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SELECT COMMITTEE ON SUPERANNUATION

Reference: Planning for retirement

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SENATE
SELECT COMMITTEE ON SUPERANNUATION

Thursday, 15 May 2003

Members: Senator Watson (*Chair*), Senator Sherry (*Deputy Chair*), Senators Buckland, Chapman, Cherry, Lightfoot and Wong

Senators in attendance: Senators Buckland, Chapman, Lightfoot, Sherry, Watson and Wong

Terms of reference for the inquiry:

To inquire into and report on:

Planning for retirement.

In conducting the inquiry the Committee is to examine in particular:

- (a) the effects of ageing on workers' productivity;
- (b) the continuing relevance of the concept of a fixed retirement age;
- (c) the potential to encourage progressive transitions from work to retirement, including through possible new benefit access and contribution arrangements, and part-time work;
- (d) any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people;
- (e) ways to assist older workers plan for their retirement;
- (f) the short and long term effect on the Budget of any proposals for change; and
- (g) any issues for the Federal or State workplace relations systems.

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Committee met at 3.31 p.m.**JOHNSON, Mr Peter Andrew, Economist, Australian Chamber of Commerce and Industry****KATES, Dr Steven Ian, Chief Economist, Australian Chamber of Commerce and Industry**

CHAIR—I declare open this fourth public hearing of the Senate Select Committee on Superannuation as part of our inquiry into planning for retirement. The committee has previously held hearings in Sydney, Melbourne and Adelaide. Under its terms of reference, the committee's inquiry will focus on mechanisms to assist people to plan for and make the transition from work to retirement, with particular reference to exploring the opportunities available for older people to plan for their retirement.

Today the committee will hear from representatives of the Australian Chamber of Commerce and Industry, the National Information Centre on Retirement Investments, the Department of Family and Community Services, the Department of Employment and Workplace Relations, and the Treasury. All of the witnesses who appear before the committee are protected by parliamentary privilege with respect to the evidence that is given. This means that witnesses are given broad protection from actions arising from what is said and that the Senate has power to protect them from any action which disadvantages them on account of the evidence given before the committee. The committee prefers to conduct its hearings in public; however, if there are any matters which you wish to discuss with the committee in private, we will consider your request. We welcome Dr Steven Kates and Mr Peter Johnson from the Australian Chamber of Commerce and Industry. I invite you to make an opening statement, after which the committee will ask you a number of questions.

Dr Kates—I would like to thank the committee for giving us the opportunity to speak to the paper that we have presented and forwarded already. I will not spend much time on an opening statement, but I do want to emphasise this: in thinking through the issues of retirement income and thinking about what will need to happen in the future, it is extremely important in our view that the emphasis is placed on the production side of what will take place. We have spent an awful lot of time and effort in the past in thinking through where the tickets to retirement incomes will come from and how it will be provided to individuals. But we think it is really crucial that more attention is paid to understanding the production side of the economy, where the productivity growth will take place and how we are going to maintain the living standards we have already had. In doing that, in our view the critical issue is going to be making sure that we keep individuals in the work force—to the extent that they would like to be in the work force—because we are going to need, because of demographics, more older Australians as a proportion to be working than in the past. That will be, I think, the challenge that faces us, certainly over the next two decades.

CHAIR—How well do you think Australia is prepared to meet the changed demographic mix of the future? How do we rank compared with other countries around the world? Are we moving forward, are we moving backwards, relatively speaking?

Dr Kates—If I was going to simply think in the absolute sense how well Australia is going, I would say that we are not doing anywhere near as well as we need to. We have spent an awful lot of time and effort to put together the superannuation guarantee as the basis for retirement

income funding. My concern has been for a long time that it is an inadequate system to begin with but the way it has been promoted in the past has been to suggest that it would be a complete system—that someone who retired with the superannuation guarantee as the basis for a retirement income would be able to have a decent living standard in retirement. Our very great concern is that people are being misled about that—that the superannuation guarantee may be an adequate basis to start from, but what it will not do is provide an acceptable living standard for most people. I think, to the extent that people are being misled into depending on a superannuation guarantee, they are going to be in for a very rude shock when they retire and they realise their economic circumstances.

CHAIR—Isn't the message that people are being given that they will be better off with the superannuation guarantee in combination with the age pension?

Dr Kates—To the extent that the age pension continues while there is also the superannuation guarantee and the pensioner card, that will be a positive. In fact, one of the things we had discussed during the period when the superannuation guarantee was being mooted in the early 1990s was that the importance would be that the superannuation guarantee did not lead to a reduction, or rapid reduction, in age pension entitlements because it would inhibit people from making additional saving for their retirement. The two of them in combination, if they can both be received and one does not simply crowd out the other, would be better. It certainly would not be adequate, but it would certainly be better than if you were dependent on one or other alone.

CHAIR—Can you give us some indication in terms of measuring the gap between adequacy and what they would expect to get with a combination of the two? You are saying that there is going to be a gap there. We are interested in trying to get some idea of what that gap is likely to be and what you are measuring between a combination of superannuation guarantee and age pension: Is it, say, 72 per cent of preretirement earnings or 60 per cent? What precisely are you measuring when you make those statements?

Dr Kates—There are two things I would say. This is why we go back to the issue of the adequacy of the production side of the economy and the recognition of how important it is. In making these judgments, the fact is that you will not have the population pyramid that existed in the past, where those on retirement incomes will be supported by a much larger working population. Instead, rather than that narrowing pyramid at the top, we are going to have more of a straight line along the sides, where the retired population relative to the working population will be far greater than it had been in the past.

Our concern is that the actuarial estimates that people are doing are, to some extent, being based on an assumption about the relative productivity growth of the economy and the ability to finance this older population. It is not that the numbers may or may not stack up, although, in our view, the intermittent income earning of many individuals and the fact that many, such as women and others, will have broken working careers means that they will not get the superannuation credits they are expecting. However, it goes beyond that to the view that, two and three decades from now, the proportion of people who are producing and working is going to be significantly less, relative to the entire retired population. There will simply be an unwillingness to finance the kind of retirement income level that many are expecting.

I think that the competition for income shares will be quite intense at that stage. I will give what I think has been an early example of the kind of income share competition I mean. In the mid-1960s, when the baby boomer generation was placing the greatest income demand upon their parents, we saw something of an attempt to increase real incomes through industrial disputation and other forms of trying to raise living standards because of the cramped nature of what was happening to individuals at that stage.

I think that, in the problem we are dealing with, we have to recognise that those who are working are the only ones who are producing for the economy. Whatever entitlements people may think they have, the division of output will be the critical question at that stage. If, as we expect, there is a much larger proportion of individuals in retirement relative to those who are working, however much we may attempt now to think through what we are going to give them in terms of superannuation guarantee entitlements and age pension, the reality at the time will be such that the demands on income will add up to something like 110 per cent of everything that is produced. Somewhere along the line something is going to have to give, and my concern is that it will be the income of retirees.

CHAIR—For a long time now we have recognised the pressure of an ageing population and the added problems of financing payments to retirees. But I think this committee really has to probe just a little more deeply to get some idea of the magnitude of the problem. Is the shortfall likely to be three, four or five per cent, or are we looking at numbers in the order of 20 or 40 per cent? These are the issues that I think the public expect us to give answers to. We acknowledge that there is going to be increased difficulty. That has been in the literature for a long time. Somehow we have to get some figures to assist us in percentage terms or get a better assessment. You said that people will be working longer. If that happens it will minimise the impact of what you are saying. If people are going to be in the work force longer they will not be drawing off the system quite so heavily. So, once we have taken all these things into account—you say that there is going to be a shortfall and that you are worried about it having an impact on the incomes of the elderly—we have to try to get some idea of the quantum of impacts. Would you like to take that on notice?

Dr Kates—Yes. The nature of the problem is, in many respects, self-correcting, if the institutional arrangements are there. The problem is that you are going to have fewer people of what is considered the working age right now available to work. In fixing the problem, it is going to be simply one where businesses themselves are going to turn and say, ‘Where are we going to find persons to do particular jobs?’ They are going to seek out individuals and they will find that there are such talents and skills available within the community, but they will often be held by people who are, by today’s standards, considered normally retired—certainly above 60 and possibly above 70. If we were to retire in the same proportions and at the same age levels as we do today, the problem would almost be insoluble if we were intending to maintain our living standards. What will, in fact, happen is that businesses will recruit older workers and the demographic of certain jobs will change so that those you think would be taken on by young persons will often be switched to older persons. The more physical kinds of work may be taken up by younger people and the less physical, office type work will be taken up by people who have traditionally worked in offices but will continue to work there longer. The demand side by employers will make a huge difference as to how this demographic problem is handled.

CHAIR—Is that a bad thing?

Dr Kates—No, it is an excellent thing.

CHAIR—If people are physically able and mentally alert and the employers give them sufficient inducement to give a preference to work versus leisure, that is a decision that people can make, but are not forced to make.

Dr Kates—Yes, that is right. Between the inadequacy of retirement incomes and the needs of employers, the solution itself will simply evolve out of the needs of the time. If there is any issue, it is to make sure that the institutional arrangements to allow individuals as they are getting older to enter into new jobs—to be retrained and reskilled to take on other forms of employment—are in place: to have an industrial relations and tax system and other forms of institutional arrangements that allow that kind of flexibility to be built in.

CHAIR—Who should meet these training and retraining costs?

Dr Kates—Given that we are likely to look at an absolute fall in the numbers of younger persons—we will be looking at fewer younger people and more older people—the current arrangements for educational and training funding will be adequate to that task. The funding should be partly by governments and partly by individuals. It is extremely important in our view that the individual funding is part of that. These are not going to be people doing hobby studies; these are going to be people choosing what skills to take on so that they can be productive in the kind of economic environment that will exist in 2020 or 2030. They will also be able to supplement their own incomes, which I think in other circumstances will be inadequate.

Senator SHERRY—I have a couple of questions which follow on from the chair's earlier questioning. Our system has state age pension payed from taxation pay-as-you-go. From my understanding, it is one of the lowest government pensions in the OECD in terms of flat money amount. It is also assets tested and means tested, which again is relatively unusual. Are you suggesting that that is unsustainable in the long term, given the ageing demographic and given those sorts of factors?

Dr Kates—As I understand the superannuation guarantee, it is that to the extent that you have superannuation guarantee income you lose age pension entitlements.

Senator SHERRY—That is not necessarily so; it depends on the level of the superannuation income, which is means tested against the age pension.

Dr Kates—That is right. You will have both. But as the system matures so that more people are retiring on larger numbers of years of superannuation guarantee, you will find that more and more individuals are taken off the age pension side of it. Our concern is that that is not going to be enough.

Senator SHERRY—I want to get to that argument but I want first to deal with this issue—and we often hear this at the moment—of the ageing population and the pressures on the age pension. It seems to me the age pension is affordable, given our demographics, our low age pension and the interaction of the superannuation through the assets and means test, and for that matter other forms of saving. We are not facing a crunch like many of the European countries are.

Dr Kates—This is a job for actuaries to actually work out whether it will be or will not be. Looking at the Intergenerational Report, you do not get the impression that we are going to handle this smoothly without problem.

Senator SHERRY—My questions go specifically to retirement income. If you look at the Intergenerational Report, the cost to GDP of state pensions does increase, but even in the year 2040—there is an increase, of course—we are still well below what many European countries are at the present time.

Dr Kates—Yes. The issue for us is not to say that the age pension itself is the specific problem. The age pension will continue to mesh with the superannuation guarantee in those years. We are not suggesting any change to age pension entitlements or suggesting that it ought to be lowered. The question is: will you be able to afford it? This is why I keep talking about the fact that you could only afford it if you have people who are producing at the time. You must have the productivity that lies behind the income entitlements.

It is perfectly pointless to just be handing on certain numbers of dollars, which is in fact what the superannuation guarantee will do. It will hand on a certain number of dollars; the age pension will hand on a certain number of dollars—whatever it is at the time. What those dollars will buy is the key question, and what those dollars will buy will depend on the actual productivity of the economy then. Our concern is not with how those two will mesh, because I think they will mesh quite well. Our concern is that we recognise now the importance of building up the productive side of the economy so that, when we are dealing with a different demographic structure in a couple of decades from now, we can actually maintain living standards.

Senator SHERRY—That was the next issue I was going to get to—maintaining living standards. Are you talking about maintaining the living standards of workers who are currently in the employed work force or of people who are retired?

Dr Kates—I mean both, of course. If you are working then you will more or less take your real level of income out of the wage that an employer is offering to pay you. That will be—then as it is now—related to what the value of the output of any particular employee is. If one is retired, however, then one is very dependent on an ability to have others protect one's income. Partly the government will do that; partly older workers will end up in some sense banding together. They are going to have much larger political power than they have even now.

But at the end of the day the only thing that is going to work, in my view, is a structure that allows older persons to be employed. It will not matter just for themselves, so that they have their own personal incomes—although that will be crucial—but the tax dollars that they are paying will be enormously important. The tax dollars that come out of productive effort and are passed into the common pool can then be redistributed to others who are either too old or too sick to work, or even to those no longer wish to work as they get past a certain age. The crucial issue will be not the entitlements—such as the age pension or super guarantee—but the real productivity of the economy, which will actually cause that flow of goods and services to take place.

Senator SHERRY—I understand the issue.

Dr Kates—Okay.

Senator SHERRY—You have mentioned the issue of productivity and long-term economic growth. Do you think our system has a flaw? Let us say you are 30 years of age at the moment; you do not know what the outcome for your retirement income is going to be, so you therefore cannot make additional contributions. You have pointed out that acceptable income expectations have changed. At the moment, as I say, if you are 30 years old you do not know what your likely retirement income is going to be at, say, 60 or 65 or whatever age. Therefore, it is harder to make a decision about extra contributions in those circumstances. The reason I ask that is that I have been particularly interested in the concept of forecasting on an individual basis as distinct from a systems basis. Do you have any response? You might care to think about it.

Dr Kates—I do have a response to that. I do not think that will be particularly different then from how it is now. I think back to when I was much younger and I saw ads in the *Reader's Digest* that said, 'Look, you can retire on \$300 a month.' At the time, it was like, 'What a colossal amount of money.' If you just bought into this particular fund then you would end up with this amazing amount 20 or 30 years later.

Senator SHERRY—I draw a distinction between propaganda from industry and an informed, independent forecast.

Dr Kates—I do not think there is an informed, independent forecast from anybody that I would trust for 30 years from now.

Senator SHERRY—Okay. Just on a specific issue, in point 7 of your submission you say:

There should be minimal exemptions from coverage of compulsory superannuation.

You refer to casual and part-time employers being 'brought within the compulsory pillar when they earn above a certain income band.' Is it not the case at the moment that the cut-off point for most is \$450 a month minimum income? You may not be aware of that, but if you are, are you suggesting that, for all casual and part-time employees regardless of income, the minimum cut-off threshold that we have at the moment should be part of the compulsory superannuation system?

Dr Kates—No, the cut-off is an important feature. The nuisance value to businesses and the costs to superannuation funds of these small packets of money are major reasons why that threshold needs to be there and it is important that it is there.

Senator SHERRY—I took it from reading point 7 that you were suggesting that there should not be a minimum.

Dr Kates—No, it may not be as extensively stated as we would like.

Senator SHERRY—Okay, I wanted to clarify that. You are also suggesting, if I read that correctly, that the self-employed should be covered by compulsory superannuation.

Dr Kates—Yes, that is correct, so that part of the burden of the cost of funding superannuation in old age is covered. Since as a society we are not going to say to anybody, and nor does anybody think we ought to say, ‘If you didn’t save in your youth and you don’t have enough, then tough luck.’ We are not going to do grasshopper and ant stories here. Because we will, as a community, make sure that people in retirement have at least a minimum income—whatever is affordable, and the community will decide that through the parliament—we think it is appropriate for the government to ensure that everybody is making at least some provision for their own retirement and that would also include the self-employed.

Senator SHERRY—Going back to very low income casual and part-time workers who are not included in the system at the moment—I think they make up about eight or nine per cent of the working population—if you could overcome the practical problems of the costs, do you believe that they should be included? To some extent that is done anyway; we have so-called member protection for those low-income accounts.

Dr Kates—The friction there is so intense that I would have grave doubts that anybody could overcome that problem. We have a situation now, particularly for people such as those whose true needs are more contemporary than in 30 to 40 years from now, where for many of those marginally attached to the labour force it is a problem for them that nine per cent of their current earnable income is taken from them and put away for a very long time, when for many of them the real needs are to have the cash in hand now.

Senator SHERRY—I understand that, but at the moment people who earn less than \$450 a month do not get the SG of nine per cent and they do not get it in wages either. They get neither, so that group of people are not getting it in income at the moment.

Dr Kates—It is hard to know exactly what happens but I suspect that in some situations they are getting it. No-one tells them that they are getting it but it turns out that an employer will look and say, ‘I have to pay the SG amount.’

CHAIR—Not if they are over 70 years of age.

Dr Kates—That is right. I understood the question was about anyone.

Senator SHERRY—Anyone who earns less than \$450 a month.

Dr Kates—That is right. An employer will actually factor that in and think about how much they can afford to pay someone. The super guarantee not being taken away would actually make someone more affordable in those circumstances.

CHAIR—At the same time, as people do get older, their productivity by and large does tend to fall away a little bit.

Dr Kates—Yes.

Senator WONG—This might have been canvassed by Senator Sherry while I was out of the room, but I want to clarify your position in relation to the related issues of compulsory retirement and age discrimination. As I understand your submission, you agree there should be

no compulsory retirement age. I am assuming that that does not mean you do not think there should be at least a minimum age at which the age pension is accessible. Nevertheless, you oppose the introduction of any federal age discrimination legislation. Is that right?

Dr Kates—I think the issue for us is that there needs to be discretion at the workplace. As we said, there are all kinds of situations where the government has legislated specific retirement ages, whether it is for company directors or members of the judiciary. There are differences in individuals as they become older. To put in some kind of blanket rule that it is like this and it must be like this is what we are concerned about.

Senator WONG—I am not sure which aspect of my question you are referring to there—a blanket rule meaning a compulsory retirement age?

Dr Kates—Yes, that is right. There should not be a compulsory retirement age, but there should be consideration within the legislation that there are going to be different abilities of individuals as they get older. So an ability for an employer to make an assessment and to act on that assessment is I think one of those things that has to be in the legislation, which is why highly prescriptive legislation would be against the interests of not only business but the community generally.

Senator WONG—I am not sure how familiar you are with existing antidiscrimination legislation, but most of the formulations in most jurisdictions do enable the person making the relevant decision to balance what are reasonable factors under the legislation when making the decision. But what antidiscrimination legislation tries to do is to remove unreasonable reliance upon particular grounds. It would seem to me to be rather difficult to argue that we should be encouraging employers to maintain people in employment but nevertheless take a view that one is opposed as a matter of fact to the legislation which might provide redress for discrimination on the basis of age.

Dr Kates—I do not find them contradictory and I suspect you do not either. You do want employers to be able to make judgments about the abilities of individuals in their own workplace. I think that really is the point: you want to be able to use managerial discretion in making the decisions. Since the pressures are anyway going to be, in my view, that businesses will be seeking out and will need to find more employees of an older age level, there will be less likelihood of employers actually saying, ‘You have reached a certain age and that is the end of you.’ In fact, what they will do is try to encourage individuals to stay in the labour market.

Senator WONG—May there not be a time lag in terms of the public policy imperatives to try and encourage employers to explore ways of maintaining people in employment in later years and the sort of, I suppose, supply side issue that you are raising—that is, there may not be enough people seeking those jobs for employers to fill them so they are going to have to look at those people. We have taken a lot of evidence so far which has touched on the attitude of employers in respect of older workers. Quite a lot of submissions have gone to the issue that people feel that there is still an attitude out there amongst employers that does not recognise the positive benefits of maintaining someone in employment and perhaps looking at different terms of employment for them, such as part-time work. There has been quite a bit of evidence that there is an attitudinal change required for employers to look down that path. I would have thought that Commonwealth legislation on the issue of age discrimination might assist in that

education process. Would you accept, Dr Kates, that some of the concerns you raise around managerial discretion and around the importance of ensuring employers have the ability to make decisions on the ability of the employee, the particular position that their company is in and so forth, are really issues about how one actually drafts the legislation rather than an in principle position against age discrimination?

Dr Kates—I think there are two types of issues here. The first is what happens if you have an existing employee who reaches what had been in the past the retirement age—it is gold watch time and everybody leaves employment at that age—whereas I think the issue with mature age employment is not even what will happen in an individual enterprise with an existing employee. The question becomes: what will employers do in choosing new employees and what will be the pool of individuals that they tend to look at?

To some extent, the legislation is going to follow economic need anyway, so we will say that you should not discriminate against older workers. We will also find that older workers will now become more sought after in the workplace as they will often be the only ones available. This will tend to happen more and more as time goes on, and it will become one of those things where businesses will simply be doing it out of commercial necessity. On top of that, it will be the same as what I suspect must have happened in the last 30 years, where women in certain positions were considered quite an anomaly not that long ago and are now just simply recognised as part of a typical commercial environment today. So in relation to employers who may have this view that older workers are not as productive, will not fit in, are more difficult to train and all the rest, we will find that as time goes on there will simply be greater recognition amongst businesses that the place to look for individuals who can do that job will be amongst older Australians.

Senator WONG—Your submission talks about some ways in which the employment of older workers might be made more attractive. Do you have any comments about how that imperative of trying to ensure people maintain employment for longer can be balanced against potentially negative impacts on youth unemployment? In other words, if we make it more attractive for employers to continue to employ older workers, do you see any potential issues in relation to youth unemployment in the incentives which may or may not exist to employ young people, or do you think that is not an issue?

Dr Kates—No, I do not see a problem with that. Organisationally, I have serious concerns about the way monetary policy, for example, is run so that it maintains higher unemployment as a means of keeping inflation down. We could run this economy employing a far larger proportion of the work force, and we are not doing it. We could employ more older people and more younger people and give them higher real incomes if we chose—if the Reserve Bank chose—to run the economy and to allow the economy to run more rapidly. That is not only an issue of employment growth; it is in terms of investment as well. When I talk about the need for productivity growth in the future, the basis for that is the investment we do now. We must be thinking how to raise fixed capital formation in the next 20 years if we are going to fund high real incomes for an ageing population. In terms of older workers forcing younger workers out, I do not think that is a genuine concern at all. In fact, to the extent that it is recognised that older workers form this major pool of talent and is one that businesses can and will tap into, we will find that those in certain institutional environments such as the Reserve Bank will allow the economy to grow more rapidly because we will not have the kinds of pressures that they think would normally form.

CHAIR—Do you see any changes in productivity growth occurring over the next 10 to 20 years in Australia?

Dr Kates—Do you want an estimate?

CHAIR—I want your views from business as to what you think is going to be the direction of productivity growth.

Dr Kates—I would not expect it to fall below the two per cent that we have had up until now. But I seriously prefer that we recognise that we do have an impending problem and that, if we are going to allow real incomes to be maintained and even rise, we should be thinking now about what we could do to get productivity growth to rise more rapidly, because it is only—

CHAIR—You want it to rise more rapidly than two per cent?

Dr Kates—Yes, I do, and not only do I want it to rise more rapidly than two per cent; I think we can do it. There are certain kinds of reform processes that we have commenced with microeconomic reform and tariff reforms. These have been part of the solution to a stagnating productivity growth and there is no reason, in principle, why we could not continue to pursue these forms of productivity improvement by allowing the economy to grow more rapidly and to think of the ways we can make the labour market more flexible than it is now.

Senator CHERRY—I read your various surveys on trying to find workers regularly as they come through, and the thing that comes up as one of the key impediments to putting workers on is a lack of trained or qualified workers. In your submission you talk about learning accounts and other ways of encouraging productivity growth of workers as they age. Have you noticed, since postgraduate courses became full-fee courses, a drop-off in employees actually engaging in continuing learning through higher education?

Dr Kates—I have not seen those statistics.

Senator CHERRY—Enrolments in coursework courses, at a postgraduate level, have certainly dropped off. I am wondering how the learning accounts proposal you have in your submission fits in with the notion of increasing the personal cost of education over a person's working life and how that fits in with the notion of trying to promote human capital productivity in an economy.

Dr Kates—I will take part of this on notice and I will have a more complete answer to that, but I will just say this as a preliminary: you do not want to underprice your education either. You want those who are taking various courses to recognise that there has got to be a pay-off at the end. If you are doing a course that is simply for the fun of it, or for your own personal interest, that is fine. But at the same time there is next to no reason for the rest of the community to subsidise it. On the other hand, if you are thinking in terms of, 'What course can I take that will make me more productive in the workplace?' then part of the social cost of that has to be, in our view, taken up in the fee that is being paid by the individual. If there is no net benefit to the individual in terms of the cost of the education and training that one undertakes, and the improvement in real incomes that are generated as a result, then simply on the basis of a

straightforward cost-benefit analysis you would say that perhaps it is best that individuals do not take those particular courses.

Senator CHERRY—I have two questions which are bouncing around in your submission—and I apologise for that. You mention the notion of trying to encourage workers to stay on past retirement age through pension bonus type schemes, and you mention the Swiss system as an example of how an individual can earn a partial pension and have this supplemented by income earned through part-time work. How would you see those sorts of systems being built on to the pension bonus scheme we have in Australia at the moment?

Dr Kates—One of the true advantages of the superannuation guarantee is that it is your money. As far as I understand how it works, the individual receives the money irrespective of any other income earned. There should be and would be no diminution of what one receives for the superannuation guarantee, irrespective of how much they earn elsewhere. I think that is an important aspect of how our retirement income program should be designed. The real worry we have is that the structure now may genuinely deter individuals from earning income, because of losses in age pension—

Senator CHERRY—Is that because of the various means tests and so forth?

Dr Kates—That is right. It is a concern to us that this exists. It is a form of the poverty gap except that, as we said in our submission, the age pension and the super guarantee are not welfare payments; they are something completely different and should be conceived of as something completely different. Always bearing in mind the pressures that are going to be on government revenues, particularly further down the track, it will be useful to make sure that the means testing does not force individuals out of the work force or make it so lacking in additional income that it is not worth it. Part of the design system needs to be that whatever tapering goes on is very gradual so that no-one is deterred from working.

Senator CHERRY—My final question follows on from one of the questions of Senator Sherry. I am just looking at the ‘minimal exemptions from coverage of compulsory superannuation’ and you talk also about the ‘self-employed and those relying on business and investment income should be included in the compulsory pillar where possible.’ What I am interested in is the ACCI’s attitude to the practices which are growing up with some employers of pushing their employees into contract situations as a means of avoiding the SG. Would you see that as something we would need to fix in terms of the system for that segment of the work force?

Dr Kates—It is. We said in our submission that the self-employed, which is what someone on contract is, should be brought into the superannuation guarantee system. I think again that, since no-one is going to be allowed to live without an income, irrespective of how improvident they might have been during their working lives, part of what we can do is to insist that individuals do have some kind of superannuation cover. Part of the way to do that is to bring certain self-employed persons, such as those on contracts, into the superannuation guarantee network.

Senator BUCKLAND—You have talked about training, about age and about the loss of skills as older people leave the work force. I am just wondering what your attitude is towards training older employees for retirement. I understand that the money side of it is very well

covered in your document; it is quite predictable, I have to say, and that is not a criticism. But as far as training them for actual retirement—that is, to utilise their time so they do not become brain dead on the day they get their golden handshake and the beer at the pub—what is the chamber's attitude to that?

Dr Kates—I do not know that we actually have one but I will just speak extempore and say that I think it would be a very good idea. It is one that I had not considered but something along those lines would probably be a worthwhile endeavour.

Senator BUCKLAND—It is not something that has been raised through your 685, 000 members? I think you have about that number.

Dr Kates—Three hundred and fifty thousand.

Senator BUCKLAND—Three hundred and fifty thousand, and you say you have enterprise members as well. They might be inclusive, are they? Is it not something that has been raised with you: how we handle the older work force as they are leaving?

Dr Kates—It may have been raised with others but it was not raised with me so I am not aware of it. Certainly, since you do raise it, I will firstly see if we have any written policy view on that already. It is also something that I think we might usefully raise as a council. It is not entirely, as I see it, a business related issue but I think it is an important social issue.

Senator BUCKLAND—I wonder if you could advise us if there is a policy—after you speak with others; I appreciate that that has been thrown at you cold—and also if there is an attitude or a view of the chamber as to who should fund that training. If you are unable to, I will understand. Your apprentices appear to be taking a back seat in the training arena at the moment. I was at a major South Australian manufacturer, the Australian Submarine Corporation, on Monday and they have a very big program for apprentice training in order to have a continual supply of young people. They expressed the view too that, whilst that is the case, they appear to be losing a lot of skills from older workers—because there is always an apprentice, the older workers drop off. Is there an attitude or a view held by the chamber in relation to taking older workers out of the front end of the production or manufacturing role in final years to mentor and train the apprentices as they come online?

Dr Kates—I would assume that that is often exactly the process that goes on—that what an apprentice is doing is learning from those who have already been doing those tasks. Partly they learn at TAFE and partly on the job.

Senator BUCKLAND—I asked that question specifically because another committee I am involved in seems to be getting quite a different view to that. That committee is looking at skill needs. It appears to me that that is not going on sufficiently, if it is going on at all. I wonder if the chamber actually has a policy as to how this mentoring process should be accommodated.

Dr Kates—Again, I will endeavour to see what we do have on that.

Senator BUCKLAND—Given those answers, I do not think I can pursue that any more.

CHAIR—Thank you very much, witnesses, for appearing before the committee this afternoon.

[4.33 p.m.]

LA BROOY, Mr Basil, Community Education Officer, National Information Centre on Retirement Investments Inc.

SCHILG, Ms Wendy, Director, National Information Centre on Retirement Investments Inc.

CHAIR—In welcoming the witnesses from NICRI, I would like to say that your work has been favourably commented on to this committee by some earlier witnesses. You are protected by parliamentary privilege. Thank you for your submission and for appearing before us this afternoon. We invite you to make an opening statement and to give us information about the range of your publications, or, if you have some with you, to table them for the benefit of the committee.

Mr La Brooy—Thank you very much for inviting NICRI to give evidence at this hearing. As outlined in our submission to the Senate committee, NICRI is a government funded consumer organisation that provides information to retirees and pre-retirees on investment and financial matters. This includes the rather important task of explaining the process of financial planning. Our submission to the committee did not specifically address the terms of reference. Our submission was to inform the senators of our existence, as we feel that we offer an extremely important educational service to Australian consumers. In saying that, we were delighted to be named in several other submissions, particularly in reference to point (e) of the committee's terms of reference. It was interesting that our support came from industry, education and retiree bodies. Their positive support for the service we provide is greatly appreciated and we agree with their suggestion that those services need to be expanded in order to educate consumers to invest wisely and safely for their retirement.

In our 13 years of operation we have talked by phone to approximately 82,000 consumers and have distributed 3.5 million publications. While we are proud of those statistics given our limited capacity in terms of resources, our desire is to become a well-known reference point for investment and financial information available to all investors and would-be investors. As is shown by the recent report on financial planners carried out by the Australian Consumers Association and ASIC, education is not only needed by consumers but by financial planners themselves. NICRI was involved as a member of the expert panel on the previous two ACA investigations into financial planning, and we are disappointed that after the poor levels shown in those reports the financial planning industry has not lifted their level of service. Amongst other things, we have found that financial planners generally have little understanding about the implications of social security and taxation on individuals' investments.

Over 13 years we have received only two complaints about our service. Both of those were from financial planners upset that their prospective clients had opted to deal with other planners after speaking to us.

Senator SHERRY—Only two. I thought you might have a few more.

Mr La Brooy—It gives us great satisfaction to arm consumers with the information they need to speak confidently and ask pertinent questions of their financial planners, and to then make their decisions regarding what is best for them. The recently released ANZ survey on adult financial literacy in Australia further supports the real need for educational organisations such as NICRI if consumers are going to invest wisely for their retirement. We have copies of our publications for your information. Both Wendy and I am happy to answer any questions senators may have for us.

CHAIR—Thank you. Perhaps it would be an opportune time now to table those documents. There being no objection, it is so ordered. It appears that one of the weak links, as you have identified, is either a lack of education or something else associated with financial planners. Is there any way that you think we can circumvent the financial planning industry as it is now set up? Some of the costs seem to be quite prohibitive. Do you think that retirees receiving a lump sum in a certain income range should be able to purchase, for example, an income stream from a government instrumentality at a lesser cost?

Mr La Brooy—I cannot see why that could not be the case. The more we talk to people, I believe that a lot of them are becoming more aware and willing to use, for instance, discount brokers and so on to purchase products from the industry without advice. They are willing to look at that sort of thing and they are becoming, certainly among our callers, much more analytical of the rates of return and the types of income streams that are available to them.

CHAIR—Do they fully appreciate the costs associated with those income streams? We have been given some horrific information in relation to the up-front costs and the ongoing charges. They would be better off in many cases just purchasing a listed investment off the stock exchange.

Mr La Brooy—At times, yes. I have been looking at the performance of products such as allocated pensions and so on since the mid-1990s when they became much more common. I think, from what I have seen, that a lot of people misunderstand the issue of the management fee when it ranges roughly between 1½ and 2½ per cent of the asset value of their investment. Certainly that is a very significant cost, but bearing in mind the expertise that one would hope industry is bringing—which does not always work out—if the product is providing a return to the client in the order of seven or eight per cent net of that fee, it is certainly working out at the end of the day. The awkward part of that is, of course, that the bulk of those products have exposure to equities and therefore in times of market downturns it becomes a major problem, as I have said in a lot of the talks that I do. I do a lot of the presentations on behalf of NICRI to consumer organisations and Centrelink-run seminars and so on.

As I have explained, in those sorts of situations, there is always going to be some cost involved. If the products are managed properly by the consumers themselves to a certain degree, they will still achieve their end of a reasonable income. But I acknowledge that cost issue. For instance, products that attract a lot more attention these days are the fixed rate allocated pensions, where you can buy an allocated pension and you can fix the rate for a period of time. So the investor knows at the end of that period exactly how much money they are going to be left with in the product. They are certainly attracting greater interest. As I said, by using the discount brokers a lot of people are minimising those up-front costs because usually they are rebated by the discount broker who simply accepts the trail commissions.

CHAIR—Seven thousand phone calls a year may seem a lot but, when you consider the number of pensioners out there, not a lot of people are accessing your service. How do you plan to communicate better with your potential clientele?

Ms Schilg—We realise that there are potential clientele out there. We have limited resources. At the moment we operate on \$450,000 a year. So we are actually attracting about as many callers as we can take at the moment. Without an expansion of the service, that is about it, I am afraid.

CHAIR—Do you think there would be quite a potential if, for example, we doubled your income?

Ms Schilg—Most definitely. A lot of Australian consumers have not heard of NICRI. We do not advertise a lot, because we cannot afford to—and, anyway, we cannot afford to get those callers calling in.

CHAIR—Are many of your callers repeat callers? Do they come back a second or third time?

Ms Schilg—We do get some.

CHAIR—As they change their investment strategies, for example?

Ms Schilg—Yes, most definitely. It is certainly not the majority of callers. Most people call in once, we give them the information and they talk to their financial planner and are quite happy. Probably five per cent or six per cent of people would repeat call.

CHAIR—One of the criticisms of some of the aged is that they have gone through life and they come to retirement and then there is almost an expectation that they will become expert financial managers with a knowledge of taxation thrown in. That seems a little bit cruel to a person in their seventies who has just lost a husband.

Ms Schilg—We agree. We do get a lot of calls like that.

CHAIR—How do we cater for these sorts of people?

Mr La Brooy—We certainly seek to answer and help them, but the other service that government does provide that I believe works well—though, again, it could be expanded, from what I understand from them—is Centrelink's financial information service. We work fairly closely with them. They certainly seek to try to help people understand the issues relating to taxation or income stream products. So in addition to our small organisation there is a larger one that perhaps does meet people's needs at the coalface to a fair degree.

CHAIR—How many people access their service? Will we have to ask them separately?

Mr La Brooy—In all fairness, I think you would. I came back from Queensland this morning, having done some talks with the financial information service in Brisbane. I worked out of one of the Centrelink offices in Brisbane, and the financial information service officer there probably

saw at least five or six people during the day and also got in touch with people on the telephone in the time that I was there.

CHAIR—From your position, what are the greatest difficulties being faced by retirees? When they ring up, what are their big concerns?

Mr La Brooy—I would say they are concerned about whether their money is going to last. Unfortunately, investment products have been inadequately explained to them so in this sort of market downturn it does create a major panic for them. The biggest issue is, ‘If my money is going to disappear, I’d rather make it disappear myself than have industry lose it for me.’ This is where our explanations of how the products work and how they can manage them come into play. I would suggest that some of the biggest concerns are how long the money will last and whether it will be adequate. The other problem that we hear a fair bit about is where people have got to the point where they—and this is the oldest age group—have gone through the bulk of their capital, are now on the age pension only, have as their only asset their home and have difficulties accessing some money to do some of the things that they would like to continue to do while they are alive.

CHAIR—Some witnesses have suggested that there should be a cap on the capital value of the family home. What is your view?

Mr La Brooy—One of the things that we find in talking to people, and this is really that sort of scenario I put forward, is that they have bought their home and lived in it for quite a few years—30, 40 or maybe more. They have their own network of friends around them and they have their support groups, such as churches or other organisations; they have their local community. I think they would find it more than abhorrent to have someone turn around and put a cap on it because they did not envisage when they had bought the place that in 50 years time it would be worth so much more and thus take them out of that community. They are very conscious of that community and many of the people feel very strongly about that. So I believe that is not something that many people would appreciate.

CHAIR—Do you see much evidence of people being sold inappropriate products relative to their age and income status?

Mr La Brooy—Sadly, yes.

CHAIR—What proportion of your calls would represent concerns about inappropriate investment advice combined with people being put into the wrong products?

Mr La Brooy—I would say it would be approaching the 30 per cent mark.

CHAIR—Thirty per cent?

Mr La Brooy—Yes, fairly easily. A lot of that would relate to incorrect assessment or people not understanding risk profiles. A lot of people have been put into products where they have not understood the exposure that they have to markets such as the stock market or property type investments, where the underlying assets may be property trusts or something like that. They have not understood that exposure. The other side of it is that quite often the only analysis has

been in respect of the particular product rather than their whole portfolio. So where that focus has been purely on the one product, where they stand in respect of their whole portfolio has been missed.

Senator SHERRY—I do not want you take this as too much of a criticism, but I must say that I am surprised that we have not heard from you in previous inquiries about your views, given your contacts with consumers and your terms of reference. Is there any particular reason?

CHAIR—They have not got the money!

Ms Schilg—There is no particular reason.

Senator SHERRY—Is there an annual report that gives us a bit more detail about the range of your inquiries, your funding, where you spend your money and those sorts of issues?

Ms Schilg—We have not published an annual report for a couple of years now, and that is mainly due to funding and so forth. We do give our funding body, FACS, those sorts of details in an end of year report, which we can make available on the web. I think that is probably what we are going to do.

Senator SHERRY—So we would pursue that through the department?

Ms Schilg—You can, yes.

Senator SHERRY—Can you provide the committee with that?

Ms Schilg—We can provide you with that.

Senator SHERRY—Good. I was going to raise the same issue about the phone inquiries. I accept you have a significant workload and that getting funding can be difficult, but 7,000 phone inquiries—some of which may be repeats—does not seem to be that many as a proportion of people retiring, whether their retirement is forced or voluntary. Can you give me any idea of the proportion of people retiring that would be and the year they are retiring?

Ms Schilg—No, we would not have that sort of information.

Mr La Brooy—Unfortunately not.

Senator SHERRY—How do people find out about you? Obviously, they can find out through the government department. Do planners have to notify consumers that you exist?

Mr La Brooy—No. The bulk of those who have found out about us have done so from the presentations we do with the Council on the Ageing and the Association of Independent Retirees. The Internet is certainly increasing the number of inquiries we get. When we look at the statistics, we see that the other side of the phone calls is that there are 2½ of us who answer the phones.

Senator SHERRY—I take it from what you have been saying that many of your inquiries would come almost too late, in the sense that they would come from consumers after they have taken certain advice and carried out financial investments as distinct from before they have actually carried out those investments?

Mr La Brooy—To a certain degree. I would say that the number of people who are hearing about us earlier is increasing. I would say that, largely thanks to us being able to present at seminars and to other consumer groups, we are getting more people who are talking to us before going into investments. So I think there is an increase in the number who are talking to us beforehand. In that respect I think the drip is finally getting through.

Senator SHERRY—But that is still to a minority of people who are retiring.

Mr La Brooy—Absolutely.

Senator SHERRY—In one of your publications, *Super Guide*, you say with respect to commissions:

Many investors are not aware that fund managers pay investment advisers up to 5% of the amount invested.

Then there is a sentence I want to come back to. In the final sentence of that paragraph, you say:

They must be disclosed in a manner that is easy to understand.

If they have to be disclosed, why are investors not aware? Is it because they do not understand?

Mr La Brooy—It is because of the way the information is set out, for instance, in a financial planning document. A lot of people by the time they go through a document that is 40 to 50 pages long, with figures embedded in it along the way, do not understand the disclosure. The disclosure is not nice and simple and succinct. That would be the prime reason.

Senator SHERRY—So you are an advocate of simple, clear information? You can almost be overwhelmed with too much information, in fact.

Mr La Brooy—Absolutely.

Senator SHERRY—The other sentence I want to refer to in that paragraph says:

Consumers should decide whether the level of service received is worth the amount paid.

I assume when you say ‘level of service’ that includes quality?

Mr La Brooy—Absolutely.

Senator SHERRY—How does a consumer determine that? Presumably they go to a planner because they cannot make an informed choice—that is, they lack the depth of financial literacy.

They go to a planner and are dependent on that planner. How would a consumer be able to judge whether or not the quality and level of the service is adequate?

Mr La Brooy—One of the ways that we address that issue, and the suggestion that we make to consumers, is that, if they are going to be seeking financial advice, they give exactly the same information to at least three financial planners. You have to bear in mind that financial planners do charge on a different basis. Some charge on a commission basis. They may not charge a fee for the preparation of the plan; they are going to earn their income when the investments are placed. Others, based on the amount being invested, charge a fee, and so on. Our argument is that they do a certain amount of shopping around and they give exactly the same information to the three financial planners and then basically go through a process of interviewing the financial planners first up.

Senator SHERRY—My concern is the balance of power of information. How do many consumers know? How do they judge? If they are seeing a planner because they do not believe they have sufficient knowledge and they want independent advice—and that is questionable in some cases—how do they determine these things?

Mr La Brooy—Hopefully, they are attending seminars, and so on, through different organisations, taking some responsibility for trying to understand the issues themselves and utilising organisations like ours and like FIS. As I say, by seeing the three planners, they are hopefully going to get three reasonably different views. I do not deny that sometimes they are fairly similar. There is going to be some cost—

CHAIR—Three up-front fees.

Mr La Brooy—Not necessarily. I always give the example of a lady in Melbourne we had a call from. We were quoted in the *Melbourne Age* about the benefit of seeing three financial planners. She rang in and said, ‘Well, that is going to cost me \$22,500.’ Having talked with her, I discovered that she had seen a financial planner who charged her \$7,500 simply for the preparation of the financial plan and advised no entry costs or anything into the investments. I went through the issue of saying, ‘This is what that planner is trying to say to you; they really want to talk only to people who have the sort of money where \$7,500 is not going to be an issue.’

CHAIR—Did she have that sort of money?

Mr La Brooy—She was aware of the fee before she went to that one.

CHAIR—Yes, but had she the capital to warrant that sort of fee?

Mr La Brooy—We do not generally ask unless the person volunteers information about how much is involved. I made the comment to her: ‘I hope you have a fairly sizable amount of money that you were seeking advice on.’

Senator SHERRY—She did not tell you the amount.

Mr La Brooy—She did not tell me. I simply discussed the issue and said, ‘You have paid that much; perhaps another \$300 or \$400 is not going to be too much of an issue. See if you can find a financial planner who will provide you with a financial plan without charging you and give them exactly the same information.’ And I went through the process of saying, ‘This is how you work with them.’

Senator SHERRY—Where a planner is paid a commission either in part or whole and they are dependent for their income on that commission, do you see a potential conflict of interest with the advice they may or may not give?

Mr La Brooy—I would like to think we will get to the stage where more financial planners understand that they should be looking at a long-term relationship with their client, particularly where they are getting a trailing commission. If they are getting trailing commissions—no matter who they are getting the commissions from—and there is no great disparity in the level of the trailing commission or any other commission—

Senator SHERRY—If a trailing commission applied in a particular case and the adviser was dependent on the commission for at least a significant slice of their income, doesn’t that pose a fundamental conflict of interest in the advice they give to the consumer? Wouldn’t it mean that at least that issue of the commission would be a consideration for the planner in terms of the advice they give?

Mr La Brooy—The point I am trying to make is that if, no matter what, they were receiving only commissions it would not matter where it came from. With regard to the net effect, from the planner’s point of view it should not make any difference to them as to—

Senator SHERRY—Some providers might offer a higher commission for a particular product.

Mr La Brooy—We are getting back to the issue of that long-term relationship. I believe that if the planner is able to get to that stage—and I do not know if that is too big an ask; if it is too utopian—at the end of the day they will see themselves as serving the client.

Senator SHERRY—Going back to my question, do you see a potential conflict of interest?

Mr La Brooy—A potential? For sure.

Senator SHERRY—Finally, on this issue of independence, if a planner works for a bank, how can they not be biased to push the bank’s particular product as against the product of a provider that they are not working for?

Ms Schilg—We believe that there are no independent financial planners per se.

Senator SHERRY—You shock me. Seriously, I thought there were at least a few about.

Ms Schilg—We have not identified any.

Senator SHERRY—Do you think that is a good or a bad thing?

Ms Schilg—We think it is a bad thing.

Senator CHAPMAN—Perhaps you could clarify your role. From what has been said this evening and what I have read here, you provide information as to where people can go for advice, or do you go beyond that? You do not provide financial advice yourself, do you?

Ms Schilg—No.

Senator CHAPMAN—You provide some assessment of who are good advisers and who are bad advisers?

Ms Schilg—No, we cannot do that. That is getting too close to advising and recommending, unfortunately. We explain to people how to go about finding a financial planner and tell them what to look for and what questions to ask. We give information about investment products, explain how they work and just educate people.

Senator CHAPMAN—In the generic sense?

Ms Schilg—That is right. People ring us after they have had a financial plan done, and they will run through it with us on a very basic level.

Senator BUCKLAND—I guess that most inquiries you receive are for assistance. Are you able to differentiate between older retirees—that is, those who are 65 years of age or older—and younger retirees who have been forced into retirement or have made the decision to go into early retirement off their own bat? Do you have any statistics on that?

Ms Schilg—We can get statistics for you. We do keep statistics on that.

Senator BUCKLAND—Could you provide the committee with those?

Ms Schilg—Certainly.

Senator BUCKLAND—I would like to see that. Thank you very much.

CHAIR—Thank you very much for appearing before the committee. It was a very interesting presentation.

[5.09 p.m.]

BURTON, Mr Neil, Assistant Director, Seniors and Means Test Branch, Department of Family and Community Services

DOLAN, Mr Alex, Assistant Secretary, Seniors and Means Test Branch, Department of Family and Community Services

CHAIR—I welcome Mr Burton and Mr Dolan. I invite you to make an opening statement.

Mr Dolan—I would like to make a short opening statement where I will summarise some of the key points in our submission to the committee. First, I thank the committee for the opportunity to present a submission. The terms of reference address some critical issues facing Australia—the need to assist mature age Australians to make the transition from work to retirement and to help them plan for retirement. Our submission to this inquiry builds upon some of the themes of last year's submission to the committee, when the committee inquired into superannuation and living standards in retirement. We put the view then that the fundamental determinants of retirement incomes were the capacity for people to earn income and to save and the length of time they spend in the work force and in retirement. We argued then that boosting mature age work force participation and providing flexible approaches through which mature age people can contribute to the work force will be important drivers towards lifting standards of living for people currently and through retirement.

In our submission to this inquiry, we address some of the issues that you have identified that are of more relevance to the FACS portfolio, particularly in respect of the issue of retirement age, transitions from work to retirement and ways to assist older workers prepare for their retirement. Our submission notes that there is no official retirement age, although retirement decisions can be affected by such factors as personal preferences and labour market outcomes. We note that these may be influenced by the preservation age and the age at which the age pension may be claimed.

Among people of mature age, work force participation rates are low. The overall participation rate falls from 80 per cent for those aged 45 to 54, to 62 per cent for those aged 55 to 59. By the time men reach 60 to 64, only about half are in the work force. For many mature age people, withdrawal from the work force is not voluntary and occurs prematurely because of ill health, disability, caring responsibilities or voluntary job loss and many cannot find a job after that. Premature withdrawal from the labour market reduces a person's capacity to build for their retirement savings.

In the submission, we presented some statistics from a survey that was conducted for the department in the year 2000 which looked at the work force circumstances and retirement attitudes of older Australians. This was a comprehensive survey conducted to examine the labour market experiences of Australians aged between 45 and 69 and covered people in receipt of an income support payment and those not receiving any payment. So its coverage was very broad in terms of the population.

In the submission, we looked at the reasons why mature age people aged 55 to 64 years at the time of the survey had left their last main job and their experience since then. The submission shows the reasons why men and women had left their last main job and notes that there were differences between the experiences of men and women. Disability, ill health and caring responsibilities accounted for up to 29.8 per cent of women leaving a job in the nine years prior to the year 2000, and a relatively small proportion of women last left their main job for the purposes of retiring and living off their investments—that was about 16 per cent. So, in most cases, people had left their last main job for disability or involuntary reasons, or for personal reasons, such as family reasons. That was particularly the case in respect of women. The submission notes that finding another job is hard for many and that a significant proportion of mature age men and women end up out of the work force because in some cases they have not been successful in finding another job.

In respect of the committee's terms of reference about retirement planning for older Australians, we think uncertainties around future employment and the fact that a lot of job departures are not voluntary or planned do suggest that it makes planning for retirement difficult for a number of people, not only in terms of reducing their capacity to save for their retirement but also in terms of planning, because the time of departure does not seem to have been voluntary in most cases. Some of the tables in the submission then go to show that significant numbers of mature age women in particular are out of the work force and have been out of the work force for some time.

However, we also note that there have been some encouraging trends that suggest employment outcomes may be improving. We note that part-time employment among older Australians has been rising and that full-time rates of employment have been fairly stable. Part-time employment can offer people opportunities to add to their income. We note that existing government policies are aiming to encourage mature age Australians to continue in employment—for example, the Australians Working Together package. The pension bonus scheme encourages people of age pension age to defer claiming a pension and to continue working if that is their preference and if they are able and willing to do so. So the pension bonus scheme is an example of an active strategy for people older than mature age to continue working if they wish to do so and to supplement their income.

Also in the submission, we talk about the retirement planning information that the portfolio provides. This information is directed at helping people understand the amount of savings necessary to support a desired standard of living in retirement, the appropriate vehicles in which to invest their savings and how to make a smooth transition from full-time employment to retirement. There are three basic means through which the portfolio provides information to people. One is through the Financial Information Service, which is provided by specialist Centrelink officers. I note that in your examination of the NICRI officers you asked how many people had come to Financial Information Service officers, and on page 14 of our submission we do provide some summary information of that. I will read it out briefly. Between 1 July 2002 and 20 March 2003, FIS officers conducted 142,027 calls and 53,082 interviews. Over the same period, 1,442 FIS seminars were held, attended by 52,820 people. I should note that there are 120 Financial Information Service officers located throughout Australia. That is a fairly significant presence.

The Department of Family and Community Services provides some publications for retirees and pre-retirees which are directed at helping them plan for their retirement. These publications provided by the department include: *Investing money: your choices*, which provides information on the basics of financial planning and different types of financial products, including on the tax and social security treatment, and it is a joint FACS/NICRI publication; *Home and residence: choices for older people*, which aims to assist older people and their families with important lifestyle and housing decisions—which gives you the sense that the information we provide is more than just financial but is lifestyle related; *Australian retiree: your choices*, which is a resource to help self-funded retirees become aware of the products, services, concessions and organisations that are available to assist them to maximise their choices and lifestyle through retirement; *Moving house: your choices*, which aims to assist people to improve their lifestyle in retirement by making informed choices about their housing; and *Understanding retirement income streams*, which is a document that was developed jointly with the then Australian Retirement Income Streams Association, ARISA.

We note that Centrelink also provides publications to assist people, including: *Age pension news for seniors*, which is a quarterly magazine which keeps readers informed about issues and items of interest that may affect retirees; and *Are you planning for or needing help in retirement?*, which is a document that provides information about payments and services for people. These departmental publications are distributed through Centrelink, NICRI, financial planners, solicitors and accountants, and community groups; and, from July 2002 to the end of February 2003, over 230,000 of these publications were distributed.

The third plank concerns the National Information Centre on Retirement Investments, NICRI, which I will not go into. You have already had a session with NICRI.

The information that I have just referred to is available to assist people whether or not they are a Centrelink customer. I note that FIS—Centrelink's Financial Information Service—is a community education program and its seminars do not target exclusively Centrelink customers; they are available for anyone in the community through general advertising.

In conclusion, issues around planning for retirement focus on the importance of boosting mature age participation to help people build up resources and to help them plan their retirement. I note the strategies that the portfolio adopts to provide people with the information to help them plan for their retirement. I might leave it there, Senators, and respond to any questions that you may have.

CHAIR—Mr Burton, would you like to comment?

Mr Burton—No, I do not have anything to add.

CHAIR—Would you like to comment on matters raised in other submissions, including any factual errors, so that the committee does not draw any wrong conclusions?

Mr Dolan—We have not examined other submissions in detail. Do you have any particular concerns in mind?

CHAIR—No; but we thought you might have reviewed the submissions in terms of their content and struck out issues that you thought were not factually correct.

Mr Dolan—In planning for today's appearance, we have gone through submissions by other organisations but not with a view to correcting errors.

CHAIR—There were no issues that stood out?

Mr Dolan—If you are requesting us to advise you of any matters of fact, we can go through other submissions and advise you if there are any obvious items of error or errors of fact.

CHAIR—That would be useful.

Mr Dolan—We have not done that up to this point.

CHAIR—Would that be a big ask? It is such an important inquiry and we would not like to include matters in our report which we felt were significant if they were not correct.

Mr Dolan—There is nothing that appears to us at this point in time, but we will have a quick read through the submissions. If there are any obvious, major errors or things which could lead you to inappropriate policy conclusions, then we will advise you of those.

CHAIR—Earlier today the representatives from the Chamber of Commerce and Industry drew attention to the fact that we need to be very conscious about the productivity of Australia in order to be able to fund retirement benefits in the next 20 to 30 years. On the other hand, the representatives suggested that perhaps the magnitude of the problem may be minimised as a result of some older people returning to the work force. Would you like to comment on that scenario and how strong you think that might be, given that, for example, very few people take up the Pension Bonus Scheme.

Mr Dolan—I think the Secretary to the Treasury, Ken Henry, publicly made the comment that the future growth potential of the economy, GDP, will be boosted if work force participation rates are increased. We do note in the first chart in our submission that work force participation rates for people of mature age dramatically reduce for people in their 40s. By the time people get to 65, relatively few are still working. So, if participation rates can be increased significantly for people of mature age, then obviously that will have a positive impact on boosting economic growth, as well as boosting the personal savings and circumstances of the individuals concerned. So I think it is certainly true to say that boosting work force participation rates would have a favourable impact on gross domestic product and therefore the capacity of government and individuals to fund retirement incomes and services in the future.

CHAIR—Do you think it would be unreasonable to pay a proportion of the pension or superannuation guarantee entitlement at normal retirement age where people elect to continue working, as an incentive to older people to return to or continue in the work force?

Mr Dolan—Certainly, under the current arrangements, a man of 65 or a woman of 62 and above could be claiming an age pension and still be working. The age pension income test allows for that—for every dollar of income you earn, you lose 40 cents worth of age pension, so

it is a relatively generous income test. So the age pension system does envisage people working while claiming the age pension. A small percentage of people on the age pension continue to work and receive a part age pension.

Senator SHERRY—What about receiving superannuation payments while you are still working?

CHAIR—Should that same formula apply, for example?

Mr Dolan—That is probably a matter for Treasury in terms of the superannuation side. You will be seeing Treasury later this evening and you might want to address these issues to them. But, certainly on the age pension side, currently there are people who continue to work and who receive a part age pension. A number of people, as you have noticed, are electing to defer claiming the age pension. Under the pension bonus scheme they will receive a pension bonus later on. So the age pension system does envisage that people will work after age pension age. It is a very small percentage.

CHAIR—A major problem confronting this committee is the weak link in the form of financial planners selling people inappropriate products. Do you think there is market failure in terms of the fact that many people seem to be charging a very high fee in relation to the up-front fee for preparing the plan?

Mr Dolan—I would have to say that the department is not an expert on the financial planning industry. We are more in the business of providing an age pension. But we do recognise the importance of providing people with the information to help them manage the business of investing for their retirement. That is why we, with Centrelink, fund financial information services. We fund NICRI and we prepare publications. I do not want to go so far as to comment on the original terms of your question; that is a bit beyond my field. But, certainly, we actively try to provide information to people to help to make the best choices.

CHAIR—We welcome that; it is very much appreciated. We are just trying to improve that weak link. You could say that we could do that through education of consumers and financial planners. But, at the same time, if you cap financial planners' fees—as in the UK, for example—it can often result in the withdrawal of products so that there is a lack of availability, which is another problem. I think the UK went down the capping route, and that was one of the consequences of capping. Would you like to comment on that?

Mr Dolan—Again, that is outside the department's expertise. We are not in the business of looking after financial planners. However, I have a general comment just on the economic concept. When regulations to regulate prices and fees are brought into place, it would not be unexpected that there would be some consequences of regulating the market. In some cases, that could distort the products and services available to consumers. I cannot comment on the actual case in the UK or on the consequences generally of price-capping practices. But, certainly, it would not be unanticipated that there would be some unintended consequences. It is just a response to regulating a marketplace.

Senator SHERRY—You say on page 6 of your submission:

The retirement income system will evolve substantially in coming decades. By 2050, with a fully mature Superannuation Guarantee, it is expected that no more than 75 per cent of people aged 65 or over will receive Age/Veterans' Service Pension.

Can you be a bit more precise than that? 'No more' could be 25 per cent, 50 per cent, 60 per cent.

Mr Dolan—It is around 75 per cent. It is in rough terms.

Senator SHERRY—Some assumptions must have been made about long-term projections in terms of superannuation growth?

Mr Dolan—Yes, that is correct. It is based upon the assumption that more people will have superannuation. There are two consequences. The first consequence, as you note, is that a smaller percentage of the age population will be receiving a pension—82 per cent, falling to about 75 per cent. The second consequence is the proportion of those people receiving a pension who receive a full-rate pension. Currently, two-thirds of age pension customers receive a maximum rate of pension—that is, have income and assets below the thresholds which the assets and income test applies. By 2050, it is expected that that will be reversed to one-third. So there are fairly significant changes in the nature of the age pension population, which as you say reflects in large part—

Senator SHERRY—I understand that, but you still have approximately 75 per cent of people dependent on the age pension, to some extent.

Mr Dolan—The term 'dependent' is probably not the right one to use. Two-thirds of them will be receiving a part rate of age pension.

Senator SHERRY—I do not know whether it is in the submission here, but do you have the assumptions that you have made in that projection?

Mr Dolan—Not here. That comes from the government's Intergenerational Report.

Senator SHERRY—I thought that might be the source of it. Would that 75 per cent figure change if there were high levels of superannuation contribution above the nine per cent and above the current average level of voluntary contributions? You would expect it would, wouldn't you?

Mr Dolan—It would depend on the assumptions with regard to people's other savings levels. *Caeteris paribus*, the assumption is that if that were the only thing that changed that could be the case. The modelling is done by Treasury, so they would be the logical people to ask; but, in terms of the confines of the question, that could be a consequence. Of course, there would be a macroeconomic effect, too, if more savings—

Senator SHERRY—You say in your conclusion on page 16:

... individuals have a role in planning and saving for their own retirement.

At the moment individuals do not know what they are likely to get when they get to, say, age 60 or 65. You can get a projection from a planner. In fact, Treasury makes projections—and you would be aware of that, I am sure. Do you think that that is a weakness in the system—that an individual is not able to easily obtain a projection about their future income? For example, I assume you are in the defined benefit public sector super fund.

CHAIR—Order! We have to suspend the hearing because of a division in the chamber.

Proceedings suspended from 5.33 p.m. to 6.09 p.m.

Senator SHERRY—I will conclude my question. In your conclusion on pages 16 and 17, you refer to the issue of information on planning, saving and preparing for retirement. You say:

... to achieve optimal retirement income outcomes, individuals have a role in planning and saving for their own retirement.

At the moment, if you are in a defined benefit fund you know what the outcome is. It is very clear, it is guaranteed et cetera. If you are in an accumulation fund, which most Australians are, you can obtain a projection or a forecast from a planner—and we know Treasury does projections and forecasts on a macro level as well. Do you think it would help an individual's long-term planning for retirement if they had made available to them a forecast—not a guarantee—of their outcomes at X age?

Mr Dolan—To answer the question generally initially, people as they enter into retirement will have a number of assets at their disposal. They will have the family home, they will have savings through a range of vehicles other than superannuation, and they will have superannuation. The circumstances of individuals will range significantly. So if you are talking about a projection of superannuation—what the superannuation savings might provide as an income stream—that would provide them with additional information on one element of their retirement situation. To the extent that you had that information—such as, 'If you are working at this level of income for the next number of years then that would buy you an income stream of such and such'—then that may be of some assistance to them in planning for retirement. Then they would have to factor in other assets. I would obviously defer to others who are involved more in the superannuation field to provide another opinion, but I think that, in general terms, that would provide some assistance, yes.

Senator SHERRY—I accept that there may be other assets, but in terms of the superannuation component it is helpful to get some indication of what you are likely to have when you get to, say, 60 or 65—provided the information is conveyed accurately, reasonably and as fairly as possible, and all those sorts of things.

CHAIR—It depends on the state of the investment markets in terms of defined contributions at the time, and that would be very risky.

Mr Dolan—That is right. In fact, I was going to respond to Senator Sherry by saying that any such information would have to be very heavily qualified. As you know, there would be rates of return, there would be the working life, and one of the points in our submission is that people's working lives are sometimes halted prematurely. And there would be issues of future income

levels, savings and other vehicles. So in some cases such an assumption of projections could provide a false sense of security, or it could provide an understatement—

Senator SHERRY—Or an overstatement.

Mr Dolan—Yes, so there would be elements of risk, and those things would have to be weighed up in coming to a judgment as to how such information would be provided and whether it would be ultimately useful to the person. It is something that might be considered as an approach. We had not really thought about the issue to provide any sort of confidence beyond a judgment as to the balance of risks. Certainly it is an issue to be explored.

Senator SHERRY—In theory, if you want to plan for long-term retirement, it is more difficult if you do not know what the outcome may be or is likely to be—isn't it?

Mr Dolan—It might provide you with some additional information.

Senator SHERRY—On this issue of projection, Treasury do it at the present time. You refer to the Intergenerational Report. Treasury actually do make some assumptions about long-term investment rates of return, fees and charges, tax levels and all those sorts of things, in making overall projections in terms of the outcomes. That is correct, isn't it?

Mr Dolan—That is right. I think it is an issue that you could explore other bodies in the financial sector as to the robustness and the risks associated with such an approach. It certainly is something that could be explored.

Senator SHERRY—Thank you.

CHAIR—I think there may be some dangers if product providers provided these projections. In fact, only last month ASIC put out a warning to companies involved in the tree plantation industry that they will not accept prospectuses that have projections going into, say, 30 years. It is almost single-digit projections that are acceptable nowadays, because of the way in which they could be exploited.

Mr Dolan—I do not disagree with that. As I said in responding to Senator Sherry, that is one of the issues and the difficulties that would have to be weighed. Very small changes in assumptions over 30 years can have a dramatic impact on retirement outcomes. It would be providing information but there would be significant risks associated with that. It would come down to a judgment: balancing out the risks and the costs and the impact it would have on decisions. I think you are indicating that from the ASIC advice those schemes you just mentioned illustrate the risks that would need to be considered.

CHAIR—Some of the life assurance projections have been hopelessly generous in terms of people retiring in the past few years.

Mr Dolan—That might be an issue you might pursue with ASIC to see if they could present to you a submission. They would be the obvious body to provide you with some judgments on that. It is not really our field of expertise.

CHAIR—Yes, we will. Have you changed your mind, Senator Buckland?

Senator BUCKLAND—Yes, I have a question. The Department of Family and Community Services would get a lot of inquiries regarding superannuation and the adequacy of funding and things such as that. Do you deal with people who have difficulties, as a result of their impending or current retirement, that are other than financially based—that is, stress from perhaps even seeking financial advice or stress as a result of retirement?

Mr Dolan—Most of the inquiries we get relate to income support payments. The vast bulk, if not all, of the inquiries we get as a department relate to people's income support payments because it is an age pension related issue. I would imagine that questions relating to superannuation entitlements might be directed towards NICRI financial information service officers or to other bodies. That I think was your question.

Senator BUCKLAND—Yes, and I suspected that was the answer I was going to get and that it why I was in two minds as to whether to actually ask it.

CHAIR—Thank you very much for appearing before the committee and for your answers.

Proceedings suspended from 6.17 p.m. to 7.07 p.m.

ANDERSON, Mr Alexander John Cairns, Assistant Secretary, Strategic Policy Branch, Workplace Relations Policy and Legal Group, Department of Employment and Workplace Relations

MATHESON, Mr Scott, Assistant Secretary, Economic and Labour Market Analysis Branch, Department of Employment and Workplace Relations

MCNALLY, Ms Carolyn Anne, Assistant Secretary, Priority Groups Policy Branch, Department of Employment and Workplace Relations

CHAIR—I welcome representatives from the Department of Employment and Workplace Relations and invite you to make an opening statement.

Mr Matheson—We were not intending to make a detailed opening statement. The department, in its submission to the inquiry, lodged in March this year, addressed all the terms of reference of the inquiry, although I have to say to varying degrees. If there is a key theme underpinning the submission, it is that earlier than expected departure from the work force, including for reasons of age, can undermine the ability of employees to adequately plan and provide for their own retirement. In fact, welfare reliance before retirement increases the likelihood of reliance on income support in later years.

Against that background, the focus for our portfolio in this area—this was reflected in our submission—is on facilitating and encouraging the participation of older Australians, including those approaching retirement, in the work force not only through employment services and labour market programs—and we outline those in the submission—but also through the provision of a workplace relations framework which is supportive of mature age people remaining in or returning to work, including, if they wish, phasing their transition from work to retirement. The three of us here tonight have responsibilities that extend across both of those key areas of responsibility for the department. Mr Anderson is responsible for workplace relations and Ms McNally and I are responsible for employment policy and analysis. We would be happy to answer any questions that you may have.

CHAIR—I have a few. Firstly, in your submission you say that workers tend to move into more flexible employment arrangements as they approach retirement. For the majority of workers, is that possible? Are those arrangements there for the majority of workers or is it just for a select few?

Ms McNally—We have arrangements in place for a majority of workers. We have a range of programs to suit a range of needs. We have got Job Network services and parts of that are available for people once they leave the work force. Some of those programs are available for people that are on income support. The majority of our programs are targeted to people that are on income support.

CHAIR—So you are not talking about people in full-time employment as they approach retirement; you are talking about people who have left the work force and are looking for another job.

Ms McNally—That is right.

CHAIR—What about people in full-time employment approaching retirement: do they have that sort of flexibility?

Mr Matheson—I was going to say that in terms of employment services our major client group are the unemployed, although we do provide a range of job matching type services, for example, which are available both to people in employment and the unemployed. If your question was asking whether it is available to all employees to take advantage of the flexibilities which might be there in our workplace arrangements now for part-time employment, for example, which would allow you to transition from full-time work to part-time work and perhaps to retirement, certainly those kinds of arrangements are available to everybody. Obviously the major issue is reaching agreement with your employer, for example, over being able to access those kinds of arrangements. Clearly that is a matter that needs to be settled between employees and employers at the workplace level. I think the view from the department would be principally to create the framework within which individuals can reach arrangements which allow for more flexible transitioning from full-time employment to retirement.

CHAIR—On page 18 of your submission, paragraph 80, you talk about the big expectation gap. I was surprised that, when you compared an estimate of an average worker on \$40,000 per annum, you used the ASFA projection rather than the Treasury projection. Being a government instrumentality, I thought you may have stuck with Treasury. The Treasury projection is about \$29,000. Is there any reason why you picked the \$19,000?

Mr Matheson—I do not think so other than that there was a brief review of some of the evidence and that was one that was referred to in the submission. In the area of superannuation this is not an area of portfolio responsibility; it is a Treasury responsibility. We would certainly defer to our Treasury colleagues who are appearing after us. Those kinds of questions are probably more appropriately directed to Treasury.

CHAIR—But this is your submission.

Mr Matheson—That is right, and I was saying that, in a brief summary of some of the evidence there, we happen to report the ASFA data. But we would certainly defer to Treasury on those kinds of issues.

CHAIR—For the *Hansard* record, we have received evidence that, unless people are involved in fairly heavy physical or manual occupations, their alertness after retirement is almost as good as pre-retirement. Have you any views on that?

Mr Matheson—We would agree with that position as a general rule. We actually provide a bit of a potted account of the literature. In relation to the first term of reference, starting around page 3, we go through some of the research which has indicated that there is not any difference in productivity and in capacity between mature age people and younger people, except perhaps in relation to heavy manual work—the capacity to do that can decrease over time, quite clearly. However, we also note that there should reasonably be scope to modify those kinds of occupations and jobs to accommodate mature age people. We would certainly agree with that

position that there should not be any expectation that the skills and capacities of mature age people need be any different than those of younger people.

CHAIR—In terms of Job Network commencements, 20 per cent are mature aged. That is interesting. That is from your submission, on page 88. Do you expect that to grow in the next few years?

Ms McNally—One of the things that we are doing at the moment is working closely with the Council on the Ageing's National Seniors Partnership to conduct some joint workshops throughout Australia, looking at possible benefits of portfolio employment, the ability of some people to hold a number of part-time, casual or contract jobs with a similar theme. We still have to undertake an evaluation of and the things that are coming through the workshops. We are trying to address that by working proactively with representative organisations.

Senator BUCKLAND—Could you go into a bit more detail about the workshops—the number you have had, what the concept is, what the agenda for the day or the week is?

Mr Matheson—I can make a few comments and then perhaps we could later provide the committee with some additional information about the specific kind of agenda.

Senator BUCKLAND—Yes, that would be a help.

Mr Matheson—The initial proposal for these workshops was announced in *Australians Working Together* in direct response to one of the recommendations of the Nelson committee review of mature age workers, which was that we needed to run some sort of campaign to educate mature age workers about the changing nature of the labour market, because the labour market is changing and has changed significantly and, as Ms McNally said, there is an opportunity for, for example, portfolio unemployment. There was about half a million dollars provided in *Australians Working Together* for that: \$150,000 in 2001-02 and \$350,000 in 2002-03. After a competitive tender process, we engaged the Council on the Ageing to run a series of workshops. They conducted four as a pilot in 2001-02, which proved to be very successful based on the interim evaluation that we did. They were very well received by the people who attended, who often said, 'This is the first time we've really had this kind of individual contact with people from the employment services area.'

On the strength of the evaluation, we are in the process of conducting about 16 more workshops this year. Workshops are proposed for all the capital cities. There is a workshop coming up in Perth next week and workshops have been arranged for some major regional areas—Bundaberg, Wollongong, Bendigo, Albany and Western Australia—and for some of the outer metropolitan areas of the major cities. We have a workshop coming up in Frankston, and we have had workshops in Fairfield, Liverpool and so on. They involve a range of presentations, interactive sessions, break-out sessions, workshops and so on, based around those sorts of themes of the changing nature of the labour market. We say, 'This is the kind of labour market that you might be facing,' because a lot of the people who are attending these workshops have been out of the work force for some time and might be considering coming back in. So we say, 'This is what the labour market is like now compared, perhaps, to when you were working.' COTA have also brought in local Job Network providers so that people can make connections with the service providers, and they have brought in other experts on mature age employment

and portfolio employment. As I said, a number of these are still to be run. They will be completed by the end of June and there will be a major evaluation of the program after that.

CHAIR—In paragraph 98 of your submission you say:

DEWR is committed to providing greater incentives for mature age workers to participate in a range of activities which will enhance their chances of labour market participation.

Can you name the sorts of incentives or programs that you run?

Ms McNally—Basically, through the active participation model, which is our new Job Network services contract which starts on 1 July, we have tried to make access easier for mature age people. For example, as of 1 July we are allowing unemployed people immediate access to intensive assistance support from the date they are unemployed whereas previously they would have had to wait for three months. Mature age workers can now get assistance straightaway. That assistance involves things like mentoring, counselling and resume development.

Through the active participation model, a single provider will now be working with each job seeker. Previously job seekers would have to go and register with a number of providers but we now have more of a case management approach. We are also putting in place a job seeker account, which will enable job seekers to purchase a wider range of services and gives each job seeker about \$800, which can be used for taxi or bus fares to help them find work. This time around we are asking our Job Network members to put in a service guarantee about being more proactive in finding work for mature age workers and are looking at some more early interventions in training programs that mature age workers can get access to.

CHAIR—That sounds encouraging. This is all very necessary, but what did worry us was accessing superannuation to pay for the training of mature age people. That can defeat the sole purpose test. There is no proof that the training may lead to full-time work.

Mr Matheson—That is certainly our view which we put here—

CHAIR—I noticed you did provide the qualification elsewhere. I am surprised that it appeared in paragraph 98 despite the earlier qualification.

Mr Matheson—You should not read anything into that.

Ms McNally—The intent was mainly to demonstrate that the area we want to get into is flexible services. These are complex issues and we want to be able to be in tune with where government policies lie. We are trying to make our services flexible and not rigid, where you have to stick to particular parameters. This is more about what could be possible rather than what is happening now.

Mr Matheson—Certainly the position that we outline at page 18 is reflective of our view.

CHAIR—You had that there and then later on you advocate accessing it.

Mr Matheson—It was probably saying that even if, for example, some change were made that allowed people to access superannuation for training purposes, we were not advocating it. We were putting it up as a theoretical possibility. Even if that were the case, people would still face the prospect of reduced income if they could not get a job.

CHAIR—In the same paragraph, you almost acknowledge that superannuation and the age pension will not provide people with the retirement income that they expect. That is an interpretation that one could put on that paragraph.

Mr Matheson—The point we were trying to make—if we were not as clear in the submission as we should have been I apologise—was that anything that reduces people’s time in employment reduces their capacity to—

CHAIR—Before retirement?

Mr Matheson—Yes, that is right. It increases the likelihood of a poor retirement and reduces their capacity to plan and provide for their retirement.

CHAIR—So paragraph 98 is based on the proposition that they are retiring before retirement age, not after. It was not clear.

Senator SHERRY—In paragraph 80 you say that, in a survey conducted in 2001, seven out of 10 people nominated at least \$30,000 as the income they require. I think I know the survey you are referring to. For the record, was that the AFSA saving expectations survey?

Mr Matheson—Yes. We have had a bit of a discussion with Senator Watson. We said that we really defer to Treasury on the issue of superannuation because it is their portfolio issue. This was an attempt, in a fairly potted way, I guess, to respond to—

Senator SHERRY—You then referred to the AFSA preferred model, and there has been a lot of argument between AFSA and Treasury about it in terms of the conclusions you come to in the last sentence.

Mr Matheson—As I indicated to Senator Watson, we were providing a bit of a potted review of some of the evidence. We would certainly defer to Treasury’s assessment on that.

Senator SHERRY—You say that there is ‘a big expectation gap’. Let us put aside the adjective ‘big’. Is there an expectation gap? Is that a conclusion you have come to based on material you have looked at, surveys you have done or feedback you have got?

Mr Matheson—It is an area that is not in our portfolio responsibility. In a quick review of some of the literature, that is a view that we came to.

Senator SHERRY—Finally, under the heading ‘Termination of employment of provisions’ you refer to the Qantas Airways Ltd v. Christie case. Are you aware of any other occupations where there are similar provisions that effectively can prevent a person working beyond a certain age?

Mr Anderson—The Qantas Airways Ltd v. Christie case was perhaps exceptional because of the involvement of the requirements of foreign countries over which pilots were flying. It shows the high standards required for an Australian employer and that inherent requirements do justify compulsory retirement. We do refer in our submission to prescription in some state legislation of particular employment where compulsory retirement is still permitted. I do not have the details of that with me but we could provide that.

Senator SHERRY—Is that in this submission/

Mr Anderson—Yes.

Senator SHERRY—I did not pick that up. So that still applies in some states. Would that refer to things like judges retirement ages?

Ms McNally—That is right.

Senator SHERRY—Isn't there something in the Constitution about judges retirement ages or am I thinking about something else?

Mr Anderson—You are correct in that there are some constitutional requirements for compulsory retirement. It is not a matter that a government can deal with. The Commonwealth government has set out to remove compulsory retirement to the greatest extent possible. There are some exceptions, which we set out at pages 8, 9 and 10 of our submission. In state legislation there are some particular positions, largely but not only for judges, for which compulsory retirement ages can still apply.

Senator SHERRY—For example, you say in paragraph 29 that in Queensland the act has no effect, and then you list a range of occupations. Why have fire officers or police officers been excluded under the Queensland act?

Mr Anderson—I am not able to comment on the rationale of the Queensland parliament.

Senator SHERRY—There may be a rationale. I am just wondering why the rationale does not exist in other states, when it does at the moment in Queensland.

Mr Anderson—Where compulsory retirement is a matter of statute, that is in some ways different from the compulsory retirement policy or practice of another employer. It is a matter that each jurisdiction has had to consider in seeking to narrow the impact of compulsory retirement—that is, which of its statutes it would amend and which it would leave in place. But I could not account for the differences between jurisdictions.

Senator SHERRY—In Queensland, if there were a statutory retirement age and there were an exemption under the Queensland act in the case of, say, police officers and fire officers, they could then be forced, effectively, to retire in Queensland before they were able to access their superannuation, couldn't they? The super access age is 55 to 60—that is national legislation, federal law. You could have a circumstance where someone in Queensland is forced to retire before they could get their super. It seems to me that that is possible.

Mr Anderson—Yes, as a matter of logic that is conceivable.

Senator SHERRY—Would the Commonwealth have the power to override the states in these sorts or areas? Do you have any view on that?

Mr Anderson—The Commonwealth does have some constitutional limitations in its capacity to interfere with the operation of the states. I am not sure. It is not a matter that we have looked into on the basis that we have no particular intention to interfere in that way.

Senator SHERRY—I was not going to go into it. I just wondered whether in fact the Commonwealth did have the constitutional power in this area to outlaw discrimination on the basis of age and unilaterally overrule state legislation where it existed.

Mr Anderson—The Commonwealth has made a fairly large move towards prohibiting termination of employment on the basis of age generally—initially in reliance on an International Labour Organisation convention—but that turns particularly on termination of employment at the initiative of the employer, so that has been prohibited nationally. But where the termination of employment or the holding of an office occurs by operation of legislation, that is not at the initiative of the employer. So where state legislation means that a person ceases to hold an office, that is not something the Commonwealth can directly address necessarily.

Senator BUCKLAND—At page 7 of your submission, you look at the Australian social trends in 2000. The trend for paid work employment arrangements in the late 1980s for men and women by age shows—given that this is a survey for 1998—very definitely a move towards ongoing and part-time jobs, more so for women. I cannot refer you to the documents, but later information sees those numbers growing, particularly in the area of labour hire. If that trend continues to go in the direction that it is now, which is a reasonably steep climb from what I can put together in my own mind—and I do apologise that I did not bring figures or have the sense to remember to get those figures—what impact is that going to have, 15 or 20 years down the track, on the overall ability of superannuation to be a real investment for workers, given so many are in this casual, part-time arrangement?

Mr Matheson—If moves to part-time and casual employment were not a matter of choice—in other words, if people were being forced into part-time and casual employment at the expense of full-time employment—then there may be some concerns. But what we are seeing with this significant growth in part-time employment is that a very large proportion of it is reflecting changing preferences, or in fact reflecting the preference, particularly of women, to move into the work force in part-time employment, perhaps to balance work and family considerations. The ABS data on part-time employment states that three-quarters, or thereabouts, of all people working part time do not want to change their hours. There is certainly a relatively small proportion who would prefer to work more hours; there are some in fact who would prefer to work fewer hours. But the overwhelming majority of people who the ABS has surveyed—and this has been fairly clear in the data over some time—are working part time because that is their preference and it is their preference because it allows them to balance work and family considerations.

The large increase in female part-time employment is probably coming from women whose male partners are in full-time work and this is an additional part-time job in the household. A lot

of it is occurring amongst young people. There has been a big increase in part-time employment amongst students, for example. There has been a big shift amongst young people from full time to part time as we see an increase in education retention levels and young people choosing to combine education with part-time work. Overall, provided it is their preference, I think it is a positive trend and it reflects a more flexible system which is allowing people to accommodate the variety of family and household situations and lifestyle preferences.

Senator BUCKLAND—I think we must live in vastly different parts of the country, but that is an argument for another day. If more and more people are making this choice for part-time or casual work, as you have said, what effect will that have on the ability for superannuants to be more reliant on their own savings in 15 or 20 years time? It has got to have an overall impact on our society.

Mr Matheson—If the choice is between not working because you could not participate in the labour force because you had to exercise your caring responsibilities or working part time and balancing those caring responsibilities with your preference to participate in the labour force, then I would not see it as an issue. I should say that some of those questions about the capacity for superannuation to provide for people in retirement over time are probably best directed to our Treasury colleagues who will be along and can answer those kinds of questions.

Senator BUCKLAND—When I saw those survey results, I was really wondering about the purpose of them being there, but that is a choice that you made.

Mr Matheson—I would repeat the point that I made earlier: this big increase in part-time employment that we have seen has been associated with a pretty big increase in female labour force participation, which suggests that previously a lot of women were not able to exercise a choice that they might have had to continue to work.

Senator BUCKLAND—As I said before, that may be an argument that we can have on another day and in another arena. Ms McNally, you spoke about looking at training programs for mature age workers. What sorts of programs are you looking at there, and what mature age workers are you directing that at? What parts of the work force will they come from?

Ms McNally—We have been working closely with our colleagues in the Department of Education, Science and Training to basically develop some joint initiatives to address this issue. For example, one of the things that they have been doing is a national skills industry initiative focused on working with particular industry groups to develop training programs that would suit people of a mature age. We are also looking at how we can work with some of the more complementary programs. For example, there are a lot of employment and training programs that the states run. We are looking at how we can join those up more with the directions that we are heading in through our active participation model, which is providing the training account funding and so on. So what we are trying to do is to join up some of the activities and reduce the fragmentation rather than designing specific programs—which is more what happens through the department of education.

Senator BUCKLAND—Are these programs designed to retrain and train to keep the more mature worker in the work force?

Ms McNally—I think they are designed to give them options.

Senator BUCKLAND—It may be a naive question but it is one that I do not know the answer to: when do we become mature age workers?

Ms McNally—I think that is up for debate, but the current definition is 45.

Senator BUCKLAND—What about training for lifestyle upon retirement?

Ms McNally—I am not sure that we provide any training for lifestyle at all.

Senator BUCKLAND—Is the department giving any consideration to that?

Ms McNally—I would not be able to comment. I could have a look into that for you, but it is maybe something that I could liaise on with our colleagues in the department of education.

Mr Matheson—I might also add that this may be more an issue for the Department of Family and Community Services who do have the portfolio responsibility for income support in retirement.

Senator BUCKLAND—I understand that. We have taken a lot of evidence about securing our financial security for retirement and for our later years. There seems to be a major push to keep mature age or older workers in the work force longer, but I am concerned that, in all of what we have heard over the duration of this inquiry, we have heard very little about the real human effect of retirement. I am just wondering what attitude the department of workplace relations has to address that.

Ms McNally—Some of the examples that I could give you at this time include a program called Bytes, which is run by the department of education. It is targeted at workers aged 45 years and older and is designed to give them IT skills and IT training. More information on that is accessible through the website. There is also a language, literacy and numeracy program offered, which is made available through Centrelink. There is another program, the WELL program, which is about developing links with workplace areas to develop English language and literacy skills. There is also a New Apprenticeships program which has a number of older Australians aged 45 years and over. The figures I have here are that, as at December 2002, there were approximately 44,000 mature age people involved in the New Apprenticeships program. So there are a range of different initiatives in place.

Senator BUCKLAND—I am concerned that a person gets to the age of around 60 or something—even to my age but hopefully a bit older; I am not there yet—and starts thinking of retirement. One of the major concerns I have—and it seems that it is not being addressed by anyone; I am wondering whether your department has tried to get a focus on it or done some preplanning for it—is that, on the day they finish work, workers who have been in trades or operations production type work finish work completely. They have a lifestyle change that, for many, is very difficult to cope with. They can do the garden for a couple of weeks and they can sleep in for a month or something and get used to that, and then they get bored, whereas people in senior or middle management positions can often pick up a consultancy which continues that

mental stimulus needed to survive. I am wondering whether any preplanning or thought has been given to that aspect of retirement by the Department of Employment and Workplace Relations.

Ms McNally—Some work is commencing in that area. It is still very much developmental. We are working with a number of other departments. You are probably aware of the Intergenerational Report released at the last budget.

Senator BUCKLAND—Yes.

Ms McNally—That highlighted some of the issues you have raised, and we are working closely with our colleagues in Treasury and some of the other departments to develop strategies to address that in the long term. Some of that work is still being thought through. One of the big issues we have at present is about employer attitudes to mature age workers, which we are finding is one of the barriers that has to be addressed.

Senator BUCKLAND—That is what concerns me about all the training that is going on for mature age workers. They have skills as it is. You talk about training in IT and the money for that. You picked that because it is a simple one. Of what use, in real terms, is it to these people when in fact they may be better off being trained to prepare for a life of non-work? I struggle with that in my own mind.

Mr Matheson—The client group of our department's employment side is unemployed people. It is directed at helping unemployed working age people back into employment. That is the focus of the employment areas of the portfolio. It is not specifically focused on people post-retirement—that is largely, I suppose, the responsibility of FACS. But we have identified a couple of areas in our responses today, including the mature age workshops and some other programs like the Transition to Work program, where initiatives are directed at people who are outside the labour force, for whatever reason, and are considering coming back into the work force. So they are not people who are currently unemployed, on benefits and are trying to get back into a job but people who, for whatever reason, are thinking about coming back in—for example, women who might not have worked for 10 or 15 years but whose children have now left home.

So there are programs, such as the mature age workshops that we have been running and the Transition to Work program, which are directed at people of working age who are considering coming back into the work force—and perhaps coming back in not as full-time employees but with a part-time job that allows them to continue an attachment with the work force without having to be burdened with full-time employment five days a week, nine to five. So there is some work going on, but it is directed largely at people in that working age category.

CHAIR—With an increasing proportion of working people moving into casual and part-time employment, does this mean that it is easier for these people to work in casual or part-time employment after normal retirement?

Mr Matheson—We would probably argue that a very large part of that increase in part-time and casual employment reflects people's preferences for some more flexible working arrangements that do not involve necessarily full-time employment and that allow them to

balance personal responsibilities, caring responsibilities and lifestyle choices with some sort of an attachment to the work force.

I mentioned earlier the ABS data on the preferences for hours worked among part-timers, which showed that about three-quarters of part-time workers are actually happy with the hours that they work. It seems to reflect their preferences for whatever reason.

Senator BUCKLAND—Is there a preference of some employers for part-time employees?

Mr Matheson—Certainly that is the case. And there always has been, particularly in areas like retail and call centres, for example, where employers like to increase the numbers of staff during peak periods. There are any number, particularly in the service areas of the economy, where part-time hours are better suited to business requirements.

In fact, and Mr Anderson might like to add to this, one of the key initiatives under the Workplace Relations Act was to provide for permanent part-time employment in awards, which was not previously there, to increase the opportunity through awards for people to access part-time employment. And it does reflect recognised preferences in some cases on both sides of the employment relationship. There is no doubt about that.

Senator BUCKLAND—Have you surveyed industry to try and establish the reasons they want this arrangement?

Ms McNally—Actually one of the programs which we are just starting up in our department is an industry initiative, where we are looking at working closely with industries. We have identified probably five or six major industries that would provide nine out of 10 jobs. We would like to work with those industries through that program to actually find out how to work more with mature age people and address part-time issues for mature age workers. That is one of the issues being looked at.

Senator BUCKLAND—Do you think it could be that there is a greater chance that the employer would get more compliance from its work force if it is casual or part-time based—‘If you do the right thing this week, we’ll give you work next week’?

Mr Matheson—You can look at data on this and we could provide you with some data. I do not have it to hand but we could come back with some, including on preferences for hours. Most people who are working in casual jobs in Australia have actually been with their employers for quite a long time. Many of them have been with them for many years. The notion that as a general rule casual employment is precarious—it can be in some cases; there is no getting away from that—and you are at the whim of the employer is not borne out when you look at duration of employment among casuals. It is not borne out when you look at preferences for hours worked among part-timers. I do not think we would necessarily accept that proposition.

Senator BUCKLAND—Maybe it is something for us to have a debate about at another time.

CHAIR—I just want to get some reconciliation on what I see as a couple of inconsistencies. Paragraph 112 talks about occupational health and safety and the inconsistency as to the highest

risk ages for workplace injuries. Obviously, the suggestion there is that the evidence does not bear it out. Then on page 4, item 10, your submission says:

DEWRSB reported on research that examined age-related absenteeism and accident rates. Unavoidable absence, including sickness, injury and associated costs, rises sharply from 50 years of age in Australia ... while avoidable absence from work declines with age.

The first one was contrary to overseas findings. In my experience, which is more than 20 years old now, we found that, generally, older workers had lower absenteeism rate and lower injury rate because they tended to be slower and more cautious. You often found in the manufacturing environment that the worst offenders, in terms of accidents, were sometimes younger people who were pretty enthusiastic and who took short cuts. I queried the findings of that report because it was contrary to the overseas findings at the time, and then I tried to reconcile that with what you were saying in 112. What is the message that you are trying to convey?

Mr Matheson—I am not familiar enough with the data that underpins what we have got in paragraph 10 to necessarily tell you. Perhaps it is something that we should undertake to have a look at and come back to you about.

CHAIR—I think it is worth clarifying, because it is an important issue, whether the older workers are more, or less, prone to these unavoidable accidents. That is pretty central to what we are looking at with regard to the problems of mature age workers.

Mr Matheson—We undertake to come back to you with a more considered response.

Senator SHERRY—On page 21, paragraph 103 is entitled ‘Informed choice’. I do not want to have a discussion or questions on so-called choice, but in that paragraph you say:

... independent advice may form part of an employee’s AWA, along with flexible working arrangements ... An independent adviser may encourage an older worker to continue to participate in the workforce in order to maximise their retirement income.

What evidence is that based on? That would surprise me if an adviser would be encouraging someone to stay in the work force when they can pick up the fees and the commissions on the moneys that they are going to invest for the worker who is retiring. Is there any evidence that that is based on?

Mr Anderson—No, we would not be making a claim about the prevalence of particular forms of advice. It is just that it is a possibility, something that could be a positive response to use the capacity to make AWAs for that type of provision. It might be a positive type of advice that could be provided to a worker, and it may well be that their incentives could be turning against that, as you say, but that is a separate question.

Senator SHERRY—It may well be. In this case, I would suggest, it is pretty unlikely. I would like you to take this question on notice for me. I will pursue it at estimates; I have raised the issue before. On the issue of the provisions—and obviously you cannot provide the individual provisions—where in an AWA there is a superannuation provision, what do the provisions go to? Do they go to higher employer contributions or do they go to the nature of the superannuation

fund to which the contributions are made? Where there are superannuation provisions in AWAs I would be interested to have some data on what issues they go to. I do not want it tonight; I suspect you probably have not got it tonight.

Mr Anderson—Thank you for that advance notice. It may be that we in the department are not able to assist, not having direct access to the terms of AWAs, but we will certainly make the inquiry to the Office of the Employment Advocate as to what research they may have undertaken or facilitated on that matter.

Senator SHERRY—Thank you.

CHAIR—Thank you for appearing before the committee tonight and thank you for your submission.

Mr Anderson—Thank you.

[8.07 p.m.]

BRAKE, Mr Roger Stephen, General Manager, Superannuation, Retirement and Savings Division, Department of the Treasury

DEININGER, Ms Rosemary, Manager, Superannuation, Retirement and Savings Division, Department of the Treasury

ROSSER, Mr Michael John, Manager, Consumer Protection Unit, Financial System Division, Department of the Treasury

CHAIR—Welcome to you all, and to Rosemary particularly for your first appearance before the Superannuation Committee.

Senator SHERRY—I have to go. I thank you for your submission. I will probably see you in estimates, I suspect, if I have any questions.

CHAIR—Thank you very much for giving us the opportunity of reading your submission. On page 2, you refer to the 10 hours per week rule. Isn't this a bit of an anachronism if we are trying to encourage people to move into part-time and casual employment? The mechanics of oversighting or auditing of this is quite significant. There is almost more on it in the breach than the observance. Why do we persist with it?

Mr Brake—Thank you for the question. The government has asked the Treasury to review the contribution and compulsory cashing standards that apply to fund members over the age of 65. Treasury has started consultations with the industry on that matter.

CHAIR—That is good. That is positive news. Later on, you talk about the limited circumstances in terms of early access—the two grounds of compassionate circumstances and financial hardship. Are you happy with the way those seem to be working in terms of objective tests et cetera? There seems to be a lot of inconsistency in terms of employers or the funds where these applications are made—some are actually demanding letters from a doctor saying that the person cannot re-enter the work force because of incapacity. That seems inconsistent with our requirements, to my mind. There just seems to be a little bit of confusion amongst some of the larger fund managers who require these series of doctors certificates. The latest that came across my desk was a demand from the doctor—after he gave her the original one—that this person never be in a position to work again. I found that rather strange, because I do not believe that is a requirement under the financial hardship or the compassionate grounds.

Mr Brake—Under the financial hardship grounds, I think it is essentially an objective test—

CHAIR—That is right.

Mr Brake—where you have to be in receipt of government income support payments.

CHAIR—For 26 weeks, yes.

Mr Brake—I am not aware of any people wishing to claim through financial hardship who have been asked about doctors certificates.

Ms Deininger—Is it possible that they have been asked for these doctors certificates because they wish to access their money because they have been incapacitated, rather than under either the hardship or the compassionate grounds? We can double-check what the actual requirements are under the law, but it may be that one or two doctors certificates are required to substantiate claims.

CHAIR—No, this is the fund manager. The doctors are getting a bit testy about it. They have provided the first certificate in terms of what they felt was required under the act, and then one of Australia's largest financial services providers then came back and said, 'We now require further evidence from a medical practitioner that this person will never work again,' and I just said, 'That is not my understanding'—because it is fairly costly to get certificates. That is why I am asking: how happy are you about the workings of this? To us parliamentarians—and probably I get more queries than most—there does not seem to be a general understanding either on the part of the employers or the financial services as to the strict requirements. This leads to a lot of correspondence often between APRA, between the Superannuation Complaints Tribunal et cetera. Maybe a paper on that could help because I have found there is a lot of a misunderstanding about it. The law, *prima facie*, seems fairly clear but the application out there in the real world is very confused.

Mr Rosser—I am wondering whether the circumstances are actually related to the disability retirement issue rather than an early release on financial hardship grounds.

CHAIR—No, this is an application for early release.

Ms Deininger—We can confirm with APRA what the doctors certificate requirements are.

CHAIR—Thank you very much. You refer to the pension bonus scheme. That seems a great initiative, but what is the take-up of that pension bonus arrangement?

Mr Brake—That is a scheme within the Family and Community Services portfolio, so am sure they could assist.

CHAIR—My efficient secretary has just referred to other evidence—for the record, 48,740 people were registered for pension bonus, or about a quarter of those of pension age who are working. On the issue of working and drawing down you say:

In practice, where a person is receiving a superannuation pension while also working and contributing to superannuation, both a pension account and an accumulation account are required. This is because it is not possible to add contributions to a pension once it has commenced ...

But if a person, for example, moved to a new job they might move to a different scheme.

Ms Deininger—This actually relates to people who are in the pension phase of superannuation—they are retired and they have a product such as an allocated pension. At the moment, if that person is receiving a monthly pension payment and they wish to contribute more

to superannuation—for example, they inherit some money and they wish to contribute that to that pension—they need to commute, meaning to stop, that pension, add the extra money into that pension and then start again with the new pension balance.

CHAIR—That is messy. For example, if I am in receipt of an allocated pension and an employer offers me a lucrative incentive to return to the work force, why is it not possible to continue that allocated pension and at the same time contribute to the new employer's superannuation scheme?

Ms Deininger—If that employer has an accumulation fund, you could continue to have your allocated pension.

CHAIR—You could continue to receive your allocated pension?

Ms Deininger—That is right, and you could accumulate your money in an accumulation account with whatever fund you wish to.

CHAIR—So you can continue receiving your allocated pension?

Ms Deininger—That is right, but if you only want to have one account—you do not want to have a pension account and an accumulation account—and if you want to put money back into the pension—

CHAIR—Why would you want to do that? You have got your allocated pension, as you suggest, you are getting maybe \$40 per week from that and you are finding life a little difficult—it is not enough to live on—and an employer offers you a job. He volunteers to put money into an accumulation superannuation account; that is possible, isn't it?

Ms Deininger—As long as you are over 65.

CHAIR—That is possible, as long as you are over 65 and meeting your work tests and all those sorts of things?

Ms Deininger—That is right. You can have the two separately.

CHAIR—Is the problem only in circumstances where you wish to bring them together?

Ms Deininger—There might be people who are in the pension phase who do not go back to work but receive an inheritance who will want to put that bulk of money into their pension. They would need to stop their pension. It is fine, too, for those people who go back to work and are drawing their pension as well as accumulating superannuation. Eventually, though, they will retire completely and will then have an accumulation account that will convert to a pension or they could take the money as a lump sum and they will still have the original pension. In those circumstances they may then wish to put the money they have recently accumulated while they were working into the first pension so they only have one pension rather than having two at the same time.

CHAIR—Why would people want to do that if they received an inheritance? They would just look for a new pension arrangement and continue the existing one, because there are some impediments in going back and opening it and starting again, aren't there?

Ms Deininger—It is certainly the case that they could have two pensions. It is merely a matter of convenience to have one pension and combine those amounts.

CHAIR—Yes, but it comes at some cost and inconvenience to do that. If you were a financial planner, you would not advocate that line of approach: you would advocate moving into a new product as the cheaper alternative.

Ms Deininger—I do not have any information about the fees that might apply in the various circumstances.

CHAIR—Thank you. I think the government—and certainly this committee—wants to encourage the moving into income streams. We are quite concerned about some of the up-front costs and trails that are associated, for example, with allocated pensions. We saw a situation where a person put in something like \$78,000 with an up-front planner's cost of \$2,400 plus quite significant trails twice a year. These high up-front costs are almost an indication of competitive market breakdown, are they not? Perhaps we need a Virgin boss to come in and make this whole industry competitive, because high costs and people being put into the wrong products are recurring themes.

It has been put to us that we really need to break this circuit for older people who are finding it pretty tough losing a high proportion of their capital in fees and charges (a) to get into products, and (b) to stay in those products. For example, why wouldn't it be possible to purchase an income stream through a government instrumentality? Surely it could be done a lot cheaper than it is being done at the moment. It could be a simple income stream with a range of pensions, including allocated pensions. These poor people getting caught in the grip of the financial planners is a worry. Couldn't a government agency do it a lot cheaper?

Mr Rosser—I guess the government's retirement incomes policy relies on the provision of retirement products through the competitive market and through the industrial relations and employment system.

CHAIR—The problem is that we have market breakdown—it does not appear that the market is competitive. We found that the airline industry was not really competitive until Virgin came in, and then it became really competitive.

Mr Rosser—It is difficult to comment on that.

CHAIR—Do we need a Branson to come into the financial planning industry or should we be looking, say, to government? Why shouldn't people be able to go to a government instrumentality and buy a simple product?

Mr Rosser—There are a large number of providers of retirement income products, and I am not aware of any significant impediment to entry or exit in that market. I suppose the level of costs in the market is established in a competitive framework.

CHAIR—The costs do not appear to be reflecting a very competitive market—that is the problem. It has been suggested by a number of players in the industry that one of the failures is due to competitive market breakdown. Everybody is able to extract these monopoly type profits from the industry.

Mr Rosser—One of the objectives of the Financial Services Reform Act is to provide more informed decision-making on the part of consumers. One of the key elements of the legislation is to provide improved disclosure, including of up-front commissions and trailing commissions. The intention is to put consumers in a better position to decide which product is in their best interests, obviously having regard to the costs and ongoing costs of the products.

CHAIR—Quite often, though, the consumers that we are referring to are not the younger people in our community; they are often widows, older people and manual workers who have not been associated with white-collar work and for whom looking at a 50-page report is somewhat bewildering. The information may well be there—and I grant you, it is a big improvement and I am pleased to see it—but, for a lot of people in our society, to be able to comprehend that without going to a financial planner is difficult. All they want to do is buy a simple product and invest \$80,000; we are not talking about putting out millions of dollars or \$230,000. We are talking about people who want a regular income. I did some quick figures on one of them, and the person involved—and I know we are in a market downturn—would have been better off to have bought a few hundred shares in a listed investment company on the stock exchange: he would have kept his capital and got his income stream, including a franked dividend.

Ms Deininger—The FACS submission described the services that the Financial Information Service, which is part of Centrelink, offers to people who are looking to buy retirement income products, and NICRI also provides some assistance. I understand that you may have met with them earlier today.

CHAIR—We did. We are very impressed with the service they provide. Their biggest problem is funding. They could extend their range of services and the number of clientele if they had more people. That is their big constraint in providing services to a wider population. We asked them: ‘Why don’t you advertise—you have got an excellent reputation and you produce terrific booklets? It is all there, but not enough people really know about you.’ They said that they had limited staff and their funding—because they do not go out to the private sector and get it—is not keeping pace with their increased costs. We could be foreshadowing a recommendation. It is a terrific service, but they service so very few people—7,000-odd people—in relation to the total. They too were very critical of a lot of financial advice putting people into the wrong products and the cost structures. We need to open up these avenues of advice to reduce the power of the oligopoly providers. Although you say there are a lot of them, it is not reflected in the service or in the competitive structure. Would you like to comment?

Mr Brake—I think Mr Rosser has made a number of comments. Obviously people can invest directly. If my memory serves me correctly, individuals can still buy government bonds, for example, if they wish to have a guaranteed income stream.

CHAIR—Are the funds themselves providing enough information during the accumulation stage and when they access an accumulated fund to enable the person to properly appreciate the

sort of product they are in, what it will provide and the steps that they should take? I am not necessarily saying that you need to provide each person within a particular fund a financial plan, but this committee is increasingly of the view that the funds themselves should be doing a lot more in providing ongoing advice rather than just collecting the money, paying it out and, 'Goodbye, Joe. Thank you.'

Mr Rosser—It is fair to say that the superannuation industry seems to be characterised by an emerging trend of funds actually providing a wider range of services to their members, including advice. This seems to be a focus in a number of industry funds—

CHAIR—The better funds are doing it, yes.

Mr Rosser—government funds and, perhaps to a lesser extent, funds in the corporate sector. The industry seems to be responding to the needs of its members.

CHAIR—Is the take-up fast enough? Treasury generally hears about the good performers; we hear about the poor performers.

Mr Brake—Some of this information would come at a cost, too, so there would be a balance between funds providing more and more information, which obviously can have some benefit to members, and the cost of researching and propagating that information to the members. That is a balance that each fund needs to determine, and it might vary from fund to fund because the needs of the members might vary. In a competitive market, funds will aim to provide the best possible value for money to their members.

Mr Rosser—In that regard, there seems to be an increasing number of post-retirement products being offered—for example by industry funds—and there is obviously a link between ending the accumulation phase and entering the post-retirement phase and the need for advice on what to do. It is fair to say that, in the industry fund sector, for example, there is an emerging trend to offer more products for the post-retirement phase and to provide advice to help people make their decisions.

CHAIR—We are certainly encouraging that, because that will limit rollover costs.

Mr Rosser—For example, a decision to stay might be the decision a person thinks about.

Mr Brake—Technology can assist here. Web based products can reduce the costs of disseminating this information to members.

CHAIR—It is my understanding that the UK government put a cap on certain charges that led to certain products falling out of the market. Would you like to comment? Are you aware of that?

Mr Rosser—As I understand it, the government decided that it was appropriate to require the offering of low-cost products with limitations on the fees. I do not think I can comment on the popularity of those products, but there was a perception that it was a useful regulatory decision.

CHAIR—I am told by the industry that it has led to the withdrawal of a number of products. While the measure was well intentioned, at the same time there was a product withdrawal from the market. Are you not aware of those consequences?

Mr Brake—I am not familiar with any official analysis of the stakeholder pension product. I do not know how long they have been in place and I do not know if the UK government has done any analysis on the continued appropriateness of that regime. We can certainly investigate.

CHAIR—You might like to look at that. It is an interesting concept. A number of our members feel that this may be the way to go, but there has got to be a balance.

Senator BUCKLAND—It seems to me that anyone with a suit and a half-decent calculator can set up as a financial adviser. Is Treasury of the view that these people should have more than just a licence or a certificate saying that they are an adviser? Has Treasury given any thought to this becoming a profession requiring a tertiary education? I know you cannot go and dictate that it should be so, but have you given any thought that something along those lines would provide better advice to people?

Mr Rosser—At the moment under the FSR there are competency requirements. There are different levels of qualification which people are required to have to perform different types of services, and they do approach—and, in fact, exceed in some cases—tertiary qualifications. Generally speaking, the industry itself—the Financial Planning Association—has spent a good deal of resources on equipping its members to provide advice through qualification and certification of competencies and, as I say, the FSR does require people providing advice to have certain qualifications which are specified by ASIC.

Senator BUCKLAND—I am certainly aware that it has a requirement. It also has the requirement that there will be disclosure of fees, commissions and charges but, during the course of this inquiry, we have found that many people have not been advised of fees and charges and there does not seem to be any control over those who are not complying with what the act stipulates.

Mr Rosser—I think it is important to mention the transitional period. At the moment, the FSR is just over halfway through the transition period. I think the figures are that around 800 licences have been issued and ASIC expects there to be about 6,000 licences ultimately issued, including a large number to the superannuation industry sector. Most of the industry at this stage has not transitioned into FSR, so the full requirements of FSR do not apply.

Senator BUCKLAND—That is really not very comforting to those people who are investing or have invested the largest amount of money they have ever had their hands on. It really does not give much comfort to those people. Is there any provision—and I am not aware of any—to compensate those who lose as a result of non-disclosure or bad advice?

Mr Rosser—Just a point on the transitional period, there are significant differences between the requirements at present and the requirements after the event. In effect, that is the underlying rationale for the introduction of the FSR—to ratchet up those requirements. In terms of compensation, the current arrangements and the new FSR arrangements include civil and criminal liabilities in relation to the advice that is provided to customers. So, for example, if a

customer felt they had been given poor, inadequate advice, they have civil remedies available to them, and ASIC can take enforcement action if it involves breaches of the law.

Senator BUCKLAND—That is not currently in place though, is it?

Mr Rosser—It is.

Senator BUCKLAND—They can do that now?

Mr Rosser—Yes. For example, in relation to the shadow shopping exercise that ASIC and the Consumers Association did, a number of incidences were identified in that survey where the current legal requirements were not complied with. I understand that ASIC is looking at the consequences of that for the entities involved.

Senator BUCKLAND—I think you were present during the evidence of the previous witnesses when I asked them this question: what effect will the superannuation contributions of the growing number of casual and permanent part-time employees have on the overall superannuation pool 15 or 20 years down the track, given that they do not work the same hours as a permanent employee in most cases? Has Treasury looked at that at all?

Mr Brake—It is a good question. We provided a lot of cameos in our evidence to the committee's inquiry into adequacy. I could check if there was anything on that. So the specific thing you were interested in was people who were part time and over 65?

Senator BUCKLAND—My big concern relates to the fact that there is a very big national pool of superannuation funds, even though their performance is pretty ordinary at the moment. If there is a growing trend—by choice of employees, as some would suggest; some of us might wish at another time to argue differently to that—for more people to put less money in, that large pool we have got now, which provides certain securities to superannuants, is going to shrink because of the very fact that there is not as much going in. Even my very, very limited maths knowledge tells me that. I am just wondering whether Treasury has turned its mind to how that can be addressed.

Mr Brake—In terms of the modelling, we model out 40 years of the assets and the retirement income system, and that takes into account a whole range of work experiences. We break it up by gender, child-bearing and so on. I do not have with me the information on the assumptions we make about changes in work force participation between full time and part time. We can certainly take that on notice and see if we can provide you with further information on how we have done our modelling and the implicit assumptions we have made in that regard.

Senator BUCKLAND—I would certainly appreciate it if you could do that. I think I can finish on this issue as Senator Watson has been fairly thorough. One area that is of particular interest to me in this inquiry is the human side of people moving into retirement. Because we are reasonably well employed, we often forget the human side. In my view, people often need training for retirement. It is very difficult for many people to stop work today, for example, and have no work regime in their lives in the future. I am aware that some larger organisations are considering phasing them out of the work force. The scenario for a person who is on continuous shiftwork, seven days a week with a three- or four-shift rotation, would be for them to come off

shiftwork and utilise their years of experience and their skills to help train replacement workers, to help develop new methods of work or to mentor younger people or other workers in the new techniques. To do that would be quite costly because you are virtually carrying an extra person. What would Treasury's view be about the funding of that? I suppose this is a tax office question, but would assistance be available to organisations to do that without tapping into the superannuation money? I might not have been very clear on that: someone has to pay because you virtually have an extra person.

Mr Brake—Are you talking about some sort of subsidy for that person's wages whilst they are in that transition?

Senator BUCKLAND—Yes, it is a fairly important period of time.

Mr Brake—That would probably be a matter for the Department of Employment and Workplace Relations.

Ms Deininger—We did address the issue of people who are older wanting to retrain and using their superannuation to fund that retraining, but we did not discuss any of the programs that might be available to help employers retain older people for this mentoring role that you mentioned.

Senator BUCKLAND—Prior to entering the Senate, I went through a process with a company where we tried to introduce a scheme that would enable a person to be weaned off work without losing money, like a retention of rates scheme. Not only would they have been mentoring and training others but they would have been training for retirement and learning other activities. Most of us can dig a hole to plant a tree and most of us know how to go fishing. But there is more to long-term retirement than that, and you have to learn to do without that same income. There are different pressures on you when you retire. Someone needs to pay for that training. Whether it should be through a subsidy or through access to superannuation funds in some way, I am not sure. When I tried it in the past, we got stuck because superannuation was the big issue.

Ms Deininger—It may well be that, instead of a business employing new people to train their staff, they could use their older employees to train them and their new employees could be in the manufacturing business or the actual business of the business. There might be instances where, by shuffling the existing pool of staff, you might be able to accommodate this mentoring role for older workers without a government subsidy or incurring additional costs to fund that person's salary.

Senator BUCKLAND—Eventually I am going to come across the agency which can answer my question. I apologise if I have directed it to you incorrectly, but Treasury has a part in this because it is utilising funds that are there. It is accessing superannuation money. At some time, I will find the right person and ask this question.

CHAIR—An earlier witness from IFSA, Mr Stanhope, proposed the formation of a drafting task force within Treasury with the role and purpose of examining the relevant legislation and the regulations, identifying the problematic provisions and rewriting them. In the first place, he was focusing essentially on SIS, which has been around for a long time now. The Managed

Investments Act, of course, is a more modern act and perhaps it is time to revisit SIS to bring it up to date. I would like the Treasury's view.

Mr Brake—The department has a continuous brief to look at the legislation. If problems are identified, we bring them to the government's attention. If IFSA or any other organisation or a parliamentary committee raises concerns with the particular provisions, then we examine those and provide advice to the government. More broadly, recently there was a Productivity Commission review of the legislation in terms of its impact on costs to business and competition.

CHAIR—We have received evidence from Mr Wickham, who noted:

In the UK the regulator, the Financial Services Authority (FSA), requires that a benefit projection statement be provided annually for all accumulation style superannuation benefits ...

I was interested in that and whether it was consistent with the thinking in Australia, because ASIC, in terms of corporations in the plantation industry, is very much against long-term plans and is forbidding that companies issue prospectuses which have them, because of the uncertainties of projecting such a long way into the future. If one looks at one's own—for us older members—retirement products and compares the projections made 10 or 20 years ago with the projections made today, one sees that today's projections are far less than they were 20 years ago; whereas it was 20 years ago that I really should have been thinking about whether I should be adding to my fund. While they can be helpful, they can also be very misleading in terms of, firstly, what subsequently can happen within the industry and, secondly, what can happen within markets. What is your view on the UK position, because it seems inconsistent with Australian thinking?

Mr Rosser—You have probably summed up the thinking. Projections are notoriously difficult and unreliable and have the great possibility of misleading and not causing a person to be better informed. They are heavily reliant on assumptions, and the assumptions obviously can change quite rapidly. There is an underlying issue about whether or not people have an understanding of the income or assets they would need to support their retirement. But that is a slightly different question to whether or not they are able to project forward their current position into the future and have an estimation of what it would be 10 or 15 years into the future. The ASIC position on projections in prospectuses is especially in relation to areas such as agricultural investment schemes, which rely on things such as the rate of growth of trees, and hence they look at climate and so on.

CHAIR—And stability of market.

Mr Rosser—There is a series of very brave assumptions that need to be made to do any sort of projection, and the regulator's view is that it is more prudent not to make long-term projections unless they can be based on reasonable grounds.

CHAIR—And that is the view of Treasury too?

Mr Rosser—Yes, our view would be that it is notoriously difficult to make long-term projections relying on assumptions.

CHAIR—An earlier witness from the Australian Bankers Association put forward the view that the time is now ripe for a major high-level inquiry, analogous to a royal commission or a commission of inquiry, to look at the whole of the superannuation and retirement incomes arena. How do you view that suggestion, or is it better to make incremental changes because, for example, I could see market disruption between the terms of investigation? Do you agree that we have a pretty sophisticated arrangement that is best done by incremental change to overcome the sovereign risk problem associated with putting money away for long-term savings and the need to maintain confidence in superannuation? While these inquiries are under way you never know what is going to come up.

Mr Brake—Those sorts of matters are really a policy question. I would certainly agree with you that we do have a very sophisticated retirement income system with the three pillars, but possible processes for change would be matters for the government.

CHAIR—Would Treasury like to comment on what appears to be the emerging move, possibly through necessity as much as anything else, to a fourth pillar of working after retirement. You might have heard our questioning of the previous witnesses.

Mr Brake—Certainly a higher participation can obviously be good for the individual and for the community more broadly. That is an area in which Treasury is very interested.

CHAIR—Are you confident that Australia's productivity rates of growth can be sustained into the future to sustain the greater numbers of people who will be falling back on full or part pension?

Mr Brake—I am sorry, productivity projections are a bit outside my field. In the Intergenerational Report, to do the basis of long-term modelling, Treasury does make projections of productivity, and obviously the productivity performance of the Australian economy has been very good in recent years. Unfortunately, I am not the person to ask about those sorts of matters.

CHAIR—You might like to take that on notice. I think we know the answer but it would be handy to have it confirmed. Would you like to comment on any issues that have been raised in some of the earlier submissions—maybe to correct factual misinformation or any other issues? One of the difficulties that a number of witnesses drew attention to is that a number of the up-front fees under some circumstances can be tax deductible, whereas generally trail commissions are deductible.

It would help people in assessing retirement products to get an assessment of their position without having to buy a product. If that were tax deductible, it would probably encourage people to get better advice. At times when it is less critical in terms of time or investment amount to make some assessment, they might be prepared to outlay a modest amount of money to have somebody run the ruler over what they are doing or to look at whether they should be moving from international to balanced or cash or something like that.

Mr Brake—The general tax principle is that deductions can be claimed only for expenses incurred in earning assessable income. Superannuation advice paid for by an individual is not incurred in earning assessable income, and that is why it is not generally deductible.

CHAIR—It is a capital amount.

Mr Brake—It is obviously a longstanding part of the tax law and a tax principle that you get deductions for amounts which you incur in deriving this assessable income. So it would be a policy change to allow such deductions and there would obviously be implications for that which would need to be assessed if such a proposal were to come forward.

CHAIR—I think that rule was drawn up at a time when there were fewer people managing their own retirement products. This committee wants people to be a little bit more proactive in terms of self-examination—of what they have, where they are going, how long it will last and whether they are in the right products—before the crunch time comes. It may help, and expenditure in terms of tax deductibility may in fact save the government a lot of money by people not having to go on the pension as early as they would if they were in the wrong products. If they could pick that up earlier in life, it may make their investments more secure, less vulnerable and provide a more adequate return. We just put that case to you. It might get reflected in our report!

Mr Brake—Naturally enough, at any time when amounts which are currently not deductible become deductible, there is a cost to the government.

CHAIR—Of course.

Mr Brake—Treasury often have requests to do such things and they get considered, but increasing the number of things which are deductible generally means higher tax rates—that is obviously at that macro level. Can I make just one point of clarification. Near the beginning, you asked about people aged over 65 and the work test.

CHAIR—The 10-hour work test, yes.

Mr Brake—I said we were looking at that and that we had put out a paper about some alternatives to the current monitoring regime. I just want to clarify that you were talking about people aged between 65 and 75, not those over 75.

CHAIR—That is right, yes. You collect more people in that age bracket. It is more critical. Thanks very much. Thank you, Rosemary, for your participation in your first appearance before our committee.

Ms Deninger—Yes, indeed.

Committee adjourned at 8.59 p.m.