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13 October 2022
Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

**Submission to the Inquiry into the provisions of the Social Services and Other Legislation
Amendment (Workforce Incentive) Bill 2022**

Dear Committee Secretary,

Thank you for the opportunity to provide a submission on the critical issue of reducing barriers to pensioners and veterans entering the workforce. The purpose of this letter is to set out the broader economic context within which the Social Services and Other Legislation Amendment (Workforce Incentive) Bill 2022 (“the bill”) is being considered.

Research by the Institute of Public Affairs has established the following:

- New private sector business investment – a critical measure of economic performance – is now at a record low 10.1 per cent of GDP, far lower than the Whitlam-era 14 per cent.
- Federal debt is \$1 trillion, with rising interest rates set to increase annual interest payments from \$20 billion to \$90 billion by 2030, more than double annual defence spending.
- Red tape, including that faced by pensioners and veterans, is now at a record high, having grown by 90 per cent since 2005 which is double Australia’s economic growth rate.

In addition, Australia is experiencing a crippling, nation-wide shortage of workers, with over 470,000 job vacancies. This is close to four times higher than it was two years ago and is costing the federal government approximately \$7 billion every year in foregone income tax revenue.

Yet too often governments take the easy and lazy path by simply further increasing Australia’s already high and unsustainable rate of mass migration. More migration is not the answer. It will simply add further stress on Australia’s already heavily pressured schools, roads, and hospitals.

Permanent migrants also have an unemployment rate close to double the Australia-wide average, which puts pressure on our welfare system and leads to other social challenges, including crime.

Instead, the government must pursue bold reform to get more Australians into work, which includes:

- Removing all tax and red tape barriers on pensioners and veterans working.
- Removing all tax and red tape barriers on students working.
- Allowing low-risk and nonviolent offenders who are currently incarcerated to work.

Removing barriers on pensioners and veterans is a no-regrets policy. It will drive more revenue for the government; allow more pensioners and veterans to work, which is a source of dignity, esteem, and social connection; and reduce cost pressures on businesses, which will deliver more investment.

Yet the proposed changes by the government to the work bonus scheme are manifestly inadequate, and lack the vision and leadership that Australia desperately needs.

Remove all tax and red tape barriers on pensioners and veterans working

The barriers to work for age pensioners and veterans should be removed.

A survey conducted by National Seniors Australia found that 20 per cent of age pensioners would enter the workforce if work barriers were reduced, which equates to approximately 510,000 age pensioners. This is compared to the current rate of just three per cent of age pensioners in the workforce.

Currently, age pensioners have their pension reduced by 50 cents for every dollar they earn over the maximum work bonus ceiling of \$300 a fortnight, or \$7,800 annually.

The income they earn is also subject to income tax, meaning that an age pensioner who earns above the ceiling is subject to an effective marginal tax rate of up to 69 per cent.

We support the intention of the government's bill, to ease restrictions on age pensioners and veterans enjoying the dignity of work, and to help alleviate Australia's worker shortage crisis. However, the bill is not ambitious enough to achieve the needed results, because:

- The increase to the work bonus is temporary, when it should be permanent.
- The increase to the work bonus would only increase the amount of penalty free workdays by half a day per week. This is unsuitable to many businesses who need staff full-time.
- It does not reduce the effective marginal tax rate for age pensioners or veterans, or cut red tape such as the fortnightly filling out and submitting of forms, and therefore will not encourage many pensioners or veterans to work.

Remove all tax and red tape barriers on students working

Similar to age pensioners and veterans, students on the youth allowance face a high effective marginal tax rate. Once students on the youth allowance earn more than \$450 a fortnight, they lose 50c in the dollar in terms of their benefits, and lose 60c in the dollar once they earn more than \$540 a fortnight.

Currently there are almost 400,000 Australians aged 15 to 24 who are not working, studying or in training of any kind. In addition, the labour force participation rate of Australians aged 15 to 64 is 80 per cent; for students it is just 50 per cent.

Too many young Australians are missing out on the critical skills and experience they need to succeed in work and life because of government tax, red tape, and too much bureaucracy.

Reform Australia's incarceration system to allow low-risk, non-violent offenders to work

Australia's incarceration rate is almost at a record high. On current trends, Australia will have the second-highest incarceration rate in the developed world, behind only the United States, which is commonly known as a mass incarcerator. The government should provide low-risk, nonviolent offenders the opportunity to participate in the workforce.

Not only would this help alleviate Australia's worker shortage, it would also provide the opportunity for eligible prisoners to become productive members of society.

This policy would apply to approximately one-third of the total prison population in Australia who are currently incarcerated for non-violent and non-sexual crimes.

Reducing the incarceration rate without compromising community safety will have the added benefit of reducing capital spending on new prisons, and reducing operating costs of existing prisons, the proceeds of which can be used to cut taxes and pay down government debt.

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Attached is a research report by the IPA from August 2022, *Australia's Unprecedented Worker Shortage: Causes and Solutions*, outlining Australia's worker shortage crisis, along with a number of proposed solutions, some of which have been canvassed in this letter.

I wish to thank the Committee for the opportunity to provide this submission. Please do not hesitate to contact me on _____ for further consultation or discussion.

The IPA would welcome the opportunity to appear before the Committee should the opportunity be provided.

Kind regards,

Daniel Wild

Deputy Executive Director

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HOW TO FIX AUSTRALIA'S WORKER SHORTAGE CRISIS

Saxon Davidson, Research Associate

Australia is facing an unprecedented, country-wide shortage of workers, the effect of which is to reduce business investment, economic growth, and productivity, as well as forgone wages and government revenue.

Urgent government action is needed to reduce the shortage of workers, with one promising initiative being to encourage more pensioners to re-enter the workforce by reduce the unfair penalty they face through the substantial loss of pensions payments upon receiving earned income.

To address this, Senator Dean Smith introduced into the senate the Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) Bill 2022. This bill will double the fortnightly work bonus for aged pensioners from \$300 to \$600 which would ease the burden of pensioners who want to work.¹

Australia's Worker Shortage Crisis

Australia has had a sharp increase in worker shortages since the beginning of the pandemic, reaching 480,100 job vacancies in the May 2022 quarter. This is an increase of 13.8% from the previous quarter and 270% from May 2020.²

For context, the current worker shortage means:

- \$32 billion in lost wages.
- \$6.8 billion in forgone income tax revenue for the federal government annually.³



The three industries that have been hit hardest by this worker shortage crisis are:

- Health care (69,000 worker shortage).⁴
- Accommodation and food services (52,000 worker shortage).⁵
- Professional, Scientific, and technical services (43,000 worker shortage).⁶

Addressing this worker shortage should be a high priority for state and federal government. Australia's international borders have been open since the beginning of 2022, yet worker shortages are still increasing.

Australia's Age Pension Rules Stop Older Australians Working

Australia's worker shortage is being exacerbated by current pension rules:

- Age pension is untouched until the pensioner earns more than \$490 a fortnight.
- For every dollar an age pensioner earns over \$490 per fortnight, 50c is taken off their pension.

This \$490 is comprised of \$300 as part of the age pension work bonus, and \$190 that is part of the pension income test free area.

The work bonus reduces the amount of employment income that can be applied to the rate of pension entitlement under the income test. For example:

- If a pensioner earned \$400 a fortnight, \$300 would be removed when analysing the pensioner on income.
- The \$100 remaining is within the income free test area of \$190.
- Therefore, the pensioner would still receive the maximum pension.

The income they earn is also subject to income tax once they earn over \$33,000 in combined income and pension.⁷ At that rate, age pensioners would be taxed at an effective marginal tax rate of at least 69%.⁸

There are approximately 2.48 million pensioners who do not earn any income outside of the age pension, and only just over 75,000, or 3% who do work.⁹

As a result, Australia has a dramatically lower portion of people aged 65+ who work:

- In New Zealand it is 24.8%
- In South Korea it is 35.3%
- 25.5% in Japan.¹⁰

According to the Australian Bureau of Statistics, there are 4.2 million Australians aged 65 and over.¹¹

If Australia were to match New Zealand's labour force participation rate among this population, there would be an additional 445,000 workers.

The Opposition's Work Reform Plan Pays for Itself

The bill would double the fortnightly work bonus from \$300 to \$600. This policy would require \$145 million per annum of government funding.¹² However, this plan would pay for itself through lower pension expenses and higher income tax receipts.

Under the current system, a pensioner can receive a maximum of \$987.60 a fortnight on the age pension.

If an age pensioner earned the average fortnightly salary of \$2,657.80 a fortnight,¹³ then

- \$490 in combined work bonus and income free test area would be the ceiling before 50c of every dollar earned is removed from the pension.
- The Pensioner would receive no pension, as half of the pensioner's income after the \$490 of work bonus and income test free area is taken off the \$2,657.80 is greater than \$987.60
- Pay income tax on the \$2,657.80 they earned at a fortnightly rate of \$552.¹⁴
- Have a post-tax income of \$2,105.80 a fortnight.

Under the opposition's plan, where the work bonus ceiling would be doubled, if a pensioner changed from receiving the maximum pension to earning the fortnightly average salary, then:

- \$790 in combined work bonus and income free test area would be the ceiling before 50c of every dollar earned is removed from the pension.
- The pensioner would receive \$53.70 in age pension payments, as \$933.90 would be taken out of the pension.
- They would have a combined taxable income of \$2,711.50 and pay tax at \$568 a fortnight.¹⁵
- They would have a post-tax income of \$2,143.50 per fortnight.
- This would mean that a pensioner who would have worked on an average capacity regardless would have \$980.20 in additional disposable income annually.

This plan would deliver a net budget benefit of \$1,502 per fortnight per pensioner, equal to \$39,052 annually per pensioner through less pension paid and more income tax received. This means that only 3,713 pensioners out of the 1.7 million,¹⁶ or 0.21% of pensioners who are receiving the full rate would need to enter the workforce on an average capacity to fund the policy.

Conclusion

Action on Australia's worker shortage crisis is urgently required, the opposition's policy is a welcome first step to hopefully larger reform. Three options for further reform include:

- Further raising the work bonus ceiling from the proposed \$600 a fortnight to \$1,200 a fortnight.
- Cut the pension reduction rate from 50c from the dollar to 25c.
- Provide an unlimited work bonus which means a pensioner can work as much as they choose without losing any of their pension.

Endnotes

1 Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) Bill 2022

2 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022

3 Daniel Wild, "Australia's Worker Shortage See's \$32 Billion In Wages Lost", Institute of Public Affairs, August 2022

4 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022

5 Ibid

6 Ibid

7 National Seniors Australia, "Let Pensioners Work and Pay Tax." 2022

8 Australian Taxation Office, "Individual income tax rates"

9 Department of Social Services, "DSS Payment Demographic Data," March 2022

10 OECD, "Labour force participation rate," OECD Data

11 Australian Bureau of Statistics, "National, state and territory population, June 2021," December 2021

12 Peter Dutton, "Older Australians Should Keep More of What They Earn," 2022

13 Australian Bureau of Statistics, "Average Weekly Earnings, Australia, November 2021," February 2022

14 Australian Taxation Office, "Weekly tax table"

15 Ibid

16 Department of Social Services, "DSS Payment Demographic Data," March 2022

AUSTRALIA'S UNPRECEDENTED WORKER SHORTAGE:

CAUSES AND SOLUTIONS



**Staff
Wanted**

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Executive Summary

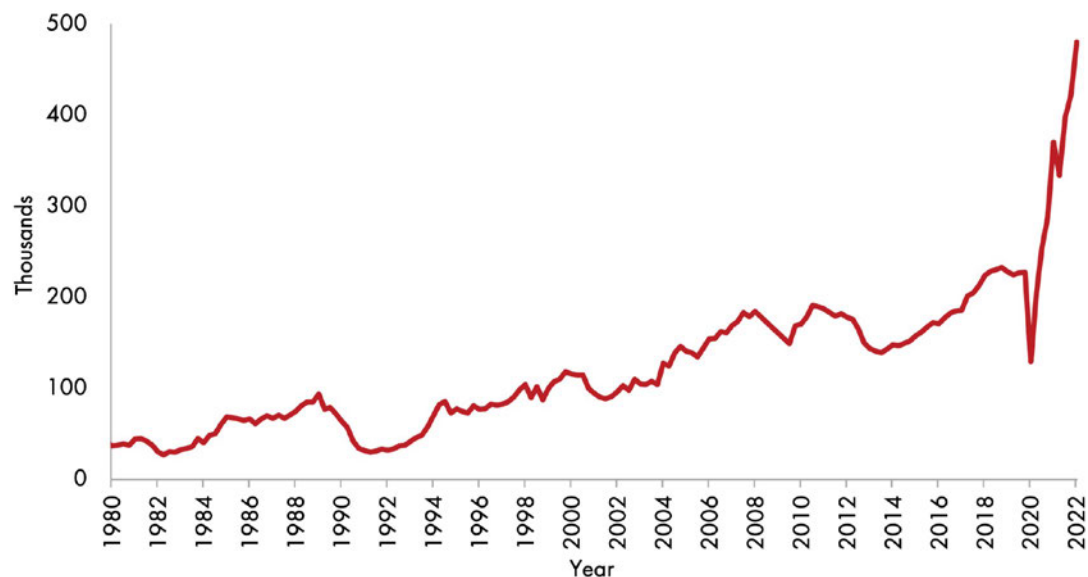
- Australia is currently facing an unprecedented, country-wide shortage of workers, with advertised job vacancies having increased by 270 per cent over the two years from May 2020 to May 2022 (most recently available data). Urgent government action is needed to resolve this shortage.
- More than one quarter of businesses across Australia have reported experiencing labour shortages.
- There are a range of costs associated with labour shortages, including forgone investment, output, and economic growth.
- One cost which has been overlooked is the forgone direct income tax revenue associated with labour shortages.
- Preliminary research by the Institute of Public Affairs estimates that the current level of worker shortages has resulted in \$32.2 billion forgone worth of wages and is costing the federal government \$6.62 billion each year in forgone income tax revenue, which is the equivalent to approximately 3 per cent of personal income tax raised in 2021-22.
- There are a number of policies available to governments to address worker shortages, one of which is to reduce the financial disincentive facing Australian pensioners returning to work.
- On 4 August, Senator Dean Smith introduce a private members bill into the senate, *Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) 2022* which proposes to double the Work Bonus available to age pensioners from \$300 to \$600 per fortnight
- The scheme was estimated to have a direct annual fiscal cost of approximately \$145 million. However, the scheme could pay for itself:
 - Currently only 3 per cent (75,000) of the 2.55 million Age Pension recipients are in paid work.
 - Only 3,713 out of the 1,701,256 Australians currently receiving the maximum age pension would need to enter the workforce on the average weekly salary for the policy to pay for itself in terms of the direct fiscal benefits. This equates to a 0.21% increase in workforce participation.

Introduction

Australia is currently facing an unprecedented, country-wide shortage of workers. This is undermining economic output and growth by limiting the ability of businesses to meet their production, and as a result there are flow-on effects on wages and government revenue.

Addressing this worker shortage should be a high priority for state and federal governments. Australia's international borders have been re-opened since the beginning of 2022, yet worker shortages are still increasing, with the Australian Bureau of Statistics reporting 480,100 job vacancies in the May 2022 quarter. More than a quarter of businesses across the country report being affected by this issue.¹

Chart 1: Job vacancies across Australia



The three industries which are affected most by worker shortages are:

- Health Care and Social Assistance (69,000 worker shortage)²
- Accommodation and food services (52,000 worker shortage)³
- Professional, Scientific, and technical services (43,000 worker shortage)⁴

1 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022, <https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/may-2022>.

2 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022, <https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/may-2022>.

3 Ibid

4 Ibid

Table 1: Three Industries Most Affected By Worker Shortage

Industry	Job Vacancies: May 2020 (000's) ⁵	Job Vacancies: May 2022 (000's)	% Increase
Health Care and Social Assistance	19.7	68.9	250%
Accommodation and Food Services	5.0	51.9	938%
Professional, Scientific and Technical Services	13.1	42.9	227%

Further increasing migration is not an adequate solution. According to data reported in the *Australian Financial Review*, of the almost 60,000 permanent visa applications the government is fast-tracking to address the worker shortage, only 438 are health professionals, and just 32 are registered aged care nurses.⁶ At a time where an estimated one quarter of aged care shifts are going unfilled,⁷ there is a clear need for a more effective solution. Rather than taking the short-sighted option of simply further increasing migration, governments should immediately change policy settings to allow for greater workforce participation. One of the most obvious solutions lies in changing the current rules surrounding the ability of pensioners to work if they choose to. Currently, pensioners can earn only \$300 per fortnight before their pension payments are reduced. This is the equivalent to working only six hours a week on the current minimum wage. Senator Dean Smith recently introduced a plan to the senate to double the Work Bonus available to age pensioners to \$600 per fortnight.⁸

This is a step in the right direction, and the federal government should immediately adopt the expanded Work Bonus to allow pensioners to re-join the workforce or increase their hours of work if they so choose.

According to the most recent data available from the Department of Social Services, in March 2022, there were 75,706 Age Pension recipients who had earnings from employment. This is just 3% of the 2.55 million Age Pension recipients.⁹

In other words, 97% of Age Pension recipients in Australia do not work.

Australia's policy settings surrounding working pensioners provide significant disincentives for work. Once pensioners earn more than \$480 per fortnight, their pension is withdrawn at a rate of 50 cents in the dollar. This is an effective marginal tax rate (EMTR) of 50%, and increases rapidly as income tax thresholds kick in. Pensioners who want to work more face disincentives, and their EMTR can quickly move to 69% and above.

5 Ibid

6 David Marin-Guzman, "Of 60,000 visa applicants in the queue, 32 are aged care nurses," *Australian Financial Review*, 24 July 2022, <https://www.afr.com/work-and-careers/workplace/of-60-000-visa-applicants-in-the-queue-32-are-aged-care-nurses-20220724-p5b419>.

7 Sarah Martin, "Absolutely a crisis: almost a quarter of Australia's aged care shifts unfilled each week," *The Guardian*, 3 February 2022, <https://www.theguardian.com/australia-news/2022/feb/03/absolutely-a-crisis-almost-a-quarter-of-australias-aged-care-shifts-unfilled-each-week>; ACIL Allen, "Implications of Labour Shortages in the Aged Care Sector, Final Report," December 2021, https://acilallen.com.au/uploads/projects/445/ACILAllen_ImplicationsLabourShortagesWA_2022.pdf.

8 Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) Bill 2022, August 2022 https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/s1347_first-senate/toc_pdf/22S0620.pdf;fileType=application%2Fpdf

9 Department of Social Services, "DSS Payment Demographic Data," March 2022, <https://data.gov.au/data/dataset/dss-payment-demographic-data>.

To provide international context, in New Zealand pensioners do not face high EMTRs if they choose to work. They simply pay income tax on those earnings. As a result, according to data from the OECD, the labour force participation rate in New Zealand is 24.8%. Similarly, the comparable participation rate is 35.3% in South Korea and 25.5% in Japan.¹⁰

The direct fiscal cost for FY22-23 of doubling the Work Bonus is estimated to be \$145 million.¹¹

However, this fiscal cost will be more than offset through higher tax revenues which result from having more Australians working and earning a wage.

Previous IPA research found that Australia's total worker shortage sees \$32 billion in forgone wages each year.¹²

The forgone wages are causing a reduction to direct income tax revenue to the federal government of \$127.2 million per week, or \$6.62 billion per year.

This estimate is based on the current level of worker shortages (proxied by advertised job vacancies), and the associated forgone wages and therefore forgone income tax revenue.

Specifically, the calculation is based on the following methodology, with all data obtained from the Australian Bureau of Statistics:

- The number of job vacancies per industry is multiplied by the average wage rate for that industry, to derive the total forgone wages from the job vacancies.
- The forgone wages by industry are then multiplied by the average personal income tax rate to estimate the total forgone income tax from the current level of worker shortages.
- Job vacancy data was taken from the ABS' *Job Vacancies, Australia* dataset.¹³ Average wages data were taken from the ABS' *Average Weekly Earnings, Australia* dataset.¹⁴ Foregone personal income tax revenue was calculated based on average per worker weekly earnings in each industry using the Australian Taxation Office's weekly tax table.¹⁵

In addition to the income tax revenue would be other revenue gains, for example through payroll tax, GST, and second-round effects associated with the higher consumer spending resulting from more people being employed.

10 OECD, "Labour force participation rate," OECD Data, <https://data.oecd.org/emp/labour-force-participation-rate.htm>.

11 Peter Dutton, "Older Australians Should Keep More of What They Earn," (2022) <https://www.peterdutton.com.au/older-australians/>

12 Daniel Wild, "Australia's Worker Shortage See's \$32 Billion In Wages Lost", Institute of Public Affairs, August 2022, <https://ipa.org.au/publications-ipa/media-releases/australias-worker-shortage-sees-32-billion-in-wages-lost>

13 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022, <https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/may-2022>.

14 Australian Bureau of Statistics, "Average Weekly Earnings, Australia, November 2021," February 2022, <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/nov-2021>.

15 Australian Taxation Office, "Weekly tax table", <https://www.ato.gov.au/rates/weekly-tax-table/>.

The Pension System

Under the current system, a pensioner can receive a maximum of \$493.80 a week on the age pension. If an age pensioner earned the average weekly salary of \$1,328.90¹⁶ a week as per the ABS, they would:

- Receive no pension, as half of the pensioner's income after the \$245 work bonus and income test free threshold is taken off the \$1,328.90 is over \$493.80.
- Pay income tax on the \$1,328.90 they earned at a weekly rate of \$276.
- Have a post-tax income of \$1,052.90 a week.

Under the Pension Work Bonus plan, the \$490 fortnightly income ceiling before the pension starts to be reduced at 50% for every extra dollar earned will be increased to \$790.

The average weekly salary of every employed Australian is \$1,328.90. If a pensioner who was not working previously and received the maximum pension of \$493.80 a week entered the workforce and earned the average weekly salary of \$1,328.90, the combined weekly work bonus and income test free of \$395 would be deducted, leaving \$933.90. Then 50c from each dollar would be clawed back through reduced pension payments, reducing their pension from \$493.80 to \$26.85. The pensioner's taxable income would then be the sum of the remaining pension and the \$1,328.90, this is an effective weekly rate of \$284.¹⁷

The pensioner would have \$1,071.75 in post-tax income per week. Regarding pensioners who would earn the average salary regardless, this would result in \$980.20 in additional disposable income annually.

¹⁶ Australian Bureau of Statistics, "Average Weekly Earnings, Australia, November 2021," February 2022,

¹⁷ Australian Taxation Office, "Weekly tax table", <https://www.ato.gov.au/rates/weekly-tax-table/>

Financing The Work Bonus Plan

If a pensioner shifts from just receiving the maximum pension to earning an average salary under the proposal, it will result in a net benefit to the budget of \$750.95 per week per pensioner, equal to \$39,049.40 annually per pensioner. This is comprised of the reduced amount of pension paid and the income tax received.

The direct cost of the expanded Work Bonus scheme is estimated to be approximately \$145 million per year.

What this means is that only 3,713 out of the 1,701,256 Australians currently receiving the maximum age pensions would need to enter the workforce for the policy to pay for itself. This equates to a 0.21% increase in workforce participation.

Unlocking this potential workforce is vital during the current worker shortage. In addition, it will provide economic benefits in the longer term, and help to address structural issues Australia faces with an aging population.

A Deloitte Access Economics report published in 2012 found that if Australia were to achieve a 3-percentage point increase in mature age participation over and above that currently, annual economic output would be \$33.0 billion, or 1.6%, larger. A 5-percentage point increase would lead to a \$47.9 billion, or 2.4%, boost to GDP.

Adjusted for inflation, the latter is equivalent to about \$60 billion today. A recent survey from National Seniors found that 20% of pensioners would consider re-entering paid work, in addition to the 16% who already have.¹⁸ This implies that up to an additional 510,000 pensioners could consider re-entering the workforce.

Table 2: Worker Shortages By State

State	Job Vacancies: May 2020 (000's) ¹⁹	Job Vacancies: May 2022 (000's) ²⁰	% Change	Total Pensioners (000's) ²¹
Australia	129.2	480.1	272%	2,554
NSW	39.8	145.1	265%	791.9
Victoria	28.7	120.1	318%	601.8
Queensland	25.2	78.6	212%	511.4
South Australia	6.8	24.5	260%	216.7
Western Australia	16.8	65.2	288%	240.2

¹⁸ National Seniors Australia, "Why pensioners want to work," 14 April 2022, <https://nationalseniors.com.au/news/featured-news/why-pensioners-want-to-work>.

¹⁹ Department of Social Services, "DSS Payment Demographic Data," March 2022, <https://data.gov.au/data/dataset/dss-payment-demographic-data>

²⁰ Ibid

²¹ Ibid

Further Reform Opportunities

The work bonus proposal is a promising first step onto greater reform that is required to motivate more pensioners to work amidst this labour shortage crisis. There are three further reform options which could also be pursued.

Double the proposed bonus from \$600 to \$1,200 per fortnight

One potential policy is doubling the work bonus from the proposed \$600 to \$1,200 a fortnight. Pensioners earning the weekly average salary would have a taxable income of \$1,505.75 a week, which would be taxed at \$337 a week²² and have a post-tax income of \$1,168.75 a week. Compared to the current proposal, the pensioner would have \$5,044 more in disposable income annually that can be invested into their local communities and economies. The federal government would have an annual net benefit of \$34,005.40 for each pensioner that shifted from earning the maximum pension to earning the average weekly salary.

Halve the pension reduction rate

A different policy could be to half the rate at which the pension is reduced from 50c of the dollar after the work bonus to 25c of the dollar. Applying the current work bonus and income free test threshold of \$245, if a pensioner earned the average weekly salary of \$1,328.90, they would have a taxable income of \$1,551.73 with a weekly tax rate of \$353.²³ This is a post-tax income of \$1,198.73 a week and, compared to the current proposal, equals to \$6,602.96 more in annual disposable income. The annual net budget benefit arising from the sum of less pension paid and more income tax received would be \$32,446.70.

Remove the pension claw-back altogether

Lastly, the federal government could remove the work bonus system all together, and have pensioners pay income tax on the combined pension and earned income total over the tax bracket. Under this scenario, if a pensioner earned the average weekly salary, they would just pay income tax on the combined \$1,328.90 and \$493.80 at a weekly rate of \$446.²⁴ This would leave pensioners with a weekly income of \$1,376.70 and have \$15,857.40 more in annual disposable income compared to the current proposal.

²² Australian Taxation Office, "Weekly tax table", <https://www.ato.gov.au/rates/weekly-tax-table/>

²³ Ibid

²⁴ Ibid

AUSTRALIA'S UNPRECEDENTED WORKER SHORTAGE: CAUSES AND SOLUTIONS

About the Institute of Public Affairs

The Institute of Public Affairs is an independent, non-profit public policy think tank, dedicated to preserving and strengthening the foundations of economic and political freedom. Since 1943, the IPA has been at the forefront of the political and policy debate, defining the contemporary political landscape. The IPA is funded by individual memberships, as well as individual and corporate donors.

The IPA supports the free market of ideas, the free flow of capital, a limited and efficient government, evidence-based public policy, the rule of law, and representative democracy. Throughout human history, these ideas have proven themselves to be the most dynamic, liberating and exciting. Our researchers apply these ideas to the public policy questions which matter today.

About the authors

Daniel Wild is Deputy Executive Director of the Institute of Public Affairs, with primary responsibility for delivering the IPA's research programs. Daniel has been with the IPA for six years, having previously held the roles of Research Fellow and Director of Research.

Daniel frequently appears in the media to communicate the IPA's research and analysis, and has published a number of opinion pieces in *The Australian*, *The Daily Telegraph*, *The Sydney Morning Herald*, *The Courier Mail*, and *The Spectator*. Daniel also routinely appears on radio and television, including Channel 7, the ABC, Sky News, 2GB, 3AW, and 4BC.

Daniel previously worked at the Commonwealth Department of the Prime Minister and Cabinet where he analysed global and domestic macroeconomic policy. Prior to that he held positions at the Commonwealth Department of Finance where he worked on regulatory reform.

Daniel holds an honours qualification in economics and a degree in international studies from the University of Adelaide, and is currently undertaking a Master of Business Administration at the Melbourne Business School.

Saxon Davidson is a Research Associate at the Institute of Public Affairs.

He feels most strongly about liberty, freedom of speech and the Australian way of life, and how these values have declined rapidly due to government policies during the Covid-19 pandemic. Saxon is currently studying a Bachelor of Arts at the University of Melbourne, majoring in Politics.

