

The Age Pension in the 21st Century

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AGENDA

- Australia's Retirement Income System
- The Age Pension, Our Unstable Pillar – issues in 1998
- About the Age Pension
- Means testing arrangements
- The Future of the Age Pension
- Areas for Reform

The Australian Retirement Income System

We are all familiar with the three pillars of retirement income:

- Means tested Age Pension
- Compulsory savings through the superannuation guarantee
- Voluntary contributions made to superannuation funds.

The Age Pension

- 1908** Commonwealth took over State schemes
- 1910** Female age reduced to 60
- 1912** Family home exempt from Means Test
- 1994** Female age increased to 65 (over 20 years)
- 1997** Single pension set at 25% of MTAWWE
- 2009** Single pension set at 27.7% of MTAWWE
- 2017** Means-test substantially tightened

Issues in 1998

In 1998, I wrote *The Age Pension Our Unstable Pillar*.

- Several changes to Australia's three pillar system would be needed in order to make it sustainable.
- Many still held the view that the SG benefits were additive to the Age Pension.
- Little attention had been paid to funding the costs associated with ageing – including medical benefits, accommodation and nursing care.
- The settings for the Age Pension means test were driven by annual fiscal considerations or short term political objectives.
- The ageing population had been predicted years in advance, so fiscal issues should not be blamed on demographic change.
- Separate solutions should be considered for existing and future cohorts of Age Pensioners.

Objectives of the Age Pension

The 1998 paper argued the three pillar system should also be assessed against additional **social, equity** and **quantum** objectives.

- **Social objectives**

The elderly should be able to live out their lives in dignity and peace

free from worry over continuing shelter

participate in the community and family life

- **Equity objectives**

Adequate minimum income for all retirees

Redistribution should be progressive.

Similar benefits for those in similar circumstances

- **Quantum objectives**

Age Pension should provide a targeted benefit

- Far above subsistence
- Above dignity
- But less than comfortable.

Changes to the retirement income system over 20 years

- The proportion of the eligible population receiving the Age Pension has fallen from 65% in 1998 to 63% today (noting some people are provided with a pension from the Department of Veterans Affairs).
- The Harmer Review led to an increased the benchmark of the single Age Pension from 25% of MTAWWE to 27.7%.
- Changes at the 2006-07 Budget tried to simplify the interaction of the tax and superannuation system – however concessions were significantly increased for people with significant wealth.
- Changes to the superannuation system at 2016-17 Budget wound back some of these concessions – arguably introducing complexity into the system
- The FSI introduced an objective for superannuation:
- ***To provide income in retirement to substitute or supplement the Age Pension***

Relative value of Age Pension

Annual Amount	Modest Lifestyle		Comfortable Lifestyle	
	Single	Couple	Single	Couple
	(\$)			
ASFA value	27,368	39,353	42,764	60,264
Age Pension	23,598	35,573	23,598	35,573
Difference	3,770	3,780	19,166	24,691

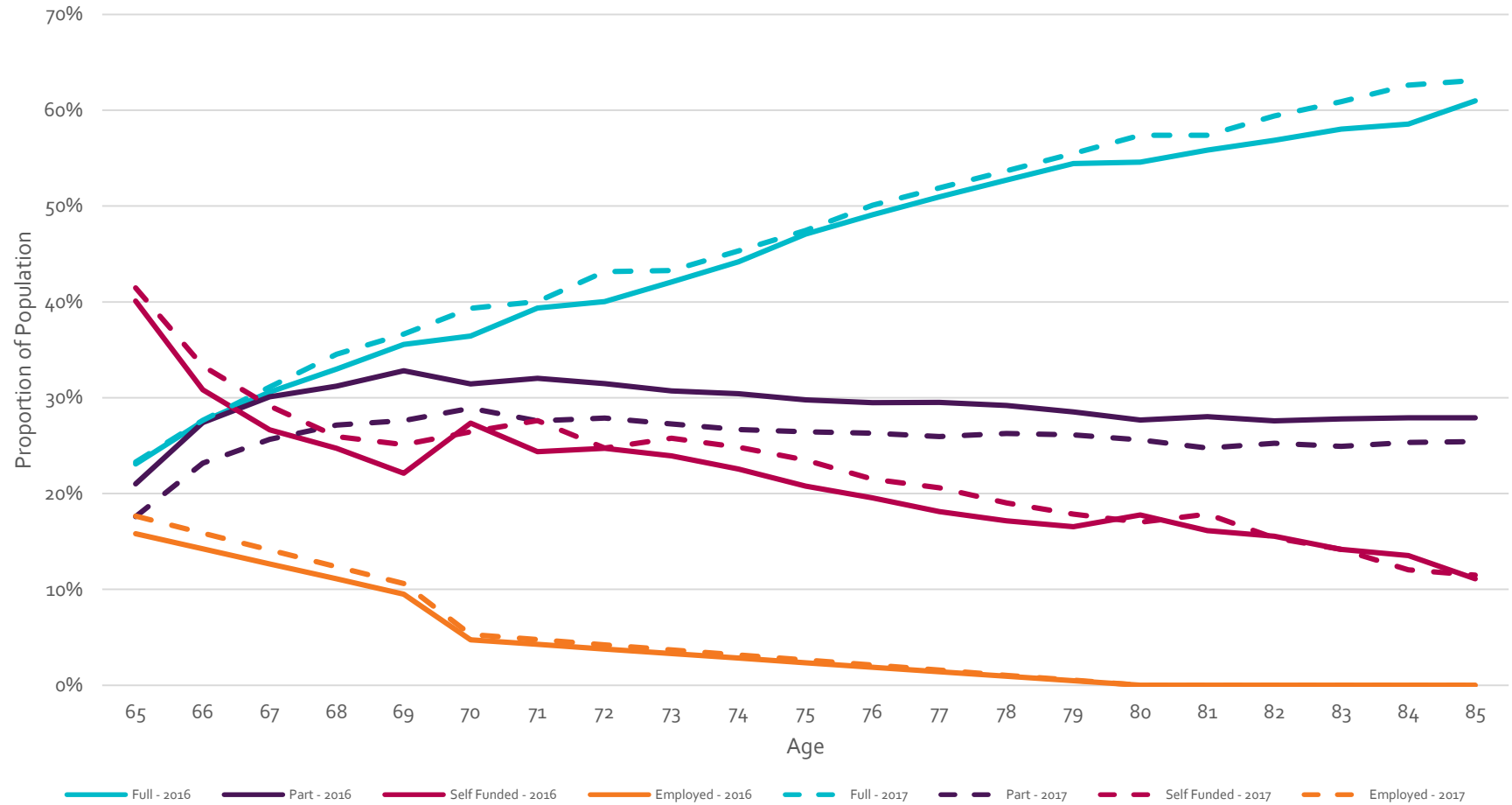
Annual cost of Age Pension

Expense	2017-18	2018-19	2019-20	2020-21	2021-22
Age Pension	45,095	46,838	49,120	51,560	53,797
DVA Pensions	6,504	6,213	6,011	5,914	5,857
Aged Care Services	16,584	18,006	19,474	20,589	22,080
Other aged assistance	2,186	1,927	1,791	1,688	1,545
Total (\$ million)	70,369	72,984	76,396	79,751	83,279

Current Age Pension means test settings

Changes to means testing arrangements at the 2015-16 Budget have reduced the proportion of the population on the pension

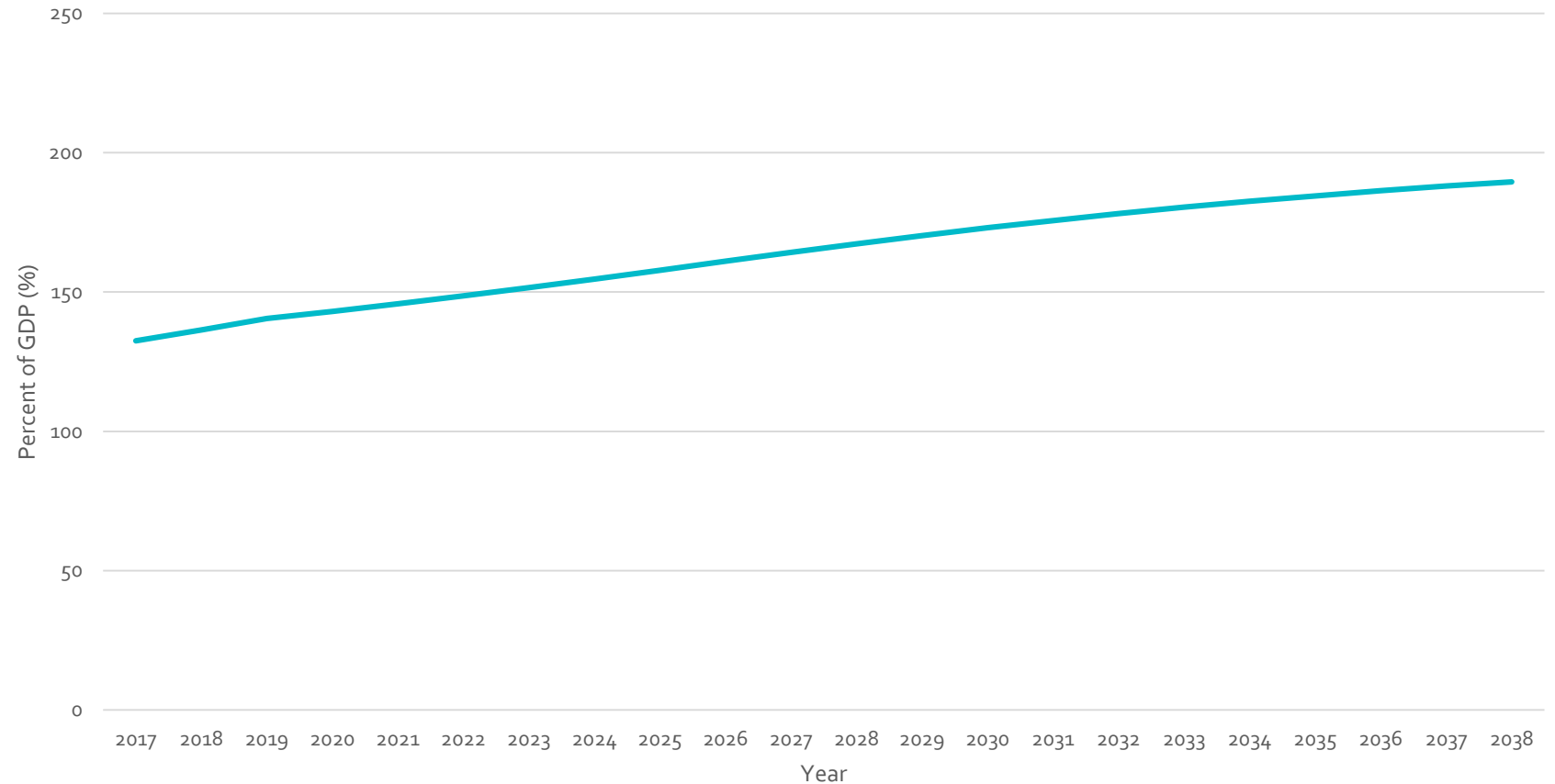
Impact of January 2017 changes on proportion of population receiving pension



The future of the Age Pension

The Superannuation system continues to mature

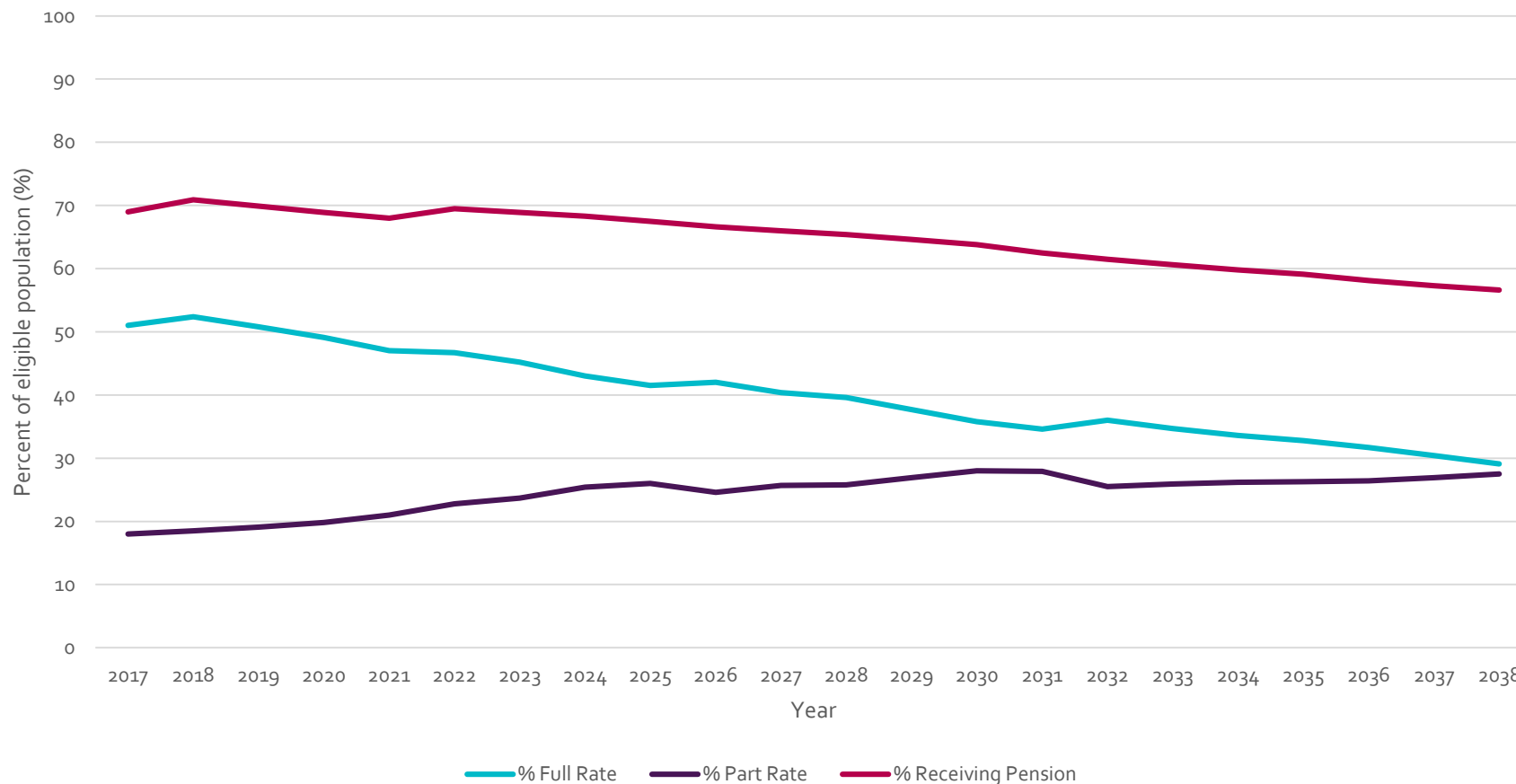
Projected Superannuation Funds Under Management (%GDP)



The future of the Age Pension

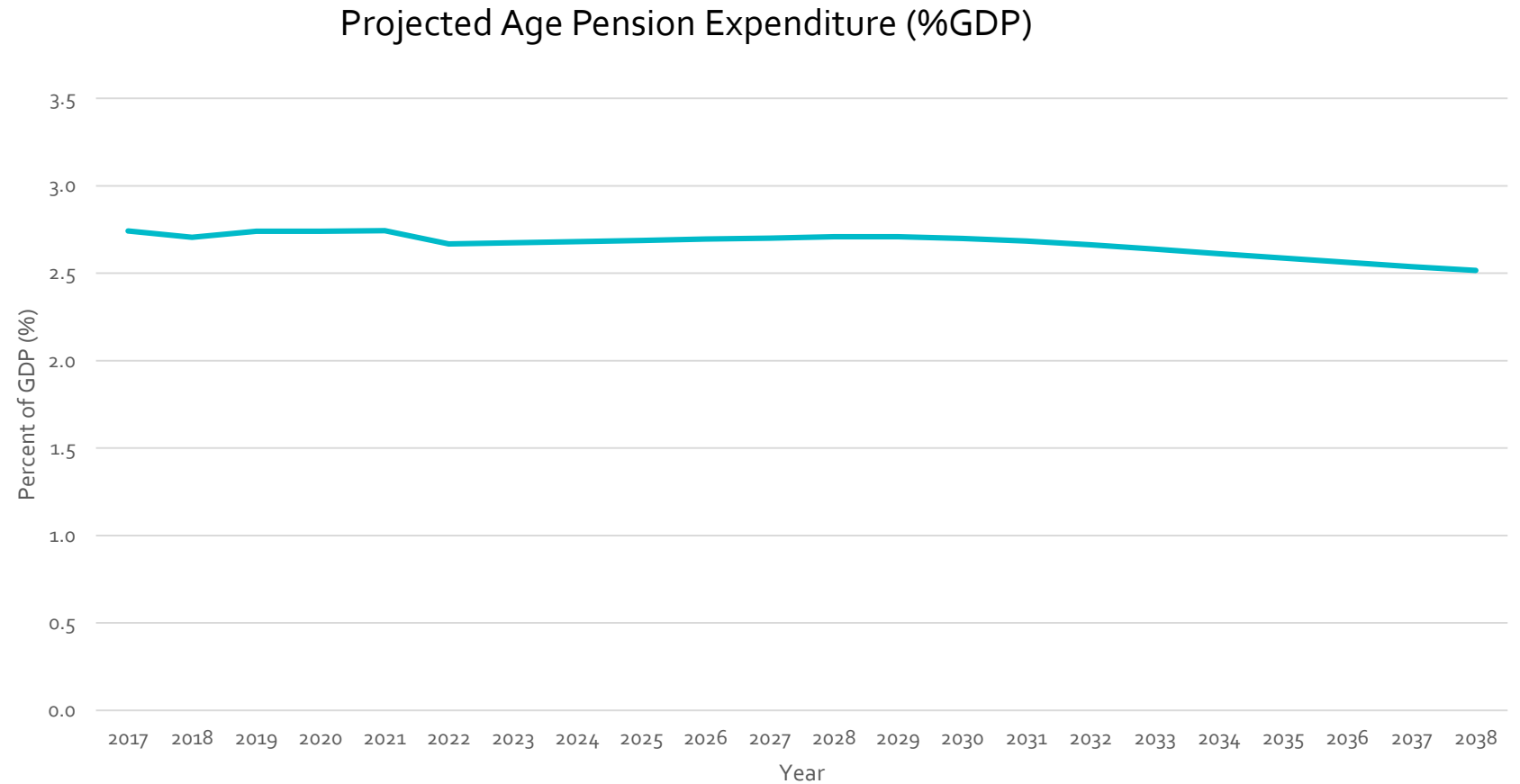
The proportion of the eligible population receiving the pension will fall over time

Projected proportion of the eligible population receiving the Age Pension, by rate of pension



The future of the Age Pension

Age Pension expenditure will fall as a proportion of the economy



Areas for reform

Unlocking equity in the family home

- Current exclusion of the family home from the assets test creates distortions in savings patterns and favours home owner over renters
- The \$200,000 difference in assets test threshold for home owners and renters appears too narrow
- Rent assistance of \$3,505 for a single person and \$6,604 for a couple is too low relative to the current rental market
- If the value of the family home was included in the assets test, retirees would be encouraged to downsize (or utilise the Pension Loans Scheme) to provide for their retirement income

Area for reform

Encouraging part time work for those in older age cohorts

- Incentives to continue working could be improved
- The pension work bonus could be further increased
- There could be an income band (for example) where only half of income from employment counts towards the means test

Areas for reform

The cost of Aged Care

- Age Pension expenditure is projected to fall as a % of GDP
- Aged Care costs were projected to rise from 0.9% of GDP in 2014-15 to 1.7% of GDP by 2054-55
- The Government could target a level of total assistance to the aged of around 4.5% of GDP.

Future policy initiatives

- Include more valuable homes in the Age Pension means test
- Significantly increase rent assistance for age pensioners
- Enhance incentives for part time work in retirement
- Set a target for payments to the Aged at 4% to 4.5% of GDP

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