



# **Means Tests: an evaluation of the justice of imposing high rates of clawback on those of modest means**

**Anthony Asher**

## Means tests:

- An administrative atrocity
- Unnecessary and Unfair

They are meant to make pensions more affordable by targeting the needy ...

but they are an intrusive tax, at high rates, on lower middle income groups.

## **This presentation**

- South African background
- Evaluated against justice
- What can be done?



## South Africa

- Committee of Inquiry into a Comprehensive Social Security System for South Africa (Taylor Committee)
- State Old Age Pension of R780 monthly (AU\$200)
- Income test at 50%, plus asset test
- 70% currently get full pension ...
  
- But paper also applies to Australia and UK



## Justice

- Liberty
  - Needs
  - Equality
  - Efficiency
  - Just deserts
- 
- Importance of process



## Justice

- Personal?
  - Stages of moral development
  - Agreement on procedures particularly
- Relevance?
  - Strongly linked to both positive and negative behaviour

## Liberty

- Freedom from interference
- But means tests apply to wider range of incomes and assets – by size and type
- Too complex to understand

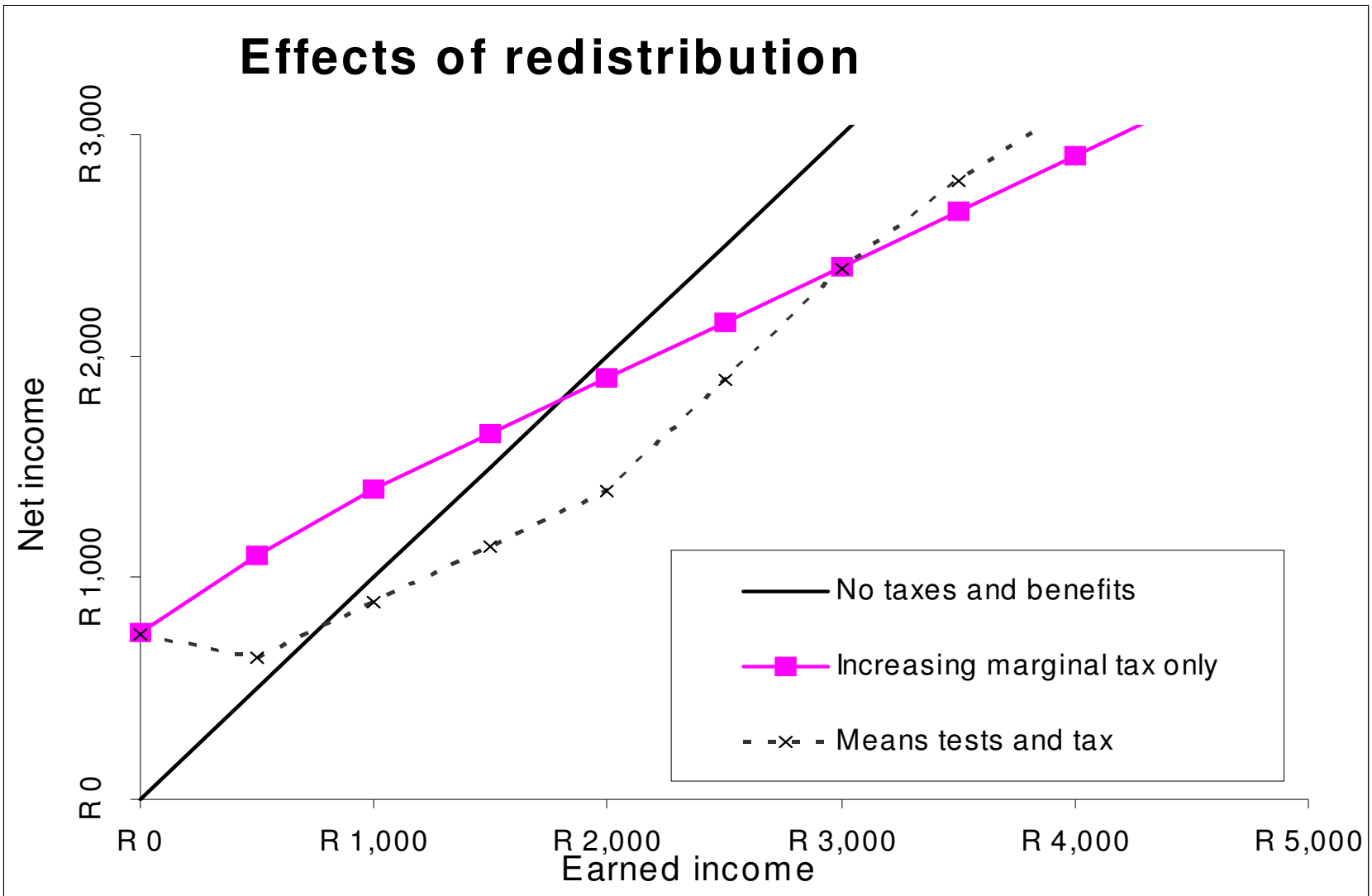
## Needs

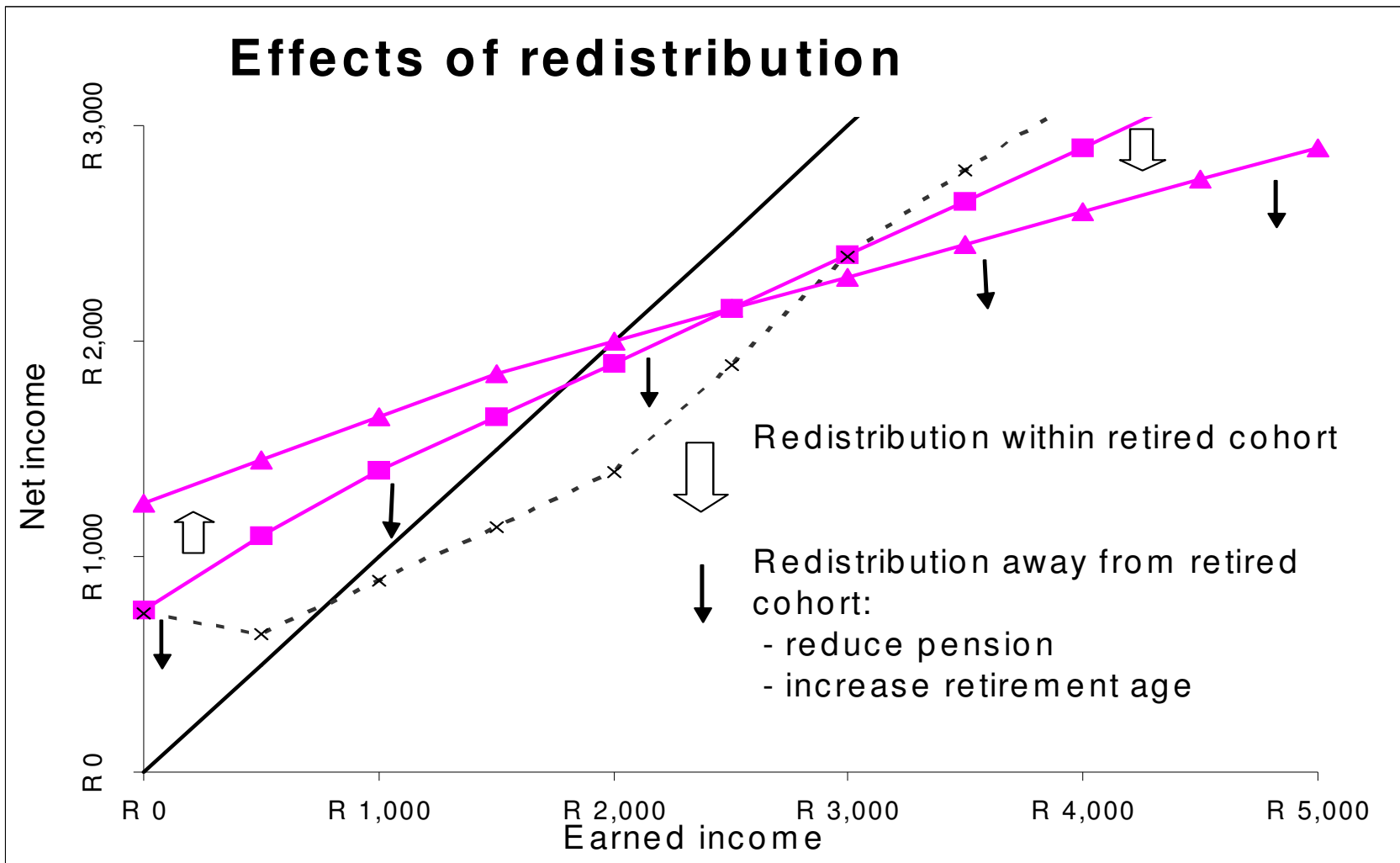
- Pensions are above the minimum standard
- The issue is relative not absolute
- Not targeting but redistribution
- Need can be addressed by benefits in kind -  
e.g. lifeline tariffs



## Equality

What is repulsive...is that some classes should be excluded from the heritage of civilization which others enjoy, and that the fact of human fellowship, which is ultimate and profound, should be obscured by economic contrasts, which are trivial and superficial. *RH Tawney*





## Unemployment or disability benefits?

- Moral hazards
  - limit benefits and marginal “tax”
- Psychological, social and economic benefits
- Depend on objective factors other than age

## Efficiency

- Administration
  - 76% of identity files wrong ...
  - 10 times cost of non-means tests
- Unenforceable law is unjust
  - Falls unevenly
  - Creates uncertainty
  - Harassment



**TABLE 1  
(9% tax on  
income)**

	Marginal rate of deduction for contributions	Years of investment income tax concessions	Marginal tax or clawback rate on benefits	Benefit: contribution ratio
Same tax rates	18.0%	10	18.0%	104%
	18.0%	40	18.0%	128%
	40.0%	10	40.0%	116%
	40.0%	40	40.0%	227%
Reducing tax rates	18.0%	10	0.0%	127%
	18.0%	40	0.0%	156%
	30.0%	10	0.0%	158%
	30.0%	40	0.0%	251%
	30.0%	10	25.0%	118%
	30.0%	40	25.0%	188%
	40.0%	10	0.0%	193%
	40.0%	40	0.0%	379%
	40.0%	10	30.0%	135%
	40.0%	40	30.0%	265%
Increasing rates	0.0%	10	50.0%	48%
	0.0%	40	50.0%	39%
	18.0%	10	50.0%	64%
	18.0%	40	50.0%	78%
	30.0%	10	50.0%	79%
	30.0%	40	50.0%	125%



<b>TABLE 2 (30% tax on income)</b>	Marginal rate of deduction for contributions	Years of investment income tax concessions	Marginal tax or clawback rate on benefits	Benefit: contribution ratio
Same tax rates	18.0%	10	18.0%	94%
	18.0%	40	18.0%	72%
	40.0%	10	40.0%	105%
	40.0%	40	40.0%	131%
Reducing tax rates	18.0%	10	0.0%	115%
	18.0%	40	0.0%	88%
	30.0%	10	0.0%	143%
	30.0%	40	0.0%	143%
	30.0%	10	25.0%	107%
	30.0%	40	25.0%	107%
	40.0%	10	0.0%	175%
	40.0%	40	0.0%	218%
	40.0%	10	30.0%	122%
	40.0%	40	30.0%	153%
Increasing rates	0.0%	10	0.0%	87%
	0.0%	40	0.0%	44%
	18.0%	10	18.0%	94%
	18.0%	40	18.0%	72%

## Just deserts

- Based on contributions / residence
- Grandfathering (UK abolishes)



## Reform

- Perspectives: Welfare vs Finance
- Lobby groups
  - The gerontocracy
  - The industry
  - Those subject to means tests

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“Speak up for those who cannot speak for themselves, for the rights of all who are destitute.

Speak up and judge fairly; defend the rights of the poor and needy.” *Proverbs 31*



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