

## SUBMISSION ON ECONOMIC SECURITY FOR WOMEN IN RETIREMENT

### IMPACT OF PART PENSION CHANGES

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#### **Terms of reference.**

This submission addresses in particular the following terms of reference:

- b. the gender retirement income gap be referred to the Economics References Committee for inquiry and report by the first sitting day in March 2016, with particular reference to:
  - v. what measures would provide women with access to adequate and secure retirement incomes; including:

*B. Government assistance, with reference to the success of previous schemes.*

This submission concerns the retirement incomes of people with little or no superannuation but with modest assets whose earnings are supplemented with part pensions.

It is well known that on average, women have lower lifetime earnings compared to men, retire with less superannuation than men and own a smaller percentage of the nation's wealth. One of the reasons for this is that most women spend a large part of their life caring for family. This is taken as a given in this submission.

The current system of part pensions is fair and 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%. The issue of an ageing population should be viewed from an equity viewpoint. The retirement income system should be fair and flexible by targeting public support to people who need it and provide incentives to save for the future.

Ensuring a liveable income for all citizens stimulates the economy by maintaining demand for locally produced products; thereby increasing job participation, reducing expenditure on unemployment benefits, and increasing government income from taxes.

Recently a bill was passed in the Senate that changes the qualifications for a part pension, which is to be instituted in 2017. 91,000 part pensioners are expected to become ineligible for the part pension and further 235,000 people will lose part of their pension. 171,500 are expected to be better off. This is expected to reduce

government expenditure by \$2.4 billion. However, this has not been carefully thought through.

This submission shows that it is unfair and that it removes support for people with moderate savings, reduces the incentive to save for the future, and encourages people to dispose of their savings, thus costing the government more in pensions.

This submission supports the moderate increase in pensions under the new system, but it is necessary to retain the support with part pensions where savings earn less than the pension; thus allowing people to live with dignity and encouraging them to retain their assets. This will ultimately cost the government less in pensions than the new system as it stands.

This submission provides figures calculated for single people living in their own home, comparing their current income from assets plus part pension with the income under the changes. This is provided as an example and a similar situation would be found with couples and people renting.

Please refer to the attached document giving example figures in tables and graphs. The figures show the current and new pensions for differing levels of assets. They were calculated assuming that the entire assets are capable of earning an income of 3%.

#### **History of part pensions.**

Part pensions used to be only calculated on income. But many people with considerable assets were putting them in low interest earning deposits in order to get the maximum pension. To circumvent this, the government introduced the assets test so that people were forced to invest their savings. This is reflected in the current part pension schedule where the part pensions are calculated in such a way as to bring incomes to a level at or a little above the full pension. This encourages people to retain their assets and saves the government money.

#### **Summary of the effect of the change in part pension qualifications**

The changes do not affect people with sufficient assets to earn a liveable income. For instance, single people with their own home and with assets above \$770,000 will be able to earn sufficient income from their assets to make it unnecessary to dispose of their assets.

Those below will have to downsize to \$400,000 to earn sufficient income from assets plus part pension. To receive the maximum income from part pensions, people would need to downsize to assets of \$250,000. This encourages people to dispose of their assets as quickly as possible, or manage their assets in such a way as to have this sum in assets, and the rest of their assets sunk into their own home.

Thus, when people downsize to receive an income commensurate with the pension it will cost the government more in pension costs.

The changes are unfair as it targets those with modest assets, while leaving the wealthier untouched. By targeting those who are perceived as being in most need, empirical studies have found what has been described 'the paradox of redistribution'.

Research has found that the more targeted the benefits are to alleviate poverty, the more inequality increases. This submission shows an example of how this works under the new schedule of part pensions. People with modest assets will be forced to reduce their assets while better off people will be able to retain their assets: thus increasing inequality.

### **Details of the effect of the change in part pension qualifications**

Please now refer to the attached document showing graphs and tables of an example of how the part pension changes will affect incomes.

These part pension figures have been calculated for a single person living at their own home. They are an example of the regressive changes to part pensions.

The figures compare the current pension and new pension for varying levels of assets. All figures are income *per annum*.

They were calculated assuming that the entire assets are earning an income of 3%. This is an overestimate as current long term deposits are earning 2.95%. Also, the family car and contents of the house are included as assets. It is not known what the income from term deposits will be when the new schedule is instituted.

The graphs and tables show:

1. That the **current part pension** schedule brings income up to about the same level or a little above a full pension.
2. The cut-off point of \$783,500 assets earns about the same as a full pension.
3. This encourages people to retain their assets.
4. **The new part pension** makes income highly uneven depending on assets.
5. The new cut-off point of \$547,000 earns less than  $\frac{3}{4}$  of a full pension.
6. Under the new schedule, assets will not earn enough to live on where they are greater than \$400,000 and less than \$772,000.
7. Therefore, those with assets below \$772,000 will be forced to dispose of their assets until they are reduced to \$400,000.
8. For instance, someone with \$600,000 assets will have to spend \$200,000 before they can get an income as much as the pension.
9. With assets of \$600,000, the current part pension is \$7,176 per annum.
10. With assets of \$400,000, the new part pension will be \$11,466 per annum.
11. This will cost the government \$4,291 per annum per person MORE!
12. Income reaches its maximum at assets of \$250,000; the new part pension being \$23,166, bringing total income to \$30,166.
13. This schedule encourages people to downsize to this level, costing the government considerably more in pensions.
14. The new schedule encourages people to dispose of their assets as fast as possible.

### **Conclusion**

The new schedule of part pensions to be instituted in 2017 will force people (mainly women) with moderate savings to use up their savings until they are eligible for sufficient pension to survive on. It will not affect people with savings high enough to be able to earn a sufficient income. Once people with less savings have downsized to

receive a sufficient pension, they will be eligible for a higher pension than previously. So the sacrifice of people caught in the middle will bring no benefit to the Commonwealth budget. A LOSE LOSE SITUATION.