safety net to these vulnerable groups while being accessible for people who do not need state help in older age.

We have called for the implementation of recommendations which, together, advance a system that is fiscally responsible and fair. Our proposals are practical and reasonable.

We have also called for policies which mandate that people use their wealth to pay for longer lives, and which tighten eligibility for public benefits so that they are targeted to the neediest in society. We have called for policies which enable vulnerable groups to save more across their working lives and to promote a more flexible workplace with continued training opportunities across the life course. Finally, we note the importance of better education about the retirement income system and the way it hinges on use of emerging technologies.

It is entirely within the realm of possibility to develop a retirement income system which enables people to save more for longer lives, to manage longevity risk and for the state to provide adequate levels of support. We can achieve all of this while making the system fairer.

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Appendix

Methodology for Recommendation 1(a): estimate of $1.3 billion saving (2014-15) to tighten the pension means test

The proposed tightening for the assets component of the pension means test was originally proposed by ACOSS in its 2014-15 Budget Priorities paper, (ACOSS, 2014). We have taken our estimates from this paper.

Methodology for Recommendation 2: estimate of $1.2 million cost (2014-15) to introduce a more progressive system of taxing superannuation contributions

The goal of this modelling was to introduce greater fairness in the way that superannuation contributions are taxed.

Using Treasury statistics (Treasury, 2012) we established the average dollar-value superannuation contribution per annum and the average tax concession rate for each income decile.

Using the HILDA datasets, we analysed the distribution of income tax rates and the average tax rate paid, comparing this to the average tax rate paid under the proposed system combining:

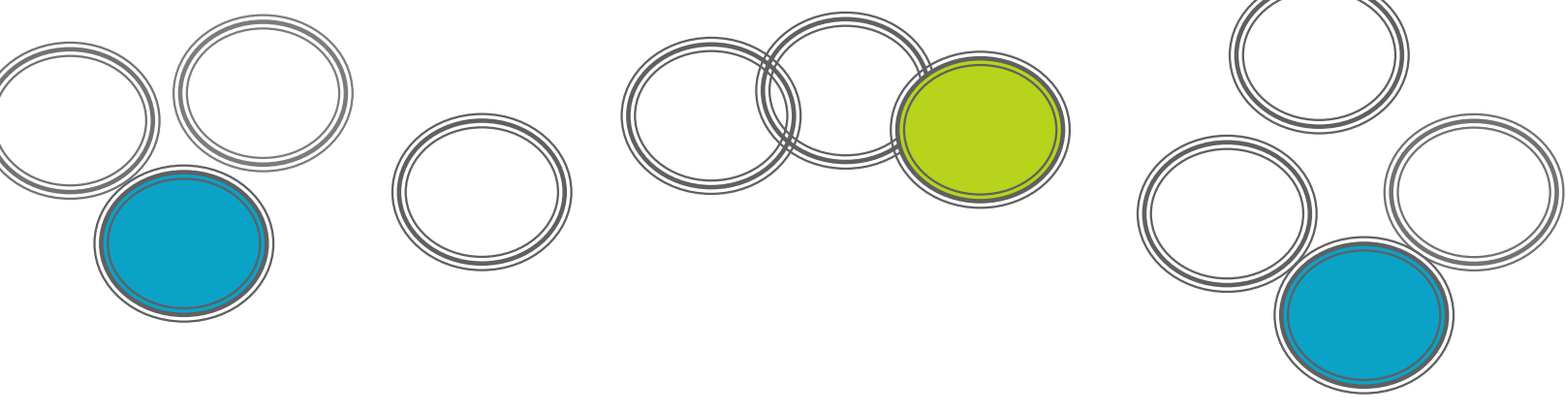
1. A zero rate of tax for incomes up to and including $37,000;

2. A 15% tax for incomes between $37,001 and $80,000; and

3. Marginal rate of tax for incomes of $80,0001 and higher.

We then compared the average concession rate for each income decile under the existing system of 15% flat tax to the concession rate for contributions under the proposed system (the **difference**).

We then multiplied the difference by the average dollar value superannuation contribution per decile. This was then multiplied by the number of payees in each decile to establish an estimated public cost under the proposed system.



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