



Fix Pension Poverty - Policy Paper: Establish an independent Age Pension Tribunal in Australia

(June 2017)

“Life is not worth living unless it has some quality. Just surviving is not a good life.”

Toowoomba focus group participant

Introduction

In 2016 The Benevolent Society, The Longevity Innovation Hub and Per Capita formed a partnership to produce the *Adequacy of the Age Pension in Australia* reportⁱ which was launched at the National Press Club on 14 September.

The report found that, while the Age Pension works as an important support for many - particularly those whose lives have followed a particular path of lifetime employment, a coupled relationship and homeownership - it fails to enable a decent standard of living for many other older Australians who have not had this lived experience and who rely on it as their main source of income.

The Adequacy of the Age Pension Reportⁱⁱ found three broad themes emerging from the research:

1. The Age Pension, by itself, is not enough to fully economically or socially participate in Australian society for anyone who lives independently;
2. The extent of hardship for pensioners depends greatly on their specific circumstances. Most notably, whether or not pensioners own their own homes is a strong determinant of their financial wellbeing;
3. The services offered by non-government institutions that are available - and that pensioners take advantage of - often make up the difference between poverty and financial security.

A clear and consistent message was that those older people who are renting, in particular those who are single and renting, frequently experience profound levels of deprivation relying on the Age Pension. Many of these are women without superannuation or other savings.

The report made eight recommendations designed to alleviate some of the hardship and improve the standard of living for those older people living on the Age Pension. This draft policy paper is one of a suite of papers developed to progress the adoption of these recommendations.

This paper

The *Adequacy of the Age Pension* report found that a clear standard for ‘pension adequacy’ should be ensuring that all Australians, irrespective of their circumstances, enjoy a minimum living standard in their old-age, one that would be acceptable to their fellow citizens.

The first of the report’s eight recommendations was to establish an independent Age Pension Tribunal to assume responsibility of pension rate setting.

This draft policy paper on the establishment of an independent Age Pension Tribunal:

- describes the background and need for an independent Pension Tribunal
- proposes a structure and operational mechanism
- outlines what The Benevolent Society is doing to advance this recommendation

Background to the issue

Why do we need a Pension Tribunal?

Defining what constitutes an 'adequate' amount for an Age Pension is extremely complex. Since its introduction, the rate of the Age Pension has been increasing on an ad hoc basis through a variety of methods including one-off increases, the addition of new supplements and changes to indexation.ⁱⁱⁱ

The existing pension setting mechanism however is in the legislative gift of the government. Current policy is that pensions should be indexed to the higher of wages or older-age inflation, with a caveat that the base rate can't fall below a prescribed share of average male earnings.

As the report shows, this framework results in persistent areas of severe deprivation. In part, this is because incumbent governments are generally unwilling to substantively raise the base rate, given the cost to the Federal Budget.

However, the base rate of the Age Pension is too low. It fails to provide a decent standard of living for the 1.5 million older Australians who rely on it as their main source of income. One third of those 1.5 million people, who live solely on the age pension, live at or below the poverty line. This makes them among the most disadvantaged members of our society today. As a prosperous nation, Australia can and should do better.

While this report argues that the base rate of the Age Pension is insufficient, it does not attempt to nominate a monetary amount by which to increase the pension. Rather, it argues that a Pension Tribunal is needed to provide an independent, expert mechanism - outside of any political framework - for setting a fair base rate.

How would the Pension Tribunal work?

The Pension Tribunal could convene twice yearly to independently determine the base rate of the Age Pension, to be adopted by the Federal Government.

It is envisaged that the Pension Tribunal could operate in a similar way to the Panel within Fair Work Australia that looks into the minimum wage, or the Remuneration Tribunal that sets the remuneration of key commonwealth offices.

The amount set by the Tribunal would be a 'determination' based on an assessment of what is adequate for achieving an acceptable standard of living, rather than a mechanical 'ratchet'. It would take into account both the material day to day needs of people receiving the Age Pension; and the broader fiscal climate. It should consider, for example:

- standard of living measures;
- the macro economic context;
- the relationship of the pension to the minimum wage;
- relationship to superannuation, mature age employment and assets test; and
- relevant international comparators and methodologies.

What would be structure and make-up of the Pension Tribunal?

The report proposed that there should be three Members of the Pension Tribunal, collectively reflecting a prodigious depth of professional knowledge, experience and demonstrated excellence in the fields of economics, ageing and social services. One would be appointed as Chair for five years; one Member appointed for four years and one for three years. All would be part time appointments.

Members would be independent statutory appointments made by Cabinet. Selection of Members should take place through an open and transparent recruitment process. Membership should exclude Members of Parliament, former Members of Parliament or any person affiliated with any political party. The Tribunal would actively seek the input of consumers.

In consultations with stakeholders across Australia since the research, some have expressed the view that the panel should include five members and include at least one 'consumer' representative.

The Pension Tribunal should have a small staff with one member of the staff appointed by the Cabinet as Executive Director. It would be funded by a budget appropriation and be positioned within the Minister for Social Services' portfolio.

What role does Government have?

The Australian Government retains responsibility for determining and reviewing the eligibility criteria for receipt of a full or part Age Pension. The Pension Tribunal, as proposed, would determine the maximum basic rate of the Age Pension. The Parliament would be required to adopt the determination.

However the Government would be able to advise the Tribunal of any new or relevant factors it requires the Tribunal to take into account in making its next determination.

Government would be required to draft and pass the appropriate legislative instrument upon which the Tribunal would be established and operate.

Why wouldn't the Tribunal set the base rate for other pensions and allowances?

The focus of the research and report behind this recommendation - *The Adequacy of the Age Pension in Australia* – was exclusively the Age Pension. However the Government may wish to consider broadening the applicability of the Tribunal to include determinations for other pensions and allowances. The Benevolent Society acknowledges that poverty and deprivation is experienced by many Australians who rely on other pensions and benefits and would welcome this consideration.

ⁱ The Benevolent Society, Longevity Innovation Hub and Per capita, *The Adequacy of the Age Pension, An assessment of pensioner living standards*, September 2016,

https://www.benevolent.org.au/~media/Pension%20Adequacy_Final%20pdf.ashx

ⁱⁱ The Benevolent Society, Longevity Innovation Hub and Per capita, *The Adequacy of the Age Pension, An assessment of pensioner living standards*, September 2016,

https://www.benevolent.org.au/~media/Pension%20Adequacy_Final%20pdf.ashx

ⁱⁱⁱ The Report of the National Commission of Audit: Vol 1; February 2014; 9.1 The Age Pension

<http://www.ncoa.gov.au/report/appendix-vol-1/9-1-age-pension.html>