Written on behalf of FGFP by: Lew Wheeler (Ms)

Abbreviations

ABS	**Australian Bureau of Statistics**
ACOSS	**Australian Council of Social Service**
AIHW	**Australian Institute of Health and Welfare**
AISC	**Australian Investment and Security Commission**
ASFA	**Association of Superannuation Funds of Australia**
ATO	**Australian Taxation Office**
AUWU	**Australian Unemployed Workers Union**
CEPAR	**Centre of Excellence for Population Ageing Research**
Consultation Paper	**Retirement Income Review Consultation Paper**
CPI	**Consumer Price Index**
DHS	**Department of Human Services (Australian Government)**
FGFP	**Fair Go for Pensioners (FGFP) Coalition Victoria Incorporated**
GDP	**Gross domestic product**
The Government	**Australian Government**
LISTO	**Low income superannuation tax offset**
MTAWE	**Male total average weekly earnings**
OECD	**Organisation for Economic Co-operation and Development**
Pensioner	**All social security recipients**
The Panel	**Retirement Income Review Panel**
Super	**Superannuation Guarantee (SG)**
WGEA	**Workplace Gender Equality Agency**

BACKGROUND

Fair Go for Pensioners (FGFP) Coalition Victoria Incorporated established in 2007 - known simply day-to-day as FGFP - makes this submission to the "Retirement Income System Review".

FGFP diversity of coalition membership represents ethnic, community - service providers, peace and faith groups - and retired unionists groups. An individual section was established in December 2013.

FGFP advocates for social justice and inclusion for 'pensioners' and other low-income groups marginalised by financial hardship, poverty and inequality. FGFP is run by volunteers and funded entirely by donations. FGFP is non-party political.

Since 2013 FGFP has called for an independent and comprehensive review of the retirement income system outlined in a letter to Prime Minister Abbott dated 24 October 2014. The present review was announced on 27 September 2019 with the final report due to Government by June 2020.

FGFP submission calls for consideration of major issues in a more comprehensive Retirement Income Review and as invited it is not limited to the questions outlined in the *Retirement Income Review Consultation Paper* released in November 2019.

Aged Care is beyond the scope of this submission.

Policy options are given at the end of each of the four Sections to follow. Unless otherwise stated, all FGFP reports, submissions and other documented evidence are held on FGFP electronic filing systems.

ISSUES AND EVIDENCE

The Australian Retirement Income System is understood as covering “three pillars”: Age Pension, Superannuation Guarantee and Voluntary Savings. Each is discussed in turn as is financial sustainability in Section 4.

SECTION 1.0 AGE PENSION – FIRST PILLAR

Introduction

The national Age Pension is a publicly funded means tested (income and assets) pension and a taxable payment. This national Age Pension is not reliant on contributions throughout paid working life.

The *Retirement Income Review Consultation Paper* (Consultation Paper) states ‘Eligibility for this pension is ‘subject to age, residency, and means testing requirements to target it to those who need it most’ (2019, pp: 4 & 8).

The Consultation Paper describes this ‘First Pillar’ as a safety net. This safety net provides a philosophical approach for pension design as do other approaches.

1.2 Eligible age for the Age Pension

Australia has a rapidly growing and ageing population living longer.

In 2017, over 1 in 7 people were aged 65 and over (about 3.8 million people) predicted to more than double by 2057 (Australian Institute of Health and Welfare (AIHW, 2018).

Combined with the concerns raised by demographic and longevity issues were increasing concerns about the likely unsustainable future cost to the budget.

Major legislative changes followed which included progressively lifting the qualifying age for the Age Pension from 65 years to 67 years by 1 July 2023 – now 66 years.

This change was also a response to predictions that 80 per cent of Australians qualifying for an Age Pension would remain stable - 50 per cent on full pension and 30 per cent on a part pension - for the predicted period to 2055 (*Intergenerational Report 2015., FGFP Summary Response to 2015 Intergenerational Report).*

Recent evidence suggests this is not occurring. Rice records that:

- proportion of the eligible population receiving the Age Pension will fall from around 69% in 2017 to around 56.6% in 2038
- falling to 45.1% by 2060 (2018, p: 32, see also Graph 4, p:27).

Rice also reported that a total of 2,396,324 (63%) million older Australian age pensioners (excludes veteran pensioners) receive the Age Pension:

- 1,489,685 (39%) full age pension - 846,326 were females and 643,359 males
- 906,639 (24%) part age pension - 481,123 were females and 425,516 males (2018, derived from Table 5, p: 17).

Legislating to make citizens wait longer for a full or part Age Pension ignores a range of issues ‘older’ Australians face, such as:

- declining industries pushing people into early retirement with or without retraining
- physically demanding work (eg nurses, trade and construction workers, other labourers, emergency service workers, farmers)
- age and sex discrimination

- intermittent labour force participation or no attachment

Many older Australians 55 years and over are left behind.

FGFP has worked on related policy issues since its inception such as retirement incomes, inequality, health, aged care, and more recently also jobs and training, unemployment, and 'affordable housing'. FGFPs federal claims reflect this work. Claim 6 relates directly to the eligibility age for the Age Pension and states.

Claim 6. "That FGFP calls for the retirement age to revert to 65 years of age and not be increased to **67 years** by 1 July 2023."

1. 3 Income poverty in Australia

In its work on poverty FGFP uses income and wealth to measure inequality - measures recognised in Australia and internationally in poverty research.

Around 1.5 million older Australians living on the full Age Pension as their main or only source of income live at risk of poverty or live in poverty (Smith and Hetherington 2016). Other research indicates:

- 1 in 3 people aged 65 and over born in a non-English speaking country live poverty (AIHW, 2018).
- over 19% of Aboriginal and Torres Strait Islander peoples live in poverty (Hartley 2016 quoted in FGFP, 2018).
- more older women than men live in permanent income poverty: on average live longer, have childcare responsibilities, work fewer hours for pay, have low paid jobs, have shorter careers and have less or no accrued superannuation or any other savings (Smith and Hetherington, 2016, p:5, FGFP 2018, *Background Paper*, 30-32).
- single older women who are renting are the worst off (Good Shepherd 2018; ACOSS and UNSW 2018; Housing for the Aged Action Group 2018).

In 2019, the OECD *Pensions at a Glance 2019* report indicates that **poverty rates for age pensioners in Australia are very high at 23%, a full ten percentage points above the OECD average – which is the 14th most unequal country of the 34 wealthy countries of the OECD.**

In 2016, public pension spending in Australia was 4.2% of GDP much less than the OECD average of 7.5% or the highest Greece at 16.9% of GDP (OECD, 2019).

The evidence shows full-rate Age Pension if main or only source of income is inadequate even though 'current indexation measures were introduced in 2009 and meant to 'better reflect prevailing community expectations' (*Consultation Paper*, 2019, p:8).

The figures also show more women than men rely on full and part age pensions.

Recent figures show that the majority of older people are left behind with 54 per cent of full-rate age pensioners with assessable assets (excludes family home) worth below $50,000 (quoted by ASFA, 2019).

In short, income poverty research provides strong evidence of the inadequacy of the current pension based on the safety net approach. This research should be included in the policy considerations of the current Retirement Income Review.

As Falzon (13 December 2017) states:

> "Inequality is neither a personal choice nor a national tragedy. It is a choice governments make."

FGFP agrees with Falzon and opposes the current version of a safety-net approach to the Age Pension which leaves too many age pensioners living in poverty or at risk of poverty.

FGFP is committed to the adoption of a **human rights approach** for the design of the social security system (*FGFP Recommendations Statement*, 2018, Section 1 Recommendations (Rs) 1-9, pp: 3-4).

This approach recognises that older citizens are entitled to a living income from the Age Pension in keeping with community standards of Australian society to provide a 'decent' and dignified standard of living in retirement (FGFP, 2018 *Background Paper*, Section 2, pp: 9-13).

FGFP Claim 1 states:

> That the Federal Government increases the Age Pension single rate from 27.7% of male total average weekly earnings (MTAWE) to 35% of the MTAWE.

To improve the adequacy of the Age Pension in the short-to-medium term, FGFP claim 1 uses a **relative adequacy benchmark** based on MTAWE to better reflect community living standards and move towards a living income from the age pension.

Claim 2 calls for **quarterly indexation** of all income support payments. Currently, the Age Pension is indexed twice yearly (20 March and 20 September).

Current **six monthly indexation** changes to the Age Pension are based on movements in Consumer Price Index and Pensioner and Beneficiary Living Cost Index. Whichever is the greater is then benchmarked against a percentage of Male Total Average Weekly Earnings (MTAWE).

In terms of a longer-term MTAWE benchmark, FGFP discussions are still underway. These discussions recognise that wages growth is the lowest in the past 70 years.

1.4 Messaging

As Australia's rapidly growing and ageing population living longer came into sharper focus nationally, so too did scaremongering about rising costs of the Age Pension threatening fiscal sustainability and magnified through messages that age pensioners are economic burdens.

This messaging was first linked to budget emergencies and deficits, then budget repair and now protection of budget surplus. "The Age of Entitlement" was over so said the then Treasurer in 2014.

The myth of age pensioners as economic burdens goes on. It promotes fear of the rapidly ageing population linked to the claimed rising costs of government expenditure including Age Pension and Aged Care increasingly becoming unsustainable (FGFP, *Myth: Older Australians as Economic Burdens*, Information Sheet 5, last updated May 2019).

These messages persist as highlighted in a range of government and commentators reports which ignore the evidence (e.g. *Productivity Commission,* 2017 & 2019, *Intergenerational Reports* latest 2015).

Over the past 6 years, FGFP has reported on two major systemic issues of **unemployment and 'affordable' housing.** Both are key determinants of poverty and impact age pensioner incomes in retirement. Each demonstrate inequitable outcomes for women. Each are looked at in turn below.

1.5 Too few paid jobs – can't get a go

Legislative changes to the qualifying age for the Age Pension as reported earlier, assumes there are enough paid jobs for all. Unemployment and underemployment data tell a different story.

In November 2019, *Australian Bureau of Statistics* (ABS) data show that 5.2 per cent of the labour force unemployed and a further 8.3 per cent are underemployed - people seeking more hours of paid work.

Combined these seasonally adjusted under utilisation rates highlight that **over 2 million Australians** are currently either unemployed or underemployed with increasing numbers working in precarious jobs to make a living or are on the margins of the labour market (November 2019).

According to the ABS, there are 90,000 unemployed older age Australians aged 55 years and over, an increase of 10 per cent over the year to July 2018.

This means there is no income from paid work and older workers age 55 and over like other unemployed must try to exist on other private sources of income or if no or little other sources then Newstart Allowance - discussed further on.

Working age people are competing for too few jobs.

Studies clearly show that older people find it hard to get paid work or retire earlier than expected as they come up against employment barriers which become stronger for people aged 55 and over. Women experience the toxic mix of ageism and sexism (Australian Human Rights Commission 2012-2015, ACOSS 2013-2019, FGFP 2015-16, 2018, Caro, 2019, p:9).

Both employment and underemployment rates for 55 years and over age groups of working age are increasing. In addition, these age groups remain the fastest growing groups of long-term unemployed looking for work for more than 1-year most over 2 years (AIHW 2017, CEPAR, 2017-2024).

The fact remains that being willing and able to work is not enough. There are simply not enough jobs and not enough hours of paid work.

Unemployment is NOT a choice – choosing not to go out to work is a myth.

This myth is related to the message of blaming the victim through labels which demonise, criminalise and/or pathologies (see Falzon, 2017) and continue to be peddled by some politicians, commentators and mainstream media undeterred by facts (FGFP, *Background Paper,* 2018, pp: 6-8).

Harmful messaging that can and does lead to mental health issues (FGFP 2016-19).

FGFP federal claim 5 addresses the issue of the plight of older unemployed workers under retirement age trying to live on public income support called Newstart Allowance of $40 dollars a day which has not increased in real terms through legislation since 1994 (FGFP 2016, Falzon 2017, ACOSS, *Raise the Rate,* 2019).

FGFP says these are not ‘young versus old’ issues, they are about years of poor policy making.

You can’t have a go if you can’t get a go!

1.4 Housing and homelessness - Australia

Shelter is a basic human right covered under article 25 of *The Universal Declaration of Human Rights.*

The need for secure and ‘affordable housing’ is fundamentally important to employment, job search, education, health and well-being yet ‘affordable housing’ is falling as is homeownership, mortgage debt is rising as is homelessness.

Homelessness is the most visible sign of the lack of affordable housing in Australia.

1.4.1 Home ownership. *The Australian Institute of Health and Welfare* report that home ownership is down to around two-thirds (66%) of Australian households owning their home with or without a mortgage from 70% two decades ago (AIHW, 17 September, 2017).

Owning a home outright is fading as more homeowners have a mortgage than not:

- “30% of households own a home without a mortgage (down from 40% in 1997-98)
- 37% of households own a home with a mortgage (up from 31% in 1997-98)” (Beattie, August 19, 2019).

The proportion of homeowners by age is higher for older age groups 55 years and over (Beattie, 2019) yet as Ong et al (2019, pp:3-4) demonstrate there are increasing numbers of older homeowners now carrying heavy mortgage debt into retirement.

Beattie draws on ABS Australian housing costs for home owners with a mortgage showing average weekly housing costs of $484 in 2017-18, up 40% from 1997-98 compared with homeowners without a mortgage at $53, up 51% from 1997-98.

Ong et al 2019 state that:

> Between 1987 and 2015, the real mortgage debt of older mortgagors aged 55 and over blew out by 600 per cent. Real house price and income growth lagged behind tripling and doubling respectively over the period.

It is projected that mortgage debt will continue which means ever growing numbers of households are likely to enter retirement in mortgage debt.

Housing research is also significant as home ownership is understood to represent the single largest financial asset and a source of wealth for Australian homeowners.

Wealth from home equity is increasingly being viewed as an important measure for determining:

- objective of the Age Pension to achieve adequate income in retirement
- equity between homeowners and renters
- sustainability of public finances (Daley, 2018, Rice, 2018).

A policy option is proposed to utilise equity in the family home and include this financial asset in the Age Pension Means (assets) Test (Daley, Rice, 2018).

Behind this policy option is the idea of freeing up income to support retirees such as lifting some standard of living in retirement, paying for medical and aged care and of lowering future government expenditure on the Age Pension.

The family home also has been described by some as the “fourth pillar” of the Retirement Income System.

These views downplay the facts of homeownership falling, fewer own their home outright, mortgage debt increasing, renting becoming permanent not temporary housing option across age groups. This means that increasing numbers of renters will struggle as renters in retirement in the future.

As importantly, they also downplay the fact that if you had no opportunity to accumulate private savings or home ownership there is no home equity and no wealth from this source. Older women rather than older men are in this position (Rice 2018, FGFP 2018, Ong et al, 2019).

The ‘Australian Dream’ of home ownership is fading which suggests that assuming wealth in the family home is unwarranted haste until more is known about the impacts of these changes.

Home equity is an unfair measure as it assumes incorrectly that most retirees own their family home outright which is not occurring and will be less so in the future.

FGFP disagrees that the family home should be regarded as the “fourth pillar” of the Retirement Income System and included in the Age Pension Means (assets) Test.

1.4.2 Rental housing. As outlined by the *Productivity Commission* 2017, rental housing is shifting from temporary to permanent housing tenure.

According to Beattie 2019, renters are now 30% of Australian households with most 27% renting via private landlords and only 3% in public housing down from 6% two decades ago.

Australian Council of Social Service (ACOSS) reports 43% of tenants aged 65 years and over are in poverty, compared with 12% of all older people (2018).

Housing tenure shifts are happening at the same time that Australian governments continue to drive investment in private market-based residential housing and ‘community housing’ for ‘affordable’ housing options and away from ‘public housing’ which is owned and/or managed by state/territory governments.

These shifts have been well-rehearsed elsewhere and here two key points are of concern:

- housing tenure shifts play a significant part in determining whether older people are poor or not in retirement
- housing shifts are major challenges for inclusion in this review to broaden public debate and The Retirement Income System Panel’s consideration

(FGFP 2016-2018., Letters to Premier Victoria 2017 & 2018., *Productivity Commission*, 2017, Housing., Kelly and Porter, 2019).

Australian governments recognise that rental housing is very often unaffordable (more than 30% of income + utilities) for renters of any age and they need rent assistance to afford to rent. For those eligible for Commonwealth Rent Assistance may or may not avoid the financial struggle of rental stress.

1.4.3 Commonwealth Rent Assistance (CRA). CRA is a non-taxable income supplement to Age Pension payments for eligible age pensioners renting in the private rental market or in community housing owned and/or managed by private housing associations.

CRA is indexed to the Consumer Price Index (CPI) not housing costs (*Department of Social Security (*2019). This means age pensioners are substantially worse off as average rents rise faster than CRA (Smith & Hetherington, 2016, p: 40, Productivity Commission, 2017, Housing and Homelessness, pp: 202-204).

As reported by AIHW (2018):

- 335,000 age pensioners received CRA in 2017.

FGFP has a long-term commitment to public housing in Victoria as the only affordable rental housing option for low-income households and for those most in need (Letter to Victorian Premier, 2018).

In the meantime, **FGFP supports the Fix Pension Poverty Campaign's** proposed increase to the maximum rate of CRA of at least 30% for couples and 50% for singles (Letter to The Benevolent Society, 2017).

The evidence indicates that legislating to make Australians wait longer to receive a frugal Age Pension will not solve real problems in isolation.

Unless otherwise stated all policy options refer to FGFP calling on policy makers of the federal Government of the day. Policy options for consideration are given at the end of each of the four Sections. When claims are identified as the source of a policy options these refer to FGFP federal claims.

Policy Options - First Pillar
Age Pension

1. Rethink the current safety net policy approach to the national Age Pension and replace it with a human rights approach (derived from *FGFP 2018 Recommendations Statement, recommendation (R) 10, p:4).*

2. Reconsider design of the national Age Pension replacing it with a human rights approach with older citizens entitled to an Age Pension with the objective to provide a living income pension to build a 'decent' and dignified standard of living in retirement- **fair go for life for all** (FGFP, 2018 *Background Paper*, Section 2, pp: 9-13).

3. Government to legislate to revert eligibility age for the Age Pension to 65 years of age and **not** increased to 67 years by 1 July 2023 (Claim 6).

4. Government to increase Age Pension single rate from 27.7% of male total average weekly earnings (MTAWE) to 35% of MTAWE (Claim 1).

5. Government to apply MTAWE as the **relative adequacy benchmark** related to community living standards to improve the adequacy of the Age Pension in the short-to-medium term (relates Claim 1).

6. Government to instigate **quarterly indexation** of all income support payments. In terms of the Age Pension to replace the current 6 monthly indexation (relates Claim 1).

7. Government **over** the longer term (i.e. 7 years) prioritise improving the adequacy of the Age Pension to provide a living income to build a 'decent' and dignified standard of living in retirement (Claim 4).

8. Pensions/allowances are not restricted due to overseas travel to visit loved ones (Claim 10).

9. Government to introduce a new and expanded 4-year *National Partnership Agreement on Concessions for Pensioners* for all utilities, public transport, motor vehicle registration and council rates. Also to include the provision of a broadband supplement or applied to applicable hardware purchases of $40/month (Claim 17).

10. Government in collaboration with community service sector representatives and age pensioners to fund and deliver a national public awareness initiative to debunk relentless and harmful messaging about older recipients of the Age Pension or Newstart Allowance (derived from *FGFP 2018 Recommendations Statement, R 6, p:3).*

11. Government to raise the inadequate Newstart Allowance to at least $100 per week for the single basic rate as a matter of urgency to stop deepening entrenched poverty (Claim 5).

12. Reforms of RIS to mitigate gaps between standard and precarious older workers.

13. Government to continue to exempt the family home (principal residence) from the Age Pension Means (assets) Test.

14. Short to medium term Government to increase the maximum rate of Commonwealth Rent Assistance (CRA) of at least 30% for couples and 50% for singles and index rent assistance to housing costs not the Consumer Price Index (CPI).

15. Long-term Government to instigate a *National Public Housing Plan* based on need to provide the basic right to public rental housing and security of tenure in this case for older Australians aged 55 years and over (derived from *Recommendations Statement, R 5, p:4; see also* Hands Off Public Housing, submission 2017).

SECTION 2.0 SUPERANNUATION – SECOND PILLAR

2.1 Introduction

Superannuation is the second pillar of the Retirement Income System established in 1992 and not due to mature until 2037. It is a private pension system designed to encourage most individual workers to contribute a portion of their wages or salary to superannuation today as a source of income in retirement tomorrow, but not all.

Superannuation is mandated and therefore compulsory for most workers. In 2019 as derived from *Australian Investment and Security Commission* (AISC) data those in paid work:

- able to earn at least $450 (before tax) a month – current threshold
- private or domestic worker (such as a nanny or carer) – threshold must work more than 30 hours a week to be eligible to receive super.

Those who cannot reach these thresholds are left out – excluded.

Superannuation is known as the **Superannuation Guarantee, or for short super**. As the Australian Taxation Office (ATO) states:

> "for most people, super begins when you start work and your employer starts paying a portion of your salary or wages into a super fund for you" (2018).

Governments have failed to legislate a clear objective for the super system.

Over time views have changed about the objective from providing a supplement to the Age Pension in retirement to providing a supplement or substitute to the Age Pension (quoted by Ingles and Stewart, 2017, p: 2).

The *Australian Prudential Regulation Authority* (APRA) reports that superannuation assets totalled $2.9 trillion at the end of the September quarter 2019, a 7.1 per cent growth increase over the 12 months to September 2019 (APRA, 2019). See Section 4 for details on fiscal sustainability.

2.2 Who joins who benefits?

The Productivity Commission indicates that over 15 million members collectively own these super total assets.

Super **concessional contributions** are taxed at a flat rate 15 per cent tax, fund earnings are mostly taxed at 15 per cent and payouts - called the draw down phase – are tax free - **no** tax paid (Ingles and Stewart record (2017).

To lessen the impact on super for members on low incomes low income super tax offset (LISTO) was introduced following the repeal of the low income superannuation contribution (LISC) on 1 July 2017. For LISTO purposes low income means $37,000 or less (ATO, last updated 1 July 2019).

The maximum government super payment under LISTO is $500 a financial year and the minimum $10 dollars.

For those of working age with super i.e. **pre-retirement** it is widely recognised that as super matures numbers with super increase across generations and with larger super balances (Association of Superannuation Funds of Australia (ASFA) 2019, Deloitte, 2015).

In August 2019 numbers close to retirement aged 60-64 with super have increased as have super balances though gender inequities remain:

- 66% of females have super with mean balances of $157,050
- 79% of males have super with mean balances of $270,710 (ASFA, 2019).

On these figures, females and males without super have declined and the gender super gap narrowed but gender inequities remain:

- 34% of females now have **no** super, and
- 21% of males now have **no** super.

The gender super gap is less now compared to 2011 post-retirement data:

- 64 percent of females and 43 per cent of males aged 65-69 years and over had **no** super (ABS, 2011).
- higher again for those 70 years and over with **no** super (Ryan, 2012).

These figures demonstrate that older Australians on low-income within super and those already retired are severely disadvantaged and that gender inequities remain major systemic issues and are policy concerns calling out for tax reform action.

Policy Options – Second Pillar
Super

1. Government reforms the tax system for a fairer one including closing superannuation tax concession loopholes e.g. taxing all super pensions at 15 per cent rather than zero and cutting maximum pre-tax contributions to $11,000 from the current $25,000 (Claim 18).

2. Government to legislate a clear objective for superannuation described by FGFP to provide income in retirement to supplement the Age Pension.

3. Government to legislate changes to ensure those ordinary default members' account fees and costs are reduced – about 22% of total super assets in the system and over $A2.1 trillion – and invested in the MySuper default products (Claim 19).

4. Government to abolish the threshold for access to the super system for workers on low-incomes (Claim 20). Currently threshold cap $450 a month.

5. Government to increase low income superannuation tax offset (LISTO) up to $1,000 to assist low-income earners save towards retirement (Claim 21).

SECTION 3 VOLUNTARY SAVINGS – THIRD PILLAR

Voluntary savings are private savings which can be contributed into super i.e. legislated for under the super system.

As the *Consultation Paper* states, voluntary savings can occur through many investments vehicles. Investments such as business assets, real estate including owner-occupied dwellings, and other financial and non-financial assets may be accrued inside or outside of the superannuation system (2019, p:5).

3.1 Who contributes who benefits?

Non-concessional after tax voluntary contributions is your personal money voluntarily deposited into super. AISC states "that these are called after-tax super contributions (non-concessional contributions) because you have already paid tax on the money (2019).

The cap for 2019-20 for these personal contributions is:

- $100,000 a financial year down from $180,000.
- if aged under 65 years contributions can be up to $300,000 above the cap over 3 years but may have to pay extra tax (*Superguide,* July 1, 2019).

There are also **government co-contributions** for those:

- earning less than $52, 697 (before tax) can make after-tax contributions and may attract a matching co-contribution.
- 'less than $37,697 the maximum co-contribution is $500 based on 50c from the government for every $1 you contribute. The amount of the co-contribution reduces as your earnings increase' (AISC, 2019).

Voluntary savings only work if you have money. If you have no spare change then you miss out . Those on low-incomes do not have spare change. This is inequitable.

Daley (2015) reports that of the **$33 billion dollars** in post-tax contributions (same meaning as after-tax super):

- around half of non-concessional contributions made each year, are made by just 200,000 people who already have at least $500,000 in super.

Earnings in retirement. Daley's analysis also shows that:

- more than half of the benefits of tax-free earnings in retirement goes to the wealthiest 20 per cent of retirees
- top 10 per cent of over 60s...pay no tax on their average super earnings of $85,000 a year.

Daley shows the benefits from these earnings mostly go to 'rich old men' (p, 2).

Income of $85,000 dollars a year from super i.e. average earnings in retirement compares to:

- just over 45 percent of what members on low incomes earn a year pre-retirement based on $740.80 a 38 hour week or about **$38,500** a year commenced from 1 July 2019 to next annual wage case determination (derived from data Fair Work Commission, last updated 9 June 2019).

- just under 29 percent received by age pensioners on the current maximum rate Age Pension about **$24,270** in force from **20** September 2019 to March 2020 (derived from data *Department of Human Services (*DHS), 2019).

From 1 July 2019 those aged between 65 and 74 can make voluntary contributions in the first year in retirement without satisfying the work test provided they have at least $300,000 in super at the end of the previous financial year ie. more tax-free investment earnings in retirement (*Superguide*, 2019).

These tax-free benefits are likely to go to the wealthiest 20 per cent of retirees who clearly do not need the Age Pension full or part pension.

Source of funding of retirement for retirees aged 45 years and over show that:

- 21% are fully self funded
- 27% partially self funded (+ part Age Pension)
- 52% government pension only (ASFA, August 2019).

There is nothing fair and equitable in personal contributions made within super and attracting extraordinarily generous tax breaks.

FGFP strongly opposes the super system being used as a wealth generating investment strategy when it is used for the purposes of tax avoidance and inheritance planning.

Policy Options – Third Pillar
Voluntary Savings

1. Government tax reform to target superannuation tax breaks to older workers on low-income, at risk of poverty or living in poverty, and to improve equity for women and to reduce tax breaks for those who need them least (derived from *Recommendations Statement,* Section 1, R 2, p:3 & Section 6, R 30, p:32).

2. Government to include taxation expenditure on superannuation in annual federal budget cycles to increase transparency and accountability, to protect the public interest and to rebuild people's trust and confidence in this system.

3. Government to explain and annually report on voluntary savings within super as a separate category by mean balance and coverage by sex and for greater transparency and accountability in the public interest.

SECTION 4.0 FISCAL SUSTAINABILITY

4.1 Age Pension

The eligible population (excludes veterans) receiving the Age Pension is falling from 63% in 2017 to around 56.6% in 2038 with the proportion of the eligible population receiving the full Age Pension to fall significantly from around:

- 51.0% in 2017 to around 27.5% in 2038
- 18.0% part pension in 2017 to increase to 27.5% in 2037(Rice, 2018, Graph 7, p: 30 and p: 32).

If these projections occur Age Pension costs will continue to fall.

The *Intergenerational Report (IR)* 2015 projected Age Pension costs would rise to 3.6% of GDP in 2054-55 which may prove inaccurate against estimates by Rice amongst others to fall to around 2.1% of GDP in 2060 (2018, p: 30).

Rice goes on to record that higher super balances, tighter Means Tests and increasing the Age Pension eligibility age from 65 to 67 years are reducing expected costs of the Age Pension.

Rice estimates that the cost of the Age Pension is around **$49 billion dollars** in 2019-20 increasing close to **$58 billion dollars** by 2021-22 (Rice, table 16, p: 23). Rice also estimates:

- Age Pension expenditure could fall to around 2.1% of GDP by 2060 from around a slight increase to 2.5% in 2038 (Rice, 2018, pp: 3; 31 Graph 8).

4.1.2 cost of CRA

As pointed out earlier the Australian Government's real expenditure on **CRA increased by around 7%, from $4.1 billion dollars to $4.4 billion a year** between 2013–14 and 2017–18 as reported by AIHW (2018).

If a proposed single system of financial assistance is implemented the estimated cost increases to **$5.2 billion dollars a year** (Productivity Commission, 2017, recommendation 6.1 & pp: 202-204; FGFP Letter to Victorian Minister for Housing, dated 15 June 2018).

4.2 cost of Super

Treasury projections indicated that revenue foregone through super tax concessions totalled **$36.1 billion dollars** in 2017-18 up from $33.1 billion in 2016-17 comprising:

- $19,250 billion in entity (fund) earnings and
- $16,900 billion in employer super contributions (Taxation Expenditure Statements 2017,Table 4.1, p:19 ; 2016, Table 1.1, p: 9).

Rice estimates that total super assets are projected to reach 190% of GDP in 2038 (2018, Graph 6, p:30).

These are also very large sums of money (expressed as a cost to revenue) which reduce income tax collections and are unavailable for any public purpose such as public housing, health, job creation or education – each policy area can work towards reducing inequality.

Wage earners on low-income many of whom are women still pay to 'supersize' the well-off and rich which is inequitable and fiscally unsustainable.

4.3 cost of voluntary savings into super

The current super system provides extraordinarily generous tax concessions for those with large personal savings who contribute to super at the cost of workers on low incomes.

Daley et al (2015) reported that non concessional contributions made from post-tax income total **$33 billion dollars** a year though total cost of voluntary savings within super (expressed as a cost to revenue) is not on the public record.

4.4 Fiscal Cost of Age Pension and Super

It is instructive to compare expenditure estimates on the Age Pension with the tax expenditure estimates for superannuation tax concessions. It is recognised that these two measures of fiscal cost are not equivalent but nonetheless useful.

Effective benchmarks are required to inform policy discussions to know how to fix the Retirement Income System.

Rice estimates Age Pension expenditure could fall to around:

- 2.1% of GDP by 2060 from around a slight increase to 2.5% in 2038 (Rice, 2018, pp: 3; 31 Graph 8).

By comparison to **total superannuation assets** estimates projected to rise from:

- 133% of GDP in 2017 to around
- 190% of GDP by 2038 (2018, Graph 6, p:30).

If these estimates continue to occur super will provide income in retirement and substitute for the Age Pension.

Super is not saving the government money and will continue as a burden on the budget if forecasts to at least 2060 occur.

4.5 Confidence and trust

FGFP asserts the government should explain and report on voluntary savings contributions to super as a separate category for greater transparency and accountability. As importantly explain why super is not included in annual federal budgets and readily publicly available.

This would provide a clearer understanding of the Australian Retirement Income System and increase accountability and transparency, protect the public interest and encourage people's trust and confidence in this system.

Confidence and trust goes when information distorts, is difficult to access or not available, inaccurate or just plain untrue such as myths about age pensioners and the unemployed raised earlier.

A new study shows that trust in political leaders and our institution is at an all-time low since the Dismissal of 1975.
As Cameron & McAllister, 2019 state:

> "Winning back the people's trust and satisfaction would appear to be one of the most pressing and urgent challenges facing our political leaders and institutions."

The super system is not working for the majority of those on low incomes many of whom are women: now retired, nearing retirement, in low paid jobs, excluded from the workforce and/or super or have little or no money and few assets i.e. inequality. Super is **no answer for these individuals/groups - there is no choice.**

It is working extremely well for the well-off and rich as a source of wealth generation which has a lot to do with tax avoidance and building inheritance wealth (ATO, last updated 1 July 2019).

Super expressed as a cost to revenue is unsustainable **not** the cost of the Age Pension as so often claimed. In short, **super is a burden on the budget not the age pension.**

This latter point again raises the question of the future of the Age Pension and what the Age Pension is for?

To re-iterate, FGFP argues that the objective of the Age Pension is to provide a living income to build a 'decent' and 'dignified' standard of living in retirement. This means that super provides a supplement to the age pension and not to replace it. It can also mean that giving everyone a **fair go for life** is in our national interest.

As a 2013 editorial in *The Age* newspaper asked about superannuation:

> "**Why should any government, or the majority of taxpayers, support such generosity at the cost of budget sustainability and equity?"**

FGFP continues to ask this question.

Policy Options - Fiscal Sustainability

1. Government to reform the retirement income system to ensure more equitable outcomes for Australians trying to survive on low-incomes.

2. Government reform of the tax system to redress the significant unfair policy outcomes shaped by poor policy decision-making whether spending is direct or revenue forgone from certain companies/entities, individuals, groups or activities.

3. Develop effective measures to remove opportunities to misuse the super system for accumulating wealth to avoid tax and/or to build inheritance wealth.

Policy options - General

1. Government to increase the size and composition of the Retirement Income Review Panel by March 2020 to reflect the diversity of community services stakeholders and of age pensioners on full pensions

2. Government to broaden the scope of the review to include the policy areas identified in this submission.

3. Credible research is needed to inform policy considerations of the interactions between the retirement income system and income poverty, unemployment and underemployment, 'affordable housing' and gender inequality.

4. Design and implement a cohesive policy response underpinned by a human rights approach to the redesign of the Retirement Income System with older citizens entitled to a living income from the Age Pension to build a 'decent' and dignified standard of living in retirement: a fair go for life for all.

FGFP maintains that the policy options given for consideration in this submission are important in formulating a fairer and more just national retirement income policy and in the development of a cohesive policy response.

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APPENDIX 1

FAIR GO FOR PENSIONERS (FGFP) COALITION VICTORIA INCORPORATED

DRAFT FEDERAL CLAIMS

The following *Statement of Claims* is to be presented to our elected Ministers and Representatives of the Victorian and Federal Parliaments on behalf of the Fair Go for Pensioners (FGFP) Coalition Victoria Incorporated.

FGFP reference to ‘pensioners’ means all those receiving income support payments, payments to families provided by the federal government and administered by Centrelink, and others on low incomes.

We call on our respective ministers and parliamentarians to recognise the significant hardship facing pensioners, especially age pensioners, unemployed people, people with disabilities, single parents and their children, those at risk of homelessness and other people on low incomes as they struggle with rising cost of living issues as a matter of urgency.

We note that many seniors and increasing numbers of young people in precarious work had/have no opportunity to build superannuation nest eggs unlike today’s workers in more secure work and will be/are forced to rely on a very small age pension now or in the future.

We urge Federal governments to commit to national policies to reduce poverty and inequality and urge State governments to fully endorse and support anti-poverty policies including driving the provision of adequate concessional systems.

FGFP continues to pursue the following *Claims* with our elected Ministers and Representatives of the Federal Parliaments.

FEDERAL

1. That the Federal Government increases the Age Pension single rate from 27.7% of male total average weekly earnings (MTAWE) to 35% of the MTAWE.

2. That all income support payments be indexed on a quarterly basis and using measures used for the indexation of Age Pension.

3. That the Federal government **over** the medium term (i.e. 4 years) increase all single base rates of public funded income support payments from 27.7% of male total average weekly earnings to 35% of male total average weekly earnings.

4. That **over** the longer term (i.e. 7 years) a decent living income from social security income support payments for pensioners is prioritised.

5. That FGFP calls for the inadequate Newstart Allowance to be raised to at least $100 per week for the single basic rate as a matter of urgency to stop deepening entrenched poverty

6. That FGFP calls for the retirement age to revert to 65 years of age and not be increased to **67 years** by 1 July 2023.

7. That FGFP calls on the Federal government to outline plans to achieve zero hunger so that everyone in Australia has enough safe and nutritious food to thrive

8. That a new Affordable Housing Agreement is implemented to include for renters the growth of public housing providing accessible and affordable rental housing to a maximum of 25 per cent of total household income.

9. That the Commonwealth Rent Assistance maximum rate for retirees increase by at least $30 a week for couples and $50 for singles that do not own their own home - disproportionally women - and that CRA be indexed to housing costs not CPI.

10. That pensions/allowances are not restricted due to overseas travel to visit loved ones.

11. That proper and improved healthcare measures for pensioners and other low income groups are prioritised. An expanded range of culturally appropriate medical services are delivered for free or at a lower cost under the publicly administered Medicare system including optical, hearing and pharmaceutical services and free care as a public patient in a public hospital.

12. That awareness campaign to increase knowledge of medical supplies be conducted and subsidised for healthcare card holders.

13. That a free national public dental care system for all pensioners and other low income groups is established and funded under Medicare.

14. That the level of funding for aged care services, including culturally appropriate services, is significantly increased and extended to meet the growing demand in this area.

15. That tougher legislation/regulations and penalties for unscrupulous operators be enacted to protect older people and other concession card holders considering taking out reverse mortgages. **FGFP** does **not** support using reverse mortgages to fund retirement if legislation/regulations are introduced to coerce older people to fund their own retirement.

16. That plans are instigated and implemented to reduce the impact of the GST on all income support recipients and introduce a fair pricing policy for goods and services.

17. That a new and expanded 4-year National Partnership Agreement on Concessions for Pensioners be introduced including for all utilities, public transport, motor vehicle registration and council rates. Also to include the provision of a broadband supplement or applied to applicable hardware purchases of $40/month.

18. That the federal government reforms the tax system for a fairer one including closing superannuation tax concession loopholes e.g. taxing all super pensions at 15 per cent rather than zero and cutting maximum pre-tax contributions to $11,000 from the current $25,000.

19. That the next round of superannuation reforms ensures those ordinary default members' account fees are reduced - about 22% of total super assets in the system and over $A2.1 trillion - and invested in the MySuper default products.

20. That the Government abolish the threshold for access to the super system for low-income earners.

21. That the federal Government's low income superannuation tax offset (LISTO) is increased up to $1,000 to assist low-income earners save towards retirement.

See also FGFP Victorian State Claims available on our website or by email request.

Fair Go for Pensioners (FGFP) Coalition Victoria Incorporated is a non-profit coalition of community-based organisations, unions, faith groups, peace groups and individuals advocating for social justice for pensioners and other low income groups marginalised by financial hardship or poverty and inequality.

FGFP advocates for and mobilises pensioners and other low income groups and supporters to gain significant improvements in income and related services for those living in poverty or in financial hardship and disadvantaged.

FAIR GO FOR PENSIONERS (FGFP) COALITION VICTORIA INCORPORATED
W: www.fairgoforpensioners.com
E: fgfpcoalition@gmail.com
F: direct link: https://www.facebook.com/pages/Fair-Go-For-Pensioners-Coalition/240292362816033
FGFP coalition acknowledges the owners of the land on which we meet the Wurundjeri people of the Kulin Nation. We wish to pay our respect to their Elders -past, present and future. Last updated December 2019.

For endorsement by Victorian Steering Committee 5 February 2019
Fair Go for Pensioners (FGFP) Coalition Victoria Incorporated A0061591N