THE FUTURE FOR RETIREMENT INCOMES

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Intergenerational Report

- Ageing of the Population - Increasing Budget Deficits
- Expenditure on Age and Service Pensions

  2.9% GNP in 2001/02

  rising to 4.6% GNP in 2041/42
- The proportion of people over age 65 who receive full or part Age or Service pensions will reduce only marginally -

  from 83% in 2001/02

  to 78% in 2041/42

if no changes made to current government rules

Possible Solutions to Increasing Budget Deficits

- Increase taxes in future years
- Borrow to meet deficits
- Increase Super Contributions
- Restrict Age Pension benefits

  (Note Part Pension and fringe benefits can be paid to those with million dollar houses and a million dollars of super)
- Increase Age Pension age
- Reduce other Government Expenditure

Concept of Retirement

- Fixed Retirement age has ceased to exist
- Age Pension age - No further *Obligation* to work
- Prior to Age Pension age - Unemployment benefits if qualifying
- Early Retirees - should not be Double Dipping
- Encourage Later Retirement:
  - Suggest: Exempt part earnings from personal exertion
  - Pension Bonus Scheme - Inadequate

Adequacy of Retirement Incomes

- Government Focus: Incomes from Age Pension age
- Meet Reasonable Expectations
- Focus on immediate pre retirement living standards
- General model assumes no dependents
- General model assumes home paid off at retirement
- NATSEM study benchmark costs
- NATSEM study Living Standards Index

Living Standards Index

Annual Amounts in 000's	Couple with Dependent Children	Couple as "Empty Nesters"	Couple Retired
Gross Income	**$77.3**	**$75.2**	**$37.6**
- Tax	$16.3	$16.3	0.0
- Voluntary Super	0.0	$7.5	0.0
- Housing Costs	$15.7	$15.7	$2.7
Discretionary Income	**$45.3**	**$35.7**	**$34.9**
"Benchmark" Costs	**$39.1**	**$23.5**	**$21.2**
Living Standards Index	***1.16***	***1.52***	***1.65***

50% of Pre Retirement Gross Income adequate in retirement

Government Pillar
- Move to Safety Net?

Pensions expressed as % MTAWE

Safety Net		**Current**	
Compulsory Super buys	20%	Compulsory Super buys	20%
Age Pension Supplement:		Age Pension	26%
		Means Test Reduction:	
(26% - 20%)	6%	40% (20% - 7%*)	(5%)
Total Pensions	***26%***	***Total Pensions***	***41%***

* Income assumed exempt for means test purposes

Suggested Model

Basic Principles

- **Accept “3 pillars”**
- **Focus on Adequacy of Incomes from Age Pension age**
- **Sufficient flexibility to cover wide range of personal circumstances**
- **Addresses Ageing of the Population Budgetary Issues**
- **Access to Super prior to Age Pension age limited to excess over that required to purchase Age Pension**
- **All benefits from tax favoured super taxed at marginal rates (less rebates)**

Suggested Model

(Ultimate) Features

- **Government Pillar - Move to Safety Net**
- **Separate Accounts for Compulsory and other Superannuation, from decision date**
- **Compulsory Super buys (part or full) Age Pension**

- **Tax favoured Super limited only by RBL's**
- **Tax Relief for all Super Contributions including Voluntary from Employees/Self Employed**

Suggested Model

Transitional Arrangements
General Approach

- **Maintain Accrued Benefits under Superannuation arrangements**
- **Maintain pensions payable to current retirees - both government and private**
- **Transition expectations in respect of Government pensions for those close to retirement**
- **Apply "broad equity" to achieve significant administrative improvements.**

Suggested Model

Transitional Arrangements

Features

- **Establish separate Member's Compulsory Super account from "decision date"**
- **Benefits from (separated) Compulsory Super Account used to buy part or full Age Pension**
- **Means test applies only to that part of the Age Pension not purchased by Compulsory Super benefits**
- **Access age to non Compulsory Super Account benefits on current terms, increased from current 55 to Age Pension age by 2019 - i.e. full effect for those currently under age 50.**

Suggested Model

Specimen Results for range of "Couples" after 45 years. Assumptions in Paper

Earnings % MTAWE)	Living Standards Index				
	Dependent Children	Empty Nesters	Retired		
			Current Rules 9% SG Contributions	Suggested Model SG Contributions	
				9%	10%
100%/75%	1.17	**1.61**	1.67	1.51	**1.63**
150%/100%	1.63	**2.43**	2.08	2.04	**2.20***
75%/50%	0.78	**1.04**	1.41	1.20	**1.22**

***Increase in Voluntary Contribution rate from 10% to 14% of earnings in 10 years prior to retirement, to match "Empty Nester" Living Standards Index.**

Suggested Model

Specimen Results for range of "Singles" after 45 years. Assumptions in Paper

Earnings % MTAWE)	Living Standards Index			
	Working – assumed No Dependents	Retired		
		Current Rules 9% SG Contributions	Suggested Model SG Contributions	
			9%	10%
100%	**1.22**	1.44	1.21	**1.29**
150%	**2.00**	1.76	1.71	**1.82***
75%	**0.78**	1.26	1.18	**1.18**

***Increase in Voluntary Contribution rate from 10% to 14% of earnings in 10 years prior to retirement, to match "Empty Nester" Living Standards Index.**

Next Steps for Ageing Australia Committee

- Consider Input from Concurrent Session
- Develop Social Security Integration Paper for IAAust discussion
- Confer with Health and Superannuation Committees to obtain input
- Further Test Model - more examples, range of economic assumptions
- Estimate Budget impacts
- Consider inclusion of other aspects - e.g. tax, aged care and other health issues, dealing with investment risks, financial planning, lump sums v pensions, simplicity, education.
- Prepare Senate Select Committee Submission on "Retirement Incomes in an Ageing Australia Environment".