Australia's Demographic Challenges
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Steps need to be taken to ensure that, in the next half-century, neither the aged nor the working population is financially disadvantaged.

Several matters in the publication warrant comment. On page 12 it is stated that " a replacement rate of 84 % is in the range independent experts considered to be appropriate". In the last decade of one's working life, people are generally better off than they have ever been. Work-related expenses, costs of raising children and paying off the mortgage are usually behind them. For a high percentage of these people, they will be on the highest wage they have earned even allowing for inflation. In retirement, seniors' concessions apply to accommodation, travel, cinemas as well as for government services, such as pharmaceutical benefits, vehicle registration, making a small percentage of items cheaper than pre-retirement. Many workers and others provide for their retirement with their own superannuation contributions. If that figure is say 5%, then the comparison is between 95% (pre) and 84%(post). It is suggested **(1) that 75% rather than 84% of pre-retirement income should prove to be a more realistic goal.**

For a host of reasons, people are living longer - life style changes, such as non-smoking, seat belts, immunisations, the benefits from health research findings, recreational activities. Not only is life extended but importantly the quality of life in one's latter years has been vastly improved. People at say 70 years of age are physically and mentally more active than their counterparts of fifty years ago. There is no reason why they should not retire later and yet still achieve a longer period in retirement than those who ceased working in the 1950s.

People nearing retirement age today are better off financially and have considerably more mobility than in yesteryear. Working – keeping mind and body active for remuneration - should not be identified as drudgery. Government advertising should correct that perception. It is recommended that **(2) Government depict a positive focus on working, noting the associated benefits such as social contact, improving one's financial position and maintaining mental alertness.**

Because of the improved quality of life, age eligibility for the Centrelink Pension should be extended to 70. This adjustment should be phased in – say age 66 in 2012, 67 in 2014, 68 in 2016, 69 in 2018 and 70 in 2020. It should not be construed that no one can retire before 70, rather that to be eligible for government assistance, the minimum age is to be increased to 70. Being healthier and wealthier, it is recommended that **(3) eligibility for Commonwealth Government pensions should be extended to 70 in 2020 with progressive phasing in to commence in 2014.**

If death and taxes are seen as certainties, so also are stock exchange collapses. Just as the date of one's death cannot be predicted, neither can the timing of market wipeouts - the occurrences of the 1930s and 1987 highlighting these statements. In the last fifteen years, markets have occasionally yielded negative returns. Financial setbacks are only one consequence of these events; adverse psychological outcomes, occasionally leading to suicides, should not be overlooked. As a counter there should be a requirement to have a proportion of superannuation contributions invested in gilt-edged securities, such securities being determined by government. It is recommended that **(4) it be mandatory that a percentage, approximating 20-30% of superannuation funds, be invested in gilt-edged securities, such securities being determined by the Government.** In making this recommendation it is recognised that, in some (perhaps most) years, returns will be lower.

The psychological consequence of seeing one's life savings eroded must not be underestimated. With 70 being the notional eligibility pension age (see above), it is recommended that **(5) the percentage of an individual's superannuation funds to be placed in gilt-edged securities be increased to say**

80% for those over the age of 64. This will substantially offset a market collapse in those years which would otherwise negate all retirement aspirations. It is acknowledged that lower dividends will result where markets yield substantial returns in those years. As a secondary factor, this also reduces the likelihood of increasing the Government's liability should there be market collapses in that it otherwise may have to pay (part) pensions. In making such recommendations, the range of percentages should be seen as a guide. There are people far more qualified to suggest the appropriate rates.

Reference is made to superannuation preservation age. **(6) Concomitant with increasing the pension age should be the adjustment of the superannuation preservation age to say 63.** As people are living longer, then should expect to work longer.

Discrimination on the basis of age is said to be contrary to law, yet there are situations where restrictions do apply. It is my understanding that officers in the military services have to retire at a certain age if they have not attained a specific rank? Is this so? Are there others? What about the discriminatory age factor for directors? **(7) The Government should legislate to remove all age discrimination.**

The introduction of compulsory superannuation in the 1980s has resulted in the Government's financial assistance being less than it otherwise might have been. This proportionate reduction will continue in the years ahead so that by 2032, most people will retire with comparatively lower recourse to government. On the other hand, the decline in the proportion of working population to retirees will add to the government's revenue dilemma. A person should be required to provide additional superannuation contributions out of wage increases. The timing of this individual impost is somewhat complex as financial burdens are more onerous for younger people with children having mortgage and HECs repayments. Thought might be given to additional deductions only being applied from age 35 onwards and perhaps phased in through to age 55. As much as we should aim to protect the aged in 2032, we should not impose unreasonable financial burdens now on those who have only been in income earning positions for ten or so years. It is put that **(8) personal compulsory contributions for those over 35 should be increased to 12-15%.**

Disincentives to work longer should be removed. At present a couple over 65 with a combined income of say $35,000 pa are taxed at a level of 44c in the dollar (30% plus 1½% plus seniors clawback 12½%) while forfeiting 40c in every dollar of their Centrelink pension. This means that for every dollar earned, retirees are only 16c better off – a scandalous situation which makes a mockery of suggestions that the Government encourages people to work longer. **(9) Disincentives, such as the cumulative effect of taxation and reduction in government pensions, should be adjusted so as to encourage people to continue in paid employment beyond what might be considered normal retirement age.**

At the end of the publication, four choices are described. Frankly these suggestions are farcical and detract from the standard of the publication. Budgets should be drawn up with the future as well as the present in mind. The following comments are offered

Option 1 *Do nothing*. The role of government in every aspect is to have foresight and look to the future in all portfolios such as the ageing, health, education, environment, defence etc.

Option 2 *Curtail expenditure by 5% of GDP*. This is an unrealistic proposal as indicated by the relevant comment on page 26.

Option 3 *Run deficits*. This defies comment, other than to say the role of the budget should have the future in mind. Is this the way to confront problems?

Option 3 *Look to ways to increase the size of the economy*. Surely this is one of the purposes of all budgets?

In practical terms therefore, the publication has not produced genuine options for scrutiny.

SUMMARY OF RECOMMENDATIONS

It is recommended that

(1) 75% rather than 84% of pre-retirement income should prove to be a more realistic goal.

(2) Government depict a positive focus on working, noting the associated benefits such as social contact, improving one's financial position and maintaining mental alertness.

(3) eligibility for Commonwealth Government pensions should be extended to 70 in 2020 with progressive phasing in to commence in 2014.

(4) it be mandatory that a percentage, approximating 20-30% of superannuation funds, be invested in gilt-edged securities, such securities being determined by the Government.

(5) the percentage of an individual's superannuation funds to be placed in gilt-edged securities be increased to say 80% for those over the age of 64.

(6) concomitant with increasing the pension age should be the adjustment of the superannuation preservation age to say 63.

(7) the Government should legislate remove all age discrimination.

(8) personal compulsory contributions for those over 35 should be increased to 12-15%.

(9) disincentives, such as the cumulative effect of taxation and reduction in government pensions, should be adjusted so as to encourage people to continue in paid employment beyond what might be considered normal retirement age.