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Retirement Income – WELA Submission

The background paper for this inquiry emphasises three pillars of the retirement income system: super, savings and pensions. For most women in Australia in the foreseeable future, there will be higher demand on the pension system than men in the same age groups. While some of that inequality is historic due to lower pay and lack of eligibility for super, much of it will continue because women often still earn less, both hourly and over all, and contribute more time to the necessary unpaid care and nurture roles. While many women are able to share in their spouse's resources, those who are single, separated or even widowed may be financially disadvantaged. Therefore a future retirement income system must provide for women who have neither the super nor savings to support them in decent retirement.

WELA strongly support policies that increase women's capacities to earn more including:

- The introduction of a national paid parental leave scheme and increased employer top ups to replacement wages
- More affordable and accessible quality child care
- Increases in pay rates of undervalued jobs so equal pay can be really implemented
- More flexible working conditions for all parents and carers
- More value be placed on quality of work and less on time in the workplace, moving away from current masculinised workplace cultures.

However, we do recognise that all of these changes will take time and even if we succeed, will not be advantageous to those already retired or within a decade or two of retirement. Therefore for these proposals we are looking at the current and future retired cohorts who are female and whose gender has or will seriously affect their lifetime savings capacities.

WELA propose that:

- the Government adopts a minimum income standard for retired people that ensures access to additional income, where there is little or no savings/super
- it be offered as a Low Income Supplement at a level which is set to bring the basic income (with concessions) up to 70% of the minimum wage

- the extra payment be withdrawn at a higher rate than the basic pension, for example 60c in the dollar after the first $40 and making it cut out at about $500 pw, a little less than the minimum wage. With the concessions, it would be about the same.
- the couple rate be separately calculated on a similar formula, but recognising some of the costs of sharing
- the increases not flow in quite the same way to other pensioners and recipients of income support such as carers and sole parents because the 60c withdrawal rate is too severe, particularly as it overlays the existing 20c withdrawal rate on the base pension. (The question of dealing with transfer payments for those of workforce age is being covered in a separate submission to the main inquiry)
- this top up be paid as quarterly payments as feedback suggests larger sums are very useful to people with no savings
- an independent body to set rates and changed payments be established.

In sum, WELA see no problem in recommending a two tier publicly funded retirement income system that is specifically targeted to lower income earners to ensure that they can live decently with little or no extra savings. The second tier is needed to ensure that their income can be generous enough to meet a benchmark (maybe 70% of the minimum wage for singles. The two components would be:

- The present aged pension as a base payment level for all currently eligible as any over the board rise would incur massive additional costs because of the flow on, because of a slow taper, to quite high income earners
- A retirement living supplement that lifts the base payment to the agreed level and a steep taper at maybe 60% which would mainly flow to those with little or no outside income.

As there is little or no work disincentive at this life stage, the high effective marginal tax rate does not discourage workforce participation, though it may affect savings behaviour. This area of policy also covers a range of concessions. We would suggest that health and other concessions - which are sometimes seen as more valuable than the cash payments - be made available on the basis of a levy similar to Medicare, to all retirees, free at lower levels but paid for as income increases. Current pensioners can be eligible to receive a complex range of payments, the logic of which is not very clear.

WELA also note that the current system has some serious gender biases in its design. The pattern of tax concessions for superannuation savings unfortunately favour higher income earners and therefore unfairly redistribute public subsidies to those who can afford to save and are likely to do so without calling on the public purse. Why should these benefit by these very generous tax concessions? As there is a general recognition that it is not useful making voluntary contributions to superannuation if your annual income is below $34,000, it is obvious the current super system actually discriminates against the mainly female workforce that does regularly earn less than this amount.[1]

[1] Super tax concessions last year ($29B) cost more than the age pension ($26B 2006/7**)**

These payments may include:

- Utility allowance of $514 pa
- Telephone allowance of $138.40 pa
- Pharmaceutical allowance $153 pa (single or couple)
- Senior concession allowance $514 pa (alternative to utility allowance)
- Rental allowance up to $55.10 pw (singles)

The total of these, without rental allowance comes to about $805 pa or just under $16 pw. In addition to a $281.05 pw pension, this comes to just under $300 pw plus concession cards and maybe rent assistance. This is considerably lower than the current minimum wage of $543.78 pw. Even assessing the value of concession cards higher at an extra $100 pw, still leaves a considerable gap. Therefore expectations of an adequate, if frugal, life style through long term dependency via a rise of say $35 pw is clearly still grossly inadequate. Were the single benchmark to be 70% of the minimum wage, it would make the future basic pay rate at about $380 pw, a rise of nearly $100.00 on the current basic rate. The steep withdrawal rates ensure that it is low income recipients that will benefit at a relatively lower cost and it tapers out rapidly for higher other income recipients. .

A substantial general rise in the base pension is unaffordable and also unnecessary. Those retirees whose incomes per week are well over the minimum wage level as singles, or even as couples do not need a rise or any such supplement. Most already get some super with concessions on that income or other savings and income.

We recognise that this type of change is fairly radical but necessary to redistribute the levels of public support in retirement in a more equitable way. The current balance between payments such as pensions and tax concessions is weighted towards the higher income earners concession payments. Low income earners, particularly those whose care responsibilities or gender limited their pre-retirement earning, miss out. The above proposals are designed to redress the balance.

Supporting Material

Why is this a gendered issue?

The FAHCSIA Annual Report 2007 - 2008 both reports the increased numbers of part pensioners moving onto age pensions in the last few years and acknowledges that past inequalities will continue to influence the gross divisions in retirement income.

> ‘There is increasing diversity in income and assets holdings of age pensioners. On the one hand, some pensioners have little private income or assets. They may have spent considerable parts of their working life out of the workforce, and/or much of their working life pre-dated Superannuation Guarantee arrangements.
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> These factors restrict capacity to accumulate savings. On the other hand, a growing proportion of age pensioners have substantial private resources. The September 2007

relaxation of the assets test taper is reinforcing diversity in the private resources of age pensioners. At 30 June 2008, homeowner pensioner couples had assessable assets in the range from $0 to $849,500 (in addition to the exempt home).

There are more women than men in receipt of the Age Pension (57.5 per cent in June 2008), due to their longer life expectancy and lower qualifying age for Age Pension. More women than men receive the full rate of Age Pension—a total of 57.7 per cent of female age pensioners are paid at full rate, compared to 54.4 per cent of males. This reflects that on average women accumulate lower income and assets to provide for retirement.'

Almost 43.2 per cent of age pensioners are single. Singles tend to be older than partnered pensioners and are more likely to receive a full rate pension than partnered pensioners (63.4 per cent compared with 50.8 per cent).

Although there are more women now with substantial workforce participation, they are still the primary carers and much less likely to have unbroken workforce participation. They are the majority on Carers' payments and on parenting payments.

These differences in lifetime earnings are exacerbated by the very generous tax concessions and expenditures that increase the capacity of higher income earners to save, and do nothing for those earning under $34,000 a year and over tax those earning below the tax threshold. The HILDA data looked at some comparisons:

'The oldest cohort (reference person aged 75 and over) is from a generation which was always less well off than younger generations. …..this cohort has a median net worth of $244,500. In this group also disparities are vast, with a net worth of $15,300 at the 10th percentile compared with $768,000 at the 90th percentile' Later it says 'The distribution of wealth among older households (reference person aged 65 and over) is a little less unequal than it is in the total population.' They add 'The Gini of net worth for this (65 plus) group is 0.563 and for assets it is 0.560'[2]. Such inequalities are not acceptable for those who cannot add to their income and assets.

Ideally, retirement income redesign should be based on an amalgamation of public funds foregone in super concessions and the spending on direct retirement income. This would provide a large pool of resources to redistribute more fairly in ways that recognise both paid and unpaid social contributions and guarantee a decent living standard for all. If the Government is not prepared to reduce inequitable super tax concessions that assist mainly male higher income earners, targeted more generous payments at the bottom end is the

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[2] *Headey, B., Warren, D. and Wooden, M.,* The Structure and Distribution of Household Wealth in Australia: Cohort Differences and Retirement Issues, *Social Policy Research Paper 33, Department of Families, Housing, Community Services and Indigenous Affairs, March 2008.*

next best option. Rises in the basic pension are not acceptable as these will need to be too small as they will also flow to higher income earners who now get a part pension. This is why we are proposing a second payment.

The plight of those at the bottom, for example a single female pensioner living alone fully dependent on her pension [3], has a particular poignancy because other recipients have been given extra. The claims that age pensioners have not fallen behind in percentage terms ignores the realities that they are increasing in number, living longer and alone, and more likely to be female without super or other savings. While not necessarily claiming crises, this subgroup does not have enough income to take part in normal activities or afford small treats that they should be able to enjoy.

There are further arguments for quarantining age pensioner payments from those given to those not retired. Those who were able to accumulate high levels of super over their paid employment period gain an unfair advantage over those who were not able to do so due to social restrictions, broken employment patterns and low paid positions. The type of payment above is a small recompense for those low/no income groups, whose time was often spent in unpaid care.

The perceived wisdom in the welfare sector has been to go for simple single rates of payment tied to the aged pension, under the assumption that public funding for aged pensioners is more publicly acceptable than for other recipients. However, complex shifts to payments, such as Welfare to Work, undermines simplicity in policy and has left those fully dependent age pensioners far behind the rest of the retired population which is why we are suggesting differentiating payments to match diverse needs and life cycle status so that we achieve policies for real equity.

This concept of specific directed payments could be a model for assisting other groups that have little or no additional resources. However, payments to recipients of workforce age, who could earn income, require different approaches than those who are most unable to change their private financial circumstance. Other payments could focus on paying for additional costs of disabilities, or specific children/carer allowances that are not so steeply income tested. for those who have little or no other assets or income. While this approach does add complexities, it does ensure that differential needs are more effectively met than a one size fits all model.

This approach also allows appropriate changes for recipients most in need without adding to the base payment that flows to relatively affluent recipients. A discrete set of second income streams can be tightly targeted to particular categories of recipients whose living standards are below those our community would see as adequate.

Statistics and Costs

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[3] Ibid table 1, showed the relative income poverty rates of different types of households: 50% of median equivalent income poverty line, aged single females in 2005 showed 52.5 below the poverty line.

At present we spend about $26B ($22.6B 2005/6) on aged pensions and a similar amount on tax concessions/expenditures for super. While some of these such as co-contributions, are targeted to lower income earners, the bulk (just under $20B) goes to higher income earners through salary sacrifice and other forms of low tax/no tax on super products. The 2007 ATO Tax Expenditure document gives aggregated tax expenditure for funded super at $24.8B in 2006/7 and predicts a rise to $31.1B by 20010/11. Another report 'Are Retirement Savings on Track' (ASFA 2007) showed gender differences claiming10% of individuals (mainly male) with super hold 60% of its assets while 70% of men and 90% of women currently have balances of less than $100,000. It also showed 24.3% of the group surveyed (mainly females) reported having no super at all – which were low paid/casual workers, social security recipients, and those who have cashed out their super already.

Aged pension expenditure has also risen as changes in the last couple of years have substantially increased the eligibility of higher income retired people to part pensions and related concessions. Many people, who have benefited both from super tax concessions, will also get pensioner benefits such as home owning partners with $856,000 of assets in July 2008 being eligible for part pension and concessions. However, those wholly or mostly dependent on pension payments only received the odd bonus payment, which went to all, including those on high incomes. This mal-distribution undermines any Treasury arguments that giving substantial rises to those at the bottom level are not affordable. As there is a higher percentage of poor pensioners than rich ones, rises for these cost more, but do not justify spending public money on those with little need and leaving those with serious financial limits to go without basics.

Gender Statistics on Income, Pensions, Super and Savings

There are many more older women than men and they are likely to be alone and on pensions for much longer**.**

Persons aged 80 years or over, 30 June 2006 (ABS AIHW)

Age (years)	**Males**	**Females**
80–84	166,000	239,328
85 or over	104,337	217,654
Total 65 or over	**1,210,499**	**1,476,615**

The current groups of older women tend to come onto pensions with fewer resources, and not necessarily from employment. Current figures from the Government’s own discussion paper show that:

- two thirds of women receive the single rate of pension payment
- 89% of the women coming onto maximum Aged Pension in 2007 came from other Government payments including Carers and DSP
- 74% of single recipients live alone and are more likely to be female
- women currently double the number of men on Carers Payments and triple are on the Carer Allowance

- women make up 85% of sole parents, which will inhibit their future capacities to save and contribute to super
- women still earn 84% of male average hourly pay, do more unpaid work and less paid work than men do.

These actual numbers need to be considered. In June 2007 around 58 % of all income support recipients were women, with 2,694,200 receiving a payment compared to 1,906,900 men, with women constituting 58.3 % of all Age Pensioners, 42.1 % of Disability Support Pensioners and 67.3 % of Carer Payment recipients. Around two-thirds of women receive income support as a single person, compared with around one-third as a member of a couple. The main reasons are that women have a longer life expectancy and are outliving their partners, and that women are more likely to be single parents. More women tend not to be home owners. The discussion paper shows that 74% of singles lived by themselves in 2005-6, and do not share costs. Single recipients of Carer Payment are the least likely to be alone (just 4.6 %).

A recent report from the Melbourne Institute[4] demonstrates the gender bias of the tax concessions that have been discussed here. While 26% of taxpayers are in the 15% marginal tax range, only 13% of partnered males are vis a vis 37% of partnered females, which rises to 42% for those with children under 15. While 26% of partnered men enjoy marginal tax rates over 40% only 7% of women do. The higher benefits of super contributions will benefit the top group most and offer no public subsidy benefit to those on the bottom rate as super is still taxed at 15%. Many women not only earn less, but they are overtaxed also.

Therefore WELA commends our changes to the current system for the government's consideration as a way of correcting both inequalities and hardships

[4] ***Diana Warren and Umut Oguzoglu;*** Melbourne Institute Working Paper No. 24/2007 Retirement in Australia: A Closer Look at the Financial Incentives