Submission to the Retirement Income Review

February 2020

National Seniors Australia

Executive Summary

National Seniors welcomes the opportunity to provide this submission to the Retirement Income Review for consideration by the Panel.

National Seniors is the peak consumer organisation representing the interests of older Australians. Through our research and advocacy, we provide a voice for older Australians in ongoing policy debates relevant to older people, both now and in the future. We are mindful of the need to protect and enhance the retirement income system for current and future generations of retirees.

This report draws on existing National Seniors research, direct feedback from older Australians and analysis of a range of research reports and data sources.

Older Australians welcome reform and moves to improve the retirement income system. National Seniors believes it is in the interests of present and future generations to take this opportunity to review the retirement income system and to work together to create a system that is simpler. Older Australians would welcome moves to simplify the system if this improved adequacy, equity, sustainability and cohesion.

The retirement income system

National Seniors believes the Panel should carefully examine the design and outcomes of systems in other countries and put forward recommendations that build on and improve our own system by importing best practice where this is appropriate (e.g. New Zealand and Canada among others). There should be a focus on importing innovations that simplify the system and make it easier for retirees to attain and maintain adequate income.

Purpose of the system and role of the pillars

It is unlikely the wider community clearly understands the objective of the Australian retirement income system. A lack of financial literacy combined with system complexity are key barriers in this regard. There is significant scope to improve understanding of the retirement income system through better information and education. However, we believe that simplification of the rules (governing superannuation, the Age Pension and other aspects of the system) will ultimately assist people's capacity to understand the system. National Seniors also believes that employment income should be recognised as a fourth pillar in the system, especially for those who have not accumulated adequate savings.

The changing Australian landscape

Undoubtedly, there are some demographic challenges for Australia, which will have impacts on the future sustainability of the system. However, it should be acknowledged that Australia is better placed than many other OECD countries in terms of many of the key indicators used to understand these challenges. National Seniors believes the ageing of the population should not be used carte blanche as a means to justify measures focused solely on budget sustainability at the expense of other considerations such as equity, adequacy and certainty.

Principles for assessing the system

National Seniors supports the principles of adequacy, equity, sustainability and cohesion proposed by the Panel. However, older Australians would strongly support the inclusion of certainty as a further principle. Constant rule changes undermine confidence in the system, especially for those who have made long-standing plans within the rules and rely on uncertain markets for their income in retirement. In this regard, there is currently a lopsided approach to balancing the principles of the retirement income system with far too much emphasis on budget sustainability without considerations of unintended consequences to equity, adequacy, cohesion (and an almost complete ignorance of certainty).

Adequacy

The issue of adequacy is of great interest to older Australians. Adequacy should be understood with regards to the capacity of the retirement income system to provide income to meet the needs of older people regardless of prior circumstance. Adequacy should not be measured or defined as a proportion of pre-retirement income as is done in other OECD countries. Instead, adequacy should be measured with regards to the capacity of retirees to meet reasonable expenses. National Seniors believes detailed modelling of the income and expenses of different outcomes must be undertaken to enable a clearer picture of the adequacy of the current system and to provide evidence from which to understand the equity of the system.

Equity

Equity should be understood as individuals being treated equally with regards to the rules of the system but also in terms of outcomes achieved. However, it is also about ensuring that those who have operated in good faith within the existing rules are treated fairly if changes are made improve overall equity. In balancing the system to improve equity, it is important any future changes do not substantially undermine the retirement plans of existing retirees. Retirees should be provided with time to adjust or grandfathering should be applied where appropriate.

National Seniors also believe much more could be done to encourage work force participation to provide more equitable outcomes for those who haven't accumulated adequate private savings (e.g. lifting or eliminating pension related limits for work income as is done in other countries). The system could also do more to counter the flaws of compulsory superannuation, which replicates income inequality for those disconnected from employment (e.g. women and low-income earners) and those excluded from compulsory superannuation (e.g. self-employed).

Sustainability

The Panel should consider the degree to which the retirement income system is contributing to an increase in the number of people who are partially or fully self-sufficient as a means of reducing the cost of the Age Pension. National Seniors believes the system should encourage self-sufficiency as much as practical (e.g. by removing the perverse incentive in the current assets test taper rate). We believe confidence in the system is being undermined by complexity; instability; and unfairness. These issues need to be addressed as they are undermining a relatively good system and stoking intragenerational and intergenerational conflict.

Cohesion

National Seniors believes that complexity is the key issue undermining cohesion. The system needs to be simpler, so it is easier to understand and navigate. We believe that because the system is complicated it does not optimise savings decisions and is distorting behaviour (e.g. assets test taper rate affects upper income retirees; lack of adequate concessions and incentives affects lower income retirees; eligibility rules for pension concessions is distorting the behaviour of low-income self-funded retirees). The Panel should look at alternatives to means testing, as operates in other countries, as a means of simplifying the system (e.g. as is done in New Zealand). National Seniors would argue that most people would not be able to achieve desired outcomes in retirement without some form of financial advice. This requires adequate governance mechanisms to ensure consumer protection and confidence.

The rest of this submission includes detailed responses to each of the questions raised in the consultation paper, including options for reforms where relevant.

We wish the Panel every success in their efforts. Even if they only affect small changes, they will bring about large changes to the lives of all Australians. We believe it is possible to adjust the present system to improve the lives of present and future retirees. We can and should do better.

Contents

The retirement income system

1. Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?

Yes. National Seniors believes the Panel should carefully examine the design and outcomes of systems in other countries and put forward recommendations that build on and improve the Australian system, importing best practice where appropriate.

Not surprisingly, there is significant variation in retirement income systems around the world. The Organisation for Economic Co-operation and Development (OECD) *Pensions at a Glance* report[1] describes these systems in detail, providing an important evidence base for any comparison.

To better understand Australia's system this submission provides a brief summary of some of the key features of retirement income systems across the OECD. The submission then provides a basic comparison of three similar countries – Australia, New Zealand and Canada – to highlight differences in the way that retirement systems operate. Further information comparing the demographics and outcomes across the OECD is provided in response to Q7.

National Seniors encourages the Panel to conduct more detailed analysis and modelling to demonstrate the outcomes for different cohorts across similar systems. This analysis could include other highly regarded international systems, such as those in Denmark and the Netherlands.

Defining factors

An important factor used to distinguish between pension schemes across the OECD is eligibility. Eligibility for a pension scheme is determined by either:

- residence, or
- contributions.

Residence-based schemes

Under residence-based schemes, people who meet the minimum residence requirements are provided with access to a pension regardless of an individual's previous work history and salary.

Residence-based public pension schemes operate in Australia, Canada, Chile, Denmark, Finland, Germany, Greece, Iceland, Israel, Netherlands, New Zealand, Norway, and Sweden.

[1] Organisation for Economic Co-operation and Development (OECD) 2019 *Pensions at a Glance 2019: OECD and G20 Indicators.*

Interestingly, most of these countries are among the highest ranked retirement income systems, according to the 2019 Melbourne Mercer Global Pension Index[2].

Residence-based public pension schemes can be broken down further into basic, targeted or combinations of both.

Basic residence-based schemes

Four OECD countries - Greece, Israel, Netherlands and New Zealand - provide a residence-based basic pension, which is not means tested. This means the amount received has no bearing on a pension recipients' income or wealth. This provides a 'universal' pension to all eligible residents.

Targeted residence-based schemes

By contrast, Australia, Chile, Finland, Germany, Norway and Sweden have targeted residence-based pension schemes with some form of means testing to determine the level of pension. This is based on a retiree's income and/or the level of assets/savings held.

Basic/targeted residence-based schemes

Five OECD countries, including Canada, Denmark, Iceland, Norway and Sweden deliver a combined basic and targeted scheme. In these systems, everyone gets a basic pension if they meet the residency requirements plus a separate means-tested pension for those who have limited income. It is interesting to note that both Norway and Sweden are moving away from having a combined basic and targeted scheme to just having a targeted scheme as is done in Australia.

Comparison of residence-based schemes in Australia, New Zealand and Canada

Three OECD countries, Australia, New Zealand and Canada provide a useful comparison to illustrate some of the different approaches taken in delivering a residence-based publicly funded pension scheme.

As noted earlier, eligibility for a public pension in each of these countries does not depend on past contributions. This protects those who have been disconnected from the labour market, through either caring responsibilities or disadvantage.

> *"The non-contributory nature of the Australian system will therefore tend to favour many of the groups who are not covered in social insurance systems in other countries, including those with interrupted work histories,*

[2] Mercer 2019. Melbourne Mercer Global Pension Index. Accessed online 20 November 2019

> *secondary earners and part-time workers, migrants and people with lifetime disability"*[3]

The primary differences between these three countries relate to differences in the way each scheme attempts to limit or recoup the cost of delivering each scheme, which has differing impacts on pension entitlements and income adequacy (Table 1 below outlines the main features of each of the three systems with reference to a single retiree).

New Zealand and Canada each have a basic pension available to all who meet the residence requirements - NZ Superannuation (NZ Super) and the Old Age Security (OAS) pension. Because these are not means tested and use the tax system to recoup costs there is a greater capacity for retirees to work in retirement.

In New Zealand a pensioner can work as much as they wish without any loss of payment. Instead, the Government recoups some of the cost of delivering the pension through the tax system. In Canada, retirees can earn a relatively high income from either work or investments (up to around $75,000CAN) without impacting the pension. The Government recoups the cost of the OAS only from those with relatively high incomes.

In Australia and Canada, the Age Pension and Guaranteed Income Supplement (GIS) use means testing arrangements to limit access to the pension up front.

In Australia, a retiree can earn up to $7,800 of work-related income without affecting the pension, but after this point are penalised at a high rate of 50c in the dollar for any extra income they earn. This low threshold is likely to discourage pensioners from working more to supplement their pension, which would impact more heavily on those with limited income from savings.

The degree to which each system is effective in providing adequacy, fairness, sustainability and cohesion is a question that requires in-depth analysis by the Panel.

[3] Whiteford, P. and Heron, A. 2018. 'Dealing with non-standard work in a general revenue financed social protection system – the case of Australia' In OECD (forthcoming) (Ed.), *The Future of Social Protection: What works for non-standard workers?* OECD Publishing, Paris.

New Zealand	Australia	Canada
• New Zealand has a basic pension system • Eligibility age is 65. • Everyone receives a pension if they meet the residency requirement of 10 years. • The pension (NZ Super) provides a maximum payment of $24,721.84NZL per year for a single person living alone. *Cost recovery* • Because there is no means test, the cost of delivering the pension is recouped solely through taxation. • NZ Super is taxable – If NZ Super is primary income it is taxed at 10.5% up to $14,000 and 17.5% above $14,000; If NZ Super is secondary income it is taxed 17.5% up to $48,000, 30% between $48,001 and 33% if more than $70,000.[4] • There are no specific seniors tax concession applied. • A single person living alone would receive a pension of $21,379.80NZL per year and pay tax of $3,342.04 per year.	• Australia has a targeted pension system. • Eligibility age is 66 moving to 67 by 2023. • Everyone is eligible if they meet the residence requirement of 10 years. • The pension provides a maximum payment for a single person of $24,268.40AUS per year[5]. *Cost Recovery* • Means testing reduces the pension based on income and assets. • For a single person, the fortnightly pension is withdrawn at a rate of 50c in the dollar when income is greater than $4,524AUS and by $3.00 per $1,000 of assets above $263,250AUS for a home-owner. • In Australia, the $18,200AUS tax-free threshold, combined with the low-income tax offset of $445AUS and the senior Australian and pensioner tax offset (SAPTO) of $2,230AUS can mean a retiree pays limited tax.	• Canada has a combined basic/targeted pension system. • Eligibility age is 65 but recipients can defer their pension and receive a higher payment, up to a maximum of 36% at age 70. • Old Age Security (OAS) pension provides a *basic* pension to all who meet the minimum residency requirement of 10 years. Currently, the maximum payment is $7,362CAN regardless of marital status[6]. • Guaranteed Income Supplement (GIS) provides an additional *targeted* pension for those with limited incomes. Currently, a single, widowed or divorced pensioner receive a maximum supplement of $10,996CAN. *Cost recovery* • The cost of the OAS is 'recovered' through the tax system. An OAS pension recovery tax, set at 15 per cent, applies to any income above the threshold, which is currently $75,910CAN (2018). Above $123,058 the cost of the pension is fully recovered[7]. • The GIS is tapered until annual income is more than $18,600CAN, at which point the supplement ceases[8]. • A Pension Income Tax Credit applies for those aged 55 or older to the value of $2,000CAN or an individual's pension income (whichever is less)[9].

Table 1: Main features of the New Zealand, Australian and Canadian pension schemes

[4] NZ Government 2020. 'Tax rates for individuals'. Accessed online 14 January 2020.
[5] Australian Government Services Australia 2020. 'How much can you get'. Accessed online 14 January 2020.
[6] Government of Canada 2020a. 'Old Age Security payment amounts'. Accessed online 14 January 2020.
[7] Government of Canada 2020b. 'Old Age Security pension recovery tax' Accessed online 14 January 2020.
[8] Government of Canada 2020a. *Ibid*.
[9] National Association of Federal Retirees 2020. 'The Pension Income Tax Credit' Accessed online 14 January 2020.

Contribution-based schemes

Contribution-based pension schemes determine retirement income based on prior earnings. Most OECD countries rely on contributory schemes tied to employment to provide for income in retirement either in a public pension scheme or a private pension scheme. Contribution-based schemes operate instead of a residence-based scheme, or as a complement to a residence-based scheme.

All OECD countries, except New Zealand, have some type of mandatory contribution-based scheme.

Many OECD countries (but not Australia) operate pension schemes that are essentially contributory social insurance systems[10].

Austria, Belgium, Czech Republic, Estonia, France, Hungary, Ireland, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Poland, Portugal, Slovak Republic, Slovenia, Spain, Switzerland, Turkey, United Kingdom and the United States do not have a residence-based pension scheme and rely on mandatory contributory schemes.

By contrast, Australia, along with Canada Chile, Denmark, Finland, Germany, Greece, Iceland, Israel, Netherlands, Norway and Sweden complement their residence-based pension with some type of contributions-based scheme.

Australia's Superannuation Guarantee compliments the public pension safety net to increase retirement income and replace it for those with adequate means, encouraging self-reliance. The Australian system provides a means to ensure private contributions are made to individual savings to increase retirement incomes and offset the cost of the public pension. Unlike many other contributory schemes in the OECD, payments are made to individual superannuation accounts rather than into pension plans.

Contribution schemes that are solely earnings-based will likely exacerbate inherent socio-economic inequalities in retirement because those unable to earn enough income will have equally insufficient savings. This is especially problematic when there is no universal public pension available to provide a safety net in retirement or if the public pension is inadequate as a safety net.

Defined benefit versus defined contribution

Contribution-based schemes can be either defined benefit or defined contribution and differ in terms of the way they are funded.

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[10] Royal Commission into Aged Care Quality and Safety 2019. Aged Care Program Redesign: Services for the future. Consultation Paper 1, 6 December 2019

Australia, Chile, Denmark, Estonia, Israel, Italy, Latvia Mexico, Norway, Poland and Sweden have some form of mandatory defined contribution scheme.

A significant trend in many countries has been moves to switch from *defined benefit* arrangements to *defined contribution* programs. This has placed more responsibility on the individual in the management of retirement income.

Public service based defined benefit pension schemes, for example, including those for politicians have largely closed to new entrants in Australia to reduce the risk and cost to government and to reflect public opinion about the generosity of these schemes.[11]

Comparison of contribution schemes in Australia, New Zealand and Canada

There is significant variation in contribution-based pension schemes across these three countries, from a voluntary private pension scheme in New Zealand, a compulsory private pension scheme in Australia, and a public pension plan in Canada. Each of these are tied to contributions made through employment but have differing concessions and incentives attached to encourage saving. Each of these schemes are in addition to the above-mentioned residence-based pension schemes.

New Zealand

New Zealand has a voluntary contributory scheme called KiwiSaver, in which individual employees nominate to contribute either 3%, 4%, 6%, 8% or 10% into a private savings account which is locked until the age of 65. Under the scheme an individual receives an annual government contribution of 50 cents for every dollar of a member's contribution up to a maximum of $521.43NZL. A compulsory employer contribution of 3% of pay also applies, which is taxed at the marginal rate. After 3 years of contributions to KiwiSaver, a grant is available for first home buyers of $1,000NZL each year of membership for existing homes (up to a maximum of $10,000NZL) and $2,000NZL per year of membership for new homes (up to a maximum of $20,000NZL). An early withdrawal can be made if you are:

- buying your first home
- moving overseas permanently
- suffering significant financial hardship
- seriously ill.

Australia

Australia has a mandatory scheme called the Superannuation Guarantee in which employers contribute a minimum of 9.5% (increasing to 12%) into an employee's private

[11] Whiteford and Heron 2018 *Op cit.*

superannuation account. Compulsory superannuation is not paid for those earning less than $450AUS per month or for those who are self-employed. Superannuation is taxed at a concessional rate of 15% for those on incomes up to $250,000AUS and 30% for contributions above this. The Low Income Tax Offset (LISTO) provides a rebate of $500AUS on concessional superannuation contributions for those on incomes less than $37,001AUS. Superannuation can be accessed from the age of 60 and there is no requirement to use the money from superannuation to provide a regular pension payment. Superannuation earnings are taxed at 15% in the accumulation phase but are not taxed when withdrawn after the age of 60. Superannuation withdrawals are only allowed before the preservation age of 60 in certain circumstances, such as

- incapacity,
- severe financial hardship,
- compassionate grounds or
- due to a terminal illness

Canada

The Canada Pension (CPP) is a mandatory contribution-based pension scheme in which employees and employers co-contribute to provide access to a public pension in retirement. The CPP provides a regular monthly pension payment for life. Under the scheme, contributors receive a pension from 65 years of age. However, there is an opportunity to start the pension from 60 and receive a smaller monthly payment or defer payment to 70 and receive a higher monthly payment. Every person must contribute if they receive more than the minimum of $3,500CAN in income per year, including those who are self-employed. The current contribution rate is set at 10.5% split equally between the employer and the employee up to a maximum of $5,496CAN per year. The CPP has provision to increase the CPP benefit for those with periods of low or no salary or with broken work patterns. This includes provisions to boost the pension of primary caregivers with children under the age of 7 and for those working and contributing over the age of 65[12].

[12] Government of Canada 2020c. 'CPP retirement pension: Overview'. Accessed online 14 January 2020.

Purpose of the system and role of the pillars

2. Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?

No. National Seniors believes it is unlikely the wider community clearly understands the objective of the Australian retirement income system.

We believe the community would not fully understand what is meant by the term ‘retirement income system’ in the first instance as the system is complex and confusing. The definition of a system is a set of things working together as parts of a mechanism or an interconnecting network. Most people would unlikely have a clear conception of the retirement income system as a coherent whole or would agree on what the essential parts of the system are, despite attempts to set this out in the discussion paper.

It is likely the objective outlined in the discussion paper does not assist the community to understand what the retirement income system is without clearer explanation.

For example, the objective “generating income to support consumption in retirement” is likely problematic without clearer understanding of what adequate means. This is because the term consumption is subjective and open to interpretation. It says nothing about the level of consumption required to lead an adequate retirement and leaves open the idea of what is adequate and fair to interpretation.

The problem this poses is that the definition does not adequately constrain the system. This is problematic because it leaves open the idea that elements of the system, e.g. tax concessions, should be unconstrained.

National Seniors regularly receives correspondence from older Australians concerned about superannuation rules, in some instances there are unrealistic expectations about what it can and cannot deliver, which can be traced back to a failure to clearly define the objective of superannuation. This leads some people to perceive incentives, such as concessions, as entitlements even when they deliver benefits above and beyond what is adequate to fund retirement.

In this regard, the objective outlined in the discussion paper fails to constrain expectations.

There is likely to be a level of consensus among the community that having adequate income to support one’s needs is an important goal in retirement, however without a clear community understanding about what is adequate it will be impossible to gain consensus.

It is no surprise that National Seniors research consistently shows concern with the adequacy and sustainability of retirement income among older Australians[13].

The move to shift risk on to individuals to manage adequacy (through superannuation) combined with the uncertainty of the system to provide stable and consistent returns will likely mean that individuals will view the system as being about maximising income as opposed to providing adequacy.

This can be seen clearly in the fact that the most recent National Seniors survey of older Australians showed that those on defined benefit schemes report greater peace of mind and security[14].

It can also be seen in the feedback National Seniors receive from older Australian's who complain that declining returns on the market expose them to lower returns and because of this, they need to maximise their savings.

The system, as it is defined in the discussion paper, is also inconsistent with the objective because it leaves out vital elements of the system – elements that everyday people would expect to considered part of the system.

For example, if the primary objective or purpose of the retirement income system is to "generate income to support consumption in retirement", then considerations of the role of work (both pre and post retirement age) should be included as part of the retirement income system.

As the International Actuaries Association has argued the fourth pillar to any retirement income system is *participation in work*[15], however workforce issues have been defined as beyond the scope of this review.

It is also ironic that employment participation is used as a measure of the sustainability of retirement income systems and employment income as determining the adequacy of superannuation, yet employment is not seen as a part of system or the review.

National Seniors regularly receives correspondence from older Australians who are unable to secure work in the 50s and early 60s and contribute to their retirement income or from people in their late 60s and 70s who continue to work because it is necessary to

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[13] McCallum, J., Hosking, D. and Rahn, A. 2019. *Feeling financially comfortable? What retirees say*. Brisbane: National Seniors Australia

[14] McCallum *et al* 2019 *Ibid*.

[15] International Actuarial Association (IAA) 2019. *Interaction Between Pension and Housing*. Population Working Group, February 2019.

supplement their retirement income. These people would see employment as a critical part of the retirement income system, but the review does not.

National Seniors believes there is a clear need for greater education about the retirement income system and specifically about the objective of the retirement income system. However, there is a need to more clearly articulate what the retirement income system is and is not before this can be done.

3. In what areas of the retirement income system is there a need to improve understanding of its operation?

National Seniors believes there is significant scope to improve understanding of the retirement income system.

Not surprisingly, and understandably, most people do not engage with the retirement income system when they are young (e.g. Age Pension and superannuation) and only become concerned when approaching retirement.

National Seniors is acutely aware of the limited understanding of the retirement income system. With the demise of the federal government's National Information Centre on Retirement Investments Inc (NICRI) service, National Seniors began offering our members access to information about the retirement income system through our Financial Information Desk (FID). Feedback from FID staff indicate a significant lack of basic understanding about the retirement income system. FID was hugely popular with our members because it enabled them to talk through the basics and get a clearer understanding of the system in a way that was meaningful. Unfortunately, National Seniors is not able to continue to offer this service in its previous form, much to the detriment of older Australians.

National Seniors believes there are many areas where there is a need to improve understanding of the retirement income system.

Superannuation

It has been argued the compulsory nature of superannuation acts to withdraw a level of concern for and engagement with the process of saving for retirement. Younger people are particularly disengaged from superannuation, with retirement seen as a distant concern[16].

This is evident in the number of people with multiple superannuation accounts.

Data from 30 June 2018 shows the proportion of people with multiple accounts (2 or more) increases with age until 41 – 50, where it reaches a high of 44 per cent. Even at age 66 and over, the proportion of people with multiple accounts is 18 per cent, a time when most people would be drawing down on their savings. Despite the fact that multiple accounts come with duplication of fees and charges it is worrying that so many people hold multiple accounts. It highlights the disengagement of many people from superannuation as one of

[16] Colmar Brunton Social Research 2010. *Understanding Superannuation Preliminary Report: Qualitative Investigation with Employers, Consumers & Industry*. Prepared for Australian Taxation Office, 25 March 2010

the prime vehicles for delivering income adequacy in retirement and indicates a need to increase education about superannuation.

Age	1 account	2 accounts	3 or more accounts
18 and under	94%	5%	1%
19 to 25	71%	22%	7%
26 to 30	66%	23%	11%
31 to 35	64%	23%	13%
36 to 40	60%	24%	16%
41 to 45	56%	26%	18%
46 to 50	56%	26%	18%
51 to 55	57%	27%	16%
56 to 60	61%	26%	13%
61 to 65	67%	23%	10%
66 or more	82%	14%	4%
Unknown	94%	5%	1%

Table 2: Proportion holding superannuation accounts by age, 30 June 2018
Source: ATO 2020[17]

		Gender		Personal Income (per annum)			
	Total	Male	Female	<$20,000	$20,000-$39,999	$40,000-$59,999	$60,000+
Like the age pension, but bought from an insurance company	28.6	34.0	23.7	26.0	22.1	28.8	37.4
A safe investment like a bank deposit	12.0	9.7	14.1	11.4	16.3	11.4	10.2
An insurance policy that protects you if you live longer than average	9.8	11.8	7.9	10.1	11.5	8.4	9.6
An investment that goes up and down with the share market	9.4	11.2	7.6	7.3	12.0	10.6	7.0
None of the above	13.0	13.4	12.6	16.9	12.6	11.5	12.0
Can't say	27.3	19.9	34.2	28.4	25.6	29.3	23.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 3: What respondent thinks best describes an annuity (% of all), by gender and personal income Source: National Seniors[18]

[17] Australian Tax Office (ATO) 2020. 'Super data: multiple accounts, lost and unclaimed super' Accessed online 2 January 2020.
[18] National Seniors Australia and Challenger 2015. *Outlook for Australian seniors' retirement plans? Mostly sunny, with possible late rain*. August 2015

It is also evident in the lack of understanding about basic superannuation concepts.

For example, research conducted by National Seniors found that 27 per cent of survey respondents could not say what the fundamental features of an annuity were.[19]

A related issue is the complexity of superannuation. It has been argued the superannuation system is far too complex for the time and effort required to understand the rules. Constant rule changes appear to undermine trust in the system adding to complexity and confusion[20].

Another issue is clarity about the reasons for specific superannuation rules.

National Seniors regularly receives correspondence from older Australians complaining about parts of the superannuation system they perceive as unfair and unjust. While much of these criticisms are valid, there are times when rules legitimately designed to create fairness or sustainability are perceived otherwise by older Australians.

An example of this is superannuation draw down rules.

While National Seniors regularly receives correspondence from older Australians concerned about draw down rules (because they are perceived as forcing older Australians to undermine the sustainability of their retirement income), what is often not made clear is the intention of the drawdown rules. For example, at no point on either the Australian Tax Office (ATO)[21] or the Australian Securities and Investment Commission (ASIC) MoneySmart[22] website's does it refer to the reasons why drawdown rules exist.

This goes back to the issue of explaining the purpose of the retirement income system and the purpose of superannuation as part of the second pillar.

Age Pension

There are two specific areas relating to the Age Pension, which should be addressed to facilitate better understanding: **adequacy** and **complexity**.

Adequacy

Older Australians regularly tell National Seniors they are worried about the future adequacy and sustainability of the Age Pension.

[19] National Seniors Australia and Challenger 2015. *Op cit*.
[20] Colmar Brunton Social Research 2020 *Op cit*.
[21] ATO 2020 'Minimum annual payments for super income streams' Accessed online 2 January 2020
[22] ASIC MoneySmart 2020. 'Account-based pensions' Accessed online 2 January 2020.

Many are concerned the Age Pension will not provide enough in retirement. Worse, there is a deep-seated fear the Age Pension will be abolished in the future[23]. Public discussions of the "ageing crises" feeds into this fear. People see these discussions as a stalking horse for future cuts to the pension or pension entitlements.

National Seniors receives regular correspondence from older Australians concerned that government will seek to reduce or remove the Age Pension and pension supplements and concessions in the future.

Poorly thought out proposals to cut pension entitlements act as evidence to support these fears. For example, the proposal to change indexation of the pension in the 2014 Budget, which was based on claims made in the intergenerational report, only served to consolidate the view the pension was under threat.

Added to this, older Australian's view government's refusal to relinquish control over the process used to determine pension adequacy, e.g. by rejecting calls for an Independent Pension Tribunal, as further evidence to support these fears.

Establishing an Independent Pension Tribunal to set the pension and supplementary payment rates according to need, as is done for government pay and entitlements, would reassure older Australians.

National Seniors believes that government should do more to reassure the public as this would diminishing fears and increase confidence in the system.

Complexity

National Seniors also regularly sees evidence of the difficulties people have in understanding pension rules. This is partly because the rules are too complicated.

For example, rules around the Age Pension means test are complicated, confusing and poorly explained by government.

Recent debate about deeming rates has highlighted the lack of understanding about the means test rules. During this time, National Seniors was contacted by a member who, despite having worked as an accountant before retirement had misunderstood the rules around deeming. After contacting Centrelink to query why he did not receive an increase in his pension from changes to deeming rates, he was left angered because no one had sought to explain the basic rules. It was only after speaking to National Seniors that he learnt that

[23] Colmar Brunton Social Research 2020 *Op cit*.

his pension amount was likely determined by the assets test (and not the income test), which was why the change in the deeming rate did not affect his payment. On the back of this query, National Seniors has attempted to produce communications to clarify this for other older people but lack the resources to do this more systemically.

However, we would argue that much of this confusion could be averted by simplifying the system and rules. For example, by simplifying means testing arrangements.

National Seniors believes that more needs to be done by government to reduce the complexity of the rules and to ensure the rules are easy to understand and that Centrelink staff are properly trained to explain the rules clearly.

4. What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes?

Role of the Government

To set simple and clear pension, superannuation and other tax and transfer rules and regulations, which:

- encourage greater self-sufficiency in retirement;

  Pension and superannuation rules currently do not encourage greater self-sufficiency and should be reformed.

  - The current assets test taper rate is too high. Its current setting discourages people from saving more for their retirement, because they are likely to receive less income at higher savings levels.
  - Similarly, eligibility rules for the Pensioner Concession Card provides an incentive for retirees to spend savings to become eligible and receive valued concessions (ineligibility for pensioner concessions among low-income self-funded retirees is significant bone of contention).
  - High deeming rates penalise those unable or afraid to invest in more riskier investments outside of term deposits (older retirees have not or cannot contribute to superannuation).
  - Superannuation concessions are poorly targeted disproportionately benefitting high income earners who have the capacity to save for their retirement.
  - The Superannuation Guarantee does not cover the self-employed. Rising levels of contracting will create a situation where superannuation coverage will be diminished in the future.
  - The Superannuation Guarantee threshold of $450 per month reduces the capacity of low paid or limited hours workers to improve income adequacy in retirement (particularly women).
  - Women are significantly impacted by broken work histories as a result of taking on a majority of caring responsibilities. This diminishes their capacity to accumulate superannuation.
  - The disjointed system of pension related concessions Australia-wide create a system in which retirees in the same circumstance are treated differently depending on where they live.

- set rules that reduce uncertainty and confusion in decision making about retirement;
- provide governance and compliance systems, which are simple and effective;

  For example:

- Tax system needs to be easy to understand and use and not require significant cost to ensure older people are compliant
- Centrelink, as the primary interface between citizens and government, should provide clear and consistent information to older Australians about rules and obligations and have systems and processes that are easy to use, fair and just.

> *"I do part time casual work (at 79) and have a fight with Centrelink about work bonus and mobility allowance every so often. Their compliance program is close to harassment. They expect a response from me in about 10 days but take months to respond themselves."*[24]

- ensure financial products and providers (advisors) put the interests of consumers first; and
- provide avenues for legal recourse when providers of financial services do not act in the best interests of consumers.

Role of the private sector

To assist people to achieve the best results in retirement by:

- understanding and obeying the rules;
- acting in the best interests of clients;
- delivering investment products suited to individual needs and goals; and
- encouraging and supporting consumers to maximise self-sufficiency in retirement.

Role of individuals

- to attain a basic understanding the objective and purpose of the retirement income system, and to make decisions about retirement within the rules.

[24] Feedback from older Australian, 3 January 2020.

5. The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom?

Contrary to the discussion paper, National Seniors believes there are four pillars of the Australian retirement income system.

- Pillar 1: A state-funded universal pension;
- Pillar 2: Mandatory savings tied to employment;
- Pillar 3: Voluntary savings and investments, including the home; and
- Pillar 4: Work related income in retirement.

Pillar 1: A state-funded universal pension

The Age Pension is the foundation and safety net of the retirement income system.

It should continue to provide all older Australians (who meet the basic residence requirements) with a basic income regardless of capacity to contribute.

The pension should be set so it provides the minimum income required to live in retirement free of poverty regardless of circumstance.

The pension should continue to be targeted so those that can afford to fund their retirement are encouraged to do so. Unfortunately, the current assets test taper rate is set too high and may discourage this behaviour.

However, as shown in the response to Question 1, there are alternatives to means testing that should be considered. Ideally, pension rules should be simplified to reduce complexity, the compliance burden on retirees and the cost of administering entitlements. This could be achieved by simplifying the means testing regime or by replacing means testing with tax measures, as is done in Canada and New Zealand.

In setting the pension, consideration should be given to the way that supplementary payments, benefits and concessions interact. This includes the full range of local, state and federal concessions and payments. There is a need to understand the outcomes for different retirees based on their circumstances to demonstrate that the system is equitable.

Ultimately, no one should be worse off overall, especially if they have done the right thing and saved to partially or fully self-fund their retirement.

Correspondence from low-income self-funded retirees to National Seniors highlights a concern that the retirement income system penalises those who are marginally self-funded. Retirees in this situation feel they are unfairly penalised for being self-funded because they do not have access to a range of concessions offered to part-pensioners, even though the difference in wealth and income is marginal.

National Seniors understands that seniors value access to concessions and have been known to restructure their affairs to ensure they gain access to the Pensioner Concession Card to gain access to these concessions.

We also hear anecdotal evidence that financial advisors encourage potential retirees to restructure their finances (including spending money on travel and investing in the family home) as they reach retirement to ensure eligibility for the Age Pension and associated benefits.

Pillar 2: Mandatory savings tied to employment

National Seniors believes compulsory superannuation is an integral part of the Australian retirement income system and needs to be strengthened.

Mechanisms to compel superannuation contributions are essential to the future sustainability of the retirement income system. By increasing wealth and income in retirement, mandatory savings will improve the health and wellbeing of retirees. Mandatory savings will also increase the likelihood of individuals being able to partially or fully fund their own retirement, reducing the cost of delivering the pension and other age-related payments.

Compulsory superannuation is critical to boosting savings and income in retirement. It is unlikely that workers, especially those in low-paid jobs, would be able to contribute to superannuation unless it was compulsory for employers to contribute.

Unfortunately, the system does not work for all Australians, benefitting those with strong workforce participation and earning capacity. There are glaring inequities in the current system because it is closely tied to earnings capacity and workforce engagement. This results in a system that exacerbates income inequality in retirement.

- Individuals with career histories dominated by low-paid or part-time/casual work will not accumulate adequate superannuation over their lifetime.
- Self-employed/contractors are not covered by the Superannuation Guarantee and are at risk of having limited savings and income unless they make voluntary contributions.
- Women are more likely to have lower contributions over a lifetime being more heavily affected by broken work patterns due to caring responsibilities (children, people with disability and the elderly) and higher incidence of low paid or part-time work.

Recent criticisms of the impact of increasing the Superannuation Guarantee beyond 9.5% should be put into context. Australia's compulsory rate of 9.5% has an effective rate much lower than most other OECD countries (see Q7 for more detail).

There is a need to better target and broaden compulsory superannuation to ensure better coverage.

This should include targeting of concessions to increase contributions for low-income workers and workers with broken work histories.

National Seniors put forward options for reform to assist women to improve their retirement incomes as part of the Inquiry into Economic Security for Women in Retirement in 2015. This included recommendations for joint superannuation accounts and superannuation contributions during care leave, which drew heavily on international evidence of what worked[25]. Other options to improve coverage for low-income workers more generally include the abolition of the $450 monthly threshold.

Reforms to improve superannuation coverage include extending compulsory superannuation to the self-employed as is the case in other countries. In Canada, self-employed workers are required to contribute to the Canada Pension Plan the same as other workers[26].

Pillar 3: Voluntary savings and investments, including the home

National Seniors believes voluntary savings and investments, including the family home are an important part of the retirement income system.

Voluntary savings and investments have the capacity to increase a retiree's wellbeing beyond what they can accumulate through compulsory superannuation. Most importantly, it encourages greater self-reliance among those able to make voluntary contributions and reduces the cost of delivering the pension and other social supports in the future to those who can afford to do so.

Under the current system voluntary savings and investments have been encouraged through the tax and transfer system. Superannuation tax concessions and other tax concessions (e.g. negative gearing) encourage individuals to accumulate wealth that can be used to generate income without the need for ongoing participation in the workforce.

[25] National Seniors Australia 2015. Submission to the Inquiry into Economic Security for Women in Retirement. October 2015.

[26] Government of Canada 2020d. 'Contributions to the Canada Pension Plan'. Accessed online 14 January 2020.

This is particularly important as people get older and find engagement in the workforce increasingly difficult to maintain.

As National Seniors research has shown, the impact of chronic health conditions reduces the chance of a person being employed between the ages of 65 and 74. Those who don't have a chronic health condition are almost twice as likely to be employed than those with a chronic health condition between the ages of 65 and 74.[27]

While the discussion paper claims that voluntary savings allow individuals to choose how much they save, it is important to remember many cannot make voluntary contributions.

Recent National Seniors research found that one-third of survey respondents aged 50 and over claimed that saving more for their retirement was not an option for them. Not surprisingly, those aged 80 and over said saving more for retirement was not an option, higher than for those in younger cohorts. Similarly, a greater proportion of women felt they didn't have an option to save more for their retirement.[28]

While the discussion paper notes voluntary savings are crucial to the retirement incomes of those not covered by compulsory superannuation, there are legitimate questions about the capacity of those outside of compulsory superannuation to contribute through voluntary savings.

With an estimated one in six workers who are self-employed in Australia, there are legitimate concerns about the capacity of these individuals to make voluntary contributions to superannuation or to other investments. Despite the presence of tax advantages, self-employed are regarded as being less likely to make voluntary contributions to superannuation, primarily because they invest in their business[29].

The structure of tax concessions also determines who is most likely to make voluntary contributions to superannuation. Because voluntary contributions to superannuation are taxed at a marginal rate of 15 per cent (up to $250,000), those on higher marginal tax rates will find this to be more advantageous[30].

There is clearly a need to examine the effectiveness of tax concessions to ensure they do not unfairly disadvantage or advantage one group over another. However, in reviewing these concessions, care should be taken to ensure concessions which encourage greater self-sufficiency in retirement and system sustainability are not removed.

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[27] Schofield, D., Callander, E., Kelly, S. and Shrestha, R. 2014. Working beyond 65 – what's realistic? The influence of health on longer working lives. Melbourne: National Seniors Productive Ageing Centre.

[28] McCallum *et al* 2019

[29] Whiteford and Heron 2018 *Op cit*.

[30] Whiteford and Heron 2018 *Op cit*.

The family home

The ability to own a home in retirement is crucial in reducing poverty and maintaining an adequate income. It reduces the ongoing cost of maintaining shelter and in doing so, increases disposable income to meet other needs in retirement. It also provides flexibility and financial options in later life, which would not be available if a retiree did not own their own home.

For example, home ownership provides access to capital which can be used to generate funds or supplement income to help manage the challenges of ageing (e.g. through reverse mortgage products or the Pension Loan Scheme).

National Seniors research has shown that older people see owning a home as providing them with access to funds that can be used to as a solution to fund aged care.

> *"We know we will need about $500k to go into aged care and we are currently getting some advice on how to do that. If one of us still lived in the home, we wouldn't sell it if one needed somewhere to live. We may look at a reverse mortgage to pay the bond or cash in some super. I don't know which. If both of us went into aged care, yes we would sell the house" (male, retired 13 years)."*[31]

Home ownership also provides a greater "sense" of financial security, which is important for wellbeing. National Seniors research has shown that those with greater wealth in their family home are less likely to be worried about out living their savings. 62.0% of those with home value up to $250,000 were worried about outlining their savings compared to only 44.4% of those with home values of $1 – 2 million.[32]

> *"I'm fairly comfortable. Probably because I own my home, and don't have a mortgage, I have got private house insurance and health insurance, at the moment I can afford it and the house rates. I can't honestly say I am feeling the pinch, I do watch what I spend but you have to be sensible...I think I'm doing pretty alright" (female, retired 33 years)."*[33]

However, there is growing concern home ownership rates among retirees will decline in the future. For example, analysis conducted by the Grattan Institute has estimated that:

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[31] McCallum *et al* 2019, *Op cit*.
[32] McCallum *et al* 2019, *Op cit*.
[33] McCallum *et al* 2019, *Op cit*.

> *"the share of over-65s who own their home will fall from 76 per cent today to 74 per cent in 2026, 70 per cent by 2036, 64 per cent by 2046, and 57 per cent by 2056"[34].*

Ensuring that home ownership remains a part of the retirement income system will help older Australians to feel more secure in retirement.

Pillar 4: Work related income in retirement

National Seniors believes there is a fourth (neglected) pillar in the retirement income system – income from work[35].

If the primary purpose of the retirement income system is to generate income to support consumption in retirement, work related income must be one of the pillars of the retirement income system.

With the compulsory superannuation system still in its infancy and with limited coverage of compulsory superannuation some, if not many, older Australians will be required to continue to work in the years immediately preceding and after the pension eligibility age to ensure they can adequately support consumption.

This will be especially important for those who have not accumulated sufficient wealth throughout their working life, such as those with careers histories dominated by work attracting low-income and with broken work patterns and those with chronic health conditions.

Evidence from National Seniors research suggests that people with a chronic health condition are more likely to continue working beyond retirement age and may be doing so for financial reasons. According to this research older people with a chronic health condition may have to continue to work to meet the extra costs of their illness.[36]

Options to assist those with low levels of wealth to augment the Age Pension are needed to ensure that those who work in retirement are supported to do so. For example, recent changes to the Work Bonus scheme to increase the amount of employment income that can be earnt without affecting the pension were welcomed by National Seniors. However, we believe these measures have not gone far enough because they continue to penalise those

[34] Grattan Blog 2019. 'How we project future trends in home ownership' Accessed online 10 December 2019.
[35] IAA 2019 *Op cit.*
[36] Schofield *et al* 2015. *Op cit*.

who need to work in retirement to maintain an adequate income and over complicate the system.

There is a need to examine the effectiveness of other mature age worker programs. For example, a recent news article reported that 26,600 employers have entered 44,647 agreements under the Restart Wage Subsidy program since 2014, which provides a $10,000 incentive payment to employers who hire disadvantaged workers aged 50 and over[37]. This program, which is targeted at long-term unemployed, is likely to have impacts on those who have not accumulated adequate superannuation so should be considered as being part of the retirement income system.

Reforms to encourage workforce participation beyond the pension eligibility age should also be investigated. National Seniors urges the Panel to analyse the tax and transfer systems of countries with high workforce participation among older people, such as New Zealand, to see if there are opportunities to improve workforce participation among older people in Australia.

[37] Anna Patty 2020. 'Jobs must be redesigned to suit older workers' in *The Sydney Morning Herald.* 5 January 2020.

6. What are the trade-offs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?

National Seniors believes Australia generally has a good balance between the pillars, but this could always be improved.

The existence of a public pension that is not dependent on specific work history provides both a safety net and foundation from which compulsory savings, voluntary savings and work can be used to build adequate retirement income to support consumption.

There is a need to assess the interplay between the pension as a safety net and private savings as a supplement to ensure a balance between adequacy, equity and sustainability. A clear example of the current failure to balance adequacy and equity with sustainability is the current approach to targeting through the assets test taper rate. This is partly is due to the overly complicated way means testing is applied in Australia.

There is a need to refine and revise Age Pension means testing arrangements to reduce complexity and ensure that people are encouraged to save more for their retirement. Options for reform include using the tax system as an alternative to means testing, as is done in other countries, such as Canada and New Zealand (see Q1 for more detail).

Reducing the complexity of means testing arrangements should be a priority as this will create less confusion and greater certainty for retirees.

Balancing the pillars of the retirement income system using the principles of adequacy, equity and sustainability as guidance will ensure that all retirees are able to have an adequate income but will ensure that those who could self-fund will be encouraged to do so. However, National Seniors maintains that retirees want certainty and less change, so any moves to simplify the system must achieve minimal impacts or be grandfathered in certain situations.

The changing Australian landscape

7. Demographic, labour market, and home ownership trends affect the operation of the retirement income system now and into the future. What are the main impacts of these trends? To what extent is the system responsive to these trends? Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?

Evidence suggests Australia is quite fortunate compared to other OECD countries with regards to demographic, labour market and home ownership trends (see Box 1 below). However, there is still some cause for concern in terms of the impact of these trends on adequacy, fairness, and sustainability of the system in the future.

Demographic trends

National Seniors believes demographic variables need to be put into context and not analysed in isolation. Talk of an “ageing crises” and of ageing as an “economic time bomb” with reference to isolated variables undermines the complexity of the retirement income system.

While variables such as life expectancy, fertility and immigration are important markers, separating these from other parts of the economy creates a false sense of doom that is misguided.

Measures such as life expectancy and fertility rates alone do not adequately explain whether the retirement income system is sustainable because it focuses attention solely on government expenditure and neglects other principles of adequacy, equity and certainty. It also neglects intangibles such as the contribution of older Australians to the informal economy, which ultimately impacts on the formal economy.

While Australia’s increasing life expectancy and declining fertility rates have the potential to reduce tax revenue and increase ageing related costs, such as the pension, aged care and health services, these variables should not be viewed independently. They must also be put into context with other variables, such as immigration, productivity, wealth, informal care and volunteering.

A more comprehensive model is required to understand this interplay.

Australia’s demographic outlook is much more favourable compared to other OECD countries.

While the old-age to working age ratio in Australia (the number of people aged 65 and over for every 100 persons of working age) is predicted to increase from 27.7 in 2020 to 41.6 in

2050, this will be much lower than the OECD average of 53.4 in 2050. This has been attributed, in part, to high levels of immigration of young adults, which is blunting some of the impacts of increasing life expectancy and declining fertility in Australia[38].

Added to this, is the growing wealth of older Australians. The wealth of older Australians is predicted to increase over time and a greater proportion of retirees will be self-funded in the future.

According to estimates from actuary group Rice Warner (see Figure 1 below), the proportion of retirees who are self-funded will increase, as will the proportion who are part-pensioners, leaving a lower proportion receiving the full pension. According to this modelling only 56.6% of the eligible population will receive any Age Pension by 2038, with 29.1% on the full rate pension and 27.5% receiving a part rate pension.[39]

This trend would suggest the system is working to increase self-reliance over time and to limit reliance on the Age Pension.

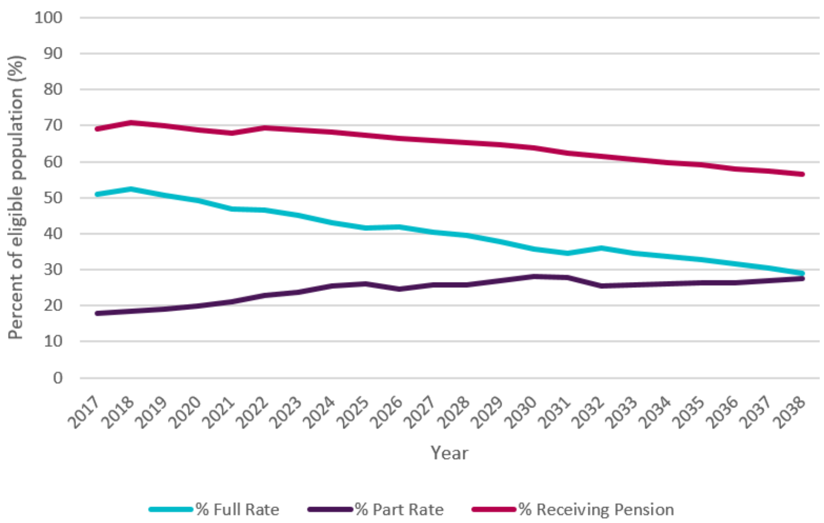

Figure 1: Projected proportion of the eligible population receiving the Age Pension, by rate of Age Pension. Source: Rice Warner 2018[40]

This is supported by evidence from National Seniors surveys of older Australians.

A recent research report from National Seniors shows the expected value of savings in retirement from a sample of 4,861 respondents. It found that of older Australians able to

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[38] OECD 2017. *Pensions at a Glance: How does Australia compare?* 5 December 2017.
[39] Rice Warner 2018. The Age Pension in the 21st Century. 23 May 2018.
[40] Rice Warner 2018 *Ibid*.

estimate the expected the value of their savings in retirement, around 40 per cent expected this to be more than $500,000[41].

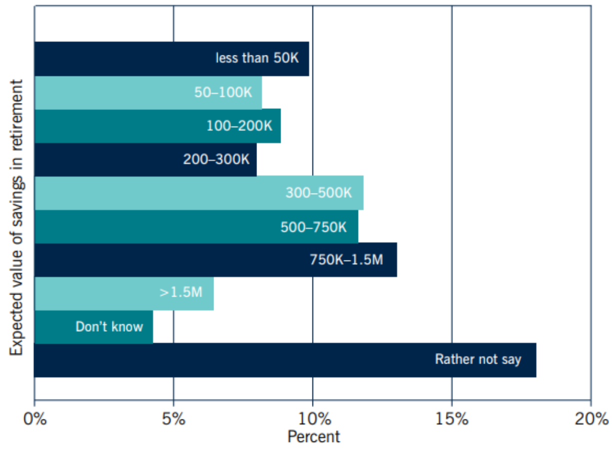

Figure 2: Estimated value of savings at retirement (%)
Source: National Seniors 2019[42]

Another important consideration is support given to others while in retirement.

Many older Australians are supporting others as they prepare for their own retirement and unable to plan with certainty because they fear having to provide additional support for family at a later stage of life.

National Seniors research shows as much as 30 per cent of Australians over 50 are still providing some level of support to family, mostly children and grandchildren[43]. This research also found that half of Australians aged between 50 and 64 and one in ten over 65 have at least one surviving parent. Our research suggests that, while only 85 per cent of surviving parents are financially self-sufficient, more than 30 per cent of survey respondents are concerned they might need financial support from their family in the future.

[41] McCallum *et al* 2019, *Op cit*.
[42] McCallum *et al* 2019, *Op cit*.
[43] National Seniors Australia and Challenger 2016. Over 50s: still not confident about their retirement income Melbourne: National Seniors Australia.

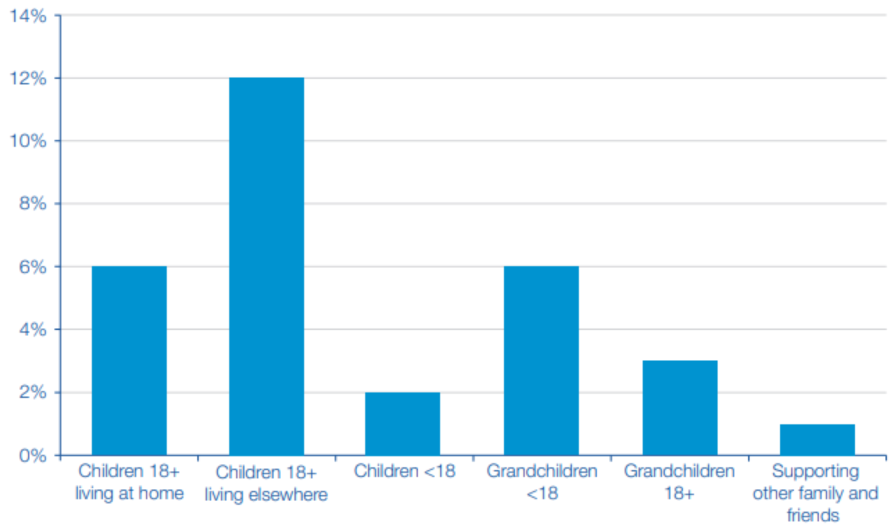

Figure 3: Older Australians providing financial support to others
Source: National Seniors 2016[44]

Older Australians also make a significant contribution to the economy through the provision of unpaid care and volunteering.

Research from National Seniors shows older Australians provide significant amounts of unpaid grandparent care and balance this with their work responsibilities. Among those surveyed, 70% altered the days or shifts they worked, 55% reduced their working hours, and 18% had even changed their job because of their caring commitment. A third of survey respondents reported that their childcare commitment had changed the timing or expected timing of their retirement. For many other grandparents, providing regular childcare was not the most important factor but it was still important in shaping their decision to retire.[45]

Another National Seniors research paper in 2015 estimated that older Australians aged 45 years and over provided an annual informal care contribution of $22 billion per annum and an annual volunteering contribution of $16.3 billion. Informal care includes assistance to persons with profound or severe core limitations; assistance for people with moderate or mild limitations; and the provision of grandparent care – all of which would require costly formal assistance if this care was withdrawn.[46]

[44] National Seniors Australia and Challenger 2016. Op cit.
[45] Hamilton, M, and Jenkins, B. 2015. Grandparent childcare and labour market participation in Australia (SPRC Report 14/2015). Melbourne: National Seniors Australia.
[46] Brooke, E. 2015. Appreciating value: Measuring the economic and social contributions of mature age Australians. Melbourne: National Seniors Australia.

National Seniors urges the Panel to factor in these important pieces of evidence when considering demographic trends to ensure they are properly contextualised.

Labour market trends

Another important contextual consideration is labour market trends.

While Australia's workforce participation rates among older Australians is only slightly ahead of the OECD average, rates of workforce participation among older Australians has clearly increased over time.

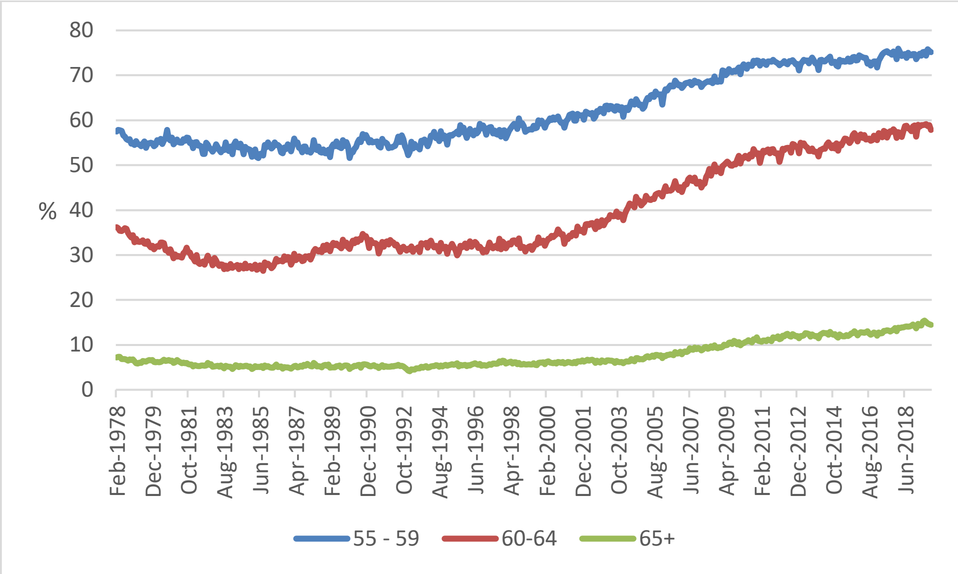

Figure 4: Labour force participation rate by age category, 1978 – 2019
Source: ABS Labour Force[47]

Changes to the eligibility age for the pension from 65 to 67 in response to the ageing of the population to reduce reliance on the pension will undoubtedly further encourage workforce participation, the effect of which is yet to be seen.

Evidence from other countries would suggest that this is likely to increase participation. For example, workforce participation in New Zealand is among the highest in the OECD and shows an increasing trend towards increased labour force participation. In New Zealand, the labour force participation rate has increased overall since 2000, largely because of rising participation rates among people aged 55 years or above.

[47] Australian Bureau of Statistics (ABS) 2019. Labour Force, Australia, Detailed - Electronic Delivery Cat. No. 6291.0.55.001, Table 01. Labour force status by Age, Social marital status, and Sex.

Labour force participation for older people in New Zealand has increased by over 20 percent since 2000, for both men and women. This has been attributed to the rising pension qualification age from 60 to 65, but also the banning of compulsory retirement in 1999, better health among older people, technological change in manual labour jobs and increasing longevity[48].

While workforce participation in Australia among older people is increasing, it is likely more could be done to support workforce participation for mature age people with limited career histories and private savings to help boost their savings and income and improve their wellbeing in retirement.

However, there are clear issues facing some older Australians who are unable to engage in the workforce in the years prior to retirement. National Seniors regularly receives feedback from older Australians detailing their struggles to find and maintain employment. In some circumstances this is linked to poor physical and mental health, which act as a barrier to finding meaningful employment. In other instances, there appears to be examples of age discrimination.

An overriding outcome communicated to National Seniors by these individuals is an acknowledgement that long periods of unemployment in later life erode the capacity of these individuals to build or even maintain savings that could be used to support consumption in retirement.

National Seniors supports improving opportunities for older people to continue working, including increasing the Work Bonus further so that retirees with low-incomes have a greater incentive to continue in employment while receiving the pension.

Home ownership trends

Home ownership statistics suggest there is a downward trend in home ownership.

This trend can be seen in historical data (see Table 4, below), but also in projections into the future.

While historically the decline in ownership rates for people aged over 65 is less prevalent than for younger age groups, future predictions estimate that ownership rates for the over 65s will decline rapidly over the next 35 years.

[48] Reserve Bank of New Zealand 2018. Bulletin. Vol 81, No. 2 April 2018.

Age	1981	1991	2006	2016
15-24	25	24	24	23
25-34	61	56	51	45
35-44	75	74	69	62
45-54	79	81	78	72
55-64	81	84	82	78
65+	78	84	82	82
Total	70	72	70	67

Table 4: Home ownership rate (%) by age, from ABS Census 1981 - 2016
Source: International Actuaries Association 2019[49]

Analysis conducted by the Grattan Institute has estimated that "the share of over-65s who own their home will fall from 76 per cent today to: 74 per cent in 2026, 70 per cent by 2036, 64 per cent by 2046, and 57 per cent by 2056".[50]

This trend is troubling given the strong benefits of home ownership and the high costs of non-homeownership (as discussed in response to Question 5 above).

While this data does not indicate whether those owning their home are doing so outright or with a mortgage, it has been reported that there is an increasing and concerning trend toward people entering retirement with mortgages and other debt[51].

As National Seniors research into the downsizing intentions of older Australians recently found, mortgage issues were one of the many reasons identified as contributing to plans to downsize among respondents.

> *"Will have to sell my home and downsize because of mortgage . . . very sad . . . and that is why I am still working at 68 years old."*[52]

[49] IAA 2019 *Op Cit*.
[50] Grattan Blog 2019. *Op cit*.
[51] IAA 2019 *Op Cit*.
[52] Rees, K. and McCallum, J. 2017. Downsizing: Movers, planners, stayers. Brisbane: National Seniors

Rising housing costs will likely undermine the retirement incomes of some retirees who will increasingly have to draw down on their non-housing savings to pay off outstanding mortgages and force others to downsize.

While downsizing to more age-friendly housing will be an important means for some to manage these pressures, there is a reliance on the market to supply suitable accessible housing. Unfortunately, evidence would suggest that the market is not currently supplying adequate volumes of accessible housing that can enable older Australians to age-in-place. A report estimated only 5% of new housing is likely to be accessible by 2020, when the original target was for 100% to be built to a minimum standard by this time.[53]

Contextualising Australia's retirement income system internationally

The Australian retirement system, with its combination of a residence-based public pension and a compulsory defined contribution scheme is one of the strongest in the OECD and should be protected and enhanced. The following section outlines the weaknesses and strengths of the Australian system compared to others in the OECD.

Weaknesses in the Australian retirement income system

- *Poverty rates in Australia are high compared to other OECD countries*. Almost one quarter of those aged over 65 in Australia were in poverty, compared with only 12.2 per cent in Canada, 10 per cent in New Zealand and 3 per cent in Denmark. Pension schemes that rely on private savings tied closely to earnings capacity can reinforce underlying inequality[54].

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[53] Australian Network for Universal Housing Design (ANUHD) Report on the Progress of the National Dialogue on Universal Housing Design 2010-2014. January 2015

[54] Spies-Butcher, B. 2011. 'The myth of the ageing 'crises'' in *The Conversation* 27 April 2011.

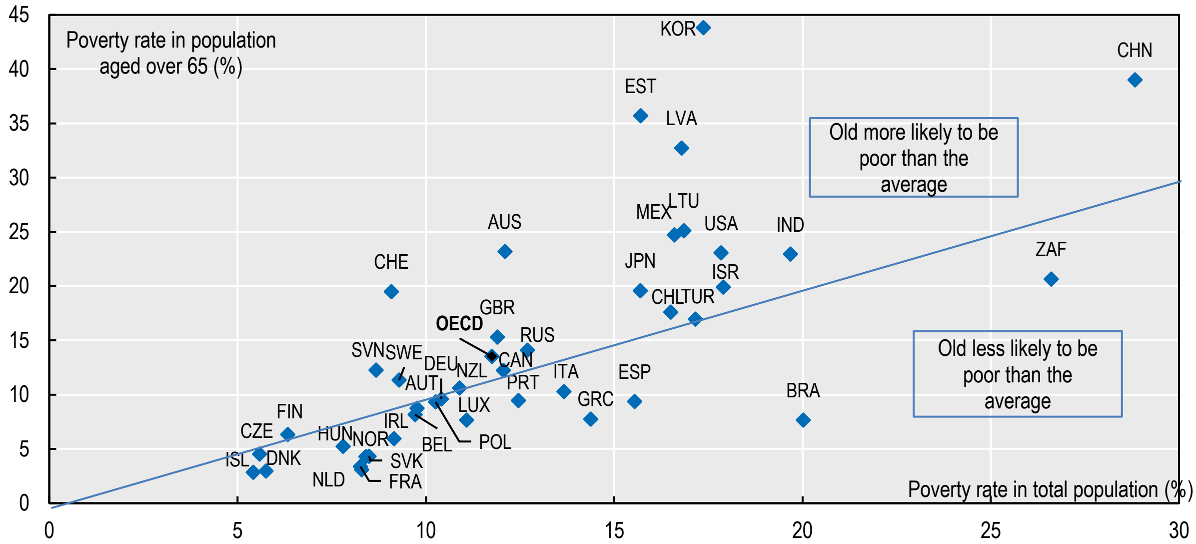

Figure 5: Income poverty rates by age: older vs. total population, 2016 or latest available year Source: OECD 2019[55]

- *Retirement income replacement rates are a problem*. Average income earners in Australia have an income replacement rate of 41.0% compared to 58.6% in OECD.
- *Compulsory superannuation is immature*. Unlike Canada which was one of the first countries in the world to implement a comprehensive retirement income system, Australia's system has not had enough time to develop since the introduction of compulsory superannuation.
- *Compulsory superannuation rates are low by comparison to the OECD*. Australia's mandatory contribution rate is the fourth lowest of any OECD country relative to average earnings (see Figure 6 below). Australia's compulsory contribution rate of 9.5 per cent is much lower than the Netherlands (15%) and Denmark (12%). The OECD average was 18.4 per cent.[56]
- *Compulsory superannuation coverage is limited*. Exemptions from the Superannuation Guarantee combined with low-incomes and broken work patterns undermines the capacity of compulsory superannuation as an adjunct to the public pension for some retirees. Self-employed are not covered by compulsory superannuation.

[55] OECD 2019. *Op cit*. Figure 7.2 Income poverty rates by age: older vs. total population, 2016 or latest available year.
[56] OECD 2019. *Op cit*. Table 8.1. Mandatory pension contribution rates for an average worker in 2018

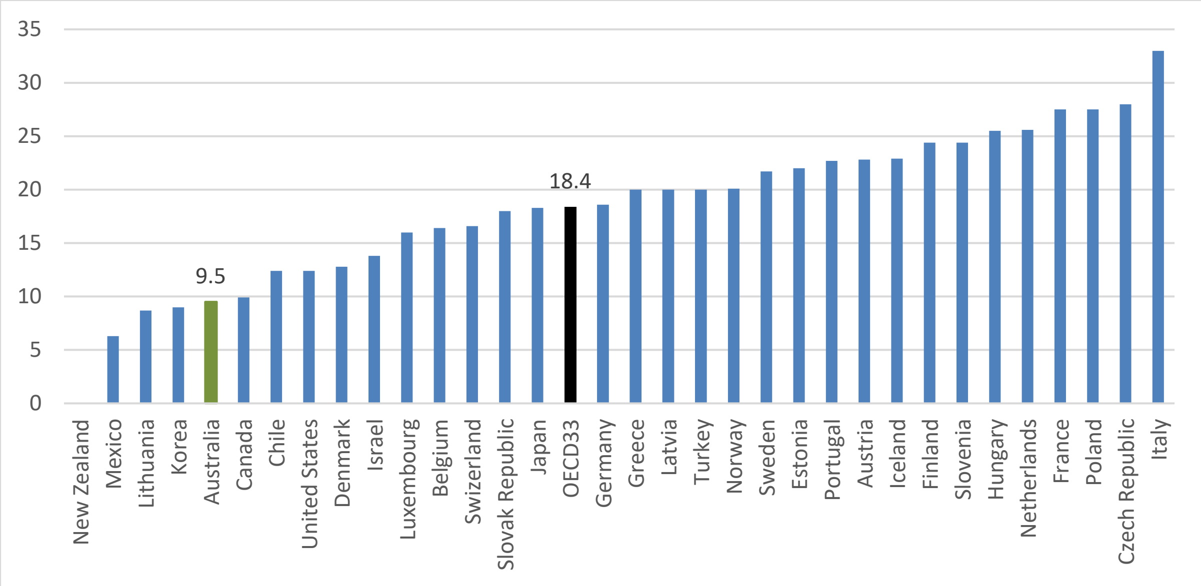

Figure 6: Effective rate on average earnings for mandatory (private and public) pension contributions Source: OECD 2019[57]

Strengths in the Australian retirement income system

While Australia's system is immature and is not operating as well as it could for all retirees, it is important that any future reforms are understood within Australia's relatively favourable position internationally. Despite ongoing negative predictions about Australia's 'ageing population' Australia is predicted to fare much better than most OECD countries in the future.

- *Australia is ageing much more slowly than the OECD average*[58]. Australia's old age to working-age ratio (the number of people older than 65 per 100 people 20-64) is currently lower than the OECD average and is projected to be much lower than the OECD average by 2050 (see Table 5 below). This is mainly due to the ongoing immigration of young adults.

[57] OECD 2019. *Op cit*. Table 8.1. Mandatory pension contribution rates for an average worker in 2018
[58] OECD 2017 *Op cit*.

	1950	1960	1990	2020	2050	2080
Australia	**14.0**	**16.0**	**18.8**	**27.7**	**41.6**	**49.4**
Austria	17.3	21.0	24.3	31.3	56.0	60.2
Belgium	18.1	20.3	24.8	33.1	51.3	56.8
Canada	14.0	15.1	18.4	29.8	44.9	54.0
Chile	7.2	7.9	10.9	19.7	44.6	67.5
Czech Republic	13.9	16.3	22.0	33.8	55.9	52.8
Denmark	15.6	19.0	25.9	34.9	44.6	52.4
Estonia	19.3	17.7	19.7	34.9	54.9	63.2
Finland	11.9	13.5	22.0	40.1	51.4	65.0
France	19.5	20.8	24.0	37.3	54.5	62.2
Germany	16.2	19.1	23.5	36.5	58.1	59.5
Greece	12.4	12.2	22.9	37.8	75.0	79.7
Hungary	13.2	15.5	22.9	33.4	52.6	55.4
Iceland	14.1	16.4	19.0	26.6	46.2	64.5
Ireland	20.9	22.8	21.6	25.0	50.6	60.0
Israel	7.1	9.1	17.8	23.9	31.3	39.9
Italy	14.3	16.4	24.3	39.5	74.4	79.6
Japan	9.9	10.4	19.3	52.0	80.7	82.9
Korea	6.3	7.6	8.9	23.6	78.8	94.6
Latvia	18.1	17.7	19.9	35.5	53.0	49.9
Lithuania	17.5	14.0	18.4	34.7	55.7	55.7
Luxembourg	15.8	17.6	21.1	22.3	43.8	50.1
Mexico	8.0	8.3	9.6	13.2	28.9	50.9
Netherlands	13.9	16.8	20.6	34.3	53.3	62.2
New Zealand	16.3	17.0	19.5	28.3	43.8	57.5
Norway	16.0	19.8	28.5	29.6	43.4	53.4
Poland	9.4	10.5	17.3	30.5	60.3	68.6
Portugal	13.0	14.8	23.9	38.6	71.4	72.3
Slovak Republic	11.9	12.6	18.2	26.5	54.6	58.1
Slovenia	12.5	13.7	17.3	34.7	65.0	60.7
Spain	12.8	14.6	23.1	32.8	78.4	74.4
Sweden	16.8	20.2	30.9	35.9	45.5	53.4
Switzerland	15.8	17.6	23.6	31.3	54.4	56.7
Turkey	6.5	7.0	9.4	15.2	37.0	58.2
United Kingdom	17.9	20.2	26.9	32.0	47.1	55.1
United States	14.2	17.3	21.6	28.4	40.4	51.1
OECD	**13.9**	**15.5**	**20.6**	**31.2**	**53.4**	**60.8**

Table 5: Old-age to working-age ratio:
Historical and projected values, 1950-2080 Source: OECD 2019[59]

[59] OECD 2019. *Op cit*. Table 6.2. Demographic old-age to working-age ratio: Historical and projected values, 1950-2080

- *Pension spending is falling as a proportion of total government expenditure*. Australia is also one of ten OECD countries that are projected to spend less on pensions as a proportion of GDP by 2050[60]. According to OECD estimates, the cost of the pension in Australia is expected to fall from 4 per cent of GDP in 2015-16 to only 3.7 per cent of GDP in 2060. In comparison, the cost of the pension in New Zealand is expected to increase as a proportion of GDP from 4.8 per cent in 2015 to 6.3 per cent in 2030 and 7.9 per cent in 2060[61]. Estimates from Rice Warner, show an even better outcome but with a similar trajectory. According to Rice Warner, Age Pension expenditure as a proportion of GDP is only 2.7% and is projected to fall to only 2.5% by 2038[62].
- *Workforce participation among older Australians is above the OECD average*. While workforce participation among people aged 60 – 64 is only slightly above the OECD average, workforce participation among people aged 65-69 is tenth highest in the OECD at 28.5% (see Figure 7 and 8 below).

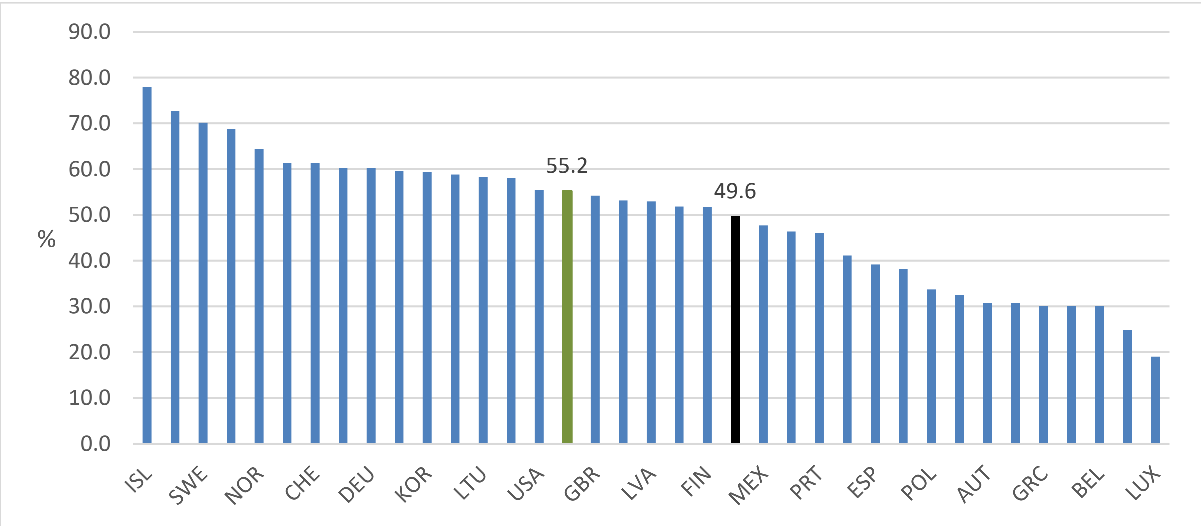

Figure 7: Employment rates of workers aged 60-64 in 2018
Source: OECD 2019[63]

[60] OECD 2019 *Op cit*. Table 8.5
[61] New Zealand Government Treasury 2016. 2016 Statement on the Long-Term Fiscal Position. November 2016.
[62] Rice Warner 2018 Op cit.
[63] OECD 2019 *Op cit*. Figure 6.6. Employment rates of workers aged 55-59, 60-64 and 65-69 in 2018

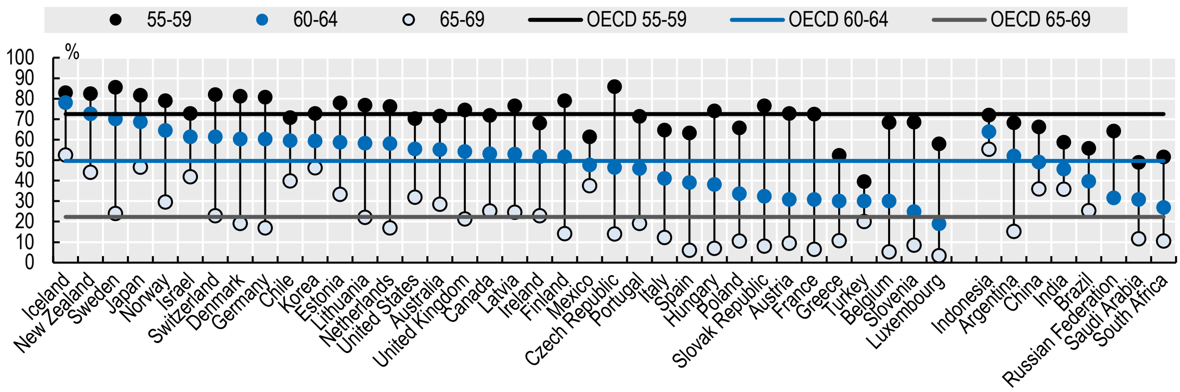

Figure 8: Employment rates of workers aged 55-59, 60-64 and 65-69 in 2018
Source OECD 2019[64]

[64] OECD 2019 *Op cit*. Figure 6.6. Employment rates of workers aged 55-59, 60-64 and 65-69 in 2018

Principles for assessing the system

8. Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future? Are there other principles that should be included?

National Seniors, as a founding member of the Alliance for a Fairer Retirement System, has proposed the following principles (adequacy, fairness, sustainability and certainty) as benchmarks for assessing the effectiveness of retirement income system.

Adequacy, equity and sustainability, which mirror the principles of adequacy, fairness and sustainability are vitally important and would have broad support among all older Australians.

National Seniors supports the inclusion of cohesion as an additional principle as it is vital that elements within the system work effectively and seamlessly together to reduce the complexity that comes from multiple and overlapping organisations, institutions and jurisdictions. Older Australians find the current retirement income system frustratingly complex. It should be an ecosystem in the broader sense of the word.

National Seniors, as will be noted in our response to questions on the principle of equity, also believes the Panel should include certainty as an additional principle.

Certainty is vital because it underpins confidence, a sentiment that has been made clear to National Seniors via regular feedback from older Australians.

Older Australians tell National Seniors they are disappointed by the constant rule changes to the elements of the retirement income system (superannuation, Age Pension, tax system). They say these changes disrupt their retirement plans, especially when they have planned within the rules and face limited alternatives to create income and uncertainty in income arising from unstable financial markets.

9. How does the system balance each of the principles and the trade-offs between principles (e.g. sustainability and adequacy) under current settings? What is the evidence to support whether the current balance is appropriate?

National Seniors would argue there is currently a lopsided approach to balancing the principles of the retirement income system.

There appears to be a preoccupation with budget sustainability at the expense of other principles. This preoccupation with budgetary concerns overrides other principles such as adequacy, equity and certainty. There is also little attention paid to maximising cohesion through the implementation of reforms that simplify the complexity of the system overall.

National Seniors believes a balance can be struck between certainty and change by having the right processes in place. Older Australians are not opposed to reform but want to see reform managed in a careful and considered way.

This could mean selecting reforms that result in a significant benefit which minimise unintended consequences. It will require setting realistic timeframes for implementing reforms, so there is adequate time to explain them. It will also require a conciliatory and consultative approach. Implementation of any change requires long lead times to provide older Australians with opportunities to adapt. Where necessary, the use of grandfathering could be required where there is likely to be significant impacts. This will reduce uncertainty and emphasize fairness.

Greater detail will be outlined in the subsequent questions.

Adequacy

10. What should the Panel consider when assessing the adequacy of the retirement income system?

The issue of adequacy is one of great interest to older Australians. A recent report from National Seniors has argued:

> *"The recent ABC 'Australia Talks' survey indicated that worry about retirement income affects all age groups and is the second major worry for Australians after 'climate change'. In short, worry about retirement income is a national issue in the same league as concerns about climate change."*[65]

First and foremost, adequacy should be understood with regards to the capacity of the retirement income system to provide a basic level of income to meet the needs of all older people regardless of prior circumstance, such that no individual lives in poverty in old age.

However, aspects of the system, such as the Age Pension, do not currently appear to be calibrated to deliver adequacy and are open to the whim of government.

Feedback from older Australians has been critical that pension rates are set by government, not based on assessment of adequacy but on the implications on the federal budget and its bottom line.

In this regard, National Seniors believes there is growing community support for an independent process for setting Age Pension payments and supplements as means of demonstrating the systems commitment to adequacy as a defining principle. A report written in 206 called the Adequacy of the Age Pension in Australia, highlighted the inadequacy of the pension and called for the establishment of an independent tribunal, challenging the government of the day to address:

> *"the fact that many pensioners are suffering substantial deprivation … in one of the richest countries in the world. We can and should do better… we propose that an independent tribunal similar to the Parliamentary Remuneration Tribunal or the Fair Work Australia Expert Panel be established to determine the base rate in order to provide a fair and decent standard of living in line with community standards and with consideration of the broader fiscal context."*

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[65] National Seniors and Challenger 2020. *Retirement income worry: Who worries and why?* Canberra: National Seniors Australia.

This report took evidence from focus groups, which highlighted the particular problems of pensioners, some of which were National Seniors members.

> *"If there was an increment of $50 I believe the living standard would be much better. People could afford the food they would like instead of having to take food from charities…"*[66]

The situation for couples is not much better.

> *"After paying major bills we have, $180 per fortnight to live on."*[67]

The call for an independent tribunal to take the politics out of the pension has been communicated to us directly in correspondence.

> *"Pensioners need to receive a fair allowance that is reviewed by objective bodies and not done randomly on a party basis. The budget should not be at the detriment of pensioners."*[68]

However, adequacy should also be understood in the context of promoting self-sufficiency. The retirement income system should encourage people to fund their retirement, either partially or fully, without penalising those who do.

The retirement income system should be able to provide all citizens with a basic and adequate income regardless of their capacity to contribute but be calibrated so those who have greater capacity to self-fund are not worse off as a result.

The system as it stands is perverse. For many, the more they save the worse they are, because of the assets test taper rate.

A prime example is the situation of self-funded retirees after the changes to the assets test taper rate in 2017. Simple modelling shows that retirees who save more are likely to have less income than those who have saved less. This is demonstrated clearly in Figure 9 below.

Comprehensive modelling needs to be regularly done to ensure the system is not disadvantaging particular groups, whether they are pensioners or self-funded retirees.

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[66] Focus group participant; Per Capita 2016. The Adequacy of the Age Pension in Australia. September 2016.
[67] Focus group participant; Per Capita 2016. *Ibid*.
[68] Feedback from older Australian, 17 December 2019

Figure 9: Impact of changes to assets test taper rate on income of single and couple homeowners

Another example is the rising number of retirees who need to work to supplement the Age Pension. Older people, particularly women, with limited savings, increasingly employment to supplement their income.

According to a recent study, nearly five per cent of people on the pension are now doing some form of paid work. The research found that those who work while receiving the pension are three times more likely to be divorced[69].

[69] Clarke, C. 2020. 'More pensioners are taking up part-time work to avoid the threat of pension poverty' in *ABC News*. 22 January 2020.

11. What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflects a Retirement Income Review Consultation Paper proportion of pre-retirement income (and if so, what period of pre-retirement income); or matches a certain level of expenses?

Adequacy in retirement should not be measured or defined as a proportion of pre-retirement income as is done in other OECD countries. Instead, adequacy should be measured with regards to capacity of retirees to meet reasonable expenses.

This will require modelling reflective of the personal circumstance of different retiree cohorts, such that each cohort has adequate income to meet expenses required to meet an adequate standard of living.

This can only be done by first assessing the savings and income trajectories of cohorts using meaningful variables that impact on retirement income, such as gender, home ownership, family status, geographical location, work history and other relevant variables.

This is more realistic than pre-retirement income because it recognises both income and expenses as relative. It acknowledges some people will have greater savings and income in retirement due to life circumstances while also considering differences in living expenses.

In doing so, this should take into consideration the full spectrum of factors relating to income and expenditure, including tax and transfer provisions. For example, the provision of concessions at both the state and federal level are viewed as important in determining the financial wellbeing of older Australians and should be factored into any income and expense modelling to determine the adequacy of the retirement income system.

An example is variability in rental costs compared to Commonwealth Rent Assistance. Concessions for essential services vary markedly across jurisdictions and yet pension payments are uniform across Australia. This is one of the matters an independent tribunal could investigate.

National Seniors receives regular correspondence from older Australians who are self-funded retirees who believe they are worse off financially as a result of the extra expenses and costs associated with not being eligible for the Age Pension.

Modelling the differences in income and expenditure as a result of differences in life circumstances will provide a clearer picture of the relative position of retirees and will highlight discrepancies in adequacy across the retirement income system.

National Seniors believes the complexity of the present system has created an us and them situation. Many retirees sitting just outside the pension feel they would be better off if they could get a pension. Many pensioners look at self-funded retirees and resent their wealth. Simplification of the present would go some way to reduce these conflicts.

12. What evidence is available to assess whether retirees have an adequate level of income?

There have been a number of recent studies, both objective and subjective, that look at income adequacy in retirement.

A recent example is the Adequacy of the Age Pension in Australia report by Per Capita in 2016[70] mentioned above.

Another was the ANZ Money Minded impact report by RMIT and its companion report Financial Wellbeing of Older Australians released in 2018.[71] The report confirmed much of what was found in the Per Capita report two years earlier, that owning your own home in retirement was the most important determiner of financial wellbeing in retirement. Older people who remained in the private rental market were worse off, especially with reduced incomes and with living on the pension.

A more recent National Seniors report in 2019[72] sought to understand how different financial situations affect a retiree's sense of comfort. The report found an individual's sense of comfort underpins perceptions of adequacy. Some of the themes emerging from the report were:

- Financial comfort is relative and not defined by a single asset value;
- Living within ones means and accommodating changed circumstances are required to achieve comfort levels;
- Having 'enough to last' and preserving capital are strong focal points for achieving comfort.

The report also found that a sense of comfort in retirement was relative to circumstance with variables such as gender and age yielding differing responses[73].

The Association of Superannuation Funds of Australia (ASFA) Retirement Standard[74] is a useful tool that provides an objective benchmark from which to compare the income required to fund a comfortable or modest standard of living in retirement. The Standard also benchmarks the superannuation balances that are required to achieve a comfortable or modest retirement for singles and couples. The Standard is updated quarterly to reflect changes to the Consumer Price Index (CPI). It provides these expenditure benchmarks against several key variables including age (65 – 85, 85+) and family status (singles, couples).

[70] Per Capita 2016 *Op cit*.
[71] ANZ 2018. Financial Wellbeing: Older Australians. November 2018
[72] McCallum *et al* 2019, *Op cit*.
[73] McCallum *et al* 2019 *Op cit.*
[74] Association of Superannuation Funds of Australia (ASFA) 2019. ASFA Retirement Standard. Sydney: ASFA.

Unfortunately, the ASFA Retirement Standard does not provide benchmarks for other variables, such as tenure (home ownership, renting), home value (indebtedness, location) gender or health status, which would have significant impacts on expenditure. Expansion of this tool to provide a wider set of variables to demonstrate a variety of circumstances would be welcome.

Equity

13. What should the Panel consider when assessing the equity of the retirement income system?

14. What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (e.g. women, renters, etc.)?

Equity should be understood as individuals being treated equally with regards to the rules of the system but also with regards to the outcomes achieved.

However, there are equity considerations that result in individuals being treated differently, which are applied to our taxation system that can be considered as important for the proper functioning of the retirement income system. In this regard, there are three specific forms of equity to consider – horizontal equity, vertical equity, and intergenerational equity[75]:

- Horizontal equity – is the equal treatment of individuals in similar income groups (as is achieved in the application of consistent taxes on income from superannuation but not in the treatment of different types of investments e.g. superannuation is taxed differently to housing)
- Vertical equity – redistribution of income between the rich and the poor (as is achieved through the delivery of the Age Pension and other benefits and concessions regardless of prior income)
- Intergenerational equity – balancing costs and benefits between different generations

There are several inequalities within the retirement income system more broadly which need to be addressed.

The most glaring of these is the disparity in retirement income arising from compulsory superannuation being tied to employment. Efforts to ameliorate this inequity through the provision of tax offsets for low-income employees are minimal and dwarfed by the tax concessions available to those on high incomes with the capacity to voluntarily contribute more to superannuation.

[75] Horne, J. 2002. Taxation of Superannuation in Australia: An Assessment of Reform Proposals. Submission to 2002 Senate Select Committee on Superannuation, Superannuation and standards of living in retirement.

Another inequity stems from restrictive rules which do not account for changing life circumstances. This undermines the capacity of some individuals to make extra contributions to boost their retirement savings and increase self-sufficiency.

For example, the current annual contribution cap of $25,000 assumes individuals have the same capacity to contribute to superannuation throughout their working life. This is clearly not the case. A more equitable approach would be to look at ways to make contributions more flexible.

Equally, older retirees, who missed out on the opportunity of contributing to superannuation find they cannot make contributions to superannuation due to age restrictions. This is an issue that has been raised by older Australians as another example of inequity.

There are also concerns that current rules are having unintended consequences for retirees in unique circumstances.

Some older Australians have told us they are concerned about the preservation of savings for a spouse, especially if a spouse is required to go into age care.

An example of this is where a couple has withdrawn superannuation to pay for an aged care bond for a spouse and are then unable to recontribute these funds into superannuation when the bond is refunded.

There are also inequities in the rules governing pensions.

One example is the use of different indexation methods to change pension entitlements, so they match changes in living costs. While the Age Pension uses an indexation system based on CPI and Male Total Average Weekly Earnings (MTAWE), pension indexation under the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) only uses CPI (see Figure 10 below).

> *"My ComSuper pension is indexed using the CPI. Other pensions (Age and politician's) use a combination of some wage component. Over past years with the then Superannuated Commonwealth Officers Assn tried to change things but did not succeed. Always the government used the argument that CPI was fair. If that is the case, why are the other pensions using a different wage-based rate? Fair go? Hard to see that!"*[76]

> *"I retired on March 8, 1997 at the top of a Dept of Health EL1 salary of $55,170. With 25yrs in the APS my pension was 42% of $55,170 or $23,171.40. In 22*

[76] Feedback from older Australian, 1 November 2019.

years, it has risen to a miserly $39,121.68. In the same time the salary of my old position has risen to $113,471 and my pension if based on my salary rise would now be $47,657 or $8,536 higher than it currently is. Each year I have gone backwards against AWOTE as has every other CSS pensioner."[77]

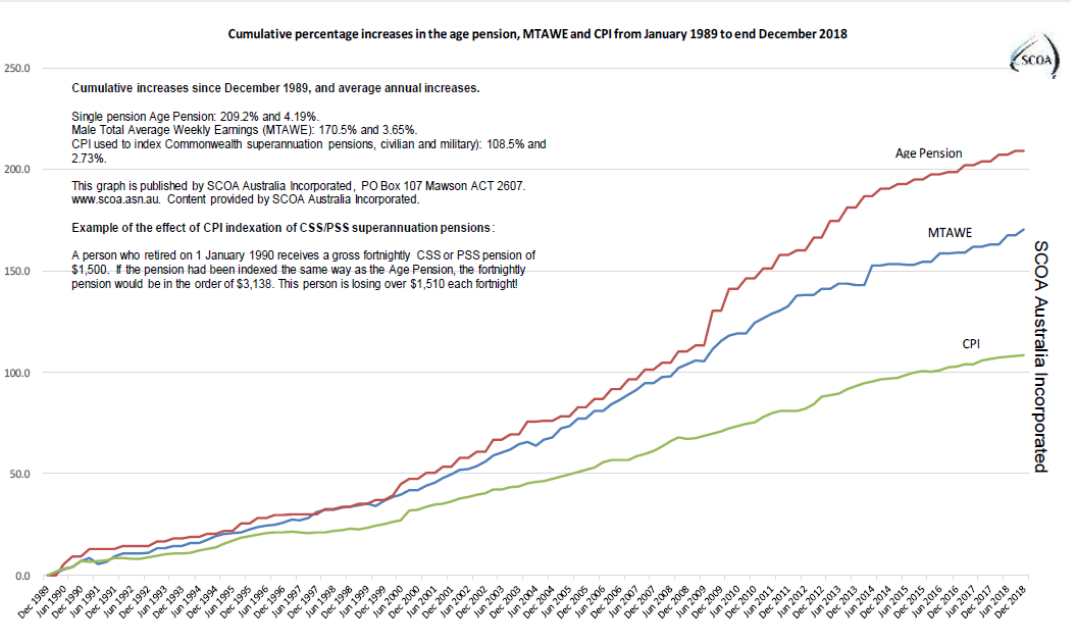

Figure 10: Cumulative percentage increases in the age pension, MTAWE and CPI from January 1989 to end December 2018. Source: SCOA 2019[78]

Intergenerational equity issues are also important because they underpin confidence in the retirement income system. However, National Seniors believes intergenerational equity has been unreasonably deployed to justify unfair changes to rules without adequate evidence or debate.

Arguments about intergenerational wealth transfer, for example, are often used as justification for unfair rules or rule changes.

However, as National Seniors own research has consistently demonstrated, wealth transfer is not the primary concern of older Australians.[79] Consistent evidence shows only a very

[77] Feedback from older Australian, 16 July 2019.
[78] SCOA Australia 2018. 2019-20 pre-Budget submission SCOA Australia
[79] National Seniors Australia and Challenger 2015. *Op cit*; National Seniors Australia and Challenger 2016 *Op cit*; National Seniors Australia and Challenger 2017. *Seniors more savvy about retirement income*. October 2017.

small percentage of older Australians see leaving wealth for future generations as important, with a greater proportion expecting to spend all their money on themselves. Most older people see their savings as providing for themselves in retirement with some of these savings preserved for future generations.

> *"Conserving capital to leave money for the next generation is no longer a key consideration for senior Australians. Only 3% of respondents intended to preserve all their savings for the next generation, whereas 10% expect to spend all their money on themselves. The remainder of respondents were split between those who wanted to spend most of their savings (41%) and those who intended to preserve some and spend some (46%)."*[80]

The dominant view that savings are primarily for a retiree's own use and less as inheritance partly reflects increased understanding of the costs associated with ageing and increased longevity.

Certainty (the missing principle)

In balancing these different types of equity, it is important that any future change to the system does not substantially undermine the retirement plans of existing retirees. In the eyes of older Australians, constant and dramatic rule changes are unfair because they impact on people who have made retirement plans in good faith according to the rules.

National Seniors regularly receives feedback in response to a government proposal, communicating a frustration about constant changes to the rules governing superannuation and the Age Pension. These rule changes are often seen as being introduced by government as targeting older Australians in order to achieve budget savings without due consideration of the fairness of the change on existing retirees.

Two such examples were changes to the asset test taper rate in 2017 and the proposal to remove franking credit refunds in 2018.

> *"We retired in 2007 with what we considered adequate superannuation. Then we got hit with the GFC which effectively halved our superannuation. Significantly when we retired there was a set of guidelines upon which pension eligibility was based. Remember we are retired which means we are not working and therefore we have no means of topping up our depleted superannuation. Then in 2017 the government changed the rules of*

[80] McCallum, J., Maccora, J., & Rees, K. 2018. *Hope for the best, plan for the worst? Insights into our planning for longer life*. Brisbane: National Seniors.

qualification for the pension. That's tantamount to moving the goalposts as I kick the ball to win the grand final."[81]

"In 2017 my husband and I lost our part pension completely for nine months due to changes to the asset test. This resulted in a one-third reduction in our income and we had to spend much more of our savings to live. We then re-applied and received a very small amount, representing the lowest level of the pension supplement. Our part pension has gradually increased as our assets have diminished, but with our assets 18% less than before the change we are now only receiving the same amount of part pension that we were receiving prior to 2017. We are now spending our assets more rapidly and, with unprecedented low interest rates on our savings and terms deposits, our income has diminished considerably. We are in the situation of having to spend more of our assets to ensure a higher income from the pension, but this money is then gone forever. We had saved and planned our finances so that we would not be left in the situation of having to live solely and frugally on the full pension. But we now fear that we will soon be completely reliant on the full age pension and no longer able to afford private health insurance or dental care. This will cost the Government more in the long term."[82]

This frustration is grounded in an understanding of the importance of savings in supporting financial wellbeing in retirement. Older Australians know they will not be able to augment the income derived from their savings through employment when they are older. They believe that dramatic rule changes are unfair if they don't account for this.

"It is wrong for politicians to change the rules once you have retired. Being retired means you are no longer working and therefore cannot rearrange your finances to accommodate the whims of politicians who, given the largesse of their superannuation are not impacted as we mere mortals are."[83]

As National Seniors has stated in previous submissions on superannuation:

"…policies need to avoid sudden rule changes and allow sufficient adjustment time for those nearing retirement or already retired"[84].

On this basis, National Seniors believes considerations of equity should include the impact of proposed rule changes on those who have made plans in good faith.

[81] Feedback from older Australian, 1 November 2019
[82] Feedback from older Australian, 17 November 2019
[83] Feedback from older Australian, 17 January 2020
[84] National Seniors Australia 2016. Submission on Objective of Superannuation Discussion Paper. August 2016

Retirees already deal with significant uncertainty of returns from markets and an inability to reengage with the labour market and therefore should not be subject to harsh or unfair rule changes.

A growing concern among self-funded retirees is the cumulative impact of multiple rule changes on the overall equity of the system. There is a strong belief among self-funded retirees they are at risk of being worse off financially in retirement as a result of being consistently targeted for savings. As one retiree told us:

> *"I believe the incentive & fairness for saving & being self-funded is being eroded significantly, & the financial- (& consequential other-) wellbeing significantly reduced due to multiple large structural & economic changes having a snow-ball effect on self-funded older persons. Loss of capital & income plus raised user-pays & asset & income tests with no concession benefits, means self-funded low-middle & middle-income people especially stand to have more financial responsibility, worry & burden than pensioners, by far, in the current system, & there is very little incentive to be responsible or save built into the system anymore."*[85]

This dissatisfaction among self-funded retirees is partly rooted in a view that the system is increasingly inequitable because it treats pensioners one way and self-funded retirees another.

> *"It galls me to see my pensioner friends go on trips etc. to retain their pensions while I have to pay more for many things. My husband passed away a few months ago, and his fees in care were more than we earnt each year, nothing like what they paid. I don't begrudge them, but why aren't we treated the same for looking after ourselves. My children are all making sure that they will be eligible for the pension when they see us having to consider long and hard to cover our expenses*."[86]

These negative perceptions about fairness are causing retirees to manage their finances in ways that ensure they are eligible for the pension and its benefits, which reduce the incentive to be self-funded.

[85] Feedback from older Australian, 15 October 2019
[86] Feedback from older Australian, 28 October 2019

15. Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age?

National Seniors believes more could be done to encourage ongoing work force participation. This would help those who haven't accumulated adequate private savings.

As it is noted in Figure 8, workforce participation among people aged 65-69 is currently at 28.5%, which is above the OECD average and the tenth highest in the OECD. For some this participation will be on a part-time or casual basis and will reflect a desire to remain in the workforce. For others a lack of savings, particularly superannuation, makes work a necessity.

National Seniors has long supported measures to encourage ongoing workforce participation past the pension eligibility age. We have argued for changes to age-limits for workers compensation schemes, changes to redundancy rules that discriminate based on age[87] and for increases to the income limits under the work bonus scheme[88].

While National Seniors was pleased the annual income limit for the work bonus scheme was increased as part of the 2019 Federal Budget from $6,000 to $7,800 and the self-employed were included in the scheme for the first time, the increase fell short of the $10,000 we had been advocating for in our budget submission. We also believe that this limit should ultimately be abolished to allow those who need to work to continue to boost their savings while they still can.

As noted earlier, countries such as Canada and New Zealand have much more generous systems which encourage ongoing workforce participation and should be examined by the Panel. Our existing retirement income system actively discourages work participation.

[87] National Seniors Australia 2014. Submission to A New System for Better Employment and Social Outcomes: Interim Report of the Reference Group on Welfare Reform. August 2014.
[88] National Seniors Australia 2018. Federal Pre-Budget Submission 2018-19. December 2017.

16. To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?

This issue has been discussed at length above. The Age Pension plays an important role in reducing inequality in retirement because eligibility is not tied with previous employment. However, the superannuation guarantee (and concessions for voluntary contributions to superannuation and tax concessions for investments such as housing) exacerbates existing inequalities by being tied directly to earning capacity and history of workforce engagement.

In this regard, age related unemployment is a growing problem, which has severe repercussions for retirement incomes. Many who lose their jobs in their late 50s and early 60s do not work again, chew through their savings, and are often forced to use their superannuation to pay their mortgage if they are homeowners or rent if not. Australians aged between 45 and 65 make up almost half of all Newstart recipients. More than 330,000 mature age workers are on Newstart, which has been criticised as far below what is needed to support living costs (note: this does not include those people who are unemployed but not on Newstart of which there are many).

As one former unemployed person, now pensioner told us, he lived off his savings until he reached a point of desperation, relying on his son for financial assistance. When both he and his wife were made redundant at 59 and 61, neither were able to gain employment before pension age. They were forced to draw an income from their superannuation for two years and used their super to pay off some of their mortgage. According to this one person, Newstart was an impossible allowance to live on. Once on the pension they found the amount “very modest” and without the support of their son, they would not be able to maintain private health insurance.

There is clear need to examine the growing problem of mature age unemployment as it relates to the retirement income system. Greater efforts are needed to support mature age workers to continue in the workforce so they can continue to accumulate superannuation rather than draw down on it and undermine their retirement income.

17. What are the implications of a maturing SG system for those who are not covered by compulsory superannuation?

Individuals who are not covered by the superannuation guarantee will often suffer from a lack of wealth in retirement. This diminishes their income and ability to be more self-sufficient. As noted already, there specific cohorts at higher risk, including women, the self-employed and those in low-paid and insecure work.

Over time, as those with higher incomes and strong attachment to the workforce accumulate higher levels of wealth, those not covered by compulsory superannuation will be more likely to live in poverty. It will be important that the level of support provided to older Australians through the Age Pension and other pension related supplements and concessions are adequate to meet their basic needs regardless of circumstance.

It will also be important to extend compulsory coverage to those who are currently not accumulating superannuation – as noted this includes removing exemptions by extending compulsory superannuation to the self-employed (as is done in Canada) and by removing the exemption for those earning less than $450 per month. It can also be achieved by making superannuation contributions to those in informal care arrangements.

Sustainability

18. What should the Panel consider when assessing the sustainability of the retirement income system?

19. What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?

In terms of sustainability, the Panel should consider the degree to which the retirement income system is contributing to an increase in the number of people who are partially or fully self-sufficient as a means of reducing the cost of the Age Pension.

The Panel should consider whether the Age Pension means test works to increase self-sufficiency in retirement. This should include analysis of the impact of the current taper rates for both the income and assets tests. National Seniors would argue the current assets test taper rate discourages people for saving more for their retirement, leading to greater overall costs in delivering the Age Pension.

It should also include consideration of the coverage and adequacy of compulsory superannuation as the primary means of helping retirees to use private savings to offset or replace the pension.

Ideally, coverage of compulsory superannuation should be adequately broad so the greatest possible number of retirees can self-fund, even if only in part.

While recent estimates suggest as much as 43% of Australians will be self-funded by 2023 (compared to only 22% in 2000) approximately one in three women and one in four men, across all ages, currently have no superannuation account and that 25% of women and 13% of men will retire with no superannuation.[89]

To be effective as a means of reducing reliance on the Age Pension, compulsory superannuation should set at a level that is adequate to ensure more people retire with adequate amounts of savings. However, research conducted by Rice Warner suggests the

[89] Clare, R. 2019. *Better Retirement Outcomes: a snapshot of account balances in Australia*. The Association of Superannuation Funds of Australia Limited (ASFA). July 2019

current setting of 9.5% is not enough for those on average wages to achieve an adequate retirement income[90].

Given that people on low and middle income would not save unless they had to, it is essential the level of compulsory superannuation is set at an adequate level to reduce the cost of the Age Pension. This will likely require further increase of the superannuation guarantee beyond 9.5%. As it was noted earlier, Australia has a relatively low level of compulsory superannuation compared to most other OECD countries (see Figure 6).

The Panel should also consider the effectiveness of tax concessions. Ideally, concessions should be cost-effective and targeted. They should encourage the greatest number of retirees to become more self-sufficient rather than directing large benefits to a small number of people who would be able to fund their own retirement regardless. The Panel should consider all types of concessions which contribute to the accumulation of wealth in retirement and not just those pertaining to superannuation.

This can only be achieved by analysing the impact of concessions on specific cohorts over a lifecycle.

[90] Rice, M. and Bonarius, N. 2019. *What is the right level of superannuation guarantee?* Paper presented to the Actuaries Institute Actuaries Summit 3-4 June 2019.

20. How can the overall level of public confidence be assessed? What evidence is available to demonstrate the level of confidence in the system?

People are faced with the difficult prospect of planning their financial affairs with significant levels of uncertainty. For example, increasing life expectancy heightens this uncertainty[91]. This uncertainty can be heightened or lessened by the system actively supporting retirement income.

National Seniors believes confidence in the retirement income system is impacted largely by perceptions about complexity, instability and unfairness. This view is supported by both research and anecdotal evidence.

Complexity

Complexity has the capacity to undermine confidence in the system.

The Australian retirement income system increases financial self-reliance because it privatises responsibility for managing wealth and income in retirement. This increases reliance on third parties with specialist knowledge to manage finances in retirement, partly in response to the complexity of managing these affairs. As the superannuation system matures and the wealth of retirees grows, there will be increasing reliance on third parties, such as superannuation trustees and financial advisers.

Evidence from a recent National Seniors and Challenger report shows people are less likely to worry about their retirement income when they have had financial advice and when they thought this advice met their needs.[92]

While evidence suggests that worry about retirement income is lower among those who receive financial advice, this rests on retiree's confidence in those who provide this advice. Events such as the Royal Commission into banking, for example, have served to reinforce an underlying lack of confidence in the many of institutions and organisations which govern over and operate within the retirement income system.

National Seniors was heavily involved in advocacy activities to reform the financial advice sector, which culminated in the FOFA reforms still being implemented. Our participation in this emerged in a large part from the concerns raised by older Australians about the lack of protections for retirees. This concern served to undermine confidence in the financial advice sector as a key part of the retirement income system.

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[91] McCallum *et al* 2018. *Op cit*.
[92] National Seniors and Challenger 2020. *Op cit*.

This reinforces the need for transparency to ensure older Australians can trust those involved in providing financial advice and ultimately the need for protections. Essential in this is the need for information about the performance of the system. For example, a lack of transparency about the fees and performance of superannuation funds hampers confidence because it creates barriers to competition that reduces pressure on poorly performing funds to operate in the best interests of retirees.

Moves by APRA to create the MySuper Product Heatmap to highlight the outcomes delivered by trustees is one example of the tools required to improve competition and assist consumers to make informed decisions[93].

The ability for consumers to easily understand and compare fees and outcomes is core to confidence. Transparency stimulates competition and reduces the incidence of rent seeking or exploitative behaviour.

In this regard, one potential measure of the lack of confidence in the retirement income system is the growth in the number of retirees choosing to use Self-Managed Superannuation Funds (SMSF).

According to research conducted by ASIC, a primary motivation for setting up an SMSF was greater control over how money was invested, with a view that SMSF members would make better decisions than APRA-regulated funds. The research found what could be described as a general lack of confidence in APRA-regulated funds among those with SMSFs. This included perceptions that APRA regulated funds: will not provide enough money in retirement; do not prioritise the interests of members; make poor investment choices; overly expose members to the stock market; have a lack of transparency; and maintain high fees and deliver stagnant growth[94].

However, recent data has shown that growth in the number of SMSFs has slowed and that SMSFs serve a smaller number of members.

> *"As at March 2019 the nearly 600,000 SMSFs in Australia have a combined total of 1,129,542 members. Although this represents less than 5% of Australia's population, they account for $747 billion, or about 27% of the $2.7 trillion invested in superannuation. This is significantly more than the $678 billion in*

[93] Australian Prudential and Regulation Authority (APRA) 2020. MySuper Product Heatmap. Accessed online 22 January 2020.

[94] Australian Securities and Investments Commission (ASIC) 2018. Member experiences with self-managed superannuation funds. Report 576, June 2018.

industry funds (i.e. those run by industry bodies) and the $623 billion invested in retail funds (i.e. those run by financial institutions)."[95]

Instability

Rule changes impact on confidence in the retirement income system.

Changes in the rules governing superannuation and the Age Pension inevitably elicit spikes in negative correspondence and comments from older Australians received by National Seniors.

A common theme in this feedback is frustration at the frequency of change.

> *"Many pensioners, especially those on only part pensions, are confused and intimidated by the changing rules, income reviews, non-transparent rules and regulations encountered with Centrelink. Throw the politicians into the mix, blaming pensioners for being a drain on the economy into the future, and their changing regulations regarding eligibility, asset and income limits, whilst allocating massive funding to projects which don't even make sense, and you have some very cynical and distressed older Australians."*[96]

Stability is well understood as being an inherent problem in the Australian system, affecting confidence among consumers.

> *"With the multitude of policy changes that had been put in place since the introduction of the Superannuation Guarantee in 1992, the superannuation system had become extremely complex, particularly in terms of the taxation of superannuation contributions and end benefits. There were different arrangements for tax on superannuation contributions, earnings and benefits – a lump sum could include up to eight different parts taxed in seven different ways. This made it extremely difficult for people contemplating retirement to understand how their superannuation benefits would be taxed, and also affected younger people considering whether or not to make additional superannuation contributions."*[97]

The criteria of *stability* (along with *equity*, *sustainability*, *adequacy* and *economic efficiency*) was used to compare between the Australian and New Zealand retirement

[95] Super Guide 2019. *SMSF statistics: 1.1 million members with $747bn in super*. 14 June 2019.
[96] Feedback from Older Australian, 23 January 2020.
[97] CEDA 2015. *The super challenge of retirement income policy*. September 2015

income systems in 2013. In doing so, the report drew attention to the heightened instability in the Australian system, which it claimed was undermining confidence.

> *"The changes to the Australian superannuation system in recent years include: repeated erosion of tax concessions over the past four years (noted above), changes to the government co-contribution level and conditions, a proposed increase in the employer contribution rate to 12 per cent (from 2013) and a new and simpler default superannuation product. The 2013 election campaign has seen much speculation about a new tax on withdrawals on large account balances and increases in the contributions tax for high income earners. Changes to the Australian age pension have included a steeper taper in the income test but relaxation of asset taper, and an increase in age of eligibility for the age pension. Many of these changes have some merit individually, but the cumulative effect is to erode confidence in the ability to make durable lifetime saving plans."*[98]

While older Australians generally accept the need for reform where it is fair or reforms glaring inequities, they are sensitive to changes to rules that negatively impact on their income and retirement plans.

Feedback to National Seniors highlights a genuine anger that careful planning and considerable sacrifice over many years can be rapidly undone, often at considerable cost to the retiree who must restructure their affairs to minimise the impacts.

Confidence in the system could be enhanced by minimising policy changes or by delaying changes to provide adequate time for current retirees to adjust. Alternatively, this could be achieved by grandfathering changes so as to not negatively impact those who have made decisions in good faith under existing rules.

Unfairness

Confidence in the retirement income system is also impacted by perceptions of fairness.

Perceptions of the lopsided nature of superannuation tax concessions as accruing benefits disproportionately to the wealthy[99], for example, will likely undermine confidence in the

[98] Guest, R. 2013. *Comparison of the New Zealand and Australian Retirement Income Systems*. Background paper prepared for the 2013 review of retirement income policy by the Commission for Financial Literacy and Retirement Income. February 2013

[99] CEDA 2015. *Op cit*.

system among low- and middle-income workers if they believe they are not benefitting to the same degree.

Equally, National Seniors is aware of a pervasive perception among self-funded retirees, particularly those who view themselves as low-income self-funded retirees, that the system rewards those who do not save for their retirement. This relates primarily to the lack of concessions, and other benefits available to self-funded retirees, particularly those associated with health care, which increase a retirees’ living costs. A retirement system that rewards older Australians who save by giving them access to the benefits associated with the Pensioner Concession Card would remove this inequity. This could be means tested at level that would remove the perverse incentive for some retirees to rearrange their financial affairs simply to get a Pensioner Concession Card.

The issue of system confidence is also evident in debates about intergenerational equity. Perceptions about the inequity of tax concessions is undermining confidence in the system among younger Australians. This could be making them less likely to take an active role in their superannuation at an earlier age. Equally, falling home ownership rates will likely create resentment and undermine confidence in the capacity of the system.

There is a need for government to demonstrate more clearly the system is fair and equitable if it hopes to build and maintain confidence in the system.

This will depend on how well it can demonstrate equity of the system. Given the complexity of the system and the ideological debates about the retirement income system, there is some concern that this could not be communicated without some level of bias.

If confidence in the system continues to be undermined it will perpetuate adversarial debates and intergenerational and intragenerational conflict. We hope the Panel would provide some solutions to resolve this.

Cohesion

21. What should the Panel consider in assessing whether the retirement income system is cohesive?

As noted above, a key issue facing the retirement income system is complexity.

This has important implications for cohesion. As complexity increases, the risk of unintended consequences increases. Changes made to one part of the system can have significant unintended consequences in other parts of the system.

The retirement income system appears to operate as a group of largely siloed parts, each of which appear focused primarily on achieving budget sustainability. While Treasury has primary responsibility for laws governing tax and transfer, it is only part of the wider machinery of government with responsibility for the overall functioning of the retirement income system. Other Departments, such as Health and Human Services also play a role.

For example, while Treasury has primary responsibility for issues surrounding superannuation, rules and regulations governing the Aged Pension, such as deeming rates, are the responsibility of the Minister of Human Services. Given the Minister has discretion over changes to deeming rates, it would appear the failure to change deeming rates (as has historically occurred as interest rates change) indicates a retirement income system based on siloed decision making concerned with budget sustainability, and detached from broader considerations of principles of adequacy and equity.

Ultimately, there should be a single authority with responsibility for cohesion. It should consider the implications of rule changes and apply an approach that balances outcomes against the principles of the system.

Another risk posed by unintended consequences is the possibility that well-meaning changes in one part of the system open exploitation and negative impacts in other parts, which undermines system adequacy, equity and sustainability.

For example, changes to improve sustainability, such as the recent proposal to restrict franking credit refunds to pensioners, had unintended consequences across the entire retirement income system. The risk for low-income self-funded retirees was particularly high given their income was already marginal as a result of a combination of factors including declining investment returns, regressive changes to the assets taper rate and higher expenses (due to ineligibility for concessions available to those on the pension).

Retirees understand that changes in one part of the system can negatively impact on other parts of the system, as this one person clearly articulated to National Seniors.

> *"Given this new policy to be introduced, we have for the first time in 32 years cancelled our Private Health Insurance. This was only made possible by the little bit extra that the franking credits gave us. We worked and saved hard and did without luxuries to set ourselves up in retirement. My super is around 780K and I have some 250000 in shares. That brings in some 38 - 45K a year. Super is not an income: it is drawing down capital. Taxable income 6 - 13K.Imputation refund probably around 5K a year. My next step? I will be selling all my Australian shares and portfolios and investing offshore."*[100]

Retirees want politicians to think carefully and better understand the minds of older Australians.

Attempts to address perceived deficiencies in the retirement system can also have negative consequences for retirees if the system does not fully take into consideration the implications for different cohorts.

National Seniors, for example, in our submission to Treasury regarding the proposal to introduce Comprehensive Income Products in Retirement (CIPRs) to better manage longevity risk argued this change could negatively impact on retirees with limited savings.

According to Rice Warner

> *"Members with small balances are likely to receive a full Age Pension and will hold little superannuation at the time of their death, so it is not important to convert this group into CIPRs."*

Rice Warner have suggested that a CIPR that allocates a proportion of member's fund balance to a CIPR with limited return on death is not appropriate for those with balances of less than $250,000.[101]

This again points to a need to develop and implement modelling to show how current and future rules affect different cohorts to ensure that any future proposals for change take a systems approach that limits unintended consequences.

While it is vital that unintended consequences be minimised, National Seniors would still recommend the Panel consider and put forward possible changes to reduce complexity of the system as ultimately this will increase cohesion.

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[100] Feedback from older Australian, 7 May 2019.
[101] National Seniors Australia 2018. *Submission to the Retirement Income Covenant Position Paper consultation*. June 2018

Another issue is that of the National Disability Insurance Scheme (NDIS). National Seniors is aware that eligibility rules for the NDIS have negative implications for retirees because eligibility is restricted to those incurring a disability before the age of 65.

A person who is disabled after the aged of 65 cannot receive NDIS and must rely on the aged care system to receive support unless they are able to self-fund services.

> *"Up until 65 if you have a serious disability or suffer an event that leaves you with same, the National disability Insurance Scheme provides funds to enable you to acquire the usually costly items you need to move back into the community with adequate equipment, care, therapy etc necessary for any kind of " life" If you are over 65 when such a disability occurs you are plugged into the Aged care system...which is not designed to assist in case of disability, rather the decline which comes with increasing age, needing domestic or personal care for a few hours a week to enable you to stay independent a little longer."*[102]

[102] Feedback from older Australian, 27 December 2020.

22. Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?

National Seniors believes that the current system does not optimise savings decisions by individuals and households over their lifetime.

Putting forward options for reform to the retirement income system, Ingles & Stewart have argued that:

> *"Australia's tax settings for superannuation and our age pension means test are likely to substantially distort savings behaviour, while the age pension means test also distorts work behaviour."*[103]

National Seniors believes the system should provide a more optimal approach to saving that encourages more low- and middle- income earners to save more for their retirement while not discouraging those who save more.

The current system does not adequately encourage low- and middle- income earners (who make up most of the population) to contribute more to their savings, but instead provides excessive incentives for a smaller number of high-income earners to maximise their wealth in retirement (see Figure 11 below).

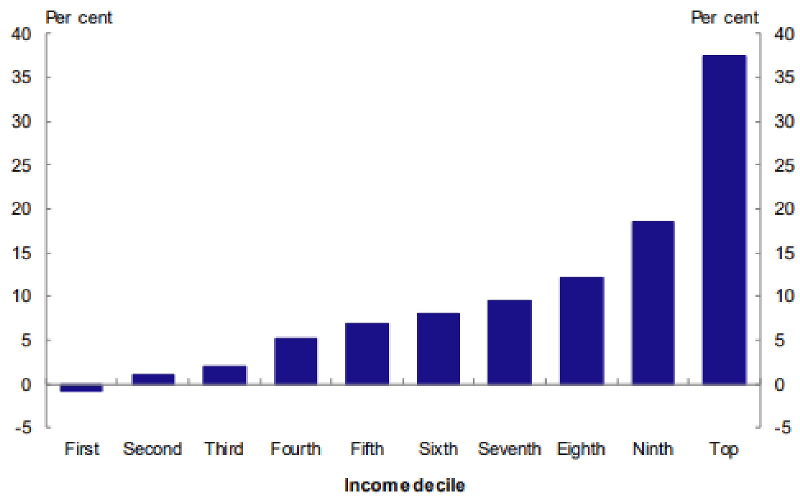

Figure 11: Treasury calculations based on 2011–12 data from the Australian Tax Office. Source: Murray 2014[104]

[103] Ingles, D. and Stewart, M. 2016. Reforming Australia's Superannuation Tax System and the Age Pension to Improve Work and Savings Incentives. in *Asia and the Pacific Policy Studies*. Vol 4, no. 3, pp. 417 -436.
[104] Murray, D. 2014. *Financial System Inquiry – Final Report*. Chart 6, p. 138

While some of this largesse has been curtailed through recent superannuation reforms, such as the $1.6 million transfer balance cap, it is likely that further reform is needed to make the system fairer and more sustainable.

There is also evidence to suggest that high effective tax rates undermine workforce participation among retirees[105], which negatively impacts those low- and middle- income earners (including those with broken work histories) who might need to continue in the workforce to increase or sustain their savings.

Pension means testing rules are overly complicated and are not calibrated to maximise savings in retirement.

As noted earlier, National Seniors believes that the current assets test taper rate creates a disincentive to save. The current taper rate creates an incentive for some retirees to spend rather than save because doing so will generate greater income. This has the potential to reduce self-sufficiency and increase longevity risks.

National Seniors believes that any reform should seek to rectify existing inequalities as a priority but that any significant reform be introduced slowly and carefully to avoid unintended consequences for existing retirees with grandfathering considered as an option for substantial reforms with significant impacts.

[105] Ingles and Stewart 2016 *Op cit*.

23. What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?

National Seniors believes that interactions between pillars can and do influence the behaviour of retirees. Some of these have already been noted in previous responses.

One of the most important factors with the capacity to distort behaviour are means testing rules for the Age Pension.

National Seniors is aware that some older Australians with assets with values close to the cut off for the Aged Pension are taking actions which ensure they receive the pension to obtain the associated benefits.

This entirely rational behaviour is rooted in a belief these benefits should be available to self-funded retirees, particularly those who are not overly wealth, and are saving the government money by not receiving the pension.

This is evident in correspondence from self-funded retirees to National Seniors.

> *"Self-funded retirees are also part of the ageing population; however, they don't need any money from the Government as they are living off their own resources. Given this, why should they not be entitled to receive all the other benefits that are given to old age pensioners and not discriminated against because they were hard working Australians who fund their own retirement?"*[106]

> *"We might have been better financially if we had not saved during our working lives, and did not have superannuation balances despite Government exhortation to do so, so that we could receive the benefits that those who have been less thrifty now receive."*[107]

> *"We have worked very hard for our retirement and be mortgage free. We do not want to be a burden on society nor our children. Medicals costs, energy, utilities, fuel, food etc. are escalating so we need to ensure we have funds available for what has become basics. We can't afford to eat out! We only go to the movies once in a while and on a day when the tickets are for seniors. We notice people on pensions seem to live far better than we do with all their concessions!"*[108]

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[106] Feedback from older Australian, 9 August 2019
[107] Feedback from older Australian, 25 January 2019
[108] Feedback from older Australian, 8 November 2018

> *"Why is it that a self-funded retiree couple who provide for themselves and live on the same amount as a couple on a government pension, do not receive the extra benefits that a government pension gives. i.e.: discounts on registration, electricity, water, council rates, etc."*[109]

> *Self-funded Retirees are also part of the ageing population, but what does the Government do for them? Not much. They still pay taxes like everyone else and don't get any of the benefits that old age pensioners do. The Government should be rewarding self-funded retirees for their contributions to the economy of this country, not punishing them.*[110]

This creating unnecessary resentment between self-funded retirees and pensioners and driving some retirees to consider taking action to enable them to be eligible for these benefits, including investing in the family home, spending money on travel and which has the potential to undermine longer term sustainability, increasing longevity risks.

Age restrictions on superannuation contributions are seen by older retirees as inequitable for those who have not been able to contribute. They have limited investment options outside of shares and term deposits.

Another example is the interactions with aged care. National Seniors hears stories of family members who try to protect the family home from being included in the aged care assets test.

Longevity risk is another area where there are potentially perverse outcomes for retirees. National Seniors often hears from members about their fears of outliving their capital. Preservation of capital is a rational response to this fear. However, it has negative consequences because older Australians withhold spending on things that could improve their standard of living at a younger age.

> *"As a self-funded retiree of limited means and with bank interest disappearing and the stock market tumbling and a unit in my name being used by an out-of-work child we need some help too. In fact, Australians are now being punished for being savers, it seems the government want everyone to be spenders, but will*

[109] Feedback from older Australian, 6 September 2019
[110] Feedback from older Australian, 9 August 2019

> *they look after us when we use up our capital? The days of our pride in not needing any government help are fast disappearing."*[111]

There is also a fear that at some point the cost of ageing will impact on future wellbeing. The regulation of areas such as retirement villages, which come under state and territory jurisdiction, has implications for future wealth that should be taken seriously by government. Recent scandals about the conduct of retirement villages and hearing aid providers, which are either directly regulated or indirectly regulated should

[111] Feedback from older Australian, 5 September 2019

24. What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?

There is limited modelling to demonstrate the outcomes for different cohorts over a lifetime.

Most retirees want to know the system provides equitable outcomes, yet most people interact with the system through its constituent parts. For example, when faced with the need to access help through the aged care system, older Australians see this as something that is separate from the retirement income system. They see it as part of the health system.

However, the application of a means tests to determine eligibility for age care links it to the retirement income system. This should not be surprising because access to subsidised health care (e.g. bulk billing and subsidised medicines) is also tied up with the retirement income system through Age Pension means testing.

This raises the question as to whether it would be simpler to remove the means testing, which restrict access to health care, and recoup these extra costs through the higher taxation of retirement income or through higher contributions to Medicare.

25. What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?

As noted in response to questions 2 and 3, National Seniors believes most people would not have sufficient knowledge and understanding of the retirement income system without some form of help. As such are unlikely to be able to achieve their desired retirement income outcomes without seeking formal financial advice.

Research conducted by National Seniors showed that only about 9 per cent of respondents stated they did not need financial information for retirement, with a majority (59%) reporting they got financial information from a financial adviser. Most respondents used multiple sources of information to help them in their retirement decision making.[112]

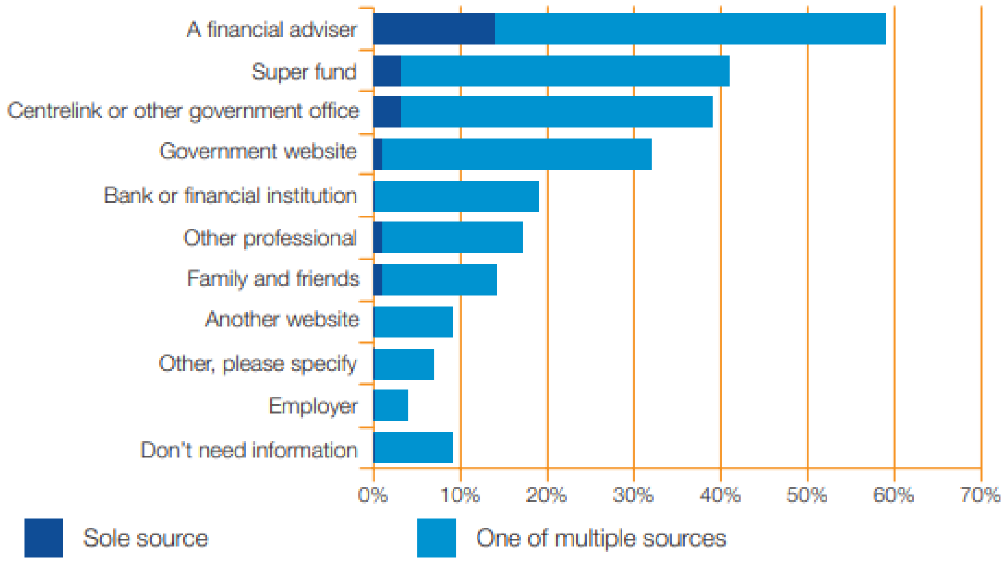

Figure 12: Source of financial information for retirement[113]

National Seniors believes the system is too complex for most people to understand. It requires specialist knowledge. This increases the need for greater accountability in the provision of advice to ensure the long-term interests of older Australians are protected. It is in the interests of government to ensure that the financial services sector operates in the best interests of consumers as this will impact on adequacy and sustainability of the retirement income system.

[112] National Seniors Australia and Challenger 2017. *Op cit*.
[113] National Seniors Australia and Challenger 2017. *Op cit*.

26. Is there sufficient integration between the Age Pension and the superannuation system?

There isn't sufficient integration of the Age Pension with the superannuation system. As argued earlier, Age Pension rules are complex and should be simplified so that there is less opportunity to undermine savings and for there to be perverse outcomes.

Alternatives to the current means testing regime, including a single means test, changes to the taper rate, or removing the means test in favour of taxation (as in New Zealand and Canada) may make integration between superannuation and the pension simpler.

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