



The super challenge of retirement income policy

September 2015

The super challenge of retirement income policy

September 2015

About this publication

The super challenge of retirement income policy

© CEDA 2015

ISBN: 0 85801 301 0

The views expressed in this document are those of the authors, and should not be attributed to CEDA. CEDA's objective in publishing this collection is to encourage constructive debate and discussion on matters of national economic importance.

Persons who rely upon the material published do so at their own risk.

Design: Robyn Zwar Graphic Design

Photography:

Page 25: Sign outside a Gold Coast aged-care facility, AAP Image/Dave Hunt, April 2015

Page 53: Pensioners protest on the footsteps of Flinders station, Fairfax Media/Joe Castro, May 2008

Other images iStock

About CEDA

CEDA – the Committee for Economic Development of Australia – is a national, independent, member-based organisation providing thought leadership and policy perspectives on the economic and social issues affecting Australia.

We achieve this through a rigorous and evidence-based research agenda, and forums and events that deliver lively debate and critical perspectives.

CEDA's membership includes 700 of Australia's leading businesses and organisations, and leaders from a wide cross-section of industries and academia.

It allows us to reach major decision makers across the private and public sectors.

CEDA is an independent not-for-profit organisation, founded in 1960 by leading Australian economist Sir Douglas Copland. Our funding comes from membership fees, events and sponsorship.

CEDA – the Committee for Economic Development of Australia

Level 13, 440 Collins Street

Melbourne 3000 Australia

Telephone: +61 3 9662 3544

Fax: +61 3 9663 7271

Email: info@ceda.com.au

Web: ceda.com.au



Contents



Foreword	4
Introduction	6
Executive Summary	8
Recommendations	11
CEDA Overview	14



Chapter 1	25
Historical development and recent reforms	
Dr Diana Warren, Research Fellow, Australian Institute of Family Studies	



Chapter 2	41
Fixing the superannuation policy mess	
Professor Stephen King, Professor of Economics and co-director of the Business Policy Forum at Monash University	
Dr Rodney Maddock, Adjunct Professor in Economics, Monash University; Vice Chancellor's Fellow, Victoria University	



Chapter 3	53
Australia's retirement system. How does it stack up?	
How can we improve it?	
Dr David Knox, Senior Partner, Mercer	



Chapter 4	65
Living income- and asset-poor in retirement	
Dr Judith Yates, Associate Professor, School of Economics, University of Sydney	

Acknowledgements	82
------------------	----

Foreword



Australia's retirement income system is well-regarded internationally, both in terms of providing for a decent and adequate life in retirement and the system's governance.

However, two trends, our ageing population and decreasing housing affordability, mean the structure and policies in place now may not be robust enough to ensure Australians can retire comfortably in the future and are likely to put unsustainable fiscal pressure on the Federal Budget.

The 2015 Intergenerational Report found that Australia's aged dependency ratio (the number of people over 65 for every working-age person 15 to 64) is expected to double over the next 40 years, meaning there will be significantly fewer taxpayers supporting a growing demand for pensions and services including health and aged care.

In addition, the rate of home ownership is continuing to decline among young Australians.

This is relevant to retirement policy because currently retirement is funded through a combination of: the publicly-funded Age Pension, superannuation and voluntary savings. Owner-occupied housing – essentially the family home – is a key component of voluntary savings.

Older Australian households have a high rate of home ownership (currently 85 per cent), contributing to the current lack of concern about older renters.

However, a lack of housing affordability now is likely to mean that over the next 40 years more people will retire without owning their home and an increasing number of retirees are likely to be at the mercy of the private rental market.

We know from CEDA's report *Addressing entrenched disadvantage in Australia*, released in April this year, that between 1 and 1.5 million Australians already live in poverty and the elderly, particularly those who do not own their home, are an at-risk group. In fact, the overall poverty rate of older people in Australia is three times the OECD average, and one of the highest.

In light of these trends, the current structure of our retirement system needs to be reviewed or we run the risk of more Australians living in poverty in retirement.

CEDA is recommending that in addition to reviewing taxation arrangements on superannuation and owner-occupied home mortgages, superannuation funds should be able to be invested in owner-occupied housing.

We recognise that each of these policy recommendations comes with their own issues, for example making mortgage repayments pre-tax could contribute to pushing house prices up. However, with the right combination of policy levers and checks and balances they are genuine options that should be explored given the trends we are now facing.

Confirming the objectives of the system would also go a long way to alleviating the current confusion among the public, industry and the government.

The constant tinkering around retirement income policies makes it difficult for those planning their retirement to make informed decisions about how best to fund their retirement.

Uncertainty may also prevent people from responding to policy incentives if they are unconvinced that the policies will be in place for a long time.

What we need is a frank, bipartisan review of our country's expectations for our retirement system and the changes necessary to ensure it can continue to live up to those expectations for future generations.

I would like to thank the contributing authors and the CEDA Advisory Group for the quality of their contributions, input and oversight.

I hope, as always, that you find this CEDA publication an informative and useful resource.



Professor the Hon. Stephen Martin
Chief Executive
CEDA

Introduction

This policy perspective evaluates Australia's retirement income system and assesses the respective roles of superannuation and government. The authors' contributions each focus on different aspects of Australia's retirement income system – its history including the impacts of recent reforms, the many challenges including associated market failures, international benchmarking, and the role of home equity in the system.

Contributions

Chapter 1: Historical development and recent reforms

Dr Diana Warren describes Australia's current retirement system and summarises the historical development of Australia's three-pillar retirement income system: the Age Pension, the superannuation system and private voluntary savings. She concludes that the inconsistency in government regulation and retirement income system policies makes it difficult for Australians to make informed decisions and to adequately plan for their retirement. She calls for the existing system to be simplified and for greater policy stability and certainty.

Chapter 2: Fixing the superannuation policy mess

Professor Stephen King and Dr Rodney Maddock discuss five market failures and behavioural biases (myopia, agency, taxation, free riding, and risk aversion) that underlie the retirement savings system in Australia, and explore the implications of their findings for public policy. They conclude that compulsory superannuation

should be seen as a way to help people fund their retirement and not as a way to save the government money. They also propose making superannuation an after-tax payment to address equity concerns and they recommend similar treatment for real and financial assets.

Chapter 3: Australia's retirement system. How does it stack up? How can we improve it?

Dr David Knox compares the pension systems of 25 countries across the world (including Australia), and identifies potential areas of improvement. He finds that Australia has one of the world's best systems, rating second overall. His recommendations include: confirming and legislating retirement income system objectives (a reasonable pension for the poor and the provision of reasonable retirement incomes to maintain living standards); increased focus on the provision of lifetime retirement incomes; and encouraging workers not to retire early but to remain in the labour force.

Chapter 4: Living income- and asset-poor in retirement

Dr Judith Yates discusses the critical contribution made by housing in sustaining living standards and alleviating poverty in retirement. She finds that this is particularly prominent in Australia due to our current relatively high home ownership rates. Falling home ownership rates among younger Australians could lead in the future to more people in retirement living in poverty. In the short-term, she recommends increasing the Commonwealth Rent Assistance, but also suggests necessary longer term reforms such as improving the supply of affordable rental housing and improving housing affordability.

Acknowledgements

CEDA wishes to acknowledge the input and expert advice from the CEDA Advisory Group in the development of this policy perspective. The CEDA Advisory Group consisted of:

- Patricia Faulkner AO, former Chair of the Board of Superpartners
- Professor Susan Thorp, Professor of Finance, University of Sydney Business School
- Professor John Freebairn, Professor, Department of Economics, University of Melbourne

These distinguished experts provided guidance in the creation of the report and input into the final recommendations. However, the final report is entirely the responsibility of CEDA and of the individual authors.

Executive Summary

Australia's three-pillar approach to retirement income is internationally well regarded. However, many Australians currently approaching retirement face potential poverty, especially if they do not own their own homes. Australia's aged dependency ratio (the number of people over 65 for every working-age person 15 to 64) is expected to double over the next 40 years, and the Australian Government recognises that current arrangements are fiscally unsustainable.

Many Australians nearing retirement age today have not had compulsory superannuation for their entire working lives. While this issue will abate as the system matures, Australians are still worried they are not saving enough to live comfortably in retirement.

Home ownership is a growing retirement issue. Renters not only have no owner-occupied housing wealth, but they also have considerably lower holdings of other forms of wealth. In younger households, the net wealth of owners is around double that of renters. In older households, the net wealth of owners is around six times higher than that of renters.

While home ownership among current retirees is up to 85 per cent, increasing numbers of retirees do not own their own dwellings and live at the mercy of the expensive private rental market in low economic resource (LER) households. The number of older income- and asset-poor households is likely to grow rapidly over the next 40 years, and many are likely to be in the private rental market.

An asset is an asset

People build up assets while they are working. For most Australians, the main forms of lifetime savings are superannuation and owner-occupied housing. It is unhelpful to make sharp distinctions between financial assets (e.g. superannuation) and real assets (e.g. housing). Both determine people's retirement living standards, and it is arguable that both should be treated the same for tax purposes.

Compulsory superannuation should be seen as a way to help people fund their retirement – not as a way to save the government money. Of course, if retirees have enough resources, they will not need to access the pension thereby saving the government money – however, saving the government money should not be the primary objective.

Superannuation carries taxation concessions which primarily benefit the rich, with the top 20 per cent of income earners accounting for 58 per cent of superannuation tax concessions (including concessions on earnings). This is an equity concern.

Compulsory contributions to superannuation should be paid out of people's after-tax income (or alternatively allow mortgage payments to be made from pre-tax income). This would allow two important components of retirement savings – superannuation and the family home – to be treated the same.

No place like home

Housing makes a critical contribution to sustaining the living standards of older households, especially those on low incomes.

More than 70 per cent of renter households are single adult households. Of these, most are women. In 2011–12, more than one third of older LER renters were in the private rather than the public rental system.

Older renters are far more likely to experience persistent poverty than other households. They might go without meals, be unable to heat their homes, and be unable to afford leisure or hobby activities. Also, too often private rental is either unaffordable or inappropriate in terms of design or access to services. Many older renters are at risk of becoming homeless for the first time. The resultant incidence of housing stress and after-housing poverty is unacceptably high for older, lower-income private renters.

Despite growing need, the stock of low rent dwellings has been steadily declining for more than a generation. Since the mid-1990s, the absolute number of dwellings in public rental has halved to four per cent of Australia's total dwelling stock.

Current criteria for allocating social housing rate mental illness, addiction issues, physical disability, and domestic violence ahead of housing affordability problems.

For more than 30 years, there have also been significant reductions in home ownership rates among successive cohorts of younger households. Home ownership rates in the future are unlikely to fully recover from their current 30+ year lows.

As the number of renters increases, a growing share will end up in the private rental market with its escalating costs. Currently, the share of LER older households in the private rental market is less than 40 per cent (two of every five renter households). If there is no increase in the amount of public housing available for older people, the share could increase to almost 70 per cent (seven of every 10).

If the proportion of older people living independently as renters remains the same as it has for the past 40 years, then the number of older renters will also more than double – from around 300,000 households in 2014 to more than 600,000 in 2054. Presuming the proportion of older LER households remains the same, most of these older renters will be income- and asset-poor.

Reform areas

Retirement income reforms underway around the world include increasing retirement or pension eligibility ages; a greater focus on funding future benefits through increased contributions; improving the coverage of the private pension system; reducing the level of indexation for pensions; encouraging labour force participation at older ages; and a greater focus on governance, fees and regulation.

To engender long-term community confidence, benefits must be adequate; the system must be sustainable over the longer term; the system must be perceived to be fair and, above all, must be simple to understand.

Recommendations

The recommendations that follow consolidate and build on those of the contributing authors, with the aim of informing policy that ensures a prosperous and dignified retirement for all Australians.

Recommendation 1: Adopt clear and consistent objectives

There is disconnect and confusion among the public, industry and the government regarding the objectives of the retirement income system. Some members of the public see the Age Pension as an entitlement; the finance industry is more concerned about the superannuation aspect of the system; and the government's focus is on the associated expenditure and perceived fairness.

To help Australians confidently plan their retirement, government should confirm and communicate clear and consistent retirement income system objectives. Any proposed policy reforms should reflect these objectives. Fiscal sustainability, while important, should not be the primary or only focus of the retirement income system. The primary objective should be to:

- Ensure that all Australians retire with dignity and decent living standards.

Within the system, the objectives should be to:

- Provide a social safety net for those Australians who cannot afford to save enough (or at all) for retirement; and
- Help people save for retirement and manage the associated financial and longevity risks.

Policy clarity would offer Australians peace of mind when planning for retirement.

Recommendation II: Recognise housing as the fourth pillar of the system

Owner-occupied housing (also known as the family home) is a key component of the third pillar of the retirement income system (voluntary private savings). However, the system should better recognise the extent to which owner-occupied housing contributes to household wealth and retirement liveability. People who do not own homes are exposed to the high-cost rental market and risk poverty in retirement. Home ownership continues to decline among young Australians, more of whom are expected to retire without owning a home.

The government should recognise the role of housing in poverty alleviation and in contributing to the objectives of providing for a decent retirement. It should:

- Allow first home buyers to access superannuation funds to purchase owner-occupied housing; and
- Address housing affordability, including for rental and social housing.

Recommendation III: Address superannuation taxation inequity

The government should reconsider providing taxation incentives for superannuation whereby contributions up to a certain amount attract a concessional tax rate. This benefits high-income households the most, contributing to equity concerns. It also treats superannuation more favourably than other forms of retirement savings, such as the family home. With superannuation contributions already compulsory, taxation incentives are not needed.

The government should redesign the retirement income system. It should:

- Mandate that superannuation contributions be made from after-tax (net) income; and
- Include the family home in the assets test for the Age Pension as part of the same reform.

This reform would address equity concerns around taxation incentives, and would align the treatment of superannuation and housing – both critical determinants of a comfortable retirement.

Given the importance of housing for retirement, another option would be to allow mortgage payments to be made pre-income tax. This would allow two important components of retirement savings – superannuation and the family home – to be treated the same.

Recommendation IV: Provide innovative post-retirement products

The majority of retirees taking lump sum superannuation pay outs are using them to pay off mortgages, conduct home repairs, pay off debt, or otherwise invest towards future living costs. There is little evidence that discretionary consumption followed by reliance on the Age Pension is a problem. However, there is evidence that retirees are not confident managing their finances in retirement – they are prone to under-consume and save.

Superannuation funds could provide products that offer longevity protection to help retirees better manage their funds and reduce under-consumption. Examples include:

- Income stream products, particularly, deferred lifetime annuities whereby income payments are delayed until a certain age is reached, that are innovative by for example being customised to a particular type of profession; or
- Group self-annuitisation (GSA) schemes, whereby funds are pooled and paid to survivors – either once they reach a certain age (potentially as income streams), or as a regular payment.

More products would add to consumer choice, especially as the system continues to mature.



CEDA overview

Sarah-Jane Derby

CEDA SENIOR ECONOMIST

Australians are living longer and enjoying more time in retirement than ever before. However, the ageing population has created concerns around the fiscal sustainability of the system, particularly the Age Pension, and there are growing concerns that Australians are not saving enough to contribute to their own comfortable retirement.

The public policy debate around Australia's retirement income system is currently dominated by the system's rising costs and projections, and options for alleviating future budget demands. The *2015 Intergenerational Report: Australia in 2055*, predicted that the aged dependency ratio – number of working-age persons for every person over 65 – will almost halve over the next 40 years.

In particular, the retirement system discourse has focused on changes to the retirement age and policies aimed at reducing dependence on the Age Pension, such as tweaking the assets test.

While it is reasonable and responsible to concern ourselves with the growing system costs, it is not the only debate that policymakers need to have.

The objectives of the retirement income system lack clarity. Until we know precisely what we want the system to achieve, and the role we want governments to play, it will remain a challenge to agree on the best policy settings for meeting the demands of our ageing society. Policymakers, the industry, and the public will also continue to be confused about the desired role of superannuation within the system, and how it should interact with the Age Pension.

In this policy perspective, the authors assess the role of superannuation and the role of government in the retirement income system by looking at the market failures associated with retirement incomes, international benchmarking and the role of housing as a fourth pillar in the Australian system.

The three pillars

Australia is not alone in having to deal with an ageing population. Most advanced economies are grappling with the challenges of supporting their retired citizens, given low birth rates (partially offset in Australia by immigration) and rising life expectancies.

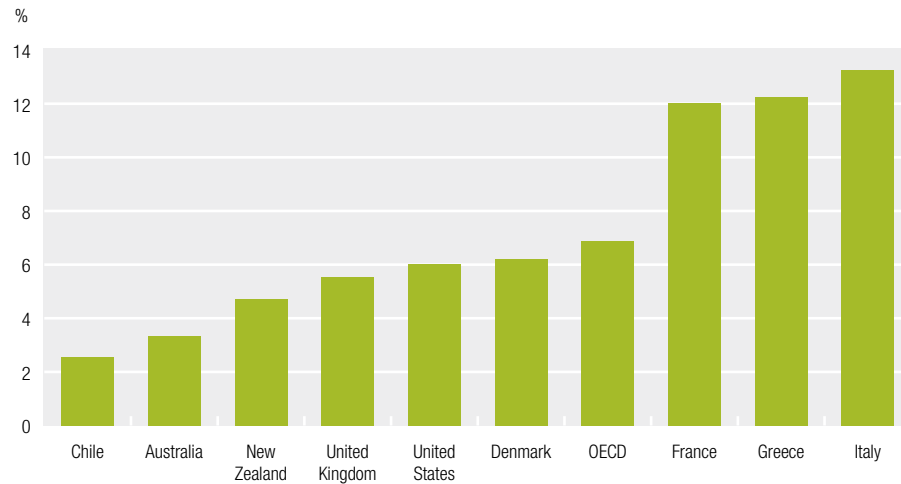
The aged dependency ratio has been falling for decades. It declined from 7.3 working-age people for each retired person in the mid-1970s to 4.5 today, and is predicted to reach 2.7 in the next 40 years.¹ Fewer taxpayers supporting a growing number of retirees for longer periods, means funding Age Pensions will be a greater challenge.

The good news is that Australia's retirement income system is well-placed to deal with the problem. The system is internationally regarded as being one of the best in the world – it provides for a decent and adequate life in retirement, and is currently well-governed.² In Chapter 1, Dr Diana Warren discusses the retirement income system in detail.

Australia's three-pillar approach to retirement incomes was endorsed by the World Bank in 1993 as world best practice. The three pillars are:

1. A basic publicly-funded pension;
2. A privately-provided pension; and
3. Voluntary savings.

FIGURE 1
AGED PENSION EXPENDITURE AS A SHARE OF GDP; SELECTED OECD COUNTRIES

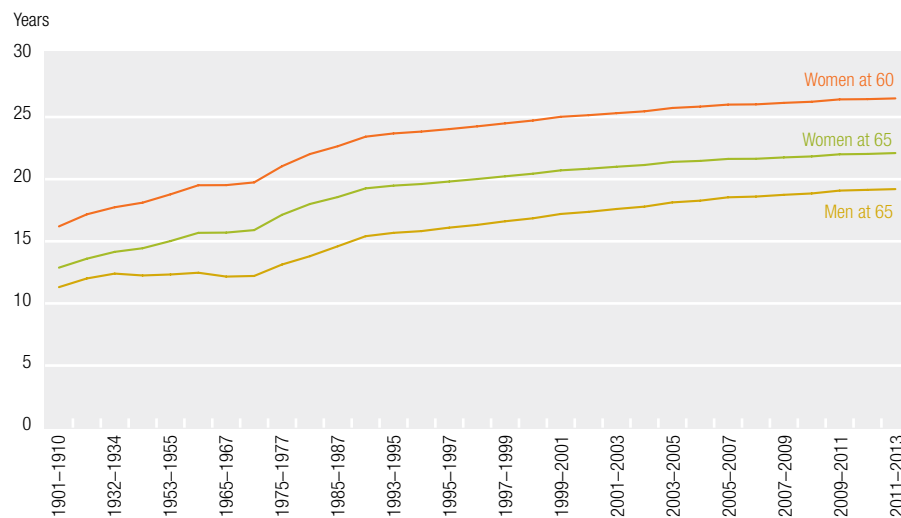


Source: OECD

1. **The Age Pension** is available to those aged 65 and over (gradually increasing to 67) subject to a means tests. The Age Pension is set at 25 per cent of average male total weekly earnings and is funded by taxpayers. Age Pension expenditure has risen from about 3.0 per cent of GDP in 1980 to about 3.3 per cent today and is expected to increase to 3.8 per cent by 2055, assuming business-as-usual policies.³ However, Australia's expenditure is relatively low compared to the OECD average, as shown in Figure 1.⁴

In 1909, when the Age Pension was first introduced, Australians had to be at least 65 years old to qualify; yet post-retirement life expectancy was about 11 years for men and 13 years for women.⁵ Today, we can expect to live for at least 20 years past the retirement age. Between 2017 and 2023, eligibility for the Age Pension will rise from 65 to 67 years of age. The eligibility age for men has been the same since 1909⁶, despite life expectancy in retirement almost doubling, as shown in Figure 2.

FIGURE 2
LIFE EXPECTANCY AT RETIREMENT



Source: ABS Cat 3105.0 and Cat 3302.0

2. **The superannuation system.** The compulsory superannuation guarantee charge (paid by employers on behalf of their employees) is currently at 9.5 per cent (gradually increasing to 12 per cent by 2025). Meanwhile, funds can be accessed at 55 years of age (gradually rising to 60). The government offers incentives within the superannuation system in terms of tax concessions and co-contributions, meaning the system carries a budgetary cost.

The government introduced compulsory superannuation in the early 1990s partly in response to concerns around the ageing population and adequacy in retirement. Superannuation funds are generally managed by the private sector. Prior to its introduction, superannuation was mostly confined to the public sector and the high end of the commercial sector. Making it compulsory extended it to an almost universal coverage.⁷ The system is not yet mature, i.e. today's retirees have not had compulsory superannuation for their entire working lives. As the system continues to age, some of the concerns around people retiring without adequate income should abate.

3. **Voluntary savings,** including anything from cash to other assets such as shares. Housing, particularly owner-occupied housing, or the family home, is an important part of this pillar. Government's involvement is indirect – for example, through tax raised on interest, and on capital gains tax exemptions on the family home.

In 2005, the World Bank extended the three-pillar approach to the following more comprehensive five-pillar approach:

1. A government-funded basic pension, universal or means-tested
2. Compulsory publicly-managed pension with private contributions
3. Compulsory privately-managed pension with private contributions
4. Voluntary privately-managed pension with private contributions
5. Voluntary savings outside of the system

The Australian retirement income system has all but one of the five pillars, namely Pillar 2, a compulsory publicly-managed pension plan with private contributions from employers and individuals, common in many European countries.⁸

The silver lining

In Chapter 3, Dr David Knox compares the pension systems of 25 countries (including Australia), using more than 40 factors. The analysis grades countries according to the adequacy, sustainability and integrity of their respective retirement funding systems. Despite not having a social security arrangement for pensions, our retirement income system still fares well on the global scale. Australia ranks second overall and does well on each sub-index (adequacy, sustainability and integrity).

Based on this international benchmark, for Australia to improve our system further at least 50 per cent of retirement benefits would need to be taken as an income stream. One of the arguments for income streams is that they minimise the risk of retirees running out of money too quickly. Another is that they address suspicions that retirees are withdrawing lump sums, spending them on discretionary consumption such as holidays, and then reverting to dependence on the Age Pension (known as drawdown behaviour and referred to colloquially as ‘double dipping’). This concern is exacerbated because Australians can access superannuation years before they reach the qualifying age for the pension.

The double dipping debate is rife in Australia but the fear does not stand up to scrutiny. There is no evidence of it being a genuine problem. On the contrary, the evidence suggests that lump sum withdrawals are concentrated among those with low superannuation balances⁹ (the median value of lump sums being about \$20,000) and these are primarily used to reduce debt (mortgages in particular) and to invest in other assets.¹⁰ Only about eight per cent of lump sum withdrawals are used for discretionary consumption.¹¹ Mandating income streams for those with such low balances would not provide a significant income flow. Furthermore, people on low balances would still qualify for the Age Pension regardless, making the double dipping argument invalid in those instances.

There is no evidence that Australian retirees are overspending in retirement. In fact, retirees are so risk averse that they underspend and even save.¹² A third of Age Pension recipients are net savers, and another third (typically homeowners) maintain their savings.¹³

However, managing longevity is proving a challenge for retirees. More post-retirement products could help retirees better manage their finances and help address under-consumption. Better and more innovative products would also improve our international performance and would add to consumer choice.

Options include products with a strong focus on lifetime retirement income, such as deferred lifetime annuities whereby the income stream payments are deferred until a certain age is reached. Innovative superannuation providers looking beyond a one-size-fits-all approach could also develop customised products for different professional groups. Group self-annuitisation (GSA) schemes are also growing in popularity, whereby funds are pooled and paid to survivors – either once they reach a certain age (including as potential income streams) or as regular payments.

“The double-dipping debate is rife in Australia but the fear does not stand up to scrutiny. ... Only about eight per cent of lump sum withdrawals are used for discretionary consumption.”

The super challenge

The good international standing of Australia's retirement income system is somewhat at odds with the local policy debate. This is partly because our compulsory superannuation system is not yet mature. It is also because, more than 20 years after its introduction, a lack of consensus prevails around its objectives. The objectives were clear when compulsory superannuation was first introduced, but this is no longer the case.

The retirement income system's primary objective should be to ensure that Australians retire in dignity with decent living standards – implying that the system should provide reasonable income to maintain retirees' living standards, with a safety net for those who are unable to provide for themselves. While this principle seems straightforward, intense debate continues around the system's objective and the desired roles of, in particular superannuation and the Age Pension.

The Age Pension accounts for about 10 per cent of government expenditure growing annually at about four per cent¹⁴, raising concerns around its fiscal sustainability. The government's priority is to return to budget surplus as soon as possible. Hence, its objective is to contain the costs of the Age Pension¹⁵, as reflected in its recent tightening of the means test for Age Pension eligibility.

On the other hand, many Australians view the Age Pension as a right rather than a safety net – an entitlement for having paid tax their entire lives. This view appears to be shifting, possibly as increasing numbers of people are covered by superannuation. Today, only 11 per cent of women and 13 per cent of men rate eligibility for the Age Pension as the most important determinant when timing their retirement.¹⁶

The primary objective of the Age Pension should be to provide a social safety net for all Australians who need it. Those able to support themselves in a comfortable retirement should not need to access the safety net. Containing the costs of the Age Pension should not be a primary objective.

Similarly, the primary objective of superannuation should be to help adequately fund people's retirement. That is, to help retirees manage the associated financial and longevity risks, including helping Australians manage their consumption and saving habits across their lifetime to optimise living standards (lifetime consumption smoothing).¹⁷ The 2014 Financial Services Inquiry recommended this as a system objective, albeit a subsidiary objective. Its primary objective was that superannuation should replace or supplement the Age Pension.¹⁸ While reducing burden on the pension is important, it should not be superannuation's primary role.

The implication for policy is clear – the rationale for policy reform should be to meet the primary objectives of the system. In some instances it would just involve minor policy reframing – for example, reframing pension age increases as a response to people living longer in retirement rather than as a response to the growing budgetary burden. Or reframing the rise of the superannuation guarantee

charge to 12 per cent as a mechanism for ensuring people save enough for retirement, rather than as a way to reduce their dependence on the public purse.

Helping people fund their own retirement and reducing the burden on the Age Pension are not mutually exclusive objectives. In fact, as the superannuation system matures and the superannuation guarantee charge rises to 12 per cent, we should see a decline or plateau in the proportion of retirees completely reliant on the Age Pension, which is desirable. Over the past decade, the proportion of Australians aged 60 and over receiving the full Age Pension, has already declined.¹⁹

Having a clear consensus around the objectives of the system would be one step forward. Policy changes to individual pillars need to reflect the system's overarching objectives – not contradict them. Further, confirming and communicating transparent, clear and consistent objectives would help Australians plan for retirement without the worry of future inconsistent policy changes.²⁰

The fourth pillar

Home ownership is an important aspect of Australia's retirement income system – so important that it is often allocated its own (fourth) pillar, to differentiate it from the other types of voluntary private savings that occur within the third pillar of the system. Home ownership makes a significant impact on people's wealth at retirement, on retirees' standards of living, and on alleviating the risk of poverty in retirement.²¹

Australia's home ownership rates are above average: currently about 84 per cent of older households are home owners, almost 10 percentage points above the OECD average²², and more than half of household wealth is held in property, especially owner-occupied housing.²³

High home ownership rates means that the implications of being asset-poor are often confined to poverty research and not necessarily discussed within the context of retirement income policy.²⁴ Yet, those who retire without a home (the asset-poor) find life difficult in retirement and often live in poverty.

In Chapter 4, Judith Yates discusses the extent of the problem. She finds that in younger households, owners' net wealth is around double that of renters. In older households, owners' net wealth is around six times higher than that of renters. The average superannuation balance for renters at 65 (around \$70,000) is about 40 per cent of that of homeowners – too low an amount to support a decent retirement, bearing in mind the high and escalating costs of rent.

If the retirement income system's objective is to deliver dignified retirements with decent standards of living, policy reform should allow for the significant contribution of the family home to that objective. The contribution of housing to decent living standards is recognised by not including the family home in the Age Pension

“...in younger households, owners' net wealth is around double that of renters. In older households, owners' net wealth is around six times higher than that of renters.”

assets test, by setting higher Age Pension rates for non-homeowners, and by providing rent assistance.²⁵ However, this recognition does not go deep enough and each subsequent Intergenerational Report has failed to grasp the importance of housing to retirement incomes.²⁶

While this issue may currently be confined to a low percentage of Australian households, it is a problem that can only grow. Home ownership rates continue to decline among younger households aged 25 to 44 years, partly due to a fall in housing affordability that hits first home buyers the hardest.²⁷ This will have a flow on effect and the number of people retiring without the security of their own home will only increase.

“Home ownership rates continue to decline among younger households aged 25 to 44 years, partly due to a fall in housing affordability that hits first home buyers the hardest.”

As a short-term measure to improve living standards, the government should consider increasing rent assistance to retirees. As a longer-term measure, to help address declining home ownership rates among younger households, the government should consider allowing first home buyers access to their superannuation to help fund the purchase.

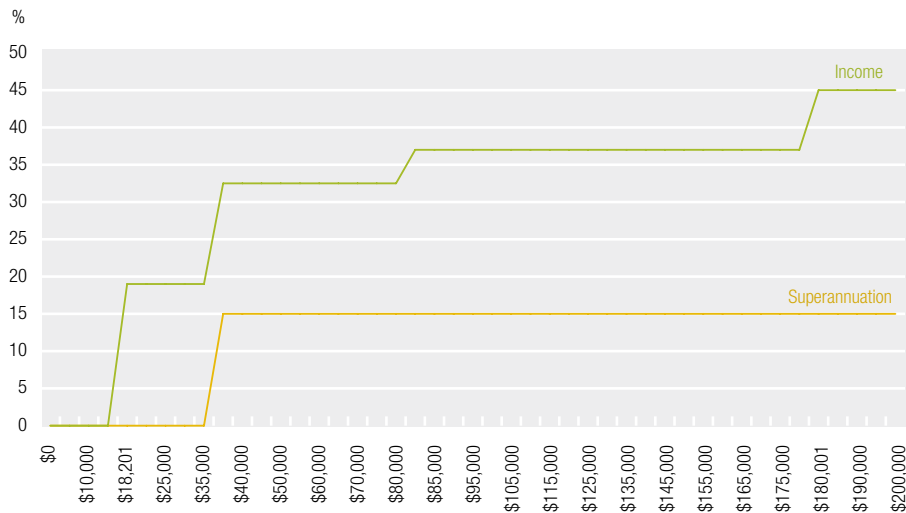
There are some problems associated with allowing superannuants to access their funds to buy houses. When the Federal Treasurer Joe Hockey publicly raised the idea in early 2015, it was criticised for being at odds with the superannuation objective.²⁸ However, it is not such a bad idea to treat housing and superannuation in the same way for retirement purposes, as discussed in the next section.

Implementation would have to be carefully designed. For example, the Age Pension assets test might want to include housing bought (albeit partially) through superannuation. Concerns that allowing access to superannuation for house purchases could result in higher demand that further boosts house prices, might be offset by addressing affordability through better housing policies. Such housing affordability policies could also consider supply-side issues and the current taxation treatment of housing.²⁹ Another option would be to improve the affordability of rental housing.

The taxation debate

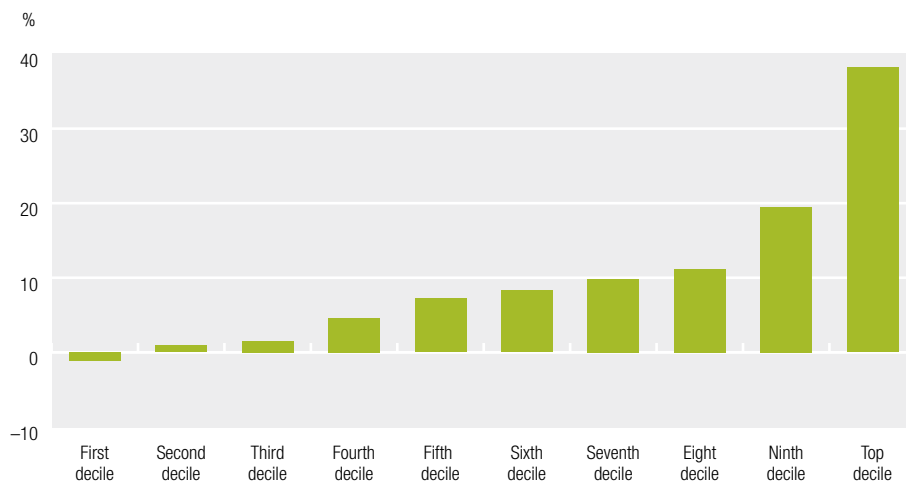
In chapter 2, Professor Stephen King and Dr Rod Maddock discuss the role of government in retirement incomes, given the associated market failures. The primary market failure is people’s reluctance to save for retirement, which is addressed through compulsory superannuation and its role in lifetime consumption smoothing. However, superannuation is just one type of retirement savings that people accumulate during their working lives. Retirement savings are a combination of assets, real (e.g. housing) and financial (e.g. superannuation). Even though the family home is not necessarily an asset used purely for retirement purposes (unlike superannuation), it still forms a critical component of the retirement income system, particularly in Australia.

FIGURE 3
TAX RATES



Source: ATO, DSS

FIGURE 4
SHARE OF CONCESSIONS BY INCOME DECILE



Source: Treasury

At present, government policy treats real and financial assets differently, even though both types of assets are used to fund retirement. Most notably, superannuants are currently not allowed to withdraw superannuation funds (in accumulation phase) to purchase a house.³⁰ Allowing this not only makes sense from the perspective of securing retirement assets, but it would also more closely align the treatment of superannuation and housing.

The taxation treatment is also different – for example, superannuation contributions are made pre-tax and contributions of up to \$30,000 a year attract a concessional tax rate of 15 per cent once in a fund.³¹ While housing does also attract some preferential tax treatment³², in most instances, houses can only be purchased post-income tax. Figure 3 shows the difference between the marginal income tax and the superannuation rates.

The difference between taxation approaches for superannuation and income (which is then saved, including for retirement) has sparked equity concerns. Taxation incentives mostly benefit the rich, with the top 20 per cent of income earners accounting for 58 per cent of superannuation tax concessions (including concessions on earnings), as shown in Figure 4.³³ There have been calls to increase superannuation taxes usually by making them more progressive.³⁴

Compulsory superannuation contributions already address the market failure of people's reluctance to save. It is therefore unclear why the government should provide taxation incentives on voluntary pre-tax superannuation contributions, in addition to compulsion.

The participation rate in voluntary contributions (pre- and post-tax) has been declining and is currently at less than 25 per cent.³⁵ People who do not make additional contributions cite lack of affordability and the burden of mortgage repayments as their primary reasons. Less than 10 per cent attribute their reluctance to insufficient tax incentives.³⁶ A recent literature analysis of the impact of taxation incentives on retirement savings concluded that the effect of the superannuation tax incentive was not significant.³⁷ Once again, there is little evidence to justify taxation incentives.

As a long-term solution, the superannuation system needs to be redesigned – superannuation contributions should be an after-tax payment that effectively removes concessional taxation rates, and the family home should be included in the Age Pension assets test. Given the importance of housing for retirement, another option would be to also allow mortgage payments to be made pre-income tax.

Making the superannuation guarantee charge an after-tax payment (and including owner-occupied housing in the Age Pension assets test) would address the disparity between the treatment of superannuation and housing assets, as both contribute to retirement. It would also help address equity concerns around the differences between income and superannuation tax treatments.

As with all policy suggestions, any proposals need further work including modelling to ensure equitable outcomes (especially for lower-income Australians), and to assess the budgetary impacts. There would be some clear issues. For example, treating housing in the same way as other types of retirement savings would lead to a rise in housing demand and could push up prices, exacerbating the affordability issue. This is a fair concern, but one which could be addressed through better housing policy as discussed previously.

Post-tax superannuation contributions would also lead to overall lower balances if the contribution rate remains unchanged (assuming everything else stays constant), which would disproportionately affect low-income workers. In the short run, the impact on government budgets would be positive through higher taxes raised, but with lower superannuation balances. In the long run, the impact would probably be negative as more people may end up on the Age Pension. These concerns all need to be explored.

Endnotes

- 1 Treasury 2015, *2015 Intergenerational Report*, <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report>
- 2 As discussed by Dr David Knox in Chapter 3 of this report
- 3 Treasury 2015, *2015 Intergenerational Report*, <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report>
- 4 OECD 2013, *Social Expenditure Database (SOCX)*, accessed from http://www.oecd.org/social/expenditure.htm#socx_data
- 5 Australian Bureau of Statistics (ABS) 2014, *Australian Historical Population Statistics, 2014*, Cat. 3105.0.65.001
- 6 The eligibility age for women was dropped in 1910 from 65 to 60, then rose from 60 to 65 between 1995 to 2015.
- 7 Keating, P 2007, *The story of modern superannuation*, <http://www.keating.org.au/shop/item/the-story-of-modern-superannuation-31-october-2007>
- 8 As discussed by Dr David Knox in Chapter 3 of this report.
- 9 Ibid.
- 10 Productivity Commission 2015, *Superannuation Policy for Post-Retirement*, <http://www.pc.gov.au/research/completed/superannuation-post-retirement/super-post-retirement-volume1.pdf>
- 11 As discussed by Professor Stephen King and Dr Rodney Maddock in Chapter 2 of this report.
- 12 Ibid.
- 13 CEDA 2015, *Intergenerational fairness*, CCEP meeting notes, <http://adminpanel.ceda.com.au/FOLDERS/Service/Files/Documents/26617~March2015-CCEP.pdf>
- 14 Hewett, J 2015, *Budget 2015: Scott Morrison plays it smart on pensions*, <http://www.afr.com/opinion/columnists/budget-2015-scott-morrison-plays-it-smart-on-pensions-20150507-ggwjpt>
- 15 As discussed by Dr Diana Warren in Chapter 1 of this report
- 16 As discussed by Professor Stephen King and Dr Rodney Maddock in Chapter 2 of this report
- 17 As discussed by Professor Stephen King and Dr Rodney Maddock in Chapter 2 of this report
- 18 Australian Government 2014, *Financial System Inquiry*, <http://fsi.gov.au/publications/final-report/>
- 19 As discussed by Dr Diana Warren in Chapter 1 of this report
- 20 Ibid.
- 21 As discussed by Dr Judith Yates in Chapter 4 of this report. See also RBA 2015, *Submission to the Inquiry into Home Ownership*, <http://www.rba.gov.au/publications/submissions/inquiry-into-home-ownership/pdf/inquiry-into-home-ownership.pdf>
- 22 OECD 2014, *Pensions at a glance 2013*, <http://www.oecd.org/pensions/public-pensions/OECDPensionsAtAGlance2013.pdf>
- 23 Grattan Institute 2014, *The wealth of generations*, <http://grattan.edu.au/report/the-wealth-of-generations/>
- 24 For example, CEDA's policy perspective, *Addressing Entrenched Disadvantage in Australia*, released earlier this year found that older people are at the highest risk of entrenched poverty compared to other age groups, particularly those who are asset-poor (and often income-poor) once they retire.
- 25 NATSEM 2009, *Reform of the Australian Retirement Income System*, http://www.bsl.org.au/pdfs/NATSEM_BSL_Reform_of_Australian_retirement_income_system.pdf
- 26 As discussed by Dr Judith Yates in Chapter 4 of this report
- 27 Ibid.
- 28 See for example, Keating 2015, *Treasurer Hockey's proposals for early access to superannuation*, <http://www.keating.org.au/shop/item/treasurer-hockeys-proposals-for-early-access-to-superannuation>
- 29 This was discussed in RBA's recent submission to housing inquiry. RBA 2015, *Submission to the Inquiry into Home Ownership*, <http://www.rba.gov.au/publications/submissions/inquiry-into-home-ownership/pdf/inquiry-into-home-ownership.pdf> and options are also discussed by Dr Judith Yates in Chapter 4 of this report
- 30 However, superannuation funds are allowed to invest in property as they would invest in other assets.
- 31 There is also a tax-free threshold for those earning \$37,000 or less. Very high-income earners may be charged a 30 per cent tax rate. The same tax rate applies to salary-sacrificed (i.e. pre-tax) voluntary contributions, while post-tax contributions are not taxed.
- 32 For example, capital gains tax exemptions on the family home.
- 33 This is discussed in the Financial System Inquiry. See also Treasury, *Distributional analysis of superannuation taxation concession* <http://www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/Distributional-analysis-of-superannuation-taxation-concessions>
- 34 See for example, Grudnoff, M 2015, *It's the revenue stupid: Ideas for a brighter budget* <http://www.tai.org.au/content/its-revenue-stupid-ideas-brighter-budget>
- 35 Feng, J, Gerrans, P & Clark, G 2014, *Understanding superannuation contributions decisions: Theory and evidence*, <http://australiancentre.com.au/sites/default/files/superannuation-cluster/cp3wp1-understanding-superannuation-contribution-decisions-theory-and-evidence.pdf>
- 36 Ibid.
- 37 Ibid.



1. Historical development and recent reforms

Dr Diana Warren

.....

Since the 1992 introduction of compulsory superannuation, almost every subsequent Federal Budget has announced changes to the retirement system. Most of the changes have added to its complexity. Several of the more recent changes may not actually produce their intended effects.

.....



Dr Diana Warren is research fellow at the Australian Institute of Family Studies. Her main research interests are labour economics and economics of education. Prior to joining AIFS, Diana worked as a Research Fellow at the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne, where she

completed her PhD studies in 2011. Her research focused on the retirement decisions of older Australians, and the extent to which financial incentives arising from the Age Pension and superannuation system influence those decisions.

Introduction

The Australian retirement income system is made up of three elements – a publicly-funded, means-tested Age Pension; mandatory employer contributions to private superannuation; and voluntary savings, including voluntary superannuation and other long-term saving through property, shares and managed funds. This three-pillar system for the provision of retirement income has been endorsed by the World Bank as world’s best practice.¹

Over the past two decades, changes to retirement income policy have been announced in almost every Federal Budget, with no sign yet that reform is at an end. Indeed, the *Simpler Super* reforms, which came into effect in 2007, have been described as the largest overhaul of Australia’s superannuation system since the introduction of compulsory superannuation in 1992.²

This chapter describes the current retirement system in Australia, and provides a summary of the historical development of the Australian retirement system, with particular emphasis placed on recent reform initiatives designed to increase labour force participation of mature age Australians, provide higher levels of savings for retirement, and reduce reliance on the Age Pension as the main source of retirement income.³ The expected consequences of recent policy changes are also discussed.

The Age Pension

The Commonwealth Age Pension came into operation in 1909 and was originally designed as a social welfare safety net for the elderly, providing a modest benefit for those not able to fully support themselves during retirement. Today, the Age Pension is Australia's largest welfare payment, totalling an estimated \$44 billion in 2015–16.⁴ The maximum rate of Age Pension is \$782 per fortnight for single persons and \$590 per fortnight for each member of a couple.⁵ The Age Pension is available to men and women aged 65 years and over who are citizens of Australia and have been permanent residents for at least 10 years, with eligibility subject to means testing in the form of an income test and an assets test.⁶

Since its introduction, the Age Pension has been a fundamental part of Australia's retirement system. Over the past 100 years, there have been a multitude of changes to the rules determining eligibility and payment rates. Table 1 provides a summary of the key changes to the Age Pension.

TABLE 1
HISTORICAL DEVELOPMENT OF THE AGE PENSION

1909	Commonwealth Age Pension introduced
1910	Eligibility age reduced to 60 for women
1912	Family home exempt from means test
1933	Automatic increases in pension rates on the basis of the cost of living introduced
1937	Provision for automatic increases in pension rates repealed
1940	Provision for automatic increases in pension rates reintroduced
1943	National Welfare Fund established to fund social services
1952	Means tests on Age Pensions removed for people who were permanently blind
1954	Income from property excluded from the Age Pension means test
1958	Supplementary assistance (now known as rent assistance) introduced for single pensioners
1961	Property and income tests for Age Pension eligibility replaced by a merged means test
1962	Residence qualification for Age Pension eligibility reduced from 20 years to 10 years
1963	Single pensioners entitled to a higher Age Pension payment
1969	Income test taper rate introduced (pension reduced by 50 cents for every dollar over the threshold)
1973	Means tests abolished for persons aged over 75
1975	Means tests abolished for persons aged 70 to 74
	Pensions linked to 25 per cent of average weekly earnings, to be indexed annually
1976	Assets test abolished for all persons. Only income test applied

TABLE 1
HISTORICAL DEVELOPMENT OF THE AGE PENSION...CONTINUED

1978	Re-introduction of the assets test for persons over 70
1983	Special income test applied to Age Pension for individuals aged 70 and over
1985	Age Pension assets test re-introduced for all persons
1989	Special income test for Age Pensioners 70 years and over removed
1990	Age Pension means tests liberalised for pensions and annuities
	Income test deeming rules introduced to simplify the income test for financial assets
1992	Allocated pensions become subject to both the income and assets test
1993	World Bank endorses Australia's three-pillar retirement system as world's best practice
1995	Phase-in of increase to women's Age Pension eligibility age commences
1996	Extended deeming applied to financial investments under the Age Pension income test
1997	Age Pension to be formally maintained at 25 per cent of average male weekly ordinary time earnings
1998	Deferred Pension Bonus Scheme introduced
	Complying annuities 100 per cent exempt from assets test
2000	Income test taper rate reduced from 50 cents to 40 cents in the dollar
	Four per cent GST supplement added to Age Pension
2000	Senior Australian Tax Offset introduced
2004	Assets test exemption applied to complying annuities reduced from 100 per cent to 50 per cent
	Work test removed for those under the age of 65
2005	Work test for those aged between 65 and 74 simplified to require only that a person had worked 40 hours within a 30-day period of the financial year in which contributions were paid
2007	Age Pension assets test threshold raised and taper rate reduced from \$3 to \$1.50 per \$1000
	Complying annuities no longer exempt from the assets test
2009	One-off increase in Age Pension rates in response to Harmer Review
	Deferred Pension Bonus Scheme replaced by Work Bonus Scheme
	Age Pension Supplement replaces GST Supplement, Telephone Allowance, Pharmaceutical Allowance and Utilities Allowance.
	Income test taper rate increased from 40 cents to 50 cents in the dollar
	Age Pension eligibility age to be gradually increased to 67 for men and women from 2017
2013	Eligibility age for women reaches 65

Changes to eligibility age

When the Commonwealth Age Pension came into operation in 1909, it was paid to men and women aged 65 and over, subject to a means test and a 25-year residency requirement. In 1910, eligibility age for women was reduced to 60 on the grounds that women generally became 'incapacitated for regular work at an earlier age than men'.⁷ These eligibility ages remained in place until July 1995, when the qualifying age for women was gradually increased, so that by July 2013 the eligibility age for women was 65.

As the population ages, the proportion of people over the age of 65 is expected to increase substantially, from 14 per cent in 2012 to 25 per cent by 2101.⁸ To improve the long-term sustainability of Australia's Age Pension system, it was announced in the 2009 Federal budget that, from 2017, the qualifying age for the Age Pension for men and women would be progressively increased so that, by 2023, the eligibility age will be 67.

The gradual increases in eligibility age are likely to have a positive effect on mature age labour force participation, particularly among those with low levels of superannuation savings or other assets that could be used to generate income in retirement.⁹ However, there is concern that older people will use other forms of income support as a way of funding their retirement until they become eligible for the Age Pension. Therefore, the effect of raising the eligibility age will depend strongly on the extent to which people are able to access government support payments, in particular the disability support pension (DSP), as early retirement options.¹⁰ Estimates of the impact of increasing pension eligibility age suggest that this policy change is likely to result in an increase in labour force participation and also an increased DSP take-up.¹¹

“...there is concern that older people will use other forms of income support as a way of funding their retirement until they become eligible for the Age Pension.”

In 2014, the National Commission of Audit found that there is a strong case for establishing a formal link between eligibility age and increases in life expectancy. It was proposed that after the current scheduled increase in eligibility age to 67 in 2023, the Age Pension age be indexed to average life expectancy, so that by 2053 the Age Pension age would reach 70 years.¹² However, at this point in time, no further changes to eligibility age have been scheduled.

Indexation of the Age Pension

To ensure that pensioners' standards of living have some reference to the incomes of the broader community, Age Pension rates have been linked to wages. In the 1970s, the Age Pension rate was substantially increased, so that by June 1975 it was 25 per cent of average male weekly earnings. However, it was not until 1997 that the Australian Government legislated to maintain the single rate of Age Pension at a minimum of 25 per cent of Male Total Average Weekly Earnings.

In 2008, a Senate inquiry into the adequacy of the Age Pension was presented with evidence that the maximum single rate of Age Pension may be insufficient to maintain a basic, decent, standard of living. Single pensioners were identified as being disproportionately affected by increases in the costs of essentials such as food, housing and utilities.¹³ It was recommended that the government review the adequacy of the base level of the Age Pension, particularly the single rate.¹⁴ In response to these findings, the maximum single base rate of pension was raised to two-thirds of the combined partnered rate and the benchmark for the single Age Pension increased from 25 per cent to 28 per cent of Male Total Average Weekly Earnings.

As part of the National Commission of Audit in 2014, it was recommended that the maximum base rate of the Age Pension be changed over time to be equal to, and then grow in line with, 28 per cent of Average Weekly Earnings.¹⁵ However, this recommendation has not been taken up, and Male Total Average Weekly Earnings continues to be the benchmark for indexation of the Age Pension.

Means testing

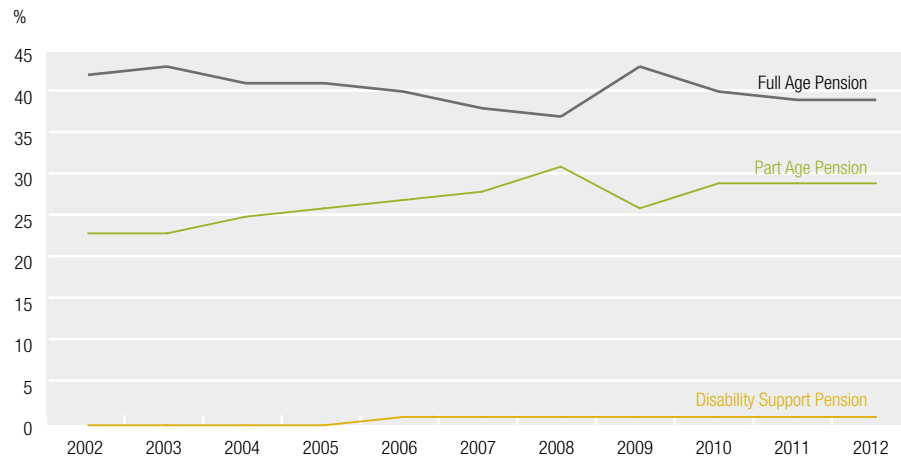
Eligibility for the pension has almost always been subject to means testing. In 1912, the means test was amended so that the family home was not included. With the exception of changes in the threshold amounts, no further changes were made to means tests until the 1950s. In the 1950s and 1960s, several modifications were made to the income and assets tests, including the introduction of a tapered means test in 1969, whereby the pension was reduced by 50 cents, rather than one dollar, for every dollar over the income test threshold.

The view of the Age Pension as a legitimate right for those who had contributed to the nation through a lifetime of paying taxes, reached its peak when the means test was completely abolished for those aged 75 and over in 1973; and for those aged 70 and over in 1975.¹⁶ Although these changes were reversed in 1978 and 1983, they reinforced the belief that the Age Pension is a right, rather than a safety net benefit, and have contributed to a widespread view that it is legitimate for older Australians to arrange their assets and income to permit and maintain eligibility for the pension.¹⁷

As part of the *Simpler Super* reforms introduced in 2007, the cut-out points for a partial Age Pension were raised substantially and the taper rate was reduced. These changes aimed to make the assets test fairer for those who made additional savings for their retirement. It is estimated that this change resulted in at least 200,000 retirees either receiving an increase in the amount of pension they received, or receiving the Age Pension for the first time.¹⁸ Figures 1 and 2 show that the proportion of men and women receiving a full Age Pension dropped slightly; and the proportion receiving a part pension increased considerably by 2008. The impact of this change was almost reversed by 2010, as a result of the increase in the taper rate applied to the Age Pension income test in 2009.

The easing of the assets test appears to be at odds with the government's stated goal of reducing reliance on the Age Pension and encouraging the labour force

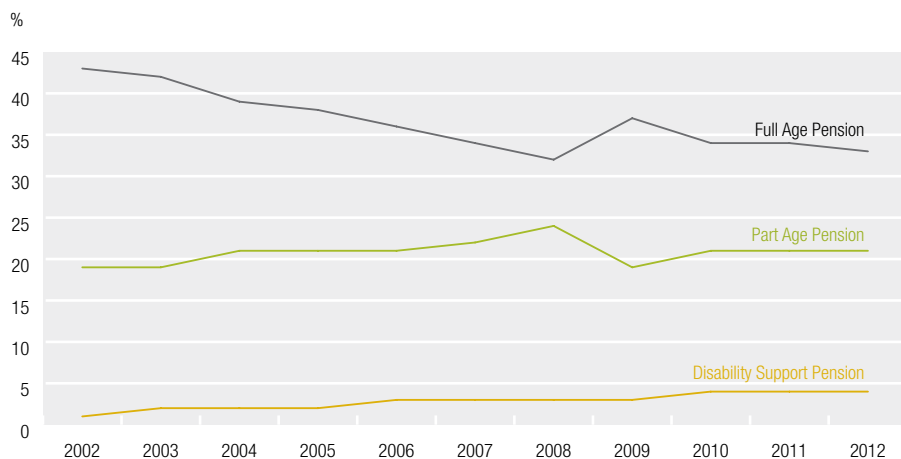
FIGURE 1
PENSION RECEIPT 2002–12, MEN AGED 65 AND OVER (PER CENT)



Source: Australian Bureau of Statistics (2015)¹⁹ and Department of Social Services (2002 to 2012)²⁰

Note: A small percentage of men aged 65 are observed to be receiving Disability Support Pension, presumably in transition from DSP to Age Pension upon reaching age 65.

FIGURE 2
PENSION RECEIPT 2002–12, WOMEN AGED 60 AND OVER (PER CENT)



Source: Australian Bureau of Statistics (2015)²¹ and Department of Social Services (2002 to 2012)²².

participation of older workers. In addition to increasing government spending on Age Pensions, it may create an incentive to leave the labour force upon reaching Age Pension eligibility age among those who would not have otherwise been eligible for an Age Pension.

At present, pensioners with substantial assets (up to \$1.2 million for couples) can still receive a part pension. In a change intended to reduce government spending on the Age Pension and target support to those who need it most, it was announced in the 2015 Federal Budget that the assets test taper rate (the amount deducted for every \$1000 over the threshold) would increase from \$1.50 to \$3 in 2017.²³ This doubling of the taper rate is expected to result in a substantial reduction in the proportion of retirees receiving the full Age Pension.

Work bonus schemes and tax offsets

A number of bonus plans and tax offsets have been established with the aim of creating financial incentives for older workers to delay retirement. In July 1998, the Deferred Pension Bonus Scheme was introduced. This scheme offered a once only, tax-free lump sum bonus for those who delayed claiming the Age Pension.²⁴ It appears that this scheme had very little influence on mature age labour force participation. Take-up of the scheme was quite low – in 2004, less than 10 per cent of those who would have been eligible, participated. This was mainly because of the absence of publicity for the scheme, the modest level of benefit, and the complexity of registering and proving eligibility for the period of entitlement.²⁵

“By 1974, 32 per cent of wage and salary earners were covered by superannuation – 41 per cent of males, but only 17 per cent of females.”

In September 2009, the Deferred Pension Bonus scheme was replaced with the Work Bonus Scheme, which operates under the Age Pension income test, halving the rate at which the pension is withdrawn for the first \$500 of fortnightly income.²⁶ The Senior Australian Tax Offset and the Mature Age Workers Tax Offset, introduced in 2000 and 2004 respectively, also aim to provide financial incentives for older people to continue working beyond the Age Pension eligibility age, by reducing the amount of tax payable on income for those who have reached the Age Pension eligibility age. At present, work bonuses and tax offsets appear to have very little influence on retirement decisions, with very few significantly deferring their retirement in response to these incentives.²⁷

Australia's superannuation system

Although superannuation has existed in Australia since 1862, it was relatively uncommon until the 1970s, when it began to be included in industrial awards. By 1974, 32 per cent of wage and salary earners were covered by superannuation – 41 per cent of males, but only 17 per cent of females.²⁸ However, superannuation was still concentrated among a minority of employees – generally higher paid white-collar staff in large corporations, employees in the finance sector, public servants and members of the Defence Force.²⁹ The first move towards compulsory superannuation took place during the 1985 Wages Accord negotiations, when it was agreed that a three per cent wage increase should be paid as a superannuation benefit.³⁰ However, it was not until the introduction of the Superannuation Guarantee in 1992 that superannuation became a major component of Australia's retirement system.

The Superannuation Guarantee provided for a major extension of superannuation coverage, with employers required to contribute a percentage of an employee's earnings to a superannuation fund, which could not be accessed by the employee until they reached the superannuation preservation age. The employer contribution rate has increased over time, from three per cent in 1992 to nine per

cent in 2002. By 1993, 81 per cent of employed Australians were covered by superannuation and the gender gap in superannuation coverage had narrowed, with 82 per cent of employed men and 78 per cent of employed women covered by superannuation.³¹ Today, almost all workers are entitled to superannuation.

Among the changes announced in response to the 2010 Henry Tax Review was an increase in Superannuation Guarantee contributions from nine per cent to 12 per cent, to be phased in between 2013 and 2019. Estimates showed that an individual who was aged 30 in 2010, with an average wage and an uninterrupted work pattern, would have received over \$100,000 more in superannuation as a result of this change.³² However, in 2014, it was announced that the timeframe for these increases would be extended, with the rate remaining at 9.5 per cent until 2021, then increasing by 0.5 per cent per year so that it will reach 12 per cent by 2025.

Since the introduction of the Superannuation Guarantee, changes to either the taxation of superannuation or the rules regarding voluntary superannuation contributions have been announced in almost every Federal Budget. Table 2 provides a summary of the development of Australia's superannuation system.

TABLE 2
HISTORICAL DEVELOPMENT OF THE AUSTRALIAN SUPERANNUATION SYSTEM

1922	Commonwealth employees superannuation fund established
1973	National Superannuation Committee of Inquiry Established
1983	Five per cent tax on lump sum superannuation benefits introduced
	Increased tax deductibility for superannuation contributions made by employees and the self employed
1984	Tax concessions for annuities introduced
1985	Accord Mark II includes a three per cent employer superannuation contribution
1986	Three per cent award superannuation endorsed by Conciliation and Arbitration Commission
1987	Regulatory framework for superannuation introduced
1988	Major reforms of superannuation taxation – introduction of 15 per cent tax on superannuation income, reduction of lump sum taxes, 15 per cent annuity rebate introduced, introduction of marginal Reasonable Benefit Limit (RBL) scales
1990	Introduction of tax rebates for superannuation contributions by low coverage employees
1992	Superannuation Guarantee commences
1993	Superannuation Industry Supervision (SIS) Act passed
1994	Flat rate RBLs replace marginal RBLs. Age-determined employer contribution limits introduced. Increased eligibility for 15 per cent annuity rebate.
	Commencement of phase-in of increase of superannuation preservation age to 60
1997	Superannuation Surcharge of 15 per cent applied to voluntary superannuation contributions of those whose annual income was \$85,000 or more

TABLE 2
HISTORICAL DEVELOPMENT OF THE AUSTRALIAN SUPERANNUATION SYSTEM...CONT

1997	Legislation passed to maintain single Age Pension at 25 per cent Male Total Average Weekly Earnings
	Retirement Savings Accounts (RSAs) established as an alternative to superannuation
	Maximum age for superannuation guarantee contributions increased from 65 to 70
	Eighteen per cent rebate introduced for contributions made on behalf of a low income spouse
1999	Announcement that Superannuation preservation age to be gradually increased from 55 to 60 by 2024
2000	Fifteen per cent tax rebate for voluntary superannuation contributions abolished under the new tax system
2002	Legislation passed to allow superannuation splitting in divorce cases
	Maximum age for superannuation contributions increased from 70 to 75 for persons working at least 10 hours per week
2003	Introduction of government co-contribution for low/middle income earners (100 per cent up to \$1000)
	Superannuation surcharge reduced from 15 per cent to 12.5 per cent
2004	Superannuation co-contribution extended to individuals earning up to \$58,000 (150 per cent up to \$1500)
	Superannuation surcharge reduced from 12.5 per cent to 10 per cent
	Work test for superannuation contributions made by those under the age of 65 abolished
	Mature Age Worker Tax Offset (MAWTO) introduced
2005	Superannuation Surcharge abolished
	Transition-to-Retirement Pensions available
	Choice of funds legislation introduced
2007	Exemption from tax on superannuation end benefits for Australians aged 60 and over
	Co-contribution doubled for those who made eligible contributions in 2005-06
	Reasonable Benefit Limits abolished
2008	Announcement of gradual increase in compulsory employer superannuation contributions from nine per cent to 12 per cent starting from July 2013
2008	Maximum age limit for superannuation guarantee contributions to be raised to 74 in 2013
	Maximum superannuation co-contribution reduced to \$1000 (150 per cent up to \$1000)
2009	Co-contribution matching rate reduced to 100 per cent (100 per cent up to \$1000)
2012	Co-contribution matching rate reduced to 50 per cent (50 per cent up to \$500)
2014	Further increases in compulsory employer superannuation contributions delayed until 2021
	From 1 January 2014, employers must only pay default superannuation contributions to an authorised 'MySuper' product

Changes to preservation age

In the 1997–98 Budget, it was announced that from 1 July 2016 the preservation age for people born after 1 July 1960 would be gradually increased from 55 to 60 years, so that for those born after 30 June 1964, the superannuation preservation age will be 60.³³ Although these changes are yet to take effect, one would expect that the increase in superannuation preservation age would provide an incentive for those with reasonable amounts of superannuation to remain in the workforce at least until they are able to access their superannuation. It may also delay the start of a gradual transition to retirement for those who intend to reduce their working hours and supplement their reduced labour income with superannuation income before retiring from the workforce completely.

Changes to the taxation of superannuation

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.³⁴

In May 2006, the Australian Government released a proposal called *A Plan to Simplify and Streamline Superannuation*. The aim of these reforms was ‘to assist and encourage people to achieve a higher standard of living in retirement than would be possible from the Age Pension alone, provide significant benefits over time to Australians with only compulsory superannuation, reward people for making additional superannuation contributions to improve their retirement income, and boost incentives to work and save’.³⁵ Under this plan, Australia’s superannuation system has undergone substantial change. In July 2007, the Reasonable Benefit Limit tax-free thresholds were abolished; and lump sum superannuation benefits paid to individuals aged 60 or over became tax-free.³⁶

“...different arrangements for tax on superannuation contributions, earnings and benefits...made it extremely difficult for people contemplating retirement to understand how their superannuation benefits would be taxed.”

The removal of taxes on superannuation benefits taken after the age of 60 may encourage some people to remain in the workforce until age 60 in order to maximise their superannuation income. On the other hand, it may also encourage older workers; particularly those aged 60 and over who have substantial superannuation savings, to either reduce their working hours or retire early. There is also the simpler theory that people build up a target stock of wealth in order to generate their desired retirement income, and retire once they reach their savings goal. Then, the windfall income generated from the abolition of tax on superannuation payouts will lead some individuals to reach their target wealth stock at

an earlier age, enabling them to retire earlier.³⁷ At present, the abolition of taxes on superannuation payouts for those aged 60 and over will only affect a minority of prospective retirees, as relatively few have superannuation balances in excess of the Reasonable Benefit Limits that previously applied.³⁸ However, as the Superannuation Guarantee matures, the proportion of retirees benefiting from the abolition of this tax will increase. Still, the average superannuation balance will not have reached the Reasonable Benefit Limit threshold for another 25 to 30 years.³⁹

Transition to Retirement Pensions

To encourage older workers to remain in the workforce, a new category of benefit called a Transition to Retirement Pension was introduced in July 2005. These pensions allow individuals who have reached superannuation preservation age to access their superannuation as a non-commutable income stream, allowing those who want to remain in the workforce, but reduce their working hours, to supplement their income with superannuation. Prior to the introduction of these pensions, people under the age of 65 had to leave employment before they were able to access any superannuation benefits.

The introduction of Transition to Retirement Pensions is likely to have encouraged some people to remain in the labour force and reduce their working hours, rather than retiring completely. However, it is possible that some of those who continue working and use their superannuation to supplement their labour income will reduce their superannuation assets substantially before they actually retire, increasing the likelihood that they will be eligible for a full or part Age Pension. It is also unclear whether take up of this option will result in an overall increase in workforce participation among older workers. While this policy aims to encourage workforce participation among those who are able to retire, it may also tempt older workers to reduce their working hours at an earlier age than they might otherwise have done without access to these pensions, resulting in an overall reduction in labour force participation among older workers.⁴⁰

“...this policy...may also tempt older workers to reduce their working hours at an earlier age than they might otherwise have done... resulting in an overall reduction in labour force participation among older workers.”

The third pillar – voluntary savings

Australians' asset portfolios are dominated by housing; the second largest asset of most households is superannuation; and other financial assets such as shares, managed funds and cash in bank accounts make up a much smaller proportion of household wealth.⁴¹ To encourage older Australians to make additional savings for their retirement, incentives such as the superannuation co-contribution scheme and the liberalisation of work tests for voluntary superannuation contributions have been introduced.

Voluntary superannuation contributions

When the Superannuation Guarantee was introduced, voluntary superannuation contributions could only be made by people aged 65 or younger. To encourage older workers to remain in the labour force and contribute to superannuation, the age limit on voluntary superannuation contributions was increased in 1997, so that people aged 70 or younger could contribute, on the condition that they were still in the workforce. In 2002, the maximum age for voluntary contributions was increased to age 75 for those who were working at least 10 hours per week; and in 2004, work tests were removed for those under age 65.⁴²

The Superannuation Co-contribution Scheme

In the 2002–03 Budget, the introduction of the Superannuation Co-contribution Scheme was announced. To encourage people to make greater contributions to superannuation, and thereby increase their retirement incomes, the government would make a matching co-contribution of up to \$1000 per year for those earning up to \$32,500 who made personal undeducted superannuation contributions. Eligibility for the co-contribution scheme was extended to those with incomes of up to \$40,000 in 2003, and \$58,000 in 2004. From July 2004, the maximum annual co-contribution available was increased to \$1500, and the matching rate increased to \$1.50 for every dollar contributed. In his 2007 Budget speech, Treasurer Peter Costello announced that, in recognition of the effort people had already made to save for their retirement, the government would double the superannuation co-contribution paid for eligible contributions made in the 2005–06 financial year. Since that time, matching rates and the upper threshold for eligibility have been reduced. At present, those with incomes below \$46,920 can receive a co-contribution of 50 cents for every dollar contributed, up to a maximum of \$500.

There is some evidence that the superannuation co-contribution scheme has delivered benefits to some low-income employees, particularly women. Among those who participated in the co-contribution scheme in the 2003–04 financial year, around 55 per cent of beneficiaries had total individual incomes of less than \$30,000 per year, 39 per cent were single, 63 per cent were female and 47 per cent were Baby Boomers – the group with the lowest level of superannuation savings relative to their expected retirement needs.⁴³ However, participation in the scheme has been low, so far, relative to the eligible population. This suggests either ignorance of the scheme, or a lack of discretionary income available to make additional superannuation contributions.⁴⁴

“...the superannuation co-contribution scheme has delivered benefits to some low-income employees, particularly women...in the 2003–04 financial year, around 55 per cent of beneficiaries had total individual incomes of less than \$30,000 per year, 39 per cent were single, 63 per cent were female...”

Concluding remarks

Since the introduction of compulsory superannuation, the Australian Retirement System has undergone a spate of changes, which, for the most part, have added to its complexity. Another major shortcoming of Australia's current retirement income system is the different ages at which various policies take effect – the superannuation preservation age is currently at 55; tax concessions on superannuation apply at age 60; and Age Pension eligibility age is currently 65. This variation makes it possible for individuals to draw down their superannuation prior to Age Pension age, creating an incentive for early retirement. With no incentive to take superannuation payouts as an income stream rather than a lump sum, an average superannuation payout may provide a means of funding early retirement before reaching Age Pension eligibility age. This effect is augmented by the very slow phasing in of the higher superannuation preservation age, and is exacerbated by the possibility of 'double dipping' – where people dissipate part of their superannuation wealth prior to pension eligibility so that, in effect, the social security system subsidises their early retirement.

At this point, the total effect of recent changes to retirement policy on mature age labour force participation is unclear. However, based on the available evidence, it appears that several of the more recent policy changes may not actually have their intended effects. Take-up of schemes such as the Deferred Pension Bonus Scheme and the superannuation co-contribution scheme has been quite low; the removal of tax on superannuation benefits taken after the age of 60 will not affect the majority of those who will retire in the near future; and it is unclear whether Transition to Retirement Pensions will increase overall labour force participation of the mature age population.

The one policy change where effects can be seen immediately is the liberalisation of the Age Pension assets test threshold, which has increased the number of people eligible to receive a full or part Age Pension – a result that is contradictory to the government's stated goal of containing the costs of the Age Pension. It is expected that the recently announced tightening of the assets test will have the opposite effect, reducing the number of people eligible to receive full or part Age Pensions and possibly creating an incentive to delay retirement.⁴⁵

The constant flux in government regulation and policies may, in itself, make it difficult for those planning their retirement in the short-to-medium term to make informed decisions about their retirement arrangements. Uncertainty about how long any particular retirement policy will be in place, or in its current form, may prevent people from responding to policy incentives that might otherwise have persuaded them to change their retirement plans.

Further simplifying the existing system, particularly the rules regarding pension eligibility and the tax treatment of superannuation, or at least providing some stability in the current rules, may give older Australians more confidence in planning their transition to retirement.

“The constant flux in government regulation and policies may, in itself, make it difficult for those planning their retirement in the short-to-medium term...”

Endnotes

- 1 World Bank 1994, *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, Oxford, Oxford University Press.
- 2 Borowski, A., 2008, 'Back at the Crossroads: The Slippery Fish of Australian Retirement Income Policy', *Australian Journal of Social Issues*, Vol. 43, No. 2, pp. 311–334.
- 3 For a more detailed chronology of the Australian retirement income system, refer to Swoboda, K. 2014, 'Major superannuation and retirement income changes in Australia: a chronology', *Parliamentary Library Research Paper Series 2013–14*, Canberra.
- 4 Australian Government, 2015, *Budget Overview: A Fairer Pension System*, Commonwealth of Australia, Canberra.
- 5 Rates effective 1 July 2015. Centrelink, 2015, *Payment rates for Age Pension*, <<http://www.humanservices.gov.au/customer/enablers/centrelink/age-pension/payment-rates-for-age-pension>>.
- 6 The assets test threshold depends on whether a person is single or partnered, and whether or not they are homeowners. In order to calculate the amount of Age Pension a single person or couple is entitled to, the pension amount is calculated using both the income test and the assets test. The test that results in the lowest rate of pension is then applied. Under the income test, a single person can earn up to \$162 per fortnight (\$288 for couples combined) and still receive the maximum rate of Age Pension. For those whose income is above these thresholds, the pension is reduced by 40 cents for each dollar of income above these amounts (20 cents in the dollar each for couples). For the purposes of the income test, any income from financial investments, such as bank, building society and credit union accounts, term deposits, managed investments and shares, is assessed under one set of rules, known as deeming, regardless of the income these assets actually earn. Financial assets below the threshold of \$48,600 for single persons and \$80,600 (combined) for couples are deemed to earn 1.75 per cent per annum, and any amount over that is deemed to earn 3.25 per cent per annum (Centrelink, 2015, <<http://www.humanservices.gov.au/customer/enablers/income-test-pensions>>).
- 7 Kewley, T.H. 1973, *Social Security in Australia, 1900–72*, Sydney University Press, Sydney.
- 8 Australian Bureau of Statistics, 2013, *Population Projections, Australia, 2012 to 2101*, Cat. No. 3222.0, ABS, Canberra.
- 9 Warren, D. and Oguzoglu, U. 2010, 'Retirement in Australia: A Closer Look at the Financial Incentives', *Australian Economic Review*, 43(4) pp. 357–375.
- 10 Ingles, D., 2000, *Structural Ageing, Labour Market Adjustment and the Tax/Transfer System*, Department of Family and Community Services, Policy Research Paper No. 5.
- 11 Atalay K. & Barrett, G., 2015, 'The Impact of Age Pension Eligibility Age on Retirement and Program Dependence: Evidence from an Australian Experiment' *The Review of Economics and Statistics*, 97(1), pp. 71–87.
- 12 National Commission of Audit, 2014, *Towards Responsible Government: The Report of the National Commission of Audit, Phase One*, Commonwealth of Australia, Canberra.
- 13 Australian Government, 2008, *A decent quality of life: Inquiry into the cost of living pressures on older Australians*, Commonwealth of Australia, Canberra, <http://www.aph.gov.au/SENATE/COMMITTEE/CLAC_CTTE/older_austs_living_costs/report/report.pdf>.
- 14 Harmer, J., 2009, *Pension Review Report*, Commonwealth of Australia, Canberra.
- 15 National Commission of Audit, 2014, op cit.
- 16 Martin, B & Xiang, N., 2015, 'The Australian Retirement Income System: Structure, Effects and Future', *Work, Aging and Retirement*, 1(2), pp.133-143.
- 17 Borowski, A., 2008, op cit.
- 18 Clare, R., 2007, *Are Retirement Savings On Track*, ASFA Research & Resource Centre, <http://www.superannuation.asn.au/ArticleDocuments/116/rc0706_retirement_savings.pdf.aspx>.
- 19 Australian Bureau of Statistics, 2013, *Population Estimates by Age and Sex, Australia by Local Government Areas (ASGS 2012), 2001–2012*, Commonwealth of Australia
- 20 Department of Social Services, 2002–2013, *Income Support Customers: A Statistical Overview*, DSS Statistics Papers 1 to 12, Commonwealth of Australia.
- 21 Australian Bureau of Statistics, 2013, op cit.
- 22 Department of Social Services, 2002–2013, op cit.
- 23 Australian Government, 2015, *Budget Overview: A Fairer Pension System*, Commonwealth of Australia, Canberra.
- 24 Department of Family and Community Services and Indigenous Affairs (FaCSIA), 2006, 'A Compendium of legislative changes in social security 1983-2000', Occasional Paper No. 13, <<http://www.facsia.gov.au/internet/facsinternet.nsf/research/ops-ops13.htm>>.
- 25 Dunsford, G. and Rice, M., 2004, *Retirement Incomes Integration-Superannuation, Social Security and Taxation*, Institute of Actuaries Australia, <http://dbpensionreview.treasury.gov.au/content/initial_subs/021b_Rice_Walker_Actuaries_integration_paper.pdf>.
- 26 Commonwealth Treasury of Australia (2009) *Statement 1–Budget Overview*, Commonwealth of Australia, Canberra, <http://www.budget.gov.au/2009-10/content/bp1/downloads/bp1_bst1.pdf>.
- 27 Chomik, R. and Piggott, J., 2012, *Mature-age labour force participation: Trends, barriers, incentives, and future potential*, CEPAR briefing paper 2012/01, ARC Centre of Excellence in Population Ageing Research (CEPAR), Australian School of Business, The University of New South Wales, Sydney.
- 28 Commonwealth Treasury of Australia, 2001, 'Towards higher retirement incomes for Australians: A history of the Australian retirement income system since Federation', *Economic Roundup, Centenary Edition*.
- 29 Australian Prudential Regulation Authority (APRA), 2007, 'A Recent History of Superannuation in Australia', *APRA Insight*, Issue 2, <<http://www.apra.gov.au/Insight/upload/History-of-superannuation.pdf>>.
- 30 Australian Government, 2010, *Stronger, Fairer, Simpler: A Tax Plan for Our Future*, <http://www.futuretax.gov.au/documents/attachments/Glossy_B5_final.pdf>.
- 31 Australian Bureau of Statistics, 1995, *Superannuation, Australia*, Cat. No. 6319.0, Australian Bureau of Statistics, Canberra.
- 32 Australian Government, 2010, op cit.
- 33 Costello, P. 1997, 'Budget Speech', 13 May, Parliament House, Canberra, <[http://www.budget.gov.au/1997-98/budgetsp.asp#Speech-superannuationandretirement incomes](http://www.budget.gov.au/1997-98/budgetsp.asp#Speech-superannuationandretirement%20incomes)>.
- 34 Commonwealth Treasury of Australia, 2006, *A Plan to Simplify and Streamline Superannuation – Outcomes of Consultation*, <<http://simplersuper.treasury.gov.au/documents/decision/download/decision.pdf>>

- 35 *ibid.*
- 36 *ibid.*
- 37 Freebairn, J. 2007, 'Some Policy Issues in Providing Retirement Incomes', Working Paper No. 6/07, Melbourne Institute of Applied Economic and Social Research, University of Melbourne.
- 38 Clare, R., 2007, *op cit.*
- 39 Sharp, R. and Austen, S., 2007, 'The 2006 Federal Budget: A Gender Analysis of the Superannuation Tax Concessions', *Australian Journal of Labour Economics*, vol. 10, no. 2, pp. 61–78.
- 40 Walter, M., Jackson, N. and Felmingham, B., 2008, 'Keeping Australia's Older Workers in the Labour Force: A Policy Perspective', *The Australian Journal of Social Issues*, Vol. 43, No. 2, pp. 291–309.
- 41 Headey, B., Warren, D. and Wooden, M., 2008, *The structure and distribution of household wealth in Australia: cohort differences and retirement issues*, Department of Families, Housing, Community Services and Indigenous Affairs, Canberra.
- 42 Costello, P., 2002, Budget Speech, 14 May, Parliament House, Canberra <http://www.budget.gov.au/200203/budget_speech/download/Reps.pdf>.
- 43 Nielson, L., 2006, 'Superannuation co-contribution-performance to date', Research Note no. 16, 2005-06, <<http://www.aph.gov.au/library/Pubs/RN/2005-06/06rn16.htm>>.
- 44 Borowski, A. 2008, *op cit.*
- 45 Ingles, D., 2000, *op cit.*



2. Fixing the superannuation policy mess

Professor Stephen King

Dr Rodney Maddock

.....
Twenty years after its introduction, Australia's compulsory superannuation system is still maturing. But its objectives are blurry and the policy debate is stuck on the budgetary implications of our ageing population.
.....



Dr Stephen King is Professor of Economics at Monash University and Chairman of the Economic Regulation Authority of Western Australia. Prior to joining Monash, Dr King was a Member of the Australian Competition and Consumer Commission (ACCC), where he chaired the Mergers Review Committee.

Dr King's main areas of expertise are in competition economics, regulation and industrial organisation. He received the University Medal from ANU for his undergraduate studies in Economics. He also has a Masters in Economics from Monash University and a PhD from Harvard University. He is a Fellow of the Academy of Social Sciences in Australia.



Dr Rodney Maddock is Adjunct Professor of Economics at Monash University; Vice Chancellor's Fellow, Victoria University; and President of the Economic Society of Australia (Victorian branch).

Dr Maddock was previously a senior executive at the Commonwealth Bank after earlier stints as Chief Economist for the Business Council of Australia, Head of Economic Policy in the Victorian Cabinet Office, and a Professor of Economics at La Trobe University. He is also a CEDA Board Member.

Introduction

Australia's superannuation system is a curious hybrid. It starts from the premise that people do not accumulate enough savings during their working lives and so should be forced to save. It then turns around and gives the same people significant freedom about how quickly they can spend their savings once they reach a prescribed age. Clearly the 'young' cannot be trusted until they are (about) 65, but then...they are completely trustworthy after that.

Of course, we exaggerate. However, the different rules and procedures in the Australian superannuation system do not appear to have a coherent intellectual basis. This lack of a consistent framework means that Australia's policies about the financing of retirement are a confused mess.

In this chapter, we highlight five market failures and behavioural biases underlying the retirement savings system in Australia, and explore some of the consequences of a market failure approach:

- Myopia: failure to save sufficiently for the future
- Agency: failure to supervise the managers of one's assets
- Taxation: the need to tax somebody to support those who cannot save enough
- Free riding: spending a lump sum and then reverting to public support
- Risk aversion: excessive caution about longevity

Myopia: what is superannuation for?

The Australian superannuation system does not have a clear objective. This problem was noted by the final report of the 2014 Financial System Inquiry which made its views very clear:

“Government should seek broad agreement on the following primary objective for the superannuation system: *To provide income in retirement to substitute or supplement the Age Pension.*”¹

The inquiry then undermined this clarity with a list of subsidiary objectives, including:

- Facilitate consumption smoothing over the course of an individual's life;
- Help people manage financial risks in retirement;
- Alleviate fiscal pressures on Government from the retirement income system.

In our view, the Financial System Inquiry has ‘put the cart before the horse’. The primary objectives of the superannuation system should be to:

- Help people manage financial risks in retirement; and
- Facilitate consumption smoothing over the course of an individual's life.

The Age Pension and other benefits paid by federal and state governments to the elderly are part of Australia's broader welfare safety net. These payments will interact to some degree with the incentives facing individuals to save during their working lives and how they spend their savings in retirement. Further, it is clear that the Age Pension will also help people to manage financial risk in retirement, particularly those individuals who are unable to save enough during their working lives to fund their non-working years.

However, the fundamental social challenge for Australia's superannuation scheme is how to ensure that each individual, during his or her working life, saves enough to fund the years of expenditure after he or she has ceased paid work. This has nothing in particular to do with how the government funds its budget, including how the government funds the Age Pension. It is simply an issue of each of us smoothing our consumption over a lifetime.

It might be argued that the Age Pension and the superannuation system will interact, so that the two schemes must be considered together. To some degree, this is trivially true. The same link can be made between all welfare schemes that include some means testing on the basis of income or wealth.

But it is easy to overstate the links between the superannuation system and the Age Pension. The Australian Bureau of Statistics (ABS) found that, for people thinking about retirement, financial security was by far the most important factor (women 36 per cent, men 39 per cent), followed by personal health (23 per cent for each), while just 11 per cent of women and 13 per cent of men rated the most important determinant as becoming eligible for pensions or benefits.²

From the perspective of lifetime consumption smoothing, ‘an asset is an asset’. In order to have money to spend after finishing paid work, individuals build up assets while they are working. There are a wide range of potential assets, including financial assets, housing and other real assets, and durable goods. Ideally an individual will have a suite of diversified assets to reduce risk.³

This pool of assets can generate income needed to meet expenditures, or reduce the need to pay rent or purchase services.

Once superannuation is viewed from the perspective of asset accumulation to smooth lifetime income, some existing asset treatments can be seen as, at best, incongruous. For example, in March 2015, the Federal Treasurer Joe Hockey canvassed the idea of using superannuation savings to buy housing assets and was roundly criticised. However, such a reallocation of assets can be perfectly sensible.⁴ In principle we are merely talking about a transfer from one sort of asset into another, both of which will be needed to support the retirement phase of the individual’s life. Chapter 4 in this volume looks directly at the importance of housing in supporting quality of life in later years.

If we accept that compulsory superannuation is designed to overcome ‘myopia’ and a reluctance to save, and that saving involves the accumulation of assets, then the sharp distinctions that policy draws between financial assets and real assets, are inappropriate. Superannuation funds should be able to be invested in buying houses, and homes should be included in any means tests. This is consistent with the view of the Australia’s Future Tax System (Henry) Review, which proposed that, “Superannuation balances should be included in Age Pension means tests on the same basis as other saving”.⁵

“If we accept that saving involves the accumulation of assets, then... Superannuation funds should be able to be invested in buying houses, and homes should be included in any means tests.”

Agency: How is superannuation managed?

Superannuants fall into two groups: those who actively manage their own funds (called ‘self-managed super funds’), and those who use an agent.

By far the most rapidly growing segment of the superannuation industry has been the self-managed sector.⁶ Individuals with self-managed super funds are older than average and have a larger-than-average pool of savings. These two factors may be related. Individuals accumulate superannuation assets with age, and their interest in the effective management of those assets is likely to increase with the size of those assets. The asset allocation of self-managed super funds is generally quite different to the funds of people with professional managers.⁷ Of course, individual investors are not professional managers. In that sense, the growth of self-managed super funds may reflect the lack of satisfaction with the fees and performance of professional funds managers.

Most people, however, rely on agents to manage their superannuation savings, trusting fund managers to manage their savings appropriately and with very little supervision. Trustees have responsibilities for ensuring appropriate processes are followed and the Australian Prudential Regulation Authority (APRA) has regulatory oversight.

There are two broad categories of managed superannuation funds: not-for-profit industry funds, and commercial funds. The not-for-profit funds argue that they charge lower fees to the benefit of savers. The commercial funds assert that they are more professional because they have a majority of independent trustees.

It is difficult for individuals to monitor the performance of their agents. It is also unclear which funds provide higher long-term returns.⁸ Further, even if one fund does outperform others on a short-term basis, this is likely to be the result of random chance rather than any intrinsic skill. As the advertising caveat notes, ‘past performance is not an indicator of future return’.

“...in practice, people do not pay much attention to how their funds are managed.”

This difficulty in monitoring superannuation managers is exacerbated by myopia and free-riding. The same myopia that leads people to save too little for the future also supports a lack of concern about savings that you might only be able to access in 40 years’ time. Further, individual investors have only a small stake in any fund. It pays any individual investor to free-ride on the monitoring effort of other investors. The result is that, in practice, people do not pay much attention to how their funds are managed.

This has led a number of critics to assert that the funds do not do a particularly good job.^{9,10} There have been a range of recommendations as to how to modify the system to reduce the costs to superannuants.

Following the Cooper Review, a number of changes were made to lower the cost of default funds and to improve administrative efficiency. While some commentators have criticised these reforms as inadequate¹¹, the Financial System Inquiry has argued that we need to wait to see how effective the Cooper changes are before we move to further change the system.¹²

In summary, savers are not engaged with how their superannuation is managed. This is not unreasonable given the long time-horizons, the difficulty of determining good performance, and the administrative complexity of the system. With clients disengaged, there has been little competitive pressure on administrators and trustees to perform better. Hopefully the administrative changes made following the Cooper Review will be effective. If not, we will need to resort to alternative administrative structures.¹³

Taxation: How does the government fund its support for savings?

The current superannuation system has a number of taxation incentives built-in. Income used to make contributions pays a reduced tax rate, earnings inside funds have taxation incentives, and payouts can be completely untaxed. Any bequests however can be taxed so that the superannuation system is the one area in Australia subject to death duties.

Providing lower tax rates on superannuation savings than on other forms of savings lowers the government's potential tax revenue. This means that more government revenue has to be raised from other sources. Since taxation causes people's behaviour to change, the low tax rates on superannuation lead to more savings than otherwise, and the need to raise revenue elsewhere means that fewer of the more highly-taxed other activities will take place.

The favourable tax treatment of superannuation savings has led to calls for 'reform' to raise the tax rates on superannuation. It is argued that this will reduce the costs of superannuation to the government.¹⁴

However, the Henry Review of the Australian taxation system argued that taxes on superannuation should be reduced, that is, the implied taxation 'subsidy' to superannuation increased. "Australia's personal income tax system should continue to represent a hybrid personal income tax, with the main forms of lifetime savings for most Australians – superannuation and owner-occupied housing – taxed at a lower rate or exempt from income tax, but with other savings taxed more consistently to achieve a more productive and better allocation of savings". This recommendation runs counter to much of the current debate.

"Any bequests can be taxed so that the superannuation system is the one area in Australia subject to death duties."

The review argued for the principle that: “Savings invested in owner-occupied housing or superannuation would either be tax-exempt or close to exempt in practice, both being important determinants of people’s living standards in retirement.”¹⁵

The logic behind this type of proposal is quite straightforward and, in our opinion, compelling. Taxing income that is then saved discriminates against a person who chooses to save rather than consume.

To understand this, consider the total taxes paid by two people who have the same income profile over their working lives, but one consumes it all while the other saves half. If we have a tax on savings, the second person pays a lot more tax over his or her lifetime than the spendthrift who consumed everything and saved nothing. This is clearly not fair with the ‘saver’ paying a higher level of total tax (in present value terms) than the ‘consumer’.

“Taxing income that is then saved discriminates against a person who chooses to save rather than consume.”

The principle that income from savings should be taxed lightly, if at all, thus reflects arguments about horizontal equity. The current debate about lower tax rates ‘subsidies’ for superannuants focuses instead on two other issues: on equity between people with different income levels, and on the government’s search for additional revenue sources to address its deficit. The Henry review was quite clear about the best places for governments to pursue extra taxation, and superannuation was not one of them – the Henry review recommended *reducing* the overall tax take on superannuation.

It is sometimes argued that income earned on savings should be taxed because of vertical equity. People with higher incomes save more, and hence get a greater benefit from reduced taxes on savings than do people on lower incomes, and it is argued that this is unfair.

In our opinion, however, this argument is simply confused. If higher income earners should be taxed more, then this should be reflected in progressive income tax rates, and not through a distortionary tax on income that is then saved.¹⁶

While it can be argued that reduced taxation on *any* form of savings might be both equitable and efficient, this is not the same as the argument put forward by the Henry review. The Henry review considered that there should be reduced rates of taxation on savings that occur through the compulsory superannuation savings system. However, it is not obvious that compulsory superannuation savings should be treated more favourably than other forms of saving. Clearly there is no issue of horizontal equity. With compulsion, two people with the same lifetime income stream and savings invested the same way will finish up at retirement with the same pool of superannuation savings. There is thus no issue of inequity between these two people.

Further, while there is a solid economic argument to reduce or exempt tax on all savings, given that non-superannuation savings are taxed, there seems little merit in reducing taxes on compulsory savings alone. Such a reduction in taxation will not change behaviour because the individuals have no choice. This leads us to

the conclusion that with compulsory contributions there is no particular reason to provide taxation incentives on superannuation *at all*. Compulsory contributions to superannuation should be paid out of people's after-tax income. This creates no issue of horizontal or vertical equity. To maintain parity with investment in the family home, the funds need not be taxed again, but both the family home and superannuation assets should be included in any means test.

In summary, there is a broad argument that the way that savings in general are taxed should be reconsidered. However, given the current taxation system and the compulsory nature of superannuation, there is no relevant argument for superannuation to be treated more favourably than other forms of saving.

Free riding: spending a lump sum and then reverting to public support

When we switch focus from the accumulation phase to the retirement phase, different issues arise. One issue that attracts considerable attention is the idea that people have an incentive to spend their accumulated financial savings quickly and then revert to the public pension – the concern with 'double dipping'. Here again the worry is about horizontal equity. Two people with the same accumulated financial assets on retirement will get different treatment to the extent that one spends his or her savings quickly and the other slowly.

From a policy point of view we might also be concerned about what the lump sum (or rapid run down of funds) is spent on. Blowing one's pot of accumulated savings on a holiday is quite different from using it to pay off a mortgage on the home. The latter involves transforming one long-lived asset into another, and since one needs both income and housing in retirement, it is not clear we should be concerned if lump sums are diverted between forms of saving (particularly for housing or health).

"Blowing one's pot of accumulated savings on a holiday is quite different from using it to pay off a mortgage on the home."

It is not clear how important double dipping really is. As noted above, the dominant factor shaping retirement decisions is the need for financial security. The data is sketchy but Colonial First State estimates that only 16.7 per cent of accumulated funds are withdrawn as lump sums, although this involves about 60 per cent of the total number of accounts. Withdrawals are mainly concentrated on small pools of savings so that, overall, some 85 per cent of accounts under \$50,000 feature a lump sum withdrawal.

The large number of small accounts involved may give rise to concern, but information about the use of the funds suggests that the vast majority of the lump sums are used to reduce debt or convert the funds to some other form of savings.

TABLE 1
USES OF LUMP SUMS

Use	%
Paid off home/paid for home improvements/bought new home	29
Invested the money elsewhere/personal savings/bank	20
Rolled over or invested in approved deposit, deferred annuity or other superannuation	15
Cleared outstanding debts	12
Bought or paid off car/vehicle	11
Paid for a holiday	8
Assisted family	3
Purchased an immediate annuity	1

Source: Colonial First State Rice Warner Income streams index. "Do not know" has been eliminated.

So, should we worry about people taking lump sums and double dipping? Not very much is the answer. Only about one-sixth of the pool of savings is taken out as lump sums, and only one-twelfth of that is used directly for consumption. Despite the publicity it has attracted, double dipping is quantitatively a very small issue.

Two solutions are suggested to the lump sum 'problem'. The self-managed superannuants have suggested that retirement income taken as a lump sum should be subject to a special tax.¹⁷ The table above demonstrates that most lump sums are used to reduce debt, build assets or save in some other way, so a new tax would introduce additional distortions. The second suggestion is to eliminate the right to withdraw lump sums entirely. This is similarly adding new distortions into the system.

Even more extreme is the suggestion that superannuation amounts should be forcibly annuitised. This would remove any discretion on the part of savers as to how they used their savings. Under such a proposal, the superannuation system would force people to put aside some 10 per cent of their income over their working lives, and then pay them a pension at a set rate from their savings over the rest of their lives. If this is the case it is hard to see why we need a private superannuation system at all. The government could just raise income tax by 10 per cent, put the money in the Future Fund, and then use the money to pay everybody a pension based on the Fund's earnings.

"So, should we worry about people taking lump sums and double dipping? Not very much is the answer."

If the withdrawal of lump sums from superannuation is viewed as a problem then the simplest solution is to set a maximum percentage of one's superannuation savings which can be withdrawn in any year, perhaps 10 per cent.

Risk aversion: managing longevity risk

Given the uncertainty about how long one will live, it is hard to decide how quickly to run down one's savings after retirement. Since people have a strong aversion to running out of funds before they die, there is a clear incentive to under-consume in old age, even potentially to continue saving.¹⁸

This has even led to recent discussion of the 'problem' of superannuation savings being passed between generations adding to wealth inequality (see the Australian Financial Review, 29 May 2015). It is ironic that there is public concern about people running down their superannuation too quickly at the same time as there is a concern about people running it down too slowly. Since we abolished death duties in Australia several decades ago, and since superannuation is subject to a 'death duty', this can hardly be a serious concern. If we worry about intergenerational wealth transfers, the solution is a general system of death duties – it is not a superannuation issue.

Of course, there is also a policy in place to address the issue. Superannuants in pension-mode are forced to take a minimum amount from their superannuation each year. And this amount rises with age. If people save from their superannuation pensions, the amount is forced out of the superannuation umbrella and into other forms of savings subject to normal taxation rules.

Instead of saving excessively in retirement to manage longevity risk, financial products like deferred annuities can help manage the risk. These are pooled investments which only pay off to the survivors once they reach a certain age. We are just starting to see the emergence of these products. Just as life insurance products protect one's family against one dying too young, deferred annuities can protect against dying too old (i.e. running out of money too early). The market for such deferred annuities seems certain to grow quickly.

“It is ironic that there is public concern about people running down their superannuation too quickly at the same time as there is a concern about people running it down too slowly.”

Conclusions

People are disinclined or unable to save enough while they are working to accumulate the assets they need to ensure an adequate living standard after they retire. We have three basic policy vehicles to address this failure: compulsory superannuation that forces people to save more; capital gains exemptions on principal residences that allow people to accumulate real assets; and the age pension that provides a financial safety net.

Compulsory superannuation should be seen as a way to help people fund their retirement – not as a way to save the government money. If retirees have adequate resources, they will not need to access the safety net, thereby saving other tax payers from supporting them in old age.

“Compulsory superannuation should be seen as a way to help people fund their retirement – not as a way to save the government money.”

Allowing superannuation to be accumulated on a pre-tax basis creates other problems. First, it treats real and financial assets very differently when both are crucial to supporting retirement. Second, it creates significant equity concerns between people at different tax brackets. The long term solution is either to make superannuation an after-tax payment, or to allow mortgage payments to be made from pre-tax income.

There is little evidence that allowing people to access lump sums is a significant problem. Prohibiting the withdrawal of lump sums, or taxing them, are extreme solutions. If any policy is needed, imposing a maximum rate of withdrawal may be easier and more consistent with the current structures.

Indeed, people seem more inclined to run down their superannuation too slowly rather than too quickly. The emergence of deferred annuities provides a market solution based on insurance principles and seems likely to allow people to manage their longevity risk in a satisfactory manner.

Endnotes

- 1 Australian Government (2014), Financial System Inquiry, Canberra. Page 95. Italics in original.
- 2 Australian Bureau of Statistics (2013): Retirement and retirement intentions, 6238.0
- 3 Assets may be intangible, including family, friendship and other supporting relationships. In some societies, these relationships provide the primary support for old age. However, these relationships are beyond the scope of the superannuation system.
- 4 Mather, J. (2015) "Raiding super for property 'inequitable', ASFA says", Australian Financial Review, 8 March. Available at: <http://www.afr.com/news/policy/tax/raiding-super-for-property-inequitable-asfa-says-20150308-13y8r2>
- 5 Australian Government (2009), Australia Future Tax System, Canberra. Executive Summary
- 6 Australian Government (2014), Financial System Inquiry, Canberra.
- 7 Maddock, R. (2014) "Superannuation asset allocations and growth projections". Available at: http://www.fsc.org.au/downloads/uploaded/2014_0226_140226-%20FSC%20Maddock-%20Capital%20Flows%20Report%20FINAL_2d88.pdf.
- 8 Australian Prudential Regulatory Authority (2014), Statistics, Sydney.
- 9 Bird, R and J. Gray (2009), "Improving pension management and delivery: an (im)modest and likely (un)popular proposal", Rotman International Journal of Pension Management, 2:2.
- 10 Australian Government (2010), Super System Review, Canberra (Cooper Review).
- 11 Minfie, J. (2014) "Super sting". Available at: <http://www.grattan.edu.au/wp-content/uploads/2014/05/811-super-sting.pdf>
- 12 Australian Government (2014), Financial System Inquiry, Canberra. Recommendation 10.
- 13 Minfie, J. (2014) "Super sting". Available at: <http://www.grattan.edu.au/wp-content/uploads/2014/05/811-super-sting.pdf>
- 14 Rice Warner (2015) "Submission to Tax White Paper Task Force". Available at: <http://www.ricewarner.com/media/114192/Tax-White-Paper>.
Mather, J. and P. Coorey, (2015) "Rice Warner superannuation tax plan would save federal budget \$59b by 2055", Australian Financial Review, 12 June. Available at: <http://www.afr.com/news/policy/tax/ricewarner-superannuation-tax-plan-would-save-federal-budget-59b-a-year-by-2055-20150611-ghljx>
- 15 Australian Government (2010), Super System Review, Canberra (Cooper Review).
- 16 In effect, having a progressive income tax system that exempts savings is equivalent to a progressive consumption tax. Frank, R. (2011), *The Darwin economy: liberty, competition and the common good*, Princeton University Press, Princeton, NJ. Discusses the economic benefits of such a tax compared to a progressive income tax scheme.
- 17 SMSF Association (2015) Media report of submission to Australian Government's Better Tax review, reported in The Australian, 13 June.
- 18 Benartzi, S. and R. Thaler (2007), "Heuristics and biases in retirement savings behaviour", *The Journal of Economic Perspectives*, 21:3.



3. Australia's retirement system. How does it stack up? How can we improve it?

Dr David Knox

.....

When internationally benchmarked, measured against more than 40 indicators, Australia's retirement system proves one of the world's best. But there is always room for improvement.

.....



Dr David Knox is a Senior Partner at Mercer and Senior Actuary for Australia. He is National Leader for Research and actuary to the Tasmanian and Western Australian public sector superannuation plans. He is the author of the Melbourne Mercer Global Pension Index.

Before joining Mercer in 2005, David was at PricewaterhouseCoopers and prior to that was the Foundation Professor of Actuarial Studies at the University of Melbourne.

He has acted as a consultant to a range of financial organisations, in both the private and public sectors, specialising in superannuation and retirement incomes. He has spoken and written widely on this topic and served on many government and industry committees.

Introduction

Retirement income systems around the world are now under more pressure than ever before. Whether the system is predominantly a social security system (as is common in Europe); a private sector pension system for workers (as has developed in some Anglo-Saxon countries); or a combination, every system is facing similar challenges. These include the economic effects of ageing populations (caused by lower fertility rates and increasing life expectancies), uncertain economic conditions (including historically low interest rates) and significant government debt in many countries.

Many governments are therefore recognising that their current arrangements are not sustainable. Hence, pension reform is happening around the world. These reforms include increasing retirement or pension eligibility ages; a greater focus on funding future benefits through increased contributions; improving the coverage of the private pension system; reducing the level of indexation for pensions; encouraging labour force participation at older ages; and a greater focus on governance, fees and regulation.

Of course, each pension system has evolved from that country's particular economic, social, political and historical circumstances. That means there is no single system that can be transplanted from one country and applied, without change, to another country. There are still certain features and characteristics that, across the range of systems, are likely to lead to improved financial benefits for retirees, an increased likelihood of future system sustainability, and a greater level of community confidence and trust.

With these desirable outcomes in mind, the Melbourne Mercer Global Pension Index (MMGPI) was initially published in 2009 and is now published each October comparing the pension systems in 25 countries. But, before we consider the findings of the MMGPI, it is helpful to recognise the variety of possible pension systems.

The multi-pillar approach

The structure and characteristics of pension systems around the world exhibit great diversity with a wide range of features and norms. Comparisons are not straightforward.

In its influential 1994 report *Averting the Old Age Crisis*, the World Bank recommended a multi-pillar system for the provision of old-age income security, comprising:

Pillar 1: Mandatory, publicly-managed, tax-financed public pension

Pillar 2: Mandatory, privately-managed, fully-funded benefits

Pillar 3: Voluntary, privately-managed, fully-funded personal savings

Subsequently, Holzmann and Hinz (2005) of the World Bank extended this three-pillar system to the following five-pillar approach:

Pillar 0: A basic pension from public finances that may be universal or means-tested.

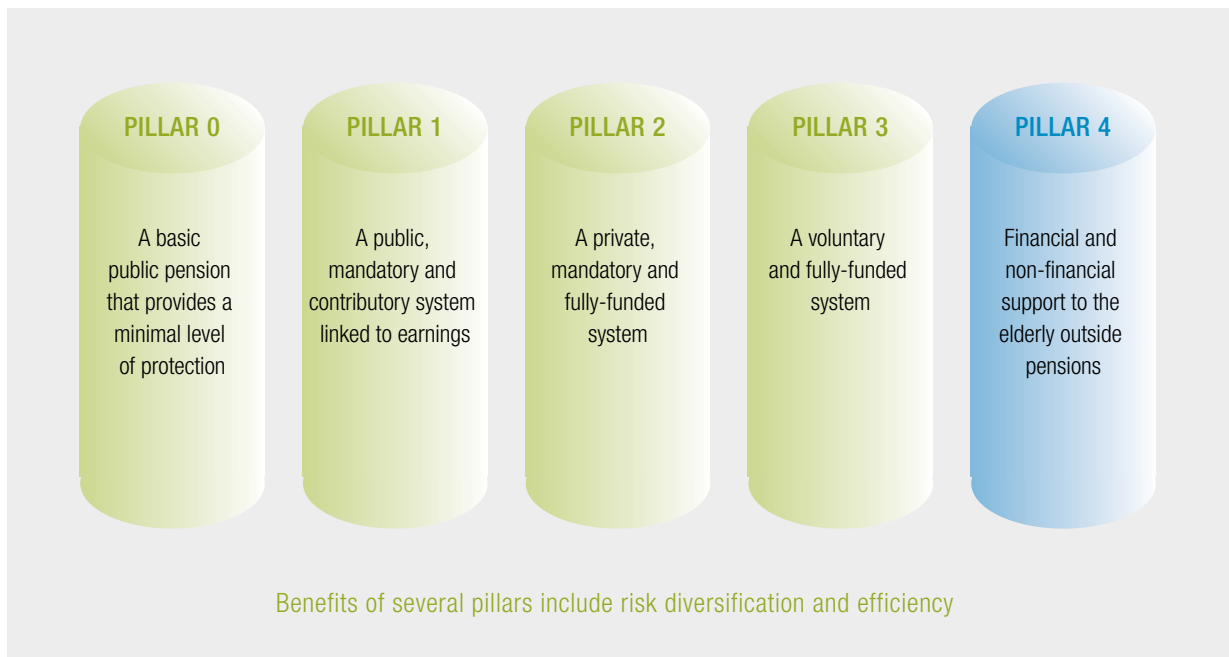
Pillar 1: A mandated public pension plan that is publicly-managed with contributions and, in some cases, financial reserves.

Pillar 2: Mandated and fully-funded occupational or personal pension plans with financial assets.

Pillar 3: Voluntary and fully-funded occupational or personal pension plans with financial assets.

Pillar 4: A voluntary system outside the pension system with access to a range of financial and non-financial assets and support.

FIGURE 1
THE MULTI-PILLAR APPROACH



This multi-pillar approach has significant benefits as it diversifies the risks across social security (pillars 0 and 1) and private sector provision (pillars 2 and 3), while recognising that financial and non-financial support for the elderly can and does occur outside the pension systems.

Within the Australian system, pillar 0 represents our means tested age pension, whereas pillars 2 and 3 represent the compulsory Superannuation Guarantee (SG) system for employees and voluntary contributions made by employees and the self-employed respectively. Unlike many developed economies, Australia does not have a pillar 1 arrangement where contributions are made by employers and/or employees into a public pension (or social security) arrangement. It is also important to recognise the importance of pillar 4, which includes non-superannuation savings, home ownership, as well as government support to the elderly in a range of areas including health, pharmaceutical and aged care.

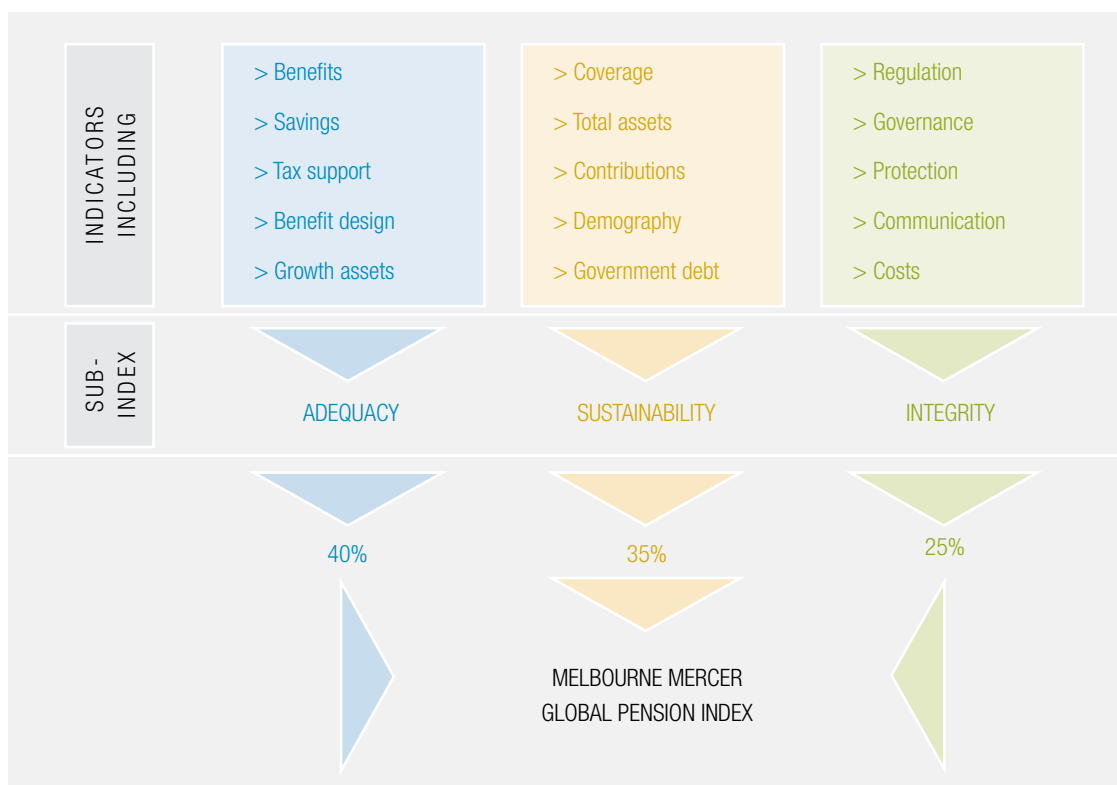
This multi-pillar approach provides the framework for the MMGPI which considers more than 40 indicators in respect of each country's retirement income system.

Melbourne Mercer Global Pension Index

The following diagram highlights some of the topics covered by the MMGPI and shows that the overall index is broken down into the following three sub-indices:

- **Adequacy:** The adequacy of benefits is perhaps the most obvious way to compare different systems. After all, the primary objective of any pension system is to provide adequate retirement income. However adequacy is also influenced by many design features of the public and private pension systems.
- **Sustainability:** The long-term sustainability of the existing retirement income system is a concern in many countries. This sub-index therefore brings together several measures that affect the sustainability of current programs.
- **Integrity:** As most countries are relying on the private system to play an increasingly important role in the provision of retirement income, it is critical that the community has confidence in the ability of private sector pension providers to deliver retirement benefits over many years into the future.

FIGURE 2
MELBOURNE MERCER GLOBAL PENSION INDEX



The following table shows the overall index value for each country together with the index value for each of the three sub-indices. Each index value represents a score between 0 and 100.

TABLE 1
MELBOURNE MERCER GLOBAL PENSION INDEX, SHOWING COUNTRY VALUES

Country	Overall Index Value	Sub-Index Values		
		Adequacy	Sustainability	Integrity
Denmark	82.4	77.5	86.5	84.5
Australia	79.9	81.2	73.0	87.8
Netherlands	79.2	75.3	76.3	89.4
Finland	74.3	72.2	64.7	91.1
Switzerland	73.9	71.9	69.7	83.1
Sweden	73.4	67.2	74.7	81.6
Canada	69.1	75.0	58.6	74.3
Chile	68.2	57.3	68.7	85.0
UK	67.6	69.8	52.4	85.4
Singapore	65.9	56.4	68.5	77.4
Germany	62.2	75.8	37.6	75.0
Ireland	62.2	77.6	36.0	74.1
USA	57.9	55.2	58.5	61.2
France	57.5	76.4	37.7	54.9
Poland	56.4	61.7	41.4	68.9
South Africa	54.0	48.3	44.6	76.3
Austria	52.8	67.5	18.9	76.6
Brazil	52.4	61.8	26.2	74.2
Italy	49.6	68.1	13.4	70.7
Mexico	49.4	49.9	53.1	43.5
China	49.0	62.5	33.0	49.9
Indonesia	45.2	37.5	37.8	68.0
Japan	44.4	48.0	28.5	60.9
Korea (South)	43.6	42.6	42.5	46.7
India	43.5	37.1	40.6	57.7
Average	60.6	63.0	49.7	71.9

Australia's performance is very creditable with a second in the overall index built upon a first in adequacy, a fourth in sustainability, and a third in integrity. However, as is discussed later, this does not suggest that Australia has a perfect system. Rather, it suggests we are better placed than many other countries, especially in the accumulation (or pre-retirement) phase.

In light of this global research, what are the features that the better pension systems around the world exhibit? They include:

“Australia's performance is very creditable...However...this does not suggest that Australia has a perfect system.”

In the adequacy sub-index

- A minimum (or base) pension is provided to the poor that represents a reasonable percentage of average earnings in the community. For example, while Denmark is more than 35 per cent and Australia is about 28 per cent for a single person, both the UK and US are less than 20 per cent.
- A net (after tax) replacement rate at retirement for a median income earner who has worked full time should be in the order of 70 per cent. Using OECD data, the UK and USA are both less than 50 per cent and Singapore is less than 40 per cent. The Australian figure, which assumes the superannuation guarantee increasing to 12 per cent, is 72.8 per cent for a new entrant into the workforce.
- The retirement system should require at least half the accumulated retirement benefits to be taken as an income stream.
- Household savings outside the pension system (which contributes to pillar 4) should be at least five per cent of personal disposable income.

In the sustainability sub-index

- At least 70 per cent of the working age population should be members of private pension plans. Chile, Denmark, the Netherlands and Sweden have more than 75 per cent coverage whereas Australia is slightly less than 70 per cent.
- There should be significant funding of future pension liabilities so that the current pension fund assets should be more than 100 per cent of GDP. In fact, both Denmark and the Netherlands exceed 150 per cent of GDP. Australia is currently more than 120 per cent.
- The level of current contributions being paid into funded pension schemes should be at least eight per cent of earnings. Of course, the appropriate level will vary slightly between countries depending on the social security arrangements. Means-tested arrangements, as applies in Australia, require a higher level of contributions.
- Employment should be encouraged at older ages so that the labour force participation rate for those aged 55–64 should be at least 65 per cent. Sweden and Switzerland lead the way with 77 per cent and 73 per cent respectively, with Australia at 64 per cent.

In the integrity sub-index

- There should be a strong prudential regulator supervising private pension plans.
- Trustees or fiduciaries of pension plans should be required to prepare an investment policy, a risk management policy and a conflicts of interest policy.
- There should be clear funding requirements for both defined benefit and defined contribution schemes.
- There should be requirements for the private pension plans to communicate with their members on a regular basis including the provision of personal statements, projected retirement income and an annual report.

In respect of Australia, the 2014 MMGPI report suggested that the overall index value could be improved by:

- Introducing a requirement that part of each retirement benefit (above a certain level) must be taken as an income stream, which could include some longevity protection.
- Increasing the labour force participation rate among older workers, which is gradually happening.
- Introducing a mechanism to increase the pension age as life expectancy continues to increase, thereby removing it from the political process.
- Increasing the minimum access age to receive benefits from private pension plans so that access to retirement benefits is restricted to no more than five years before the Age Pension eligibility age.

An ideal retirement system

Earlier this year, the CFA Institute and Mercer developed 10 principles for an ideal retirement system. While these principles were developed for a global audience, they also have relevance for Australia.

The following table states each principle and shows how Australia measures up.

TABLE 2
THE 10 IDEAL RETIREMENT SYSTEM PRINCIPLES, AND HOW AUSTRALIA MEASURES UP

Principle	The Australian situation
The government must establish clear objectives for the whole retirement system, including the complementary roles of each pillar, and incorporate the provision of a minimum income to alleviate poverty amongst the aged population.	The Financial System Inquiry recommended that the objectives of the superannuation system should be enshrined in legislation. This would represent an important step in obtaining clarity and purpose as there are currently no agreed objectives.

TABLE 2
THE 10 IDEAL RETIREMENT SYSTEM PRINCIPLES, AND HOW AUSTRALIA MEASURES UP
... CONTINUED

Principle	The Australian situation
There should be cost-effective and attractive default arrangements, both before and after retirement, for individuals who do not wish to make decisions.	MySuper is designed to provide a cost-effective default arrangement before retirement but does not cover the post-retirement years.
The overall administration and investment costs of each pension arrangement should be disclosed with some competition present within the system to encourage fair pricing.	Costs have to be disclosed to fund members and with approximately 100 public offer MySuper funds, it is reasonable to conclude that some competition is present.
The retirement system must have some flexibility as individuals live in a range of personal and financial circumstances. This flexibility includes recognising that retirement will occur at different ages and in different ways across the population.	The Australian system has considerable flexibility in the retirement years, with the account-based pension the most popular product and no limits on capital withdrawals.
The benefits provided from the system during retirement should have an income focus but permit some capital payments or withdrawals during retirement, but without adversely affecting overall adequacy.	Although account-based pensions are the most popular form of retirement benefits, the Australian system does not have an income focus, either during the pre-retirement years or after retirement.
Contributions (or accrued benefits) at the required minimum level must have immediate vesting and portability. These accrued benefits should only be accessible under certain conditions, such as retirement, death or permanent disability.	Immediate vesting occurs with the SG system and most members are able to transfer their accrued benefits to another fund. Furthermore, benefits are not available until after the preservation age which is currently age 56 but increasing to age 60 by July 2024.
The government should provide taxation support to the funded pension system in an equitable and sustainable way, thereby providing incentives for voluntary savings and compensating individuals for the lack of access to their pension savings.	The Australian system receives taxation support through reduced taxation on contributions and investment earnings for most members. However, the fairness of the existing concessions is currently being debated.
The governance of pension plans should be independent from the government and any employer control.	Corporate and industry superannuation funds are required to have trustees representing employees and employers equally.
The pension system should be subject to appropriate regulation including prudential regulation of pension plans, communication requirements and some protection for pension scheme members.	The Australian Prudential Regulation Authority has a high level of regulation covering prudential and member disclosure requirements. It has also established 13 prudential standards for super funds. In addition, it meets with each fund's trustees and management on a regular basis.

Findings from the Financial System Inquiry

The 2014 Report of the Financial System Inquiry (FSI) identified that one of the five weaknesses in Australia's financial system was that "Superannuation is not delivering retirement incomes efficiently". It went on to highlight that one of its five specific themes was to "lift the value of the superannuation system and retirement incomes".

It is not surprising that superannuation was a major subject of the Inquiry as superannuation had grown significantly since the final report of the previous (Wallis) Inquiry in March 1997. In June 1997 (five years after the commencement of the SG system), the assets of the superannuation system were \$321 billion (or about 35 per cent of GDP) compared to the latest figure at March 2015 of \$2050 billion (or more than 120 per cent of GDP).

"In June 1997, the assets of the superannuation system were \$321 billion, compared to the latest figure at March 2015 of \$2050 billion."

The FSI made several recommendations relating to superannuation but the two that may have the most long term impact for the structure and development of the industry are:

Recommendation 9: Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.

Recommendation 11: Require superannuation trustees to preselect a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way.

The development of agreed objectives for Australia's retirement income system would represent a very important step forward.

It should be noted, I have broadened the concept of objectives beyond superannuation to the overall retirement income system. This is an important distinction due to the inter-relationships between superannuation, the means-tested Age Pension, and the taxation system. For example, in framing the overall high level objectives, it is important to recognise the key role that the Age Pension has in poverty alleviation among the aged. In relation to superannuation, its role should be to enable most Australians to continue their standard of living in retirement, with or without the assistance of the Age Pension, depending on their financial situation. However, the extent of tax-supported superannuation should also have a cap so that lavish lifestyles are not supported. Of course, the level of this cap can be debated but it may be reasonable to cap the support for retirement pensions at about twice the average wage.

Recommendation 11 would provide the Australian system with a stronger focus on incomes. This is currently lacking, as noted in the above benchmarking against the principles for an ideal retirement system. This development is needed to establish a clearer understanding within the community that the primary purpose of superannuation is to provide income throughout the retirement years. This

means we should discourage both the immediate use of the lump sum benefit, and the deferred use of the benefit which can lead to significant estate planning.

However, we must also recognise that the financial needs of retirees in the post-employment years vary significantly. It is much more complex than just paying a steady income. For example, many retirees have capital needs for home refurbishment, the purchase of a car, or entry into a nursing or aged care home. Similarly, their financial needs and state of health can vary considerably. There is not one retirement product that suits everybody. In many cases it will be a portfolio or suite of products that provides a regular income, some longevity protection, as well as some flexibility. Of course, in many cases, the Age Pension will provide some or all of the regular income.

Notwithstanding this complexity, a stronger focus on income streams would represent an important step forward in the maturing of Australia's retirement system. One approach that would begin to engage superannuation fund members before retirement would be to require all superannuation funds to provide members with a projected retirement income, based on their current balance and level of contributions.

“...we must also recognise that the financial needs of retirees in the post-employment years vary significantly... Similarly, their financial needs and state of health can vary considerably.”

Conclusions

The Australian retirement system is well regarded on the international scene. We have:

- A means-tested Age Pension that limits current and future government expenditure.
- A superannuation system that covers the vast majority of employees and a current contribution rate of 9.5 per cent of ordinary time earnings.
- A situation where more than 80 per cent of retirement dollars are transferred into post-retirement products.
- A growing level of superannuation assets, which currently exceed 120 per cent of GDP, and are set aside for the future.

However, as the Financial System Inquiry noted, it is possible to improve the system and obtain even better value for Australian retirees. With this objective in mind, the following changes are recommended:

- Confirm the objectives of the retirement income system, which should include:
 - the alleviation of poverty through the provision of a reasonable pension for the poor.
 - the provision of reasonable retirement incomes to enable most Australians to maintain their living standards in retirement.

- Increase the focus on provision of lifetime retirement incomes so that retirees are discouraged from spending their benefits shortly after retirement, or deferring expenditure in the interests of estate planning.
- Ensure that all contributions to superannuation clearly lead to an improved benefit in retirement.
- Provide continued support and encouragement for workers to remain in the labour force and not to retire early, wherever practical.
- Ensure that the total cost of government support over individuals' lifetimes in respect of retirement income (whether through the Age Pension or superannuation tax concessions, or a combination) should be relatively level, irrespective of income.
- Ensure that the inter-relationships between superannuation, the Age Pension, and taxation are transparent and consistent with the overall objectives.

In conclusion, we want Australians to be able to retire with dignity, and maintain it over many years. This means that the benefits must be adequate; the system must be sustainable over the longer term; the system must be perceived to be fair and, above all, simple to understand. These characteristics will also encourage long term community confidence.

Australia is well placed to develop a first-class world-leading retirement system that can provide adequate and sustainable benefits in a well regulated system. However, we are not there yet and more work needs to be done. In particular, we must focus on developing improved retirement products that provide some longevity protection (either through a pooled longevity product or an annuity); a regular income; and some flexibility of capital payments, thereby recognising retirees' differing needs.



4 Living income- and asset-poor in retirement

Dr Judith Yates

.....

Australia's Age Pension is premised on outright home ownership and asset-based welfare. Retired pensioners who rent privately are at risk of experiencing unacceptably high levels of housing stress and after-housing poverty. And their numbers are only going to grow.

.....



Dr Judith Yates is currently an honorary associate in the School of Economics at the University of Sydney after more than 40 years in academia. Her primary research interests are in housing economics, finance and policy. She produced background papers for the Australian Financial System Inquiry in the 1980s, for the Australian Government's National Housing Strategy in the 1990s, and was a member of the National Housing Supply Council in the 2000s. She has served on numerous advisory committees and boards, including the board of the Commonwealth Bank of Australia.

Introduction

An acquaintance of mine, Tom (not his real name) is now a relatively healthy 80-year-old. He spent much of his retirement passing on the skills developed in his younger years as an A-grade sportsman to the next generation of players. He coached on a volunteer basis, using his pensioner concession card on public transport to make the one hour journey. His activity has contributed to the broader community and kept him mentally alert and physically fitter than he otherwise would have been.

But this year he had to stop – not because of age, but because he was evicted from his home of 30 years.

Tom spent his working life as a self-employed tradesman earning a modest income. He never partnered and never bought his own home. He chose, instead, the convenience of renting in an inner city suburb with good access to available work. The little discretionary income he had while working, he had saved for retirement. However, he made what turned out to be a series of poor investment choices and, at the end of his working life, was left with virtually no assets. He is now fully dependent on the Age Pension. His run-down, one bedroom apartment was only just affordable because of Commonwealth Rent Assistance.

This year, Tom's landlord decided to sell out to a developer and Tom was given three months' notice. He was unable to find suitable affordable accommodation in the city where he had lived since childhood. As a result, he had to move out of the capital – away from his community, away from his support network, and away from the medical services he will need in the future.

Tom's story is that of a significant number of older people today although, for several reasons, it is more typical of women than men. Women live longer than men. They tend to have broken careers, lower lifetime incomes and lower capacities for accumulating future income via superannuation, or wealth via residential property. Women are more likely to have been responsible for unpaid work within the household and, if separated or divorced, are more likely to have had primary responsibility for children. They face childcare constraints in gaining access to employment, and once in paid work, they tend to be paid less than men. Women are over-represented in low-paid jobs.

Their stories, and the stories of men such as Tom, are well documented in the literature.¹ They are the stories of vulnerable people who reach retirement with few assets and are primarily reliant on the Age Pension. They are what the Australian Bureau of Statistics (ABS) classifies as persons in low economic resource (LER) households – income- and asset-poor households who are at risk of experiencing high levels of economic hardship.² Among other things, this means not being able to heat their homes, going without meals, and not being able to afford leisure or hobby activities.

Income- and asset-poor households are likely to have relatively little choice in relation to the key housing attributes valued by older people, including privacy and autonomy, affordability, security of tenure, safety, adaptability for future care, location, suitability, size, amenity and space.³

This chapter focusses on the implications for LER households of a system in which retirement incomes and living standards rely on an Age Pension that is premised on outright home ownership and on asset-based welfare.⁴

“...income- and asset-poor households who are at risk of experiencing high levels of economic hardship. ...not being able to heat their homes, going without meals, and not being able to afford leisure or hobby activities.”

What is income- and asset-poor in retirement?

In Australia in 2011–12, only 15 per cent of the 1.9 million older households were LER households, less than 300,000 in total. More than 70 per cent had low incomes, but fewer than 18 per cent were asset-poor.⁵ See Table 1 and Table 2.

TABLE 1
OLDER HOUSEHOLDS BY TENURE AND INCOME QUINTILE

	No.	%	No.	%	No.	%	No.	%
Q1	596,000	38	43,000	35	113,000	63	752,000	40
Q2	501,000	32	48,000	39	49,000	27	599,000	32
Q3	238,000	15	21,000	16	12,000	7	271,000	14
Q4	145,000	9	8000	6	3000	2	156,000	8
Q5	104,000	7	5000	4	1000	1	110,000	6
All incomes	1,584,000	100	124,000	100	180,000	100	1,888,000	100

Source: ABS Survey of Income and Housing, 2011–12. Findings based on use of basic confidentialised unit record files

TABLE 2
OLDER HOUSEHOLDS BY INCOME AND NET WEALTH, 2011–12

Equivalent disposable income quintile	Equivalent net wealth quintile					TOTAL
	NWQ1	NWQ2	NWQ3	NWQ4	NWQ5	
	No. of households					
Q1	119,000	69,000	197,000	234,000	133,000	752,000
Q2	52,000	52,000	136,000	205,000	154,000	599,000
Q3	13,000	16,000	41,000	75,000	126,000	271,000
Q4	3000	7000	15,000	30,000	101,000	156,000
Q5	–	–	3000	8000	99,000	110,000
All older h'holds	187,000	143,000	392,000	552,000	614,000	1,888,000

Source: ABS Survey of Income and Housing, 2011–12. Findings based on use of basic confidentialised unit record files

Income-poor

In 2011–12, an income below \$34,000 for a single person and below \$51,000 for a couple resulted in a household being classified as income-poor. These LER incomes are above the full Age Pension and above the (marginally higher) incomes the Association for Superannuation Funds Australia (ASFA) considers sufficient for a healthy, home-owning older household to maintain a ‘modest’ standard of living.

Even after adjusting for inflation, they are considerably less than incomes needed for a ‘comfortable’ lifestyle in 2014 – estimated at \$43,000 for a single person and \$58,000 for a couple.⁶ ASFA considers that a modest retirement lifestyle allows retirees to afford only fairly basic activities; a comfortable retirement lifestyle enables them to have a good standard of living.⁷

Asset-poor

The total net wealth levels used by the ABS to define asset-poor households in 2011–12 were less than \$200,000 for single persons, and less than \$300,000 for couples, regardless of whether or not they owned their own home.

Based on a 7 per cent return, ASFA estimates that a home-owning couple at age 70 needed just over \$500,000 in 2014 (and a single person more than \$400,000) to ensure a ‘comfortable’ lifestyle in retirement over a 20 year expected life-span.⁸ However, at current low rates of return, more than twice these amounts have been suggested as necessary for generating an income stream equivalent to the current Age Pension.⁹

Who is affected?

These estimates of what is required for a comfortable, or even a modest, standard of retirement living are based on the ‘average’ household whose members are in good health and, importantly, own their own home.

‘Average’, however, does not describe the characteristics of the 15 per cent of older households who are income- and asset-poor. The vast majority of these are renters, not home owners – a predictable outcome given the significant contribution that housing wealth makes to total net wealth. They are less likely than home owners to be healthy (particularly in relation to mental health).¹⁰ More than 70 per cent of renter households are single adult households. Of these, most are women.

Currently, public rental housing accommodates many of these people. But, in 2011–12, more than one third of older LER renters were in the private rather than the public rental system.¹¹ See Table 3 and Table 4.

However, private rental housing often does not meet older renters’ needs. Older renters are far more likely to experience persistent poverty than other

TABLE 3
LOW ECONOMIC RESOURCE HOUSEHOLDS BY AGE AND TENURE, 2011–12

Tenure	Age						all LER h'holds
	<25	25–34	35–44	45–54	55–64	65+	
public renters	31,000	71,000	88,000	84,000	93,000	144,000	511,000
private renters	79,000	183,000	179,000	101,000	77,000	84,000	703,000
all renters	110,000	254,000	267,000	184,000	171,000	228,000	1,214,000
home owners	3000	87,000	103,000	70,000	40,000	63,000	366,000
all LER hholds	112,000	341,000	371,000	254,000	210,000	292,000	1,580,000

Source: ABS Survey of Income and Housing, 2011–12. Findings based on use of basic confidentialised unit record files

TABLE 4
OLDER LOW ECONOMIC RESOURCE HOUSEHOLDS BY TENURE, 2011–12

Net worth quintile	Tenure	Disposable income quintile					
		Q1		Q2		Q1+Q2	
		No.	%	No.	%	No.	%
NWQ1	owner with no mortgage	1000	0	3000	3	3000	1
	owner with a mortgage	–	0	–	–	–	0
	public renter	89,000	47	22,000	22	111,000	38
	private renter	30,000	16	27,000	26	56,000	19
NWQ2	owner with no mortgage	36,000	19	12,000	11	47,000	16
	owner with a mortgage	5000	3	7000	7	13,000	4
	public renter	17,000	9	16,000	16	33,000	11
	private renter	11,000	6	17,000	16	27,000	9
NWQ1+NWQ2	owner with no mortgage	36,000	19	14,000	14	51,000	17
	owner with a mortgage	6000	3	7000	7	13,000	4
	public renter	106,000	56	39,000	37	144,000	50
	private renter	41,000	22	43,000	42	84,000	29
All LER older households		188,000	100	103,000	100	292,000	100

Source: ABS Survey of Income and Housing, 2011–12. Findings based on use of basic confidentialised unit record files

households.¹² They generally rent in the private market, by necessity rather than choice, and they are most at risk of becoming homeless for the first time.¹³ Too often private rental is unaffordable. When it is affordable, it is often not appropriate in terms of design or access to services. As metropolitan housing markets have been restructured over the last few decades, low cost rental accommodation has been pushed to the urban fringes, constraining growing numbers of older LER renters to locations that are poorly serviced by public transport, community services, and health services. With frequent rent increases and no security of tenure, private rental can create anxiety.¹⁴

“The budget standards used to determine the income needed to sustain either modest or comfortable lifestyles, are based on owners’ housing costs, not those of renters.”

The budget standards used to determine the income needed to sustain either modest or comfortable lifestyles, are based on owners’ housing costs, not those of renters. For a couple (in 2014) they were calculated at almost \$70 per week for a modest lifestyle and \$90 for a comfortable lifestyle. For a single person they are much the same. However, the number of private rental dwellings with rents this low has declined steadily over time. Low-income renters, young or old, are often unable to compete for the extremely limited (generally non-metropolitan) supply that exists. This results in a significant and increasing shortage of affordable private rental dwellings available for low-income households, particularly in metropolitan areas.¹⁵

The resultant incidence of housing stress and after-housing poverty is unacceptably high for older, lower-income private renters.¹⁶ Income-poor home owners, on the other hand, are largely protected from after-housing poverty because the wealth they hold in owner-occupied housing protects them from high housing costs.

The relative economic status of renters

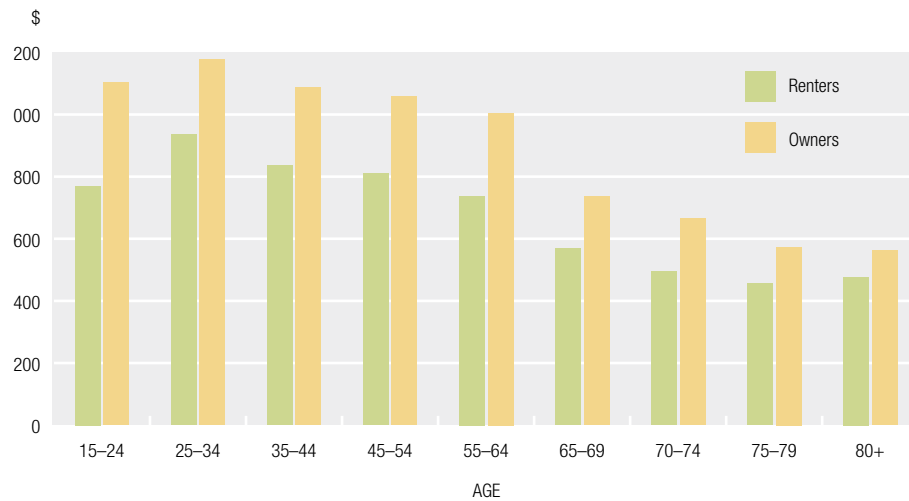
The role of housing in making a major contribution to retirees’ living standards is widely recognised. But Australia is seen as unusual in the prominence we give it.¹⁷

One reason is Australia’s high rate of home ownership among older households. In 2011–12, 84 per cent of older households were home owners, compared with an OECD average of around 75 per cent. This puts Australia in the top 25 per cent of OECD countries for which comparable data is readily available.¹⁸ At the same time, it ranks last among these OECD countries in terms of the relative incomes of over 65s, compared with the national average. The overall poverty rate of older people in Australia is three times the OECD average, and one of the highest. Australia ranks towards the bottom in terms of the share of retirement income coming from the Age Pension and, conversely, towards the top in terms of the share of retirement income that comes from private pensions and non-pension assets – that is, from its asset-based welfare system.¹⁹

High home ownership rates among older households contribute to a lack of concern about older renters. Indeed, current concerns in rich OECD countries (including Australia) are more often about how older asset-rich households can increase their living standards by turning their housing assets into income.²⁰ Older renters do not have this option. They are disadvantaged compared with owners probably because, for most of their lives, they are also likely to have been less advantaged than their home-owning counterparts.

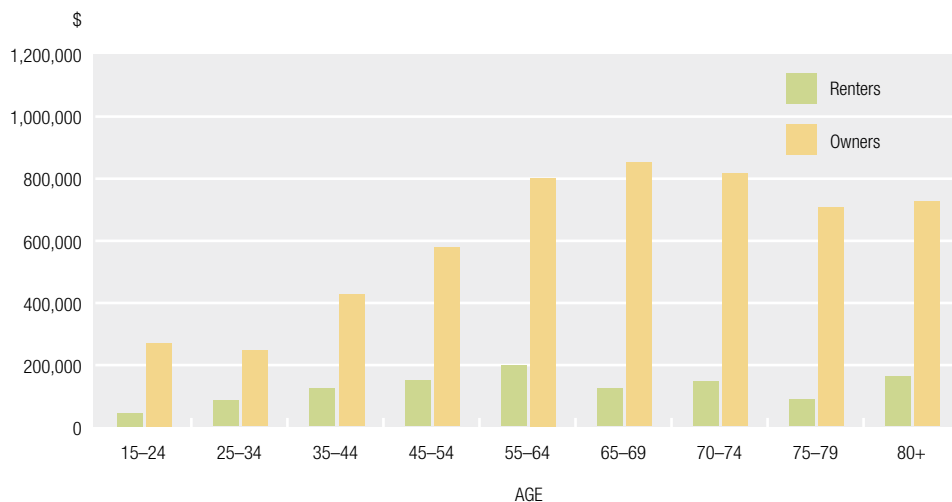
In every age group, renters have average incomes that are systematically lower than those of owner-occupiers. See Figure 1. While it does not necessarily follow that households who are disadvantaged at a particular point in their life-cycle will be disadvantaged throughout their whole lives, there are numerous indications that this is a likely outcome.²¹ Likewise, renters may not always have been renters, but a significant and growing proportion are shown to have been renters for a long time.²²

FIGURE 1
EQUIVALISED HOUSEHOLD DISPOSABLE INCOME BY AGE AND TENURE, 2011–12



Source: Australian Bureau of Statistics Survey of Income and Housing, 2011–12. Results derived from ABS Basic CURF data.

FIGURE 2
HOUSEHOLD EQUIVALISED NET WORTH BY AGE AND TENURE, 2011–12: AUSTRALIA



Source: Australian Bureau of Statistics Survey of Income and Housing, 2011–12. Results derived from ABS Basic CURF data.

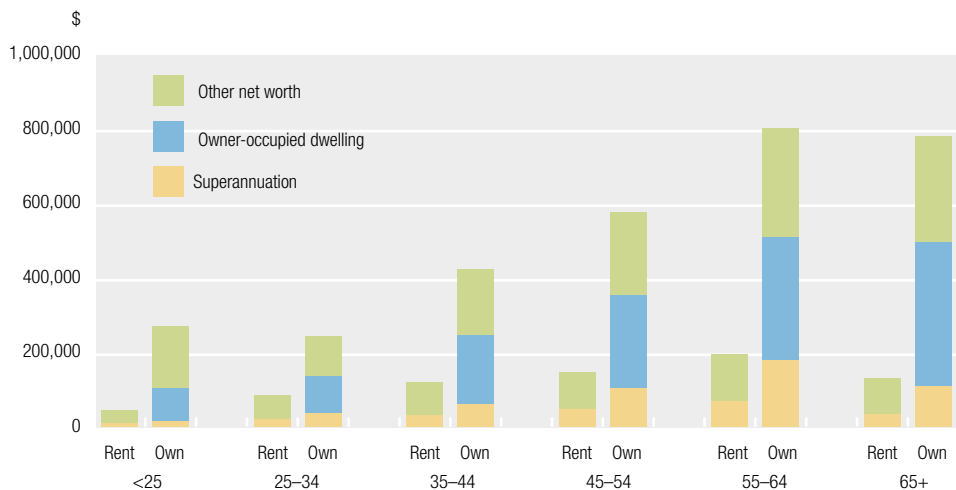
Lower incomes and lower wealth both reduce capacity to accumulate wealth. Income-related contributions to tax-advantaged compulsory superannuation illustrate one relationship between income and wealth accumulation. Income and deposit constraints that limit borrowing capacity and access to tax-advantaged housing assets, illustrate the dual constraint of income and wealth on the capacity to accumulate wealth. These constraints contribute to disparities in net wealth between owners and renters that are far greater than disparities in income. For younger households, owners' net wealth is around twice that of renters. For older households, owners' net wealth is around six times higher than that of renters. See Figure 2. The process of intergenerational transmission of wealth through inheritance is likely to exacerbate rather than ameliorate existing inequalities.²³

Housing wealth is one of the primary sources of these disparities. The extent of current housing wealth in Australia results largely from the significant growth in real dwelling prices that began in the mid-1980s. Some 40 years on, despite a number of market shocks, this growth has yet to run out of steam. The greatest beneficiaries of this long-run dwelling price growth are those who owned their dwellings before 1985, followed closely by those who have purchased since. The greatest losers are renters excluded from home purchase.

Renters not only have lower holdings of housing wealth (by definition they have no owner-occupied housing wealth) but they also have considerably lower holdings of other forms of wealth. See Figure 3.

In the ten years before people turn 65, when their superannuation wealth is likely to be at its maximum, the average superannuation wealth of renters (adjusted for household size) is less than 40 per cent of the average superannuation wealth of home owners. At less than \$70,000, this is well below the level presumed necessary to sustain even a modest lifestyle in retirement. During their working lives, the lower average incomes of renters mean they have less capacity to contribute to superannuation or, indeed, to accumulate any other form of wealth.

FIGURE 3
ALLOCATION OF EQUIVALISED NET WORTH BY AGE AND TENURE, 2011–12: AUSTRALIA



Source: Australian Bureau of Statistics Survey of Income and Housing, 2011–12. Results derived from ABS Basic CURF data.

For renter households in the pre-retirement age group, average total net wealth is less than one quarter that of home owners. After age 65, their average total net wealth compares even less favourably.²⁴ An asset-based welfare system provides no comfort to the majority of older renter households.

What of the future?

Since the early 2000s, the Australian Government has used a series of Intergenerational Reports to assess the sustainability of current and/or proposed fiscal policies for the 40 years ahead. These reports have examined the implications of long-term demographic and economic growth trends on Australian Government spending.²⁵ They reflect a concern with future living standards. They are seen as an important means of focusing public attention on Australia's longer term challenges of maintaining and improving living standards, and of stimulating policy adjustments in order to do so.

Each of the four Intergenerational Reports released to date has examined the impact of projected trends on the main items of government expenditure, including measures intended to enhance retirement incomes, and to reduce reliance on the Age Pension. The 2015 Intergenerational Report explicitly acknowledges three pillars of Australia's retirement income system: the Age Pension, compulsory superannuation, and voluntary saving. However, as with previous reports, it neglects the critical role played by a fourth pillar in protecting the living standards of older Australians – that of owner-occupied housing.²⁶

All reports have ignored the impact of current policies, and of economic and demographic trends, on older households' present and future housing outcomes. This might be explained by two current facts: (i) relatively few older households do not own their own home; and (ii), public rental housing partially protects the living standards of many of those who do not own.

“...the number of older income- and asset-poor households is likely to grow rapidly over the next 40 years and many of these are likely to be in the private rental market.”

However, for reasons discussed below, the number of older income- and asset-poor households is likely to grow rapidly over the next 40 years and many of these are likely to be in the private rental market.

Population growth and ageing

The first reason is simple: Australia's population is growing and ageing. Current projections suggest the number of Australians aged 65 years or older will more than double in the next 40 years.²⁷ If the proportion of older households living independently as renters remains the same as it has for the past 40 years, then in 2054 the number of older renters will also more than double – from around 300,000 households in 2014, to more than 600,000. If the proportion of older LER households remains the same, most of these older renters will be income- and asset-poor.

The following reasons are more insidious: it is likely that the assumptions made in these simple projections provide too conservative an estimate of the numbers of older LER households forecast to face future hardship in the private rental market.

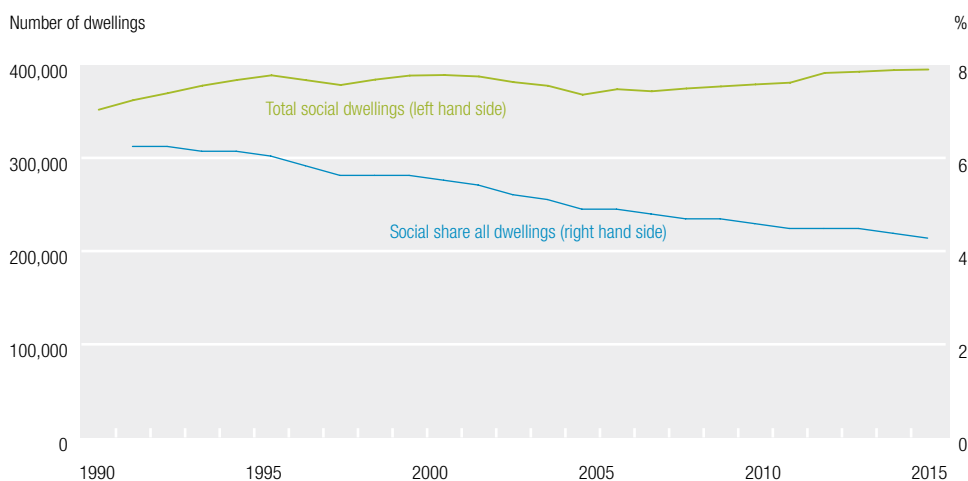
Decline of affordable rental housing

Social rental housing

The first of these conservative assumptions relates to the changing structure of Australia's rental system. Currently, most income- and asset-poor older renters are in the public rental system.²⁸ However, since the mid-1990s, the absolute number of dwellings in public rental has declined by 50 per cent to 4 per cent of Australia's total dwelling stock.²⁹ See Figure 4.

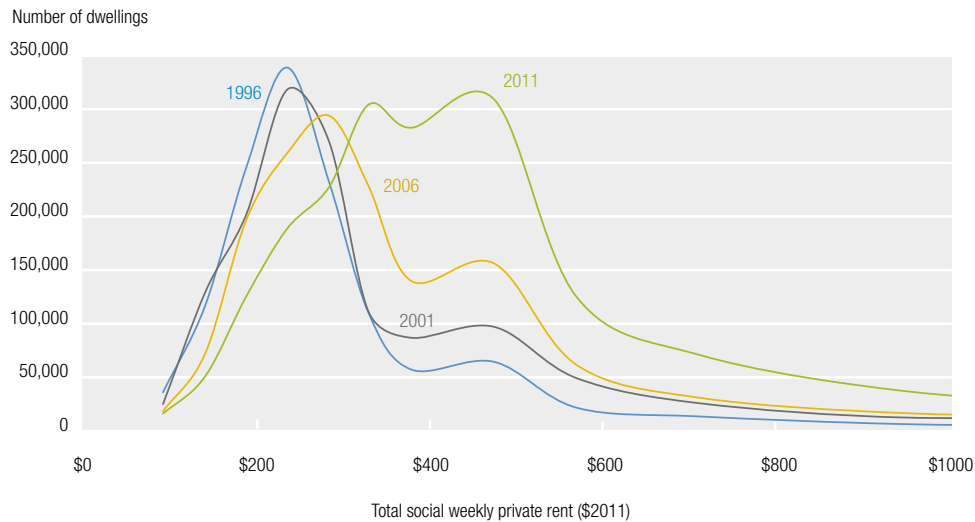
Moreover, current social housing allocation criteria place mental illness, addiction issues, physical disability, and domestic violence ahead of housing affordability problems. While this policy remains, future generations of older LER households are less likely to access social rental dwellings. Thus, as the number of renters increases, a growing share will end up in the private rental market. If there is no increase in the number of social rental dwellings available for older households, the share of LER older households in the private rental market could increase from a current share of less than two out of every five renter households, to almost seven out of every 10.³⁰

FIGURE 4
SOCIAL RENTAL DWELLINGS, 1990 TO 2015



Source: updated from Yates (2013, p116) op.cit.

FIGURE 5
PRIVATE RENTAL DWELLINGS, 1996 TO 2011



Source: Hulse et al. (2014, p19), op.cit.

Private rental housing

The private rental market, however, is ill-prepared to cope with this growth. There have been significant and growing shortages of dwellings that are affordable for low income renters.³¹ Despite a growing number of low income households, the stock of low rent dwellings has been steadily declining for more than a generation. See Figure 5.

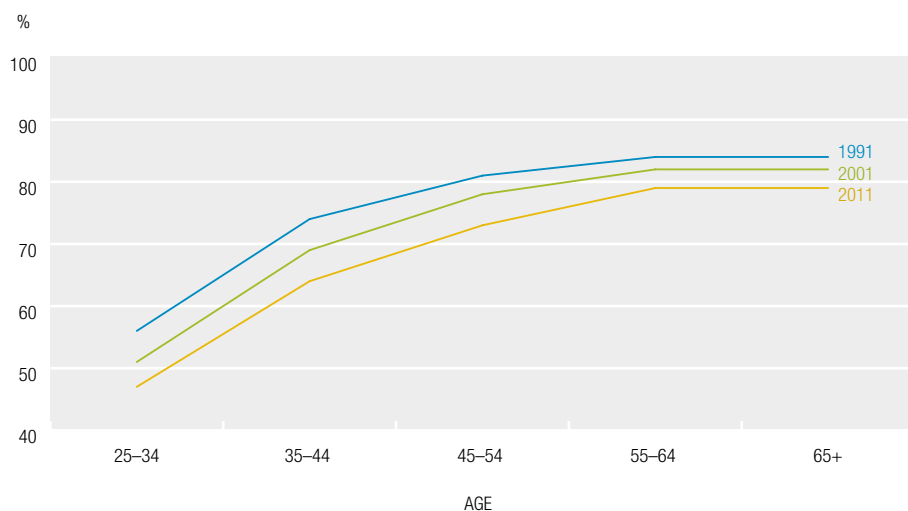
A shortage of affordable and available rental dwellings for low income renters means older LER renters are less likely to be able to find dwellings that meet their needs. This increases their risks of facing both non-economic and economic hardship. In the absence of significant policy change, the likelihood is that shortages will continue over the next 40 years or so. In the future, this will exacerbate the affordability problems and other issues faced by older private renters.

Declining home ownership

The second of the conservative assumptions made (in estimating a doubling of the number of older renters by 2054) is that the proportion of older renters will remain at 15 per cent – that is, the same over the next 40 years as it has been over the past 40 years.

This presumes the home ownership rate of over 65s will remain at 85 per cent. It also presumes that home ownership rates of those currently under 65 will be sustained at levels that gave rise to the current rate for those over 65. But this is unlikely. Since the 1990s or even earlier, economic and demographic factors have pushed dwelling prices to a point where first home buyers face significant affordability constraints. As a result, for well over 30 years, there have been significant reductions in home ownership rates among successive cohorts of younger households.³² See Figure 6.

FIGURE 6
AGE-SPECIFIC HOME OWNERSHIP RATES, 1991 TO 2011



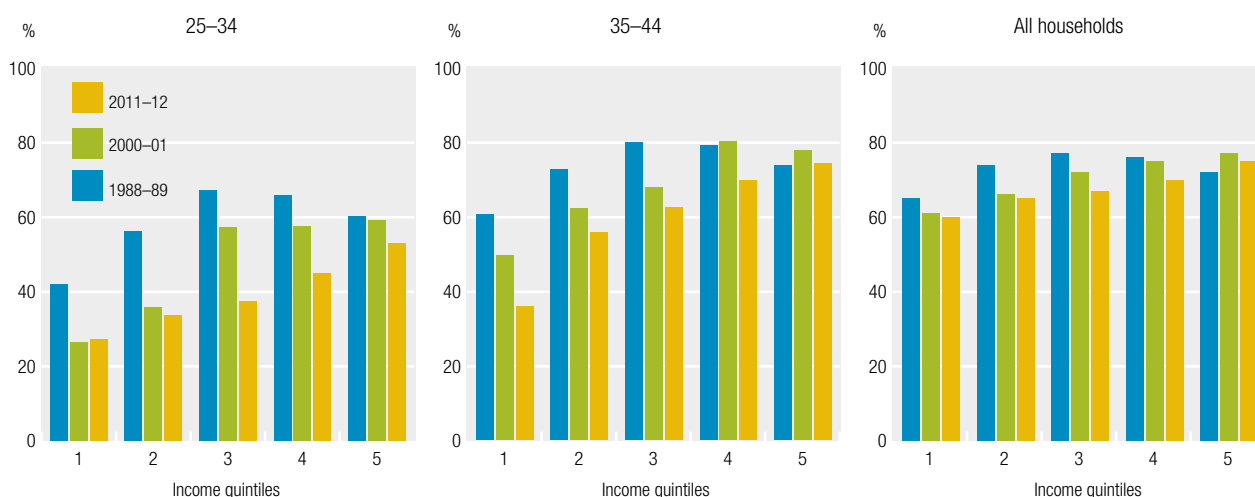
Source: Australian Bureau of Statistics, Census of Population and Housing (stated years) customised data (excludes records where tenure not stated)

TABLE 5
PROJECTIONS OF OLDER RENTER HOUSEHOLDS BY AGE GROUPS, 2008 TO 2028, SELECTED YEARS

Age of reference person		2008	2013	2018	2023	2028
65-74	Private renter	79,600	105,700	137,000	158,500	184,700
	Public renter	46,500	62,200	81,700	94,700	110,700
	Total renters	126,100	167,800	218,700	253,200	295,300
75-84	Private renter	52,200	54,000	62,000	84,300	108,700
	Public renter	31,800	32,200	36,600	49,600	64,100
	Total renters	84,000	86,200	98,600	133,800	172,900
85+ years	Private renter	14,400	18,600	20,900	23,100	28,000
	Public renter	8,100	10,400	11,500	12,500	15,000
	Total renters	22,500	29,000	32,300	35,700	43,100
All households aged 65 and over	Private renter	146,200	178,200	219,900	265,900	321,400
	Public renter	86,500	104,800	129,700	156,800	189,800
	Total renters	232,600	283,000	349,600	422,700	511,300

Source: National Housing Supply Council projections based on McDonald-Temple household growth scenarios.

FIGURE 7
HOME OWNERSHIP RATES BY INCOME FOR YOUNGER HOUSEHOLDS, 1988 TO 2011



Source: Australian Bureau of Statistics Surveys of Income and Housing, years indicated. Results derived from ABS Basic CURF data

These declines have been most pronounced for households in the bottom two income distribution quintiles. See Figure 7.³³ Some of the more recent declines for relatively affluent younger households are offset by a small proportion who are renters, but who have become first-time purchasers as landlords.³⁴

As each cohort moves through middle-age and into retirement, it is unlikely home ownership rates can fully recover from their current 30+ year lows. Income and net wealth data (in Figures 1 and 2) suggests that, without considerable assistance from intergenerational wealth transfers, households who do not become home owners while relatively young are unlikely to have sufficient economic resources to change their tenure status as they age. If this is the case, an increased proportion of households will reach retirement without the protection provided by the fourth pillar of Australia’s retirement income system, and without the social rental housing safety net. These households will be forced to rely on the private rental market.

Increasing inequality

The third of the conservative assumptions made is that the proportion of income- and asset-poor households in rental housing will remain constant. Since the early 1980s, despite an overall growth in household incomes, there has been a clear trend of rising income inequality. Wealth inequality has also risen, particularly because of increased wealth of the very rich.³⁵

Increasing income and wealth inequality are likely to mean that advantaged households will increasingly squeeze disadvantaged households out of property ownership. This is already happening in some markets – investors, who tend to have greater borrowing capacity than first home buyers, add to price pressures and squeeze out less advantaged first home buyers.³⁶

What might be done about it?

Housing makes a critical contribution to sustaining the living standards of older households who are income-poor but asset-rich in retirement. Hence, the challenge of how to ensure the living standards of those who are income-poor and asset-poor must start with housing.

Experience suggests that many households are at risk of experiencing high levels of economic hardship if they have to rely on the private rental market to meet their retirement housing needs. This suggests the most critical response is to reverse the decline in the supply of affordable rental housing, in particular, the declining share of social rental housing.³⁷

Increasing or restructuring Commonwealth Rent Assistance to ensure that retirement income is adequate to cover rental costs may provide a short-term or stop-gap solution. However, it is unlikely to provide a long-term solution unless there is a simultaneous increase in the supply of affordable rental housing. Without this, any increased rent assistance will simply be passed through to increased rents. It is important to increase the supply of affordable housing that is suitable for older households, and to ensure that it remains suitable and affordable.

A more fundamental set of solutions might focus on the difficult task of improving housing affordability in general. Current and past inquiries into housing affordability provide an overview of the broad range of potentially viable policies that would work both by increasing the supply of housing to meet the needs of new households, and by reducing demand for housing from existing households.³⁸ Many policy ideas, such as increased infrastructure provision (potentially funded through value capture), lie outside of what is generally regarded as ‘housing’ policy. Many others often appear too politically difficult and are set aside. These include the options of extending land tax to include owner-occupied housing; including the family home in the assets test; re-assessing the current tax treatment of housing (including negative gearing and the discount on the capital gains tax for investors, or the exemption of owner-occupied housing from the capital gains tax); and the introduction of a wealth or inheritance tax.

Australia could make a fundamental shift towards redistributive policies with the capacity to reduce the growing intra- and inter-generational inequalities in income and wealth that contribute to the loss of control over older people’s lives. Unless it does so, the retirement living standards of income- and asset-poor households – people like Tom – are unlikely to improve.

“It is important to increase the supply of affordable housing that is suitable for older households, and to ensure that it remains suitable and affordable.”

Endnotes

- 1 See, for example, Freilich, A, Levine, P, Travia, B and Webb, E 2014, *Security of tenure for the ageing population in Western Australia*, accessed at http://www.cotawa.org.au/wp-content/uploads/2015/04/121975_Housing-Report-text.pdf, 13 April 2015 and Morris, A 2007, 'On the Edge: the Financial Situation of Older Renters in the Private Rental Market in Sydney', *Australian Journal of Social Issues* Vol. 42, No. 3, pp. 337–350. The literature on single older non-home owning women in Australia is examined by Darab, S and Hartman, Y 2013, 'Understanding Single Older Women's Invisibility in Housing Issues in Australia', *Housing, Theory and Society*, Vol. 30, No. 4, pp 348–367.
- 2 The ABS define low economic resource (LER) households as those who are simultaneously in the lowest two quintiles deciles of both equivalised disposable household income and equivalised net worth distributions where their definition of income is extended to include imputed rent from owner-occupied housing. Australian Bureau of Statistics (ABS) 2013, *Household Economic Wellbeing*, Fact Sheet 3. Cat. No. 6523.0, accessed at <http://www.abs.gov.au>, 9 April 2015. A series of fact sheets on household wellbeing and a full list of the 'financial stress' and 'missing out' indicators that are used to define economic hardship can be found on the ABS website under catalogue number 6523.0.
- 3 These attributes are taken from Jones, A, Bell, M, Tilse, C and Earl, G 2007, *Rental housing provision for lower income older Australians*, AHURI Final Report No. 98, p44. Accessed at <http://www.ahuri.edu.au>, 1st February 2010.
- 4 Doling, J and Ronald R 2010, 'Home ownership and asset-based welfare', *Journal of Housing and the Built Environment*, Vol 25, No. 2, pp165–173, p165 describe an asset based welfare system as one where 'rather than relying on state-managed social transfers to counter the risks of poverty, individuals accept greater responsibility for their own welfare needs by investing in financial products and property assets which augment in value over time.' The whole of this particular issue of this journal covers asset based welfare.
- 5 Unless otherwise indicated, all data cited in this chapter is derived from the ABS Survey of Income and Housing, 2011–12, using the basic confidentialised unit record files. The data cover only households in private dwellings; they exclude those in non-private dwellings and those who are homeless. Low income (and wealth) households have incomes in the bottom two deciles of the disposable income (and net wealth) distributions. Consistent with ABS usage, both disposable income and wealth are equivalised using the modified OECD scale to adjust for household size, which means a couple's income or wealth is regarded as being equivalent to that of a single person if it is fifty percent higher. In contrast to the definition of income used by the ABS to define low economic resource households, however, the income data reported in this chapter excludes imputed income from owner-occupied housing.
- 6 Association of Superannuation Funds of Australia (ASFA) 2015, *Spending patterns of older retirees: New ASFA Retirement Standard*, September Quarter 2014. Accessed at <http://www.superannuation.asn.au/policy/reports>, 24 April 2015. These estimates hold for 70 year old home owners, assume some contribution from the Age Pension as superannuation balances are drawn down and do not cover the risk of living beyond 90. While budget standards differ substantially in a number of ways for older retirees, ASFA (p10) suggest that the net impact is that they are only slightly lower for a modest standard of living and about 10 per cent lower for a comfortable standard.
- 7 Association of Superannuation Funds of Australia (ASFA) 2015, *The future of retirement income*. Accessed at <http://www.superannuation.asn.au/policy/reports> 30 April 2015, p6 and *ASFA Retirement Standard*, December quarter 2014, pp 3–4. Accessed at <http://www.superannuation.asn.au/resources/retirement-standard/>, 2 May 2015. A good standard of living provides enough for 'the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.'
- 8 Using a pro-rata adjustment based on the ratio of incomes needed for modest and comfortable life-styles (ASFA, *ibid.*), \$300,000 would be sufficient to sustain a modest retirement lifestyle for a couple and a bit less than \$250,000 for a single person.
- 9 See, for example, Cooper, J 2015, 'Before super tax changes, remember the pension million', *Australian Financial Review*, 19 April 2015. Accessed at <http://www.afr.com/opinion/columnists/before-super-tax-changes-remember-the-pension-is-worth-1-million-20150419-1mo76p>, 29 April 2015.
- 10 This is associated with the housing affordability problems they face. Baker E, Mason K, Bentley R, Mallett S 2014, 'Exploring the bi-directional relationship between health and housing in Australia', *Urban Policy and Research*, Vol 32 No. 1, pp. 71–84.
- 11 In 2011–12, almost 80 per cent of income and asset poor households were renters (228,000 of 292,000 total), with 29 per cent in private rental (84,000) and 50 per cent in public rental.
- 12 The 2009 Pension review report as cited in Senate Economics References Committee 2015, *ibid.*, p272 and McLachlan, R, Gillfillan, G and Gordon, J 2013, *Deep and Persistent Disadvantage in Australia*, Productivity Commission Staff Working Paper, July 2013, p. 65, accessed at <http://www.pc.gov.au/research/completed/deep-persistent-disadvantage/deep-persistent-disadvantage.pdf>, 10 May 2015.
- 13 Petersen, M, Parsell, C, Phillips, R and White, G 2014, *Preventing first time homelessness among older Australians*, AHURI Final Report No.222. Accessed at <http://www.ahuri.edu.au/publications/projects/p21005>, 6 May 2015.
- 14 Many of these concerns are reflected in chapters 13 and 16 of the report of the Senate inquiry into affordable housing. Senate Economics References Committee 2015, *Out of reach? The Australian housing affordability challenge*, accessed at http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Affordable_housing_2013/Report, 9 May 2015.
- 15 Estimates of shortages of affordable and available rental dwellings for lower income households can be found in Hulse et al 2014, *Changes in the supply of affordable housing in the private rental sector for lower income households*, 2006–11, AHURI Final Report No.235. Accessed at <http://www.ahuri.edu.au>, 24 November 2014. In their annual rental affordability snapshot, Anglicare found that, nationally, only 3.4 per cent of 66,000 rental properties surveyed would have been affordable and appropriate for Age Pensioner couples. Less than 1 per cent could be afforded by a single Age Pensioner. Very few of these were in metropolitan regions. Anglicare Australia (2015) *Rental Affordability Snapshot*. Accessed at http://www.anglicare.asn.au/site/rental_affordability_snapshot.php, 2 May 2015.
- 16 Data from the 2011–12 ABS survey shows 80 per cent of older income and asset poor private renter households are in housing stress, paying 30 per cent of more of their income in meeting their housing costs. Over a third pay more than 50 per cent. Burke et al 2011, provide estimates that give a similar picture using a budget standard that is more stringent than that used by ASFA. Burke, T, Stone, M and Ralston, L 2011, *The residual income method: a new lens on housing affordability and market behaviour*, AHURI Final Report No.176. Accessed at <http://www.ahuri.edu.au>, 12 October 2011.
- 17 Bradbury, B and Gubhaju, B 2010, *Housing Costs and Living Standards Among the Elderly*, Occasional Paper No. 31. Canberra: FaHCSIA, accessed at https://www.dss.gov.au/sites/default/files/documents/05_2012/op31.pdf, 24 April 2015, p1. See also, OECD (2013) *Pensions at a Glance 2013: OECD and G20 Indicators*, OECD Publishing, accessed at http://dx.doi.org/10.1787/pension_glance-2013-en, 23 April 2015, p81.

- 18 Home owners are both the majority (91%) who own their dwelling outright and a minority (9%) who are still paying off a mortgage. Yates, J and Bradbury, B 2010, 'Home ownership as a (crumbling) fourth pillar of social insurance in Australia', *Journal of Housing and the Built Environment*, Vol 25, No. 2, pp 193–211 provide an overview of the debate over the direction of causality between low pension rates and high home ownership. This chapter builds on the analysis, and updates the data, in Yates and Bradbury.
- 19 International comparisons are taken from OECD 2013, op. cit., chapter 2.
- 20 The OECD 2013, op.cit. provides an international overview of various policies and policy proposals for asset rich households. Examples for Australia can be found in the reports by the Productivity Commission (2013) *An Ageing Australia: Preparing for the Future*. Accessed at <http://www.pc.gov.au/research/completed/ageing-australia/ageing-australia.pdf>, 14 April 2015 and Per Capita (2014) *Blueprint for an ageing Australia*. Accessed at <http://www.olderrenters.org.au/publications/blueprint-ageing-australia>, 13 April 2015.
- 21 A specific example of this can be seen in Australian Human Rights Commission 2009, *Accumulating poverty? Women's experiences of inequality over the lifecycle*. Accessed at https://www.humanrights.gov.au/sites/default/files/document/publication/accumulating_poverty.pdf, 8 May 2015. See also Azpitarte, F and Bodsworth, E 2015, 'Persistent disadvantage: A duration analysis based on HILDA data', in *Addressing entrenched disadvantage in Australia*, CEDA, April 2015. Accessed at <http://www.ceda.com.au/research-and-policy/policy-priorities/disadvantage>, 11 May 2015.
- 22 Stone et al 2013, *Long-term private rental in a changing Australian private rental sector*, AHURI Final Report No.209, accessed at <http://www.ahuri.edu.au>, 7 August 2013.
- 23 This recognises that not all of the wealth of those in the top wealth quintiles is accumulated as a result of individual effort, as clearly shown in Piketty, T 2014, *Capital in the Twenty-First Century*, translated by A. Goldhammer, Cambridge, Mass: Belknap/Harvard University Press. Illustrations of the way in which intergenerational inequalities in wealth might be transmitted in Australia can be found in Daley, J, Wood, D, Weidmann, B and Harrison, C 2014, *The Wealth of Generations*, Grattan Institute. Accessed at <http://grattan.edu.au/report/the-wealth-of-generations/>, 10 December 2014.
- 24 See, for example, Australian Human Rights Commission 2009, op.cit.
- 25 Treasury 2015, 2015 *Intergenerational Report*, p12. Accessed at http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2015/2015%20Intergenerational%20Report/Downloads/PDF/2015_IGR.ashx, 5 March 2015.
- 26 The description of home ownership as the fourth pillar of Australia's retirement income system is taken from Yates and Bradbury, 2010, op.cit.
- 27 Treasury 2015, p12, op.cit.. Treasury projections are for persons, not households. Household projections to 2028 (undertaken prior to the release of 2011 census data), are provided in the National Housing Supply Council (2010) *2nd State of Supply Report*. Accessed at <http://www.treasury.gov.au/Policy-Topics/PeopleAndSociety/completed-programs-initiatives/NHSC>, 4 May 2015, pp142–143. These are reported in Appendix Table 5.
- 28 The data reported here includes community as well as public housing. The distinction between these (based on ownership and management) is irrelevant for the points made here. Both provide below market rent housing and greater security of tenure than is found in the private rental sector.
- 29 Yates, J 2013, 'Evaluating social and affordable housing reform in Australia: Lessons to be learned from history', *International Journal of Housing Policy*, Vol 13, No. 2, pp 111–133. There has been little evidence to date that the community based system has the resources needed to offset the declining share of the public rental system.
- 30 Estimate based on doubling the current numbers of older LER households in rental housing and allocating all of the increase to the private rental market.
- 31 Hulse et al 2014, op. cit..
- 32 Data from 1991 for all age groups and explanations for the observed declines can be found in Yates, J 2011, 'Explaining Australia's trends in home ownership', *Housing Finance International*, Winter, pp 6–13. Hulse et al (2011) op.cit. p 26 use survey data to provide a similar chart showing the marked change in middle-age cohorts in the private rental market between 1990 and 2009–10. The case that the contraction in home ownership rate for the 25–34 year olds and 35–44 year olds was, in fact, greatest in the decade 1981–91, and contraction since then has been somewhat less can be found in Burke, T, Stone, W and Ralston, L (2014) *Generational change in home purchase opportunity in Australia*, AHURI Final Report No.232. Accessed at <http://www.ahuri.edu.au/publications/projects/51002>, 12 November 2014. In the 15 years since 1996 alone, Census data shows a disproportionate increase in the number of older households renting privately with 31 per cent increase in the total number of older households but a 79 per cent increase in the number who are private renters (author's calculations based on customised tabulations from census data).
- 33 See also Burke et al 2014, op.cit.
- 34 Estimates from the 2011–12 ABS survey suggest around 7% of 25–34 year old renters owned a rental property with more than 80% of these being in the top 2 income quintiles.
- 35 An analysis of income inequality over a 30 year period can be found in Whiteford, P 2015, 'Inequality and Its Socioeconomic Impacts', *Australian Economic Review*, vol. 48, no. 1, pp 83–92. Data on wealth inequality is more sparse. Evidence of increasing inequality over a relatively short period can be found in Finlay, R 2012, 'The distribution of household wealth in Australia: evidence from the 2010 HILDA survey', *Reserve Bank of Australia Bulletin*, March: 19–27. Accessed at <http://www.rba.gov.au/publications/bulletin/index.html>, 28 December 2012.
- 36 Reserve Bank of Australia (RBA) 2014, *Submission to the Inquiry into Affordable Housing*. Accessed at <http://www.rba.gov.au/publications/submissions/inquiry-affordable-housing/index.html>, 26 February 2014, p3. In its September 2014 Financial Stability Review, accessed at <http://www.rba.gov.au>, 26 September 2014, the RBA reported that 80 per cent of all investor housing debt was held by investor households in the top two disposable income quintiles (and only 3 per cent by those in the bottom 2 quintiles).
- 37 A number of suggestions as to how this might be done are provided in Hulse et al 2015, *Supply shortages and affordability outcomes in the private rental sector: short and longer term trends*, AHURI Final Report No.xx. At <http://www.ahuri.edu.au>, forthcoming.
- 38 Many of the following suggestions are included in the Senate Economics References Committee report 2015, op.cit.

Acknowledgements

CEDA would like to acknowledge the following members and individuals who contributed to CEDA's general research fund between 1 August 2014 and 1 August 2015.

CEDA undertakes research with the objective of delivering independent, evidence-based policy to address critical economic issues, and to drive public debate and discussion. CEDA could not complete its research without the support of these contributors.

.....
National
.....

	ANZ Banking Group	Australia Post
	APA Group	AustralianSuper
ABB Australia	Arup	Australian Catholic University
ACIL Allen Consulting	Asciano	Australian Rail Track Corporation
Advisian	Ashurst	Bankwest
AECOM	Austrade	Beca
AEMO	Australian Institute of Professional Education	BHP Billiton
Allens		

Cardno	Rio Tinto	NSW
Chartered Accountants Australia and New Zealand	RSM Bird Cameron	AGL
Clayton Utz	Santos	Australian Computer Society
Commonwealth Bank of Australia	Serco Australia	Australian Payments Clearing Association
CSC	Shell Australia	Barangaroo Delivery Authority
CSIRO	Siemens	Bloomberg
Deloitte	Stellar Asia Pacific	BOC
EY	Stockland	Business Events Sydney
G4S Australia and New Zealand	Telstra	BRI Ferrier
HASSELL	The University of Queensland	Caltex Australia
Herbert Smith Freehills	Transdev	Cement Concrete and Aggregates Australia
Hyder Consulting	Transfield Services	Clean Energy Finance Corporation
IBM	Transurban	Coal Services
Industry Super Australia	TRILITY	Community Services and Health Industry Skills Council
John Holland	Uber	David Adams
KPMG	URS	Defence Housing Australia
Leighton Contractors	Westpac	Diabetes NSW
McKinsey & Company	WSP Parsons Brinckerhoff	Edelman
Microsoft		EIG
Milwaukee Tools Australia		Export Finance and Insurance Corporation
Minerals Council of Australia	Aged and Community Services Australia	Four Seasons Hotel Sydney
Mitsubishi Australia	Australian Bureau of Statistics	Fragomen
Navitas	Australian National University	Gadens
Nous Group	Federal Department of Employment	Gilbert + Tobin
Philips Electronics	Federal Department of Industry and Science	Greg Fackender
PwC Australia	Group of Eight Australia	
Reserve Bank of Australia		

Guy Dixon	NSW Ports	NT
Healthdirect Australia	Plenary Group	
Healthways Australia	Regional Development Australia Hunter	Darwin Convention Centre
Holcim (Australia)	Snowy Hydro	
Hunter Water Corporation	Sydney Airport	QLD
Insurance Australia Group	Sydney Business School, University of Wollongong	Accenture Australia
JBA	Sydney City Council	Advance Cairns
J.P. Morgan	Sydney Water	Arrow Energy
Kreab	TAFE NSW Western Sydney Institute	AGL
Phillip Isaacs, OAM	The Benevolent Society	Aurizon
Macquarie Group	The BPAY Group	AustralianSuper
Macquarie University	The Future Fund	Bank of Queensland
McCullough Robertson Lawyers	The University of Sydney Business School	BDO
Maddocks	The Waypoint Group	Bond University
ManpowerGroup Australia	Thorn Group	Brisbane Convention and Exhibition Centre
Marsh	Transport for NSW	Brisbane Marketing
National Insurance Brokers Association of Australia	UGL	City of Gold Coast
New South Wales Treasury Corporation	United Overseas Bank	Clanwilliam Aged Care
NICTA	University of Newcastle	ConocoPhillips
NSW Department of Family and Community Services	University of Technology Sydney	Construction Skills Queensland
NSW Department of Planning and Environment	University of Western Sydney	Community Services Industry Alliance
NSW Department of Premier and Cabinet	UNSW Australia	Echo Entertainment Group
	Wollongong City Council	Emergency Medicine Foundation
	WorkCover NSW	Energex
		Ergon Energy
		GHD
		Griffith University
		Hastings Deering

		SA
Ian Davies	Queensland Department of Transport and Main Roads	
Ipswich City Council		
James Cook University	Queensland Law Society	Adelaide Airport
KDR Gold Coast	Queensland Resources Council	Adelaide Casino
K&L Gates	Queensland Treasury Corporation	Adelaide Convention Centre
Local Government Association of Queensland	Queensland Treasury	BankSA
Logan City Council	Queensland Urban Utilities	BDO
Lutheran Community Care	QUT	Business SA
MacroPlan Dimasi	Robert Walters	Coopers Brewery
McCullough Robertson Lawyers	Robyn Stokes	Data Action
Morgans	Santoro Consulting	ElectraNet
National Australia Bank	Seqwater	Flinders Ports
New Hope Group	South Burnett Regional Council	Flinders University
NOJA Power	St Vincent de Paul Society	Funds SA
Port of Brisbane	Sue Boyce	Health Partners
QGC	Suncorp Group	Hughes Public Relations
QIC	SunWater	Hoshizaki Lancer
QSuper	Super Retail Group	Life Without Barriers
Queensland Airports	Toowoomba and Surat Basin Enterprise	Master Builders Association of South Australia
Queensland Competition Authority	Toowoomba Regional Council	NCVER
Queensland Department of Natural Resources and Mines	Transurban	Philmac
Queensland Department of Environment and Heritage Protection	UniQuest	RAA of SA Inc
Queensland Department of the Premier and Cabinet	University of Southern Queensland	SA Department of Environment, Water and Natural Resources
Queensland Department of State Development	NICTA	SA Department of Health
	Wiggins Island Coal Export Terminal	SA Department of Primary Industries and Regions
		SA Power Networks
		Scotch College Adelaide

South Australian Water Corporation	City of Ballarat	Oracle
Southern Cross Care (SA) Inc	City of Greater Geelong	PGA Group
Statewide Super	City of Melbourne	Pinnacle Group
TAFE SA	CSL Limited	Port of Hastings Development Authority
Thomson Geer	Deakin University	Programmed Group
University of South Australia	Epworth HealthCare	Public Transport Victoria
	Essential Services Commission	RMIT University
	ExxonMobil	Royal Automobile Club of Victoria
	GHD	Sue Zablud
	Housing Choices Australia	Sustainability Victoria
	IFM Investors	Swinburne University of Technology
	Independent Broad-Based Anti-Corruption Commission Victoria (IBAC)	The Future Fund
	Independent Schools Victoria	The Smith Family
	JANA Investment Advisers	Toyota
	Janice Van Reyk	Treasury Corporation of Victoria
	Jo Fisher Executive	United Energy and Multinet Gas
	La Trobe University	University of Melbourne
	MAI Capital	Victorian Department of Education and Training
	Medibank	Victorian Department of Environment, Land, Water and Planning
	Melbourne Water Corporation	Victorian Department of Premier and Cabinet
	META	VicTrack
	Mitchell Institute	Western Water
	Monash University	Wilson Transformer Company
	National Australia Bank	Workskil
	NICTA	Yarra Trams
	Open Universities Australia	

TAS

VIC

WA

	Public Sector Commission
	Terry Grose
Australian Bureau of Statistics	The University of Western Australia
ATCO	The Chamber of Minerals and Energy of Western Australia
Bendigo Bank	
Brookfield Rail	WA Department of Agriculture and Food
Chevron Australia	WA Department of Commerce
CITIC Pacific Mining	WA Department of Lands
City of Perth	WA Department of Mines and Petroleum
ConocoPhillips	WA Department of Planning
Curtin University	WA Department of Regional Development
DORIC Group	WA Department of Transport
Dynamiq	WA Department of Treasury
Edith Cowan University	Wesfarmers
ExxonMobil	Western Australian Treasury Corporation
Georgiou Group	Whelans Australia
HopgoodGanim Lawyers	Wellard Group Holdings
Independent Market Operator	
INPEX	
Jackson McDonald	
Lanco Resources	
LandCorp	
Landgate	
Leighton Contractors	
Main Roads, Western Australia	
Murdoch University	
OptaMAX	
Perth Airport	
RAC of WA	

CEDA Board of Governors

Martin Albrecht AC
Laureate Professor Adrienne Clarke AC
Ivan Deveson AO
Professor Julian Disney AO
Laureate Professor Peter Doherty AC
Peter Duncan
Professor Margaret Gardner AO
The Hon. Nick Greiner AC
The Hon. Martin Ferguson AM
Professor Sandra Harding
Dr Allan Hawke AC
The Hon. Robert Hawke AC
Elaine Henry OAM
Dr Ken Henry AC
The Hon. John Howard AC
Graham Kraehe AO
John Langoulant AO
Catherine Livingstone AO
Professor the Hon. Stephen Martin
John Massey
Paul McClintock AO
Dr Stuart McGill
Andrew Mohl
Terry Moran AC
David Mortimer AO
Warren Mundine
Dr Kerry Schott
Dr John Schubert AO
Dr Ziggy Switkowski AO
Richard Warburton AO LVO
Peter Wills AC

CEDA Board of Directors

Paul McClintock AO
National Chairman, CEDA;
Chairman of Myer Holdings and
Thales Australia

Angus Armour
Deputy Director General – Industry,
Innovation, Hospitality and the Arts, NSW
Department of Trade and Investment,
Regional Infrastructure and Services

Dr John Edwards
Board Member, Reserve Bank of Australia

Patricia Faulkner AO
Deputy Chairman, St Vincent's Health
Australia

John Langoulant AO
WA Chairman, Westpac

Dr Rodney Maddock
Adjunct Professor of Economics, Monash
University; Vice Chancellor's Fellow,
Victoria University; and President, Economic
Society of Australia (Victorian Branch)

Professor the Hon. Stephen Martin
Chief Executive, CEDA

Dr Sally Pitkin
Consultant, Clayton Utz

Dr Catherine Sinclair
Director, The Consultancy Bureau

Stephen Spargo AM
Partner, Allens

Andrew Stevens
Chair, Advanced Manufacturing
Growth Centre; Independent
Non-Executive Director, MYOB Group

Ian Stirling
Principal, Stirling Advisory

National

Level 13, 440 Collins Street
Melbourne VIC 3000
GPO Box 2117
Melbourne VIC 3001
Telephone 03 9662 3544
Email info@ceda.com.au

South Australia and the Northern Territory

Level 7
144 North Terrace
Adelaide SA 5000
PO Box 8248, Station Arcade
Adelaide SA 5000
Telephone 08 8211 7222
Email info@ceda.com.au

New South Wales and the ACT

Level 14
The John Hunter Building
9 Hunter Street
Sydney NSW 2000
GPO Box 2100
Sydney NSW 2001
Telephone 02 9299 7022
Email info@ceda.com.au

Victoria and Tasmania

Level 13, 440 Collins Street
Melbourne VIC 3000
GPO Box 2117
Melbourne VIC 3001
Telephone 03 9662 3544
Email info@ceda.com.au

Queensland

Level 17, 300 Adelaide Street
Brisbane QLD 4000
GPO Box 2900
Brisbane QLD 4001
Telephone 07 3229 9955
Email info@ceda.com.au

Western Australia

Level 5
105 St Georges Terrace
Perth WA 6000
PO Box 5631, St Georges Tce
Perth WA 6831
Telephone 08 9228 2155
Email info@ceda.com.au



committee for economic development of australia