Priority 1: Making the retirement income system stronger

Australia has never been one to rest on its laurels.

While our retirement income system is recognised as one of the best, most experts acknowledge it is complicated and could be improved.

To make it stronger, we must help people with limited means to be more self-sufficient in later life.

Australians shouldn't be punished if they need to work. To fix this we should stop taxing government payments excessively when people work more to lift themselves out of poverty. It could be achieved by allowing pensioners to retain more of their pension if they choose to work. This could be achieved through an opt-in exemption from the income test, allowing people to simply work and pay tax.

This would provide tens, even hundreds of thousands of local workers to meet labour shortages.

The Age Pension could be made fairer in times of economic crisis, by allowing the pension to be indexed more frequently when inflation rises rapidly.

Government should allow pension payments to also be indexed in June and December when inflation rises faster than normal.

Key Recommendations
1. Exempt work income from the income test for all government payments to boost workforce participation, income and savings.
2. Index the Age Pension more frequently during times of high inflation to ensure payments adequately reflect living costs.

RECOMMENDATION 1

Exempt work income from the income test for all government payments to boost workforce participation, income and savings.

Overview

- Currently, people receiving government payments are punished if they take on paid work to improve their lives, discouraging them from working or pushing them to work in the cash economy. This reduces workforce participation and undermines government tax receipts at a time of high labour force demand and significant budget pressures.
- All government payment recipients should be able to opt-in and receive an exemption from the income test for work income by applying a tax withheld rate of 32.5c in the dollar.
- Reducing a payment by 32.5c in the dollar and treating this as tax withheld avoids the need to report earnings to Centrelink. Alternatively, the rate of 32.5c could be applied as a lower income test taper rate, requiring ongoing reporting to Centrelink.
- The policy could be applied to the whole economy or targeted at the health care and social assistance and agriculture sectors as a two year trial.

Benefits

- Addresses critical workforce shortages while also improving the income, savings, health and wellbeing of people with low incomes / wealth.

Why the policy is needed

- Worker shortages are acute in many areas of the economy – According to the ABS, there were 444,000 job vacancies in December 2022.[i]
- Current means testing policies are discouraging people from working – only 14.2% of Australians aged 65 and over work compared with 24.8% in New Zealand.[ii]
- Deloitte Access Economics estimate a 5% increase in older worker participation will result in a $47.9bn increase to GDP ($60bn in 2022).[iii]

Budget Implications

- According to Deloitte modelling our policy, when applied to pensioners, is "estimated to be [cost] neutral if 8.3% of pensioners take up the opportunity to go back to work (174,000) or work more (5,000)."
- Targeting the change to the Health Care and Social Assistance sector only "is estimated to be [cost] neutral if 8.3% of pensioners take up the opportunity to go back to work (21,000) or work more (600)."
- Further modelling would be required to estimate the cost/benefits of applying to other government payments beyond the Age Pension.

RECOMMENDATION 2
Index the Age Pension more frequently during times of high inflation to ensure payments adequately reflect living costs.

Overview

- Pensions are currently indexed twice a year in March and September to account for changes in living costs as measured by the Pensioner and Beneficiary Living Cost Index (PBLCI) and Male Total Average Weekly Earnings (MTAWE), whichever is higher.
- While the MTAWE is only indexed every 6 months, the PBLCI is updated quarterly by the Australian Bureau of Statistics (ABS).
- With wage inflation low, the PBLCI is more likely to the measure used to calculate indexation.
- Government should index pension payments in June and December when inflation is abnormally high using the PBLCI as a marker of higher inflation.
- A threshold for applying an extra indexation event should be based on analysis of what is fair by eminent experts in this field.
- Where the threshold is breached, legislation would require Government to apply an out of cycle indexation to pension payments in the corresponding quarter (June or December)

Benefits

- Allowing for additional indexation of the pension in times of abnormally high inflation will ensure that pension payments keep pace with living cost increases ensuring that pensioners have adequate income.

Why the policy is needed

- According to the PBLCI, inflation is abnormally high, see table below.
- When indexation is only applied every 6 months during periods of abnormally high inflation, this may result pension entitlements not adequately keeping pace with changing living costs.
- According to the Reserve Bank of Australia, inflationary pressures are expected to increase until the end of 2022 and will not return to the target range of 2-3% until the end of 2024.

Percentage change in the Pensioner and beneficiary LCI (PBLCI) - annual (2016 - 2022)

	% change
March 2021 - March 2022	5.0
March 2020 - March 2021	0.6
March 2019 - March 2020	2.4
March 2018 - March 2019	1.6
March 2017 - March 2018	2.3
March 2016 - March 2017	2.4
March 2015 - March 2016	1.1