Institute of Actuaries of Australia

"Super for Struggle Street – Superannuation for Welfare Recipients, Job Snobs and Dinkum Aussie Battlers"

By Darren Wickham MEc FIAA

Presented to:
The Institute of Actuaries of Australia
2003 Biennial Convention
Shaping the Future: In a World of Uncertainty

18-21 May 2003

“this [super for spouses and children] represents a very major decoupling of the link between superannuation and paid employment”

Senator Helen Coonan, Assistant Treasurer and Minister for Revenue
(Speech to the Sydney Institute 27 February 2002)

“it appears that the inequality of wealth would have increased had it not been for the introduction of superannuation”

Simon Kelly (NATSEM) “Trends in Australian Wealth – New Estimates for the 1990s” (2001)

$$“f(x) = \left(\frac{a}{b}\right)\left(\frac{b}{x}\right)^{a+1}”$$

$$“F(x) = 1-\left(\frac{b}{x}\right)^{a}”$$

Vilfredo Pareto (*Cours d'économie politique* 1896, 1897)

Table of Contents

1. Executive Summary

This paper examines a proposal for the Government to pay superannuation contributions to certain welfare recipients of working age.

This issue was flagged as a matter for further discussion in the 1995 Senate Select Committee inquiry looking at Super and Broken Work Patterns, although the discussion seems not to have taken place.

One advantage of such a proposal is that it would reduce the inequality of wealth in Australia.

Budget outlays in the initial years would not be insubstantial, however for every $100 contribution the Government makes, it would expect to recoup $72 in taxes in today's dollars ($131 in projected future dollars).

The paper also briefly examines other superannuation issues important for low income earners.

2. Introduction

"Steve: Daaaad a guy's selling a pair of jousting sticks.
Darryl: Jousting sticks, what does he want for them?
…
Steve: Four fifty.
Darryl: Jousting sticks. Tell him he's dreaming."[1]

2.1. Dreaming about Job Snobs

Let me acknowledge from the outset, this proposal is difficult. Difficult in a political sense. Difficult in a fiscal sense. Naive? Dreaming? I would prefer to consider this paper as thinking aloud about an area that has been neglected in the debate about super and broken work patterns. Sometimes a proposal that seems fanciful can take on a life of its own – so I hope this paper is a starting point in stimulating further debate.

Social security is changing. The philosophy of mutual obligation has been more greatly infused in the provision of benefits (eg work for the dole). The Government has initiated significant discussion about reform of the welfare system through the "McClure Report". Within the Labor party and within indigenous groups, positions are also changing, there is a questioning and re-thinking of the very basis and nature of welfare.

The title of this paper might be considered provocative – obviously this is deliberate.

However, in coining the controversial expressions used by various parties in the welfare reform debate, I am deliberately trying to pre-empt criticism, realising that this is not a proposal that will resonate among those in our society who are less than enthusiastic about working age income support.

Rather, I encourage those that feel that way to dig deeper into what is being proposed and weigh up the arguments for themselves.

The genesis of this paper lies in the three quotes on the opening page which I stumbled across in the same month. Each of these quotes are discussed in the "arguments for" the proposal (section 4).

2.2. Super and the Dinkum Aussie Battlers

The ABS survey "Superannuation Coverage and Financial Characteristics"[2] provides a glimpse of "Battlers" superannuation. The survey revealed that the overall median superannuation balance for unemployed persons was $2,000 compared with $10,400 for employed persons.

Some other interesting statistics:

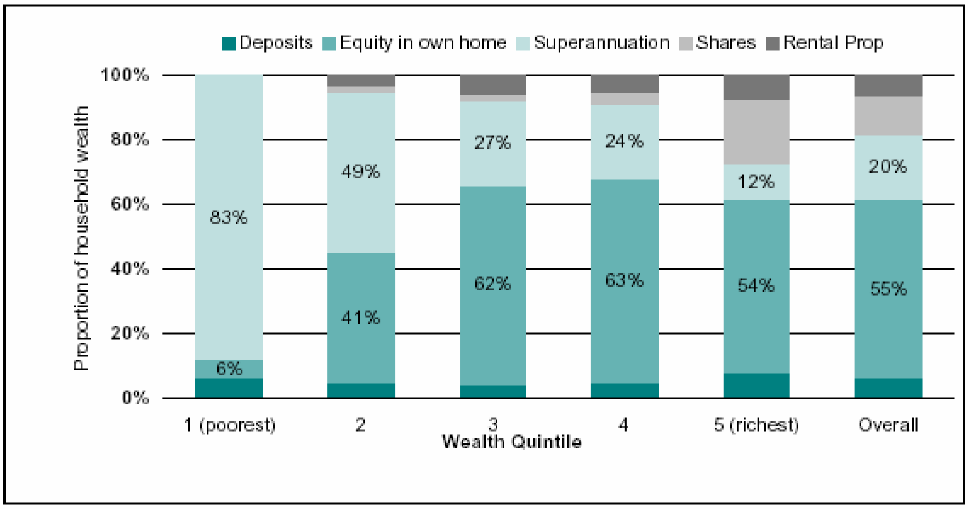
- one quarter of the pre-retirement population had no superannuation,
- 55% of unemployed people had no superannuation,
- 70% of those not in the labour force (but not retired) had no superannuation

For the "Battlers", superannuation represents their largest asset and the introduction of the Superannuation Guarantee system is the main reason that the overall inequality of wealth has not increased substantially over the past decade.

[1] Darryl and Steve Kerrigan – from the 1997 movie "The Castle" (Working Dog Productions)
[2] Australian Bureau of Statistics "Superannuation Coverage and Financial Characteristics", Australia (2001 Catalogue #6360.0)

The table below shows the importance of superannuation as an asset for the poor:

Asset proportions by household wealth quintile, June 2002[3]



Note: The percentages shown in the columns refer to the proportion of wealth in the form of superannuation and the proportion in home equity

Data source: NATSEM estimates based on ABS 1998-99 Household Expenditure Survey

2.3. Welfare in Perspective – Some Miscellaneous Statistics

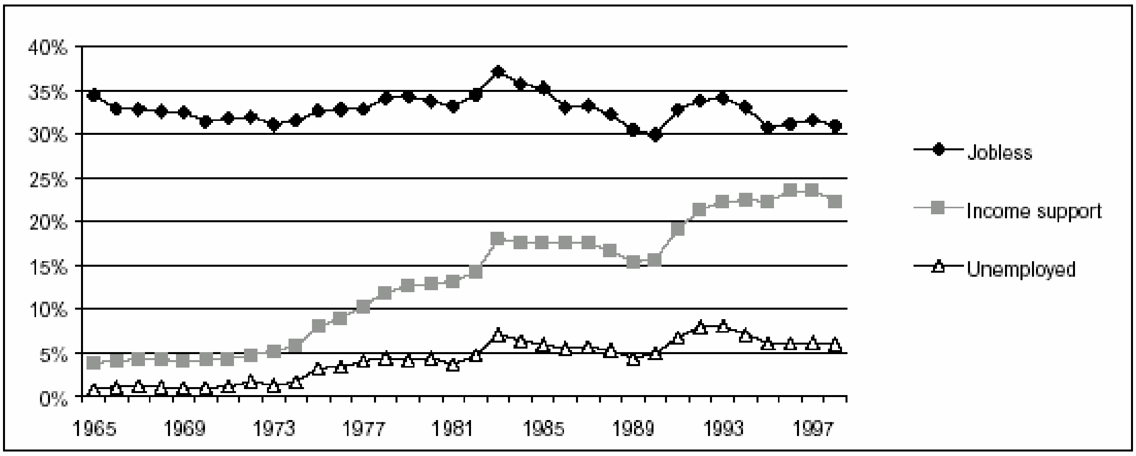
The world of social security is quite an unfamiliar one for actuaries. Social Security is more pervasive than most people realise:

- There are 2.8 million Australians under age 65 receiving income support (20% of the working age population). Most of these rely on income support for the majority of their income[4].
- 80% of lone parents and 30% of 50-64 year olds receive income support.
- At least half of all new Age Pensioners have been welfare recipients at some time in their lives[5].

The table on the next page illustrates the increase in the proportion of the population receiving income support.

[3] Simon Kelly (NATSEM) "Levels, patterns and trends of Australian household saving", a report prepared for the Financial Planning Association of Australia (September 2002)
[4] "Building a simpler system to help jobless families and individuals" discussion paper (December 2002) Commonwealth Department of Family and Community Services
[5] Professor Bob Gregory (Research School of Social Sciences) address to the Sydney Institute 4 November 2002

Proportions of workforce-age population who were jobless*, receiving income support and/or unemployed, 1965 to 1998[6]



* Jobless includes those not employed who are not actively looking for work.

Social Security is easily the largest item in the Commonwealth Government's Budget[7] being $73bn out of total Budget Expenditure 2002-3 of $170bn in 2002-3. To put this in perspective, the next largest items are Health ($24bn) and Defence ($13bn).

Section 3.2. provides a more detailed breakdown of the $73bn Government expenditure on welfare.

To place the level of welfare benefits in perspective:

Level	Weekly Amount
Poverty Line[8] (single, no children)	$222.66
Unemployment Benefits (Newstart Allowance)[9]	$233.45
Age Pension, Disability Support Pension, Parenting Payment (single)[10]	$262.15
"Safety Net" Minimum Wage (Full Time)[11]	$431.40
Average Weekly Earnings (all)[12]	$703.30
Average Weekly Earnings (Full Time)[13]	$888.50
Typical Salary Qualified Actuary[14]	$3,028.84

[6] Interim Report Of The Reference Group On Welfare Reform Technical And Other Appendices (March 2000) from Bond, K. And Whiteford, P. 2000, Trends In Income Support Receipt 1965-1999, Department Of Family And Community Services, Canberra
[7] Budget Paper No 1. Expenses and Net Capital Investment
[8] NATSEM/Smith Family "Financial Disadvantage in Australia – 1999" based on the "half average poverty line" for a single adult, no children, not working – $189.26 adjusted for increases in average weekly earnings from 1 July 1999 to 30 September 2002
[9] Single, no children, inc rent assistance
[10] Single, no children, inc rent assistance
[11] The Federal Minimum full time wage (in accordance with the AIRC Safety Net Review– Wages May 2002 decision)
[12] Australian Bureau of Statistics "Average Weekly Earnings, Australia" (November 2002 Key Figures Catalogue #6302.0, released 20 February 2003)
[13] ibid
[14] Non Super remuneration based on package of $170,000 – $180,000 (inc super) – for a qualified actuary with 10 years post qualification experience, assuming super represents 10% of package – source QED Actuarial

2.4. Disclaimer and Thanks

The views expressed in this paper are my own and do not represent the views of the Institute of Actuaries of Australia or its committees nor do they represent the views of my employer.

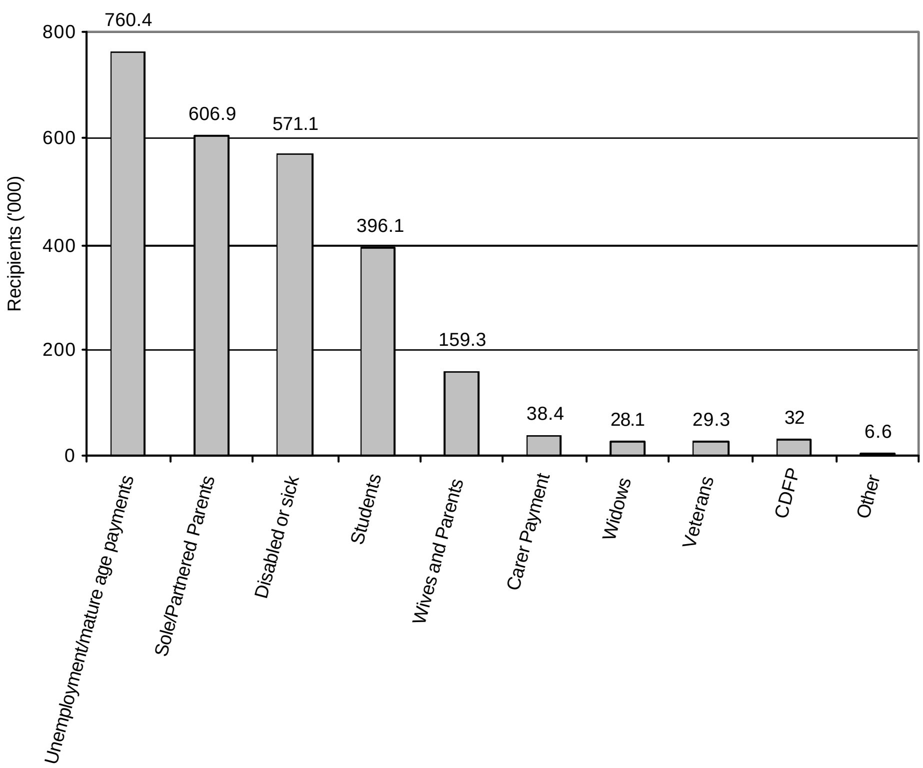
A huge air punching thanks go to Kirsten Armstrong for her input and review of the paper, and also to Rodney Venn for reviewing the calculations.

3. Which Social Security Benefits should attract super contributions?

3.1. What are the social security benefits?

The main benefits available to those of working age are described in Appendix 1. A summary of the number of recipients on each of the main types of benefits is in the graph below:

Workforce age recipients by payment type, June 1999[15]



Welfare recipients of workforce age are clearly dominated by three groups – the unemployed, the disabled and parents.

This paper has not considered benefits paid to Veterans. According to estimates from the Department of Veterans Affairs over 89% of recipients were over the age of 65[16] in 1999. Therefore, on materiality grounds, I have not considered the proposal in relation to benefits for working age veterans – this is an area that would require further investigation.

Another issue not considered is the possibility of paying contributions on Child Support paid by separated parents. Child Support payments are made out of a parent's after tax income and as such the supporting parent has already received superannuation contributions on that income. If superannuation contributions were to be paid, it would not be an expenditure of the Government, but of the supporting parent.

[15] Department Of Family And Community Services Occasional Paper No. 1 Income Support And Related Statistics: A 10-Year Compendium, 1989–1999 (page 136). Does not include the Family Tax Benefits A and B introduced 1 July 2000

[16] ibid (table 2.11)

3.2. Criteria for inclusion

One possible criteria suggested for determining which benefits should attract superannuation contributions is that the contributions should be paid where a person would have normally received contributions had it not been for their adverse circumstances.

More specifically this would mean the benefit must:

- be paid to a person of working age – ie 18 to age pension age,
- not be in full time education,
- be an amount relating to income replacement rather than a payment for specific expense.

Other possible issues in considering whether a benefit should attract superannuation contributions:

- Administrative complexity – additional allowances etc could make the determination of the base amount on which to make contributions problematic.
- Ensuring that benefits are treated consistently if people move between different benefits (eg unemployment to disability).

Based on the above criteria, the various benefits available can be split into the groups set out in the table below.

Available Welfare Benefits and Government Expenditure on them[17]

Should attract contributions	$bn	Should not attract contributions	$bn
Disability Support Pension / Sickness Allowance	7.0	Age Pension / Pension Bonus Scheme	17.6
Parenting Payment (partnered and single)	5.8	Family Tax Benefit A and B	11.4
Newstart Allowance	5.4	Youth Allowance	2.3
Carer Allowance / Carer Payment / Double Orphan Pension	1.5	Child care benefit	1.5
Wife Pension / Partner Allowance	1.2	Austudy Payment / Abstudy Payment	0.3
Widow Pension / Widow Allowance	0.6	Special Benefit / Crisis Payment	0.2
Mature Age Allowance	0.4	Maternity Allowance / Maternity -Immunisation Allowance	0.2
		Other misc	0.2
		Mobility Allowance / Remote Area Allowance / Assistance for isolated children scheme	0.0
		Bereavement Allowance	0.0
		Health Care Card	n/a
		Pharmaceutical Allowance	n/a[18]
		Rent Assistance	n/a[19]
Total	**21.9**	**Total**	**33.7**

The total Commonwealth Budget allocation to Social Security and Welfare is $72.9bn and includes the $55.6bn in payments above, administration costs ($2.2bn), payments to veterans and dependants ($5.4bn) and funding for residential aged care plus other aged care assistance ($7.1bn).

[17] Estimates from the Department of Family and Community Services – Portfolio Budget Statements 2002-03
[18] Pharmaceutical Allowance is included in totals for other pension payments
[19] Rent Assistance is included in totals for other benefit payments. The payment is in the order of $1.7bn (from DFAC Estimates referred to above)

Payments to the disabled and unemployed are clearly income replacement benefits and so have been included. Payments to parents are not as easily categorised as income replacement, particularly as they have no labour force eligibility criteria associated with the benefits. Nevertheless, they have been included as the payments represent the majority of a recipient's total income for most recipients.

It could be argued that the wife and widow pensions would not fit the criteria outlined above as under normal circumstances they would not be in employment and hence would not receive superannuation contributions. However, it could also be argued that in other circumstances these people may actually be employed and therefore contributions should be paid.

In addition, it could be argued that these people are receiving income support in lieu of income from the primary bread winner, so it's still an income replacement benefit.

Clearly the age pension is ruled out as the retirees do not receive superannuation contributions. The Family Tax Benefit is not considered to be an income replacement benefit and is therefore not included.

3.3. Alternative Criteria

Some other possible criteria for determining which welfare payments should receive superannuation contributions include:

- Paying contributions to long term recipients only – although a problem with this approach is that recipients with multiple spells of short term benefits would miss out, also, the equity aspects of the proposal still apply to short term recipients.

- Paying contributions on the larger "pension" type benefits and not "allowance" type benefits – although the justification for the different levels of benefit is not entirely clear. Indeed, the McClure report suggested removing these distinctions.

4. Arguments For and Against

Summary of arguments

For		Against	
4.1.1.	Reduce inequality in the distribution of wealth	4.2.1.	Cost
4.1.2.	Asset ownership as a means of empowerment	4.2.2.	Prefer cash now
4.1.3.	Provides exposure to asset growth	4.2.3.	Extra money for nothing
4.1.4.	Reducing intergenerational poverty	4.2.4.	Increasing Effective Marginal Tax Rates
4.1.5.	The nexus between employment and superannuation is now broken	4.2.5.	Contrary to recent Government Policy
4.1.6.	Unemployment and disability are broken work patterns too	4.2.6.	Long term recipients may receive more in retirement than during their working age years
4.1.7.	Consistency with paid employment	4.2.7.	Social security recipients may be able to fund own retirement
4.1.8.	Welfare now involves work		
4.1.9.	Increased pool of national savings		
4.1.10.	A two tiered society in retirement?		
4.1.11.	Protection against future changes in the age pension		
4.1.12.	Provide benefits on death and permanent disability		
4.1.13.	Other countries do it – overseas experience		

4.1. Arguments For

4.1.1. *Reduce Inequality in the Distribution of Wealth*

A recent study by the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra highlights the importance of compulsory superannuation in preventing a further widening in the gap between rich and poor.

A common measure of the inequality of wealth is the Gini coefficient. A coefficient of one indicates the highest concentration of wealth (ie all wealth is held by one person), while a coefficient of zero indicates total equality of wealth across the population.

The following table (taken from a 2001 NATSEM study) shows the changes in the Gini coefficients over the 12 years from 1986 to 1998.

Estimated Gini Coefficients for Wealth, Australia, 1986 and 1998[20]

Row	Item	1986	1998
1	Wealth (net)	.64	**.64**
2	Wealth (excluding superannuation)	.67	**.70**
3	Interest Bearing Deposits	.88	**.90**
4	Housing (net)	.66	**.69**
5	Business (net)	.91	**.93**
6	Superannuation	.83	**.67**
7	Shares and Other Investments	.99	**.98**
8	Rental Properties (total value)	.94	**.94**

The conclusion that can be drawn from the table above is that the inequality of wealth has not increased over the 12 year period, however, this is primarily due to compulsory superannuation.

Providing superannuation contributions to social security recipients (who account for a large portion of the lowest income groups and hence a large portion of the lowest wealth groups) would further reduce the inequality in wealth.

A proper analysis of the impact of the proposal on inequality would involve projecting Gini coefficients in future years based on the proposal. However, such modelling is beyond the scope of this paper. One way of considering the impact of the proposal on lower income groups is to examine the increase in retirement benefits as a result.

The tables below show the projected benefits at age 65 and are based on assumptions detailed in section 5. The results are in today's dollars (discounted using average weekly earnings) and examine different scenarios of work patterns over a 45 year period from age 20 to age 65.

Accumulated Superannuation at Age 65 (Today's Dollars) – No Broken Work Pattern

	Weekly Wage	Accumulated superannuation at age 65 No broken work pattern (Today's Dollars)
Wage when employed:		
Safety net wage – part time (60%)	$258.84	$96,791
Safety net wage – full time	$431.40	$167,155
80% Average Weekly Earnings (all)	$562.64	$220,671
Average Weekly Earnings (all)	$703.30	$278,027

Accumulated Superannuation at Age 65 (Today's Dollars) – Disability Pensioners (DSP)

	Receive DSP ages 41 to 47			Receive DSP ages 41 to 65		
Broken Work Pattern Scenario	No SG[21] on DSP	With SG on DSP	Increase	No SG on DSP	With SG on DSP	Increase
Wage when employed:						
Safety net wage – part time (60%)	$82,743	$93,692	13%	$59,599	$88,585	49%
Safety net wage – full time	$143,742	$154,690	8%	$105,168	$134,154	28%
80% Average Weekly Earnings (all)	$190,134	$201,083	6%	$139,826	$168,812	21%
Average Weekly Earnings (all)	$239,856	$250,805	5%	$176,971	$205,957	16%

[20] Simon Kelly (NATSEM) "Trends in Australian Wealth – New Estimates for the 1990s" (September 2001)
[21] SG = Superannuation Guarantee Contributions (at 9% level)

Accumulated Superannuation at Age 65 (Today's Dollars) – Parenting Payment (PP)

Broken Work Pattern Scenario	Receive PP ages 32 to 33 No SG on PP	With SG on PP	Increase	Receive PP ages 32 to 41 No SG on PP	With SG on PP	Increase
Wage when employed:						
Safety net wage – part time (60%)	$90,920	$94,849	4%	$70,976	$87,644	23%
Safety net wage – full time	$157,369	$161,299	2%	$124,131	$140,798	13%
80% Average Weekly Earnings (all)	$207,908	$211,837	2%	$164,557	$181,225	10%
Average Weekly Earnings (all)	$262,073	$266,003	1%	$207,885	$224,553	8%

Accumulated Superannuation at Age 65 (Today's Dollars) – Newstart Allowance (NA)

Broken Work Pattern Scenario	Receive NA ages 35 to 36 No SG on NA	With SG on NA	Increase	Receive NA ages 35 to 44 No SG on NA	With SG on NA	Increase
Wage when employed:						
Safety net wage – part time (60%)	$91,477	$94,689	4%	$73,428	$87,053	19%
Safety net wage – full time	$158,299	$161,511	2%	$128,216	$141,841	11%
80% Average Weekly Earnings (all)	$209,120	$212,332	2%	$169,885	$183,511	8%
Average Weekly Earnings (all)	$263,588	$266,800	1%	$214,545	$228,171	6%

The results above show that the proposal to pay SG contributions on welfare payments increases superannuation wealth for those on the lower income scenarios above by a significant proportion.

4.1.2. *Asset Ownership as a Means of Empowerment*

There has been a growing chorus of voices in the debate about poverty and social justice who consider asset ownership as an important means of tackling poverty. In the UK, David Blunkett, Home Secretary in the current British Government wrote:

"While income and minimum living standards are essential, they are not enough. Cash transfers from one set of people to another may ameliorate poverty but they do not remove it. Cash transfers do not provide the foundation on which families or communities can progress towards self-determination or end generational disadvantage. Assets (by contrast) breed self-reliance and responsibility, at the same time as they open up opportunities and rewards. Individuals must be able to accumulate and control assets in order to have equal life chances." [22]

In Australia, Mark Latham[23] has reached a similar conclusion. In a discussion paper released in March 2002 he expands on this theme (the main elements are paraphrased below):

- Ownership as an act of social inclusion – 60% of Australian families are shareholders. In order to democratise capitalism it is important to broaden this base of stakeholders. People without assets are disenfranchised from true power.

- Ownership as an act of economic security – the accumulation of assets provides people with a buffer against the contingencies of change.

- Ownership as a solution to poverty – through broader sharing of the gains of asset growth (refer section 4.1.3.).

- Ownership as a solution to generational poverty (refer section 4.1.4.).

[22] David Blunkett MP "Politics and Progress" (pages 33-34) 2001 (Politico's Publishing)
[23] Mark Latham MP Discussion Paper "Ownership: A New Agenda for Political and Industrial Labor" (March 2002)

Mark Latham also observes that "if governments were serious about social justice they would make asset support available for the poor" and that "asset policies are not a substitute for income support; they are an add-on".

While it is not the only answer, the provision of compulsory savings in the form of superannuation to welfare recipients would provide an extremely effective and targeted mechanism to allow some of the most disadvantaged in the community to accumulate financial assets.

Owning a financial asset in the form of superannuation may inculcate a culture of saving for some of those recipients who have no experience with investment.

4.1.3. *Provides Exposure to Asset Growth*

Periods of rapid growth in asset prices increase inequality of wealth and therefore increase relative poverty. Those with little or no assets miss out on the benefits of asset growth. Ensuring more people share in the benefits of asset growth would reduce the redistributive effects of the growth.

These redistributive effects of investment returns were highlighted in a study[24] by two French physicists who combined the techniques of their profession and also those of econometricians to model individual and societal wealth. The study showed that the interplay between economic transactions and asset price movements largely determine how wealth is distributed. The physicists observed that their simulation results fell into a steady pattern in which the distribution of wealth follows the form discovered by Pareto.

Actuarial students usually encounter the Pareto Distribution in their study of the mathematical theory of insurance as a statistical distribution useful for modelling the size of claims in general insurance. Vilfredo Pareto was an Italian engineer turned sociologist who, in the late 19th century, observed that the statistical pattern in the distribution in wealth appeared to be universal in character (and created a statistical distribution to describe it).

An important conclusion of the physicist's study is that the greater the volatility in asset growth the greater inequality of wealth.

Another is that the stochastic nature of investment returns drives a "rich get richer" phenomenon, whereby difference in investment luck will cause some people to accumulate more wealth than others. Even if everyone starts equally, those who are lucky will tend to invest more and so have a chance to make greater gains still[25]. Thus wealth disparity may have little to do with background and talent of individuals and more to do with the impact of the nature of asset accumulation.

Providing superannuation contributions to welfare recipients would assist the poor in asset accumulation which would give them a greater exposure to the investment returns merry-go-round and ensure that the effects of asset growth are shared more equally.

4.1.4. *Reducing Intergenerational Poverty*

The generational effects of wealth transfer are a major source of inequality in society. While wealthy families pass on the benefits of economic assets and expensive education from one generation to the next, the poor pass on social and economic disadvantage.

The McClure Report[26] highlighted entrenched economic and social disadvantage in its case for welfare reform, noting that "Australia may be consigning large numbers of people to an intergenerational cycle of significant joblessness". The report states that Australia has one of the highest levels of joblessness among families, with 850,000 children living in 435,000 jobless families.

---

[24] Bouchard, JP, Mezard, M. Physica A 282, 536 (2000)/Mark Buchanan "The mathematics of inequality" New Statesman (reproduced Australian Financial Review 20 September 2002)
[25] ibid
[26] "Participation Support for a More Equitable Society" (the McClure Report) Final Report of the Reference Group on Welfare Reform July 2000

The report also says "the evidence suggests that children in families experiencing long term joblessness are more likely to rely heavily on income support as they grow up".

Assisting the welfare recipients to accumulate assets via superannuation would assist in alleviating some of the intergenerational transfer of disadvantage by increasing in size/likelihood of asset inheritances and also through expenditure on children (by retired parents and grandparents).

4.1.5. *The Nexus Between Employment and Superannuation is Now Broken*

The Assistant Treasurer, Senator Helen Coonan, in a speech to the Sydney Institute (27 February 2002) discussed how the nexus between employment and superannuation had been broken (refer to quote on opening page). This statement was justified with reference to the Government's recent initiatives to broaden the membership of superannuation funds in the areas of:

- allowing spouse contributions to superannuation funds,
- proposal to permit "income splitting" of compulsory superannuation contributions,
- proposal to allow children to be members of superannuation funds.

This means employed spouses, non-employed spouses and children all have access to superannuation. There is, of course, one glaring exception to the groups with access to superannuation support – social security recipients.

While the recently unemployed (those who have been unemployed for less than two years) and the disabled are currently permitted to contribute to superannuation[27], it is usually at a time when they are unable to afford to do so.

A logical next step in the broadening of superannuation support, now that the "nexus" has been broken, is to pay contributions to welfare recipients.

4.1.6. *Unemployment and Disability are Broken Work Patterns Too*

Most of the discussion about superannuation and broken work patterns is focused on women temporarily leaving the workforce to provide care for children or elderly relatives. It is often forgotten that unemployment and disability are broken work patterns too.

The landmark 1995 Senate Select Committee report on "Super and broken work patterns" had in its terms of reference:

"(2) Steps which could be taken to address any deficiencies [in relation to the adequacy of current arrangements for those with broken work patterns, particularly women], including the advisability of implementing the following policies:

(a) initiatives to address equity issues which arise during the contributions and benefits phases of the retirement incomes cycle; and

*(b) providing superannuation support for those members of the community who experience broken labour force participation and/**or are in receipt of social security payments**."*

With its focus on broken labour patterns mainly of women, the committee devoted only two pages out of 170 in its report to the issue of providing super for those in receipt of social security payments. The small amount of space devoted to the issue is also perhaps a result of the necessity to first debate the nexus between employment and superannuation (which had not been broken at the time).

[27] SIS Regulation 7.04(1)

The report noted that:

"the Committee is concerned that there be further discussion on the question of whether it is appropriate for the Government to pay superannuation contributions for those in receipt of social security payments."[28]

Unfortunately the discussion seems not to have occurred (in public anyway).

4.1.7. *Consistency with Paid Employment*

Australia's welfare system was established at a time when cash salary was the only form of remuneration for the vast majority of people.

Since the introduction of compulsory superannuation, however, the benefits of employment include the forced accumulation of assets as well as income. Indeed it is now the second largest benefit after wages.

So if employment provides asset accumulation why not social security? Conversely, how does the Government determine the level of support for those on welfare?

To answer this question it is necessary to understand the objectives and principles that underlie working age welfare support. Some draft objectives have recently been articulated by the Government[29] in its response to the McClure Report, the main objective stated was:

"to support people who, for whatever reason, are not able to support themselves."

The design principles for working age income support suggested by the Government include:

- an adequate safety net
- incentives for paid work to maximise participation
- clear expectations and requirements
- simplicity and fairness
- responsiveness to individuals and to the changes in their lives
- sustainability
- complementarity with tax and wages systems

It could be argued that the Government has a responsibility under the "adequate safety net" principle to provide superannuation contributions. The discussion paper says:

"People with no other means of support are assisted with their basic costs of living. People with no capacity to work receive a package of assistance that reflects their need for long term support. People with capacity for some paid work are assisted to earn adequate income through work."

There is, however, no mention of superannuation.

Alternatively, it could be argued that the provision of superannuation for welfare recipients would be consistent with the design principle of complementarity with the tax and wages system.

Employment remuneration includes other benefits not provided by welfare such as leave and incentives. However, unlike superannuation, those benefits do not translate easily into the context of working age welfare support as they are dependent on employment.

[28] ibid. Section 4.48
[29] "Building a simpler system to help jobless families and individuals" discussion paper (December 2002) Commonwealth Department of Family and Community Services

4.1.8. *Welfare Now Involves Work*

The introduction of explicit mutual obligation participation requirements means that social security is no longer a passively received benefit.

In some cases, social security payments have become dependent on personal exertion.

For the unemployed between the ages of 18 and 49 who have been receiving the Newstart benefit for more than six months, the requirements in relation to employment and community participation may involve a "Work for the Dole", Green Reserve, Green Corps, Community Work or Community Development Employment Projects.

Payments to carers of the disabled are also similar in nature to wages received as the reward for personal exertion.

It can be argued that such payments are similar in nature to wages in an employment relationship with the Government. If the payments are like wages then why should they be exempt from the Superannuation Guarantee requirements?

4.1.9. *Increased Pool of National Savings*

Using the assumptions outlined in section 5, the pool of contributions that would accumulate would be significant around $30bn (after ten years). This represents an increase in the pool of national savings and has flow-on benefits for investment in the Australian economy and Australian investment abroad.

4.1.10. *A Two Tiered Society in Retirement?*

The 1995 Senate Select Committee investigating "Super and broken work patterns" observed:

"Of particular concern to the Committee is the shift along the continuum towards self funded retirement may result in a two tier society in which those who are unable to provide for their retirement (a significant portion of whom will be women), and therefore remain on the age pension, will become second class citizens, scorned by society."[30]

Professor Bob Gregory (Research School of Social Sciences ANU) in an address to the Sydney Institute 4 November 2002 said:

"A pre [age] pension asset accumulation experience is vital. At least half of all pensioners have been welfare recipients before accessing the pension – as unemployed individuals or recipients of illness or mature age allowances. This group is likely to suffer considerable hardship as they move through the old age period of life as they are not well prepared for the pension in terms of asset accumulation. They lack the advantage of full time employment, with its accompanying savings before accessing the pension."

The provision of superannuation contributions for welfare recipients would provide a pre age pension accumulation experience which would help to alleviate some of the disparity in retirement incomes.

4.1.11. *Protection Against Future Changes in the Age Pension*

With the aging population and projected increasing ratio of retirees to working age people, it is more likely than not that there will be changes in the future to the age pension – either an increase in the age of eligibility, reduction in the level of benefit or tightening of other eligibility criteria. Any such changes could be to the detriment of those with a low level of savings at retirement.

[30] section 4.45 – Senate Select Committee report into "Super and Broken Work Patterns" 1995

The accumulation of superannuation contributions for social security recipients might provide some protection against future changes to age pension for these people, the accumulation of additional benefits possibly allowing earlier retirement or providing larger benefits to compensate for an age pension which may have been reduced (in real terms).

4.1.12. *Provide Benefits on Death and Permanent Disability*

It might be argued that the accumulation of superannuation assets for the social security recipients is of little value in improving equity as it is locked away until retirement.

However any accumulated superannuation contributions would not only be paid on retirement but also in the event of death or permanent disability. Such a payment would be a lump sum at a time when additional expenses are incurred, and debt repayment becomes a priority.

Any superannuation arrangements for social security recipients could include the provision of an insurance benefit – an important benefit for those who might not otherwise be considered insurable (or be in a position to purchase insurance).

Obviously a lump sum permanent disability benefit would not be available for those on a disability pension. For others, disability is often defined in relation to a person's occupation – which makes assessment of disability difficult for those without an occupation (although for short term recipients and carers, this may be less of an issue). However, there are existing definitions used for the Disability Support Pension that could be used for such a purpose.

4.1.13. *Other Countries Do It – Overseas Experience*

In many countries social security retirement benefits are dependent on length of service (ie employment). In some countries (eg Germany), periods of disability are also counted as service. In the Australian context, that translates into the payment of superannuation contributions for those disabled.

There is significant variation between countries and it would appear unemployment is less likely to count towards service than disability.

4.2. Arguments Against

4.2.1. *Cost*

The outlays in the initial years are not insubstantial.

In the first year, the net outlay (ignoring initial set up costs) is in the order of $1.7bn[31].

However, as shown in section 5, for every $100 of contributions made by the Government, $72 in today's dollars ($131 in future dollars) will be returned to the Government in future tax receipts on contributions, investment income, superannuation benefits, GST and reduction in the age pension due to the operation of the means tests.

While it is beyond the scope of this paper to suggest how this proposal could be funded, some possible methods of reducing expenditure elsewhere in the welfare budget to pay for the proposal include; tightening eligibility to the Family Tax Benefit by limiting access to the benefit for middle and higher income families, including large value homes in assessable assets for the means testing.

[31] 9% outlay net of 15% contribution tax

4.2.2. *Prefer Cash Now*

It has been argued that the accumulation of assets for welfare recipients with the knowledge that they will receive a lump sum one day in the future to supplement a pension they will already get is cold comfort when such money could be spent on necessities today.

Simon Kelly (NATSEM) in a paper cited by the Australian Industrial Relations Commission in the Safety Net Review 2002, says:

"The improvement in wealth for the poor through superannuation is welcome but it may mean an eventual improvement in their living standards rather than an actual one right now. There may not be any improvement of the day-to-day living standards of these families . . . While technically true that they have increased wealth, the inability to access the funds until retirement limits its day-to-day value."[32]

On the other hand, there are some possible counterpoints to this argument, namely:

a) *Most people want the cash now*

Most people would prefer to take the cash now, most people do not like the compulsion to save money and would probably consider they could find better uses for it today. The very fact that a significant proportion of people were not regularly making contributions to superannuation prior to compulsory award based superannuation is evidence that most people preferred to use the money in other ways.

It is regularly argued that for young people, the compulsory superannuation savings could be better utilised in home ownership.

Nevertheless, the long term benefits of compulsory savings are considered to outweigh these short term needs. Some may argue, however, that the short term needs of social security recipients are more pressing than short term needs of others.

b) *If income support is insufficient – increase income support*

The fact that social security payments may be insufficient to meet the necessities of daily living, should not be confused with the issue of providing accumulation of assets for retirement. If income support is insufficient, then this is an argument for increasing income support – it is not an argument against providing additional superannuation support.

It is, of course, theoretically possible to increase the level of income support AND provide superannuation at the same time. Theoretically possible maybe, but there are only finite resources to allocate in a politically acceptable way.

c) *The "working poor" would also prefer cash now*

If the long term benefits of compulsory savings did not outweigh the short term needs of the poor, why do we require the "working poor" (ie low income earners who are employed) to have superannuation?

The fact that SG legislation does not provide an exemption for "living wage" earners is evidence of bi-partisan opinion that benefits of compulsory saving through superannuation outweigh short term needs for the money now for low income employees.

As the Senate Select Committee recently noted, the $450 per month exemption in the SG legislation was inserted as a practical, not an equity, measure. Indeed, the measure is quite inequitable because when an employee is below the $450 limit, there is no requirement for employers to pay cash for the amount that would have otherwise been paid in superannuation (refer to section 8.1.).

[32] Simon Kelly (NATSEM) "Trends in Australian Wealth – New Estimates for the 1990s" (September 2001)

d) *Why do people accumulate assets anyway?*

As mentioned above, it can be said that increased wealth for the poor due to superannuation is of little day-to-day value as it not accessible until retirement. While this is true, one of the main reasons people save/accumulate assets is to fund retirement[33]. So in a sense the wealth of the "non poor" is also of little day-to-day value as it has been accumulated not to use today but during retirement.

This is the very essence of savings – it is deferred consumption. Savings are not intended to be used on a day-to-day basis, they are intended for a specific purpose at a future date. It is income, not savings, that is important for use on a day-to-day basis.

In their submission to the Australian Industrial Relations Commission Safety Net Review[34] the Commonwealth Government agreed with this point, arguing that the exclusion of superannuation from the analysis of wealth distribution is "nonsensical and mistakes the idea of wealth with disposable income".

4.2.3. *Extra Money for Nothing*

This proposal may be seen by some as giving welfare recipients extra money for nothing.

Such arguments, including problems of passivity of income support, are problems that mainly relate to eligibility criteria for social security benefits and not necessarily arguments against changes to the levels/types of benefit received (except to the extent they affect effective marginal tax rates, see below).

In any case the philosophy of mutual obligation is more greatly infused in the eligibility of benefits nowadays, so the money is not for nothing as effort is required on the part of the recipient.

4.2.4. *Increasing Effective Marginal Tax Rates*

The income testing of social security payments can provide a disincentive to encourage greater participation in the workforce.

The income test for the Newstart (unemployment) allowance, for instance, means that for every dollar of income over $62 per week, $0.50 of the allowance is withdrawn. However, this is not the only disincentive to work. In addition to the withdrawal of the specific social security benefit, there is:

- ordinary marginal income tax
- shading in of Medicare Levy
- withdrawal of a partner's social security benefits (eg Parenting Payment)
- withdrawal of Low Income Tax Rebate
- withdrawal of Family Tax benefit
- withdrawal of concessions (health, travel)
- withdrawal of Child Care benefits
- withdrawal of Rent Assistance

One measure of the proportion of income that is lost to income tax and income tests is the effective marginal tax rates. The McClure report[35] provided some examples of high effective marginal tax rates including some above 100%, providing a strong disincentive to earn additional income.

[33] Mercantile Mutual – Melbourne Institute Household Saving Report – Melbourne Institute of Applied Economic and Social Research, University of Melbourne (December Quarter 2000). Saving for retirement is the second most nominated reason for saving – after saving for holidays/travel
[34] Safety Net Review – Wages 2001-2002 Commonwealth Submission 1 March 2002
[35] Interim Report Of The Reference Group On Welfare Reform Technical And Other Appendices (March 2000) (Appendix 4)

Most analyses of effective marginal tax rates ignore the impact of superannuation as it is usually excluded from the definition of income used in the income test (the exception being the Family Tax benefit and the Child Care benefit where Adjusted Taxable Income is used).

It could be agued that in reality the true effective marginal tax rates are in fact lower than rates typically published. This is because the gain from every additional dollar of income from employment is not simply net cash income, but net cash income plus super. As welfare does not have a superannuation component, the net gain from employment is higher than would be the case if superannuation contributions were paid on welfare benefits.

Following this logic, if super was to be included in an analysis of Effective Marginal Tax Rates, then the additional superannuation contributions on welfare benefits would increase Effective Marginal rates.

4.2.5. *Contrary to Recent Government Policy*

Up until 2001, Government policy has been to run down the superannuation balances of those on social security rather than to build them up.

In the 1996/97 Budget, the Government moved to include an individual's superannuation assets in the assets test for Newstart payments for over-55 year olds who have been on unemployment benefits for more than 39 weeks. This effectively forced recipients to eat into their accumulated super before being eligible to receive benefits.

This decision was reversed in the 2001/2 Budget.

4.2.6. *Long Term Recipients May Receive More in Retirement Than During Their Working Age Years*

For long term recipients on "pension" type social security benefits (as opposed to the "allowances" which are lower – refer Appendix 1) upon reaching the age to be eligible for the age pension, the level of benefit remains unchanged.

For example, a male on the Disability Support Pension upon reaching age 65 will be eligible for the age pension paying a benefit at the same rate as the day before his 65th birthday.

However, if superannuation is paid on social security benefits, the benefits after age 65 will be larger than those prior to age 65 due to the availability of accumulated superannuation.

There are five counterpoints to this problem.

Firstly, not all recipients are long term:

Benefit	Proportion of recipients with cumulative duration > 10yrs[36]
Disability Support Pension	24%
Newstart Allowance	1%
Parenting Payment (single and partnered)	1%

Secondly, for long term recipients of an "allowance" (eg Newstart) there is an increase at retirement in any case as "pensions" are greater than "allowances" (refer to Appendix 1).

Thirdly, for those working age recipients with some part time work topping up their income, retirement from part time work would mean reduced income in retirement. The accumulated super contributions on welfare benefit would act to replace that income to some extent.

[36] ibid (table 3.2)

Fourthly, even where there is an increase in income at age 65, the additional money from accumulated contributions may be required to meet some capital expenses usually undertaken by new retirees (eg maintenance to the house, car etc).

Fifthly, it appears the age pension is not intended to be the sole safety net, rather it is simply a component of retirement income. This is illustrated by Treasury's projections of retirement benefits (in their submission to the Standards of Living in Retirement enquiry) which showed that even where super contributions are made on 40 years of average weekly earnings, the age pension still formed the majority of a person's retirement income.

4.2.7. *Social Security Recipients May Be Able To Fund Own Retirement*

The 1995 Senate Select Committee report on "Super and broken work patterns" noted that (in relation to carers):

"the Committee is aware of the position put by the Department of Social Security, and others that social security is provided in times of need and that it is inappropriate to add such payments (superannuation). The argument is that funds may be provided to those who may well be in a very good position at a future date to self fund their retirement."[37]

Against this the following points can be made:

- This may be true for some carers (and parents), but it is not true for people with permanent disabilities who do not have improved prospects for income growth.
- Evidence suggests that the unemployed have lower levels of education[38] and are hence more likely to earn lower levels of income in employment following the termination of income support. That being the case, it is not entirely clear that these people will be in a position to support themselves at a later date.
- Even if these people are in a good position in the future, they will have missed out vital time for the accumulation of interest on any contributions, meaning that contributions in the future would have to be substantially larger to achieve the same end.
- If a few recipients become high flyers after receiving income support and they have benefited from the super contributions while recipients, that is immaterial as the majority will not become millionaires.

[37] section 4.49
[38] "Unemployment and Income Distribution" Ann Harding and Sue Richardson (NATSEM) August 1998 – Appendix 1

5. Cost to Government

"Sally: Darl….. what da'ya want with jousting sticks?
Darryl: Oh I don't know but they wouldn't come up all that often.
Sally: I know but what would anyone want with jousting sticks?
Darryl: Well if you could get them for half price it's a bargain."[39]

5.1. Net Cost – Whole of Life Approach

The cost to the Government of a contribution to a superannuation fund is lower than the actual amount contributed. It could be argued that with this proposal the Government is getting it for half the price (due to tax receipts) and it's a bargain.

The Senate Select Committee[40] recently looked at the issue of how tax arrangements and concessions should be considered. The Committee noted that the majority of evidence received during the inquiry indicated that the tax arrangements should be considered on a "whole of life" basis rather than on an "annual basis". The Committee also recommended that the Government work with industry to conduct a review of the appropriate methodology.

The approach used here to assess the cost to the Government is the "whole of life" approach. Using this method, the overall net cost to the Government is:

Amount of Contribution	Has impact on expenditure and revenue in year of contribution
Less	
Contribution Tax and Surcharge Tax	
Investment Tax paid over lifetime	Has impact on future years revenue
Benefits Tax	
Any reduction in Social Security Age pension	
GST paid on items purchased with benefits	
Net Cost	

5.2. Assumptions Used

The primary assumptions used in this paper are the same as those recommended in the Institute of Actuaries of Australia (IAAust) Report to the Senate Select Committee on Superannuation on Modelling Assumptions provided during the Inquiry into "Superannuation and Standards of Living in Retirement"[41].

[39] Darryl and Sally Kerrigan – from the 1997 movie "The Castle" (Working Dog Productions)
[40] Senate Select Committee "Superannuation and Standards of Living in Retirement, Report on the adequacy of the tax arrangements for superannuation and related policy" December 2002 (Chapter 7)
[41] Report to Senate Select Committee on Superannuation on Modelling Assumptions provided during the Inquiry into "Superannuation and Standards of Living in Retirement" September 2002

Recommended IAAust Assumptions for Projections

	Best Estimate Assumption
CPI	2.5%
Investment earnings before retirement	7.0% per annum after fees and tax
Admin and insurance expenses before retirement	$2.00 per week indexed
Wage Inflation	3.5% per annum
Effective conversion of lump sum to 1st year pension	5.5%

In addition to these, I have assumed that the tax rate on the investment return for a typical balanced fund is around 8.3%[42]. The tax rate is lower than 15% due to imputation credits and reduced tax on capital gains for investments held longer than 12 months.

One contentious issue that the Senate Committee had to confront was different approaches to deflating future benefits to be in today's dollars. There are two main alternatives:

- Using an Average Weekly Ordinary Time Earnings (AWOTE) deflator which produces a value that allows comparisons to today's wages.

- Using a Consumer Price Index (CPI) deflator which produces a value that allows comparisons to today's prices.

Over time, wage inflation (AWOTE) has exceeded price inflation (CPI) leading to an improvement in living standards.

Using a CPI deflated result may show a person's ability to purchase goods and services, but it does not give a measure of a person's wealth relative to others. Indeed, one widely used measure of poverty assesses income relative to average wages.

In its report, the IAAust stated its belief that deflating benefits by AWOTE was appropriate to ensure comparability with living standards at the time of retirement.

However, in this case, we are not comparing a person's relative income at retirement – instead we are looking at the value of tax received by the Government. That being the case, it is important to be consistent with the way Gross Domestic Product (GDP) is adjusted, which is done via means of the GDP deflator.

The GDP deflator is used to adjust GDP results to facilitate comparisons between years. The Intergenerational Report[43] used an assumption of the CPI deflator and GDP deflator being equal. Therefore for the purpose of this paper, I have used CPI (equal to the GDP deflator) to consider the results in today's dollars. Indeed, CPI was the preferred deflator used in Treasury's submission to the Senate Select Committee on adequacy.

Another way to look at cost is to examine aggregate outlays and revenues as a percentage of GDP. This is done in section 5.9.

I have assumed that all recipients retire at age 65. At the present time, the age at which men and women are eligible for the age pension is different. However, by 2014 the eligibility ages will be brought into line (refer to section 6.2.).

This effectively means I am assuming all female recipients are born after 1949 (the cut off point when the age of eligibility for the age pension reaches 65).

[42] Based on a standard allocation of 40% to Australian shares 20% to international shares 10% to property, 30% to fixed interest and cash. The assumed tax rates for each sector are as follows 0.6% for Australian shares, 10.9% for international shares 14.2% for property, 15% for fixed interest and cash. 60% of Australian dividends are assumed to be franked.
[43] Intergenerational Report 2002-03, 2002-03 Budget Paper No. 5

5.3. Contributions Tax and Surcharge

When the Government makes a contribution of $100 for a social security recipient, $15 in contribution tax is received immediately by the Government.

The Surcharge, being a tax on high income earners, is unlikely to be levied on contributions for welfare recipients (with the possible exception of those who have received redundancy Eligible Termination Payments increasing their Adjusted Taxable Income). For the purposes of this analysis, surcharge tax paid on a contribution is assumed to be nil.

5.4. Investment Taxes

The amount of investment tax received by the Government depends on how long a contribution will be invested (ie the period until retirement – after retirement, assets invested do not pay tax). The longer it is invested the more tax received!

The type of investment will also influence the amount of tax received, as investments with larger proportion in equities have a lower tax rate (due to imputation credits).

The table below shows the investment tax revenue that would be received from a single contribution of $100 in a "Balanced" type investment.

Years invested (in pre retirement phase)	5	15	25	35	45
Cumulative investment tax revenue (in unadjusted future dollars)	$3.11	$13.60	$34.24	$74.84	$154.70
Cumulative investment tax revenue (in today's dollars[44])	$2.88	$10.89	$23.19	$42.09	$71.14

The table below sets out the likely investment tax revenue for major welfare benefits that would receive superannuation contributions.

Benefit	**Weighting by Government Outlays[45]**	**Average Age**	**Years to retirement**	**Weighted Average Tax on investment returns[46]**
Disability Support Pension	38% ($7.0bn)	48.1	16.9	$16.97
Parenting Payment	32% ($5.8bn)	34.6	30.4	$35.25
Newstart Allowance	30% ($5.4bn)	37.0	28.0	$33.04
Weighted Average		40.5	24.5	$27.56

5.5. Benefits Tax

The amount of tax received by the Government on the payment of benefits depends on:

- Whether the benefit is taken as lump sum or annuity.
- Whether the person has pre 1983 service.
- The size of an individual's superannuation balance (from all sources) at retirement.

[44] Discounting using CPI (refer to "assumptions" section)
[45] Estimates from the Department of Family and Community Services – Portfolio Budget Statements 2002-03 (includes rent assistance)
[46] Today's dollars, calculated using actual age distribution, rather than a single average age

For the purpose of this analysis, I have assumed that no recipient's benefits will exceed the Reasonable Benefit Limits. I have also assumed that the recipient has no pre-83 service.

In relation to the question of lump sum or annuity, the Australian Bureau of Statistics survey "Superannuation Coverage and Financial Characteristics" showed that only 23% of those surveyed who had received a lump sum benefit in the last 12 months used it to rollover to an annuity or other superannuation fund, 42% paid off debts and did home maintenance and 28% invested the money elsewhere.

The ABS Survey also showed 55% of those receiving a lump sum in the past 12 months received a lump sum of less than $20,000. This low average lump sum might be explained by the fact that most recent retirees have only had the compulsory SG contributions since 1992.

For people with small balances, the low tax threshold on Eligible Termination Payments acts as an incentive to take lump sums as the benefit is tax free below $112,405.

Considering this, and also recent experience shown by the ABS report, I will assume that 100% of the benefits at age 65 will be paid as a lump sum eligible termination payment. For the purposes of section 5.6., I assume that two-thirds of the after tax ETP is then recontributed into income stream post retirement products. This means that little or no tax is payable on the post retirement products.

To examine the size of recipients' balance at retirement it is necessary to make assumptions about:

- superannuation account balance when they become welfare recipients,
- duration on the social security pension/allowance (including recurring spells on benefit),
- earnings after coming off welfare.

While on benefit, I have ignored any recipient's private income (that they are allowed to earn below the income test) for two reasons:

- Most recipients do not have any private income (80% of Disability Support Pensioners, 60% of Parenting Payment (single) and 71% of Newstart recipients have a private income of $50 per week or less[47]).
- For those that do, the income test will often mean a decreased rate of social security benefit – however in total the private income and social security benefits are not significantly different (and the private income would presumably have superannuation contributions associated with it).

[47] Interim Report Of The Reference Group On Welfare Reform Technical And Other Appendices Department of Family and Community Services, Canberra March 2000 table 3.5

5.5.1. *Duration on Social Security*

The table below sets out the average duration of benefits.

Benefit	Average Age of in force recipients[48]	Average Duration of Benefit (yrs)	Approximate Average Age at Commencement
Disability Support Pension	48.1	6.8[49]	41.3
Parenting Payment	34.6	2.1[50]	32.5
Newstart Allowance	37.0	1.5[51]	35.5

Based on longitudinal data[52], 42.5% of recipients of Newstart Allowance have multiple spells of receipt of the allowance (with a mean spell duration of 0.9 years). The average duration shown above for Newstart recipients is an approximation of the average cumulative spells for an individual.

The average durations above allow for exit for all reasons, including death and transfer to other benefits. For instance, for the Disability Support Pension recipients whose benefits ceased during the 12 months to June 2001, 58.3% moved on to the age pension, 18.2% died and 19.1% were no longer disabled.

To calculate the Average Age at Commencement, I have subtracted the Average Duration from the Average Age of inforce recipients. This is a very rough approximation and not necessarily valid from an exposed to risk perspective. Nevertheless, it is not unreasonable and the results are not overly sensitive to it.

5.5.2. *Opening Balance*

In considering a typical opening balance the Australian Bureau of Statistics survey "Superannuation Coverage and Financial Characteristics"[53] provides a useful base.

Labour force status	Median Balance June 2000
Working full time	13,000
Working part time	4,326
Working total	10,399
Unemployed	2,000
Not in the labour force	3,877
Total	9,487

[48] Department Of Family And Community Services Occasional Paper No. 1 Income Support And Related Statistics: A 10-Year Compendium, 1989–1999
[49] Department Of Family And Community Services – Characteristics of Disability Support Pension Customers June 2001 – Disability Payments and Services Section, Office of Disability Branch
[50] Department Of Family And Community Services Occasional Paper No. 1 Income Support And Related Statistics: A 10-Year Compendium, 1989–1999
[51] Department Of Family And Community Services Policy Research Paper No. 10 The duration of unemployment spells – a comparison of indigenous and non indigenous persons (March 2000)
[52] ibid
[53] Australian Bureau of Statistics "Superannuation Coverage and Financial Characteristics", Australia (2001 Catalogue #6360.0)

Age Group	Median Balance June 2000
15-24	1,021
25-34	7,016
35-44	12,760
45-54	21,299
55-69	29,962
Total	9,487

It is interesting to compare these results with the APRA statistics – at 30 September 2002, total superannuation assets were $505.7bn spread among 24.8m accounts producing an average account balance of around $20,400. However, this average based on APRA statistics should be treated with caution as:

- people have multiple accounts (suggesting the true average is higher),
- there is great disparity in account balances with the very large balances causing the average to be significantly higher than the median.

In the almost three years since June 2000, balances would have increased with further contributions and then possibly decreased with investment returns. Based on Average Weekly Earnings, three years' contributions (net of contributions tax, based on SG contributions) is approximately $7,000.

Considering this and assuming a total of nil interest since June 2000, it would not be unreasonable to assume a median balance at 30 June 2003 of $15,000 for those employed (approximately a 50% increase). Applying a 50% increase to the median balance for the unemployed yields $3,000.

The Disability Support Pensioners are typically older when they commence receiving benefits. Considering the relativities between average balances for each of the age groups shown in the table above, I have assumed an average balance of $20,000 for DSP recipients.

5.5.3. *Earnings after Welfare*

There is evidence suggesting that those in receipt of a Newstart allowance have lower levels of educational attainment[54]. Applying the data on different levels of educational attainment to ABS data on earnings levels for different education levels[55] suggests that if all other things being equal, Newstart allowees would earn around 92% of the wages of the general population if they were all employed.

However, it is possible that the earnings of recipients post welfare are lower than would normally be the case due to lack of recent experience. For Newstart recipients, I have assumed post welfare earnings will be 90% of Average Weekly Earnings. For Disability Support Pensioners and Parenting Payment recipients, I have simply used 100% of Average Weekly Earnings in the absence of available data on educational attainment and broken work patterns post welfare.

5.5.4. *Size of Balance at Retirement/Average Tax Rate*

One factor in determining a balance at retirement is the size of contribution on social security products. However, this is not straightforward as different benefit rates apply for couples and those with children.

[54] "Unemployment and Income Distribution" Ann Harding and Sue Richardson (NATSEM) August 1998 – Appendix 1
[55] Australian Bureau of Statistics "Education and Training Experience", Australia (2001 Catalogue #6278.0)

The table below shows the breakdown of recipients by family status and payment amount.

	% of recipients[56] ($ pf benefit)		
	DSP	**Parenting**	**Newstart**
Single no children	63% ($429.40)	n/a	68% ($374.90)
Lone dependent children	n/a	58% ($429.40)	1% ($405.40)
Partnered	37% ($358.40)	42% ($338.10)	31% ($338.10)
Total (weighted avg payment)	100% ($403.46)	100% ($391.13)	100% ($363.72)

In the following analysis I will use the weighted average payment amounts.

Note that the Disability Pension is effectively indexed to AWOTE while Newstart and the Parenting Payment (partnered) are indexed to CPI. Over time this will lead to significant differences in these benefits and will lead to an increase in relative poverty for the Newstart and Parenting Payment (partnered) recipients as their benefits will fall behind the growth in average weekly earnings.

The tables below show the benefits that will accumulate under a number of different scenarios and show the average tax payable on the benefits received.

Benefit Accumulation for Disability Support Pensioners

Earnings Scenario (with 9% SG applied to earnings)	Opening Balance	Lump Sum at Age 65 in today's dollars[57]	Low Tax Threshold in today's dollars	ETP Tax (inc Medicare)	Average Tax Rate
DSP from 41 to 47 100% AWE from 48 to 65	$20,000	$145,401	$141,900	$0.00	0.4%
100% AWE from 20 to 40 DSP from 41 to 47 100% AWE from 48 to 65	Nil	$388,220	$173,991	$35,348	9.1%
DSP from 41 to 65	$20,000	$88,785	$141,900	$0.00	0.0%

This analysis illustrates that benefits tax payable will very much depend on the opening balance. The first scenario represents the likely tax received from the current cohort of Disability Support Pensioners, with their current level of opening balances. However as the Superannuation Guarantee system matures, the level of opening balances will increase.

The second scenario represents the likely level of benefits tax under a mature SG system. In 20 years' time, the typical new Disability Pensioner will have experienced the SG at the 9% level for their entire working lives. For Parenting Payment, this is only 11 years away (and 14 years for Newstart benefits).

[56] Department Of Family And Community Services Occasional Paper No. 1 Income Support And Related Statistics: A 10-Year Compendium, 1989–1999
[57] Deflated using CPI

Benefit Accumulation for Parenting Payment

Earnings Scenario (with 9% SG applied to earnings)	Opening Balance	Lump Sum at Age 65 in today's dollars	Low Tax Threshold in today's dollars	ETP Tax (inc Medicare)	Average Tax Rate
PP from 32 to 33 100% AWE from 34 to 65	$15,000	$266,654	$154,857	$18,447	6.9%
100% AWE from 20 to 31 PP from 32 to 33 100% AWE from 48 to 65	Nil	$411,745	$173,991	$39,229	9.5%

Benefit Accumulation for Newstart Recipients

Earnings Scenario (with 9% SG applied to earnings)	Opening Balance	Lump Sum at Age 65 in today's dollars	Low Tax Threshold in today's dollars	ETP Tax (inc Medicare)	Average Tax Rate
Newstart from 35 to 36 90% AWE from 37 to 65	$3,000	$163,268	$150,411	$2,122	1.3%
90% AWE from 20 to 34 Newstart from 35 to 36 90% AWE from 37 to 65	Nil	$370,824	$173,991	$32,477	8.8%
Newstart from 35 to 36 100% AWE from 37 to 65	$15,000	$223,840	$150,411	$12,116	5.4%

The table below represents a reasonable upper limit of the average tax rate (ie the scenario of unbroken work patterns for an entire working lifetime at Average Weekly Earnings).

Benefit Accumulation – Average Weekly Earnings (AWE)

Earnings Scenario (with 9% SG applied to earnings)	Opening Balance	Lump Sum at Age 65 in today's dollars	Low Tax Threshold in today's dollars	ETP Tax (inc Medicare)	Average Tax Rate
AWE from 20 to 65	Nil	$430,357*	$173,991	$42,300	9.8%

* A figure more suitable to consider adequacy of this benefit is to use a 3.5% AWOTE deflator instead of the CPI deflator which produces a lump sum of $278,027 (or a gross income stream of $13,901 pa).

5.5.5. *Summary – Benefit Tax*

The scenarios for each of the payment types above may overstate the likely long term benefit due to other broken periods of employment (that do not receive superannuation contributions). I have therefore used a somewhat more conservative tax rate assumption of 5.0% (rather than the larger results suggested by the modelling).

Benefit	Weighting by Government Outlays	$100 contribution becomes[58] (today's dollars)	Assumed Tax Rate	Tax Revenue on Benefits (in today's dollars)
Disability Support Pension	38%	$176.46	5.0%	$8.82
Parenting Payment	32%	$308.47	5.0%	$15.42
Newstart Allowance	30%	$283.07	5.0%	$14.15
Weighted Average				$12.51

5.6. Impact of Social Security Means Tests on Age Pension

The degree to which the age pension is reduced due to means testing will depend on:

1. Size of total accumulation at retirement.
2. The proportion of the total accumulation that is spent immediately.
3. The type of investment for residual retirement benefits as some are treated more favourably from an assets and income test perspective.
4. Whether an income stream comes from a defined benefit pension (which are treated less favourably under the income tests).
5. Rate of amortisation – how quickly is a lump sum used up (eg for an allocated annuity, how large are the withdrawals?)?
6. Whether partnered or not at retirement.
7. How long the person lives.

This is a bewildering array of variables to try to model.

For the total accumulation at retirement I will use the results of the analysis in the previous section.

As mentioned earlier, the Australian Bureau of Statistics survey "Superannuation Coverage and Financial Characteristics" showed that a significant portion (almost half) of people surveyed did not invest or roll over their lump sum payment at retirement. While these proportions may change as balances at retirement grow, it is hard to see how Australians' love for the lump sum will diminish. Indeed, the social security assets and income tests provide an incentive for "double dipping" and spending a portion of the lump sum – for non retirement income purposes.

I have used an assumption that 100% of the benefit is taken in cash at age 65, with one-third of the after tax lump sum at retirement being spent in the first year of retirement and the remainder being invested in income stream products. This assumption is conservative as using a lower proportion being spent now would produce a larger clawback of the age pension under the assets and income tests.

For the type of investment made at retirement (after a portion has been spent), I have assumed that 50% is invested in an asset tested exempt annuity (lifetime annuity) and 50% invested in a long term asset tested annuity (eg allocated annuity). Income tests still apply to these income streams (although the income assessed is reduced by the purchase price divided by life expectations).

[58] Accumulation of the $100 less $15 contributions tax – results before benefits tax

While around two-thirds of the current recipients of the Disability Support Pension, Parenting Payment and Newstart payments are single, this will not necessarily be the proportion at retirement. Of the current group of age pensioners, around 50% are single. However, the increasing rates of divorce among the current working age population will translate into a higher proportion of single people at retirement.

I have assumed 60% of the pensioners at retirement are single.

	Proportion	Asset Test Free Area	Income Test Free Area
Single	60%	$145,250	$3,016
Partnered	40%	$103,250(each)	$2,652 (each)
Total	100%	$128,450	$2,870

While the age pension is legislated to have a minimum of 25% of Male Total Average Weekly Earnings (MTAWE) (and therefore effectively grows with AWOTE inflation), the assets and income tests are indexed to CPI inflation. This will mean over time the means test will become progressively tighter relative to living standards.

Earnings Scenario (with 9% SG applied to earnings, nil initial balance)	Amount spent at retirement (33? %)	Amount invested in lifetime annuity (assets test exempt 33? %)	Amount invested in allocated annuity (long term assets test 33? %)	Total After Tax Lump Sum at Age 65 in today's dollars
100% AWE from 20 to 40 DSP from 41 to 47 100% AWE from 48 to 65	$122,936	$122,936	$122,936	$368,809
100% AWE from 20 to 31 PP from 32 to 33 100% AWE from 48 to 65	$130,386	$130,386	$130,386	$391,158
90% AWE from 20 to 34 Newstart from 35 to 36 90% AWE from 37 to 65	$117,428	$117,428	$117,428	$352,283

Based on the above, the assets test in any of the above scenarios will not apply as the allocated annuity remaining value is lower than the asset test free area (assuming the person has no other assets at retirement). (The exception is the Parenting Payment – however the resulting reduction in pension is immaterial, 0.06% of the retirement benefit).

Based on the above, the reduction in future benefits due to the means test is as follows:

Earnings Scenario (with 9% SG applied to earnings, nil initial balance)	Total After Tax Lump Sum at Age 65 in today's dollars	Expected lifetime reduction in pension due to income test (in today's dollars)	Reduction as a % of lump sum at age 65
100% AWE from 20 to 40 DSP from 41 to 47 100% AWE from 48 to 65	$368,809	$6,387	1.7%
100% AWE from 20 to 31 PP from 32 to 33 100% AWE from 48 to 65	$391,158	$7,519	1.9%
90% AWE from 20 to 34 Newstart from 35 to 36 90% AWE from 37 to 65	$352,283	$5,550	1.6%

Applying these results to a $100 contribution:

Benefit	Weighting by Government Outlays	$100 contribution becomes[59] (today's dollars) after tax	Assumed Age Pension Clawback	Revenue on Benefits (in today's dollars)
Disability Support Pension	38%	$167.64	1.7%	$2.85
Parenting Payment	32%	$293.05	1.9%	$5.57
Newstart Allowance	30%	$268.92	1.6%	$4.30
Weighted Average				$4.15

5.7. GST

When these welfare recipients retire and come to spend their accumulated contributions the Government will receive revenue from the Goods and Services Tax levied on the expenditure. Not all goods are subject to GST however, fresh food, housing and most medical expenses are exempt.

Applying GST to the various items in the average expenditure patterns published in the ABS Household Expenditure Survey[60], produces an average GST rate of around 7%. However, retirees have different patterns of expenditure and are likely to have a larger proportion of their expenditure in goods and services that do not attract GST (like food and medical expenses). Considering this and without doing a detailed analysis of retiree expenditure, I have assumed an average GST rate of 5%.

There are other areas that Governments (State and Federal) may receive income from, for example other indirect taxes such as those on fuel, gambling and tobacco. I have not considered any such revenue in this analysis.

[59] Accumulation of the $100 less $15 contributions tax – results before benefits tax, based on the average duration to retirement (age 65) stated in the table above

[60] Australian Bureau of Statistics 6535.0 Household Expenditure Survey, Australia: Detailed Expenditure Items

Benefit	Weighting by Government Outlays	$100 contribution becomes[61] (today's dollars) after tax	Future GST revenue as a % of Age 65 benefit	Revenue on Benefits (in today's dollars)
Disability Support Pension	38%	$167.64	5.5%	$9.22
Parenting Payment	32%	$293.05	5.5%	$16.12
Newstart Allowance	30%	$268.92	5.5%	$14.79
Weighted Average				$13.07

Note the future GST revenue as a percentage of the age 65 benefit is higher than 5.0% due to the effect of investment returns increasing the benefit and therefore GST in future years.

5.8. Overall Net Cost

The results in future dollars

Scenario	Disability Support Pension	Parenting Payment	Newstart Allowance	Weighted Average
Amount of Contribution	$100.00	$100.00	$100.00	$100.00
Less				
Contribution Tax and Surcharge Tax	($15.00)	($15.00)	($15.00)	($15.00)
Investment Tax	($28.27)	($62.63)	($60.22)	($48.70)
Benefits Tax	($13.42)	($32.35)	($28.26)	($23.86)
Any reduction in Social Security Age pension	($6.05)	($16.17)	($11.63)	($10.93)
GST	($18.27)	($44.02)	($38.45)	($32.46)
Total Revenue	($81.01)	($170.17)	($153.55)	($130.95)
Net Cost	$18.99	($70.17)	($53.55)	($30.95)

[61] Accumulation of the $100 less $15 contributions tax – results before benefits tax, base on the average duration to retirement (age 65) stated in the table above

The results in today's dollars

Scenario	Disability Support Pension	Parenting Payment	Newstart Allowance	Weighted Average
Amount of Contribution	$100.00	$100.00	$100.00	$100.00
Less				
Contribution Tax & Surcharge Tax	($15.00)	($15.00)	($15.00)	($15.00)
Investment Tax	($16.97)	($35.25)	($33.04)	($27.56)
Benefits Tax	($8.82)	($15.42)	($14.15)	($12.51)
Any reduction in Social Security Age pension	($2.85)	($5.57)	($4.30)	($4.15)
GST	($9.22)	($16.12)	($14.79)	($13.07)
Total Revenue	($52.86)	($87.36)	($81.28)	($72.29)
Net Cost	$47.14	$12.64	$18.72	$27.71

5.9. Aggregate Cost

To consider the impact on budget outlays and revenue over a long period, a useful starting point is the Intergenerational Report[62] 2002-03 which projected the level of social security payments over the next 40 years.

Projected Spending on Social Security Payments (percentage of GDP)

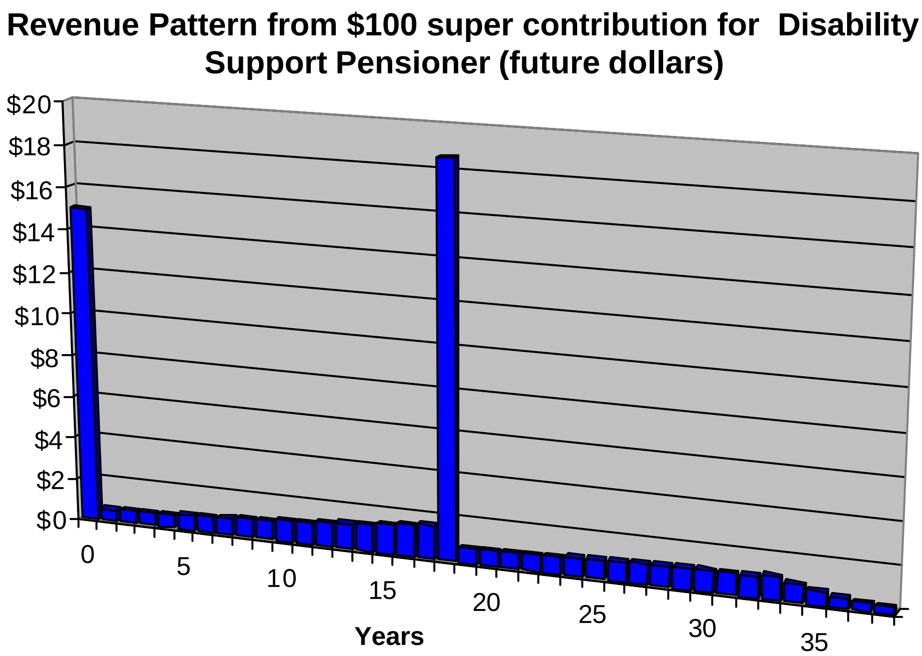
	2001-02	2006-07	2011-12	2021-22	2031-32	2041-42
Age and Service Pension	2.93	2.83	2.90	3.64	4.28	4.59
Disability Support Pension	0.91	0.72	0.79	0.84	0.85	0.86
Parenting Payment (Single)	0.59	0.60	0.61	0.61	0.61	0.60
Unemployment allowances	0.85	0.78	0.71	0.59	0.49	0.41
Family Tax Benefit	1.57	1.34	1.22	1.08	1.01	0.93
Total	**6.85**	**6.26**	**6.23**	**6.76**	**7.24**	**7.38**

The results above show the long term impact that indexation has on the different benefits, with the unemployment allowances and some components of family benefits being indexed to price inflation and other benefits indexed to wage inflation.

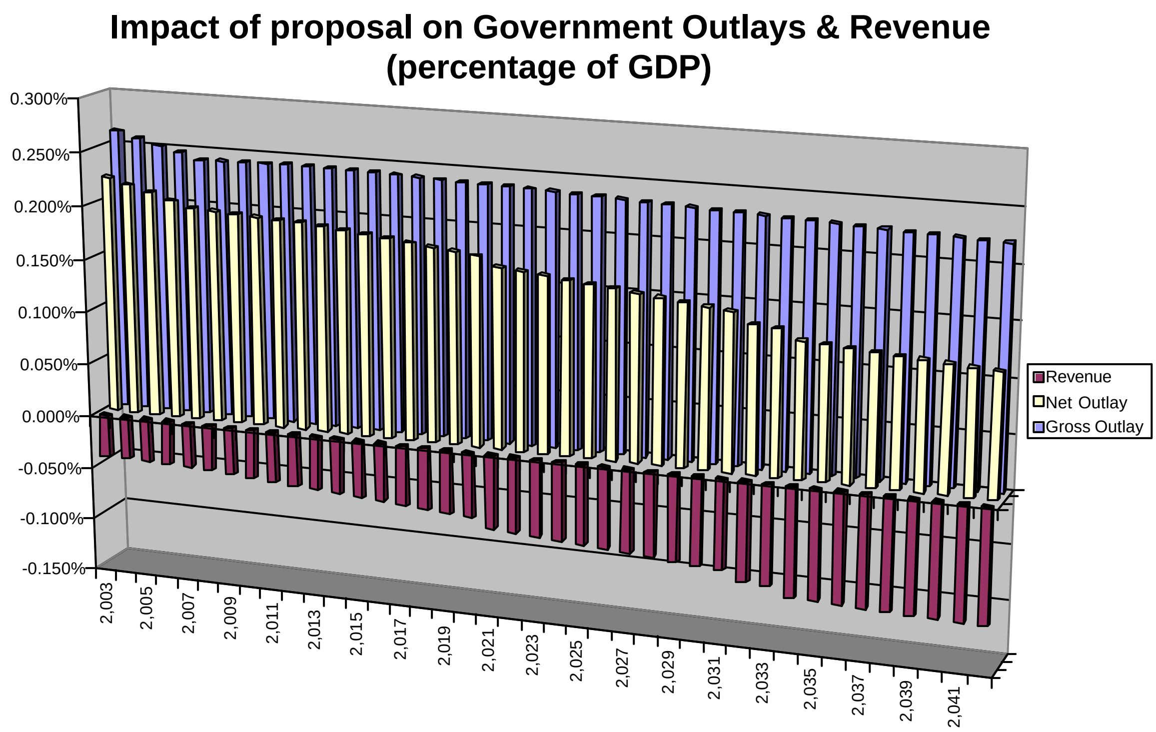
Considering the patterns of revenue discussed above, it is possible to apply those patterns to the data from the Intergenerational report above (making approximations for intermediate years and other welfare benefits not stated), to develop aggregate results for Government outlays and revenues.

[62] Treasury – Budget Paper No. 5 "The Intergenerational Report" 2002-03 (Table 10)

One such revenue pattern, for a $100 contribution for a disability support pensioner, is shown below:



Applying the revenue patterns for all benefits, the aggregate outlays and revenues are as follows:



Summary of Outlays, Revenue (percentage of GDP)

	2002-03	2006-07	2011-12	2021-22	2031-32	2041-42
Welfare Payments to receive SG	2.92%	2.68%	2.70%	2.63%	2.54%	2.45%
SG outlay on selected welfare payments	0.26%	0.24%	0.24%	0.24%	0.23%	0.22%
Revenue from contributions made in current and previous years	-0.04%	-0.04%	-0.05%	-0.07%	-0.09%	-0.11%
Net Outlays	0.22%	0.20%	0.19%	0.17%	0.14%	0.11%

The net cost in 2002-03 (had the proposal been in place) is $1.7bn (0.22% of GDP).

Another way of looking at the cost is that the proposal would have increased total welfare expenditure by around 2.3% in 2002-03 (from $72.9bn to $74.6bn) had it been in place in that year.

The cost of the proposal, however, decreases over time as tax and other revenues from accumulated contributions flow back to the Government. Over the period 2003 to 2042, the cost of the proposal is projected to fall from 0.22% to 0.11% of GDP.

6. Practical Issues

6.1. Who is the member?

Using the criteria outlined in section 3, superannuation contributions would only be paid on benefits that clearly were attributed to individuals, so the recipient of the benefit is clearly the member. However, if contributions were to be applied to other benefits not clearly allocated to one partner or another (eg Childcare benefit, Family Tax Benefit) there would need to be a method of splitting the contributions appropriately.

6.2. Preservation

Superannuation legislation allows those who are not working and are over the age of 55 (60 for those born after 1 July 1964) to access their benefits (with the proviso that they do not intend to work again).

Also, the legislation allows early release of benefits in the event of specified grounds (medical treatment, palliative care, unable to meet mortgage repayments) and hardship (person in receipt of social security payments for 26 weeks and unable to meet living expenses, or 39 weeks if over 55 and not working).

If the current rules apply to the proposal, it might be possible for some recipients to have access to their super contributions immediately (instead of at age 65).

Many of the arguments for the proposal to pay contributions revolve around the accumulation of assets due to compulsory saving that cannot be accessed. To have contributions released as they are paid would be tantamount to simply increasing income benefits and defeat the purpose of the proposal.

One possible solution is to establish a new class of preserved benefits. Another, perhaps more practical, solution is for the Government to pay contributions into a special fund whose deed prevents payment until age 65 (with the possible exception of death or a single payment for permanent disability).

6.3. Administrative Arrangements

The Government would need to either establish a new fund or include a new section in one of its existing funds to accept contributions. Alternatively, would "choice of funds" apply (see 6.4.)?

In relation to the trusteeship of any fund, the question arises – how would member representatives be appointed (or which group would provide representatives on members' behalf)?

Another issue that would need to be resolved is – would the Government pass the costs of administration on to members? Other design issues include:

- Would investment choice be provided?
- If so, how would the default be chosen?

6.4. Choice of Fund

If, and when, the choice of funds legislation is implemented, the Government would need to decide if the legislation applies to contributions paid on social security benefits. If so, the Government would need to ensure that any accepting fund would adhere to any special preservation conditions imposed.

7. Other Issues for Struggle Street

7.1. The $450 per month threshold

Under the Superannuation Guarantee (SG) regime, employers are not required to make contributions for those who earn less than $450 per month.

This is clearly an important issue for those on low incomes, or those in part time or casual employment. The threshold means these employees miss out on an accumulation of contributions and are often in a worse position as they often do not receive a compensating increase in cash wages for the lack of superannuation contributions.

A recent Senate Select Committee[63] Inquiry received a number of submissions noting the effect of the threshold on those with broken work patterns or part time/casual employment and called for the threshold to be removed.

The Committee noted in their report that the threshold was a transition measure when the SG was introduced:

"the earnings threshold was introduced to minimise the employer administration effort in highly casual areas of employment, such as in seasonal agriculture. This was considered necessary when the compulsory superannuation arrangements were new, administration and payroll systems were somewhat embryonic by contemporary standards, and the contribution levels were relatively low."

The Senate Select Committee recommended examining the removal of the $450 earnings threshold for SG contributions.

This is significant as the Government has previously tried to move in the opposite direction. In the 1996 Budget, it was proposed (but not enacted) that employees earning between $450 and $900 per month be allowed, with the agreement of their employer, to take cash instead of SG superannuation contributions.

In the 2002 Budget, it was proposed adjusting the SG salary or wages exclusion threshold to be in line with a quarterly regime, from $450 per month to $1,350 per quarter. However this has not been implemented.

7.2. 3% Award Contributions

While the Superannuation Guarantee (Administration) Act 1992 dictates the minimum level of superannuation support for most employees, it is often forgotten that many Awards contain provisions for payment of the 3% "productivity award" contribution for those employees who do not meet the eligibility criteria under the SG Act.

As discussed above, one aspect of the eligibility criteria of the SG Act is that employers are not required to make contributions for those who earn less than $450 per month. Effectively, these Awards are ensuring that low income earners are receiving some superannuation support.

For example, the Community Pharmacy Award 1998 (as updated at 24 October 2002) specifically requires that any employees who earn less than $450 per month must be paid a 3% contribution.

In the initial draft legislation to enact the Government's Choice of Fund policy, it was proposed that superannuation be removed as an allowable matter from Federal Awards under section 89A(2) of the Workplace Relations Act (removing the 3% contribution with it). This would have disenfranchised the low paid from some superannuation benefits.

[63] Senate Select Committee "Superannuation and Standards of Living in Retirement, Report on the adequacy of the tax arrangements for superannuation and related policy" December 2002

The Government's most recent "choice" legislation appears not to remove super as an allowable matter.

7.3. The Flat 15% Contributions Tax

For low income earners, superannuation may not be taxed concessionally.

While there is some debate about how to assess the tax concessions (refer to section 5.1.), using a whole of life approach for the assessment of tax effectiveness, employer superannuation contributions are not likely to be tax effective for those on incomes below $20,000.

The marginal income tax rate (including Medicare levy) for those earning between $6,001 and less than $20,000 is 17%. While the full time minimum wage is above that level ($22,432.80), many people will still be affected as those working part time may not earn $20,000 pa.

The table below compares the tax rates (using a "whole of life" approach) for an employer superannuation contribution compared with cash salary invested in a "Balanced fund" outside super for a part time employee earning $15,000 pa.

Person earning $15,000 pa, 20 years to retirement	Super Contribution	If super contribution paid as salary instead then invested
Amount of Contribution/Salary (9% x $15,000)	$1,350.00	$1,350.00
Less Tax		
Income Tax (17% marginal rate)	N/A	$229.50
Contribution Tax and Surcharge Tax	$202.50	N/A
20 years' tax on investment return (today's dollars)	$221.14	$232.13
Benefits Tax (5%, refer 5.5.)	$135.49	N/A
Total Tax (today's dollars)	**$559.13**	**$461.63**
Total Tax as a percentage of contribution	41.4%	34.1%
Benefit after 20 years (today's dollars)	**$2,574.39**	**$2,620.84**

For a person with a marginal tax rate of 17%, the tax rate applying to investment returns inside super (8.3%) is lower than that outside of super for a balanced type fund (9.0%, taking into account franking credits etc) [although the tax rate may actually be higher inside super for more conservative investments].

However, the tax on superannuation benefits effectively taxes the contribution plus the growth due to investment returns, meaning the lower investment tax rate outside of super is more than offset by the tax on benefits.

7.4. Fees and Charges – Member Protection

Member protection is a limit placed on the level of fees and charges that can be applied to small superannuation balances (below $1,000). Basically, the fees levied cannot exceed the level of investment return earned on the account balance.

In effect, the fees and charges for these members are cross subsidised by those with larger balances.

While this is clearly an important issue for low income people who may have small balances, the recent Senate Select Committee looking at the issue of standards of living at retirement noted that the views of some industry participants is that many small balances may be owned by people who have multiple accounts and just haven't consolidated them (ie not necessarily low income members).

7.5. Financial Planning

A recent joint study[64] by the Australian Consumers Association and the Australian Securities and Investment Commission (ASIC) highlighted the difficulty members with small balances have in obtaining financial planning advice.

The study involved 53 volunteers each approaching three financial advisers and seeking a comprehensive financial plan. The report on the study says:

"…some people with modest savings had difficulty getting any written financial advice at all, despite being willing to pay a fee for advice. In some cases the planner was not interested in taking on the person as a client (presumably because the client was not perceived as profitable enough or the planner was targeting other market segments). In some cases the planner was too busy. In other cases the planner gave some verbal advice (sometimes good, sometimes bad) and suggested they return for a plan when they have more money to invest."

This issue is obviously relevant for low income people and welfare recipients. Some possible solutions to the problem of the poor not being able to get advice include:

- A Government cash subsidy to low income people for financial planning perhaps in the form of a tax rebate which could be claimed at planning stage (like the private health insurance rebate).
- A Government owned (and subsidised) financial planning business.
- If there is a social security superannuation fund, have financial planners attached to the fund (or perhaps extending Centrelink's Financial Information Service and allow advice to be provided).
- Professional standards/legislation forcing financial planners to accept all cases that are presented to them.
- Professional standards/legislation requiring financial planners to take on a minimum quota of "low balance" work.
- Ban/limit commission selling.

This last point is particularly relevant. The Government[65] has argued that low income earners/people with small balances are best served by having commission selling as they could not afford the upfront fee.

However, the ASIC/ACA study showed that financial plans prepared on a full commission basis were of significantly lower quality than those with a component of an upfront fee.

Ironically, if planners were required to have a lower dependence on commissions and higher upfront fees it would benefit customers with small balances as planners would be more willing to take them on as clients.

[64] "Survey on the quality of financial planning advice" ASIC Research Report February 2003 (section 3.3)
[65] Senator Ian Campbell Four Corners 17 February 2003 "The super chargers"

7.6. Government Co-contribution for Low Income Earners

During the 2001 election the Government proposed a co-contribution of up to $1,000 pa (in place of the current $100 rebate) for undeducted personal superannuation contributions made by low income earners (the maximum co-contribution would apply to those on or below an income of $20,000 and would taper off for those on incomes between $20,000 and $32,500).

The Senate Select Committee on Superannuation examined this legislation in September 2002. While this measure is targeted at low income earners, the Senate Committee noted submissions that due to the income test applying to individuals (and not family income), the proposal provided scope for abuse whereby comparatively well off people will be making contributions in respect of family members working part time.

The Committee also noted submissions that many genuinely low income households would have limited capacity to make voluntary personal superannuation contributions and therefore access to the Government co-contribution.

References

ASIC “Survey on the quality of financial planning advice” Research Report, (February 2003)

Australian Bureau of Statistics “Average Weekly Earnings, Australia” (Catalogue #6302.0) (November 2002, released 20 February 2003)

Australian Bureau of Statistics “Education and Training Experience, Australia” (2001 Catalogue #6278.0)

Australian Bureau of Statistics “Superannuation Coverage and Financial Characteristics, Australia” (Catalogue #6360.0) (2001)

Australian Bureau of Statistics “Household Expenditure Survey, Australia: Detailed Expenditure Items” (Catalogue #6535.0)

Australian Industrial Relations Commission Safety Net Review – Wages 2001-2002 Commonwealth Submission (1 March 2002)

Blunkett, D. MP “Politics and Progress” Politico’s Publishing (2001) pgs 33-34

Bond, K. And Whiteford, P., “Interim Report of the Reference Group on Welfare Reform Technical and other appendices”, Trends In Income Support Receipt 1965-1999, Department of Family and Community Services, Canberra (March 2000)

Bouchard, JP, Mezard, M. Physica A 282, 536 (2000)/Mark Buchanan “The mathematics of inequality” New Statesman (reproduced Australian Financial Review 20 September 2002)

Department Of Family And Community Services – Characteristics of Disability Support Pension Customers – Disability Payments and Services Section, Office of Disability Branch (June 2001)

Department of Family and Community Services – Estimates Portfolio Budget Statements 2002-03

Department of Family and Community Services “Building a simpler system to help jobless families and individuals” discussion paper (December 2002)

Department of Family and Community Services – Estimates from the Portfolio Budget Statements 2002-03

Department of Family and Community Services Occasional Paper No. 1 Income Support And Related Statistics: A 10-Year Compendium, (1989-1999)

Department of Family and Community Services Policy Research Paper No. 10 The duration of unemployment spells – a comparison of indigenous and non indigenous persons (March 2000)

Department of Treasury – Budget Paper No. 5 “The Intergenerational Report” 2002-03 (Table 10)

Gregory, R. (Professor) (Research School of Social Sciences) address to the Sydney Institute (4 November 2002)

Harding, A. and Richardson, S. (NATSEM) “Unemployment and Income Distribution” (August 1998)

Harding, A and Szukalska, A. (NATSEM)/Smith Family “Financial Disadvantage in Australia – 1999”

Institute of Actuaries of Australia Report to Senate Select Committee on Superannuation on Modelling Assumptions provided during the Inquiry into “Superannuation and Standards of Living in Retirement” (September 2002)

Kelly, S. (NATSEM) “Levels, patterns and trends of Australian household saving”, a report prepared for the Financial Planning Association of Australia (September 2002)

Kelly, S. (NATSEM) “Trends in Australian Wealth – New Estimates for the 1990s” (September 2001)

Latham, M. MP, “Ownership A New Agenda for Political and Industrial Labour” discussion paper (March 2002)

Mercantile Mutual – Melbourne Institute Household Saving Report – Melbourne Institute of Applied Economic and Social Research, University of Melbourne (December Quarter 2000)

Reference Group on Welfare Reform “Participation Support for a More Equitable Society” Final Report (the McClure Report) (July 2000)

Reference Group On Welfare Reform Interim Report – Technical And Other Appendices Department of Family and Community Services, Canberra (March 2000)

Senate Select Committee on Superannuation “Provisions of the Superannuation (Government Co-contribution for Low Income Earners) Bill 2002” (September 2002)

Senate Select Committee on Superannuation “Super and Broken Work Patterns” (November 1995)

Senate Select Committee on Superannuation “Superannuation and Standards of Living in Retirement, Report on the adequacy of the tax arrangements for superannuation and related policy” (December 2002)

Senator Ian Campbell, “The super chargers” Four Corners, ABC TV (17 February 2003)

Appendix 1 Summary of Welfare Benefits

Summary of Eligibility Criteria and Activity Requirements, Main Workforce-Age Income Support Payments, March 2003[66]

Payment Type	Basic Eligibility Criteria	Labour Force Criteria	Activity Requirements	Level of Benefit
Newstart Allowance/Youth Allowance	"Unemployed" and not full-time student, available for and willing to undertake suitable work	Not working full-time or in substantial self employment	Active job search or other activities to improve employment prospects	Allowance
Disability Support Pension	Long-term or permanent disability at least 20 points on the impairment tables (and unable to work for 2 years)	Unable to work full-time for at least the next two years	None	Pension
Carer Payment	Providing constant care for a person with permanent or long term Disability (paid instead of other allowances)	None	Provide full-time personal care or supervision	Pension
Carer Allowance	Caring for a person with disabilities. Paid in addition to other allowances	None	Provide full-time personal care or supervision	Special
Parenting Payment – Single	Low income, Single and primary carer of dependent child(ren) under 16 years of age	None	None	Pension
Parenting Payment – Partnered	Low income, Partnered and primary carer of dependent child(ren) under 16 years	None	None	Allowance
Family Tax Benefit Part A	Has dependent children under 21 and income below certain level	None	None	Special
Family Tax Benefit Part A	Has dependent children under 16 and income below certain level – targets single income families	None	None	Special
Widow Allowance	Previously married woman over 50 years of age, who was widowed, divorced or separated after turning 40	No recent workforce experience[67]	None	Allowance
Widow B Pension	Previ ously married woman born before July 1937 or who was a lone parent at age 45 and born before July 1942 (no new grants since March 1997)	None	None	Pension
Wife Pension	Wife of a pensioner (no new grants since June 1995)	None	None	Pension
Partner Allowance	Has a partner on income support and was born before July 1955	No recent workforce experience[68]	None	None
Mature Age Allowance	60 years of age but less than Age Pension age	No recent workforce experience[69]	None	Allowance

[66] Interim Report Of The Reference Group On Welfare Reform Technical And Other Appendices Department of Family and Community Services, Canberra March 2000 (updated for receipt benefit levels and new benefits)
[67] Defined has not worked at least 20 hours a week for total of 13 weeks or more in the 12 months before claiming
[68] Defined has not worked at least 20 hours a week for total of 13 weeks or more in the 12 months before claiming
[69] Defined has not worked at least 20 hours a week for total of 13 weeks or more in the 12 months before claiming

Payment Type	Basic Eligibility Criteria	Labour Force Criteria	Activity Requirements	Level of Benefit
Austudy Payment/Youth Allowance (student)	Full-time student undertaking approved course	None	Satisfactory attendance and/or academic progress	Special
Special Benefit	In financial hardship and not eligible for another payment	Unable to earn sufficient livelihood for reasons beyond their control	May have requirements similar to Newstart or Youth Allowance	Special

Summary of Payment Rates and Income Tests, Main Income Support Payments for People of Workforce Age, March 2003

Payment Category	Basic Rates of Payment	Income Tests
PENSIONS Age Pension Disability Support Pension Carer Payment Parenting Payment Single Mature Age Allowance/ Mature Age Partner Allowance (granted before July 1996)	Single: $429.40 pf Partnered: $358.40 pf (each) + $5.80 pf pharmaceutical allowance (couple)	Free Area: $116 pf (single) $204 pf (couple) plus $24.60 pf per child Tapered reduction rate: payment reduced by 40 cents for each dollar above free area single (20 cents couple)
ALLOWANCES Newstart Allowance Sickness Allowance Widow Allowance Partner Allowance Mature Age Allowance (granted after July 1996) Parenting Payment Partnered	Single, no children: $374.90 pf Single, with children: $405.40 pf Partnered with children: $338.10 pf	Free Area: $62 pf Tapered reduction rates: 50 cents for each dollar between $62 and $142pf 70 cents for each dollar above $142pf Partner income which exceeds cut out point reduces allowance by 70 cents in the dollar
CARER ALLOWANCE	Other allowances + $87.70 pf	None
RENTAL ASSISTANCE	Single (no children): up to $92.00 pf Couple (no children): up to $86.80pf Rent Assistance for families with children paid with Family Tax Benefit	No payment if rent is less than $81.60 Not paid to those in Government housing, living with parents, nursing homes
AUSTUDY PAYMENT	See ALLOWANCES Higher rates payable to people who have been long term unemployed	Free Area: $236 pf Tapered reduction rates: 50 cents for each dollar between $236 and $316pf 70 cents for each dollar above $316pf. Recipients can accumulate an “income bank” of unused free area up to $6,000.00
YOUTH ALLOWANCE	Single, 16-17 at home: $169.700 pf Single, 18+ at home: $204.20 pf Single, not at home or Partnered, no children: $310.10 pf Single, with children: $406.40 pf Partnered, with children: $340.60 pf	Full-time students – as for Austudy Payment Other – as for Allowances Parental income test applies if not independent
FAMILY TAX BENEFIT A	Child under 13: up to $126.70 pf per child Child 13-15: up to $160.72 pf per child + rent assistance: $107.94 (couple)	Free area family income $1,184.85 pf (higher if more than one child) Taper rate of 30 cents in each dollar until base rate achieved – then no taper until $3,063 pf
FAMILY TAX BENEFIT B	Child under 5: up to $108.78 pf Child 5-16: up to $75.88	Primary Earner – no income test Secondary earner – free area $67.38 pf Taper rate of 30 cents in each dollar
SPECIAL BENEFIT	Newstart or Youth Allowance rates apply	No Free Area Benefit reduced by $1 for every $1 of income

Appendix 2 How does this fit in with Welfare Reform?

A Recent History of Reform

In September 1999 the Minister for Family and Community Services announced the Government's intention to review the welfare system. The Minister appointed the Reference Group on Welfare Reform to consult with the community and provide advice to the Government.

The Reference Group's final report was provided to the Government in July 2000[70] ("the McClure Report"). The report identified a number of issues necessitating reform and provided the Government with a comprehensive list of recommendations for change.

In response, the Government has:

- Within the New Tax System package 2001 – changed the taper rate on some income tests, introduced the Family Tax Benefit and changed Child Care Benefits.
- Produced the "Australians Working Together" package in the 2001-02 Budget (introduction of a working credit and improved services).
- Proposed changes to the Disability Support Pension in the 2002-03 Budget.

In December 2002, the Government issued a consultation paper[71] which discussed next steps for reforming payment structure and called for community input into some of the proposed changes.

Objectives of Reform

The objectives of the reform highlighted by the "Reference Group on Welfare Reform"[72] are as follows:

- A significant reduction in the incidence of jobless families and jobless households.
- A significant reduction in the proportion of working age population that needs to rely heavily on income support.
- Produce stronger communities that generate more opportunities for social and economic participation.

Current Issues Necessitating Reform

The Reference Group's final report highlighted the following areas that necessitate reform:

- A growing divide between job rich and job poor households/growing number of jobless families (450,000 jobless families with 850,000 children living in them).

- Changes in the labour market:
  - the new part time and casual jobs being taken up by households where somebody is already in employment;
  - jobs for less skilled workers have stagnated or declined while demand has increased for highly skilled workers.

- The growing number of people receiving income support (especially those for whom welfare constitutes the majority of their income).

- Service delivery arrangements are fragmented and not adequately focussed on participation goals for all people of workforce age.

[70] "Participation Support for a More Equitable Society" (the McClure Report) Final Report of the Reference Group on Welfare Reform July 2000
[71] "Building a simpler system to help jobless families and individuals" discussion paper (December 2002) Commonwealth Department of Family and Community Services
[72] "Participation Support for a More Equitable Society" (the McClure Report) Final Report of the Reference Group on Welfare Reform July 2000

- There is an overly complex and rigid categorical array of pensions and allowances for people of workforce age.

- There are inadequate incentives for some forms of participation and inadequate rewards for some forms of work.

- The system does not provide enough recognition of participation.

This Proposal and Welfare Reform

None of the recommendations of the McClure report involve superannuation.

As detailed in section 4.1.7., in response to the McClure Report[73] the Government has outlined the objectives and principles for working age support. While the payment of superannuation contributions on income support does not form part of these principles, it can be argued that the proposal to pay them is consistent with the “need to provide an adequate safety net” and to ensure “complementarity with the wages and tax system”.

[73] ibid