Chapter 8

The Age Pension

8.1 The Age Pension is broadly recognised as a critical means of providing Australians with economic security in retirement. This importance is reflected in the fact that it is one of three retirement income pillars in Australia (the others being compulsory superannuation and private savings).[1] Evidence received during this inquiry highlighted the importance of the Age Pension in providing economic security for women in retirement. In particular, witnesses noted that unlike the current superannuation system, the Age Pension could provide for a decent standard of living in retirement irrespective of a person's income throughout their life. Moreover, the Age Pension is also better able to recognise and reward unpaid work for their families and communities, which women are more likely to undertake than men.

8.2 This chapter summarises and assesses evidence received during the inquiry on the importance of the Age Pension, and makes recommendations aimed at protecting its value and integrity.

The importance of the Age Pension, now and into the future

8.3 The Age Pension is an important contributor to the financial security of a majority of Australian men and women of retirement age, with about 70 per cent of people of pension age receiving the Age Pension.[2] As noted in chapter 2, compared to men, women are more likely to receive and rely upon the Age Pension. COTA advised that 56.6 per cent of full Age Pension recipients are women, and 67.9 per cent of single, full Age Pension recipients are women.[3] COTA also noted that a 2012 Rice Warner study found that 49 per cent of females relied solely on the Age Pension to fund their retirement, compared to 40 per cent of males.[4] The incidence of women relying solely on the Age Pension is compounded by longevity risk. As ANZ explained, women 'at every decade of life are forecast to significantly outlive their super savings, with female baby boomers potentially outliving their savings by 16 years, which means they are relying on the age pension alone'.[5]

---

1 Treasury, *2015 Intergenerational Report: Australia in 2055*, March 2015, p. 65. Housing is sometimes considered the 'fourth pillar' in the system. Se, for example, Ms Catherine Nance, Partner, PricewaterhouseCoopers Australia, *Committee Hansard*, 18 February 2016, p. 18.

2 Treasury, *2015 Intergenerational Report: Australia in 2055*, March 2015, p. 65.

3 COTA Australia, *Submission 86*, p. 11.

4 Ms Susan McGrath, National Policy Manager, COTA Australia, *Committee Hansard*, 19 February 2016, p. 1

5 Ms Joyce Phillips, Chief Executive Officer, ANZ Global Wealth, *Committee Hansard*, 6 October 2015, p. 1.

8.4 Even as the superannuation system matures, the Age Pension will remain a critical component of Australia's retirement income system. The continued importance of the Age Pension for the foreseeable future was made clear in the 2015 Intergenerational Report. Noting that about 70 per cent of people of Age Pension age were receiving the Age Pension, the Intergenerational Report suggested that this number was only projected to decline to 67 per cent by 2054–55.[6]

8.5 The Age Pension is particularly important for the current cohort of women approaching retirement age, who have faced gendered structural disadvantages throughout their working lives that have limited their ability to build their superannuation balances. The Australian Education Union (AEU) pointed to some of the common types of disadvantage faced by its female members, especially those members who are now approaching retirement:

> For example, in some states, upon marriage, women were excluded from teachers' superannuation funds and only allowed access to 'married women' schemes with inferior conditions. In most states, superannuation was only available to 'permanent employees' and being a permanent employee meant being full time and available for any position across the state, thus excluding many women who were part time or were unable to move due to family responsibilities. Before unpaid maternity leave was secured in the mid 1970s, many women had to resign in order to have children. Upon returning, many found themselves unable to regain their permanent status and therefore unable to regain access to their previous superannuation scheme. Others found that they had lost recognition of prior service for superannuation purposes. Married women were given options to opt out of the married women's schemes, sending the message that superannuation for women wasn't important. Many of these women took on primary care of children with the understanding that their husband's superannuation would provide the family's retirement income, but then lost access to this money due to marital breakdown.[7]

8.6 No amount of 'tinkering' to the current rules around superannuation, the AEU concluded, would address the compounding financial disadvantage faced by many women nearing or in retirement. The AEU therefore concluded that 'the primary strategy for ensuring that [these women] maintain some economic security in retirement is to build on the existing Age Pension'.[8]

8.7 Similarly, Unions NSW emphasised that while it was important to promote fairness and equity in the superannuation system, the system needed to be underpinned by a strong Age Pension system. This was particularly true, it argued, for women currently approaching retirement:

---

6 Treasury, *2015 Intergenerational Report: Australia in 2055*, March 2015, pp. 66–67.

7 Australian Education Union, *Submission 26*, p. 7.

8 Australian Education Union, *Submission 26*, p. 7.

> Reforming super, closing income gaps and remunerating the care work that women perform are crucial in promoting economic security in retirement. But, even if we were able to make all these reforms, it would take several decades for these benefits to be seen in women's retirement incomes and their lives in retirement. For some women, it will be too late for reforms to superannuation and the accumulation of retirement incomes to benefit them; therefore, it is crucial that, for these women and for women going forward, we continue to have a strong safety net in the age pension.[9]

8.8 The AIFS also explained that changes to the superannuation system and other changes to address underlying structural biases would provide little benefit for women who are currently in retirement:

> Changes to superannuation policy to address the issue of the gender gap in superannuation savings, along with policies that encourage the increased labour force participation of women, may assist retirees in decades to come. However, these changes will have no effect on the standard of living of the current cohort of retirees. For those already in retirement, policy reform targeting assistance to those in genuine financial hardship is the only type of reform that will bring real improvements to their living standards.[10]

8.9 Anglicare Australia noted that looking at the incomes of women already retired was 'a bit like time travel', in the sense that these incomes reflected the social norms and social policy of up to 40 years ago:

> The positive side of that observation is that the solutions to this can be fairly small if started early enough in someone's life. However, the other side is that there is a need for larger interventions required for those already in or approaching this age group as they have got little time to catch up.[11]

8.10 Other witnesses also expressed concern that the attention of policymakers, and the public discourse on retirement incomes more broadly, tended to focus on the superannuation system at the expense of the Age Pension system. Professor Siobhan Austen, talking to the submission made by the Women in Social Economic Research (WiSER) Cluster at Curtin University, explained that the main theme of the submission was that the Age Pension has:

> …a central role in ensuring the economic security of women in retirement and also in ensuring that an efficient retirement income system is achieved. We expressed our concern about a clear policy direction to diminish the importance of what we call the pension pillar of Australia's retirement system. We see that as being negative for gender equity, negative for the

---

9 Ms Kate Minter, Research Officer, Unions NSW, *Committee Hansard*, 19 February 2016, p. 32.

10 Dr Diana Warren, Research Fellow, Australian Institute of Family Studies, *Committee Hansard*, 18 February 2016, p. 2.

11 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 24.

> economic security of older women. We know that it is coming at a very large cost. That cost has been very well documented. It is associated with the large tax expenditures on superannuation. But also generally the shift towards what we also call the superannuation pillar of the retirement income system is reducing the levels of control because of the handing of responsibility of retirement income provision onto individuals and households and that can leave women in very vulnerable circumstances, especially towards the end of their lives when their vulnerability is highest.[12]

8.11 Professor Austen further expressed concern that the shift in emphasis from the Age Pension pillar of the retirement income system to the superannuation pillar would generally exacerbate gendered financial inequality within households:

> In most households, there is going to be an increase in concentration of the household resources in the hands of the male partner. Some people come back at us and say that is okay for their wives—their wives will be able to benefit from those large superannuation accounts. I am sure that will happen in many households, but there are no guarantees and there are no real safeguards in our system. You can end up in a situation where you are married to someone, he owns all the money, and you have got to essentially negotiate around how that money is used. Sometimes this is really significant for women because, if we are talking about the type of annuity that is purchased to generate income to support the retirement needs of the individuals in a household, if the annuity is based on his longevity then potentially the woman ends up with a shortfall of resources right towards the end of her life because she lives longer than him, on average. Additionally, women are usually younger than their spouses by a number of years, so both longevity and age differences contribute to this potential risk for women. You do not get these problems if you have got an age pension. The money can go into your account; you get as much as your husband. So there is a much more equal distribution of bargaining power.[13]

8.12 WiSER's submission made the point that in contrast to superannuation, 'the age pension pillar of Australia's retirement system does not reinforce patterns in the distribution of income and wealth associated with the performance of paid and unpaid work'.[14] Asked if this meant the Age Pension was a better mechanism than the superannuation system for addressing women's retirement needs, Professor Austen responded:

> Yes, very clearly, both because it does not penalise women because of the larger unpaid work roles that they take on and also because it is more efficient, for a number of reasons. If we are focusing on this discussion of paid and nonpaid work, it does not create incentives for particular types of

12 Associate Professor Siobhan Austen, private capacity, *Committee Hansard*, 19 February 2016, p. 27.

13 *Committee Hansard*, 19 February 2016, p. 29.

14 WiSER - Curtin University, *Submission 6*, p. 17.

> work. It does not alter the incentive to participate in paid or unpaid work, if you know what I mean. It does not favour one over the other. But there are other really important aspects to it. The pension is more suitable to women's longevity. It provides much greater insurance against longevity risk.[15]

8.13 Similarly, the Australia Institute submitted that unlike the Age Pension, the superannuation system 'effectively takes the gendered income inequalities that exist during people's working lives and magnifies them in retirement'. It argued for increasing the Age Pension, and suggested the cost of doing so was 'trivial compared to the enormous, and rapidly growing, cost of the existing tax concessions provided for superannuation'.[16]

Access to the Age Pension

Recent changes to asset testing for the Age Pension and the 'taper rate'

8.14 On 7 May 2015, the government announced changes to the Age Pension assets test and 'taper rate', which is the rate at which the pension declines when asset thresholds are exceeded. The changes, which are due to come into effect in January 2017, increase the value of assets below which the full Age Pension is paid (the 'assets free area'), while at the same time increasing the rate at which pension payments taper off when those thresholds are exceeded. Moreover, the maximum value of assets people can hold (excluding the family home) and still be eligible for the part pension has been reduced. According to the former Minister for Social Services, the Hon Scott Morrison MP, the changes will leave 170,000 pensioners with modest assets better off by an average of more than $30 per fortnight, including an additional 50,000 pensioners who will now qualify for the full Age Pension. However, approximately 91,000 current part pensioners will no longer qualify for the pension, and a further 235,000 will have their part pension reduced.[17]

8.15 Some witnesses were critical of the effect these changes would have on the interplay between the superannuation system and the Age Pension. ISA suggested that for a large number of people on middle incomes, and in particular women on middle incomes, the changes would reduce the efficacy of additional savings in superannuation, because these savings would simply be offset by reductions in the Age Pension. Ms Campo told the committee:

> One of my colleagues has a colourful way of describing it: that without fixing this interplay between the age pension and the super system, we will just be firing blanks in terms of any improvements in retirement income

---

15 Associate Professor Siobhan Austen, private capacity, *Committee Hansard*, 18 February 2016, p. 28.

16 The Australia Institute, *Submission 8*, p. 8.

17 The Hon Scott Morrison MP, media release, 'Fairer access to a more sustainable pension', 7 May 2015, http://www.formerministers.dss.gov.au/15866/fairer-access-to-a-more-sustainable-pension/.

> savings. For additional super savings, it is almost one for one in what you lose in age pension. The brunt of that is borne by women—women in the middle-income distribution earning under $75,000 per annum.'[18]

8.16 Referring to modelling presented by ISA, Ms Campo concluded that policymakers 'need to ensure that the interplay of the two systems does not disturb incentives for people to save, in particular for groups who are below a comfortable retirement level'.[19]

8.17 Women in Super also stressed the importance of understanding the interplay between the Age Pension and superannuation when making policy aimed at improving women's economic security in retirement:

> Most women in retirement or who are facing retirement in the coming five to 10 years will receive a combination of super and age pension payments. It is vitally important for single women, and the proposed changes to the age pension could further disadvantage them.[20]

8.18 Stressing the point that the Age Pension is 'essentially a safety net' and it is 'a bottom line in longevity insurance but it should not be the aspirational goal of our retirement system', Women in Super emphasised the need for a holistic approach that takes account of the interplay between the pillars of the retirement income system.[21]

Differential Age Pension asset testing

8.19 Some witnesses raised the possibility of reforming the Age Pension assets test in ways that might help bolster women's incomes in retirement. Notably, Mercer raised the prospect of the means test of the Age Pension being more generous for single women, 'as they are expected to live longer and therefore their superannuation needs to be extended for a larger number of years'.[22]

Age Pension access age

8.20 The current qualifying age for the Age Pension is 65 years of age or older. Under changes introduced by the Labor government in 2009, from 1 July 2017 the qualifying age will increase to 65 years and 6 months. Thereafter, the qualifying age

---

18 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 15. The ACTU made a similar point. Mr Brian Daley, Capital Stewardship Officer, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, p. 18.

19 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 17.

20 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, pp. 19–20.

21 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, pp. 19–20.

22 Dr David Knox, Senior Partner and Senior Actuary, Mercer Australia, *Committee Hansard*, 18 February 2016, pp. 27, 33.

will increase by 6 months every 2 years, until reaching 67 years by 1 July 2023. In May 2014, the then Treasurer, the Hon Joe Hockey MP, announced that the pension age would continue to increase gradually to 70 years of age by 2035. At this stage, the changes announced in 2014 remain unlegislated.[23]

8.21 The increase in the qualifying age for the Age Pension, and the prospect of further increases to come, was cause for concern for a number of witnesses. Referring to comments by women participating in its study on women's retirement incomes, Dr Parkinson from Women's Health in the North, noted that many women were concerned about the rising access age for the aged pension. Dr Parkinson observed that the women in the study used words like 'painful' and 'terrifying' when they thought about the future.[24]

8.22 Ms Kearney from the ACTU agreed with the proposition that while public discussion often pointed to uncertainty regarding superannuation policy, there was also growing uncertainty about the Age Pension. This uncertainty often centred on changes to the access age:

> We talk a lot about an ageing population and how this is going to cost a great deal, and I think people do worry about the pension and whether it will be there when they are older. There is a lot of talk about people having to increase retirement age and feeling that they will never ever get to a point where they can access the pension. Particularly for my old industry, nursing, the concept of having to work until you are 70, for example, is just a complete anathema. I do not think people feel that they would physically be able to do that, so they worry that they will be retiring without a pension and that it is something that may well be getting beyond their grasp.[25]

8.23 Other witnesses noted that with the pension age rising, increasing numbers of women were being forced to rely on the grossly inadequate Newstart Allowance. The Newstart Allowance is currently $527.60 a fortnight for singles,[26] much less than the single Age Pension which is $794.80 per fortnight.[27] Anglicare Australia reported that

---

23 Department of Human Services, 'Age Pension', Department of Human Services, webpage, 'Increase the Age Pension qualifying age to 70 years', https://www.humanservices.gov.au/corporate/budget/budget-2014-15/budget-measures/older-australians/increase-age-pension-qualifying-age-70-years, accessed 12 April 2016.

24 Dr Debra Frances Parkinson, Manager, Research, Advocacy and Policy, Women’s Health in the North, *Committee Hansard*, 18 February 2016, p. 44.

25 Ms Gerardine Kearney, President, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, pp. 18–19.

26 Department of Human Services, 'Newstart Allowance', last updated 18 March 2016, https://www.humanservices.gov.au/customer/services/centrelink/newstart-allowance (accessed 20 April 2016).

27 Department of Human Services, ' Payment rates for Age Pension', last updated 20 March 2016, https://www.humanservices.gov.au/customer/enablers/payment-rates-age-pension (accessed 20 April 2016).

many workers, and many women, were in effect being involuntarily retired before pension age because of their inability to perform certain duties. This problem, it noted, would become particularly acute if the pension age moved to 70. Being forced to survive on Newstart, Anglicare suggested, 'is certainly no way to approach your retirement age'.[28]

8.24 COTA also reported that many women in the years before pension age face 'significant barriers to retaining their job and to re-entering employment if they become unemployed', and therefore have no option other to move to the Newstart Allowance. COTA cited statistics showing that matured aged women were overrepresented in the number of long-term Newstart Allowance recipients, with women in the 50–59 age range the single largest age and gender cohort of long-term Newstart recipients. COTA added:

> For the grouping of people who subsist on Newstart later in working life, often for extended periods in the decade preceding retirement, the loss of income and savings can be catastrophic for longer term economic security. Many eat into and exhaust savings and other resources to manage through the time on the Allowance, and indeed the conditions for receipt of Newstart require the draw-down of financial resources other than superannuation. Clearly this will have an impact on their ability to fund retirement.[29]

8.25 Compounding the problem, COTA suggested that the government's current but as yet unlegislated policy to continue extending the pension eligibility age to 70 years old 'creates a significant worry that many older people, unemployed due to age and sex discrimination and lack of jobs, will stay on Newstart Allowance for years longer'. In addition to recommending that the government increase the level of Newstart paid and index the payment to average full-time wage levels, COTA recommended that the Age Pension eligibility age should not be further increased until the government implemented an agreed package of measures to remove discrimination and other barriers to mature age employment.[30]

8.26 The ACTU expressed its opposition to raising the Age Pension eligibility age to 70 years of age, stating that:

> …workers should not be forced to arbitrarily continue to work at ages when it is generally recognised that significant numbers of workers, particularly in manual occupations, will simply be unable to meet the demands of the roles they are being required to perform.[31]

---

28 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 25.

29 COTA Australia, *Submission 86*, p. 13.

30 COTA Australia, *Submission 86*, pp. 13–14.

31 Australian Council of Trade Unions, *Submission 69*, p. 12.

The adequacy of the Age Pension

8.27 Some witnesses questioned the general adequacy of the Age Pension for retirees who depend on it as their sole source of retirement income. For example, Rice Warner noted that the OECD defines poverty as being below 50 per cent of median income. Rice Warner stated that with the median income in Australia being $53,457, the single Age Pension would need to be $26,728, or 19 per cent higher than it currently is, to meet this benchmark. Funding for pension increases, it suggested, might be secured by including the family home in the pension assets test (at least above a certain threshold).[32]

8.28 Some witnesses, such as the Grattan Institute, submitted that additional assistance to Age Pensioners should be targeted to those who do not own their own home, either through targeted increases to the Age Pension or increases to the rate of Commonwealth Rent Assistance.[33] These proposals are discussed in chapter 9.

Indexation and benchmark arrangements

8.29 The current method of indexation for the Age Pension is explained on the Department of Social Services' website:

> Base pensions are indexed twice a year, in March and September, to reflect changes in pensioners' cost of living and wages. The pension is increased to reflect growth in the Consumer Price Index and the Pensioner and Beneficiary Living Cost Index, whichever is higher. When wages grow more quickly than prices, the pension is increased to the wages benchmark. The wages benchmark sets the combined couple rate of pension at 41.76 per cent of Male Total Average Weekly Earnings. The single rate of pension is two thirds of the couple rate.[34]

8.30 In the 2014–15 Budget, the government announced that starting from 2017, pensions and pension-equivalent payments would be indexed according to movements in the Consumer Price Index (CPI) only, rather than the existing indexation method. On 7 May 2015, the government announced that the changes would not proceed.[35]

---

32 Rice Warner, *Submission 82*, p. 12; Mr Michael John Rice, CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 43.

33 Grattan Institute, *Submission 87*, p. 5. Also see, for example, Rice Warner, Submission 82, p. 30.

34 Department of Social Security, 'Pension Rates', https://www.dss.gov.au/our-responsibilities/seniors/benefits-payments/pension-rates, accessed 7 April 2016.

35 The Hon Scott Morrison MP, media release, 'Fairer access to a more sustainable pension', 7 May 2015, http://www.formerministers.dss.gov.au/15866/fairer-access-to-a-more-sustainable-pension/.

8.31 The AEU endorsed the position of the ACTU that the value of the Age Pension 'must be consistently linked to earnings so that a decent pension is always available to those who still need such a level of support'.[36]

8.32 ACOSS told the committee that it was 'very pleased' that the indexation changes had not proceeded, and reiterated its view that 'adequate indexation for pensions tied to wages is crucial for their sustainability into the future'.[37]

8.33 The Australian Services Union also stressed that an adequate and appropriately indexed Age Pension was 'absolutely imperative for women', and would remain so into the future.[38]

8.34 National Seniors recommended retaining the 'current method of annual increases to the Age Pension to ensure it keeps pace with living expenses and is adequate as a safety net for women in retirement'. It noted that, as of 2009–10, only 10.3 per cent of women in retirement derive their main source of income from superannuation or annuity, compared to 17.4 per cent of men. Given the high proportion of women dependent on the Age Pension, 'it is important that this safety net is adequate to meet their day-to-day living costs'.[39]

8.35 For its part, the ACTU advocated a new benchmark of 35 per cent of Full Time Adult Average Weekly Ordinary Time Earnings (AWOTE) and a single–couple equivalence of 70 per cent. The ACTU suggested this could be achieved by 2025.[40]

Committee view

8.36 The committee views the Age Pension as an integral component of Australia's retirement incomes system, and considers an adequate and accessible Age Pension to be critical in ensuring the economic security of women in retirement. As many of the experts participating in this inquiry point out, the Age Pension is not only important for women currently in retirement, but will remain important for the foreseeable future, even as the superannuation system matures.

8.37 The committee notes and shares the concerns expressed by various experts and organisations in this inquiry regarding changes to the Age Pension that the government has proposed or implemented in recent years. In particular, the committee is concerned that the proposed move to increase the eligibility age for the Age Pension will leave many workers, and a disproportionate number of women, trapped on

---

36 Australian Education Union, *Submission 26*, p. 7.

37 Dr Cassandra Goldie, Chief Executive Officer, Australian Council of Social Service, *Committee Hansard*, 12 February 2016, p. 32.

38 Ms Linda White, Assistant National Secretary, Australian Services Union *Committee Hansard*, 18 February 2016, p. 38.

39 National Seniors Australia, *Submission 62*, p. 15.

40 Australian Council of Trade Unions, *Submission 69*, p. 12.

Newstart Allowance for longer periods. While the government has abandoned plans to index the Age Pension to CPI, the committee observes that evidence received in the inquiry highlighted the damage this change would have had on the incomes of the 70 per cent of Australians of retirement age who receive a full or part Age Pension payment.

Recommendation 17

8.38 The committee recommends that, in order to provide certainty and security for the majority of Australians who will receive the Age Pension in retirement, the government:

- **(a) abandon its proposal to increase the Age Pension retirement eligibility age to 70; and**
- **(b) commit to maintaining the current method of indexation and benchmarking for the Age Pension.**