SUBMISSION

Social Services Legislation Amendment (Fair and Sustainable Pensions)Bill 2015

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SENATE STANDING COMMITTEE ON COMMUNITY AFFAIRS

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Industry Super Australia

ABOUT INDUSTRY SUPER AUSTRALIA

Industry Super Australia undertakes collective projects on behalf of a number of industry super funds with the objective of maximising the retirement benefits of over five million industry super members. Please direct questions and comments to:

Zachary May
Director of Policy

Matthew Linden
Director of Public Affairs

ISA Pty Ltd ABN 72 158 563 270 Corporate Authorised Representative No. 426006 of Industry Fund Services Ltd ABN 54 007 016 195 AFSL 232514

SOCIAL SERVICES LEGISLATION (FAIR AND SUSTAINABLE PENSIONS AMENDMENT BILL 2015

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Key Points

Current retirement incomes policy settings are falling short of their goal of providing all Australians with a comfortable living standard in retirement. The net impact of the changes contemplated by the Social Services Legislation Amendment Bill 2015 will make things worse. In particular, the legislation will adversely affect women and those on low to middle incomes over time. Piecemeal change is to be avoided.

The Age Pension is sustainable from a fiscal perspective, but superannuation concessions are poorly targeted and other aspects of superannuation taxation require attention. The primary recommendation of this submission is that any changes should be formulated through a dedicated bipartisan retirement income review that can consider settings in an integrated way and recommend adjustments to tax, Age Pension and regulation consistent with system objectives.

Under the current tax and transfer policy settings, many Australians will retire on incomes below a comfortable standard according to ISA-Rice Warner modelling.

- For all Australians retiring from now through 2055, about half will not achieve a comfortable retirement, taking into account Age Pension, superannuation income and income from wealth outside of superannuation.

- The retirement system is especially failing single women. Over two thirds of single women aged 55-69 will retire on incomes below a comfortable standard. Even younger women face a difficult future. More than half of women currently aged 25-29 will retire on incomes below a comfortable standard.

The proposed tightening of the Age Pension under this Bill will, in net terms, have a further significant detrimental impact on the adequacy of retirement incomes.

- ISA and Rice Warner modelling shows that while the proposed changes will initially have a relatively small impact on existing pensioners, the proportion of new retirees affected by the proposed change will increase significantly over time. Over 40 per cent of retired Australians will be adversely affected by the proposed Age Pension cuts by 2055.

- The proposed changes in the taper rate will amount to a 15 per cent overall cut in the retirement income of some people who are on incomes below a comfortable standard, while people on higher incomes are largely unaffected. Women are especially harmed – under the proposal, eight in 10 single women retiring in 2055 will do so on incomes below that needed for a comfortable living standard, an increase of 30 per cent.

- The Bill's negative effects on single women will hit those on pretty modest incomes: Women aged 55-59 will be affected from earnings above $46,220; women aged 45-49 are affected from earnings above $40,568 and those aged 25-29 from earnings above $23,954.

SOCIAL SERVICES LEGISLATION (FAIR AND SUSTAINABLE PENSIONS) AMENDMENT BILL 2015

The Social Services Legislation Amendment Bill 2015 will not deliver fair or sustainable pensions.

The most significant change proposed by this Bill is to increase the asset threshold above which pension payments are reduced and increase the "asset taper rate" or the rate by which the pension is reduced for each $1,000 of assessable assets over the asset test threshold from $1.50 to $3.00 per fortnight. These proposed changes are the primary focus of this submission.

This change would reduce the retirement incomes of Australians who currently are on modest incomes, and whose retirement incomes are projected to be below that sufficient for a comfortable standard of living in retirement. Consequently, the proposed change is poorly targeted and inconsistent with the public policy objectives of the retirement security system.

Poorly targeted and ad hoc policy changes have been too common in recent years. Instead of piecemeal proposals, a dedicated bipartisan retirement income review should be undertaken to consider policy settings in an integrated way and recommend adjustments to tax, Age Pension and regulation consistent with system objectives.

We briefly address proposed changes related to defined benefit income streams and proportional payments of pensions outside Australia in Sections 2 and 3.

1. Asset test and taper rate

Currently, public policy is failing to deliver a comfortable retirement for all Australians.

The Age Pension is the cornerstone of retirement security for most Australians currently in retirement and remains a material component of retirement incomes over the long term. For this reason, efforts to obtain short-term budget savings by tightening Age Pension benefits are likely to undercut community living standards in an inappropriate way. Even if fiscal tightening is required – which it is not – the Age Pension should be among the last areas to seek cuts.

ISA-Rice Warner modelling indicates that the proposed changes to the Age Pension asset test and taper rate in this Bill are misguided because they reduce the retirement incomes of Australians who currently are on modest incomes, and whose retirement incomes are projected to be below that sufficient for a comfortable standard of living in retirement. Over time, the changes would adversely affect about 40 per cent of Australians, and 8 in 10 single women.

1.1 Adequacy: Under current policy settings, in the long term, about half of Australians and the majority of single women will not retire comfortably

Australia has experienced rising living standards and an improving quality of life for a long time. Consistent with this, Australian aspirations include a retirement that, at a minimum, is secure and provides a reasonably comfortable standard of living.

1.1.1 Key points

- Many Australians will retire on incomes below a comfortable standard. For all Australians retiring from now through 2055, about half will not achieve a comfortable retirement, taking into account Age Pension, superannuation income, and income from wealth outside of superannuation.
- The living standards of retirees improve as the superannuation system matures. Notwithstanding this improvement, many Australians will still retire below a comfortable living standard. Around 45 per cent of Australians who are currently aged 25-29 will not have incomes sufficient to support a comfortable standard of living in retirement.
- The retirement system is badly failing single women. Over two thirds of single women aged 55-59 will retire on incomes below a comfortable standard. Even younger women face a difficult future. More than half of those currently aged 25-29 will retire on incomes below a comfortable standard.

1.1.2 Discussion

The existing retirement incomes system is not delivering a comfortable retirement income to most retired Australians, nor are outcomes improving as well as expected as the superannuation system matures.

Table 1 shows the percentage of single males, single females, and couples retiring in 2015 through 2055 that don't achieve an objectively comfortable retirement under existing policy settings. Of near term retirees, people currently aged 65-69, about two out of every three will have incomes insufficient to achieve a comfortable living standard. This improves over the long term, but not enough. For younger Australians, aged 25-29, around half will still retire on incomes below comfortable levels.

Almost half of the population will not achieve a comfortable retirement under existing policy settings, even when the superannuation system is mature.

Policy change will be required if all Australians are to realise the community expectation of a comfortable living standard in retirement.

Table 1 - Percentage of retirees not achieving comfortable retirement

	Retiring in				
Group	2015 (age 65-69)	2025 (age 55-59)	2035 (age 45-49)	2055 (age 25-29)	Average all years
Single Males	65%	53%	45%	49%	50%
Single Females	76%	71%	63%	56%	63%
Couples (per person)	63%	54%	41%	41%	45%

Source: ISA-Rice Warner modelling

In the aggregate, public policy will not deliver community expectations of a comfortable retirement.

1.1.3 Key points

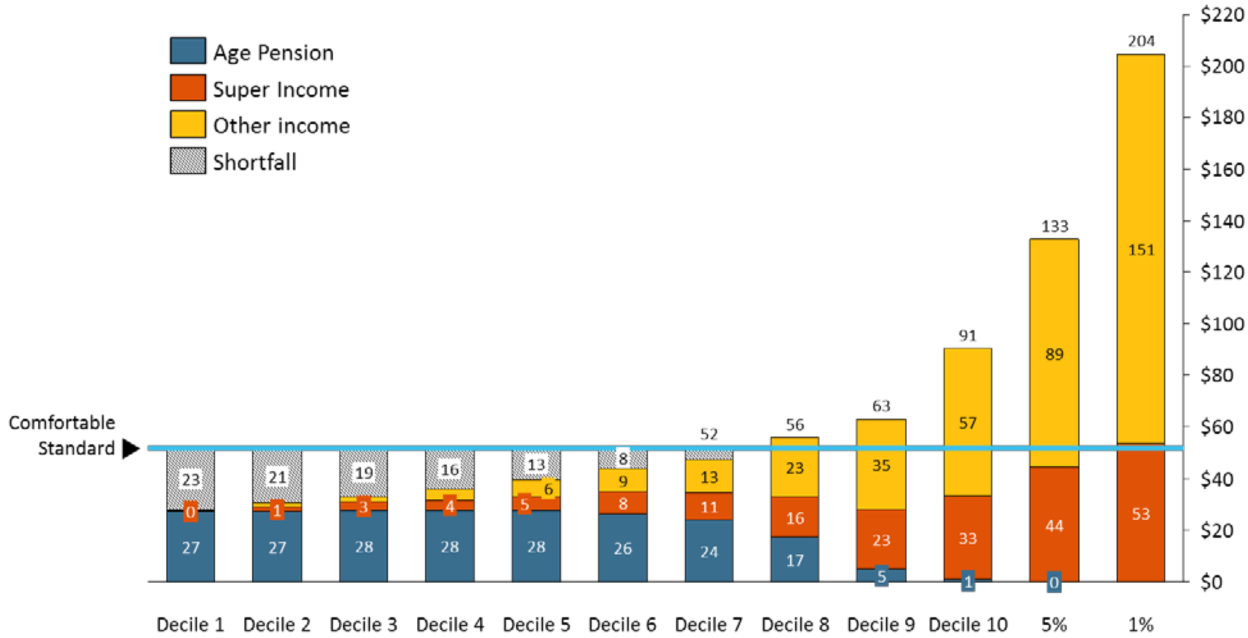
- The Age Pension is an important component of retirement income for most people. For older Australians, the Age Pension will be the foundation of retirement income. For example, for around 70 per cent of single females currently aged 55-59, the Age Pension is projected to provide the majority of retirement income.
- Distributional analysis shows a wide chasm in retirement incomes between the bottom income earners and the top. This has profound implications for wellbeing.
- Although most Age Pension payments are made to those who would not otherwise have income sufficient to support a comfortable standard of living in retirement, some Age Pension payments are made to individuals that are above a comfortable standard. A comprehensive retirement income review would be the appropriate forum to consider whether there is a simple and effective policy change that can address these poorly targeted payments.

1.1.4 Discussion

Figures 1 and 2 show projected annual retirement incomes by income decile for single females retiring in 2025 and in 2055. These figures indicate the amount of annual retirement income generated by the Age Pension, superannuation, and wealth outside of superannuation.

Figure 1 makes clear that the Age Pension is a critical part of retirement income. The Age Pension is vital for single women retiring in the near term (currently aged 55-59), contributing materially to incomes through the 9th decile. The Age Pension will contribute more to retirement income than superannuation and private wealth for around 70 per cent of them. Even with the Age Pension, a majority of these women will not retire on incomes sufficient to sustain a comfortable living standard in retirement.

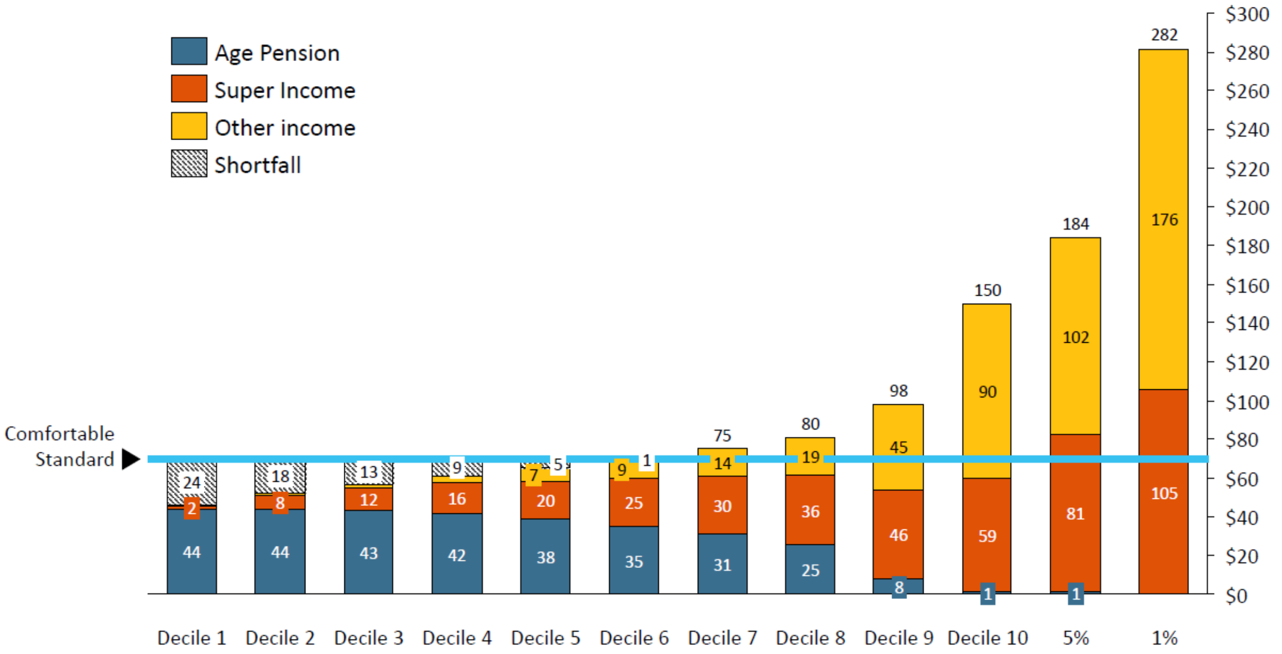
Figure 1 – Annual retirement incomes, single females, retiring 2025, 2015 prices, by income decile, $000s



Source: ISA-Rice Warner modelling

Figure 2 shows that the Age Pension remains important over the long term, even with a mature superannuation system. For younger single women, retiring in 2055 (currently aged 25-29), the Age Pension contributes materially to incomes through the 9th decile. The Age Pension continues to contribute more to retirement income than superannuation and private wealth for around 70 per cent of them. Even with the Age Pension, a majority these women will not retire on incomes sufficient to sustain a comfortable living standard in retirement.

Figure 2 – Annual retirement incomes, single females, retiring in 2055, 2015 prices, by income decile, $000s



Source: ISA-Rice Warner modelling

For single women retiring now through 2055, about 60 per cent of them will not achieve a comfortable retirement.

Due to the lower wages paid to women, the power of superannuation is less than for men: only the top 5 per cent of single female income earners will have enough income from super alone to support a comfortable retirement.

The Age Pension is a critical component of retirement security for young as well as old. The wellbeing of a majority of Australians retiring through 2055 is highly dependent on the Age Pension to achieve retirement incomes sufficient to support a comfortable standard of living.

Moreover, the distribution of incomes varies widely. The top one per cent of couples will receive over nine times the income of the bottom decile of couples, notwithstanding the Age Pension. This wide variation in income appears to be more extreme than differences in income during working life, and does not accord with Australian social norms.[1] Insofar as the wide disparity in incomes is an outgrowth of poorly targeted tax concessions, the case for a comprehensive retirement system review is strong.

Proposed changes to the Age Pension face a very high burden of proof given the central importance of the Age Pension to retirement living standards, and that many Australians will struggle to secure a comfortable standard of living even under existing policy.

1 See, Andrew Leigh, What do Australians think about equality?, Inside Story, 4 July 2013 (discussing research by Harvard Business School and Empirical Research finding that a majority of Australians would prefer a society that is more egalitarian).

1.2 The net impact of proposed Age Pension changes will significantly increase the number of people who will not achieve a comfortable retirement

1.2.1 Proposed changes

The eligibility to receive a full Age Pension is limited based on an "assets test," which reduces Age Pension payments to a person once a person's assets (excluding their residence) exceed a specified value. When a person's assets are above the threshold, their pension payments are currently reduced by $1.50 per fortnight for every $1000 of assets above the threshold.

This Bill proposes to increase the asset threshold above which pension payments are reduced. The proposed change to the pension asset test is set out in Table 2.

The Bill also proposes an increase in the "asset taper rate" or the rate by which the pension is reduced for each $1,000 of assessable assets over the asset test threshold from $1.50 to $3.00 per fortnight. There is no taper rate for other benefits.

Table 2 - Asset test threshold for the Age Pension

	Current level	Proposed level
Home owning singles	$202,000	$250,000
Home owner couples	$286,500	$375,000
Non-home owning singles	$348,500	$450,000
Non-home owner couples	$433,000	$575,000

Source: Explanatory Memorandum

1.2.2 Role of the Age Pension and the asset test proposal

As demonstrated above, the Age Pension serves an important purpose in assisting Australians to achieve a dignified retirement.

For this reason, proposals to significantly alter Age Pension policy setting deserve the highest level of scrutiny.

With good justification, proposals to reduce the indexation of the Age Pension have been abandoned. In their place, changes to the asset test have been proposed.

These changes have been better received, due to relatively smaller impacts on the existing cohort of pensioners than prior cuts. However, detailed analysis of the impact of the changes over time is concerning, and indicates the new cuts also should also be rejected.

Before considering detailed impacts, a discussion of the existing means test is warranted.

1.2.3 Recent reviews of pension means testing and alternative proposals

Both the Harmer Review of Retirement Incomes and the Australia's Future Tax System Review found the existing means test was complicated and inefficient, with the assets test singled out as a particular cause of concern.

The Harmer Review of Retirement Incomes noted:

> In summary, the Review's concerns are that the assets test, rather than acting as a backup, can now operate as the primary test for some pensioners with relatively moderate levels of financial assets which would be better assessed under the income test. Instead of this group of pensioners being income tested on the value of their income, their pension is reduced on the basis of the wealth that was generating this income. This means that the income and assets tests are not interacting efficiently and effectively. These trends and pressures on the assets test parameters were a part of the context of the reduction of the assets test taper rate from $3.00 to $1.50 in September 2007.[2]

Australia's Future Tax System Review also observed:

> The assets test can create relatively high effective marginal tax rates on income from savings. A pension reduction of $1.50 per fortnight per $1,000 worth of assets over the asset test threshold equates to an effective marginal taper rate on income of 78 per cent, assuming a 5 per cent annual income return. Effective marginal tax rates will vary depending on asset holdings and the assumed rate of return.[3]

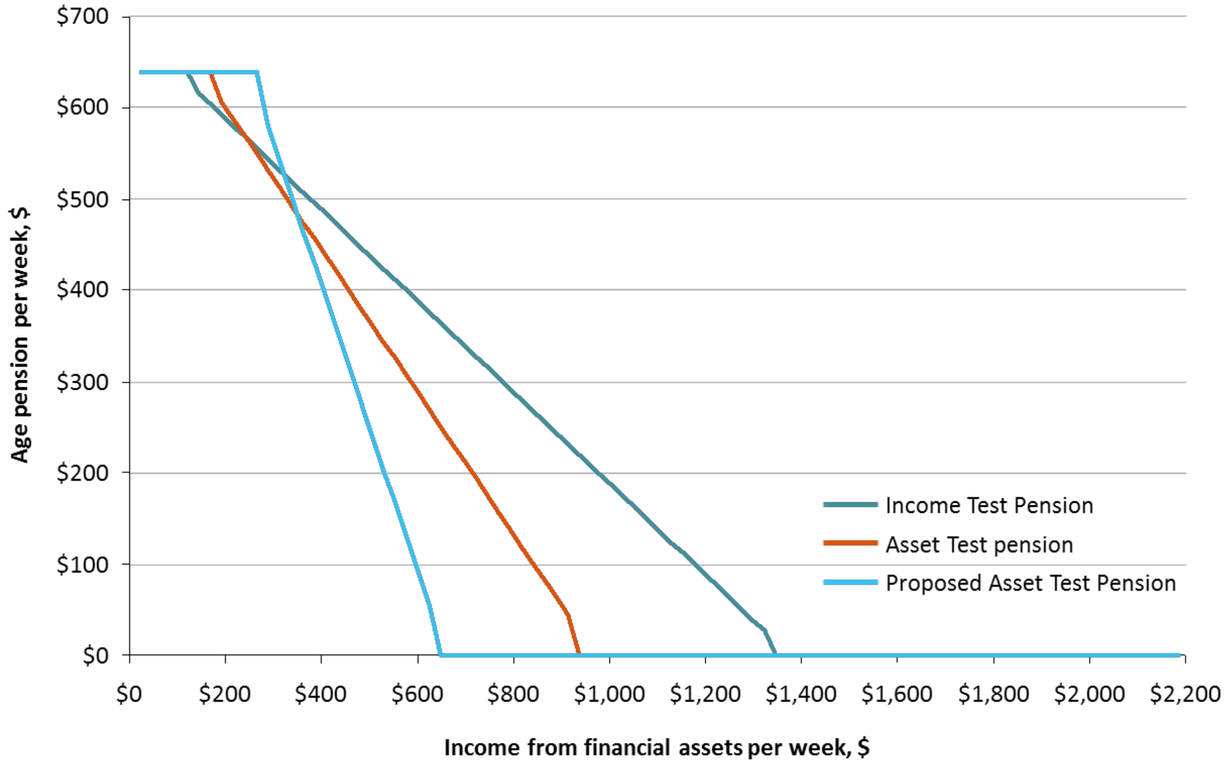
Adopting the same methodology as Australia's Future Tax System Review, the Bill's proposal to double the taper rate to a $3.00 per fortnight loss of pension per $1,000 of assets results in an effective taper of 156 per cent assuming a 5 per cent return.

Figure 3 below depicts the operation of the income and asset test for a couple on the age pension. It reveals the doubling of the asset test taper, even when combined with an increase in the asset test free area, results in a much more severe test than the income test. At an assumed five per cent return (which is greater than the existing deeming rate) eligibility for the pension is exhausted at half the income than the income test would normally allow for.

2 Harmer, Pension Review Report, pp 135-136

3 Australia's Future Tax System Review, Retirement Income System - Report on Strategic Issues, Section 6.2 pp 42-43, 2009

Figure 3 – Interaction of the income and asset test for couples under existing and proposed test



Source: ISA estimates

To reduce the effective tax or taper rates on savings, pensioners may seek out higher risk assets or alternatively divert savings into exempt assets such as the family home, although the likelihood of these behavioural responses is uncertain. It is unclear what assumptions are made for the claimed savings for the measure. If individuals draw down on their assets faster (as suggested by the Minister in his May 7 2015 Press Release), then the anticipated pension savings may not be realised.

Initial modelling by ISA-Rice Warner suggests increasing minimum drawdown on capital by 1.75 per cent will reduce age pension savings under the measure by up to one third. The reason for this is that individuals will deplete their assets more quickly reducing the assets which are in turn assessed under the means test.

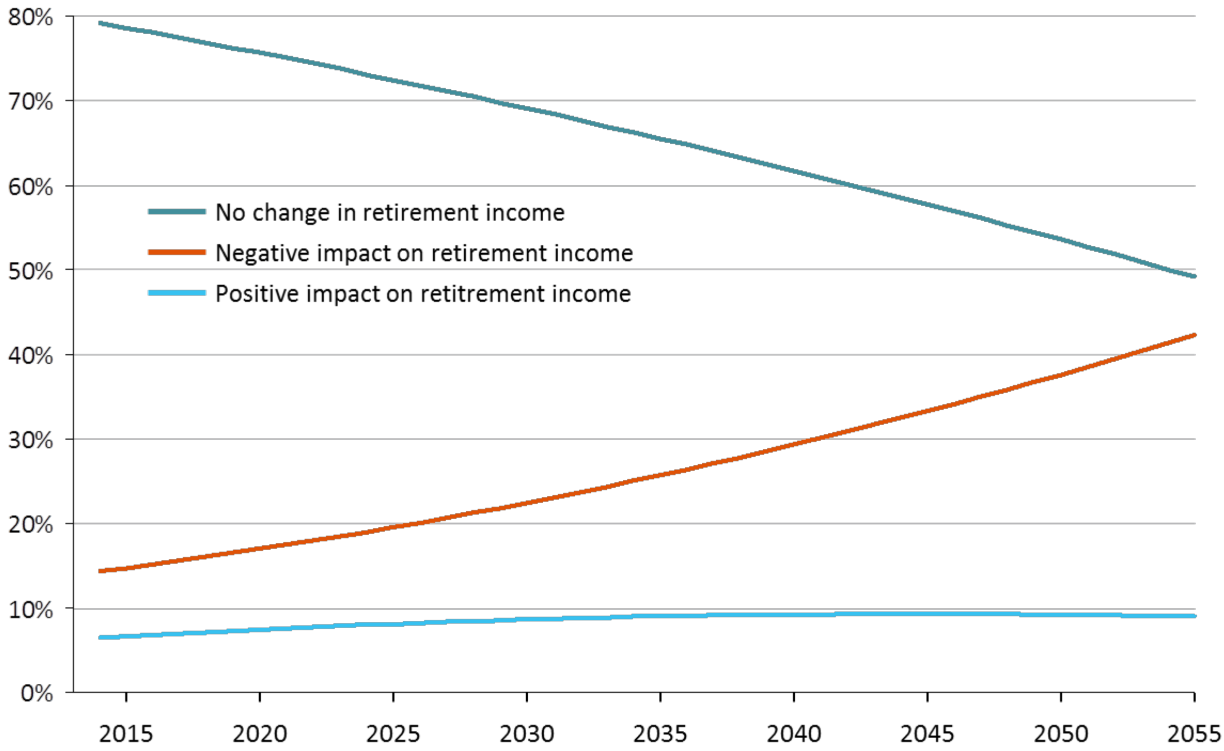
The changes amount to very significant change in the retirement income settings and represent a 'shift in the goal posts' for those near retirement. Many individuals contemplating retirement have sought specialist financial advice on the level of private savings needed to have a reasonable retirement. Such advice would have invariably considered age pension entitlement under existing rules. Under these proposals many of these individuals will be unable to achieve their retirement income goals because they may have insufficient time or discretionary income to accumulate additional private savings to make up for the shortfall due to the measures in the Bill. Indeed those affected by the changes still working are not on significant wages – as the most significant impacts will be felt by those on average earnings or less.

1.2.4 Summary of impacts

The proportion of new retirees affected by the proposed change will increase sharply over time. The proportion of new cohorts of retirees affected by the proposed asset test change increase from one in three today to seven in 10 by 2050. This influx will increase the overall proportion of the Age Pension population who are worse off from just over 10 per cent in 2017 to over 40 per cent by 2055.

Figure 4 shows the proportion of single females retiring from 2015 through 2055 affected by the proposed Age Pension changes.

Figure 4 – Share of population affected by proposed Age Pension asset test change, single females retiring 2015 through 2055

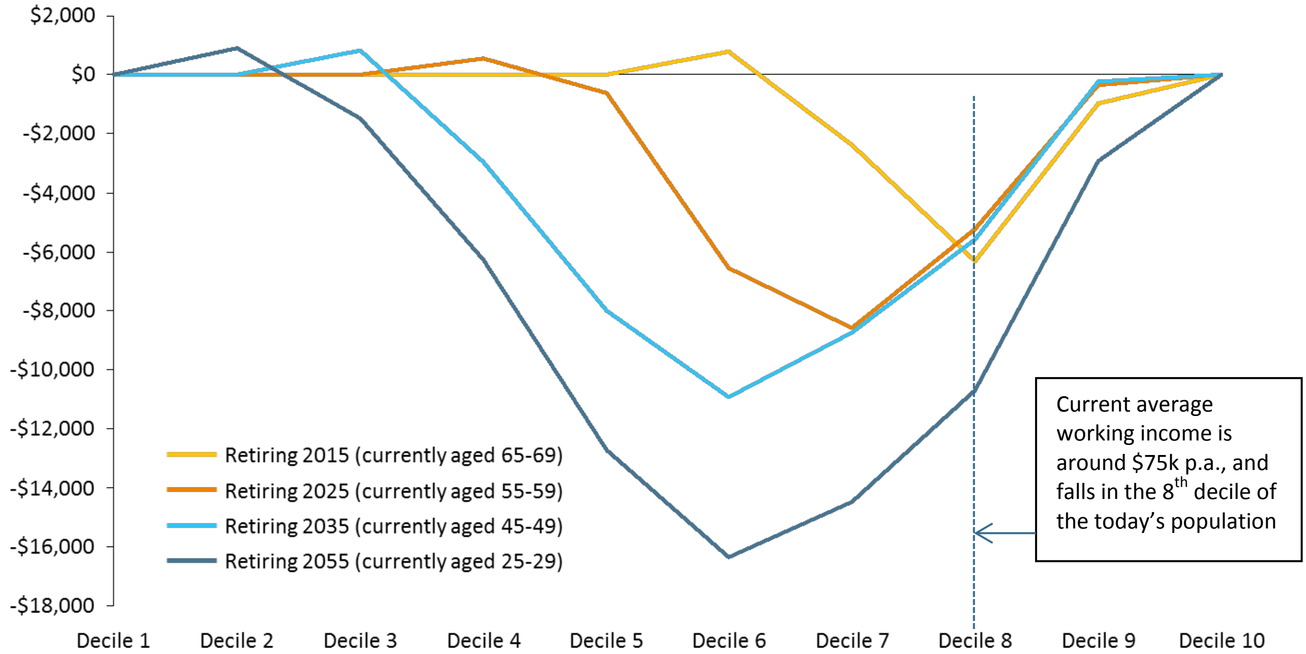


Source: ISA-Rice Warner modelling

The ISA-Rice Warner modelling indicates these proposed taper rate changes would have significant detrimental effects that also deepen over the coming decades. They amount to a 15 per cent overall cut in the retirement income of some people who are not on a comfortable retirement, while higher income groups remain largely unaffected.

Figure 5 shows the retirees affected, and the degree by which their annual income is reduced over the long term.

Figure 5 – Proposed Age Pension asset test change - effect on annual income by decile, couples, 2015 prices



Source: ISA-Rice Warner modelling

Observing the dynamics of this proposed policy change over time reveals that:

- The impacts of the change increasingly fall on those earning below average incomes
- For couples due to retire in 10 years' time, the largest impacts are felt just below average earnings ($62,000 or 80 per cent average full time earnings).[4] They stand to lose around $8,600 a year ($4,300 each) or $224,000 per couple ($122,000 each) over their entire retirement
- For those 20 years from retirement (aged 45-49 today) the big impacts *start* being felt by a couple in decile 4, each earning as little as $45,000 today, who would lose $3,000 ($1,500 each)
- By contrast, a couple in decile 9 on $145,000 each experiences the barest of impacts, losing just $113 a year each
- Over the long run, there are more people affected on below average incomes than above (5 rungs below average earnings compared with just one rung above)
- Within 10 years around half of all new retirees leaving the workforce will be affected by these changes

As significant as these changes would be for couples, the impact on single women is perhaps more stark because it will result in a substantial number of women not achieving a comfortable retirement, who would have without the proposed Age Pension changes.

Under existing policy settings (with the super system at near maturity) we expect half of all single women won't achieve a comfortable retirement. The Bill's proposed asset test change increases this to eight in 10 single women.

Table 3 summarises the impacts along with reference working incomes (2015) by age and decile. Single women are negatively affected who are currently on pretty modest incomes: Women aged 55-59 are

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4 Average full time earnings are currently just over $75k per annum

affected from decile 7 (earnings of $46,220), 45-49 from decile 5 (earnings of $40,568), and 25-29 from decile 3 (earnings of $16,906).

Table 3 - Reference income experiencing negative impact by decile, single females 2015 prices, dollars

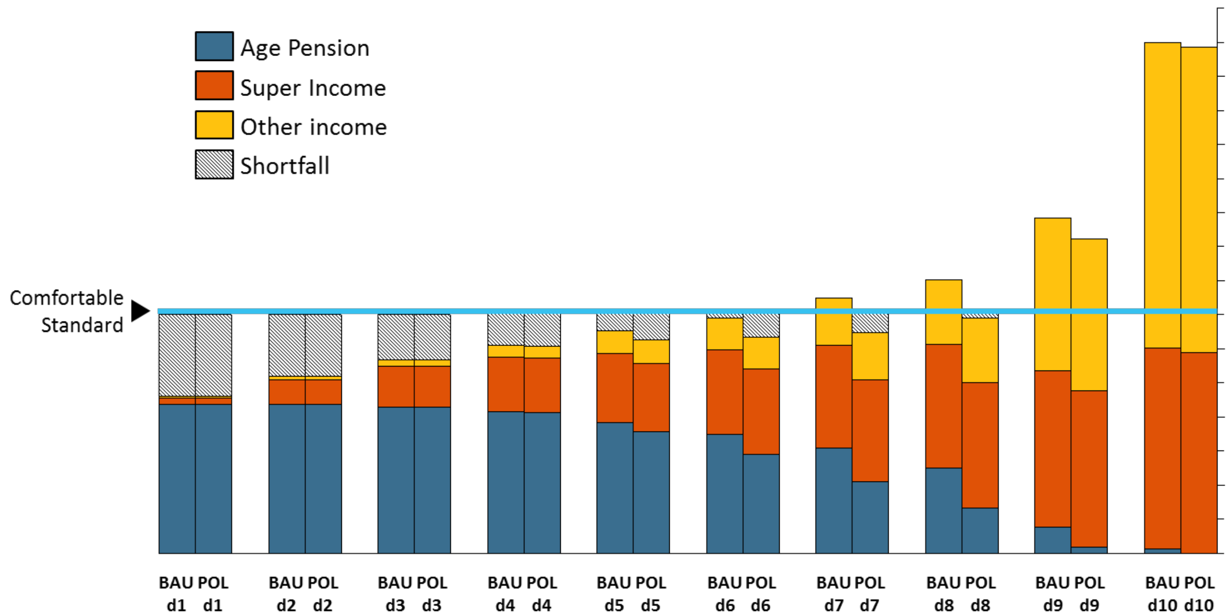
Single Female	1	2	3	4	5	6	7	8	9	10
Retiring 2015	5,261	12,856	18,358	22,140	26,178	31,163	37,891	**48,155**	**73,776**	**100,022**
Retiring 2025 (currently aged 55-59)	3,689	13,018	20,150	25,435	31,105	37,765	**46,220**	**58,492**	**87,783**	**118,089**
Retiring 2035 (currently aged 45-49)	3,764	15,269	24,949	32,687	**40,568**	**48,754**	**58,414**	**71,777**	**103,058**	**136,930**
Retiring 2055 (currently aged 25-29)	2,269	9,806	16,906	**23,954**	**31,142**	**38,853**	**47,436**	**57,859**	**78,097**	**97,612**

Source: ISA-Rice Warner modelling

Figure 6 shows the effects of the proposed Age Pension tightening on retirement income for single women retiring in 2055. The tightening of Age Pension support will result in the following outcomes, which suggest the Bill's asset test changes are poorly targeted:

- 50 per cent of women retiring in 2055 who won't achieve a comfortable retirement under the proposal are also negatively affected by it, and
- 30 per cent who could have made a comfortable retirement, but for the change, will instead fall below the benchmark.

Figure 6 – Effect of asset test change proposal, single females, retiring 2055, 2015 prices, by income decile, 5% and 1%, $000s



Source: ISA-Rice Warner modelling

These impacts suggest the Bill's proposed Age Pension asset test change is not well-targeted. In principle, there may be scope for improved targeting of the Age Pension, provided such changes are carefully designed, involve a comprehensive assessment of superannuation settings, and would better achieve the objective of the retirement system. For example, significant additional changes to superannuation would be required.

Our initial modelling suggests restoring the Superannuation Guarantee (SG) to the previously legislated schedule and retaining the Low Income Super Contribution (LISC) would not offset the detrimental effects of the proposed Age Pension asset test change. Approaches that may be appropriate to consider as part of a comprehensive retirement income review include a single means test as recommended by the Henry Review.

Our modelling does not yet identify the value of non-financial assets retirees hold (cars, personal effects, furniture, etc.) and these are included in the assets test. We are currently only considering financial assets in our modelling, so if anything it is conservative.

1.3 The Age Pension is sustainable

1.3.1 Key points

- The Age Pension is sustainable, with outlays in 2055 at just 3.1 per cent of GDP. This is lower than the 3.6 per cent of GDP projected in the most recent Intergenerational Report (IGR). Moreover, Australia's public expenditure on Age Pension is among the lowest in the OECD.
- Although the IGR also includes service and related pensions, it may have overestimated Age Pension outlays for a variety of reasons, including that (i) it does not adequately take into account the variance in life expectancy of individuals receiving the Age Pension, and (ii) it assumes that individuals draw down their superannuation savings as a steady income stream that is exhausted at life expectancy.
- Less well known than the increase in headline expenditure on the aged pension is that the IGR shows that changing demographics will reduce 'other' transfer payment from 4.5 per cent of GDP to 3.4 per cent of GDP mainly due to a reduction in payments to families and others of working age. The net effect is actually a reduction in outlays to individuals from 7.4 per cent of GDP to 7.0 per cent of GDP. Health and aged care expenditure do rise, but largely because of factors other than demographics.
- Superannuation tax concession expenditure will exceed Age Pension outlays as a share of GDP for most years through to 2055, and grow to three per cent of GDP. This is driven by a number of factors, including that (i) superannuation assets in the pension phase, where earnings are tax free, are increasing, (ii) Age Pension expenditures are indexed to Male Total Average Weekly Earnings, which is expected to be lower than the expected rate of return on investments, and (iii) rising concessional and non-concessional superannuation contribution caps, and the ability of an ageing population to access age-sensitive caps.
- ISA measured the fiscal efficiency of government support to determine if such support was effectively adding to retirement income up to a comfortable standard, or was going to those above such a standard. For those retiring in 2055, government support is generally additive to retirement income up to a comfortable standard, and therefore efficient, except for support to the top five per cent and top one per cent of income earners. This indicates that attention should be directed at tax concessions and other expenditures that disproportionately benefit high income earners, and should not be directed at the Age Pension and other outlays which flow to a greater degree toward moderate and low income Australians.

1.3.2 Discussion

Some published projections by the Commonwealth, particularly in the IGRs, are likely to overstate the future Age Pension expenditure for a handful of reasons, including: (i) that low income earners (the recipients of the greatest amounts of projected Age Pension expenditure) have life expectancies that are below the Australian median, and (ii) the projections assume individuals draw down their superannuation savings as evenly as possible over the life expectancy, whilst in fact Australians generally draw down their superannuation at lower and slower rates, resulting in more superannuation to weigh against full Age Pension eligibility for a longer period.[5]

The current approach understood to be used by the Treasury is not realistic and, from a budget standpoint, may overstate the future costs of the Age Pension. This can undermine the ability to make reasoned policy choices.

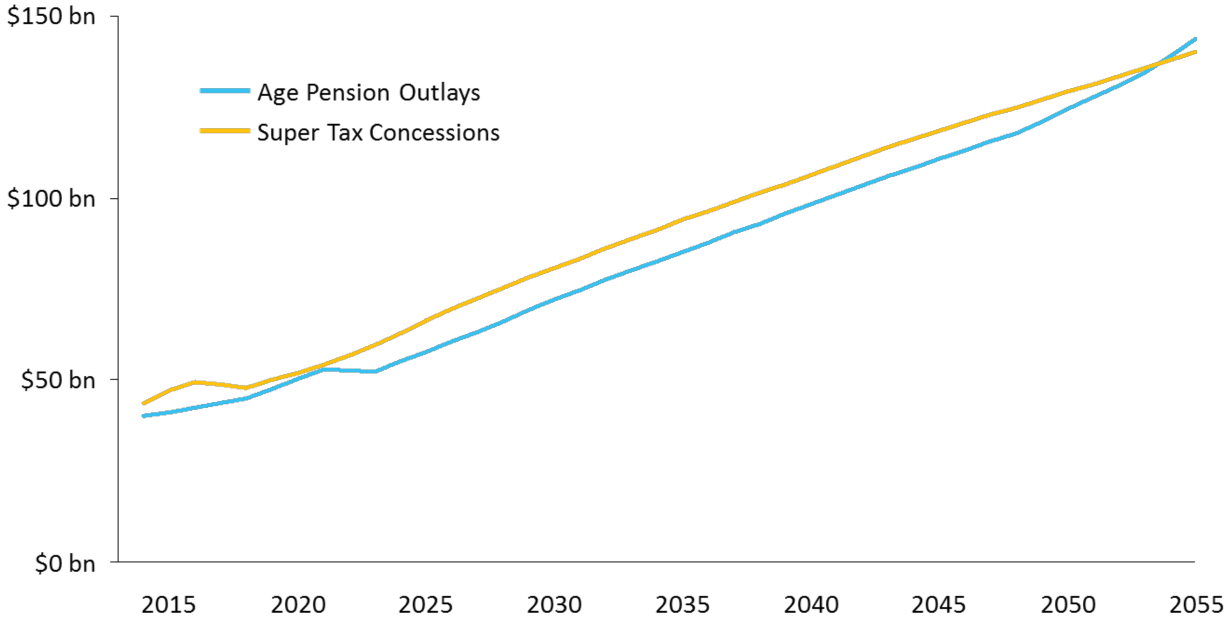
The modelling collaboration between ISA and Rice Warner includes fiscal projections. We will utilise these modelled outputs to comment on the fiscal effects of existing tax settings in respect of superannuation.

Figure 7 shows the annual superannuation tax concession expenditures and annual Age Pension outlays, in the aggregate and as a share of GDP, through 2055.

Total expenditure on retirement security (Age Pension and superannuation tax concessions) is projected to be 6.1 per cent of GDP.

Superannuation tax expenditure via concessions generally exceeds Age Pension outlays.

Figure 7 – Age pension and superannuation tax expenditure

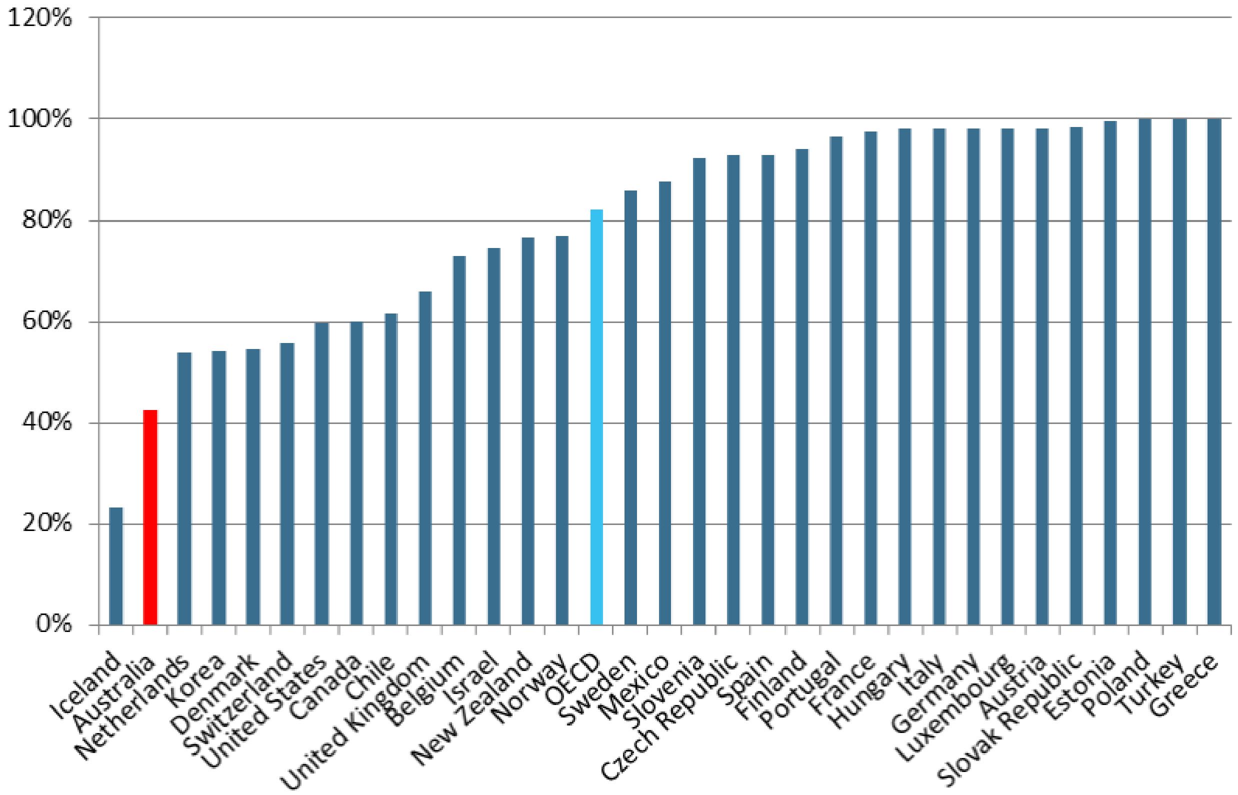


Source: ISA-Rice Warner modelling

Although Age Pension outlays do increase, this increase is off a relatively low base. Compared to other OECD countries, the Age Pension payments as a share of GDP are very low (Figure 8).

5 A study by Lim-Applegate et al (2007) found that the more recent pensioners are wealthier and among these, the part-rate Age Pensioners are drawing down their wealth in retirement at a fairly low pace. A substantial portion of this group (26% in 2003/2004) experienced an increase in real wealth (not including their homes). The analysis suggests that this is mostly due to careful draw down activity by retirees.

Figure 8 – Publicly funded share (%) of total retirement income expenditure



Source: OECD Pension Markets in Focus No. 10, 2013

1.3.3 Fiscal efficiency of existing settings

It is possible to measure the efficiency of government support for retirement security.

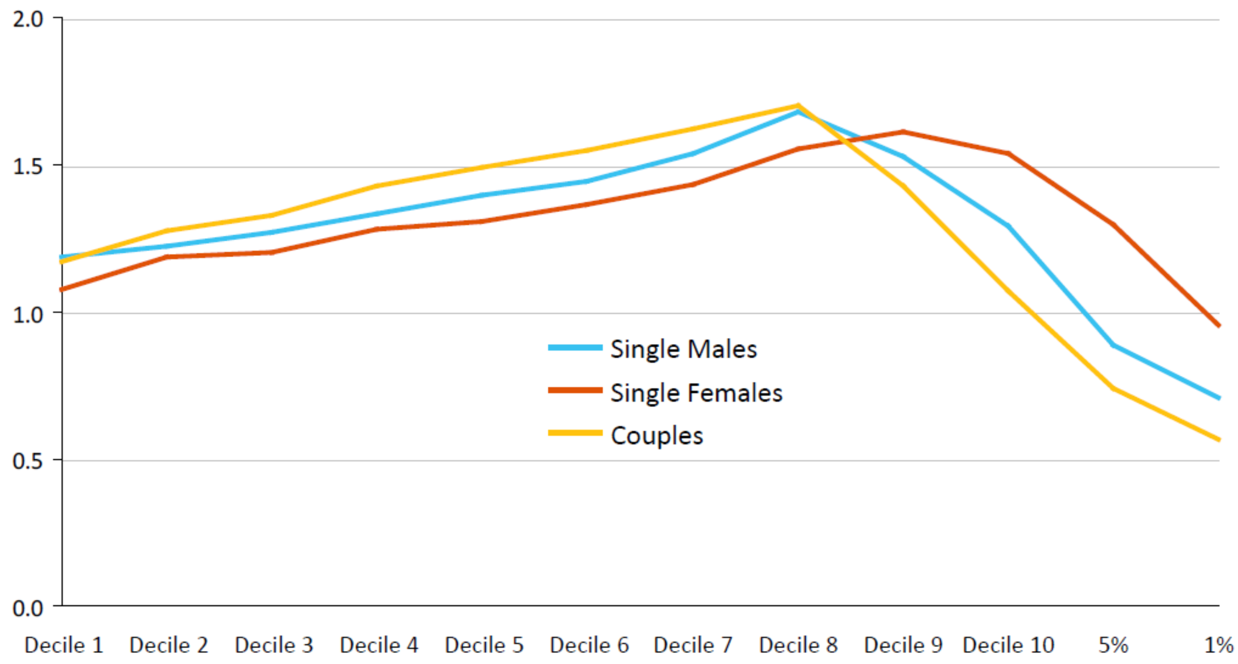
Fiscal efficiency measures the dollars of superannuation income and Age Pension income received by individuals, up to an objectively comfortable standard, per dollar of combined government support, across the distribution.

A high fiscal efficiency measure indicates that a dollar of government support is well-targeted because it is relatively effective at increasing retirement income up to a comfortable benchmark. By contrast, a dollar of government support that does not increase retirement income of those below the comfortable benchmark is not efficient.

For example, a tax concession that cost government $100, but raised retirement incomes for those below a comfortably standard an aggregate $200, would be efficient.

Figure 9 shows the fiscal efficiency of government support under existing policy settings for people entering retirement in 2055.

Figure 9 – Fiscal efficiency, 2055 retirees



Source: ISA-Rice Warner modelling; ISA calculations

The shape of Figure 9 indicates that government support to individuals in the 8-10th decile is relatively more efficient (i.e., results in greater additions to retirement incomes up to a comfortable benchmark) than is government support to low income Australians, and to the top income earners. This is consistent with the observations that low income earners do not receive much superannuation or superannuation tax concessions, and therefore the benefits of compound earnings on tax concessions from government are small or non-existent, and that high income earners receive excessively generous superannuation concessions, resulting in additions to retirement income well above the comfortable benchmark.

It also indicates that the Age Pension is generally a constructive addition to retirement security, and is not wasted on uplifting the incomes of individuals who are already above a comfortable standard of living.

2. Defined benefit income streams

Under this measure, from 1 January 2016, a higher proportion of a superannuant's actual defined benefit income will be taken into account when applying the social security income test. It introduces a 10 per cent cap on the income that can be excluded from the test. The measure has wide application but will not apply to military superannuation schemes.

Insofar as a substantial number of Australians will not receive retirement incomes sufficient to sustain a comfortable standard of living in old age, the proponents of the Bill should furnish evidence that the application of this provision is well-targeted and will only affect those whose incomes would otherwise secure a comfortable standard of living. This burden has not been met. It does not appear that the proponents have even sought to assess the effects of the provision on living standards.

3. Proportional payment of pensions outside Australia

Under this measure, from 1 January 2017, the period during which the Age Pension, and a small number of other payments with unlimited portability, can be paid outside Australia at the full (means-tested) rate reduces from 26 weeks to six weeks.

After six weeks, payment will be adjusted according to the length of the pensioner's Australian working life residence. To retain their basic means-tested rate while overseas, a person needs 35 years' working life residence in Australia between the ages of 16 to 65. We express no view on the wisdom of the existing policy judgment to curtail Age Pension payments if an Australian chooses to reside in another country, and whether that is a fair reflection of the social contract.

However, on the specific length of time abroad before the proration of the Age Pension applies is open to challenge. Six weeks may be too short a period given current and future expectations over length of working life. Previously the Treasury noted:

> Today most students complete high school and a sizeable proportion go onto further study. With people able to access their superannuation at 55 years, many of today's workforce no longer work through to a retirement age of 65. Some full time workers spend as little as 30 years in the workforce, yet life expectancy is increasing rapidly. Women in particular tend to spend less time overall than men in the workforce – primarily due to their caring responsibilities – but generally live longer. As a result, Australians are spending a greater amount of time in retirement.[6]

The provision could reasonably be expected to adversely affect women to a disproportionate degree because women are more likely than men to perform important but unpaid work, such as caring for family members.

Trends in labour participation, such as reduced job security and longer periods between employment – unless reversed – mean that this provision will affect an increasing number of Australians, who contributed to the country to the best of their abilities even if they did not work for 35 years.

There are also many family-related reasons why individuals or couples may need to spend periods of more than six weeks overseas and the work test would impinge on these instances. Many Australians are immigrants whose parents remain in the country of origin. Spending more than six weeks abroad to care for parents who are 85 and older does not appear to warrant an Age Pension cut.

Evidence about the circumstances of individuals likely to be affected by the provision is lacking. It is not clear how Parliamentarians could determine when an individual has elected to reside abroad, as opposed to spending a significant period of time abroad for appropriate reasons that do not reflect a residence change. It also is not clear that six months fails to properly strike the balance between a provision that is simple to apply, but also is reasonably likely to reflect a decision by the pensioner to live overseas.

6. Treasury (2004) *Australia's Demographic Challenges*