Submission To
The Inquiry Into Long-Term Strategies To Address The Ageing Of The Australian Population Over The Next 40 Years

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WESTERN AUSTRALIA

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Introduction and Summary

This paper outlines the submission of the Chamber of Commerce and Industry of WA (CCIWA) to the House of Representatives Standing committee on Ageing Inquiry* Into Long-Term Strategies To Address The Ageing Of The Australian Population Over The Next 40 Years.

The Inquiry's formal terms of reference are unusually brief:

> *"The House of Representatives Standing Committee on Ageing will inquire into and report on long term strategies to address the ageing of the Australian population over the next 40 years."*

However, the range and complexity of issues encompassed in this remit is extraordinarily broad, encompassing:

> *"…the current and future adequacy of retirement incomes, workforce participation, aged care, education, housing and health."*

according to the committee's Chairman[1].

Given the relatively short time available for submissions, and the wide breadth of issues concerned, CCIWA will focus in this submission on two areas of particular concern to its members:

the structure and adequacy of retirement incomes and superannuation; and

the financing and regulation of aged care facilities.

Inquiry Background and Approach

This Inquiry has not produced a discussion paper in the usual manner of similar Parliamentary inquiries, but the Intergenerational Report[2] included with this year's Budget Papers serves a similar purpose.

CCIWA welcomes this Inquiry and the Intergenerational Report that precede it as important contribution to a necessary debate about Australia's medium to long-term future.

However, it does have the reservation that, as a document included in Budget papers and compiled by Treasury, the Intergenerational Report focuses primarily on the fiscal implications of an ageing population.

While this is a crucial element of a considered approach to long term sustainability, other dimensions are also important. A comprehensive framework for long term policy must incorporate these other dimensions, too.

Further, while welcoming this opportunity to consider the long-term pressures influencing public policy debate in Australia, CCIWA would be concerned if this led to an overly prescriptive or detailed attempt to manage these issues far into the future.

The future is unknowable. The issues which now loom large on the public policy agenda – and even those issues which we expect to dominate over the next few years or decades – may prove of little importance in due course.

In particular, the controversies which currently seem most important in shaping those issues being addressed by the Inquiry – for example, the staffing of aged care facilities – will, one hopes, be long resolved within the timeframe it is considering.

It is most important that policy planning and development should allow for uncertainties, unforeseen and unforeseeable events, and unanticipated solutions to emerging problems that have characterised social and economic change since the industrial revolution.

CCIWA and its Role

CCIWA is Western Australia's peak business body.

It exists to serve its members by providing quality, cost-effective support and services to help members build their businesses and by lobbying government to promote an economic and legislative environment that encourages the development of responsible private enterprise.

It represents over 5,000 businesses, from self-employed and small employers to the state's largest enterprises, in all industries and all localities throughout Western Australia.

* Hereafter referred to as the Inquiry

Executive Summary

CCIWA welcomes the Inquiry as an opportunity to address the necessary and overdue debate of the sustainability of current policies and practices relating to the ageing population in the medium to long term future.

This submission focuses on two areas:

- the financing and regulation of aged care facilities; and
- the structure and adequacy of retirement incomes and superannuation.

Aged Care

The current funding structures and administrative systems for the aged care industry are overly detailed and bureaucratic, imposing a compliance burden on service providers in order to demonstrate that they are conforming to required processes, but without necessarily leading to better care outcomes. The industry's contention is that these conflicts have placed it under unreasonable and ultimately unsustainable pressures.

There are many other funding and regulatory models which might be adopted in order to address these issues. CCIWA is not advocating a narrow set of solutions, but rather identifies the key issues which it feels should be addressed if the industry is to be viable over the medium to longer term. Whichever solutions are adopted, however, CCIWA would advocate that it have the following characteristics:

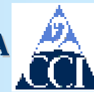
- financial sustainability,
- systems for maintaining and enhancing both physical and human capital,
- as much emphasis as possible on responding to the preferences and needs of clients, probably requiring an entitlement-based funding model with enhanced consumer choice,
- mechanisms to ensure quality of care, including sanctions for under-performance,
- mechanisms to encourage innovation, flexible service delivery, efficiency and productivity,
- mechanisms to control costs (but not, almost certainly, based on rationing the number of available places);
- Greater coordination between Commonwealth and State jurisdictions.

Retirement Incomes

CCIWA is concerned that Australia's current superannuation arrangements, and in particular, the Superannuation Guarantee Charge, will not achieve its overt objectives of providing an adequate retirement income for most Australians and reducing the tax burden which providing aged pensions for an ageing population would represent.

The paper canvasses many issues and concerns surrounding the Charge. The three most important of these include:

- the need to increase substantially total national savings, not just superannuation savings;
- the need to design a retirement savings policy around the real working patterns and lifestyles that Australians actually have and want, not some preconceived archetype of 40 or 50 years' full time employment which is in reality the case for only a minority of people;
- the need to design a scheme which will deliver an adequate self-funded retirement income for those who can afford it, without inflicting unnecessary and disproportionate hardship on those who can't.



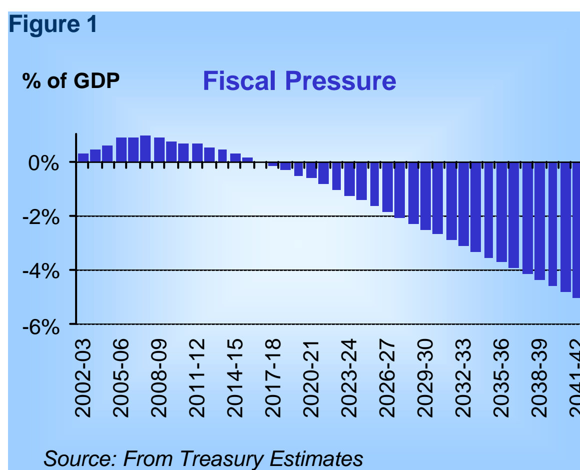
Observations on the Intergenerational Report

The Intergenerational Report projects that the Commonwealth Budget will be in surplus over the remainder of this decade before drifting into ever-deeper deficits over the following 30 years.

It assumes that revenue will remain fairly constant as a percentage of GDP, while the growing demand for government services generates a gradual rise in government outlays relative to GDP.

The combined results generate the emerging deficits reproduced from the Intergenerational Report in Figure 1.

Figure 1



Source: From Treasury Estimates

These trends may appear alarming, especially against a background of government revenues relative to GDP which seem from the Intergenerational Report to have been quite stable:

> *"While total revenue has fluctuated around 24 per cent of GDP over the last three decades, it fell substantially as a result of the tax cuts and Goods and Services Tax (GST) introduced under The New Tax System. As all GST revenue is passed directly to the States, it is not classified as Commonwealth revenue. Commonwealth revenues are projected to remain at 22.4 per cent of GDP from 2005–06 to 2041-42."* (page 7)

Yet taking only Commonwealth Government revenue and outlays ignores the potential for activity and for fiscal pressure to shift from one layer of government to another, as the preceding quotation makes clear (tax revenue hasn't fallen, but the Commonwealth does not account GST revenues as its own).

Furthermore, forward estimates for the whole Commonwealth budget include dividends and payments from government business enterprises that affect the bottom line. A more relevant measure of fiscal pressure would be that part of the government's activities funded mainly through tax revenues – that is, the general government sector.

Taking only the general government sector and examining the balances for all levels of government probably provides a better measure of underlying fiscal pressures.

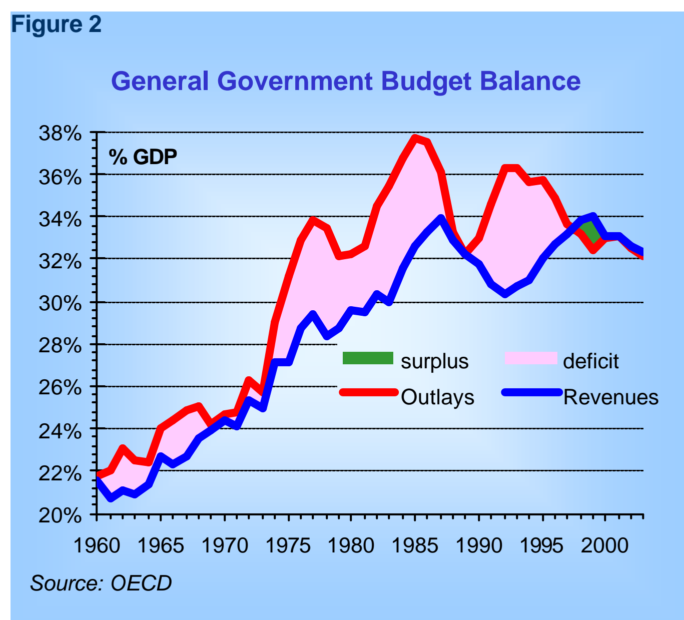
The choice of the past 30 years also tends to reinforce the impression that revenues, at least, have been fairly stable over a long time.

In fact, fluctuations during that period were quite marked. And the period follows a phase in which both revenue and, particularly, outlays as a share of Gross Domestic Product were shifting markedly.

This is illustrated in Figure 2, which shows OECD data on the whole general government sector's budget position relative to Gross Dome stic Product since 1960.

Between 1960 and 1977 general government revenues rose from 21.6 to 29.4 per cent of GDP, while outlays increased from 21.8 to 33.8 per cent of GDP. Outlays dropped back for a while before rising to a new peak of almost 38 per cent of GDP in 1985.

Figure 2



Source: OECD

Since then both outlays and revenues have fluctuated according to economic conditions and fiscal policies, with no clear trend either upwards or downwards.

It is not CCIWA's intention to imply that the record of the 1960s or 1980s can or should be repeated. Rather, this chart illustrates that budgetary shifts of the magnitude envisaged in the Intergenerational Report are not without precedent, and have in the past occurred over shorter timeframes than the projection period.

Many things besides the ageing population will affect the budget balance, just as factors other than demographics drove the changes in government spending observed in the past.

Of course, the budget pressures identified in the Intergenerational Report are important and should be addressed. But the context of a bigger picture, and a 40-year historical context that mirrors the 40-year projection period used in the Intergenerational Report, the size of the task looks less alarming.

Forward Estimates

This leads to a final point about the nature of the data used to draw up the projections.

The method used appears to mirror the process of compiling forward estimates commonly used in both Commonwealth and State budget papers.

This is not a forecasting process as commonly understood, in which the forecaster seeks as nearly as possible to predict what will happen in future. Rather, it is a process which represents the technical starting point of good fiscal management – what will happen to the budget balance ***assuming that all current programs and activities continue in line with current policy***[3], with no new initiatives or developments.

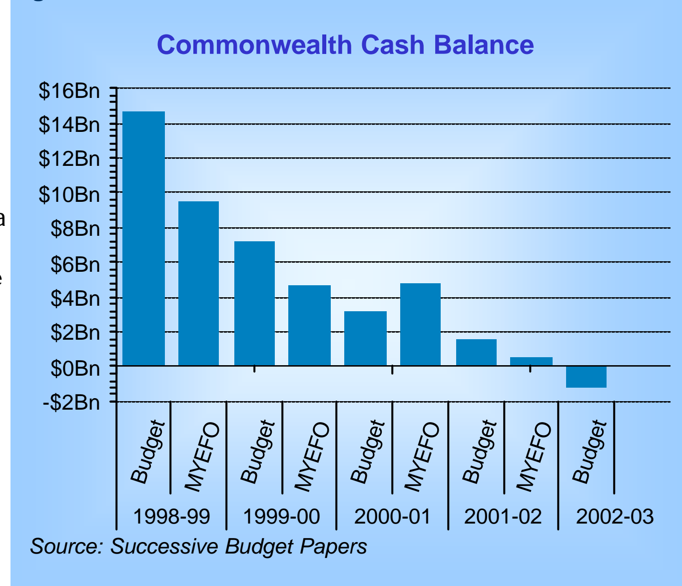
It is appropriate that this benchmark is used to measure the fiscal impact of proposed revenue and outlay measures. But it means that forward estimates are not - and are not intended to be - a good predictor of actual fiscal outcomes, which are influenced by changes in parameters and policy decisions that could not be taken into account when the estimates were compiled.

This point is illustrated in Figure 3, which presents estimates of the budget balance for a single year – 2001-02 – in successive budget papers and Mid-Year Economic and Fiscal Outlooks.

The 1998-99 Budget Papers were the first to publish a forward estimate for the underlying cash budget in 2001-01, and it was anticipated that there would be a surplus in excess of $14 billion.

Since then almost every subsequent forward estimate and forecast published in successive Budget papers and Mid-Year Economic and Fiscal Outlooks has seen the estimated outturn revised downwards.

Figure 3



Source: Successive Budget Papers

The most recent estimate – from the 2002-03 Budget Papers – now indicate that there was in fact a small deficit in 2001-02.

This is not to say that Treasury was incompetent in its projections, or that the compilation of forward estimates is a pointless exercise.

Rather, it highlights the impossibility of achieving a high degree of accuracy in projecting fiscal outcomes even over much shorter timeframes than the 40-year horizon of the Intergenerational Report – especially under the conventional assumption of no policy change adopted in compiling forward estimates.

Finally, CCIWA urges that the use of financial projections as the baseline for considering the policy implications of Australia's ageing population should not overly constrain debate. Fiscal impacts are very important, but they are not the only concern that needs to be addressed in policy development.

Aged Care

Introduction

Changing technology, the improved health and longevity of our older population and the preferences of ageing baby boomers themselves are likely to shape major changes in the structure and delivery of aged care services over the next 40 years.

The institutional, physically detached facilities which characterise the bulk of formal aged care amenities at present are likely to be supplemented, and in some cases replaced, by a greater diversity of accommodation and aged care service delivery models.

The increased emphasis on the dignity and autonomy of the ageing population is reflected internationally in policy principles such as the Aged Care Principles and the United Nations Principles for Older Persons (see Appendix on page 42).

The buzzwords and programs of the Australian industry – "ageing in place", "healthy ageing" etc – already reflect these new drivers, but the structure of the industry itself is only just beginning to change.

If policy is to facilitate active, dignified and self-determined lifestyles for Australia's ageing population, it must integrate approaches across a wide range of activities not commonly thought of as aged care concerns – urban planning and building design, medical care and recreational facilities, transport, education and telecommunications, for example.

It also needs a new model for the financing and regulation of the delivery of aged care services. The current system is placing unsustainable stress on service providers and their employees, it provides perverse incentives to service providers, and relies increasingly on unproductive bureaucratic process to enforce minimum care standards.

The following sections describe the features of the industry, and canvass some possible solutions to its problems.

Industry Overview

The aged care industry has characteristics that make it very different from industries outside of the community services sector. These include the relationships and interests of key stakeholders and the impact of the various funding and regulation arrangements.

The primary stakeholders in the industry include the Commonwealth Government, older Australians and service providers. Secondary parties include clients' family members and state governments.

Care is provided to older Australians under a number of programs, namely residential care (high and low care), community care and home and community care. Each of these operates under a separate funding and regulation model.

Commonwealth Government

The government's expressed intent for the aged care system is to provide support and assistance to older Australians when they need it.

The Commonwealth Government establishes the level of financial reimbursement to be received by service providers offering residential care or community care programs. The Resident Classification Scale (RCS) identifies dependency levels of the individual requiring assistance and support.

It does not link funding to the cost of providing services, nor reflect the growing cost of complying with administrative and regulatory costs (including the costs of documenting evidence of clients' dependency levels demanded by the RCS itself).

As the Commonwealth Government provides this funding when residents move into facilities, it is essentially the primary purchaser of services.

The Commonwealth Government determines clients' service classification through its Aged Care Assessment Teams, and also effectively controls the location of services offered through its regulatory provisions.

In addition, the government sets the maximum fees and charges that can be levied against a resident. However, the level of fees and the level of services are linked tenuously, if at all.

With government as the main purchaser, the demand and price signals that drive market-based industries do not direct

resources to the activities and services most valued by older Australians and their families.

Despite the government's role in controlling service providers' revenue and setting the criteria required to be met for older Australians to access services, it has made no attempt to establish a benchmark to identify the level of care that realistically can be provided under the current funding model.

While the government quite rightly wants the most efficient services and focuses on maintaining quality and controlling costs, it accepts no responsibility, nor can it be held legally accountable, for any inadequacies resulting from its decisions.

Older Australians and Their Families

Older Australians, their families and the community have the expectation of fair and universal access to services that provide a high standard of care and accommodation.

Often aged care services are only accessed following a crisis. Due to waiting lists, there is little opportunity for older people to select the facility from which they wish to receive assistance. This compels them, or families acting on their behalf, to take the first available place.

In addition, older Australians have little choice of the mix of services received following and an aged care assessment which generally determines the environment in which care will be provided.

While some fees and charges do apply, as established by the government in its role as the regulator, these are subject to income testing. These provide no direct benefit to the service provider as government contributions are decreased by the amount of any fees collected. Further, as the government itself notes "*most people pay no extra, as they are maximum rate means tested*"[4].

Older Australians receiving services that are government funded are unlikely to be aware of, or even concerned with, the total cost of service provision. Rather, they concentrate on maximising the range and quality of services.

Where fees and bonds do apply, families sometimes appear even more resistant and sensitive for reasons that may be unrelated to the welfare of the resident.

Service Providers

Service providers are from a mix of charitable/religious, other not-for-profit and commercial organisations. The size of these varies considerably from stand-alone single facilities to larger multi -facility organisations which may have business interests in other areas.

Organisations also vary considerably in the services they provide to older Australians. Depending on the licenses obtained by service providers, each facility may offer any one, or all, of the varying programs, that is residential care (high and/or low), community care and home and community care.

Service providers have a strong egalitarian ethic that asserts everyone should be entitled to an acceptable level of service and aim to achieve this on a financially sustainable basis.

However, the industry is unique in that it is restricted to operating in a financial environment over which it has no control.

Government regulation shapes both the income received from the provision of services, and the cost of providing services. The sector's income comprises mainly the funding allocated by the government to the various levels of the Resident Classification Scale. The accreditation system not only influences the sector's income and outlays, it also imposes additional costs on service providers through the administrative requirements to maintain accreditation status.

The financial incentives that stimulate improvement and innovation in conventional market driven industries do not drive change in the aged care industry.

Further, the charitable motivation of some service providers gives them a special focus on meeting the needs of their clients, in some instances even when operating at a loss.

It may be possible for these charitable organisations to subsidise aged care by tapping into donations or other forms of revenue. As a result, non-viable facilities may remain open for a considerable period of time, at a cost of uncertainty and stress for the staff and clients concerned.

This may also contribute to a misleading view of the financial viability of the sector, if some service providers are able

to cross-subsidise the cost of delivering services from donations or the sale of other services.

Such distortions may disguise the underlying financial position of the industry, with deep structural problems remaining hidden for years. But sustainability in the long term requires that costs are covered.

Staffing

Staffing has long been an issue for service providers, not least because the industry is labour intensive, so employment costs comprise a large and unavoidable proportion of total costs.

Although it is to be hoped that current staff and skill shortages will be resolved well within this inquiry's 40 year timeframe, this is a systemic problem that needs structural change if it is not to become more acute over time.

The problems are twofold – low award wages in aged care relative to acute care, and the difficulty of attracting and retaining qualified nursing staff, caused at least in part by the requirement for qualified staff to spend much of their time documenting compliance with regulation, rather than nursing.

Integration

Integration is an issue in two key respects – the overlap, duplication and poor co-ordination between state and commonwealth responsibilities, and the conflict and spill-overs between aged care and other sectors, most importantly acute care.

Intergovernmental Co-Ordination

The State Government has the responsibility for funding the public health care system.

In addition, it is in a joint funding arrangement with the Commonwealth Government to provide Home and Community Care Packages. In this instance the Commonwealth contributes 60 per cent of funds, and the state governments 40 per cent.

Due to the funding allocation process between the two regulators, overlap and dysfunction occurs.

The interaction between the Commonwealth and State Governments in the provision of funding and regulating services has resulted in the:

- Lack of long term planning to ensure ongoing viability of the industry.
- Duplication of effort in reporting and licensing requirements.
- Funding structures which allow for potential cost shifting between the commonwealth and state governments.
- Lack of integration of reporting requirements and program eligibility criteria for the various community and residential care programs.
- Very specific eligibility, process and funding criteria that inhibit continuity in service provision and creates gaps in the care provided to older persons.

This overlap and duplication is inefficient and confusing. In the longer term, it is unsustainable, and would most beneficially be resolved by transferring responsibility for the monitoring, provision and financing of services into a single jurisdiction.

While in theory this could be either state or Commonwealth, the additional need to improve co-ordination with health services might suggest that the State Government would be the more obvious choice.

Health and Aged Care Conflicts

Cost-shifting between the aged care and health care system is an ongoing problem which results in higher aggregate costs to the community and poorer services for aged Australians.

The current arrangements lead to a backlog of clients in acute care facilities while waiting for placement (Care Awaiting Placement). This situation arises in part because of poor co-ordination and administration, and to some extent because the quality of facilities varies, and clients hold out for better placements. This latter problem in turn arises because lack of funding has slowed the progress of capital improvements.

This backlog is not a direct financial pressure on aged care providers, but it adds to costs across the system as a whole and results in cost shifting from the Commonwealth to State governments. Acute care beds, funded by the private sector and state governments, are more expensive than dedicated aged care facilities, and their services and environment are generally less suitable than dedicated aged care facilities to cater for the daily care needs of older Australians.

Indeed, a co-ordinated approach to health care for the older population could

see some medical services currently supplied primarily in acute facilities undertaken in dedicated aged care facilities instead. This would have the advantage of providing a more congenial and home-like atmosphere, and possibly obviate the need for clients to be transferred between locations. It may even be cheaper than providing extensive dedicated facilities for the aged within acute care facilities.

However, for any such transfer of functions to be possible without a loss of care quality, aged care facilities would need the financial, technological and skills resources to deliver care. Again, this would be possible only with greatly enhanced co-ordination and co-operation between the health and aged care systems.

For clients whose problems are not sufficiently severe to warrant hospitalisation, an alternative to an acute care beds for Care Awaiting Placement is the provision of community care packages. These provide support and assistance to individuals at home as they await a bed in a residential facility. The costs associated with these packages are only marginally cheaper than the cost of the provision of services in acute care facilities.

Summary

The relationship between these stakeholders creates numerous tensions. With the government exercising extensive control over funding, input costs and standards it remains removed from the responsibility for the effect of its decisions.

In addition, service providers are not permitted to operate in a financial environment over which it has control to generate revenue and respond to changing client needs.

Financial Sustainability

Bed Licenses

The Commonwealth Government establishes the type (ie high or low care) and number of beds to be offered in facilities and whether a service provider is able to offer extra services to residents through its licensing provisions. It also determines the number of community care packages that can be offered.

Extra Services

In addition to determining the number and type of beds, the Commonwealth government also limits the number of 'extra service' places approved in a region where service providers can offer a higher standard of food, accommodation or other services at a charge to the resident.

This prevents residents from choosing additional services that they might want and be willing to pay for.

Capital Expenditure

Apart from a small sum set aside for regional and remote locations, and one-off payments to assist with restructuring, there is no uniform, equitable government capital funding of facilities.

Capital costs are supposed to be met by bonds (or accommodation charges in the case of high-care entrants), operating surpluses, debt, equity or donations. In reality, many operators rely on cross-subsidies from other services or donations.

Capital financing is particularly problematic for high-care facilities, which are not permitted to collect bonds from new residents except for extra places.

Residential facilities are not able to generate enough financial resources under the current funding model to plan for future replacement of capital structures.

Economies of Scale

Many small facilities are not financially viable under the existing funding arrangements and face either being bought up or closed down. This has particular ramifications for regional towns and centres which may not be able to support facilities of a financially viable size.

Larger service providers are not immune from this process, as the minimum size of financially viable facilities has steadily expanded over time. This gives operators no confidence that facilities viable under current funding arrangements will continue to be viable in future, and undermines operators' capacity for business planning.

This in turn raises issues of sovereign and regulatory risk, and of whether some process should be put in place to manage structural adjustments, given that such adjustment is a deliberate effect of government policy.

To achieve economies of scale some service providers buy up smaller licensed facilities, reportedly at a cost of up to $40,000 per bed in some states.

While such prices indicate that some providers anticipate profits in the future, they also ensure that the expected value of that profit is capitalised as an asset and not available to improve capital and services etc.

Cost Controls

As discussed above, attempts to control the cost of service provision by capping the number of subsidised places can, and does, backfire. Clients needs are met instead either in acute facilities under Care Awaiting Placement or through community care packages. The costs of these may be considerably higher (in the case of acute care) or a little lower (community packages) than dedicated aged care facilities. Most importantly, they may not be providing the most suitable services for the clients concerned.

Queuing is not necessarily a fair means of rationing a scarce resource when providing support and assistance to older Australians.

Ageing Population

These financial pressures are occurring in the sector which is probably going to be most affected by Australia's ageing demographic.

The population projections in the Intergenerational Report show that, while Australia's population of 0-54 year olds will be fairly stable at around 15-16 million over the next 40 years, the population aged 55 and over will more than double, from 4.3 million to well over 9 million. As a result, the aged to working-age ratio[5] is projected to rise from 19 per cent currently to over 40-per cent by 2042.

Over the next few years this effect will be partly offset by a decline in the child to working-age ratio[6] so that the total dependency rate[7] will actually fall.

But from about 2010 the rising proportion of those older than the traditional working age range of 15-64 will start to offset the declining proportion below it, and the total dependency rate is projected to rise steadily for the remainder of the projection period.

This ageing of the population is projected in the forward estimates to lead to an increase in Commonwealth Government spending on aged care relative to GDP of approximately 150 per cent, from about 0.7 per cent to 1.8 per cent. While other key expenditure areas such as health will grow by more in dollar terms, none is projected to record such rapid growth in percentage terms.

Summary

Such a substantial increase in demand will almost certainly result in major changes on the aged care industry.

It is both fair and fiscally prudent to ensure that those who can afford to do so contribute to or even fully fund their aged care. This may take the form of partial or full cost recovery through ongoing fees, capital contributions, or some combination of the two.

Finally, for a greater emphasis on 'user pays' to be possible as a significant source of aged care funding in future, it will be necessary for retirees to have the assets and/or income to pay for it.

This crucial issue is addressed in the section entitled Target Final Income beginning on page 38.

Regulation and Accreditation Process

The accreditation process is focused on the capacity of service providers to meet government requirements.

It is detailed, complex and yet often frustratingly vague in the standards it demands.

In many cases it focuses on processes not outcomes, which can make it difficult for service providers to know whether they are meeting standards, and reportedly allows for inconsistency in interpreting regulation between agencies and assessors.

In part, these concerns reflect the tension between prescription and flexibility inherent in any regulatory structure.

However, industry participants also point to a number of specific difficulties with the current structure:

- It is overly detailed and bureaucratic, imposing a compliance burden on service providers in order to

demonstrate that they are conforming to required processes, but without necessarily leading to appreciably better outcomes.
- A frequent complaint is that professional nursing staff are required to undertake so much paperwork that it significantly reduces the time they spend on nursing duties, generating frustration and adding to retention difficulties. This level of paperwork is not required in acute care, which adds to the exodus of staff from aged to acute care. It also invites the question of whether such onerous bureaucratic requirements are really necessary in aged care nursing when they are clearly not needed in acute care nursing.
- Rather than providing an incentive and time to come up to standard, penalties kick in the moment that an under-performer is identified. These actually make it harder for facilities to come up to standard, by depriving them of the resources they need to do it.
- There is no "natural justice" - no recourse against unfair, arbitrary or inconsistent judgements.

In a recent Submission to the WA Aged Care Advisory Council, CCIWA pointed out that aged care and community service providers aim to provide quality cost effective services to older West Australians within a framework that encourages innovation and continuous improvement.

This includes:

- Ensuring that older people have ongoing access, in a timely manner, to services.
- Access to appropriate funding and flexible program criteria, which supports the provision of services that meets the needs of older persons.
- Effectively utilising resources for the provision of services rather than being wasted on excessive reporting requirements.
- Participation in an accreditation process that is objective and focuses on best practice rather than worse case scenarios.
- Providing input into future financial planning to ensure the ongoing viability of the industry.
- Addressing wage disparities between acute and aged care nurses to encourage qualified staff to work in the industry.
- Access to appropriately trained staff, including personal carers, enrolled nurses and registered nurses.
- Establishing links to improve coordination of acute care, residential, disability and community based services.

Service providers must be held accountable for the funds they are given and the services they provide. However, the compliance burden should be fair and manageable, and impose conditions on service providers that they can reasonably be expected to meet.

It is also important that providers are permitted (indeed, encouraged) to be innovative and flexible in devising new ways of more efficiently providing better services. In an industry that lacks the spur of competition market prices which characterise the competitive private sector, the material incentives to innovate as opposed to merely minimising costs are reduced. If the bureaucratic burden also acts to dampen innovation and flexibility, clients will lose out even further on the benefits of innovation.

Finally, accountability is not entirely a one-way street. The Commonwealth Government should also be held accountable for the decisions it has made regarding administrative requirements and funding structures and the impact this has on care provided.

Some possible solutions

The current funding structures and administrative systems for the aged care industry are overly detailed and bureaucratic, imposing a compliance burden on service providers in order to demonstrate that they are conforming to required processes, but without necessarily leading to better care outcomes.

The industry's contention is that these conflicts have placed it under unreasonable and ultimately unsustainable pressures.

There are many other funding and regulatory models which might be

adopted in order to address these issues. CCIWA is not advocating a narrow set of solutions, but rather identifying the key issues which it feels should be addressed if the industry is to be viable over the medium to longer term.

Whichever solutions are adopted, however, CCIWA would advocate that it have the following characteristics:

- financial sustainability,
- systems for maintaining and enhancing both physical and human capital,
- as much emphasis as possible on responding to the preferences and needs of clients, probably requiring an entitlement-based funding model with enhanced consumer choice,
- mechanisms to ensure quality of care, including sanctions for under-performance,
- mechanisms to encourage innovation, flexible service delivery, efficiency and productivity,
- mechanisms to control costs (but not, almost certainly, based on rationing the number of available places).

The following sections canvass possible solutions to the industry problems outlined above.

Place greater emphasis on clients' rights and enhanced client choice.

The current system of "rationing" access to beds by the licensing system and waiting lists generates both economic and social costs.

It is often a false economy, as the cost of providing "care awaiting placement" is typically more than the cost of an aged care place.

Queuing is not necessarily an efficient or equitable means of rationing a scarce resource when providing support and assistance to older Australians. For this reason, other government-funded social support (such as unemployment benefits and disability pensions) is provided on the basis of entitlement.

Because of the waiting list system, individuals needing accommodation are more likely to feel constrained to take the first available place. This reduces consumer choice and the responsiveness of service providers to clients' wishes.

Vesting a clear entitlement to aged care places with individuals, on a needs-assessed basis and with a means-tested entitlement to financial assistance could motivate an improvement in standards. Clients would be able to shop around for providers, and providers could offer competing services as the "market" demanded.

Competition between facilities on the basis of price is probably not feasible and possibly not desirable. But competition between facilities on service quality could help to raise standards across the board.

Vesting entitlements with clients would be consistent with the sector's values of care, and in particular it would reflect a paramount concern for the dignity and rights of residents.

In a similar vein, government funding is intended to ensure an acceptable outcome for clients, and it is hard to justify the inequities such as variable waiting lists and disparate service outcomes generated by the current system.

It may put residents' interests and wishes more firmly in the policy frame. Recent fierce controversies about the adequacy of the funding model, industrial relations arrangements, regulations and so forth have often been dialogues between government and service providers or their representatives, with clients and their families directly involved only on those occasions when care quality seemed unacceptably low or inheritance of the family home appeared at risk.

Of course, the current system does provide for some client input. The quality management process requires providers to involve residents in improvements and incorporate feedback in their quality control mechanisms. Accreditation teams can currently impose specific penalties on facilities failing to meet standards. Feedback received from clients through the accreditation process and complaints procedures can result in penalties imposed on service providers.

But vesting entitlements with clients would make them and their families more explicitly empowered to participate in shaping service delivery. This would give extra encouragement to service providers to listen to their clients' preferences and needs.

To control costs, the Aged Care Assessment Teams could be utilised to assess the minimum level of care

required. This would allow the client to move between service providers to receive the best services.

Service providers should be able to operate in an environment where they can respond to market signals and work to attract clients.

This model would also require that the limits on entry to the industry imposed by the current licensing provisions would change. A customer focus requires that clients and their families are, as near as possible, free to choose the facilities and services they want, and are entitled to a means-tested subsidy towards some or all of its cost. Competition between service providers will best be fostered by free entry and exit from the market.

However, operators should be compensated if any move away from current licensing arrangements imposes capital losses on operators who have paid high licence fees to enter or expand in the market.

Finally, it is also necessary to ensure that clients, not clients' families, are the ultimate beneficiaries of government funding and interventions, and that those interventions are cost-effective.

This is not to deny that it is often necessary and desirable that clients' families make decisions on their behalf, or at least exercise a large degree of influence on decisions made on their behalf. But while families are of course deeply concerned about the welfare of their elderly relatives, their own welfare is also affected by factors such as the fees and capital charges contributed towards the cost of residential care, or the availability of subsidies and assistance for supporting the aged at home.

This demands a delicate balancing act, accommodating not just the wishes of clients' families, but also the paramount needs of clients themselves and the requirement for proper stewardship of government resources.

Refocus Regulation and Accreditation on Outcomes

A number of other regulatory imposts could disappear along with bed licensing, including the formula capping places per 1,000 of elderly population and prescribing a fixed percentage of high-care, low-care and community assistance places.

Accreditation should be re-focussed towards outcomes not processes, with a more constructive approach to bringing under-performing service providers up to standard. Financial penalties make it harder to improve.

Reducing the compliance burden of qualified nursing staff could be a high priority.

Deregulate the Provision of Extra Services

By benchmarking the minimum level of care to be provided with funds provided and de-regulating the provision of extra service places new revenue-raising opportunities for service providers could be established allowing them to respond directly to clients' needs and preferences.

Reintroduce Bonds for High-Care Places

This would create a simplified, harmonised financing regime for high-care and low-care, and improve capital financing for high-care places.

Allow Additional Funding in Exceptional Circumstances

Economies of scale mean that smaller facilities may no longer be viable without subsidisation.

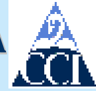
At present the government is allowing these facilities to fail as they are not prepared to recognise the difficulties faced by smaller providers. In addition the regulator does not allow them to generate funding through payment of extra services, except in approved circumstances.

There may be a case for more systematic provision of additional funding in those cases (eg remote and regional centres, facilities catering for special needs) where it is warranted.

Co-ordination Issues

CCIWA believes that the aged care sector needs a long-term business plan, developed in consultation with the industry, to ensure ongoing viability of the aged care sector.

Reporting and licensing requirements should be reviewed to identify and remove areas of duplication and encourage integration.



Funding agreements between Commonwealth and state funded programs should be made more transparent, and there should be greater coordination of commonwealth and state funded programs.

Finally there should be integrated and consistent eligibility criteria and funding guidelines for all services offered to older Australian to ensure continuity and consistency of care.

Consideration should be given to vesting all of the responsibility for funding, making available and regulating service provision in a single layer of government.

Similar concerns of overlap, duplication and cost shifting occur between the aged and acute care system as between the Commonwealth and state governments. Vesting responsibility for these services under a single department in a single layer of government would greatly increase incentives to improve performance, to the ultimate benefit of clients, service providers and government finances. Indeed, a more holistic and synchronised approach to meeting the needs of the elderly might, in the long term, extend beyond streamlining of government responsibilities and co-ordinating health and aged care.

This chapter began by arguing that if policy is to facilitate active, dignified and self-determined lifestyles for Australia's ageing population, it must integrate approaches across a range of activities not commonly thought of as aged care concerns – urban planning and building design, medical care and recreational facilities, transport, education and telecommunications, for example.

Technological change, the aspirations of retirees and their increasing clout as voters and consumers all mean that the interests will probably be given increasing weight in political policy debate over the next few decades.

Retirement Incomes[8]

Background

The ageing population presents some important macro-economic policy challenges.

These challenges are not unique to Australia – indeed, by the standards of other developed economies, the ageing of Australia's population appears relatively mild.

For example, United Nations projections indicate that 28 per cent of Australia's population will be aged 60 or more by 2050, compared to 16 per cent currently. But in six OECD countries the proportion of the population aged 60 and over is projected to exceed 40 per cent by 2050, and Australia's projected aged population ratio for 2050 ranks 25th of the 30 OECD countries (Table 4).

A recent OECD publication[9] summed up the issue succinctly:

> *"The average age in OECD countries is increasing, because people are living longer and, especially, because birth rates have fallen in the past few decades. Citizens are likely to spend a longer proportion of their lives living on retirement income, the retired population will rise as a proportion of the total and the goods and services that the retired population will be able to purchase, irrespective of the source of their income, will be produced by relatively fewer workers. Average living standards (excluding the leisure enjoyed by the retired population) are bound to be lowered, ceteris paribus.*

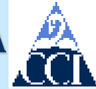
> *"Population ageing also has well-known implications for current state-run "Pay-as-you-go" (PAYG) pension systems, which have recently been reformed in a number of OECD countries. Prior to these reforms, it was clear that if benefits and contribution rates remained unchanged, deficits on the PAYG account would rise steadily, to several percentage points of GDP annually in some countries. If reforms were introduced only on the contribution side, the future working population would have to pay pension contribution at rates so high that negative impacts on labour supply*

Figure 4

Projected % Population By Age Group, Selected Countries

	2000		2050	
	0-14	60+	0-14	60+
OECD				
Spain	15	22	11	44
Japan	15	23	13	42
Italy	14	24	11	42
Austria	17	21	12	41
Greece	15	23	13	41
Czech Republic	16	18	14	40
Switzerland	17	21	13	39
Germany	16	23	12	38
Sweden	18	22	14	38
Slovakia	20	15	13	37
Hungary	17	20	14	36
Portugal	17	21	14	36
Poland	19	17	16	36
Belgium	17	22	14	36
Finland	18	20	15	34
UK	19	21	15	34
Korea	21	11	16	33
Netherlands	18	18	15	33
France	19	21	16	33
Norway	20	20	16	32
Denmark	18	20	15	32
Canada	19	17	16	30
Iceland	23	15	17	29
New Zealand	23	16	17	29
Australia	21	16	18	28
Ireland	22	15	19	28
USA	22	16	19	27
Luxembourg	19	19	18	25
Mexico	33	7	19	24
Turkey	30	8	20	23
Other selected countries				
Russia	18	19	14	37
China, Hong Kong	16	14	14	35
Singapore	22	11	14	35
Yugoslavia	20	18	15	32
Cyprus	23	16	17	30
China, mainland	25	10	16	30
Israel	28	13	19	25
Indonesia	31	8	20	22
Malaysia	34	7	20	21
India	33	8	20	21
South Africa	34	6	24	14
Swaziland	42	5	26	9
Niger	50	3	38	5
World	**30**	**10**	**21**	**21**

Source: UN World Population Prospects, The 2000 Revision



would become likely. Hence countries have started to introduce reforms on the benefits side, implying that individuals now in their prime working years will receive lower pensions than they previously expected or will have to work for a longer period.

"... This raises two questions:

- *"will changes to PAYG systems induce changes in private savings behaviour if individuals seek to rebuild their future pension wealth?*
- *"what would be the likely impact of such changes on future living standards?"*

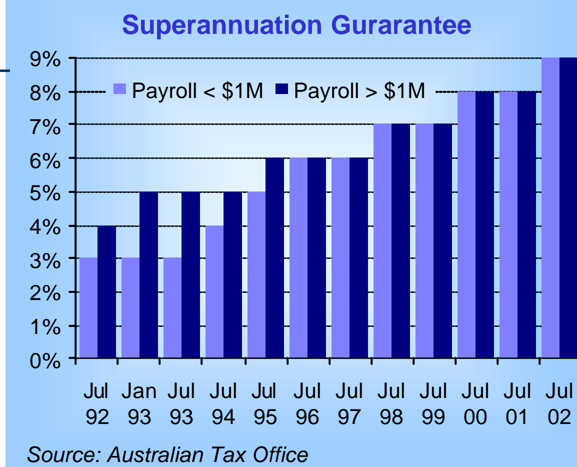
Superannuation Guarantee Charge

The Superannuation Guarantee Charge has now been in place since 1992-93. During that time it has risen in steps from 3 per cent to 9 per cent of employee earnings (Figure 5).

It has undergone many changes of form and content, as the Labor Government's promised "L.A.W." tax cut mutated into a proposed government superannuation co-contribution and through a savings incentive before finally being absorbed in the income tax cuts and direct tax

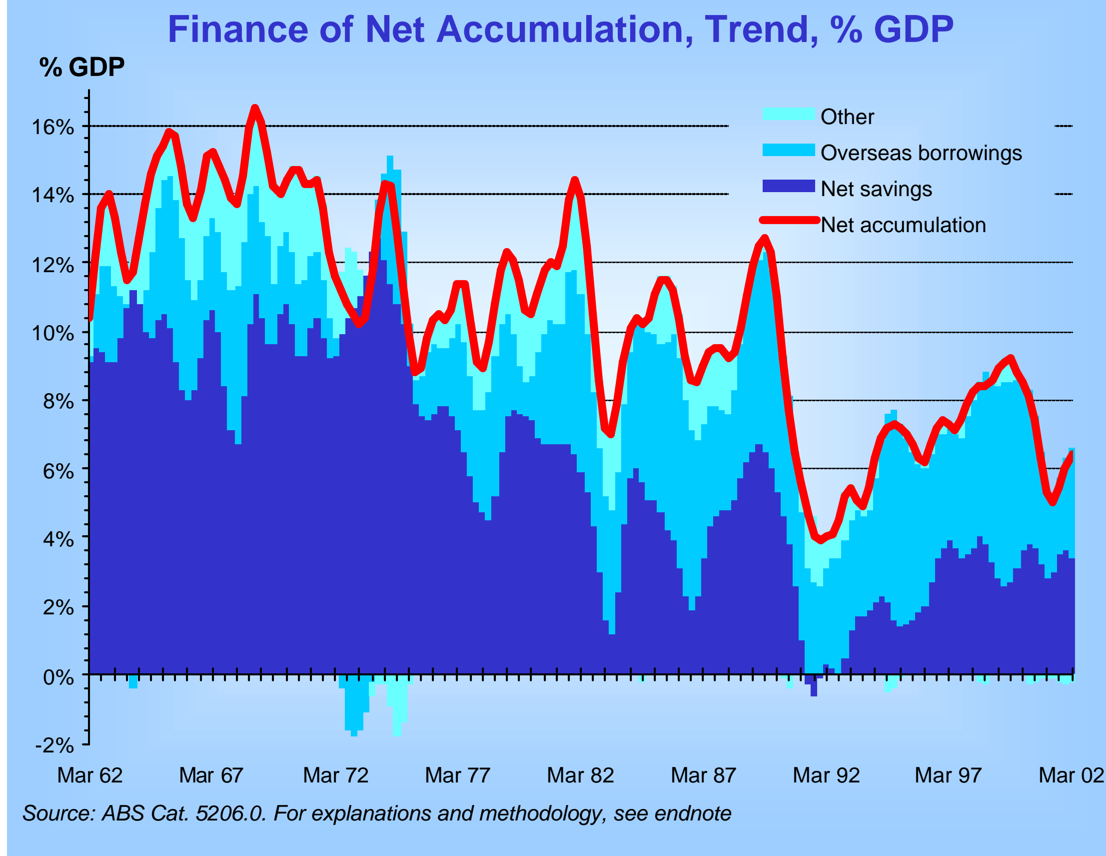
In Australia's case, the government's response has been to introduce compulsory superannuation payable by the employer. Initially this was in the form of compulsory superannuation mandated under the award system, and since the early 1990s in the form of the Superannuation Guarantee Charge, which compels employers to either provide personal superannuation payments on their employees' behalf or to make equivalent payments on their behalf into a government fund.

Figure 5



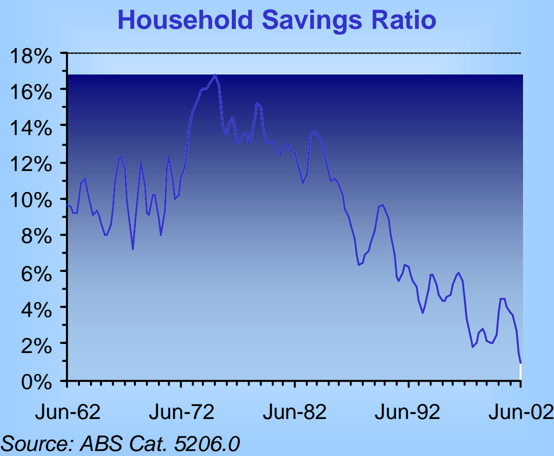
Source: Australian Tax Office

Figure 6



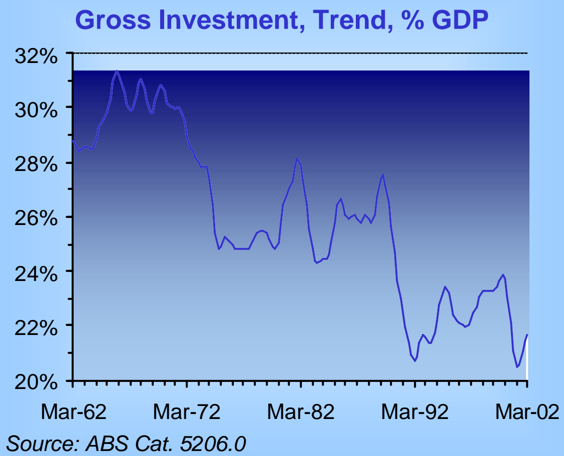
Source: ABS Cat. 5206.0. For explanations and methodology, see endnote

Figure 7



Source: ABS Cat. 5206.0

Figure 8



Source: ABS Cat. 5206.0

increases of the Coalition's *A New Tax System* package.

That was the last occasion on which the adequacy of the magnitude and scope of Superannuation Guarantee Charge contributions figured prominently in popular political debate.

Public debate of the role of the guarantee has also shifted. In the early 1990s economic deliberation focussed on the historically low levels of Australia's saving rate. Higher levels of saving were deemed necessary in order to sustain the levels of domestic investment necessary to maintain reasonably strong economic growth. Net investment as a percentage of Gross Domestic Product had fallen steadily for 3 decades.

An even steeper drop in net national saving (which was negative for a time in 1991) meant that most of the net additions to Australia's capital was being financed by borrowing from overseas (for an explanation of these data, which are illustrated in Figure 6, see endnote[10]).

Figure 9

Household Savings Ratios
Average, 1993 to 2003

Country	%	Country	%
Turkey	18.3	Portugal	10.1
Czech Republic	16.0	Switzerland	9.3
Korea	16.0	Austria	8.2
France	15.4	UK	7.3
Belgium	15.1	Norway	6.6
Italy	13.6	Poland	6.5
Hungary	13.3	Sweden	6.1
Spain	12.3	Canada	5.9
Ireland	12.0	Denmark	5.0
Japan	11.3	**Australia**	**3.9**
Netherlands	10.8	Finland	3.9
Slovak Republic	10.7	USA	3.8
Germany	10.7	New Zealand	0.1
Euro area	10.4		

Source: OECD

The 1993 FitzGerald Report on national savings[11] highlighted these concerns and concluded that:

> *"It is only by our own domestic saving that we as Australians can increase our own wealth"*

Even though the household saving ratio now is even lower that it was in the early 1990s (Figure 7), much of the heat has gone out of the national savings issue in public policy debate.

This may be in part because the rest of the world seems to be as willing as ever to top up Australia's low domestic savings with international investment into Australia, as Figure 12 illustrates.

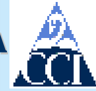
Furthermore, over the 1990s Australia achieved a strong and sustained increase in its underlying growth rate, even though investment levels were still

Figure 10

Productivity Growth Rates
Various Business Cycles

	Labour	Capital	Multi-factor
1964–65 to 1968-69	2.5	-0.8	1.2
1968–69 to 1973-74	2.9	-0.7	1.5
1973–74 to 1981-82	2.4	-1.5	1.0
1981–82 to 1984-85	2.2	-1.7	0.8
1981–82 to 1988-89	0.8	-0.2	0.4
1988–89 to 1993-94	2.0	-1.2	0.7
1993–94 to 1999-00	3.0	0.0	1.8
35 years to 1999-00	2.3	-0.9	1.1

Source: ABS Cat. 5204.0



relatively modest by historical standards (though they improved for a while in the middle of the decade – see endnote[12] for an explanation of the difference between these numbers and those in Figure 6).

Stronger growth was associated with a much better productivity performance than had been achieved in the 1970s or 1980s, reflecting the beneficial effects of structural changes and the micro-economic reform policies of the preceding years.

According to the Australian Bureau of Statistics:

> *"Multifactor productivity estimates for Australia extend back to the mid-1960s. Australia has experienced seven growth cycles during the past thirty five years. The 1.8% average annual improvement in multifactor productivity recorded during the most recent growth cycle (1993-94 through 1999-2000) is the highest rate of average annual improvement observed over any single cycle. The average rate of productivity improvement during the preceding seven growth cycles was 1.1% a year, and not since the growth cycle that ended in the mid-1970s had annual average improvement exceeded 1%."*

Finally, there is an apparent paradox in Australia's household saving and investment patterns. Even though Australia's household savings are low by both historical standards (Figure 7) and international standards (Figure 9), the household sector has nonetheless been accumulating wealth at quite a rapid rate.

Over the decade to 1999-00, the value of household assets increased by an average rate of 7 per cent a year.

Figure 11

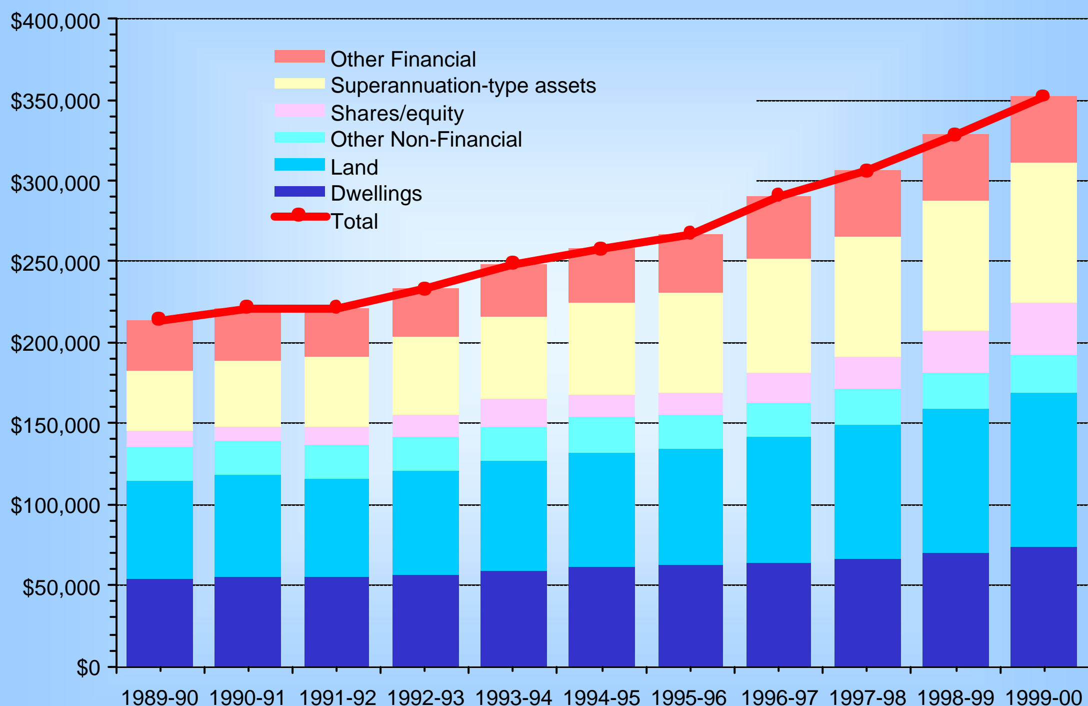
National Balance Sheet
Change in Net Worth, 1990-91 to 2000-01

Open and and close balance:	$Bn
Balance sheet 1990-91	$1,884Bn
Balance sheet 2000-01	$3,459Bn

Increase due to:	$Bn	Share
Net capital formation	$372Bn	24%
Financial transactions	$166Bn	11%
Other volume changes	$47Bn	3%
Revaluation account	$990Bn	63%
Total change	$1,575Bn	100%

Source: ABS Cat. 5204.0

Figure 12



Source: ABS Cat. 5204.0, 3101.0. For explanations and methodology, see endnote

Allowing for growth in the number of households, this translated to 5.1 per cent annual growth in the average value of assets per household, from $214,088 in 1989-90 to $352,020 in 1999-00.

Growth in the value of shares and equity was the most rapid, at 14.5 per cent a year over the decade. Households' ownership of shares grew markedly in the 1990s, through the privatisation of government business enterprises, stock market flotation and demutualisation of insurance co-operatives into corporate structures.

The value of superannuation and related assets also grew strongly over the decade, at an average of 10.7 per cent a year. The Superannuation Guarantee Charge was responsible for some of this growth (see endnote[13] for an explanation of the terms and data in Figure 12).

However, the apparent paradox of low savings but healthy growth in asset values in the 1990s may well be due mainly to the fact that growth in households' asset values over the decade was driven more by changes in the prices of assets than by the acquisition of more of them.

Figure 22 reproduces data from the annual national accounts showing that over 60 per cent of the national growth of net worth over the 1990s came from valuation effects. Although this is a comprehensive national account covering government and business as well as households, if the household account followed a similar pattern it could explain why asset values are rising even though savings are weak.

The asset value growth of the 1990s means that the average Australian household is much wealthier than it was a decade ago. This means the question of national savings features less urgently in national economic and fiscal policy.

To the extent that superannuation now features in public debate, it tends to be in terms of the adequacy of individuals' savings levels for their personal needs, or the potential fiscal burden of financing retirement pensions for an ageing population, as highlighted in the Intergenerational Report.

CCIWA is concerned that Australia's current superannuation arrangements, and in particular, the Superannuation Guarantee Charge, will not achieve its overt objectives of providing an adequate retirement income for most Australians and reducing the tax burden which providing aged pensions for an ageing population would represent.

Nor will it achieve its less transparent objective - giving employees a retirement income at no cost to themselves by forcing employers alone to contribute to superannuation.

This paper canvasses many issues and concerns surrounding the Charge, but three of these are by far the most important:

- the need to increase substantially total national savings, not just superannuation savings;
- the need to design a retirement savings policy around the real working patterns and lifestyles that Australians actually have and want, not some preconceived archetype of 40 or 50 years' full time employment which is in reality the case for only a minority of people;
- the need to design a scheme which will deliver an adequate self-funded retirement income for those who can afford it, without inflicting unnecessary and disproportionate hardship on those who can't.

As it is currently structured the Superannuation Guarantee Charge is unlikely to deliver any of these objectives. Yet unless it does, the Charge can only be considered a failure.

The final section of this submission outlines proposals and suggestions for rectifying some of the worst flaws of the Charge.

However, CCIWA recognises that there are perhaps other ways of dealing with the issues raised in this paper, and hopes that the opportunity for public debate and informed comment which this Inquiry offers is widely utilised. As was the case in the preceding discussion on the problems facing the aged care industry, the proposals canvassed here are sometimes compromises or second-best solutions. We would welcome any suggestions that deal effectively with the issues raised here..

Ultimately, the priority must be that something is done to re-direct national retirement incomes policy towards meeting its proper objectives effectively.

National Savings

Superficially, the Superannuation Guarantee Charge (SGC) seems to offer a solution to three economic problems.

Firstly, because of the ageing of the "baby boomer" bulge in the population, Australia faces an acceleration in the cost of providing retirement incomes. If most retirement incomes are government-funded, this burden will be carried by taxpayers of working age.

By making individuals (or rather, their employers) responsible for retirement incomes, a major drain on the public purse could be avoided.

Secondly, Australia's low domestic savings have been insufficient to meet investment demand, leading to persistent current account deficits and the rapid accumulation of foreign debt.

If compulsory superannuation increases aggregate savings, Australian businesses would no longer need to use foreigners' savings to finance investment, and the accumulation of foreign debt would slow.

Thirdly, savings and investment would be available during the employee's working life, to finance investment and thereby generate faster economic growth.

This third point is crucial. For a whole economy, it is not possible to "save" for retirement incomes. Retirees' (and everyone else's) incomes must be financed from the current "pool" of national income and assets.

If a higher proportion of the population is of retirement age, then these people are likely to consume a larger proportion of national income.

But if savings over the course of employees' working lives have supported investment which has led to the accumulation of capital and faster economic growth, the size of the national income and asset "pool" to be distributed will be larger, putting less of a burden on the working population.

Superannuation also provides a means for income to flow directly to retirees, removing the distributive function from government.

Clearly, the key to the whole process is savings. Without higher net domestic savings there will be no decrease in the call on foreigners' savings and no reduction in foreign debt; no increase in capital accumulation and no increase in economic growth; and no enhanced "pool" of national income to accommodate a larger retired population without increasing the pressure on taxpayers.

And, because superannuation is a form of savings, many people believe the SGC will boost national saving considerably, with all the associated benefits outlined above.

But it hasn't.

Anticipated Effects on Introduction

Even when it was introduced in the early 1990s, Treasury estimates indicated that a large proportion of the initial boost in superannuation savings extracted from the business sector through the Superannuation Guarantee Charge (or Superannuation Guarantee Levy, as it was originally to be called), would leak away through reductions in other types of savings[14].

As might be expected, employers' superannuation contributions by themselves were expected to make a significant contribution to total savings. Employer superannuation was expected to lift total domestic savings by around 2 per cent of GDP at its peak in the second decade of the 21st century, falling to around 1.5 per cent by 2029 (the end of the projection period).

But other private savings are also affected.

Employees cut back on their own savings, and especially personal retirement provision, knowing that employers are saving on their behalf.

The extent of this leakage is still debated today, although the most common estimate is that around a third to a half of each dollar of employers' superannuation is leaked through lower personal saving.

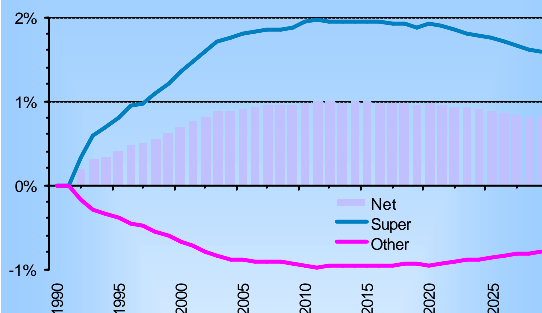
A paper by Reserve Bank Staff Malcolm Edey and Luke Gower for its 2000 conference on national savings summarised debated thus:

> *"Another aspect of the original question concerning the impact of superannuation on private saving concerns the potential for compulsory superannuation to displace other*

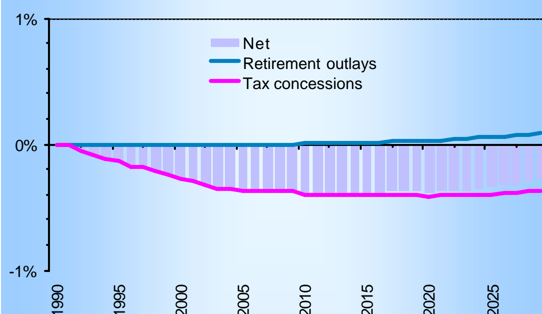
forms of saving. It is generally agreed that some offsetting reduction in non-superannuation saving is likely, although the degree of offset is likely to be incomplete.

Although econometric estimates of the degree of offset vary, they generally bear out this view. They range as high as 0.75 (Morling and Subbaraman1995), although there seems to be a loose consensus in the range of the .37 and 0.5 parameter estimates of Covick and Higgs (1995) and FitzGerald and Harper (1992).

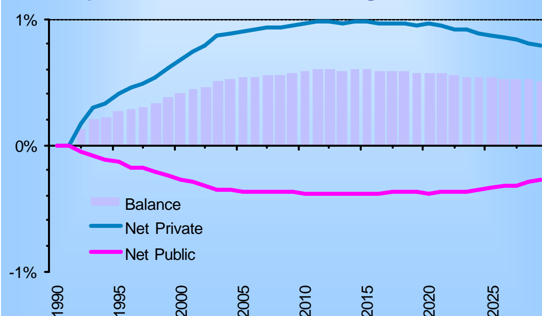
Figure 13



Source: "Security in Retirement: Planning for Tomorrow Today" p.43



Source: "Security in Retirement: Planning for Tomorrow Today" p.43



Source: "Security in Retirement: Planning for Tomorrow Today" p.43

Certainly, the estimates of around a third accord with calculations using cross-sectional data for tax-preferred retirement savings vehicles in the United States (Hubbard and Skinner 1996). More recent consumer survey evidence by Loundes (1999) however suggests that the extent of reduction in voluntary saving due to compulsory superannuation may be quite large." [15]

Household savings are not the only component of national savings affected by compulsory superannuation. Businesses, whose revenues are lower and labour costs higher as a result of the charge, cut back on their own savings.

Overall, Treasury estimates from the early 1990s predicated on a relatively conservative leakage rate indicated that about half of the gain in savings from superannuation alone would be lost through reductions in other forms of private savings.

The estimated benefit to the economy of employers' SGC contribution to savings of 1.5 per cent of GDP (by 2029) yields about 0.8 per cent of GDP in net private savings.

At least one might expect the public sector to save the value of pensions which no longer have to be paid.

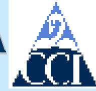
And this is indeed the case. If government pensions for retirees kept a constant relationship to average weekly earnings, then total domestic savings would be enhanced by a further 0.1 per cent of Gross Domestic Product by the end of the projection period through lower spending on retirement pensions.

Unfortunately, pension payments foregone are not the only influence on public sector savings.

Government will lose revenues from:

- the more generous tax incentives offered for superannuation compared to other forms of saving
- the additional costs of the government's own superannuation liabilities etc
- the lower PAYE income tax returns resulting from lower real wages paid to employees as a result of the charge.

These factors mean that public sector savings are reduced as a result of the Superannuation Guarantee Charge.



In short, government estimated that it would lose more in tax revenue to engineer the shift from public pensions to private superannuation than it would gain by spending less on pensions.

Overall, of around 1.5 per cent of Gross Domestic Product which the Charge alone was expected to add to national savings by 2029, two-thirds was estimated to leak through lower savings in the rest of the private sector and in the public sector. The peak net gain in total national savings was 0.5 – 1 per cent of GDP.

Subsequent estimates from staff of the Treasury's Retirement Income Modelling Taskforce upgraded these estimates to predict savings of 1 per cent of GDP by the end of the 1990s, peaking at 4 per cent of GDP by 2020. But this estimate was based on a range of changes in tax, employee and government contributions, some of which did not eventuate.

Furthermore, more than half of the apparent gain resulted from the government not proceeding with promised tax cuts, thereby boosting its own savings compared to a 'base case' in which tax cuts were implemented as promised[16].

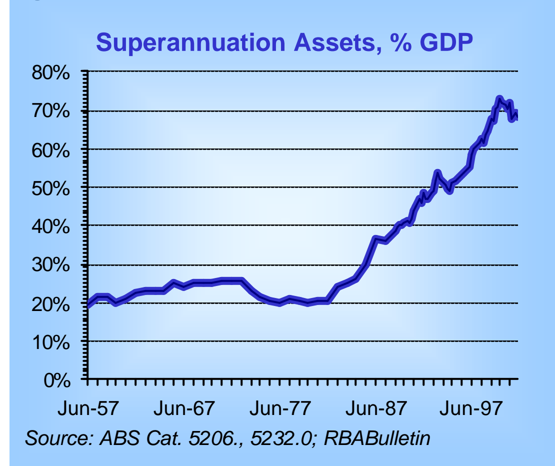
Evidence So Far

Edey and Gower looked at the evidence so far on the impact of the Superannuation Guarantee Charge.

They found that while the value of assets in superannuation funds has risen sharply over the past few decades, this appears to have been driven main by increases in asset values and reinvestment of earnings.

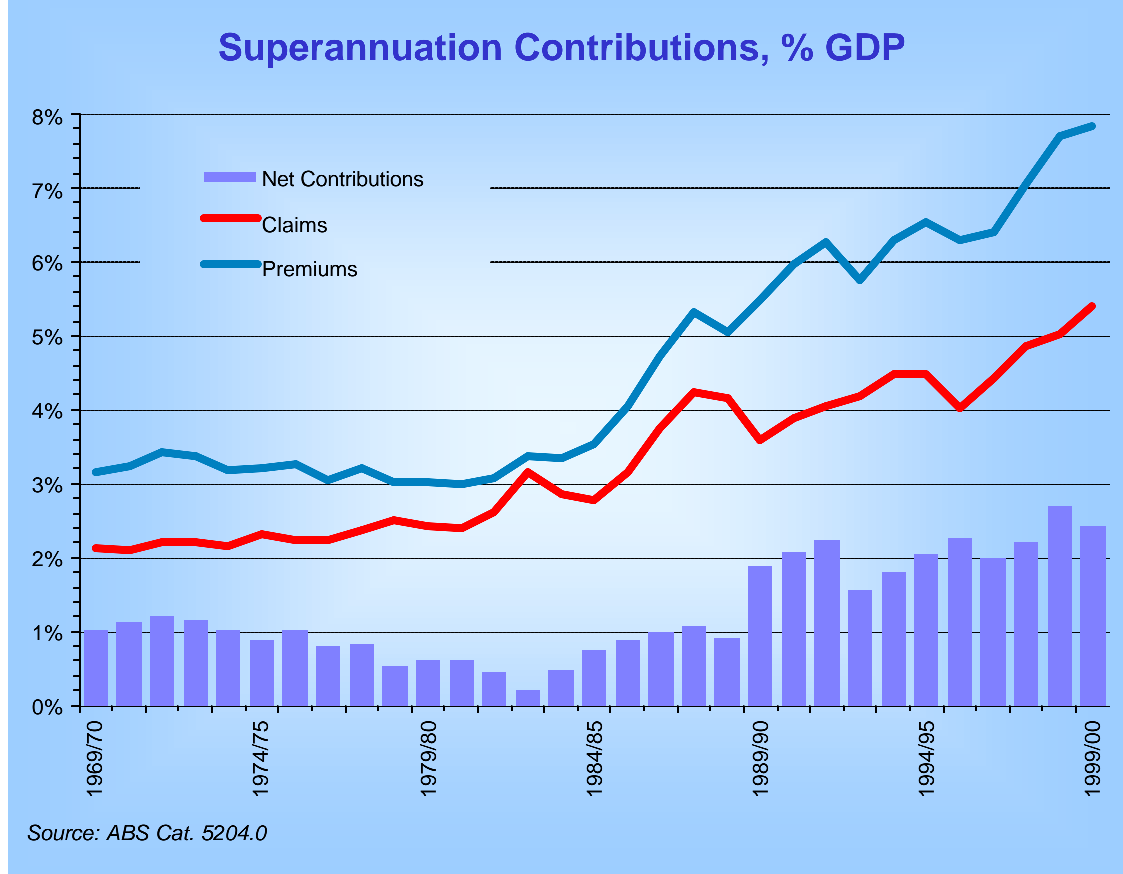
CCI has roughly followed their methodology in Figure 15, but it includes more recent data, showing the drop in

Figure 15



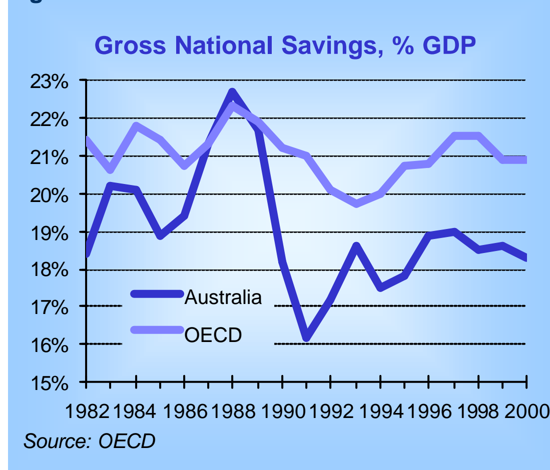
Source: ABS Cat. 5206., 5232.0; RBABulletin

Figure 14



Source: ABS Cat. 5204.0

Figure 16



Source: OECD

asset values associated with the fall in domestic and overseas share prices in 2001-02.

Net contributions to superannuation funds have increased, but the increase was relatively modest compared with total asset growth, from about 1 per cent of GDP in the mid 1980s to about 2 per cent in the late 1990s.

Furthermore, most of the increase occurred when award superannuation was being phase in during the late 1980s and early 1990s, not during the phased introduction of 9 per cent contributions under the Superannuation Guarantee Charge.

While contributions have risen over the past 20 years (corresponding with the introduction first of award superannuation and later the Superannuation Guarantee Charge) this has been almost matched by a corresponding rise in claims.

Edey and Gower observed:

> *"It is interesting to line up these expectations against what has actually happened. The key stylised facts outlined above can be summarised as encompassing a flat or falling private saving ratio over the past two decades, combined with a modest increase in net superannuation contributions. As noted, compulsory superannuation was expected to have added a net 1per cent of GDP to national saving, principally via its effect on private saving, during the same period. There would seem to be two possible interpretations of this combination of facts. One is that the system is having something like its expected effect, but that other factors have been acting to hold down voluntary saving to an extent that has offset the increase in compulsory contributions. On this view, the projected increases in private saving should eventually become clear, assuming voluntary saving in a cyclically adjusted sense were to remain broadly stable in the longer run. The other interpretation is that the extent to which compulsory superannuation generates offsetting reductions in voluntary saving is much larger than has been assumed, rendering the system unlikely to produce significant increases in private saving even in the longer run. Which of these views is more correct should become clearer in the next few years as the timetable for increases in compulsory contributions moves to completion."*

In summary, compulsory superannuation savings have not been accompanied by a large increase in household or national saving. If anything, these trends have on some measures deteriorated further.

It is probably too early to tell whether other factors are working to offset the benefits of superannuation, or whether it is taking time for the 'critical mass' of superannuation savings to reach the point of exponential growth, or whether superannuation as currently structured will never in fact deliver the anticipated benefits.

But it is disappointing that there has been no discernable improvement in aggregate savings in the decade since the Charge was introduced.

Over the same period, Australia's national savings have slipped further behind the OECD average (Figure 16).

Does it Matter?

These issues matter for Australia's longer-term economic prospects.

A decline in the proportion of the population of working age has important implications for living standards. The output of an economy depends on the pool of resources available to it, and on how effectively those resources are used.

Labour is the most important of those inputs, with wages representing about half of value added in the economy. Other things being equal, a decline in the proportion of the population in employment is likely to result in a decline in per capita output. This effect would be

greatly ameliorated by faster productivity growth, but the Treasury projections in the Intergenerational Report indicate that productivity growth will actually decelerate.

Retirees typically generate less income and therefore less tax than people of working age. Most are at least partly reliant on government pensions to support their incomes.

Typically, older people consume more government resources through more intensive demands for health and aged care than the general population. Other things being equal, an older population will place greater demands on government than a younger one. This is the source of the fiscal pressures discussed in section *Forward Estimates* on page 4.

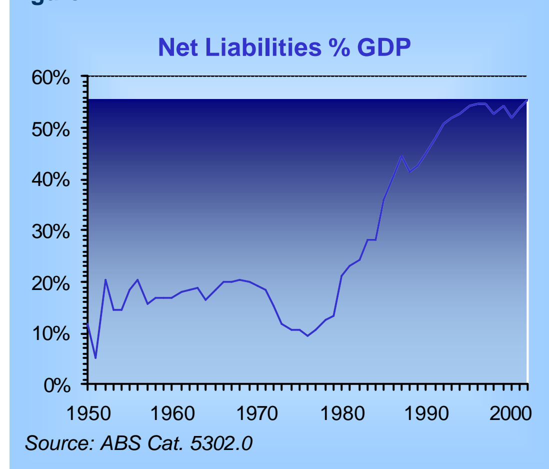
Governments may respond to these pressure by building up their own savings in advance to meet the anticipated demand, by taking action to ensure that retirees rather than governments carry the bulk of the costs of supporting the aged population, or by reducing the range and quality of services available to older people.

The introduction of compulsory superannuation contributions was an example of the second approach.

More generally, national savings probably matter.

There has been ongoing debate in Australia about whether our current level of national saving is sub-optimal, but

Figure 17



Source: ABS Cat. 5302.0

many analysts conclude that it probably is[17].

International evidence suggests that low domestic savings constrain domestic investment. However, Australia has been able to sustain higher levels of investment than its domestic saving could support for many years, by calling on the savings of foreigners, as Figure 6 on page 15 indicated.

This has come at a cost, however, including the steady accumulation of net foreign liabilities over the past 30 years, and the outflow in interest and dividends necessary to service those liabilities (Figure 17).

This accumulation of liabilities relative has been going on for a long time, but that does not mean that it can go on indefinitely. As Stein's Law says, if something cannot go on for ever, it will stop.

Superannuation Issues

The preceding section focussed on the adequacy of superannuation savings from a national perspective. The following focussed on practical aspects of the Superannuation Guarantee Charge.

Who Should Pay?

In simple economic terms it makes little difference whether the Superannuation Guarantee Charge is paid by the employer, the employee, or both. Unless employees are completely indifferent between payment in superannuation and payment in cash, its effect will be lower employment, higher gross labour costs and lower current disposable incomes.

As with most labour on-costs, whether the real burden falls more heavily on the employer or the employee depends on how responsive labour demand and supply are to changes in wages.

While the aggregate labour market effects of a compulsory levy on employers is little different from one on employees, there are other reasons why it may be desirable for employees to contribute at least some of their superannuation savings.

The direct beneficiaries of superannuation contributions are employees.

Government is an indirect beneficiary as it eventually avoids the cost of providing pensions (though losing tax revenue in the process).

Business, if it is to benefit at all, will do

so very indirectly through the higher GDP and investment which superannuation is supposed to generate.

It is not only "unfair" that employers alone should have to meet these costs, it also creates indirect problems. Only wage earners are covered by legislated superannuation paid by employers. This excludes the 1.3 million employed people (14 per cent of all employed people) who are self-employed, employers or unpaid family helpers[18].

In addition, a large number of adults are not actively employed, either because they are not in the labour force, or because they are unemployed. Only 59 per cent of the total adult population is employed (including people who have already retired), and only 52 per cent of all adults are wage and salary earners.

Groups which are less likely to be wage and salary earners suffer indirect discrimination because they have fewer opportunities to gain the financial security and tax advantages which superannuation offers. Women, for example, are much less likely than men to be employed as wage earners.

Employer-funded superannuation is the focus of government's retirement income policy, but it excludes the large number of adults who for various reasons are not full-time wage and salary earners.

"Ownership"

There is a serious problem of "ownership" of superannuation funds when the employer pays for them, the government collects or regulates them and the employee gets them. Employers, whose main legal responsibility stops with a tax return, have no stake in monitoring the performance or management of a superannuation fund, beyond the benefits in terms of employee relations.

Employees have a larger stake in the efficient management of funds, but this is often obscure and difficult to act upon.

Unions, who have no direct stake in the level or distribution of funds, have only indirect "ownership", if any.

Workers are not required to take responsibility for retirement incomes. Without transparent costs it is easy to understand why employees may not perceive superannuation contributions as their money. This encourages the treatment of superannuation as a windfall, and has necessitated the introduction of a raft of rule restricting access to superannuation funds before retirement.

Employees often choose not to exercise much control over how or where their superannuation contributions are invested, although their options are widening with choice of funds and more flexible investment options.

Beyond the very blunt instrument of trustees' powers, employees they have few visible sanctions against mismanagement.

Political Manipulation

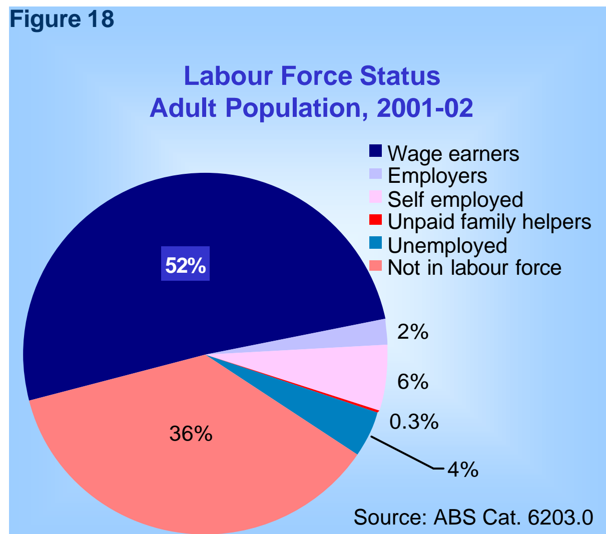
Employees' remoteness from their superannuation savings could make schemes particularly vulnerable to political manipulation and intervention.

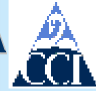
It has been suggested that superannuation funds should be directed to provide finance for various "deserving" activities.

These have included restrictions providing that a maximum percentage of funds can be invested abroad; that a minimum percentage be used to finance high-risk venture capital, social and economic infrastructure, or industries which government departments believe to be potential growth areas; and even for propping up ill-managed public sector business enterprises.

No doubt it must be tempting to direct at least some of the superannuation pool to political objectives. The sums involved are large. Yet political interference which skews funds towards high risk or low return activities, however deserving, might affect the efficiency of superannuation funds' operation, and

Figure 18





hence likely returns.

This would undermine the flow of returns on which future national income, and especially retirees' income, depends.

It is as important to guard against such misuse of superannuation as it is to prevent employers from diverting employees' superannuation funds into risky activities related to their own businesses - again, however beneficial the effects might be.

That such political interference has been seriously considered must be blamed at least partly on the way in which superannuation has been approached in Australia - the "ownership" problem outlined above, which means that no party has both the incentive and the authority to prevent manipulation.

The people with the greatest interest in the responsible management of superannuation funds are not employers, or unions, or governments, but employees - the group with perhaps least effective control of superannuation funds.

If employees had a more conspicuous stake in the management of their superannuation funds through their own contributions, they would have a clearer incentive to monitor those funds' performance.

With greater employee involvement and choice, political considerations would be assessed not just in terms of their potential social benefits but more stringently in terms of their real economic costs. Some of the more ludicrous suggested political uses of superannuation would be unthinkable.

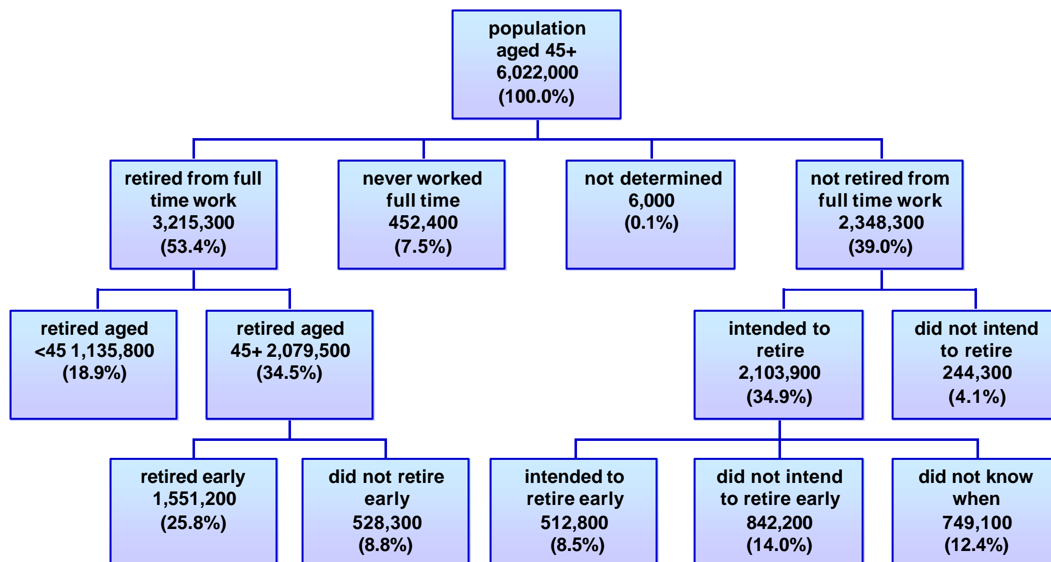
If superannuation funds are not invested profitably, however benign the intentions, the objective of achieving increased asset and GDP growth and adequate retirement incomes through saving would be further undermined. It is crucial that efficiency should be the prime objective when funds are invested.

Evidence On Working And Retirement Patterns

Retirees And Older People

Current superannuation policy is designed around wage and salary earners who work full time for a standard working life of around 40 years or more.

Figure 19



Source: ABS Cat. 6238.0

In fact, such a working pattern is quite rare.

Figure 19 shows the activities of the Australian population aged 45 and over in November 1997 by whether they were still in full time employment, had retired from full time employment, or never have and never meant to work full time.

Of the total population aged 45 and over, 452,000 (7.5 per cent) had never worked full time and never intended to work full time.

A further 3.2 million people (53 per cent) had retired from full time work. Of these retirees, over one million (19 per cent of all people aged 45+, and 35 per cent of retirees) had retired from full-time work before the age of 45.

A further 1.5 million (48 per cent of retirees) retired "early" (under the age of 60 for women and 65 for men).

The 1997 ABS survey of retirement and retirement intentions gives a fascinating snapshot of the working patterns and retirement plans of Australians aged 45 and over. Notable results include:

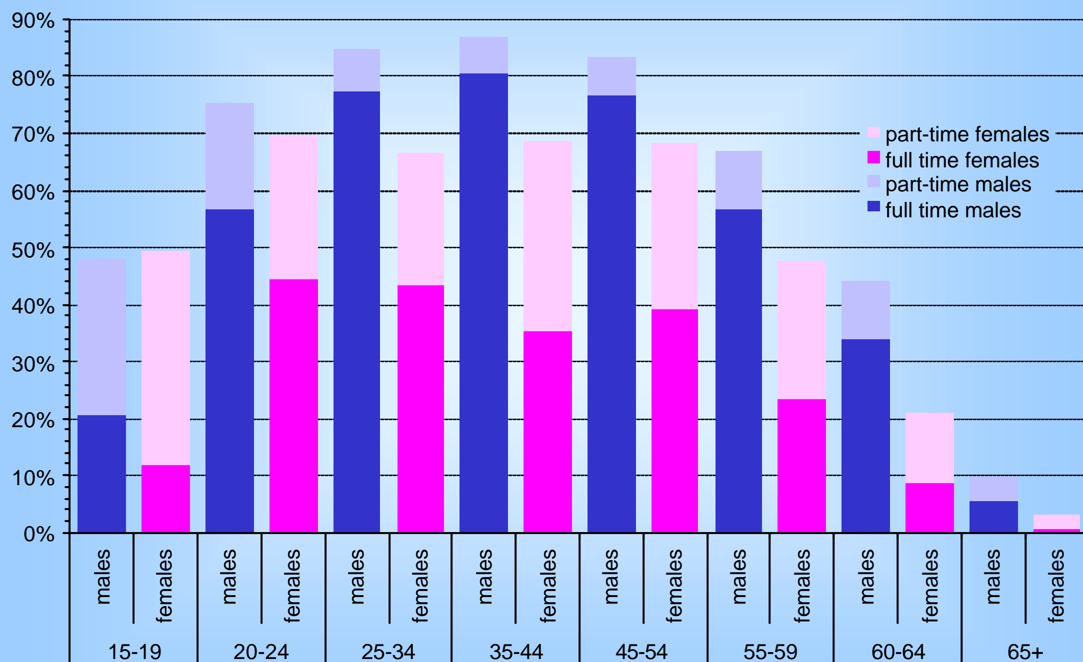
- About a third of all women aged over 45 had retired from full time employment by the age of 45.
- A further 14 per cent had never worked full time and never meant to.
- Just 24 per cent of women aged over 45 either worked full time or meant to at some time in future, compared to 55 per cent of men.
- Only 16 per cent of all people who had retired from full time employment actually retired at or after their "normal" retirement age.
- While men are less likely to retire early than women, over three quarters of retired men retired before their 65th birthday.

The emphasis of superannuation policies on people working full time until a normal retirement age of 60 or 65 does not reflect the reality of most retirees' working patterns.

Of a total retired (from full time work) population of 3.2 million, only 528,300 (16 per cent) retired on or after their "normal" retirement age.

These early retirers include those who retired only weeks or months before their normal retirement ages of 60 or 65.

Figure 20



Source: ABS Cat. 6203.0

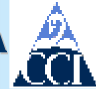
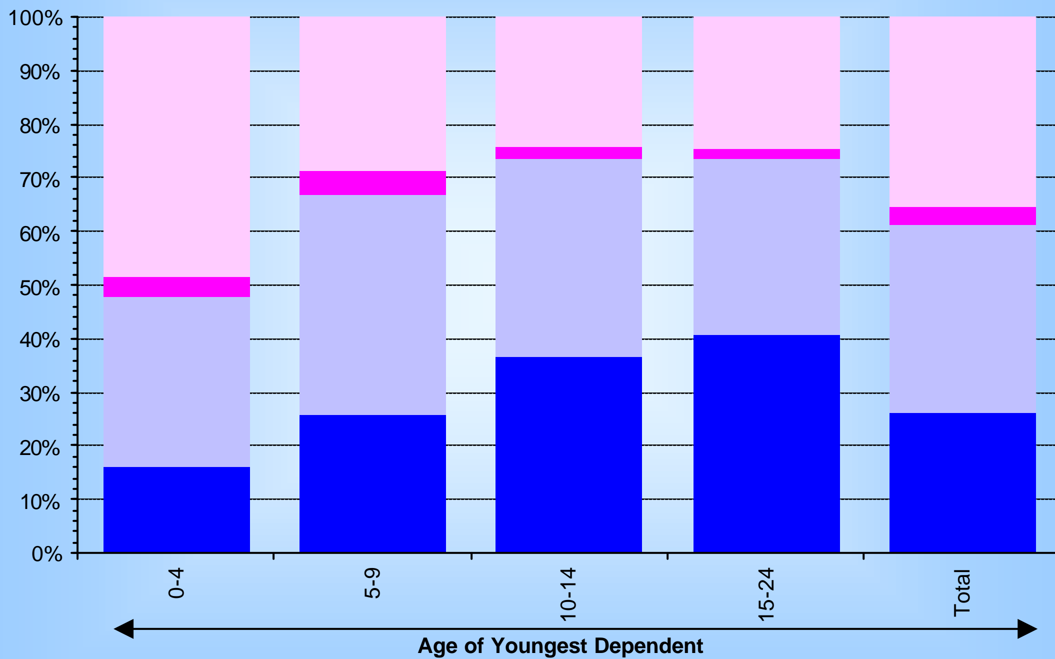


Figure 21



Even so, a great number of people, especially women, retire from full time employment well before their "normal" retirement age.

Over three quarters of female retirees had withdrawn from full time employment by the age of 55 (retiring at least 5 years before the "normal" age of 60).

Almost 50 per cent of male retirees similarly retired from full time employment before the age of 60 (again, at least five years before the "normal" retirement age).

Of the whole population of retirees, 64 per cent retired from full time employment at five years or more before their "normal" retirement ages.

A similar picture is painted by Figure 20, which shows the labour force status of people *currently* aged 45 to 65.

Female full-time employment never rises above 50 per cent for any of the age cohorts shown.

Many people withdraw from work, especially full time work, well before their standard retirement age.

A superannuation policy which requires full time employment to a standard retirement age of 60 or 65 in order to accumulate enough to sustain an adequate retirement income will not

Figure 22

Part-Time Employees
Whether Prefer Longer Hours, May 2000

	Males		Females		Persons	
	000s	%	000s	%	000s	%
Total	660.9		1,746.9		2,407.9	
Preferred not to work more hours	452.3	68%	1,392.5	80%	1,844.8	77%
Preferred to work more hours	208.7	32%	354.4	20%	563.1	23%
Actively seeking full-time work	*90.1*	*14%*	*106.8*	*6%*	*196.9*	*8%*

Source: ABS Cat. 6203.0

cater for the majority of Australians.

Part Time Employees[19]

Major concerns have been raised about the prospects of certain groups of employees being able to save enough through superannuation to sustain an adequate retirement income.

Attention has focussed on part time employees. But casual workers, those who change employers frequently, and the low paid may also be at a relative disadvantage.

Part time employees are not a homogenous group. People have very different propensities to work part time depending on their age, their gender and their family circumstances.

Propensities to work part time also change over time (parallelling the different proportion of part-timers among different age cohorts).

Just as different types of people have different propensities to work part time, so their superannuation needs may be very different.

Married Women

By far the largest group of part time employees is married women. In June 2000, married women account for 47 per cent of part time employees but less than 30 per cent of the total adult population.

Some 30 per cent of all part time employees are married women with dependents.

Of these, over 90 per cent have a spouse who works full time, 5.4 per cent have husbands working part time, 1.6 per cent have an unemployed husband and 3 per cent have spouses not active in the labour market.

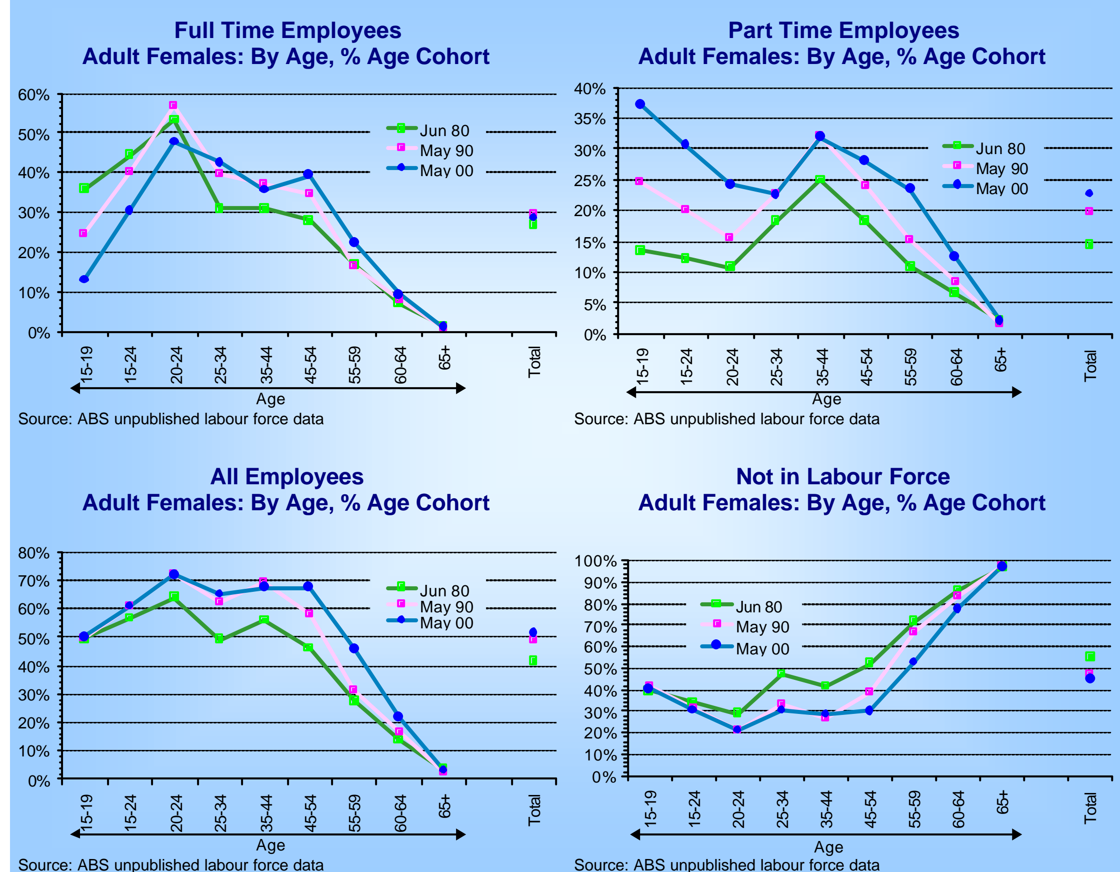
A further 17 per cent of part-timers are married women *without* dependent children. In most cases (74 per cent) these women have husbands employed full time, while a further 12 per cent have husbands employed part time.

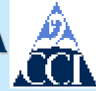
Other survey data indicate that, for most age groups, female participation in employment has increased significantly over the past 20 years.

Part-time employment in particular has grown strongly, while participation in full-time employment has risen for 25 to 60 year olds, but not for the younger and older age groups.

The exception is younger age groups

Figure 23





(15-19 and 20-24), where a large increase in part-time employment has been almost evenly matched by a large decrease in full-time employment.

For example, the percentage of 15-19 year old females in full time employment fell from 36 per cent in 1980 to 13 per cent in 2000, while the percentage working part-time rose from 13 per cent to 37 per cent. Netting these changes off, the percentage of 15-19 year olds in employment in 2000 was almost exactly the same as it had been in1980, at just under 50 per cent.

This in turn largely reflects the substantial increase in the proportion of 15-19 year olds who remain in full-time education beyond the age of 15 (whether in school, TAFE or university). The shift to part-time employment among the young has been made more marked by an increase in the propensity of full-time students to engage in part-time work. This trend has affected young men and young women about equally, and is one of the reasons for the rapid percentage growth in male part-time employment in recent decades.

Married mothers' part time employment patterns vary less than their full time employment patterns, and (like sole parents - see below) are largely determined by the age of their youngest dependent. In particular, married women are more likely to work full time as their youngest dependent gets older.

Women are also more likely to *choose* part time employment than men. The proportion of women working part-time who report that they do not want to work longer hours is 80 per cent, compared to less than 70 per cent of men. About one in seven male part-time employees is actively seeking full-time employment, compared to one in 16 female part-timers.

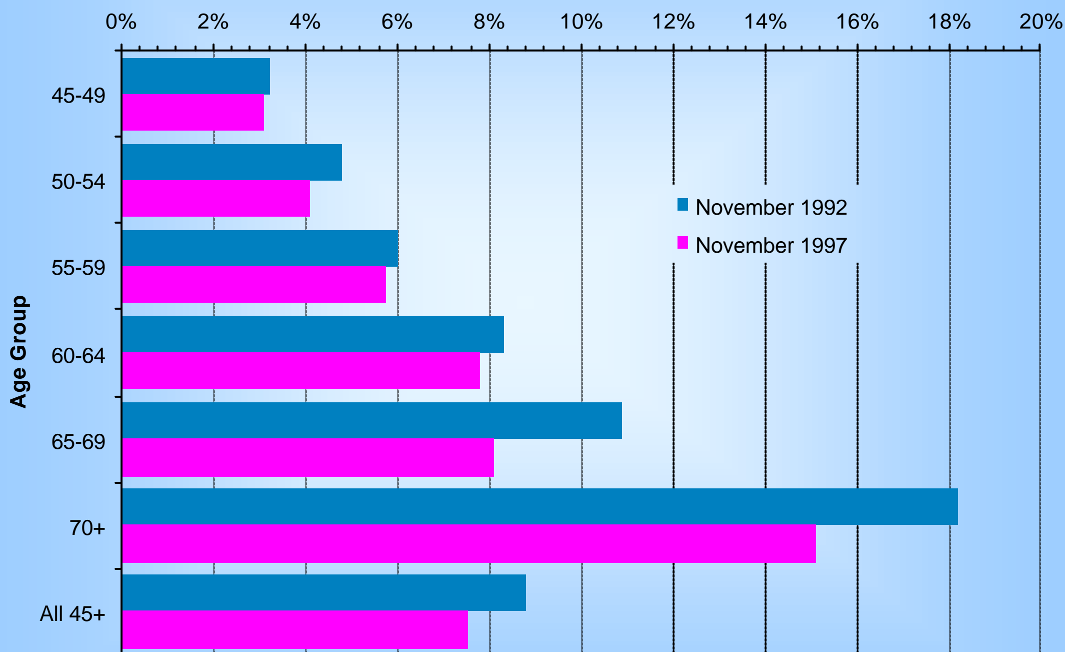
While most part-timers are happy with their hours, over half a million people working part time would prefer longer hours, and almost 200,000 are actively seeking full time employment.

Other Key Groups

Two other groups stand out as more likely to work part time than the population norm - sole parents, and full time students.

Dependent students represent a particularly large proportion of male part-time workers – one in four of all male

Figure 24



part time workers are dependent students[20].

More than 40 per cent of dependent students work part time, and the proportion has risen markedly over the past decade. In combination with the increasing retention rates of schools and other educational institutions, young people comprise a significant proportion of all part time employees. Dependent students account for 17 per cent of all part time workers, and 26 per cent of male part time employees.

Around 20 per cent of sole parents work part time - a similar percentage to married parents working part time. Female sole parents are more than twice as likely to work part time (22 per cent) as male sole parents (8 per cent).

Nonetheless, male sole parents are more likely to work part time than married men with dependents (5 per cent of parents).

Some of the rise in total part time employment in recent years, and particularly in male part time employment, is likely to be accounted for by the growing proportion of sole parents and full time students in the population.

People Not Working Full Time

The data paint a diverse and complex picture of employment and retirement patterns that cannot easily be summarised. Nonetheless, some conclusions can be drawn from the data.

Part time employees seem to fall into several different groups.

Firstly, many people are employed part time at the moment but will probably not be employed part time for most of their working lives. These include full time students, and people (especially men) employed part time but actively seeking full time employment. As unemployment has fallen since the recession of the early 1990s, this latter group in particular has contracted.

Secondly, some people are likely to work part time for a considerable portion of their working lives, but also spend significant amounts of time in full time employment. This category notably includes single parents and married women with children.

Both groups are likely to work part time or be out of the labour force when their dependents are quite young, but are increasingly likely to work full time as their youngest dependent gets older. Most married women with dependent children have a husband employed full time.

Thirdly, a significant minority of people *never* work full time. Some 458,400 people aged over 45 never have, and never intend to, work full time (7.5 per cent of this age group). Of these, 93 per cent are women.

This pattern, in particular, appears to be changing. The proportion of people who never have and never intend to work full time is heavily concentrated in older age groups, indicating a generational shift in working patterns.

This view is further supported by the significant decline for all age groups in the proportion of people never working full-time compared to the ABS Retirement And Retirement Intentions Survey, conducted in 1992 (Figure 24).

Fourthly, while many women re-enter full time employment as their youngest child becomes less dependent, a greater number do not. The tendency of women not to return to full time employment after raising children may not be tailing off very much, if at all. Only 39 per cent of women aged 45 to 54 work full time, although 28 per cent work part time.

Some 30 per cent of women in this age group are not active in the labour force any form of employment, while 2.6 per cent are unemployed.

Finally, even women without dependents are much less likely to work full time, or work at all, than men. This is true across all age groups, but most especially for older women.

"Involuntary" Part-Timers

The data also point, tentatively, to another distinction in part time employment trends - between those who choose the lower income that part time employment usually generates in order to devote time to running a household, raising a family, or other activities; and those who effectively have little choice.

A significant proportion of part time employees, and a larger number of non-employees, do not work full time because they have no choice. This includes some groups of sick or disabled people, but is most visible among the unemployed and people employed part time but wanting full time employment.

Since the recession of the early 1990s,

the number of long-term unemployed in Australia has fallen steadily. Nonetheless, by July 2002 there were still 135,000 Australians who had been out of work for a year or more.

Also among those who have little choice but to work part time are *some* parents with young dependents. Sole parents in particular, and low-income families in general, face a difficult trade-off between family responsibilities and the need to earn money. While most sole parents move into full time employment as their youngest dependent reaches its mid-teens, a significant proportion do not.

Furthermore, the time typically spent by sole parents in part time employment or out of the labour force is likely to be long enough to make a significant dent in lifetime earnings and superannuation entitlement, even if they do eventually return to full time employment.

In contrast with this group of "involuntary" part-timers or non-workers, it seems clear that many households and individuals *choose* to sacrifice the higher earnings which full time employment generates in order to devote time to other activities - raising children, running a household, etc.

Policy Implications

Prolonged spells of part time employment are only one of many aspects of individuals' lifetime employment and savings patterns which may make them unable to accumulate sufficient superannuation savings to sustain a substantial retirement income.

In many cases, this is a deliberate choice. Many women do not work full time for significant portions of their adult lives, and many rely mainly on "someone else's" income when they retire. This seems to reflect a conventional division of household responsibilities by married couples - one partner performs unpaid family duties, the other earns most or all of the cash income.

These diverse employment patterns make devising an appropriate superannuation policy for part time employees extremely difficult.

It is unlikely that someone working part time for most or all of their working lives will ever be able to accumulate sufficient superannuation savings to sustain a reasonable standard of living in retirement.

A typical part-timer not only works fewer hours than a full time employee, they also tend to receive a lower average hourly rate. This reflects the concentration of part time employment in relatively low-paid occupations and industries.

The Fitzgerald Report proposed a superannuation contribution of around 18 per cent of average full time earnings over an employee's working life to support a reasonable level of final superannuation-supported income. To achieve the same income level would require a superannuation contribution equal to almost 50 per cent of average part time earnings.

Many of Australia's poorest households contain nobody in employment at all.

For people in these circumstances, at least for as long as they cannot or do not work, superannuation is not an option. They may save in other forms, but are relatively disadvantaged because the forms of saving readily available to those on low incomes (such as savings accounts) are also the least favourably taxed.

Other families or single person households contain only part time employees, typically because of family responsibilities, lack of full time employment opportunities etc. In these circumstances access to superannuation during part time employment *may* be necessary to sustain a reasonable privately-sourced income in retirement. But the chances of achieving such an income also depend on spending at least some time in full time employment.

In other families, there are both part time and full time employees. In such cases, the household members might decide that maximising superannuation contributions is the most efficient way of supporting retirement incomes. Even if the part-timer seldom or never works full time over their working life, their superannuation contributions *may* represent tax-efficient savings which enhance the household's total retirement income.

Alternatively, they may not. The effect of compulsory superannuation is likely to be lower employment, higher gross labour costs and lower real disposable incomes.

Compelling part-timers or their employers to contribute to superannuation imposes these costs of

lower real wages and lower employment on some of the lowest paid sections of the labour force, for negligible benefit.

Even ignoring the substantial leakage to transaction and maintenance costs from part-timers' superannuation contributions, most people without alternative income sources who spend most of their working lives in part time employment will rely on government benefits and pensions as their main source of retirement income.

Depending on whether (and how) those benefits are means-tested, there may be little or no final return to such employees from their superannuation (see The Aged Pension on page 41).

Furthermore, of all employees, the low paid are most likely to express a strong and legitimate preference for current over future consumption.

This is reflected, for example, in the fact that lower income households tend to spend less on superannuation and life insurance than more affluent households, both in dollar terms and as a percentage of household income (Figure 25.

Compulsory superannuation is compulsory saving, whether imposed on employees or employers. And unlike more affluent employees, the lower paid typically have fewer alternative savings to run down in order to sustain their current standard of living.

As discussed above, employees typically reduce their voluntary savings by about 50 cents for every dollar of superannuation saving undertaken on their behalf by employers.

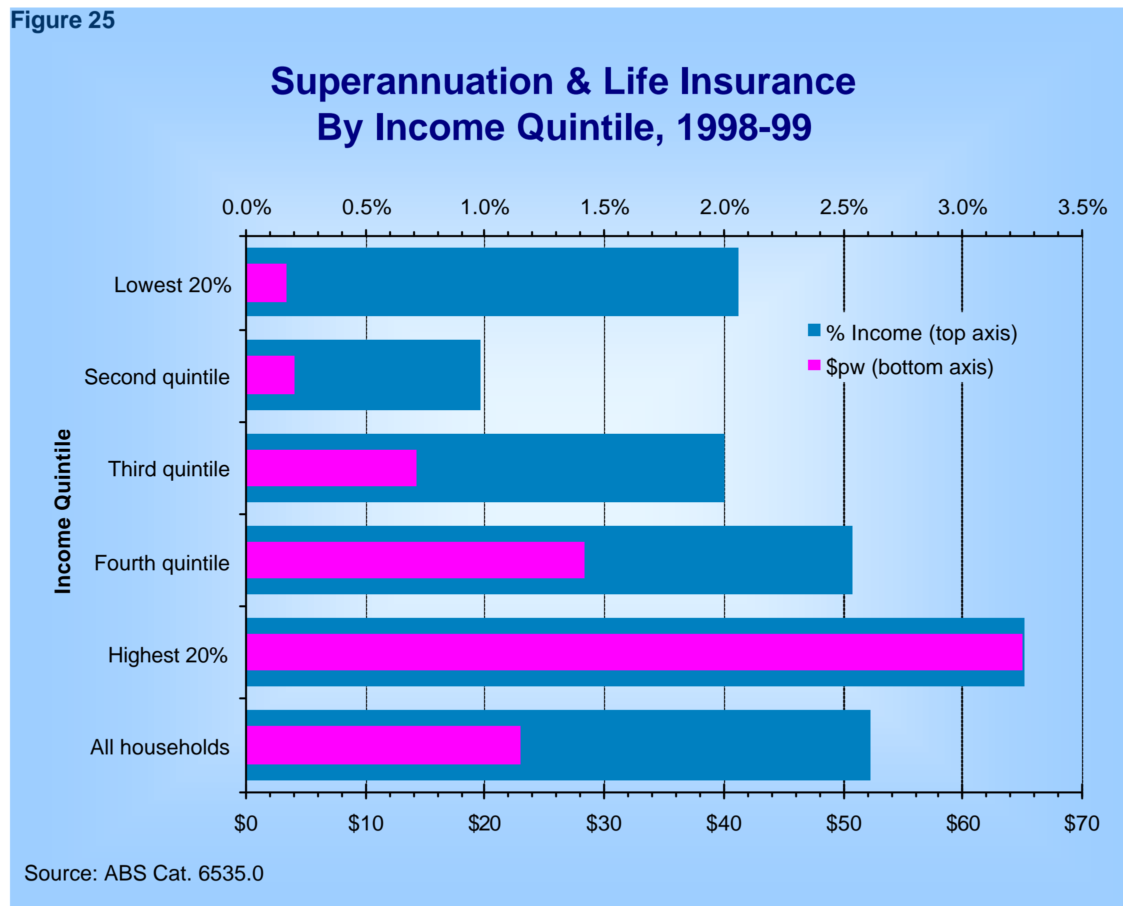
The low paid, and the relatively young, are least likely to have this option.

Yet excluding part-timers from superannuation benefits would be almost as regressive and divisive as compelling them to save.

For some key groups of employees - notably sole parents and (to a somewhat lesser extent) married women with dependents - employment patterns may include periods of both part time and full time work.

Denying such employees access to superannuation savings during long spells of part time employment undermines their ability to acquire sufficient overall superannuation entitlements to sustain a comfortable retirement.

Figure 25



In other households, part time employment may be a choice to enhance existing full time earnings even when no dependents are present. For many such households, maximising superannuation savings is a natural (and tax-efficient) choice. Denying these part-timers access to superannuation would be discriminatory.

Part Time & Temporary Employees

The administration and maintenance costs of superannuation schemes can be substantial. Proportionately, the benefits they can be expected to yield for employees with low earnings are often relatively small.

Although there is a minimum threshold for payments, it remains the case that, for temporary employees who receive a one-off superannuation contribution rather than an ongoing stream of payments, contributions below a certain size will not generate enough income to cover servicing costs, and will eventually be eroded.

These problems are compounded by the fact that, for casual employees, employers may not have current addresses or other information necessary to administer retirement plans properly.

Even when superannuation payments are large enough to be self-supporting, ongoing costs take (proportionately) a much larger slice from the payments (and therefore net benefits) of low paid, part time and/or temporary employees than of higher paid, full time or permanent ones. If fees are applied as a percentage of contributions then this proportionate cost will not be passed on to the employee, but to the extent that actual costs are similar for large and small funds, these will be shared among scheme members.

These problems are compounded by the poverty trap effect discussed below, in which the benefits of savings of the low paid may be largely absorbed through taxation and loss of benefit entitlement at retirement, discussed on page 40.

Target Contribution Levels

There has been much debate about the level of contribution necessary to sustain a comfortable income in retirement.

Under the current arrangements, the employer contribution reached its scheduled maximum of 9 per cent of employee earnings from July 2002. A working lifetime of contributions at 9 per cent would provide an employee with 40 years' contributions with a superannuation income of about a third of their average pre-retirement income.

In "Security In Retirement", the Treasurer canvassed the possibility of a 12 per cent contribution, perhaps made up of both employee and employer payments. This would yield a retirement income of around 40 per cent of final gross earnings.

The FitzGerald Report examined the benefits from schemes in comparable countries and found this level of benefit relatively low. It is also low relative to the current upper threshold of the income test for the age pension.

FitzGerald suggested a target final benefit of *"well over 60 per cent if most people are to depend on superannuation alone"* and stated that *"18 per cent of earnings might be an appropriate ultimate target."*

There is no hard-and-fast or "correct" rule determining the appropriate level of superannuation contributions. But if superannuation is to replace government pensions completely as the main source of retirement income for a significant proportion of retirees, and if retirees are to enjoy a lifestyle after retirement not too far below their pre-retirement standards, then it is necessary that savings towards retirement (from all sources, not just superannuation) should be significantly higher than the 9 per cent employer-funded contribution recently attained.

This 18 per cent target needs to be viewed in the context of actual savings, working, earnings and retirement patterns. In particular:

- Most employees do not work full time as wage and salary earners for 40 years.
- Many low income, casual and part time employees will not save enough to match a target superannuation income of over half of average full time earnings, and some would be significantly worse off if a high level of savings were to be compelled from them or on their behalf.
- Households' savings propensities and capacities vary markedly depending on the age of members and dependents etc.
- Unless *total* savings increase, then an increase in superannuation savings

will be largely at the expense of other forms of savings. This will yield no net benefit to either national savings or retirees' incomes.

In this context, a **compulsory** contribution level of 18 per cent - whether extracted from employers, employees, or both - could substantially impair the current living standards and employment opportunities of many low paid employees, yet yield an insufficient retirement income for precisely these same employees.

On the other hand, it is also clearly desirable that those people who can comfortably support themselves in retirement should do so. This in turn requires that their savings (whether from superannuation or something else) should be sufficient to sustain an income in excess of the upper limit for the aged pension (bearing in mind that the relationship of the aged pension to average earnings, and the method of means testing, may also change over time).

Aged Pensions And Superannuation

Any coherent retirement incomes policy must co-ordinate more clearly the roles of the aged pension and superannuation.

Even if a position is achieved where most retirees' main income source is superannuation, the questions remain of how to treat the aged pension, what level to set it at, and whether or how entitlement is means tested.

A universal aged pension (ie not means-tested and available to anyone over the retirement age) has not featured strongly in the current debate, mainly on the grounds that it is extremely expensive and significantly regressive (affluent retirees' incomes are supplemented from the income and other taxes paid by perhaps relatively low paid employees).

Lower-paid employees, part-timers, casual employees etc are most likely to see small returns deriving from superannuation incomes if there is a means-tested benefit.

Their superannuation alone is very unlikely to provide them with so much income that they will not need an aged pension. Yet means testing is likely to result in their pension entitlements being significantly affected if they have achieved any private income through accumulated superannuation savings.

By spending less on such retirees' incomes there is some saving for government on aged pension outlays. But this is achieved at significant cost to the employee (especially as contribution levels rise, and most transparently if employees also contribute). It is open to question whether such an approach is desirable or equitable.

Means-Testing And Superannuation

Currently, a single aged pensioner with no independent income, no dependents and no entitlement to rent allowances receives a basic pension (including a pharmaceutical allowance) of $421.80 a fortnight.

Such pensioners may earn up to $116 a fortnight from other sources before their pension entitlement is affected, but any earnings over this threshold reduce pension entitlement by 40 cents for each dollar earned. At this rate, single people lose their entitlement to any pension if they earn $ $1,185 or more a fortnight (or about 65 per cent of average full-time adult earnings).

For any of the proposed contribution rates discussed above (9 per cent, 12 per cent or 18 per cent) this income range is likely to encompass most superannuation incomes, especially for those groups of people who:

- were relatively low paid for most of their working lives
- spent significant periods of their working lives employed part time
- spent significant periods of their adult lives not actively employed

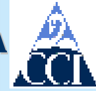
For these people, every dollar of superannuation income will yield a net benefit of 40 cents in total income.

Pensioner couples face a rather different scale of part pensions, but the same basic feature of relatively high loss of marginal pension benefits over likely income ranges.

Means-Testing And Income Tax

Pensioners do not only lose 40 per cent of their pension entitlements as private incomes rise beyond the minimum income test threshold, they also hit income tax liability at much the same levels of income.

The tax reforms of recent years have gone some considerable way to alleviating the poverty trap effect that was once particularly acute for low



income pensions. This meant that increasing own-source incomes led to negligible increases in disposable incomes for people on low incomes, because of rising income tax and reductions in means-tested benefits.

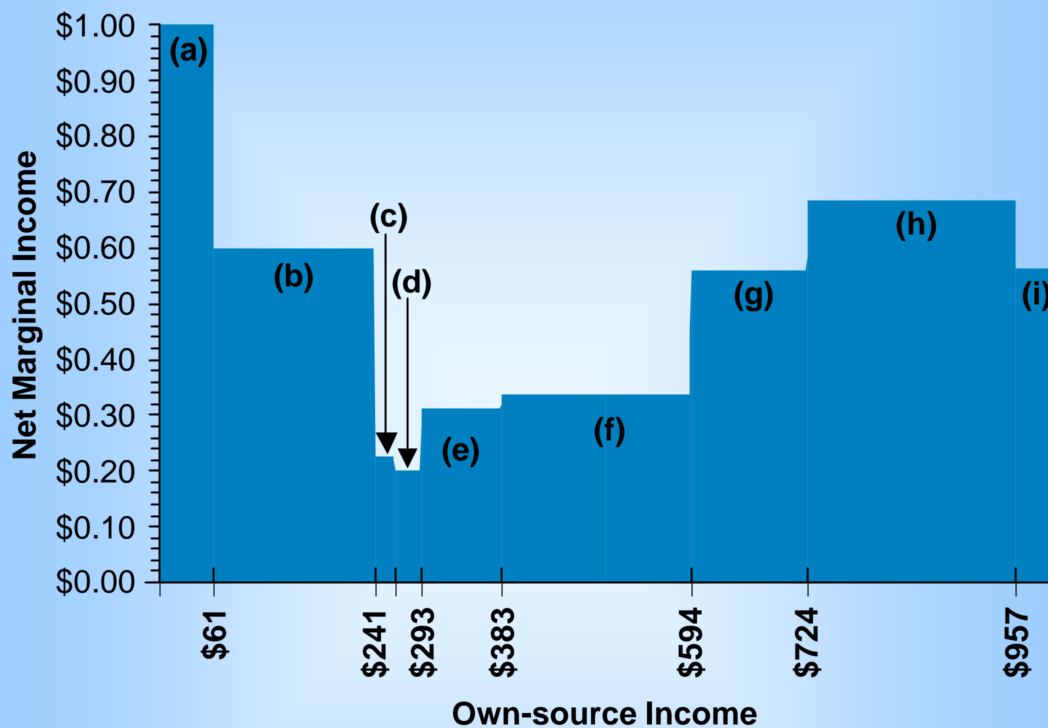
However, the reforms have not eliminated the poverty trap effect completely. Rather, they have shifted it up the income scale.

A typical single retiree can earn up to $20,000 a year (including the aged pension) before paying income tax, and concessional tax rates apply on annual income up to $37,840. Some aged pensioners are also eligible for the low income tax rebate of up to $150 a year.

However, because both of these concessional rates are steadily unwound as income rises, they represent a higher marginal income tax rate (42.5 per cent over most of the range, rather more over the range of taxable income between $29,700 and $24,450 a year where the low income tax rebate is withdrawn).

This means that, for every dollar of additional own-source income earned from about $240 to $600 a week ($12,000 to $30,000 a year), an aged pensioner nets about 31 to 34 cents after income tax and lower pension entitlements are taken into account. This marginal net income briefly drops to about 20-23 cents in the relatively narrow income band over which the Medicare Levy phases in at a marginal

Figure 26



(a) income too low for income tax or pension withdrawal
(b) pension withdrawn @ 40c in the dollar
(c) Medicare 20% marginal rate; concessional income tax phase in; low income tax offset
(d) Low income tax offset phase-out begins
(e) Medicare marginal rate to 1.5%
(f) low income tax offset no longer applies
(g) no longer eligible for aged pension
(h) senior Australians' income tax offset no longer applies
(i) marginal income tax rate to 42%

rate of 20 per cent.

The combined effect of the withdrawal of government pension entitlement and the relatively high marginal tax rates applied to pensioners with annual gross earnings (including pensions) of around $20,000 to $37,000, mean that a large proportion of any additional private earnings deriving from superannuation evaporates in reduced government pension entitlements and higher tax bills.

Figure 26 shows the combined effect of withdrawal of pensions and tax thresholds on a single pensioner with no rent allowance. A similar poverty trap pattern is evident for couple pensioners and others, although at somewhat different income levels.

An additional tax rebate of 15 cents in the dollar may be payable for earnings on the assessable part of a pension or eligible termination payment annuity when it is paid from a taxed source (super fund or similar). This is a major advantage of superannuation earnings over other sources of income for retirees, and means that the leakage between higher gross incomes and net disposable income is considerably less for superannuation earnings.

But even this concession leaves pensioners in the key income range with effective marginal disposable tax income gains of less than 50c in the dollar.

It seems questionable whether the benefits of enhanced retirement incomes are worth the cost of lower current disposable incomes for some retirees, especially those whose taxable income on retirement falls within the area of highest effective marginal tax rates, with gross taxable incomes of about $20,000 to $30,000 a year.

Indeed, looking at this perspective of personal finances, the major winner from compulsory superannuation under the current tax and benefit structure is the government, which receives higher taxes and pays lower pension payments. Gains for pensioners themselves are relatively small.

Re-jigging the tax and benefits structure may further alleviate this "poverty trap" effect to some degree, but is unlikely to eliminate it completely for as long as means-tested age pensions are paid in proportion to income.

Inter-Generational Equity

There is also an equity question between age cohorts, albeit one which is virtually inescapable as the financing of retirement incomes changes.

Currently, most retirees derive most of their income from aged or other pensions. They are supported through revenues derived from the current generation of taxpayers - mainly employed people of working age.

This transfer of income has broadly been equitable because, over time, each generation of taxpayers and retirees have played similar roles - the current generation of retirees, when they were working, supported the previous generation of retirees in retirement.

The current generation of taxpayers may be supporting current retirees but was able to expect that, in turn, their children's taxes would support them in retirement, and so on.

This does not mean the cost of pension has been constant. The purchasing power of aged pensions has risen steadily over time, and rising life expectancy has meant that people typically draw benefits for longer, so each generation of working age has probably been burdened with larger financial costs of supporting retirees than its predecessors. But against a tax base of rising real earnings and GDP, this has not proven excessively onerous.

The current generation of taxpayers carries a substantial burden of supporting current retirees. Almost 10 per cent of all Commonwealth Government spending is on aged pensions.

If the burden on taxpayers from supporting aged pensions is to fall it will do so only gradually as superannuation coverage spreads, and individuals accumulate enough entitlements to support themselves in retirement.

Current and future taxpayers will be subsidising retirees for a long time to come. Yet unlike previous generations, current taxpayers - and especially younger taxpayers - cannot look forward to being supported in their own retirements by future taxpayers.

This generation is being asked to finance both its own retirements and the retirement incomes of those currently in retirement or retiring over the next twenty or thirty years.

Compulsion

There has been little community debate over whether compulsory superannuation is the best way to increase the number of retirees who are self-funding in retirement.

Given the choice, many people would not save enough to provide for their own retirements, even in the knowledge that the pensions available in future will support only low living standards.

Australia has a low household savings (see Figure 7). Households choose to spend very little on voluntary superannuation.

In short, Australian consumers show a marked preference for current rather than future consumption.

More tax incentives may persuade individuals to save more (though some analysts doubt it), but it unlikely to persuade them to save enough to finance their own retirement incomes at comfortable levels.

Nonetheless, if individuals make their consumption and savings choices rationally and are aware of the impact of their savings decisions on their retirement incomes, any interference with their exercise of choice must be carefully examined and justified. Consumption now at the cost of poverty later may seem a peculiar choice, but it is a valid one.

It seems likely that the "poverty trap" effect noted earlier - in which the net gain to pensions from private incomes is largely wiped out by higher tax liabilities and lower pensions - is a major, if not the main, disincentive to voluntary retirement savings.

As discussed previously, compulsory employer-paid superannuation is remote from the employee.

If employees reduce other forms of savings in the knowledge that employers are saving towards their retirement incomes on their behalf, then neither national savings nor retirees' incomes benefit. All that results is a sub-optimal composition of savings.

CCI believes that the case for compulsory superannuation savings was never proven, but accepts that it is far too late to reverse that decision now.

Compulsion was adopted primarily to offset the disincentive to save induced by other aspects of government policy or poor economic management. These disincentives include the "poverty trap" effect of taxation and means-testing pensions; the emphasis on taxing income rather than consumption; the inequitable tax treatment of some forms of saving relative to others; and the uncertain and inflationary macro-economic climate.

In such an environment, it is not surprising that voluntary savings towards retirement are low. Nor is it surprising that the greater part of additional superannuation saving is leaked through reductions in other forms of saving.

A scheme which induced additional savings, rather than one which compels one form of saving (at the expense of others), would be far more effective in funding retirement income.

Conclusions And Proposals

The Superannuation Guarantee Charge has been designed with scant regard for the actual working patterns of the labour force. It appears unlikely to deliver self-sufficiency from government pensions at an acceptable income level for many, if not most, retirees.

Many of its important macro-economic effects - on national savings, real disposable income and employment - were not fully explored before the Charge was introduced. The claimed benefits for national savings, in particular, have not eventuated; although it may be that factors other than the Superannuation Guarantee Charge account for Australia's low savings levels, and that without the charge savings would be even lower.

By making the Charge compulsory on employers it largely excludes the substantial proportion of people of working age who are not wage and salary earners - whether employed in other ways (as employers, self-employed or unpaid family helpers), or out of the labour force due to unemployment or domestic responsibilities.

Its evolution from award-based superannuation also makes many

occupational schemes adopted under the Superannuation Guarantee Charge inflexible. Employees moving from one employer to another may incur substantial roll-over costs. Those moving out of employment as wage and salary earners cannot continue to accrue savings under existing superannuation schemes. The growing emphasis on personal entitlements – and the move towards employee choice, which allows employees to select their own preferred savings vehicle - should ease some of these difficulties.

The government has also made sensible adjustments to allow many low-paid or part-time workers to drop out of the compulsory savings structure.

But people with periods of low and moderate income, and those who break from permanent full-time employment for any significant time, may still incur proportionately high direct costs (in fees relative to contributions) and opportunity costs (in current income foregone) as a result of compulsory savings.

Yet the high effective marginal tax rates they face on retirement, mean that any net benefits they get are also disproportionately low.

There has been no attempt to differentiate between those who have the potential to benefit from accumulating savings over the course of their working lives, and those for whom the benefits are unlikely to ever outweigh the costs.

By emphasising compulsory superannuation alone two important aspects of households' savings are ignored - firstly, other forms of saving have traditionally been more important than superannuation in supporting retirees' incomes; and secondly, households' saving patterns vary greatly over time depending on the age of the adults in the household, family circumstances etc.

A one-size-fits-all retirement incomes policy which fails to accommodate variations in savings methods and patterns is always likely to be inadequate.

In short, the Superannuation Guarantee Charge is profoundly flawed.

For practical political purposes it is too late to abandon the Charge, nor does CCI necessarily believe that compulsory superannuation has no role in retirement incomes policy.

Rather, we proposes a range of changes to existing provisions which would make retirement income policy more relevant to the real needs and circumstances of families and retirees.

Target Final Income

There is no hard-and-fast rule about what a target final benefit level should be. CCI will not attempt here to define the exact appropriate final level of benefits, which is a matter for community debate and consensus.

FitzGerald's arguments are worth repeating briefly. In order for a person with 40 years' contributions from full time employment at around median earnings to be self-supporting in retirement without receiving a government aged pension, they would need to have accumulated savings at around 18 per cent of earnings a year.

And this would yield a final superannuation benefit level roughly in line with the "norm" for comparable OECD countries.

These arguments appear quite persuasive. Yet unlike FitzGerald, CCI would argue that around 18 per cent of earnings may be an appropriate:

- average level of
- total savings towards retirement (not just superannuation) over the
- whole working life of
- employees likely to spend most of their adult lives in full time employment

If such a high level of savings is to be targeted with minimum accompanying economic damage to the employment and income prospects of the low paid, and in a way which does not warp national savings and investment patterns too badly, then it must be part of a coherent national retirement income strategy.

This should recognise that:

- high levels of superannuation alone may be neither sufficient nor necessary for those employees who can afford it to finance themselves in retirement;
- savings patterns must be flexible enough to reflect households' savings propensities and capacities over time;
- for the low paid, casual and part time workers, and those spending significant periods of time not in employment, a high level of compulsory saving (whether paid by themselves or their employer) would entail a significant drop in current living standards for little benefit in retirement.

If a high target level of savings for permanent full time employees is introduced (for example, 18 per cent), then it must be clear and explicit that this is a target, that actual savings can vary, that it will be achieved through a combination of both incentives and compulsion, and that such a target is appropriate only for some groups of employees.

The "Typical" Employee

As we have stressed in this submission, most people do not work full time for most of their adult lives and then retire at 60 or 65. For a variety of reasons, most people are no longer employed full time by their mid or late 50s. Women, in particular, are unlikely to work full time until their standard retirement age of 60.

For these reasons, there may be equity and administrative grounds for harmonising male and female retirement ages, but the practical effects for most people may not be significant.

Compulsory superannuation for employed wage and salary earners essentially derives from two propositions - that those people capable of supporting themselves in retirement through savings should do so; and because most are patently unwilling to do so by choice, they must be compelled.

As we have argued, whether the employer, employee, or both are compelled makes little difference to the overall economic impact of compulsory superannuation.

Furthermore, there is no reason why a target level of savings should be achieved through compulsory superannuation alone.

In order to take account of variations over time in individuals' and households' ability to save, and the variety of legitimate savings vehicles besides superannuation which can generate retirement incomes, there should be a variable, flexible and voluntary component of the target total level of retirement income savings.

One option may be that compulsory superannuation rises to 12 per cent of earnings, comprising the current 9 per cent employer contribution and a 3 per cent compulsory employee contribution.

A savings target of, say, 18 per cent could be established for permanent full time employees, with the additional savings over and above compulsory superannuation being variable voluntary savings which may or may not be based mainly on superannuation.

Education programmes and tax incentives for voluntary superannuation may assist in inducing a higher level of voluntary superannuation saving.

Yet perhaps the most effective way of inducing additional saving is to reduce the inequalities between the taxation treatment of other forms of saving.

Apart from providing a flexible and appropriate way in which total savings in retirement may attain levels sufficient to make retirees self-supporting, this approach has wider, and possibly more important, implications.

Primarily, if individuals can be induced to save in addition to their compulsory superannuation entitlements, then the substantial leakage from total national savings which the Charge is expected to engender may be lessened or even eliminated.

Whether additional voluntary savings can in fact be induced is another matter. The "poverty trap" effect of falling pension entitlements and rising income tax payments is problematic for the likely retirement income ranges of most people saving towards a retirement income.

Unless a person can expect to earn well in excess of the range of income over

which they would be entitled to a government pension, the net return on superannuation savings is small in terms of disposable income despite the substantial tax concessions.

Compulsion

Even if there is a case for increasing the total amount of compulsory superannuation paid per employee, there is no theoretical or equity reason which suggests that the employer alone should bear this initial burden.

The overall economic effects of a Superannuation Guarantee Charge on employers are much the same as a tax on employees - lower disposable incomes for employees, lower employment and higher gross labour costs for employers.

The arguments for an employee contribution are intangible but still pressing:

- Employees are, after all, the beneficiaries. They should be seen to be shouldering at least some of the cost. There is a widespread view in the business community that employer contributions, especially in the absence of employee contributions, are "unfair".
- The self-funding objective essentially requires retirees to take responsibility for their own retirement incomes. Without transparent costs it is easy to understand why employees may not perceive superannuation contributions as "their" money.
- In the absence of employee contributions the incentive to monitor a scheme's performance may be less, as is the sense of "ownership". Active employee monitoring of superannuation is important if potential abuses and mis-management are to be picked up. Giving employees a greater stake in their superannuation may also lessen the danger of wider, political, manipulation of the funds.

Reaching The "Target"

If retirement savings policy is to have the flexibility to include different types of saving, and different employees' propensities to save depending on their household circumstances, then compulsion alone will not be enough.

For example, a target of say 18 per cent of earnings as total savings towards retirement could be made up of 12 per cent compulsory contributions and a target to average the additional 6 per cent over the course of a working lifetime.

Assuming this can be achieved, it could make a far greater contribution to both national savings and retirement incomes than a compulsory scheme alone.

The leakage from other forms of national savings observed in the past decade would be ameliorated.

Individuals have different requirements of their savings and investment, balancing liquidity, risk, rate of return etc. This balance must be recognised in a comprehensive savings plan.

What is needed is an inducement not merely to higher superannuation saving, but to higher total saving.

This should entail a reworking of the taxation system to provide much more equitable taxation treatment between the different savings vehicles.

In particular, there is no justification for treating interest-bearing accounts so unfavourably relative to other forms of saving.

Other Issues

The Family Home

While increasing the level of non-superannuation savings is as important as increasing superannuation, proposals to divert superannuation savings into home deposits may prove counter-productive.

If superannuation savings are brought down to finance a home deposit, the household's total level of savings - housing plus superannuation - is likely to be lower.

Owner-occupied housing is taxed even more favourably than superannuation, let

alone other forms of saving and investment. There seems little justification for allowing superannuation savings to be diverted into housing.

The Aged Pension

The aged pension represents a massive disincentive for individuals to save towards their retirement.

Because it is means tested, and falls away progressively with higher private income, the gross income to many retirees from each extra private dollar earned is less than 60 cents.

Once income tax and the Medicare levy are deducted, some pensioners may gain as little as 20 cents from each dollar of private income.

This "poverty trap" effect is a well-documented product of progressive taxation systems and means-tested benefits.

Its cure - flat rate universal pensions or a non-progressive tax system - could be worse than the complaint.

Nonetheless, it should be recognised that the current structure of the aged pension, and its integration with the tax system, may be the single greatest reason why employees have appeared unwilling to save enough to support themselves in retirement. The poverty trap effect swamps the (albeit generous) tax incentives for superannuation. It is also a major incentive for pensioners to divest themselves of assets and income early in retirement in order to qualify for benefits.

This subject should be reviewed to ensure greater dovetailing of pension and superannuation objectives and policies.

"Penal" Taxes

It is inappropriate that taxes should be used to discipline employer behaviour rather than to raise revenues.

And it is inappropriate that the Australian Taxation Office should be mobilised as the main police force for what is essentially an industrial relations policy.

If the Commonwealth Government does not have the constitutional authority to impose its superannuation policies on the community by normal regulatory means, it should not use its existing powers to achieve the same results.

Yet it is desirable that superannuation policy be coordinated at a national level.

A solution may be for the State Governments (which do have constitutional powers over superannuation) to cooperate with the Commonwealth in designing a national and properly legislated scheme.

Appendix: UN Principles for Older Persons

Independence

1. Older persons should have access to adequate food, water, shelter, clothing and health care through the provision of income, family and community support and self-help;
2. Older persons should have the opportunity to work or to have access to other income-generating opportunities;
3. Older persons should be able to participate in determining when and at what pace withdrawal from the labour force takes place;
4. Older persons should have access to appropriate educational and training programmes;
5. Older persons should be able to live in environments that are safe and adaptable to personal preferences and changing capacities;
6. Older persons should be able to reside at home for as long as possible

Participation

7. Older persons should remain integrated in society, participate actively in the formulation and implementation of policies that directly affect their well-being, and share their knowledge and skills with younger generations;
8. Older persons should be able to seek and develop opportunities for service to the community and to serve as volunteers in positions appropriate to their interests and capabilities;
9. Older persons should be able to form movements or associations of older persons.

Care

10. Older persons should benefit from daily and community care and protection in accordance with each society's system of cultural values;
11. Older persons should have access to health care to help them to maintain or regain the optimum level of physical, mental and emotional well-being and to prevent or delay the onset of illness;
12. Older persons should have access to social and legal services to enhance their autonomy, protection and care;
13. Older persons should be able to utilize appropriate levels of institutional care providing protection, rehabilitation and social and mental stimulation in a humane and secure environment;
14. Older persons should be able to enjoy human rights and fundamental freedoms when residing in any shelter, care or treatment facility, including full respect for their dignity, beliefs, needs and privacy and for the right to make decisions about their health care and the quality of their lives.

Self-fulfilment

15. Older persons should be able to pursue opportunities for the full development of their potential;
16. Older persons should have access to the educational, cultural, spiritual and recreational resources of society;

Dignity

17. Older persons should be able to live in dignity and security and be free of exploitation and physical or mental abuse;
18. Older persons should be treated fairly regardless of age, gender, racial or ethnic background, disability or other status, and be valued independently of their economic contribution.

Notes and References

[1] from the Standing Committee's website, House of Representatives, Parliament House: http://www.aph.gov.au/house/committee/ageing/strategies/index.htm [accessed 14 August 2002]

[2] Budget Statements, 'Intergenerational report 2002-03, Budget Paper No. 5', Australian Government Publishing Service, Canberra, May 2002. Hereafter referred to as the Intergenerational Report.

[3] Although the estimates do not in fact reflect current policies in full – for example, the commitment to delivering aged care services through community care.

4 Commonwealth Department of Health and Ageing publication 'Aged Care What does it cost?'

[5] the proportion of people aged over 65 to people of traditional labour force age, 15 to 64

[6] the proportion of people aged under 15 to those aged 15 to 64

[7] the proportion of people younger or older than the traditional working ages of 15 to 64 as a percentage of 15-64 year olds.

[8] This section draws on arguments presented by the Chamber of Commerce and Industry of WA to the Senate Committee on Superannuation 1994 Inquiry.

[9] Kohl, Richard and Paul O'Brien, "The Macroeconomics Of Ageing, Pensions And Savings: A Survey", OECD Economics Department Working Papers N0. 200, July 1998.

[10] Saving includes all gross savings by households, businesses and government minus consumption of fixed capital. Borrowing is the negative of net overseas lending as described in the national accounts. 'Other' comprises a statistical discrepancy and net capital transfers. These represent the sources of funds available to finance net capital accumulation, which comprises gross fixed capital expenditure, the accumulation of inventories and acquisitions less disposals of non-produced non-financial assets, minus depreciation.

[11] V. W. FitzGerald, 'National Savings: A Report to the Treasurer', Australian Government Publishing Service, Canberra, June 1993

[12] This chart shows gross fixed capital formation as a percentage of GDP. The Capital accumulation data in the earlier chart was broader, including the accumulation of inventories and acquisitions less disposals of non-produced non-financial assets, but deducted the value of depreciation.

[13] Apart from dwellings and land, "other non financial assets" comprise mainly other buildings and structures, machinery and equipment, livestock, inventories and native forests. "Superannuation type assets" are the sum of unfunded superannuation entitlements (of government employees) and "insurance technical reserves" (which include compulsory superannuation contributions). "Other financial assets" include loans and securities other than shares.

[14] "Security in Retirement: Planning for Tomorrow Today", statement by Treasurer Hon. John Dawkins, 30 June 1992. This is the source of the data in the following charts.

[15] Edey and Gower, "National Saving: Trends and Policy", The Australian Economy in the 1990s, collected papers of the Reserve Bank Of Australia 2000 Conference, 24-25 July 2000. RBA (2000). P.297.

Accessed from http://www.rba.gov.au/PublicationsAndResearch/Conferences/2000/ [27 August 2002]

[16] Gallagher, Phil. (1997) "Assessing The National Saving Effects Of The Government's Superannuation Policies: Some Examples Of The New Rimgroup National Saving Methodology". Retirement Income Modelling Task Force AGPS

Accessed from http://rim.treasury.gov.au/content/CP97_3.asp [27 August 2002]

[17] For example Guest and McDonald found that we may be saving 9 per cent of GDP less than optimal savings – see Guest RS and IM McDonald (1999), 'Ageing, Immigration and Optimal National Saving in Australia', Griffith University and University of Melbourne, mimeo.

[18] Derived from ABS Labour Force (Cat 6203.0), September 2002

[19] The data in this section are derived from ABS data in the labour Force Survey of August 2001. The August survey is frequently used to present snapshots of data for which the ABS does not produce seasonally adjusted estimates, as it is less affected by seasonal factors than surveys from other quarters.

[20] Dependent students comprise sons or daughters (of a couple or a lone parent) aged 15–19 attending school or aged 15–24 attending a tertiary educational institution full time. It excludes other full-time students aged 15–24 and full-time students aged over 24.