Appendix 2: Senate Inquiry Into Women's Retirement Incomes

National Foundation for Australian Women
REAL WOMEN. VISIONARY LEADERSHIP

Supplementary submission to Re:Think Tax Reform Discussion Paper 2015
Women and Retirement Incomes

Introduction

In Australia there are three pillars for retirement incomes – income support, superannuation and individual savings. This section addresses women and income support in the retirement incomes system.

NFAW believes the current system is sustainable from a fiscal perspective. Australia spends an average of 3.5% of GDP on age related spending compared to an OECD average of 7.8%.
There is, however, a need to address the issue of an ageing population from an equity viewpoint. The challenge is to make the retirement income system fairer and more flexible by targeting public support more clearly at people who need it and by Improving incentives to save for the future. NFAW supports a systematic and comprehensive review of the Age pension(AP), superannuation and asset taxation.

There is a major gap between the financial security of Australian men and women in later life. Women face a much greater risk of poverty. Of all the household types in Australia, elderly single women are at the greatest risk of persistent poverty, with over half living in poverty. (HILDA survey 2008)

The retirement incomes system should be reformed to reflect the reality of women's lives.

Background

Many of the issues raised here have been identified previously.

"On average ,women have lower lifetime earnings compared to men, retire with less superannuation than men and own a smaller percentage of the nations wealth. Women are more likely than men to live in poverty, particularly after relationship breakdowns….. "
NFAW submission to the Mc Clure Welfare Review

"Responsible governments should always be looking for ways to keep spending under control. No areas should be off limits for regular examination. NFAW calls for a more balanced approach to the federal budget in terms of consideration of expenditure, tax expenditures and revenue measures"
NFAW Budget 2014/15 – A Gender Lens

"In Australia, nearly 60% of income support recipients are women. Women are more likely than men at all ages, to be receiving income support, presumably because they have lower incomes and assets." DSS 2012

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"A growing body of evidence shows that the numbers of women facing housing stress and homelessness will rise sharply over the next decade as women with little superannuation and dependent on the AP retire in greater numbers. The health,social and economic implications of housing stress and homelessness will be significant and costly. There is an urgent need for federal housing policy to take a long term approach to address the challenges posed by this cohort of women."NFAW 2014

Key Statistics 2013*

About half of Age Pensioner (AP) recipients come from other income support payments.

- 56% of the 2.4m AP's were women
- 54% of female AP's were single widowed or divorced compared to 30% of men
- 26% of female AP's were not home owners
- 61% of females on the AP were on the maximum rate

- 70% of Carer Payment (CP)recipients were women
- 53% of CP recipients do not own their own home
- In 2008, nearly half CP recipients had no other income

- 31% of female Newstart Allowees (NSA) were aged 50+ years
- 76% of female NSA recipients were single, widowed or divorced
- 70% of female NSA recipients reported nil income per week
- Of long term NSA recipients, 55% of women had been on the payment for more than 5 years, compared to 29% of men
- Since 2010, there has been an over 40% increase in the number of people over 50 on NSA

- In 2012, 62% of all single rent assistance (RA) recipients were women (547 000)

*DSS 2013 Irregular statistical publication.

Adequacy

The level of the pension is slightly below the OECD benchmark for poverty (50% of median income). However, there have been significant increases in the pension over the last decade with increasing numbers having superannuation as well as the pension. The main group still suffering persistent poverty remain those who are fully reliant on the pension who are in private rental accomodation, whose after housing costs are much higher than those who own a home or are in public housing. These are overwhelmingly women, especially single women.

ISA- Rice Warner modelling (June 2015) shows that

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- The retirement system is especially failing single women. Over two thirds of single women aged 55 to 69 will retire on incomes below a comfortable standard.

As NFAW and others have noted previously, the growing gap between pension levels and allowances is inequitable and unjustifiable. The growing number of women going onto NSA because of changes to Parenting Payment and closure of other payments, results in a dire level of poverty.

Reform of the retirement system needs to include a formal mechanism that addresses the needs of women whose workforce participation is intermittent, interrupted and precarious. These women are less likely to pay superannuation because often, when they do paid work , it is in low wage industries. NFAW has previously suggested a government funded system of crediting superannuation accounts for these women. This would address the questions of adequacy and fairness. It could contribute to ending poverty traps for groups such as carers.

Alternatively, as ACOSS has proposed (2009), a universal retirement income supplement, could be introduced, paid as part of the AP. It would be substituted for tax concessions that mainly benefit high income earners.

As pointed out above, social security recipients who rent privately face a particularly high risk of financial hardship. Three quarters of pensioners in extreme housing stress paying more than half their incomes in rent were older women (Welfare Rights 2013). NFAW believes the maximum rate of RA urgently needs to be increased and indexed to housing rents changes.

2015/16 Budget Changes

The AP has a progressive impact on retirement incomes because it is paid at flat rates regardless of previous labour force status and is income tested compared to superannuation which provides greater support for people with higher earnings throughout their working life and limited support to people whose labour force attachment is weak.

Apart from the home, the financial and other assets of age pensioners are tested against a limit, so as to target the pension. The AP is also subject to an income test. Pensioners are assessed under both, the one giving the lowest payment is applied.

The new asset test arrangement increases the cut in point for pension decreases and tapers the pension away more quickly. Ben Phillips of NATSEM (June 2015) has modelled the effect of these changes. His modelling suggests

- 300 000 pensioner families will be worse off, compared to 155 000 who will be better off.
- The majority of pensioners affected by the changes are low income families with modest to high assessable assets. These families are low income by definition as their incomes are not high enough to be impacted by the income test.

"The pension changes are likely to lead to behavioural changes …. The new pension taper rate implies a doubling of the "wealth tax". Beyond the asset test first taper pensioners now lose $78 per annum for every $1000 in assets beyond the threshold - double the previous loss of $39 per annum. Given this loss is greater than typical returns there will now be an incentive to draw down assets to increase pension payments….likely that high asset families will remain in a better long term position relative to lower asset pensioner families."

The 2015/16 changes to the AP asset test, deliver benefits to the lower end but can be hard on those with accumulated assets. The changes are piecemeal and could have significant behavioural effects. Both the Henry Tax Review and the Shephard National Committee of Audit recommended widening the existing deeming rules – the separate AP asset test should be replaced by a comprehensive means test that deems income.

Both the Harmer Review of Retirement Incomes and Australia's Future Tax System found the existing means test was complicated and inefficient, with the assets test singled out as a particular cause for concern. The losers are the current aged, most of whom didn't benefit from the superannuation reforms of the past 25 years, yet excessive superannuation concessions to the very wealthy continue.

The Henry proposal provides a more coherent way of improving incentives to save and work.

ACOSS (2015) notes that changes to the AP taper rates and thresholds should not proceed without an overall review of the retirement income system, including the tax concesions available to retirees drawing superannuation pensions. Under current arrangements the rate at which superannuation pensions must be paid ranges from 4% at age 55-64 to 7% at age 80-84 and reaching 14% for a person over 94. A person drawing the minimum rate of superannuation pension, which is exempt from tax, can effectively maintain the balance of their account, also exempt from tax, for many years into retirement and still be eligible for AP.

NFAW acknowledges that the superannuation system is still maturing, but the retirement income system needs to be reviewed to ensure that accumulated superannuation balances are use for the intended purpose, ie to provide an income stream during retirement. As recommended by the Henry Review and the Financial System Inquiry, products need to be developed that encourage pensions while allowing for longevity risk and additional costs at the end of life.

AP means and assets tests should be comprehensively reviewed to ensure that the combination of private and public funded pensions allow for an adequate standard of living.

The proposed changes are not grandfathered, therefore for those estimating the need for private savings plus the AP, many will be unable to achieve their goals.

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Eligibility

For women with lower levels of education and incomes through their working lives, who have a disability or who care for family members, retirement is less likely to be voluntary. They are much less likely to be employed and very likely to rely on social security for all or most of their income before and after retirement. For these women, the AP eligibility age has the greatest impact.

Further increases in the eligibility age makes little sense for those with a limited capacity to continue to work.

Before increasing the pension age, other income support payments, especially NSA, should be increased to an adequate level.

Proposals that the preservation age should be aligned with the pension age need to be modelled for distributional impact. The Productivity Commission (2015) notes that increasing the preservation age will increase workforce participation by around 2%, and this increase will be from workers who are in better paid positions. The fiscal savings from increasing preservation age to 65 would be around $7 bn and this would be from tax collections not pension savings.

About half of Australians who retire between the age of 45 and 70 do so involuntarily. Among women about 25% of these involuntary retirements are in order to care for family members. There is also evidence that many women retire at the same time as an older spouse. These women may be ineligible for the AP, and would be reliant on other, lower benefits. They may need to draw on their own superannuation to receive an adequate level of income.

Based on the Productivity Commission modelling aligning the preservation age with pension eligibility would be regressive as high income earners would work longer, saving more into superannuation while those who are forced to retire involuntarily would be at a high risk of poverty as they will not receive an adequate income prior to AP eligibility.

Accordingly NFAW does not support increasing the preservation age.

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