

Chapter Ten

Retirement and Eligibility for the Age Pension

Introduction

10.1 This chapter examines the concept of the fixed retirement age in Australia, and some of the factors influencing the decision to retire. It also considers submissions put to the Committee on eligibility for the age pension. Although this issue was not specifically raised in the Committee's terms of reference, a number of parties chose to comment on it.

The concept of a fixed retirement age in Australia

10.2 In his written submissions to the inquiry, Professor Lowther noted that prior to the 20th century, the concept of a retirement age hardly existed – at the turn of the 20th century, 90 per cent of men worked until they were physically unable to. It was only with the introduction of state funded social security and pension benefits in industrialised countries – pioneered in the 1880s by the German Chancellor Bismarck – that this changed. Australia adopted age 65 as a marker of old age and the eligibility point for receipt of the old age pension in 1908.¹

10.3 That said, FaCS, the WA Department of Community Development and the COTA National Seniors Partnership all noted in their written submissions that Australia does not have an official fixed retirement age, and proposed age discrimination legislation would prohibit dismissal on the basis of age unless specific exemptions apply. However, there are various factors influencing the decision to retire:

- a) The preservation age for superannuation, currently 55 but rising to 60 by 2024;
- b) The age at which people may claim the age pension, which is 65 for men and 62½ for women (rising to 65 by 2014);²
- c) The age until which people can contribute to superannuation, which is 75.³

1 *Submission 4*, Professor Lowther, p. 4.

2 From 1 July 2003, eligibility for the age pension for women increased to 62½ from 62 for women born after 1 July 1941.

3 *Submission 38*, FaCS, p. 5.

10.4 A number of parties argued in their written submissions that eligibility for the age pension represents an effective retirement age in Australia. For example, the ABA noted that the vast majority of retired Australians still receive a full or part age pension, and still regard the age at which they become entitled to it as the de-facto standard for their retirement age.⁴

10.5 Similarly, the IAA noted that there is no fixed retirement age in Australia at which an individual must retire, but that the age pension age effectively represents the age beyond which the community considers there to be no obligation to work.⁵

10.6 However, other parties downplayed the link between eligibility for the age pension and perceptions of a retirement age. For example, ASFA suggested that there is only a limited link between retirement on the one hand, the superannuation preservation age (currently 55) and entitlement to the age pension on the other. ASFA acknowledges that there is some clustering of eligible termination payments at age 55 and 65, but argued that such payments are often taken over a spread of time, and that in any event, receipt of an eligible termination payment does not necessarily equate with retirement. ASFA concluded:

Taken together, these factors and statistics suggest that a concept of a fixed retirement age does not have much continuing relevance because in practice a fixed retirement age is neither enforced or pursued in most instances.

10.7 That said, ASFA acknowledged that receipt of the age pension generally rules out all but minor attachment to the paid labour force, and that there is no evidence of significant numbers of mature age workers returning to full-time work subsequent to taking the age pension.

10.8 Similarly, SCOA suggested that the concept of a fixed retirement age is no longer relevant because successive governments have encouraged workers to plan for and contribute to their own retirement income, and because different individuals have different health and social circumstances.⁶

10.9 Finally, the ICA suggested that many Australians are choosing to work longer and have a gradual transition into retirement, and that the Australian community is fitter and healthier, leading to different expectations in retirement.

Should the age pension age in Australia be increased?

10.10 One obvious means of encouraging mature age workers to remain in the workforce is to increase the age of eligibility for the age pension beyond the current 65 years (currently 62½ years for women).

4 *Submission 41, ABA, p. 7.*

5 *Submission 47, IAA, p. 7.*

6 *Submission 12, SCOA, p. 4*

10.11 The Committee again notes the research conducted by the OECD and reported in the *OECD Economic Outlook* for 2002 entitled ‘Increasing Employment: The Role of Later Retirement’. In this paper, the OECD advocated a number of strategies for keeping mature age workers in the workforce, so as to cope better with the ageing of the population in OECD countries.

10.12 One strategy advocated by the OECD to keep mature age workers in the workforce was to increase the earliest and/or the standard age of retirement. The OECD noted that a number of countries are already moving in this direction:

- a) New Zealand has progressively increased the standard age of retirement from 60 to 65.
- b) Canada has introduced a flexible retirement age from 60-70.
- c) The US is increasing the retirement age from 65 to 67, to be phased in by 2022.
- d) Italy and Hungary have raised the standard age of retirement from 60 to 65 and 60 to 63 respectively.
- e) Japan and South Korea (where the retirement age for the state pension is 65 and 60 respectively) have increased the retirement age for flat-rate benefits from 60 to 65, and in Japan the age for the income-related pension will also be increased at a later date.
- f) Australia, Belgium, Germany, the UK, Austria, Hungary and Italy (for new age pension recipients) have increased the retirement age of women so that it will be equal to that of men (sometimes after a phasing in period).

10.13 However, the OECD also noted that Denmark has gone in the other direction by lowering the normal retirement age from 67 to 65, although conditions for early retirement have been tightened at the same time.⁷

10.14 In their written submissions to the inquiry, Professor Lowther and the IAA supported the possibility of raising the age of eligibility for the age pension beyond the current 65 (currently 62½ for women):

- Professor Lowther argued that the age for retirement should be gradually increased as life expectancy increases, to produce a more favourable dependency ratio and reduce the burden on the full-time working population, and perhaps help counter intergenerational disputes over the issue. Professor Lowther suggested that retirement itself should become a broader concept of a different stage of life free from the constraints of career and family development, and

7 OECD: ‘Increasing Employment: The Role of Later Retirement’, *OECD Economic Outlook* 72, (OECD, 2002), p. 145.

should begin with either a graded withdrawal from full-time work or a cyclical process of work, community commitments and updating of skills.⁸

- The IAA noted that improvement in levels of health and fitness of older people and increasing longevity generally may create a desire in the community for an increase in the age pension age. The IAA acknowledged that such a change has the potential to be controversial, but that it need not be if it is phased in gradually and if the need for change is explained carefully.⁹

10.15 However, the majority of parties to the inquiry from a broad cross section of backgrounds opposed any move to increase the eligibility age for the age pension:

- ASFA dismissed any notion of increasing the age of eligibility for the age pension beyond the current settings on the basis that the current eligibility ages are remarkably unsuccessful at keeping individuals in the labour force until they qualify for the age pension. Accordingly, ASFA recommended that while keeping the eligibility age for the age pension at 65, policy attention should be given to helping people stay in the labour force through flexibility of retirement age and practices.¹⁰
- The Australian Pensioners' and Superannuants' League of Queensland argued that a fixed retirement age is a protection for older employees, and that an open ended retirement age could be a recipe for exploitation. Indeed, the League advocated that eligibility for the age pension should be set at 60, thereby opening up jobs for the young, while giving a reasonable length of healthy retirement to mature age workers.
- The ACTU strongly opposed any proposal that would make it harder for workers to retire at an age chosen by them, and rejected any lifting of the preservation age for superannuation or eligibility for the age pension.¹¹ Ms Rubinstein from the ACTU indicated in the hearing on 8 May 2003 that the ACTU is also opposed to changes to Commonwealth public service superannuation that would require public servants to work longer before being able to access their benefits.¹²
- The COTA National Seniors Partnership argued that the current age limits for eligibility for the age pension should remain unchanged for two reasons:
 - Retirement planning is long-term – changing the age at which a person becomes eligible for the age pension has the potential to disrupt the planning of many people now in their 40s and 50s.

8 *Submission 4*, Professor Lowther, p. 5-6.

9 *Submission 47*, IAA, p. 8.

10 *Submission 33*, ASFA, pp. 10-12.

11 *Submission 24*, ACTU, p. 3.

12 *Committee Hansard*, 8 May 2003, p. 116.

- Some jobs are more arduous than others, and individuals may be unable to remain in or return to the workforce beyond the age of 65.
- The Association of Independent Retirees – Whyalla and Districts Branch contended that there should remain a specified age at which a person can elect to cease working, and suggested that 65 is an appropriate age. To abolish that age as a point of retirement would increase the complexity and uncertainty of retirement planning for individuals. The branch concluded:

As self-funded retirees, we would view any change in the fixed retirement age with concern. It would signal an intention to alter the age at which persons who are currently working, and saving to fund their retirement, would have access to their funds. We would not support this position.¹³

10.16 The Committee also notes the evidence of Dr Linklater from the NSW Committee on Ageing in the hearing on 5 May 2003. Dr Linklater indicated the Committee's opposition to any proposal to increase the eligibility age for the age pension, on the grounds that the focus of government should be on encouraging people who have retired early, often involuntarily, back into the labour force, rather than on encouraging those who have reached age pension age to remain in the workforce.¹⁴

13 *Submission 20*, The Association of Independent Retirees – Whyalla and Districts Branch, p. 3.

14 *Committee Hansard*, 5 May 2003, p. 82.