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Financial security in later life

> Staying in the work force for an extra two years can extend the 'life' of your superannuation savings by seven years. Working for an extra five years can give you over 20 years of additional superannuation income.[1]

7.1 The matter of financial security in later life will become increasingly important over the next forty years as Australians continue to age healthily and live for longer. Retirement incomes will need to be greater and more flexible, to provide financial security for longer periods of time.

7.2 Australia utilises a 'three pillars' retirement income system, consisting of government aged pension support, compulsory employer superannuation contributions and private savings including private superannuation. This 'three pillars' concept is recognised internationally as a high standard model of retirement income system.[2]

7.3 While the model is considered sound, in light of Australia's ageing population, the adequacy of retirement incomes that the system currently provides has been questioned in evidence to the Committee. This chapter examines the issues raised, together with recent initiatives aimed at addressing them and possibilities for increasing private savings and for releasing equity to provide an income stream. Compulsory saving schemes, as used by other nations and suggested in evidence, are also considered.

7.4 As with all other aspects of preparing for an older Australia, making financial provision for later life requires lifelong learning. Being able to

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1 Business Council of Australia, *Age Can Work: A Business Guide for Supporting Older Workers* August 2003, p 27.

2 Association of Superannuation Funds of Australia (ASFA), sub 72, p 12; Sass, S (Centre for Research Retirement, Boston College), viewed 23/07/2004, <http://www.bc.edu/centers/crr/gib_2.shtml>.

make effective use of existing retirement income arrangements requires competency in financial literacy. In the final section of this chapter, the Committee considers the need for concerted efforts to improve the financial literacy of Australians of all ages.

Superannuation

7.5 The Committee received evidence from sources such as superannuation funds, actuaries, Centrelink and investment advisors on perceived flaws in the superannuation system. The major issues that have been identified relate to adequacy, equity, level of complexity and a lack of incentives to invest in superannuation.

7.6 The general level of complexity of superannuation was drawn to the attention of the Committee. Superannuation is obviously a complex subject but its complexity is compounded by the interaction with taxation and periodic changes to the legislation in this area.[3]

Adequacy

7.7 Much of the evidence relating to the issue of retirement income adequacy indicated that the 9% level of the superannuation guarantee was not sufficient, particularly in lower paid industries or where there are no defined benefit funds for the industry's workers.[4]

7.8 Even when combined with the aged pension, the 99% Superannuation Guarantee is not regarded as significant to ensure adequate retirement income. The Association of Superannuation Funds of Australia (ASFA), Investment and Financial Services Association (IFSA), the Institute of Actuaries of Australia and the Research Centre of Ageing and Retirement of the University of New South Wales all testified to this effect.[5]

7.9 Since the commencement of this inquiry, the attention paid to these issues has increased significantly. Wide ranging inquiries were undertaken by the Senate Select Committee on Superannuation throughout 2002 and

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3 Smith P, transcript 3/07/2003, p 584; Kirk A, transcript 3/07/2003, p 635.

4 Smith P, transcript 3/07/2003, p 583; Institute of Actuaries of Australia, sub 138, p 9; Olsberg, D, transcript 3/07/2003, p 639.

5 Smith P, transcript 3/07/2003, p 583; Gilbert R, transcript 3/07/2003, p 614; Institute of Actuaries of Australia, sub 138, p 8; Research Centre on Ageing and Retirement (University of New South Wales), sub 84, p 5.

2003. Reports from these inquiries include *Superannuation and Standards of Living in Retirement* and *Planning for Retirement*.[6]

7.10 The Australian Government is making significant changes to the superannuation system to encourage and assist Australians to better prepare for retirement. Treasury has released *A More Flexible and Adaptable Retirement Income System* which introduced some changes in the retirement income system. Concurrently, Treasury released *Australia's Demographic Challenges*, to highlight the challenge that ageing presents to Australia now and in the future.[7]

7.11 To varying degrees, these initiatives will address the issues of incentive and adequacy raised in evidence to the Committee. Since the release of these documents, the Federal Budget has also addressed issues central to retirement incomes.[8]

Equity

7.12 Equity issues on superannuation refer to the matter of all workers being able to accumulate a similar level of retirement income for later life when working in the same or similar industries. Evidence to the Committee that two people can be employed to carry out similar duties, yet because one is employed on a contract basis or has less time in the workforce due to child bearing they accumulate far less superannuation than the permanent employee.[9]

7.13 The issue of equity relates particularly to those who have intermittent or limited participation in the workforce. Women who leave the workforce temporarily to have children, casual or contract employees, divorcees and those who have not lived in Australia all their life are likely to have insufficient retirement income.[10] Similarly, Indigenous Australians with only short periods in the workforce and/or dependence on the Community Development Employment Program (which is not subject to the Superannuation Guarantee) are not in a position to provide for later life.[11]

6 Senate Select Committee on Superannuation, viewed 2/03/2004, <http://www.aph.gov.au/Senate/committee/superannuation_ctte/reports/index.htm>.

7 Department of the Treasury, *A more flexible and adaptable retirement income system* and *Australia's Demographic Challenges*, viewed 25/02/2004, <http://www.treasurer.gov.au/tsr/listdocs.asp?doctype=0&year=2004>.

8 *Budget Strategy and Outlook 2004-05*, Budget Paper No 1, Statement 1, p 13; *Budget Measures 2004-05*, Budget No 2, pp 17-21.

9 Olsberg, D, transcript 3/07/2003, p 639.

10 Olsberg, D, transcript 3/07/2003, p 638.

11 Gooda M, transcript 7/03/2003, p 203.

7.14 Workers in certain professions are more susceptible to inequitable superannuation than others. Nursing is one such profession. Casual and contract employment are common, the majority of nurses are female and are likely to be absent from the workforce for considerable periods in the event of child bearing. Not only does this make saving for later life more difficult, but it also effects the industry's capacity to attract and retain staff, especially in aged care.[12]

7.15 ASFA has noted that superannuation strategies were originally formulated on the basis of 40 years unbroken participation in the labour force.[13] Clearly this is not the case for many in the workforce today and to ensure that the groups outlined above are able to accumulate adequate superannuation the basis for superannuation needs to change to reflect the modern workforce. As the workforce becomes more flexible, superannuation will need to become similarly flexible.

Lack of Incentives

7.16 Evidence to the Committee regarding incentives to invest in superannuation centred on the fact that both high and low income earners had little reason to make contributions to superannuation beyond minimum requirements. Whether it is a case of a high income earner who incurs the superannuation surcharge, or a low income earner who would have to sacrifice valuable disposable income in favour of retirement savings (which will not benefit them for some time), Australians generally are not willing to contribute more superannuation than they have to.[14]

7.17 In terms of adequacy of retirement income levels, the Australian Government has moved to introduce changes to the notional earnings basis of superannuation. These changes are to ensure that workers will only receive superannuation contributions that are based on notional earnings since the inception of the superannuation guarantee. As a result, employees will receive superannuation based on more recent notional earnings levels.[15]

7.18 The Association of Superannuation Funds of Australia (ASFA) suggested that the government co-contribution scheme is the key to encouraging people to invest more in their superannuation. Government plans for enhancing this scheme have since been announced. To encourage people

12 Australian Nurses Federation, sub 97, p 16.

13 Smith P, transcript 3/07/2003, p 582.

14 Gilbert R, transcript 3/07/2003, p 614; Smith P, transcript 3/07/2003, p 584.

15 Department of the Treasury, *A more flexible and adaptable retirement income system*, p 11; All employers must comply with this regulation by 1/07/2010; Department of the Treasury, *A more flexible and adaptable retirement income system*, p 11.

to invest savings in their superannuation, the government has enhanced its 'co-contribution' scheme, with the government now contributing 150% of lower income earners private superannuation contributions.[16]

7.19 While the enhancement of the superannuation co-contribution increases incentives for lower income earners to invest in their retirement income, the Australian Government also aims to improve the incentives for retirement saving of those in higher income tax brackets. Superannuation contributions from employer and employee are subject to a surcharge of up to 14.5% for high income earners, which is to be reduced gradually until reaching 7.5% in 2006 - 2007.[17] Employees at this income level as a result will gain more retirement income through their pre-income tax superannuation contributions.

7.20 One of the chief concerns born of the ageing population, is that retirement incomes will have to last significantly longer given improving life expectancy. By remaining in the workforce for longer, not only is there the benefit of further adding to superannuation savings, but the consumption of superannuation is delayed as well. The Business Council of Australia predicts that by remaining in work for two years longer, the life of a person's retirement income would be prolonged by up to seven years.[18]

7.21 As an incentive to extend time in the workforce and further preserve people's retirement incomes, the Australian Government announced that from July 2005 superannuation could be used to supplement a part time income once a worker has reached superannuation preservation age. Further, superannuation contributions can now be made up until the age of 75, allowing people more time to generate an ultimately greater retirement income.[19]

The Aged Pension

7.22 The aged pension effectively represents the 'safety net' of the three pillars retirement income scheme. The full aged pension is available to men at the age of 65 and to women at the age of 62, although the age requirement for

16 ASFA, sub 72, p 62; Department of the Treasury, Budget Paper No. 1, 2004 – 2005 (Part 1); Previously the co-contribution scheme entailed government contributions on a "dollar for dollar" basis.

17 Minimum income level to be liable to surcharge is $94, 691; Department of the Treasury, Budget Paper No 1, 2004 - 2005.

18 Business Council of Australia, *Age Can Work: A Business Guide for Supporting Older Workers* August 2003, p 27.

19 Department of the Treasury, *A more flexible retirement income system*, p 10.

women is set to rise to 65 by the year 2013. The aged pension is provided subject to a means test, to ensure that the pension is used to provide adequate income rather than accumulate wealth.

7.23 According to FaCS, 82% (2.1 million Australians) of Australians over 65 years of age are in receipt of some level of the aged or service pension. Approximately two thirds of those receiving the pension are receiving the maximum rate of payment.[20]

7.24 The number of people to be supported through aged pension is projected to reach 5.1 million by 2051.[21] This suggests that by 2051 spending on the aged pension would be more than double its present level.

7.25 Concern over future increases in aged pension outlays was raised by the Australian Government in the *Intergenerational Report*.[22] The predicted increase in government spending on aged pension in future will be offset, however, by factors such as the future benefits of the superannuation guarantee policy and planned changes to aged pension qualification age.

7.26 The superannuation guarantee policy is still relatively new. Over time, as more people benefit from the superannuation guarantee policy, far fewer older Australians will be reliant on aged pension support, or their reliance will be reduced.[23]

7.27 Raising the age requirement for women from 62 years to 65 will further offset the increase in the amount the spent on aged pension in the future.[24]

7.28 Evidence presented to the Committee indicates more immediate issues with the aged pension at hand. The means test that determines eligibility for the aged pension has been the subject of criticism from Centrelink, and financial institutions claim the test is unnecessarily complex and inconsistent.[25] Centrelink claims that not only is the aged pension system poorly understood by those reliant upon it but that the changes to rules also cause problems for their staff in administering the aged pension.[26]

7.29 Centrelink has also suggested that many retirees (and those approaching retirement) focus solely on maximising the level of their pension, as opposed to maximising the level of their overall retirement income. This approach will not ensure adequate retirement income and Centrelink

20 Department of Family and Community Services, sub 90, p 18.

21 Department of Family and Community Services, sub 90, p 10.

22 Department of the Treasury, *The Intergenerational Report,* Budget Paper No 5, May 2002.

23 Smith P, transcript 3/07/2003, p 583.

24 Department of Family and Community Services, sub 90, p 20.

25 Clare R, transcript 3/07/2003, p 586; Centrelink, sub 78, p 15.

26 Centrelink, sub 78, pp 9 - 12.

considers changing people's attitudes on this matter to be vital if retirement incomes are to be sufficient in future.[27]

7.30 At the same time this approach has flow on effects to other government payments where access to programs is targeted to pensioners, such as health cards, travel concessions and residential aged care concessional supplement.

7.31 Rural and remote regions of Australia are particularly affected by the application of the pension means test. Although farmers may effectively retire, their eligibility for social security benefits may be affected if they are still in possession of farm and agricultural equipment (despite little or no income being derived through possession of these items).[28] The relative value of social security benefits such as the aged pension is highly dependent on the costs of living, which in rural and remote areas are often higher than in metropolitan areas. The National Rural Health Alliance suggests that the aged pension needs to account for the high costs of living and the lower value of capital in rural and remote regions compared to metropolitan areas.[29]

Private Savings

7.32 The third pillar of Australia's retirement income system, private savings, includes a wide range of options to generate retirement income. Private savings can be voluntary superannuation contributions and assets such as the family home. However, the scope for investment of private savings is wider than these two options and includes shares, bonds, property and numerous other investment options.

7.33 Evidence to the Committee indicated that savings levels in Australia are historically low and that the level of savings could be crucial to the adequacy of retirement incomes in future. IFSA reported that Australia's levels of household savings, while difficult to measure with great accuracy, are lower than they were 25 years ago. Further, the National Centre for Social and Economic Modelling (NATSEM) stated that this low level of savings is responsible for a greater level of reliance upon government support via the aged pension.[30]

27 Centrelink, sub 78, p 18.

28 Crocket J, sub 165, p 17.

29 National Rural Health Alliance, sub 131, p 17.

30 Gilbert R, transcript 3/07/2003, p 621; IFSA, sub 51, p 7; National Centre for Social and Economic Modelling, *Self Provision in Retirement? Forecasting Future Household Wealth*, p 2.

7.34 A recurring issue in evidence to the Committee was the level of taxation on private superannuation contributions. Organisations such as ASFA and IFSA see this as a major deterrent to investment and consider that the contributions tax scheme should be simplified and the rate lowered. The Small Independent Superannuation Funds Association (SISFA) argued that such a reduction could assist in reducing the Australian Government's aged pension outlays.[31]

7.35 A factor which may be contributing to low savings levels is the effect of 'demographic compression.' Family events such as completing tertiary education, finding a partner, child rearing and acquiring a home are taking place in a much shorter time frame than in previous generations.[32] The costs of education and the debts incurred in home ownership may still be a significant burden when approaching retirement. Demographic compression effectively shortens the time available for families to save for their retirement.

7.36 The Committee is concerned that there appears to have been little research on the effects of demographic compression on families over time and their capacity to save for retirement. While the Productivity Commission and FACS have undertaken preliminary research into demographic compression, the Committee notes that the issue is not well understood and more research is required to allow policy makers to plan on an intergenerational level.[33]

7.37 The challenge of saving for retirement can be more difficult in rural and remote areas of Australia. Evidence from the National Rural Health Alliance showed that in every state of Australia, average levels of household income are higher in metropolitan areas than in non-metropolitan areas. Lower income levels and the income fluctuations of seasonal industries common to rural regions such as agriculture allow a lower capacity for saving. To compound this, people in non-metropolitan areas are concerned by the rising cost of living.[34]

7.38 Dr Judith Crockett's evidence to the Committee also raised these problems as well as intergenerational problems presented by inadequate provisions for retirement by farm owners:

> Few farmers make adequate provision for retirement, either by default and inaction, or by choice. This will impact greatly upon

31 ASFA, sub 72, p.6; ISFA, sub 51, p 3; Small Independent Superannuation Funds Association, sub 69, p 3.

32 FaCS, sub 90, p 10.

33 Productivity Commission, *Policies Governing Aged and Child Care,* 1999, p 307; FaCS, *The Policy Maker's Guide to Population Ageing: Key Concepts and Issues*, June 2001, p 34.

34 National Rural Health Alliance, sub 131, p 15.

> the decision of if and when to retire, having implications for the primary and succeeding generations. Where finances are lacking, a second generation family can face a heavy financial burden if required to support the first generation in retirement.[35]

7.39 Indigenous Australians are at a severe disadvantage in building sufficient retirement incomes. The Indigenous have more health problems than non-Indigenous Australians, poorer access to health and ageing services, lower employment levels, lower skill levels due to poorer access to education and generally are ageing at a far greater rate.[36]

Voluntary savings

7.40 Evidence to the Committee canvassed the possibilities of greater emphasis on specific types of private savings vehicles such as long term care insurance or designated savings for health or aged care purposes. Mr Francis Sullivan suggested that, if future funding of health and aged care is to be a mix of public funding and user charges, then some form of health or long term savings vehicle would be necessary, even though to that date health savings accounts in the United States had not proved successful. The Institute of Actuaries Australia argued for a wide-ranging set of private savings products (medical savings accounts, medical catastrophe insurance, pre-funding of residential care through superannuation related products) combined with changing requirements for the design and pricing of private health insurance products.[37]

7.41 Reverse mortgages were also proposed as a way of releasing savings held in assets. It is anticipated that over the next forty years those seeking access to aged care and those seeking to fund retirement will have significant equity in property. The Institute of Actuaries noted that 'reverse mortgages' and other equity release products may be one way of providing an income stream without needing to dispose of the asset.[38]

7.42 Such products have been proposed as a means of paying for aged care or of enabling older people to afford the necessary services that will allow

35 Crockett J, sub 165, p 17.

36 Gooda M, transcript 7/03/2003, pp 201-204; Emerson F, transcript 7/03/2003, p 202

37 National Aged Care Alliance, sub, 88 p 38; Sullivan F, transcript 17/09/2003, pp 693-4. Institute of Actuaries Australia, sub 138, pp 19-20. See also Sullivan F, transcript, 17/9/03, p 6949; In late 2003, the US Government introduced new tax deductible Health Savings Accounts as an added incentive for people covered by qualifying high deductible health insurance plans to increase their savings, viewed 26/05/2004, <http://www.usatoday.com/money/industries/health/2003-11-30-hsa_x.htm>.

38 Institute of Actuaries, sub 138, p 10; Kirk A, transcript 3/07/2003, p 628.

them to continue living in their own home.[39] A reverse mortgage allows the owner of an asset such as a family home, to borrow funds through the equity built up in the asset, to be paid back upon the house being sold or the death of the owner. Generally, home owners can borrow up to $100,000 against the equity of the home.[40]

7.43 In relation to home equity conversion FACS advised the Committee that while these products have been available for some time there has been little use made of them:

> We have been trying home equity and sale lease-back and many schemes for many years, there still seems to be an attitude, with the current generation in particular, that they have saved all their lives for a house and finally paid it off and they are reluctant to remortgage it or re-encumber it. Also, there is a design issue in that we found very few financial institutions prepared to pay for, or bear the risk of, longevity.[41]

7.44 Financial institutions risk the possibility of the sale of the asset not being enough to cover the repayment of the loan, in which case, the lender loses a significant amount. Accrued interest can be substantial and if the owners are unable to meet their repayments for any reason, then financial institutions are faced with the prospect of evicting elderly people from their homes, which may have a negative public relations impact.[42]

7.45 Reverse mortgages have had some success in the United States, however there have also been some problems in the form of legal complications in individual states.[43]

7.46 In the United Kingdom the Royal Commission on Long Term Care considered reverse mortgages and other financial products that might be used to finance aged care. The Commission concluded that while some individuals may find them worthwhile, they were not likely to offer a 'universal solution'. To ensure that those people who wish to make use of these products can do so with confidence, the UK Government is introducing legislation under the *Financial Services and Markets Act 2000*, governing reverse mortgages and long term care insurance.[44]

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39 Services such as Home and Community Care, Meals on Wheels etc could be funded through the income these products provide.

40 One lender, the Commonwealth Bank of Australia, does however, offer a loan of up to 35% of the value of the home, if the borrowers are over 70 years of age.

41 Flanagan K, transcript 7/02/2003, p 27.

42 Reed R & Gibler K, *The Case for Reverse Mortgages in Australia: Applying the USA Experience*, 9th Annual Pacific Rim Real Estate Society Conference, Brisbane, January 2003, p 5.

43 Reed R & Gibler K, *The Case for Reverse Mortgages in Australia: Applying the USA Experience*, p 5.

44 Review of Pricing Arrangements in Residential Aged Care; International Perspectives, 2003, pp 26-27, viewed 10/03/2004, <http://www.ageing.health.gov.au/ rescare/acprtask.htm>.

7.47 The Committee notes that the Australian Securities and Investments Commission (ASIC) are aware of regulatory issues overseas. ASIC is monitoring such products and seeking feedback on any problems.[45]

7.48 Despite the apparently cautious approach of financial institutions in Australia, more lenders are now offering such products.[46]

7.49 The Committee considers that the higher profile being given to these products by the financial sector and the media will alert more people to recognise the possibility of using such products.

Compulsory Savings Schemes

7.50 The Committee received suggestions that the sorts of compulsory savings or long term care insurance schemes used in other countries could be introduced in Australia.[47]

7.51 The National Aged Care Alliance provided the Committee with an overview of arrangements in the United Kingdom and Germany.[48] Other evidence referred to the financing arrangements in Denmark, Japan and Singapore.[49] The complex, inter-related schemes in Singapore (which require contributions of anywhere up to 40% of a worker's salary dependent on their age and income) allow contributors to access funds for medical and other purposes and include a safety net for low income earners. Features of the Singaporean arrangements include:

- compulsory national employee savings through the Central Provident Fund and Medisave;
- health and long term care insurance through MediShield, ElderShield and private insurance;
- national endowment funds – Medifund and ElderCare Fund; and
- consumer co-payments and/or gap payments.[50]

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45 Australian Securities and Investments Commission, *Financial Tips and Safety Checks*, <http://www.fido.asic.gov.au/fido/fido.nsf/byheadline/Reverse+ mortgages?openDocument>.

46 Commonwealth Bank of Australia, Media Releases: <http://about.commbank.com.au/group_display/0,1922,CH2071%255FTS9798,00.html>; StateWest: <http://www.statewest.com/financial-services/home/homeloan.shtml>; Police and Nurses Credit Society: <http://www.pncs.com.au/pncs/borrow/borrow_ easy_ living_loan.html>.

47 Howe A, sub 128, p 7-10; Institute of Actuaries Australia, sub 138, pp 18-20; Sullivan F, transcript 17/09/2003, p 694.

48 National Aged Care Alliance, sub 88, p 39; Olsberg D, sub 84, p 32.

49 National Aged Care Alliance, sub 88, p 48; Association of Superannuation Funds of Australia, sub 72, p 34.

50 World Bank, *Singapore's Innovative Health Financing System*, viewed 23/05/2004, <http://www.worldbank.org/wbi/healthandpopulation/oj_singapore.doc>; Pricing Review

7.52 The Myer Foundation proposed compulsory savings for aged care costs attached to the Superannuation Guarantee, and a compulsory Medicare style levy to fund a long-term care social insurance scheme.[51]

7.53 The Committee notes that while there is a range of possible funding mechanisms, what works in the social and policy context of one country may not be as effective in another. It is the 'fit' of any mechanism with the total social and policy context that matters.

7.54 Any proposal to introduce, for example, compulsory long term care insurance or dedicated health savings through superannuation would need to include an assessment of whether these products would actually achieve increased savings over all, or simply result in one form of savings being substituted for another. A requirement to establish a dedicated health savings account may simply substitute for discretionary private health insurance.

7.55 The Committee also notes that encouraging multiple, special purpose savings vehicles, can result in inflexibility and possibly waste. Only a small proportion of older Australians actually enter residential aged care. Savings accounts for aged care could mean that the money (or a substantial portion of it) is 'wasted'.

7.56 ASFA argued that considerable progress has been made because superannuation (compulsory and discretionary) is focussed on building substantial retirement income which individuals can then use to meet their particular retirement circumstances. ASFA also cautioned against diverting savings from superannuation into specific purposes:

> Superannuation is not a magic pudding from which additional slices can be taken without compromising the core goals of retirement savings.[52]

7.57 As evidenced by much of the work since the publication of the *Intergenerational Report*, Australia's 'three pillars' approach is still immature and, as discussed below, the capacity of many people to benefit from the options already available is limited by a lack of financial literacy skills.

7.58 The Committee concludes that there is a need for a period of consolidation, including concerted effort to improve financial literacy, rather than introducing further compulsory savings arrangements at this stage.

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of Pricing Arrangements in Residential Aged Care, *Long Term Care :International perspectives*; p 82-83.

51 The Myer Foundation, *2020: A Vision for Aged Care in Australia*, pp 34-35.

52 Association of Superannuation Funds of Australia, sub 72, p 13.

Improving financial literacy

7.59 The complexity of retirement income arrangements and options were raised with the Committee by individuals, government departments, and representatives of financial organisations.[53]

7.60 Making effective use of the options available – even with professional help – requires a fairly sophisticated level of financial literacy. Simply encouraging people to save does not work. As it was put to the Committee:

> Smiling suntanned silver haired couples enjoying houses at the beach and overseas holidays are just not the norm.[54]

7.61 There is growing awareness of the need to improve the financial literacy of all Australians. As around 12% of 15 year olds and 20% of adults have very poor general literacy skills, improving their financial literacy will mean first providing assistance with developing their literacy and numeracy skills.

7.62 Centrelink offers a free Financial Information Service as an educative and information brokerage service. There are approximately 120 Financial Information Service officers across Australia to provide investment information regarding superannuation, banking and financial services, taxation issues and social security payments.[55]

7.63 In general, education and information services provided by financial institutions, have assumed that people already have basic skills and a fair degree of financial literacy.

7.64 In the past year or so, however, some financial institutions have been taking the lead in promoting the issue of financial literacy and exploring what can be done to improve it. The ANZ Bank's financial literacy survey is helping to inform their own consumer and community programs and initiatives being developed by other financial organisations. ASIC has investigated the need to make financial literacy a core skill for young Australians and the Financial Planning Association has released a CD designed for 12-15 year olds.[56]

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53 Olsberg D, sub 161, p 9; Olsberg D, sub 84, p 18; Centrelink, sub 78, p 15; Association of Superannuation Funds of Australia, sub 72, p 5.

54 Clare R, transcript 3/07/2003, p 587; Research Centre on Ageing and Retirement, sub 161, p 4.

55 Department of Family and Community Services, submission to Senate Select Committee on Superannuation: Inquiry into Planning for Retirement, p 14, viewed 20/05/2004, <http://www.aph.gov.au/Senate/committee/superannuation_ctte/retirement/submissions/sub38.doc>.

56 ANZ Bank, *ANZ Survey of Adult Financial Literacy in Australia,* p 10. The ANZ report and information about its other initiatives may be accessed through <http://www.anz.com/

7.65 The Australian Government has set up a National Consumer and Financial Literacy Taskforce to develop a national strategy to raise levels of consumer and financial literacy in Australia.[57] The Taskforce released a discussion paper in June 2004 which calls for public submissions.

7.66 The issue of financial literacy skills is of considerable concern to the Committee as it underpins the capacity of individual Australians to improve their financial provision for later life. The Committee concludes that responsibility for improving financial literacy must be shared between government, financial services, educators, and consumer and community groups. The Committee notes that the objectives of the strategy being developed by the Consumer and Financial Literacy Taskforce include a national approach which fosters collaborative and joint efforts in nationally consistent ways.

7.67 The matter of financial security in later life is complex in itself and is more confusing to those who may not have numeracy and financial literacy skills. Further work building on the outcomes of the Consumer and Financial Literacy Taskforce's discussion paper will be critical, together with a concerted effort across all sectors of the community.

Summing up

7.68 Increasing the capacity of Australians to achieve financial security in later life is undoubtedly essential. The Committee agrees that Australia's three pillars approach provides a sound policy framework: a tax-payer funded means-tested age pension; a minimum level of compulsory employer superannuation contributions; and private superannuation and other savings.

7.69 Evidence before the Committee indicates the complexity of the relationships between the three pillars, and between them and the retirement income system, the tax system, health and aged care funding,

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aus/aboutanz/community/Programs/finlit.asp>; Media release: 'ASIC Chairman calls for action on financial literacy problems, 2 May 2003 , viewed 22/05/2004, <http://www.asic.gov.au/asic/asic_pub.nsf/byheadline/03142+ASIC+Chairman+calls+for+action+on+financial+literacy+problems?openDocument>; Senator the Hon H Coonan, Minister for Revenue and Assistant Treasurer, Address to the Financial Planning Association Conference, 6 May 2004, viewed 22/05/2004, <http://www.assistant.treasurer.gov.au/atr/content/speeches/2004/005.asp>.

57 Senator the Hon H Coonan, Media Release*: Skilled People Are the Key to Success*, viewed 22/05/2004, <http://www.assistant.treasurer.gov.au/atr/content/pressreleases/2004/007.asp>. Information on the Taskforce and its terms of reference may be viewed at <http://www.cfltaskforce.treasury.gov.au/content/default.asp>.

and private health insurance. The Committee notes that overseas experience shows that these relationships, and the weight given to each particular component, are a matter of ongoing debate and adjustment.

7.70 The Committee agrees that more needs to be done to encourage savings. However, there is also a need for research to look more closely at the opportunities individuals and families actually have to make adequate savings depending on their life course, circumstances and location.

7.71 The Committee notes the efforts of the Australian Government to raise awareness and action by individuals to better provide for later life. The financial sector has also responded enthusiastically. However, while there continue to be regular and prominent advertisements lauding the goal of early retirement, the Committee has doubts the extent to which the sector has adjusted its practices and products.

7.72 The setting up of the Consumer Financial Literacy Taskforce is an innovative – and sensible – approach to a major challenge. The magnitude of the task before it should not be underestimated. The Committee notes that for many workers of all ages, limited literacy and numeracy skills restrict both current employment opportunities and possibilities for making the transition to new types of employment as they grow older. The success of the Consumer Financial Literacy Taskforce will in part be judged by the strategies it develops for assisting people with basic literacy and numeracy skills so that they can gain more benefit from financial literacy training.

Conclusion 11

7.73 **The Committee concludes that a comprehensive study of the impacts of demographic compression on the capacity of families to save for retirement be undertaken jointly by the Department of Family and Community Services and the Treasury.**