THE TREASURY

Retirement and Personal Income Division
The Treasury
Parkes Place
PARKES ACT 2600
Telephone: (02) 6263 2865
Facsimile: (02) 6263 3044

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INQUIRY INTO ISSUES SPECIFIC TO OLDER WORKERS

On 30 September 1999, at the invitation of the Standing Committee on Employment, Education and Workplace Relations, Treasury appeared before the inquiry into issues specific to older workers seeking employment, or establishing a business, following unemployment.

During the course of the hearing, Treasury undertook to provide further information in relation to four questions. That information is contained in the attachment.

I trust this will assist the Committee in its deliberations.

Yours sincerely

Dehne A. Taylor
Manager
Household Incomes Unit

Questions on Notice from the Inquiry into Issues Specific to Mature Age Workers

Question 1.

What would be the cost of granting mature aged workers earlier access to flex one and flex two ?

As advised at the time, Treasury does not hold information of this nature and would need to seek advice from the relevant Department. The Department of Workplace Relations and Small Business has advised the following:

Government employment assistance is generally targeted towards long term unemployed people or job seekers at risk of becoming long term unemployed. It is not current Government policy to give mature age job seekers immediate and automatic entry to Job Search Training (JST) or Intensive Assistance (IA). Many such job seekers have early access to JST or IA because they are assessed as in need of them. For example, an eligible mature aged job seeker who needs help to redevelop their job search techniques may be eligible for Job Search Training after 3 months of registration. A more disadvantaged mature aged eligible job seeker who faces other employment barriers may have immediate access to Intensive Assistance.

As the DEWRSB submission to the Standing Committee indicates, because of the difficulties mature aged job seekers often face in securing employment, they are identified as in need of Intensive Assistance at a higher rate (67%) than job seeker's aged less than 45 years (34%). This includes those eligible job seekers who are identified when they register and those who are long term unemployed.

Question 2

What are the pros and cons of reduced taper rates?

Taper rates are a consequence of qualification testing, a benefit that does not have a 'sudden death' cut out.

High taper rates result in a short sharp reduction in payments. Alternatively, low taper rates result in the slow reduction of a payment over a much larger income range.

To illustrate the effect of lowering a taper rate assume, for simplicity, that there are no taxes and only one benefit of $2,500 which is tapered at a rate of 50 per cent. Thus for each extra dollar earned you lose 50 cents worth of benefit. Under this scenario the benefit is assumed to reduce to zero when an individual has earned $5,000 worth of private income.

If now the taper rate is reduced to 25 per cent the effective marginal tax rate (EMTRs) will fall for people on incomes below $5,000. However, EMTR's will rise from zero to 25 per cent for people with private earnings of between $5,000 - 10,000. That is, adjustments to taper rates involves a trade-off between high EMTRs over a short range against lower EMTRs over a larger income range.

Reducing taper rates may increase incentives for some people to take up work however, the effect of the taper operating over a larger income range will also result in diminished incentives for other people. Reducing taper rates also results in less targeting of a benefit and therefore has a higher fiscal cost associated with it.

Question 3

Has the Government considered lifting the preservation age beyond 65?

In determining the preservation age, the Government must strike a balance between allowing people access to superannuation benefits at an appropriate retirement age, and the need to restrain the cost of providing superannuation tax concessions and pension outlays.

The Government considers that there should be a cap on the preservation age. While an increase in the preservation age beyond 65 would allow individuals more time to accumulate a larger retirement benefit, it would also impose a larger burden on the budget.

> Superannuation receives the benefit of substantial tax concessions designed to increase the retirement incomes of members. In 1998-99, the superannuation tax concessions were estimated at $9.8 billion in revenue forgone and represented the Government's largest measured tax expenditure.

Individuals are currently able to qualify for the age pension at age 65. Increasing the preservation age beyond 65 would mean that retirees could qualify for the age pension even if they had substantive superannuation savings. This outcome would be inconsistent with the objective of superannuation as an additional source of income for retirees and would need to be redressed by a commensurate increase in the age pension age.

Individuals can continue to contribute to a regulated superannuation fund up to age 70, provided they maintain a bona fide link with the paid workforce.

Background

> The Government has increased the preservation age from 55 to 60 on a phased basis between the years 2015 and 2025. This will mean that for someone born before 1 July 1960, the preservation age will remain at 55 years, while for someone born after 30 June 1964, the preservation age will rise to 60.
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> Where contributions are made on behalf of a spouse who has never been in paid employment, benefits must be preserved to age 65. In this case, the notion of 'retirement' is redundant and age 65 is used as a proxy. In this respect, 65 is the age at which preserved benefits may be paid to all persons who are no longer gainfully employed under the existing preservation rules.

Question 4

What do studies of labour on-costs, in relation to the issue of reducing hours worked vis a vis employing additional labour, show?

The effectiveness of work sharing at reducing unemployment is ambiguous. A review of major studies on the effect of work sharing on employment reported the following findings:

In 1998, the OECD concluded that there is little empirical evidence for the proposition that national across-the-board reductions in normal hours of work imposed on firms will lead to the creation of a large number of jobs, largely because of the likely associated increases in labour costs. While overall, the OECD found that work sharing may lead to some overall job creation, they concluded that there is no reason to believe the number of extra jobs will be large, and the risk of job losses cannot be ruled out.

This is supported by cross country analysis by Layard, Nickell and Jackman (1991) who point to evidence that unemployment has risen most in those countries where hours have fallen most, which suggests that any employment gains that were obtained through work sharing cannot have been great.

A review by Roche, Fynes and Morrissey (1996) finds that the international experience of work sharing has been disappointing, with some evidence of the possibility of a negative effect. They note, that the discouraging results have occurred irrespective of the institutional variations in employer/union arrangements from country to country, the differences in approach that have been used to implement reductions, or the magnitude of the reduction.

Dawkins (1996) argues that work sharing is not likely to be effective in reducing unemployment for Australia. This report points to the fact that people working long hours, such as managers and professionals, have many skills which are in short supply and that these people are not easily substituted by the unemployed.

On the other hand Bosch (1999) found that most studies of collective working-time reductions carried out in Western European countries over the past 20 years show positive net employment effects. However, he also found that some studies referred to cases in which cuts in working time led to increased overtime and inflationary pressures caused by excessive pay increases, with consequential negative effects on employment.

Hunt's study (1998) of union campaigns from 1984 to 1989 to reduce standard hours in Germany, found workers achieved close to full wage compensation, and that as a result reduced working hours did not lead to higher employment.

References

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