

Economic security for women in retirement: Submission to the Senate Standing Committee on Economics

Contact: David Richardson
October 2015

ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE – 'RESEARCH THAT MATTERS'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at <https://www.tai.org.au> or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 5, 131 City Walk

Canberra, ACT 2601

Tel: (02) 61300530

Email: mail@tai.org.au

Website: www.tai.org.au

Table of Contents

Introduction.....	1
Poverty.....	2
Earlier work related to Women’s Economic Security in Retirement	5
Gender impacts of government tax and spending measures	7
The Gap in women’s super	8
Low income super concession.....	9
A pension loan scheme.....	10
Inequality in the Intergenerational Report	11
Tax concessions for super.....	12
Tax Expenditures	14
Conclusions.....	15
Appendix A: Inequality in the IGR.....	16
Poverty hardly mentioned in IGR	16
Inequality.....	16
Worse for the poor	20
Appendix B.....	22
Super concessions as tax expenditures.....	22

Introduction

The Australia Institute is pleased to be able to respond to the Senate's invitation to make a submission to its inquiry into the *Economic security for women in retirement*. The Australia Institute has done a good deal of work in this and related areas. Hence the present submission contains brief commentary on the earlier work plus links to that earlier work. The Australia Institute wishes the documents referred to in the links to be read as part of the present submission. We have also included some as yet unpublished work, *Inequality in the IGR* [Intergenerational report], and a section called 'Poverty' based on some new OECD data.

Most of the Institute's work on women in retirement has concentrated on the age pension and superannuation. Households in Australia had a combined net worth of \$7,564 billion in June 2014.¹ On the same date the value of the assets in Australia's superannuation funds was \$1,841 billion.² So while we regard super as terribly important it is only about a quarter of all the assets that Australian households have available to fund their retirement or for other purposes. To ignore the other 76 per cent of household assets may seem somewhat remiss on our part, however, the income distribution figures suggest that the wealth distribution is heavily biased towards the rich in Australia. We basically ignore the rich who can look after themselves while we are interested in the circumstances of the less well-off and those in the middle of the income distribution.

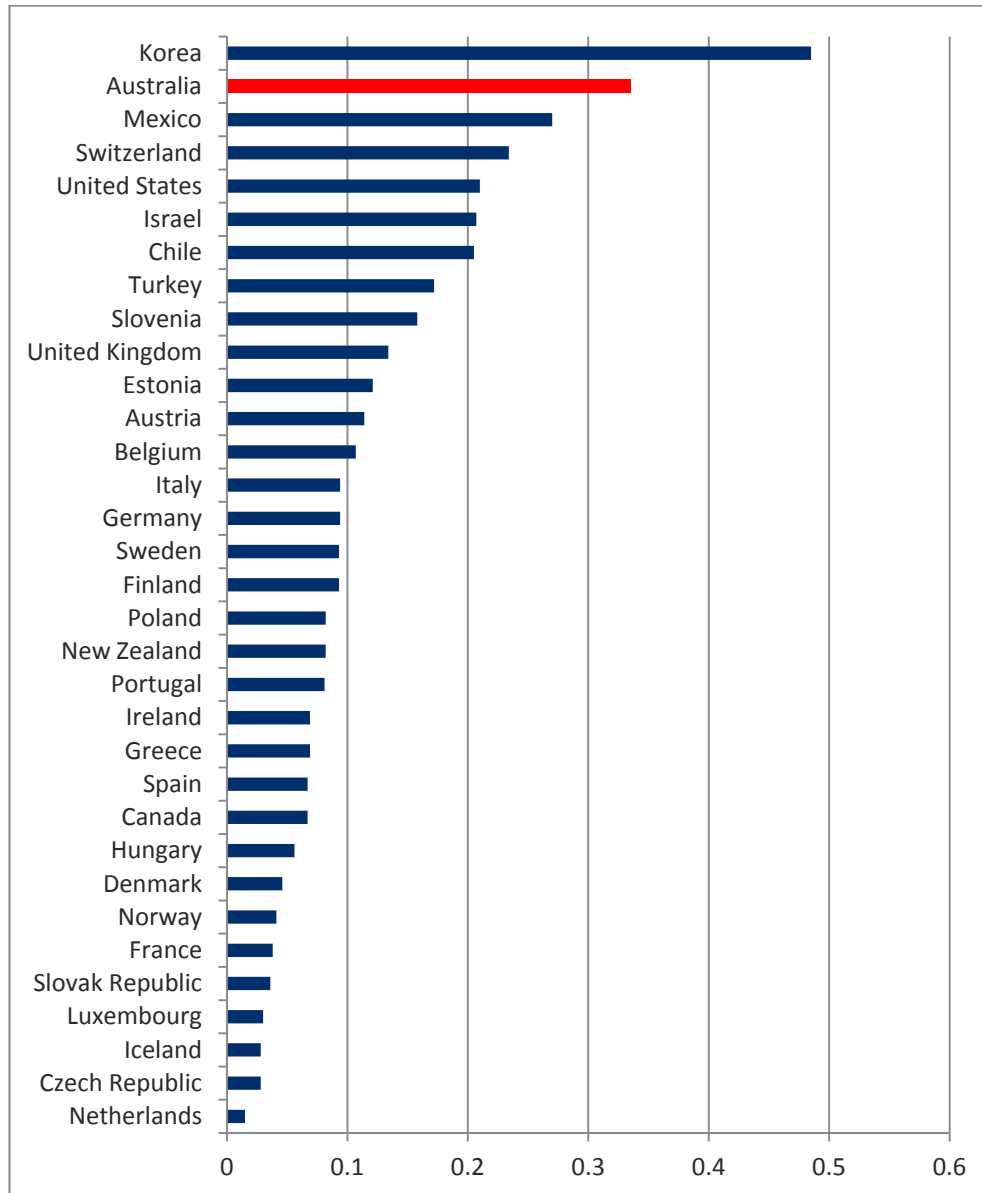
¹ ABS (2014) *Australian system of national accounts, 2013-14*, Cat no 5204.0, 31 October.

² APRA (2015) *Statistics: Quarterly superannuation performance*, 20 August.

Poverty

We begin this submission with some disturbing data published by the OECD and summarised in Figure 1. Figure 1 shows the poverty rate among the elderly in those OECD countries for which figures were collected. Poverty is defined as 50 per cent of the median equivalised disposable income of the entire population. The elderly here is defined as the population 65 years and over.

Figure 1: Poverty rates among the elderly in OECD countries



Source: OECD (2015) *OECD Income Distribution Database (IDD): Gini, poverty, income, Methods and Concepts* at <http://www.oecd.org/social/soc/income-distribution-database.htm> accessed 23 September 2015.

The data in Figure 1 are striking and give Australia's poverty rate at 0.335 meaning that just over one third of all elderly in Australia live in poverty. The data are also striking because they show that Australia is the second meanest to its elderly people among the OECD. The poverty rates for the elderly stand in contrast to other age groups. Australia is close to the OECD average for most income groups with the major exception of the elderly. On the other hand Australia's poverty rate among the 18-25

year olds is well below the OECD average. We expect that reflects high youth unemployment in many OECD countries.

Unfortunately the official ABS figures cannot be broken down by gender. The ABS seems to prefer to stop at the household rather than look at distributional issues between men and women. Admittedly such questions are difficult. On the one hand assets may be split 50:50 on divorce and on the other hand assets may be in joint names for tax purposes. Untangling those and other factors would be a difficult task.

Earlier work related to Women's Economic Security in Retirement

A major determinant of women's economic security in retirement is their experience in the labour market prior to retirement. While women presently make up 46 per cent of the total workforce, they are only 36 per cent of the full-time workforce but 69 per cent of the part-time workforce.³ As part-time workers or contemplating part-time work women often face huge penalties through the combined effect of some or most of:

- Marginal tax rates which former Treasurer Joe Hockey had recently mentioned.
- Withdrawal of Family Tax Benefit (A or B depending on their household circumstances).
- Withdrawal of parenting allowance.
- Cost of child care.

file:///D:/Downloads/IP%203%20Women%20in%20the%20recession%20S4WI_7.pdf

In 2009 we published *The Impact of the Recession on Women* at a time when the commentary and budget papers reflected the view that a major downturn was about to hit the Australian economy. Obviously bits of that report are dated but the paper went into considerable detail into the general experience of women in the workforce and so much of that report remains relevant today.

The report found women faced chronic difficulties in the labour market. Women comprise up to 80 per cent of the hidden unemployed in key prime-age groups. Instead of being officially defined as unemployed, women are more likely to move directly from being defined as employed to being defined as out of the labour market entirely and then back in again. Whether in hidden unemployment or completely out of the labour market, women are likely to be more occupied with caring duties which limits their ability to actively seek work meaning they are less likely to be classified as unemployed.

We may soon need to discuss labour market and job creation programs and it was noted that in the past the job creation schemes tended to be very 'blokey'. Some of

³ ABS (2015) *Labour force, Australia, Aug 2015*, Cat no 6202.0, 10 September.

the lessons from the report were that in order to address women's disadvantaged labour-market status, any stimulus could be rebalanced in favour of first, public service spending for better employment effects and second, greater emphasis on labour-market programs.

The report did make the point that lower incomes and broken working lives had serious financial impacts on women so that they retire with smaller superannuation balances. However, women's longer life spans mean their financial needs tend to be higher than men's in retirement. Women tend to benefit disproportionately from labour-market programs; however, as traditionally designed, labour-market programs are unlikely to attract many of the women who could benefit. Objective assessments of the labour market and the design of appropriate programs need to reflect the actual movements of women into and out of the workforce, both in the short term and over the course of their lives. The level of income support is an important issue while increasing the adequacy of income support is stimulatory and fair.

Gender impacts of government tax and spending measures

<http://www.tai.org.au/content/budget%E2%80%99s-hidden-gender-agenda>

Succussive government attitudes to tax cuts and spending cuts have further entrenched gender inequality and are having a negative effect on women's economic security in retirement. Analysis by The Australia Institute shows that income tax cuts typically benefit men while cuts to government spending often impact more on women.⁴

Income tax cuts from 2005 to 2012 flowed mainly to men, with women only receiving 32 per cent of the benefit. When the Abbott government attempted to reduce the budget deficit, caused in part by the income tax cuts, it cut spending to areas that mainly benefit women; 55 per cent of the budget cuts in the Abbott government's first budget impacted on women.

This has occurred because the income tax cuts have flowed mainly to high income earners, with 62 per cent of the value of the 2005 to 2012 tax cuts flowing to the top 20 per cent. As men on average earn more than women then more men benefitted from the tax cuts. Because of their lower incomes, women are more likely to benefit from the delivery of government services. This has meant that the majority of the burden of spending cuts has been borne by women.

Women already suffer economic disadvantage and the way in which governments are choosing to cut taxes and spending is making these inequalities worse. These inequalities are affecting women's economic security in retirement by impacting on their ability to add to their savings, including superannuation and their ability put aside money in investments.

A full analysis of the implications of government budgetary changes and gender equality can be found in The Australia Institute's paper *The budget's hidden gender agenda*. The government needs to consider more carefully the gender component of both tax cuts and spending cuts. Inequality is magnified by our retirement income system that is having an impact on the women's economic security in retirement.

⁴ The budget's hidden gender agenda (2014) <http://www.tai.org.au/content/budget%E2%80%99s-hidden-gender-agenda>

The Gap in women's super

<http://www.tai.org.au/content/whats-choice-got-to-do-it-0>

A later report, *What's choice got to do with it? Women's lifetime financial disadvantage and the superannuation gender pay gap*, addressed the gap in women's super in more detail. The persistent gap between male and female remuneration for similar work and the gendered nature of informal care work play an important role in determining labour market outcomes for women. It is hard, if not impossible, to incorporate such factors into conventional notions of choice.

Drawing on hypothetical examples, this paper analyses how the life experience and work patterns of four women in different occupations – a nurse, a lawyer, a finance analyst and a retail worker – will impact on their superannuation earnings. It shows that, compared with a male of the same age earning the average wage, the superannuation balance for these four examples ranges between 44 per cent and 87.6 per cent of the benchmark lifetime super balance of the average male. This analysis shows that the current superannuation scheme effectively takes the gendered income inequalities that exist during people's working lives and magnifies them in retirement.

http://www.womensagenda.com.au/personal-freedom/super-insurance/lets-not-pretend-the-bad-decisions-of-women-are-to-blame-for-the-gap-in-super-balances/201402063541#.Vhr_5_mqpBc

Related to this report Richard Denniss wrote an op ed (above link) which concluded:

If Australia is serious about improving the retirement incomes of women then tinkering with superannuation has a very small role to play. Millions of Australian women have already made 'bad decisions' such as having children, working part time and caring for their elderly parents. Indeed, all women made the mistake of being born into the gender that gets paid 17 per cent less. Nothing, repeat nothing, that is done to the super system will deliver significant benefits to the millions of women aged over 50 who, with up to 50 years of life ahead of them, can do nothing to fundamentally increase their retirement savings.

The only way to help women in retirement, as opposed to make them feel guilty for having made 'bad decisions' is to increase the age pension.[Yet] the cost is trivial compared to the enormous, and rapidly growing, cost of the existing tax concessions provided for superannuation.

Low income super contribution

<http://tai.org.au/content/submission-mrrt-should-not-be-abolished>

The Low Income Super Contribution (LISC) is to be abolished as of 30 June 2017. It was designed to compensate people in the event that they paid their 15 per cent tax on super contributions but earned a low income that would otherwise have not attracted any tax. Women are 45 per cent of all taxpayers but 57 per cent of all those in the income tax brackets affected by this measure.⁵ We presented further argument in our submission to a Senate inquiry; *The MRRRT should not be abolished*.

⁵ TAI calculations based on The Australian Taxation Office (2015) *Taxation Statistics, 2012-13*.

A pension loan scheme

<http://www.tai.org.au/content/boosting-retirement-incomes-easy-way-0>

In 2014 The Australia Institute published a report called *Boosting Retirement Incomes the Easy Way*. It argued for the expansion of the Pension Loans Scheme, an existing but little known government-run reverse mortgage. Through the PLS, retirees with their own property can borrow against it to increase their retirement income. The PLS has a lower interest rate than reverse mortgages available from private lenders; governments are able to provide such services at lower costs due to transactional efficiencies of existing administrative infrastructure. However, currently the PLS is restricted to those who are not eligible for the Pension. This makes little sense. We proposed removing this restriction. The PLS could also be used to introduce some form of means testing of the 'family home' in the Age Pension, without impacting on retiree income. The savings from this could be used to increase retirement incomes for those who rely on the Pension. Increased use of the PLS would also unlock capital as expenditure in the economy.

Inequality in the Intergenerational Report

In an appendix we include some material from an as yet unpublished paper on intergenerational issues. There it is made clear that the policy settings of the Abbott Government as described in the 2015 Intergenerational Report (called ‘proposed policy’ in that report) were to worsen income inequality and reduce the relative incomes of the elderly. While the analysis is not gender specific it is nevertheless relevant given that women are 54 per cent of the population 65 and over, 57 per cent of the population 75 and over and 64 per cent of the population 85 and over.

Tax concessions for super

<http://tai.org.au/content/submission-financial-services-review>

The Australia Institute has done a large volume of work on the subject of superannuation tax concessions and related areas. The following is an extract from The Australia Institute submission to the Financial Services Review.

In May 2008 we published *Choice Overload: Australians coping with financial decisions*. That paper documented the limited information super members have and the lack of engagement with their funds. The implication is that people did not have either the financial literacy or interest to make rational decisions. Hence they were unlikely to do well out of the earlier policy of offering greater choice to consumers.

Choice overload was followed by *Choosing not to choose: Making superannuation work by default* in November 2008. That developed the critique of the Choice of Fund policy for failing to protect those consumers who were disengaged from superannuation issues while generating additional income for fund managers and financial planners. This paper also argued strongly for a default super system, a policy that was elaborated upon in *The case for a universal default superannuation fund* in September 2009. Those arguments were ultimately reflected in the Cooper Review and subsequently in new superannuation arrangements.

Can the taxpayer afford self-funded retirement? examined the tax expenditures that are spent on subsidies for superannuation with the bulk of those subsidies going to the very rich. Self-managed super funds (SMSFs) are now firmly entrenched as the vehicle of choice for tax avoidance by high income earners and high wealth individuals. At June 2013 a total of 509,362 SMSFs had total assets of \$506 billion; the average assets of SMSFs was \$993,000 while tax office figures⁵⁰ show their average income was \$86,000 in the 2010-11 financial year. Ten SMSFs had reportable income of \$5 million or more. The extreme bias in super tax concessions towards high income earners was addressed in *Super for some: Who wins and loses from \$30 billion worth of tax concessions for superannuation?*

There is a strong gender bias in the superannuation system with males able to accumulate much higher balances and subsequently receive much higher payouts compared with the experience of women in Australia. Essentially men get the money

but women have the higher 'survival risk' as the actuaries put it. The issue was addressed in *What's choice got to do with it?* in August 2013.

Aspects of the governance of superannuation were addressed in *Time to get engaged with super?* which found that many members thought their funds should take greater account of ethical and environmental considerations in managing their investments.

Tax Expenditures

'Tax expenditures' are concession given through the tax system and are so called because they have the same impact on the economy as ordinary expenditures. Appendix B sets out a fuller argument on super as a tax concession. But here we note that just the two main super tax concessions are expected to cost \$33.5 billion in 2015-16 rising to \$50.55 billion in 2018-19 in the meantime income support for seniors is \$44.2 billion in 2015-16 rising to \$50.4 billion in 2018-19.⁶ This means that the government funds going into retirement incomes are now \$77.7 billion rising to \$101 billion in 2018-19. At the moment the super tax concessions are administered by Treasury and the income support is administered by the Minister for Human Services. However, imagine in a thought experiment what would happen if super tax concessions were cashed out (like Family Tax Benefits were years ago) and put into the Human Services portfolio.

We could have a genuine debate about how much assistance for retirement incomes is appropriate. The Minister would be responsible for putting proposals to Cabinet to rationalise the whole structure. Just like the Family Tax Benefit debate, large explicit outlays going to rich superannuants would be visible as 'middle class welfare' and governments would be under pressure to wind them back. We think the Senate Inquiry could recommend in passing that super tax concessions be cashed out and treated as explicit outlays in the presentation of the budget.

In this regard we note that the government has now legislated to cut the low income super contribution from 30 June 2017. LISC seemed vulnerable because it is an outlay while tax concessions are not subject to the same critical scrutiny.

⁶ Australian Government (2015) *2015-16 Budget Paper No 1*, May

Conclusions

This submission has covered a good deal of ground and we are glad that we have been able to refer to a large body of work that is directly relevant to the inquiry on economic security for women in retirement. Three conclusions scream out:

- The adequacy of the age pension needs to be addressed.
- The tax concessions that assist people make contributions are heavily biased towards those who do not need assistance and those resources could be better targeted at low income retirees.
- Women are much more likely to earn low incomes over their working ages and, as a result, find they have inadequate resources in retirement.

Most Australians spend a large portion of their adult life in a couple relationship and have children. Drawing together all the work from The Australia Institute and being aware of other work in the area it becomes clear that we know almost nothing about how all the gender differences are mediated through people's life experiences. But we can be sure that there will be complexities and surprises in any attempt to study those processes.

Appendix A: Inequality in the IGR

Poverty hardly mentioned in IGR

We mentioned in the introduction how a third of the elderly live in poverty according to the OECD. The figures are striking and give Australia's poverty rate at 0.335 meaning that just over one third of all elderly in Australia live in poverty. Australia is the second meanest to its elderly people among the OECD and of the countries in the graph only Korea is meaner. Many Asian countries have been slow to develop modern welfare systems as became clear Joe Hockey's London entitlement speech mentioned above. At the very least it would be timely to have another inquiry into poverty but we might expect poverty and questions of adequacy to feature prominently in any publication on the state of support for the elderly. Poverty gets no mention in the latest IGR and is mentioned only briefly in the first when it says

Australia is well placed in relation to age pension spending because the pension is means tested and targets poverty alleviation. By comparison, many OECD countries pay age pensions according to previous individual earnings, resulting in greater fiscal pressure as populations age.⁷

That form of words is repeated in the second and third reports. The third report, released during the Labor Government contains a bit more discussion and for example cites and OECD report when it says:

Australia performs well compared to other OECD countries in targeting low income support benefits to reduce the risk of poverty while maintaining incentives to return to the workforce.

It is true that the report in question referred to Australia's well-targeted system but it did reflect on the poor levels of support in Australia.⁸

Inequality

The latest ABS figures at the time of writing show that Australia has experienced a slow but steady worsening in inequality.⁹ For example, in the last two years the top quintile

⁷ The report fails to mention the substantial differences between Australia's social security system and most other OECD systems which tend to be financed by contributions based on salaries and pay earnings-related pensions.

⁸ OECD (2008) *Growing Unequal?: Income Distribution and Poverty in OECD Countries*, Organisation for Economic Co-operation and Development, Paris.

has seen their household income increase by \$490 a week from \$4,512 per week to \$5,002 a week. By contrast the bottom quintile has seen their income increase by just \$22 a week from \$413 to \$435 a week.

Inequality according to wealth is more extreme with the average household in the top quintile holding a net worth of \$2.5 million compared with the bottom quintile owning assets worth just \$35,600—a ratio of 71 to one. Over the last decade that ratio increased so that in 2003-04 the wealth of the top quintile was 57 times the bottom quintile compared with the ratio of 71 on the latest figures.

Over just the last two years wealth per household increased by \$189,400 for the top quintile and just \$2,900 for the bottom quintile.

The figures show the top quintile has 41 per cent of all income in 2013-14 compared with 38 per cent in 1994-95 while there were deteriorations in the income share of all other quintiles.¹⁰ Once again the wealth figures show that the distribution of wealth has worsened with the top getting a greater share over time and the other four quintiles receiving a lower share over time. The top quintile of equivalised wealth holders had 63 per cent of the wealth in 2013-14 compared with 59 per cent in 2003-04. The increase in the share of the top quintile was associated with a 21 and 22 per cent reduction (not percentage points reductions) in the shares of the lowest and second lowest quintiles respectively while the middle and fourth quintiles saw their share fall 12 and 4 per cent respectively. In terms of percentage points; the richest grew 4 percentage points while the poorest lost 0.3 per cent of the national wealth, the second and third quintiles lost 1.4 and 1.5 percentage points and the fourth lost 0.9 percentage points

The outlook is for a continuation and possibly hastening of these trends as

- unemployment increases,
- wages fail to keep pace with national income and fall as a share of GDP,
- many government income support payments fail to keep up with community standards while
- the social wage is being undermined in the name of fiscal austerity.

In the meantime the business groups are encouraging the government to lower company and top personal taxes in the interests of 'efficiency'.

⁹ ABS (2015) *Household income and wealth, Australia, 2013-14*, Cat no 6523.0, 4 September.

¹⁰ These figures report equivalised incomes using ABS data.

The elderly are of course some of the most vulnerable in the society because many of them have so few resources and their ability to earn more in the market place is doubtful. IGR3 optimistically claimed that

For most Australians, experiences of income poverty are largely temporary. Almost one in three Australians earned less than half of median income at some point between 2001 and 2006 (Chart 6.8). About 18 per cent of all Australians experienced relative income poverty for a period of one or two years, and only 2.6 per cent of Australians experienced relative income poverty in all years between 2001 and 2006.¹¹

We suspect those results would not hold up if repeated among the elderly and if they relied on OECD definitions. In the meantime there is a host of research showing that inequality is bad for economic growth. A more equal society is valued by many people and there is research that suggests most people think that society is much more equal than it is but nevertheless they respond to surveys by saying they want more equality. In many years ago

In the meantime the business groups are encouraging the government to lower company and top personal taxes in the interests of 'efficiency' and the government seems very receptive. For example in a recent speech Hockey mocked outrage when he told the audience that the 2.7 per cent of taxpayers in the top income tax bracket pay more than 28 per cent of all personal income tax while the top 10 per cent pay almost half.¹² In the same speech he railed against bracket creep which incidentally pushes more people into higher tax brackets and so reduces the proportions paid by the top groups of taxpayers. But of course Hockey or the speech writers would not have noticed that if their real agenda was cutting top tax rates.

The IMF has recently put it that:

tax and spending should be analysed in tandem. For instance, accurately gauging the distributional impact of a particular tax instrument requires taking into account the effects of the spending it helps finance. As to the composition of tax revenue, many countries... have room for expanding the role of recurrent property taxes and increasing the progressivity of personal income taxes.¹³

¹¹ p97

¹² Hockey J (2015) 'The economic case for personal income tax cuts', *Speech to the Tax Institute and Chartered Accountants Australia and New Zealand*, 24 August.

¹³ Francese M (2015) 'Harnessing the power of fiscal policy to mitigate inequality', *IMFSurvey Magazine*, 25 September.

While acknowledging the general importance of action against inequality the focus here is on the elderly.

Spending on the part of the aged can increase aggregate demand and so compensate for any under-consumption tendencies. At any moment the rest of society will be contributing to the finance of consumption on the part of the aged. There will be:

- Transfers, both cash and in-kind, to those of the aged population entitled to income support,
- contributions to those savings through superannuation tax concessions, as well as
- new contributions to super savings accounts and
- other private provision intended for financing retirement.

All of the latter are likely to imply a reduction in consumption and/or other spending on the part of the rest of society so that the net effect will be less than the total consumption of the aged. The injection of aggregate demand into the economy, via spending by low income earners, is likely to have strong positive impacts. In a speech by the IMF Managing Director, Christine Lagarde, said:

Our research shows that, if you lift the income share of the poor and middle class by 1 percentage point, then GDP growth increases by as much as 0.38 percentage points in a country over five years. By contrast, if you lift the income share of the rich by 1 percentage point, then GDP growth decreases by 0.08 percentage points. One possible explanation is that the rich spend a lower fraction of their incomes, which could reduce aggregate demand and undermine growth.¹⁴

The IMF has done a good deal of work on income inequality and growth to the extent that the empirical relationships are relatively well-known. A recent research paper said in regard to the emphasis on economic growth 'It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable'.¹⁵

¹⁴ Lagarde C (2015) 'Lifting the small boats', *Address at Grandes Conférences Catholiques*, Brussels, 17 June at <http://www.imf.org/external/np/speeches/2015/061715.htm> accessed 14 September.

¹⁵ Ostry JD, Berg A and Tsangarides CG (2014) 'Redistribution, inequality, and growth', *IMF Staff Discussion Note, SDN/14/02*, p. 27 at <http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>

Of course Australian economic policy continues as if nobody had ever questioned rising income inequality and the government projections imply a steady worsening of inequality.

Worse for the poor

Implicit in the 2015 Intergenerational Report is a massive worsening of income inequality. On the latest figures as this is being written, average weekly earnings are \$1,591.60 per week. (Based on male average weekly ordinary time earnings for full-time workers in May 2015.)

By comparison the age pension is \$435.50 a week¹⁶ and the unemployment benefit (Newstart Allowance) is \$261.70 a week. Those figures now equate to 27.4 per cent and 16.4 per cent of average weekly earnings. The gap between the pension and Newstart has been widening since the pension was indexed to the greater of the CPI, the pensioners' CPI and average weekly earnings while Newstart has not been increased beyond the CPI over the last two decades.

In the 2014-15 budget it was announced that the pension will only be indexed to the CPI as of September 2017. So the pension can only be expected to keep up with average earnings for the next two years (three scheduled CPI increases following the September 2015 adjustment). That means both the pension after 2017 and the Newstart from now on will decline relative to community standards. By 2055 there will be a massive decline in the two payments as a share of average weekly earnings as shown in the following table.¹⁷

	Now	2055
Single Age Pension % AWE	27.1	20.8
Single Newstart % AWE	16.4	12.5

¹⁶ Department of Human Services

<http://www.humanservices.gov.au/customer/enablers/centrelink/age-pension/payment-rates-for-age-pension> accessed 15 October 2015. This figure includes the 'maximum pension supplement' and the 'energy supplement'.

¹⁷ The budget papers give projections for the wage price index which was used instead of average weekly earnings projections which are not published.

On these figures the age pension would undergo a 24.0 per cent deterioration relative to community standards. On present settings Newstart will also experience a 24.0 per cent deterioration relative to community standards. Under the assumptions of the IGR someone in their late twenties now facing a future of unstable and low earnings can look forward to a retirement safety net that is less adequate against community standards than anything we have seen since federation. On a policy to index the age pension by the CPI alone the age pension would gradually deteriorate against community standards exactly as did the Newstart Allowance.

Note that these impacts will be reinforced by the freezing of some supplementary payments including FTB B and the indexation only of other payments and supplements.

Appendix B

Super concessions as tax expenditures

Whether or not one agrees with the present structure of the assistance for superannuation it is hard to object to the proposition that any benefits provided through government assistance should be open and transparent.

Super concessions are classified as a 'tax expenditure' and so are almost invisible. While they are included in the annual budget papers, the budget papers themselves are about 10 cm thick and super tax concessions get two mentions in Appendix A to Statement 4: Revenue, in Budget Paper no 1. The context is obscure and if you can find it the meaning is opaque and assumes the reader knows what 'tax expenditure' means.

The OECD even goes so far as to call tax expenditures "'back door" expenditures'.¹⁸ Imagine a headline such as '\$32 billion superannuation tax expenditures biased towards the rich'. Very few people would understand what that means. The concept of a negative tax item is difficult to grasp and so debate is largely stifled. By contrast, for an ordinary outlay, like the family tax benefit, there is a lot more scrutiny and every now and again there is genuine debate. Even within government, spending items are under a good deal of scrutiny. Every budget round the finance department circulates a savings paper to the Expenditure Review Committee with a hit list of items for the budget ministers to consider. These are all expenditure items.

Soon after the budget the appropriation bills are debated and, at least in theory, all government spending is scrutinised and reviewed by the Parliament. Then we have the Senate estimates hearings which again are designed to scrutinise government spending. When the whole budget and the financial year is over the government eventually publishes the exact amounts it did spend under the various headings.

Those processes never happen with tax expenditures. In fact governments like tax expenditures because they give the misleading impression of a government much slimmer than it actually is. Instead of showing additional government spending of \$32 billion in super tax concessions, by classifying them as a tax expenditure both spending and taxing look smaller by \$32 billion. We kid ourselves that government activity is smaller than it really is.

¹⁸ OECD (2004) *Best practice guidelines – Off budget and tax expenditures*, OECD Doc GOV/PGC/SBO(2004)6, 19 May.

Now everything would be completely different if tax expenditures were reclassified in the budget papers as spending items (or 'expenses' as we now call them). For many items the decision to classify them as a tax expenditure or an expense has been quite arbitrary. Yet it often makes more sense to call something an outlay. A benefit designed to assist people or encourage certain behaviour is diverting government resources for that purpose whether it is called an outlay or a 'tax expenditure'. Indeed, the concept of a tax expenditure was invented to suggest that it refers to items that are just like ordinary expenditures.

Years ago the Parliament and the Auditor General began a campaign to reclassify some tax expenditures as outlays and as a consequence the family tax benefit and other former tax concessions are now regarded as just another government spending item which is up for debate at any time. The agenda behind reclassifying tax expenditures as outlays has since run out of steam. But any diversion of government resources should be open and clear, in this case the government's resources are diverted for the benefit of some individuals with superannuation. In the interest of transparency and accountability it is important that the superannuation tax concessions be exposed to the light by reclassifying them as outlays in the budget papers. Either that or procedures need to be introduced to expose the tax expenditures to the same scrutiny as is received by ordinary outlays. We take that up further below. However, the clear preference is that super tax concessions be reclassified as outlays.

If super concessions were properly accounted for as outlays we should see a healthy debate about how far up the income distribution assistance should be given. Indeed, we may well stimulate debate about the very nature of government assistance to super and how it should be designed. This would definitely assist governments that want to compare their priorities with the resources devoted to different functions.

Putting super concessions on the outlays side would also help insulate the tax system from plunder by high income earners under future governments. We saw the rorts going to the rich massively increased under the Howard government, but a future government, though it may be tempted, would find it very hard to give gifts in the form of super concessions to the top income earners if that meant a large increase in outlays.

In the event that the government decides not to commit to converting tax expenditures into explicit outlays then the government should consider the OECD guidelines on tax expenditures,¹⁹ especially those that the Australian government has not yet adopted. Those guidelines that Australia has yet to implement are:

¹⁹ OECD (2004)

- *Guideline 12: Under nominal or structural deficit or operating/current balance rules, tax expenditures should either be included in the total expenditure cap that is set every year during budget preparation or in a special tax expenditure cap. Under medium term rules with multi-annual expenditure caps, tax expenditures should either be included in the total expenditure cap of each year or in a special tax expenditure cap of each year. Overspending on tax expenditures should be fully compensated, at least in so far as it originates in policy change. If a special tax expenditure cap is used, compensation can take place within that cap or through reduction of the regular expenditure cap.*
- *Guideline 13: All tax expenditures should be reviewed in the same way as regular expenditures in the annual budget process. They should be reviewed by the financial staff of spending ministers and the budget bureau in the same way as regular expenditures. Special evaluation procedures, including program review, should be applied to tax expenditures in the same way as to regular expenditures*
- *Guideline 14: Tax expenditures should be assigned to individual ministries. Objections of the Minister of Finance against change of tax expenditures can never be used as an argument against adjustment of other (tax-) expenditures if a ministry is required to diminish its expenditures or find compensation for overspending.*

Hence the implication of guideline 12 is that when the government specifies self-imposed expenditure limits it should include tax expenditures.²⁰ That would mean the present expenditure limit of 23.7 per cent of GDP would be increased to a *spending and tax expenditure limit* of 34.4 per cent of GDP reflecting tax expenditures at 10.7 per cent of GDP in 2007-08.²¹ This should not necessarily be taken as endorsing expenditure caps in this submission but the point is that if such a cap is to be used then it should include tax expenditures.

Guideline 13 goes to the points made above in this submission—it is important that tax expenditures receive the same scrutiny as ordinary budget outlays for the reasons outlined above.

Guideline 14 relates to the management of individual portfolios. Under the Australian system the Treasurer is responsible for the tax system and so also the super tax concessions. However, in principle the minister responsible for retirement incomes should be in a position to take policy to Cabinet that embraces the totality of government arrangements that affect retirement incomes. That allows the separate

²⁰ This is not to necessarily endorse expenditure caps but the

²¹ The limit on expenditure of 23.7 per cent was to reflect the last budget under the Howard government.

initiatives within retirement incomes to be fine-tuned to meet the ministry's policy objectives.

As mentioned above, the clear preference is to move tax expenditures to the other side of the budget. That would more than meet the intentions of the OECD guidelines.