

HOW TO FIX AUSTRALIA'S WORKER SHORTAGE CRISIS

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Australia is facing an unprecedented, country-wide shortage of workers, the effect of which is to reduce business investment, economic growth, and productivity, as well as forgone wages and government revenue.

Urgent government action is needed to reduce the shortage of workers, with one promising initiative being to encourage more pensioners to re-enter the workforce by reduce the unfair penalty they face through the substantial loss of pensions payments upon receiving earned income.

To address this, Senator Dean Smith introduced into the senate the Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) Bill 2022. This bill will double the fortnightly work bonus for aged pensioners from \$300 to \$600 which would ease the burden of pensioners who want to work.¹

Australia's Worker Shortage Crisis

Australia has had a sharp increase in worker shortages since the beginning of the pandemic, reaching 480,100 job vacancies in the May 2022 quarter. This is an increase of 13.8% from the previous quarter and 270% from May 2020.²

For context, the current worker shortage means:

- \$32 billion in lost wages.
- \$6.8 billion in forgone income tax revenue for the federal government annually.³



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The three industries that have been hit hardest by this worker shortage crisis are:

- Health care (69,000 worker shortage).⁴
- Accommodation and food services (52,000 worker shortage).⁵
- Professional, Scientific, and technical services (43,000 worker shortage).⁶

Addressing this worker shortage should be a high priority for state and federal government. Australia's international borders have been open since the beginning of 2022, yet worker shortages are still increasing.

Australia's Age Pension Rules Stop Older Australians Working

Australia's worker shortage is being exacerbated by current pension rules:

- Age pension is untouched until the pensioner earns more than \$490 a fortnight.
- For every dollar an age pensioner earns over \$490 per fortnight, 50c is taken off their pension.

This \$490 is comprised of \$300 as part of the age pension work bonus, and \$190 that is part of the pension income test free area.

The work bonus reduces the amount of employment income that can be applied to the rate of pension entitlement under the income test. For example:

- If a pensioner earned \$400 a fortnight, \$300 would be removed when analysing the pensioner on income.
- The \$100 remaining is within the income free test area of \$190.
- Therefore, the pensioner would still receive the maximum pension.

The income they earn is also subject to income tax once they earn over \$33,000 in combined income and pension.⁷ At that rate, age pensioners would be taxed at an effective marginal tax rate of at least 69%.⁸

There are approximately 2.48 million pensioners who do not earn any income outside of the age pension, and only just over 75,000, or 3% who do work.⁹

As a result, Australia has a dramatically lower portion of people aged 65+ who work:

- In New Zealand it is 24.8%
- In South Korea it is 35.3%
- 25.5% in Japan.¹⁰

According to the Australian Bureau of Statistics, there are 4.2 million Australians aged 65 and over.¹¹

If Australia were to match New Zealand's labour force participation rate among this population, there would be an additional 445,000 workers.

The Opposition's Work Reform Plan Pays for Itself

The bill would double the fortnightly work bonus from \$300 to \$600. This policy would require \$145 million per annum of government funding.¹² However, this plan would pay for itself through lower pension expenses and higher income tax receipts.

Under the current system, a pensioner can receive a maximum of \$987.60 a fortnight on the age pension.

If an age pensioner earned the average fortnightly salary of \$2,657.80 a fortnight,¹³ then

- \$490 in combined work bonus and income free test area would be the ceiling before 50c of every dollar earned is removed from the pension.
- The Pensioner would receive no pension, as half of the pensioner's income after the \$490 of work bonus and income test free area is taken off the \$2,657.80 is greater than \$987.60
- Pay income tax on the \$2,657.80 they earned at a fortnightly rate of \$552.¹⁴
- Have a post-tax income of \$2,105.80 a fortnight.

Under the opposition's plan, where the work bonus ceiling would be doubled, if a pensioner changed from receiving the maximum pension to earning the fortnightly average salary, then:

- \$790 in combined work bonus and income free test area would be the ceiling before 50c of every dollar earned is removed from the pension.
- The pensioner would receive \$53.70 in age pension payments, as \$933.90 would be taken out of the pension.
- They would have a combined taxable income of \$2,711.50 and pay tax at \$568 a fortnight.¹⁵
- They would have a post-tax income of \$2,143.50 per fortnight.
- This would mean that a pensioner who would have worked on an average capacity regardless would have \$980.20 in additional disposable income annually.

This plan would deliver a net budget benefit of \$1,502 per fortnight per pensioner, equal to \$39,052 annually per pensioner through less pension paid and more income tax received. This means that only 3,713 pensioners out of the 1.7 million,¹⁶ or 0.21% of pensioners who are receiving the full rate would need to enter the workforce on an average capacity to fund the policy.

Conclusion

Action on Australia's worker shortage crisis is urgently required, the opposition's policy is a welcome first step to hopefully larger reform. Three options for further reform include:

- Further raising the work bonus ceiling from the proposed \$600 a fortnight to \$1,200 a fortnight.
- Cut the pension reduction rate from 50c from the dollar to 25c.
- Provide an unlimited work bonus which means a pensioner can work as much as they choose without losing any of their pension.

Endnotes

1 Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) Bill 2022

2 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022

3 Daniel Wild, "Australia's Worker Shortage See's \$32 Billion In Wages Lost", Institute of Public Affairs, August 2022

4 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022

5 Ibid

6 Ibid

7 National Seniors Australia, "Let Pensioners Work and Pay Tax." 2022

8 Australian Taxation Office, "Individual income tax rates"

9 Department of Social Services, "DSS Payment Demographic Data," March 2022

10 OECD, "Labour force participation rate," OECD Data

11 Australian Bureau of Statistics, "National, state and territory population, June 2021," December 2021

12 Peter Dutton, "Older Australians Should Keep More of What They Earn," 2022

13 Australian Bureau of Statistics, "Average Weekly Earnings, Australia, November 2021," February 2022

14 Australian Taxation Office, "Weekly tax table"

15 Ibid

16 Department of Social Services, "DSS Payment Demographic Data," March 2022