CHAPTER 7

GOVERNMENT POLICIES AND INITIATIVES

7.1 As has already been noted during this report, the ageing of the population has the potential to slow economic growth and, as workers move into retirement, potentially reduce individuals' standards of living. This is largely because the proportion of the population aged 65 and above will double to be one in every four people by 2042, while growth in the number of people in the labour market will remain stagnant.[1] Due to an increased life expectancy, Australians who retire in their 50s and 60s will spend two or three decades in retirement. This is a problem faced by most other Western countries.[2]

7.2 Various researchers have noted that a large number of older people who take early retirement do not have the financial means to support their retirement or provide an appropriate standard of living.[3] Therefore, governments introduce various initiatives to help older Australians cope with retirement and, in many cases, to encourage them to remain in the work force for longer. In accordance with term of reference (e), this chapter will outline the initiatives of the previous Coalition Government over the past 10 years focusing primarily on those that have not already been discussed in other parts of this report. An update on the initiatives of the new Labor Government since the change of government following the October 2007 election is contained in Appendix 3.

7.3 FACSIA delineated many of the government initiatives introduced over the past decade, some of which were introduced in line with the new taxation system that ushered in the GST during 2000. FACSIA submitted that the policies and assistance introduced by the Government over the past 10 years to the superannuation, tax and pension systems has increased the real value and disposable incomes, as well as the standard of living, of older people.[4]

7.4 According to FACSIA, after accounting for CPI increases, initiatives, payments and indexations introduced in 2000 have as a whole increased the real value of the age pension by 16.8 per cent over the past 10 years. These measures include a permanent real increase to the pension with an additional 2 per cent increase in the pension, which is indexed to the CPI. The value of this pension supplement is

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1 Simon Kelly & Ann Harding, 'Funding the Retirement of Baby Boomers', 2004, *Agenda Volume 11 (2)*, p. 99.

2 Simon Kelly & Ann Harding, 'Retirement Incomes and Australia's Ageing Population', 2006, *Engaging the New World: Responses to the Knowledge Economy*, p. 360.

3 AMP & the National Centre for Social and Economic Modelling, 'May the Labour Force Be With You', November 2005, *AMP.NATSEM Income and Wealth Report Issue 12*, p. 20.

4 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 22.

currently worth $475.80 per year for singles and $795.60 for couples. Also, in July 2000, the Government increased the maximum rate of rent assistance by 10 per cent, increased other payments by 2 per cent, increased income and asset free thresholds by 2.5 per cent, reduced pension taper rates (from 50 cents to 40 cents for each dollar of income over the threshold), reduced family assistance taper rates (from 50 cents to 30 cents for each dollar of income over the threshold) and paid the age persons savings bonus and self-funded retiree supplementary bonus for those with income from savings or investments.[5]

7.5 However, some of the submissions took a much broader view of the impact of government policies on the ability of older people to afford cost of living pressures. The Superannuated Commonwealth Officers' Association argued that government policies over the past 10 years have benefited many Australians, but have not always gone far enough to extend those benefits to older Australians.[6] Reflecting on the Government's initiatives over the past decade, the APSL QLD argued:

> The impact of Government policies over the last ten years across all portfolios have in general terms lowered the living standards and placed added burdens on older Australians.[7]

7.6 These concerns will be further articulated alongside the relevant government initiatives throughout this chapter.

Pension reform

7.7 As discussed in chapter 3, government reforms of indexation and taper rates, as well as institution of bonus and supplementary payments have increased the real value of pension entitlements, the disposable income of pension recipients and, in turn, improved their standards of living.

7.8 FACSIA noted that the Government has introduced various initiatives to increase the real value of the pension. These include the indexation of the pension to the MTAWE, as well as supplementary payments. FACSIA maintained that these initiatives have resulted in increasing real disposable income by 19.1 per cent for single older people with no other income and 19.4 per cent for couples with no other income. Similarly, it was argued that recipients of part pensions have also benefited from the MTAWE indexation, supplementary payments, changes to taper rates, superannuation reforms and taxation changes. These initiatives have resulted in increases in disposable income of 32.2 per cent for singles with a mixed income equating to 33 per cent of Average Weekly Ordinary Time Earnings (AWOTE), 34 per cent for single older people with income from employment equal to AWOTE,

5 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 27.

6 Superannuated Commonwealth Officers' Association Inc, *Submission 52*, p. 9.

7 Australian Pensioners' & Superannuants' League QLD Inc, *Submission 1*, p. 3.

and 38 per cent for older couples with mixed income equating to 33 per cent of AWOTE.[8]

7.9 Over the past 10 years total expenditure on the age pension has increased from $17.1 billion (in December 2006 dollars) in 1996-97 to $22.8 billion in 2006-07. Despite the anticipated growth in retiree wealth, this expenditure is expected to increase as Australia's population ages and with the indexation arrangements from 2.5 per cent of GDP in 2006-07 projected to increase to 4.4 per cent in 2046-47. The proportion of older people receiving the full pension rate is expected to decline with the major projected expenditure resulting from increases in those receiving a part pension. The pension system will retain a particularly important safety net function especially for those with broken employment histories, those outside the superannuation system and those with significant caring responsibilities.[9]

7.10 DVA pays disability pensions to compensate veterans for injuries or diseases caused or aggravated by war service or certain defence service on behalf of Australia. The rate of disability pension payable depends on the severity of the illness or injury. The categories of pension payable include: the general rate, extreme disablement adjustment, intermediate rate and special rate. Prior to 1976 the pensions were indexed at the discretion of the government and since that time have been indexed to inflation. In March 2004 the Government reviewed the indexation arrangements for the payments. The Above General Rate component—considered to be compensation for the loss of income—is indexed with reference to the higher of MTAWE and the CPI. The General Rate component—paid as compensation for pain and suffering, rather than income support—is indexed only in line with the CPI. FACSIA submitted that the 2004 arrangements have provided an additional $19 per fortnight to the value of the special rate pension compared to the previous arrangements. In the 2007-08 budget the Government provided for an increase of $50 per fortnight to the special rate pension and $25 per fortnight to the intermediate rate disability pension.[10] On 11 September 2007, the then Prime Minister Howard announced that the indexation of all veteran affairs and disability pensions would be indexed in line with both the consumer price index and MTAWE, as with the age pension. The Prime Minister indicated this would benefit 140 000 pensioners.[11]

7.11 Some of the submissions noted that the 2007 government reforms are particularly beneficial for older people. Mr Don and Mrs Elma Butler pointed to the importance of changes to the Age pension assessment guidelines in relation to

8 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 22-23.

9 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 25-27.

10 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 83-84.

11 ABC News, *Government to Boost Veterans' Pensions*, 12 September 2007, http://www.abc.net.au/news/stories/2007/09/11/2030328.htm?section=justin.

residential properties over five acres—noting that under the reforms they are now able to receive the full pension.[12] In addition, according to the National Institute of Accountants, the Government's halving of the pension assets test taper rate from 20 September 2007 will provide an incentive to save, boost the retirement incomes of asset-tested pensioners and increase the number of people eligible for a part pension and associated concessions.[13]

7.12 However, despite the evidence of substantial investments in enhancing pension incomes, some concerns were raised about the policy initiatives related to pensions. The Brotherhood of St Laurence said that Government initiatives had a differential impact on different segments of the population. It was noted that those in receipt of single full pensions had received comparatively less benefits than those on part pensions.[14] Similarly, National Seniors raised concerns about the distribution of benefits:

> While recent reforms have assisted many older Australians to increase their retirement saving potential, reforms have largely failed to address the needs of those who rely solely on government support as their principal source of income.[15]

7.13 APSL QLD pointed to a range of government policies, which, it was argued, have impacted negatively on older Australians: the abolition of the widows pension in March 1997; no new claims for widow allowance after July 2005; abolition of the mature age allowance; introduction of the GST and adjustment of maximum hours worked from 30 to 15 for eligibility for the disability support pension.[16]

Superannuation initiatives

7.14 Probably the most important early government reform related to alleviating the income and cost pressures of older Australians has been the introduction of compulsory superannuation in 1992.[17] The Superannuation Guarantee enables older people to maintain a higher standard of living than otherwise would be the case. The compulsory contribution rose from 3 per cent in 1992 to 9 per cent in 2002-2003. The generation of private savings for retirement has complemented the age pension and allowed that system to be better targeted and more affordable than many other

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12 Mr Don and Mrs Elma Butler, *Submission 37*, p. 1.

13 National Institute of Accountants, *Submission 67*, p. 4.

14 The Brotherhood of St Laurence, *Committee Hansard*, 23 August 2007, pp 27-28.

15 National Seniors, *Submission 60*, p. 17.

16 Australian Pensioners' & Superannuants' League QLD Inc, *Submission 1*, pp 3-4.

17 Simon Kelly & Ann Harding, 'Funding the Retirement of Baby Boomers', 2004, *Agenda Volume 11 (2)*, p. 106.

industrialised countries.[18] There have been continual reforms to the superannuation system since the introduction of compulsory superannuation.

7.15 The Australian Government introduced the superannuation co-contribution from 1 July 2003 to assist low and middle income earners in increasing their superannuation balances. Since 1 July 2004, the matching co-contribution has been $1.50 for each $1.00 of personal contributions to a maximum of $1 500. Also, the Government has increased the concessional tax applying to superannuation under the Better Super reforms of 1 July 2007. During 2005-06, the Government made 1.2 million co-contributions amounting to $959 million - 57 per cent of which were made on behalf of women. Over the first three years of the scheme, the Government provided funding of $3 billion.[19] The trend towards high proportional contributions for women was also present during earlier years and, over the long-term, the scheme could be an important mechanism for ensuring growth in the superannuation balances of women.[20] The Better Super reforms of 1 July 2007 also extended the superannuation co-contribution to the self-employed, allowing them to claim a 100 per cent deduction for contributions.[21]

7.16 Other superannuation reforms introduced over the past decade have been aimed at encouraging older people to remain attached to the workforce for longer periods. For instance, in 1999 legislation was introduced to gradually increase the preservation age from 55, so that by 2025 all individuals will only be able to access their superannuation when they reach 60. In 2004, the Government introduced a range of reforms including simplifying the work test rules for most workers and making superannuation more accessible for those reaching preservation age. Further, proposals were introduced regarding market-linked, complying income streams—growth pensions—while reducing the asset test exemption by 50 per cent.[22]

7.17 In 2006 and 2007, the Government introduced additional reforms to further simplify the superannuation system and increase incentives for older Australians to work and save to improve their retirement standard of living. This included simplification of rules concerning contributions and benefits. In particular, people accessing superannuation after the age of 60 are entitled to tax free payments from

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18 Deborah Schofield & George Rothman, 'Projections of Commonwealth Health Expenditure in Australia's First Intergenerational Report', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, p. 150.

19 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 42, 46.

20 Parliamentary Library Economic, Commerce and Industrial Relations Section, *An Adequate Superannuation-based Retirement Income?*, 16 March 2006, p. 24.

21 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 42, 46.

22 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. ii.

taxed funds and the rate of tax was reduced for payouts from untaxed funds. The Government also introduced greater flexibility, which includes the option of not taking superannuation after the age of 65 and allows continual contributions to the fund up to the age of 75. From 20 September 2007, changes to pension arrangements will mean that hundreds of thousands more Australians receive either larger pension payouts or eligibility for a pension for the first time. There are also various other changes to increase tax deductions for contributions from the self-employed, to make it easier to transfer superannuation between jobs and to top up superannuation balances.[23]

7.18 These reforms are likely to encourage Australians of all ages to contribute more to superannuation.[24] The Better Super reforms will ensure a retiree on 0.75 of the AWOTE would have $64 more per week (in 2007-08 dollars) in retirement expenditure.[25] The tax concessions are estimated at amounting $20.3 billion in 2007-08.[26] FACSIA submitted that these reforms have yielded benefits for various retirees that use superannuation, including those with mixed income streams encompassing part-rate pensions in addition to superannuation. In particular, the disposable incomes of self-funded retirees have increased by 25.1 per cent for self-funded retirees with income from employment equal to 67 per cent of AWOTE, 25 per cent for couples with income from employment equal to 67 per cent and 23.1 per cent for single older people with income from employment equal to 100 per cent.[27]

7.19 The National Institute of Accountants (NIA) highlighted the value of government reforms to superannuation and summarised what it considered to be some of the important achievements, most of which have already been outlined. These include the superannuation guarantee, the co-contribution, making benefits paid from taxed superannuation tax-free for those over 60, allowing deductible superannuation contributions to be extended up to age 75, and simplification of the superannuation system. The NIA also argued that the establishment of the Future Fund was a significant achievement.[28] However, it warned against interference with the fund to meet other economic management issues. NIA argued that considering the importance of superannuation to standards of living of older Australians, the regulatory environment needs to support sound management and retirement savings growth. It was noted that self managed superannuation funds need ongoing monitoring to ensure

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23 The Hon. Gary Nairn MP, Special Minister for State, *Better Super, Australia's Worked Hard for It: A Simple Guide to the Biggest Reform to Australian Superannuation Ever*, 2007; The Hon. Peter Costello MP, *Address to Australian Businesses, Ensuring Australia's Economic Prosperity: The Intergenerational Report*, 10 April 2007, p. 3.

24 AMP & the National Centre for Social and Economic Modelling, 'Tomorrow's Consumers', December 2006, *AMP.NATSEM Income and Wealth Report Issue 15*, p. 2.

25 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 47.

26 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 45.

27 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 23.

28 National Institute of Accountants, *Submission 67*, p. 4.

that the individuals using these vehicles do not lose or suffer from diminishment of their retirement savings.[29]

7.20 Because of the nature of superannuation providing a savings mechanism to fund retirement, many of the major benefits of the initiatives related to compulsory and voluntary contributions will be for people who are currently in work. FACSIA noted that superannuation policies will ensure that the wealth and income replacement rates of older people retiring in the future will increase as the Superannuation Guarantee matures and gathers momentum. This will also be assisted by greater labour market participation – deferral of drawing down of superannuation will allow further contributions to superannuation and provide an additional source of income.[30]

Accessibility of benefits of superannuation reforms

7.21 While many submissions acknowledged the benefits of many of the superannuation reforms over the past decade, some raised concerns about the accessibility and the targeting of the assistance and the benefits for current retirees. In this respect, COTA argued:

> Only once current compulsory superannuation policies reach maturity (2025), will a majority of the population of older people have the opportunity to experience the full benefits of significant measures introduced over the last two decades. Current cohorts of older people, especially those whose primary source of income is the age pension, do not have the opportunity to benefit from these polices. As a consequence there are serious issues of poverty, inequality and social exclusion for many older Australians.[31]

7.22 A number of organisations and individuals argued that while the superannuation reforms will be an improvement for many people, they will primarily benefit a minority of wealthier retirees.[32] Both ACOSS and NIA cited data from the Association of Superannuation Funds of Australia that suggested less than 20 per cent of superannuation fund members retiring in the next few years benefit from the removal of taxes from most superannuation benefits.[33] The National Institute of Accountants argued that although fund balances were growing, average balances were

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29 National Institute of Accountants, *Submission 67,* p. 9.

30 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 6, 10.

31 COTA Over 50s, *Submission 96,* p. 3.

32 Australian Council of Social Services (ACOSS), *Submission 211*, p. 2; National Institute of Accountants, *Submission 67*, p. 5; Australian Family Association, *Submission 7*, p. 3; Catholic Social Services Australia, *Submission 95*, p. 14; COTA Over 50s, *Submission 96*, p. 15; Ms Virginia Boskovic, *Submission 160*, p. 3.

33 Australian Council of Social Services (ACOSS), *Submission 211*, p. 2; National Institute of Accountants, *Submission 67*, p. 5.

still low and some groups, such as women, need additional assistance to ensure a modest standard of living in retirement.[34] The Australian Family Association argued:

> Recent tax arrangements for superannuants have become very generous, but there is concern in the community that the benefits for the relatively few with larger nest-eggs are disproportionately higher than those for the average older Australians. Better access to health care and other benefits for self-funded retirees on modest incomes would have been more equitable than recent changes.[35]

7.23 COTA argued that the tax offsets allowed individuals to earn more income before tax and the Medicare Levy were paid. However, it was also argued that the main benefits accrue to non- and part-pensioners who receive income from superannuation, investments or employment.[36] Catholic Social Services Australia (CSSA) also maintained that the abolition of taxes on benefits received by those over 60 from taxed funds would provide the wealthiest beneficiaries with a benefit greater than the full rate of the age pension.[37] Further, CSSA argued that the recent reforms were counterproductive:

> One purpose of recent superannuation changes was to lead over time to a reduction in outlays on the age pension. However, the tax concessions used for this purpose are of such a scale that their costs to revenue are likely to outweigh greatly the savings they produce.[38]

7.24 CSSA also argued that there was little or no benefit of recent superannuation changes for the majority of those on low incomes. Although CSSA highlighted the value of the co-contribution scheme for those on low-to-middle incomes, it noted that many could rarely afford to take advantage of the scheme. Further, CSSA and another submission argued that the $450 monthly earning threshold for the Superannuation Guarantee contributions left some of the lowest-income people severely disadvantaged. It argued that this was of concern because many of these employees may have little option to determine the number of hours worked.[39]

7.25 In 2002 the Senate Select Committee on Superannuation recommended examining the removal of the $450 earnings threshold for superannuation contributions.[40] The Government did not accept that recommendation as it was not

34 National Institute of Accountants, *Submission 67*, p. 5.

35 Australian Family Association, *Submission 7*, p. 3.

36 COTA Over 50s, *Submission 96*, p. 15.

37 Catholic Social Services Australia, *Submission 95*, pp 13-14.

38 Catholic Social Services Australia, *Submission 95*, p. 9.

39 Catholic Social Services Australia, *Submission 95*, p. 14; Name withheld, *Submission 48*, p. 4.

40 Senate Select Committee on Superannuation, *Report on the adequacy of tax arrangements for superannuation and related policy*, December 2002, Recommendation 4.

convinced the benefits of removing the threshold outweighed 'the possible extra costs on business, especially small business'.[41]

7.26 The Superannuated Commonwealth Officers' Association raised concerns about the exclusion of commonwealth superannuants from the benefits of many of the recent reforms to superannuation and other age care income related policies. In particular, it was argued that the 10 per cent tax offset excluded many superannuants:

> Most Commonwealth and Defence superannuants are unimpressed with the differential tax treatment of superannuants in untaxed and taxed funds, and having a different regime of taxation for each category.[42]

7.27 Further, the Association argued that these individuals were also having their standards of living eroded, due to inadequate income indexation. The Association reiterated the concerns raised in other submissions that the CPI was not a true measure of the cost of living and that Defence and Commonwealth superannuants were not maintaining parity with the living standards of the rest of the community (see chapter three). The Association also argued that most (almost 80 per cent) of Commonwealth and Defence superannuation pensions were less than $30 000 per year and that about half were below $21 000 per year.[43]

Possible additional reforms proposed during the inquiry

7.28 Other submissions to the inquiry called for an extension of recent superannuation reforms to improve the superannuation system. National Seniors recognised the value of government changes to superannuation, but raised concerns about the retention of age limitations that impacted on the utilisation of superannuation. In particular, it pointed to age limitations on the superannuation guarantee obligations, personal contributions, tax deduction eligibility and the co-contribution scheme. It argued that the limits were contrary to the objective of simplification and increased life expectancy.[44] Similarly, the submission of Older People Speak Out (OPSO) called for further changes to encourage a greater level of voluntary savings, most notably by raising the Superannuation Guarantee Levy to a suggested 15 per cent.[45] The National Institute of Accountants advocated the removal of what it considered 'punitive upfront taxes' on superannuation and argued that the nine per cent employer contribution should be progressively increased.[46]

7.29 In his submission to the inquiry, Mr Jenkins brought the committee's attention to the situation of self-funded retirees. This includes concerns about the different

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41 *Government response to the Senate Select Committee on Superannuation Report*, p. 5.

42 Superannuated Commonwealth Officers' Association Inc, *Submission 52*, p. 8.

43 Superannuated Commonwealth Officers' Association Inc, *Submission 52*, p. 8.

44 National Seniors, *Submission 60*, p. 16.

45 Older People Speak Out, *Submission 94*, p. 4.

46 National Institute of Accountants, *Submission 67*, p. 6.

taxation and concession conditions applicable to superannuation for those aged between 60-74 and those over 75. Further, the submission argued that current capital gains tax provisions function to encourage self-funded retirees to delay the sale of assets as long as possible, which has adverse effects on their quality of life and additional burdens on government support services.[47]

7.30 ACON emphasised the importance of commonwealth legislation enabling same-sex partners to receive death benefits from private superannuation funds on the death of a partner. However, ACON pointed out that the same opportunity does not exist under public sector, commonwealth, military and defence superannuation funds. As a result, the partner cannot receive a pension from their superannuation fund and money can only be distributed as a lump sum, which attracts a higher rate of tax.[48]

Labour market participation

7.31 Australia Fair research has noted that Australia has poor labour force participation among disadvantaged groups, including older people, compared to other OECD countries. For those aged 55-64, Australia ranked 13th in OECD rankings.[49] Similar findings have been reported by the Productivity Commission, which argued that small increases in the participation rates would substantially offset the projected adverse effects of population ageing on economic growth.[50]

7.32 The comparatively poor participation rates of older people in Australia have been the result of trends over the past thirty years. During this time, women's participation rates in the labour market have steadily increased, while those for men both generally and of retirement age have decreased. But continual rises in women's participation rates and a return to the 1973 participation levels for men would ensure the labour force dependency ratio for retirees would fall until 2018 and would return to its current levels after another 30 years.[51]

7.33 As was outlined in chapter three, higher workforce participation is important for standards of living in retirement, as well as the capacity of the economy to support the health care and social welfare costs of the population. Households with at least one member in employment have higher incomes than those with both in retirement. It also allows continual contributions to enhance growth of savings and superannuation balances through extending both compulsory and voluntary contributions, prevents

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47 Mr T.A.D. Jenkins, *Submission 19*, pp 1-4.

48 Aids Council of New South Wales, *Submission 212*, p. 6.

49 Australian Council of Social Service, *A Fair Go For All Australians: International Comparisons, 2007*,pp 47-48.

50 Productivity Commission, *An ageing Australia: Small Beer or Big Bucks?*, 2004, p. 27.

51 Michael Keating, 'Increased Labour Force Participation', 1 March 2004, *Australia's Ageing Population: Fiscal, Labour Market and Social Implications, Volume 51*, pp 66-67.

superannuation being drawn upon early and often allows a higher income while the individual is working. According to NATSEM:

> Far too many Australians are looking at the world of retirement through rose-tinted glasses. They have not come to grips with the fact that, with longer life expectancies, they won't have enough superannuation to provide them with the life they expect in retirement. Australians must now accept that they need to work longer, save more and reduce major debt before they will be ready to settle back and enjoy the good life.[52]

Government initiatives to improve participation rates

7.34 Governments in many developed countries including Australia have prioritised increasing labour market participation of older workers to ameliorate the effects of population ageing. For those older Australians who have a choice about retirement, its timing depends on various incentives. Research in the area has listed these inducements as:

> (a) the earlier the minimum age at which people can access a pension; (b) the higher the replacement rate (the value of the pension relative to the value of wages); (c) the lower the accrued pension benefits from additional years of work; and (d) if there is access to state allowances below the normal retirement age.[53]

7.35 The previous Government's initiatives to ameliorate the effects of an ageing population by addressing the participation rates broadly addressed these factors. During a 2003 address to a symposium on mature age employment, the then Prime Minister Howard highlighted government initiatives to increase the labour market participation rate for people of retirement age. These included promoting change in community attitudes, such as highlighting the economic need for increased participation and noting the intrinsic value derived from such activity; legislative measures including the gradual alignment of the pension age for men and women; changes to the vesting age to superannuation to encourage longer workforce participation; and legislating to remove any age discrimination that exists in relation to the employment of Commonwealth Government employees.[54] Other government initiatives designed to improve participation rates included the Welfare to Work package and personal income tax cuts.[55]

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52 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 10.

53 Michael Keating, 'Increased Labour Force Participation', 1 March 2004, *Australia's Ageing Population: Fiscal, Labour Market and Social Implications, Volume 51*, p. 71.

54 The Hon. John Howard, Prime Minister, *Address to Symposium on Mature Age Employment,* 27 August, http://www.pm.gov.au/media/Speech/2003/speech462.cfm, (accessed 13 July 2007).

55 The Hon. Peter Costello MP, *Address to Australian Businesses, Ensuring Australia's Economic Prosperity: The Intergenerational Report*, 10 April 2007, p. 5.

7.36 The increases in the official pension age have been important, with similar measures having also been considered in other developed countries. In some countries, such as Norway, the minimum retirement age is above that of Australia.[56]

7.37 In addition, the Seniors Australians Tax Offset and the Low Income Tax Offset have provided incentives for older people to continue in the workforce longer.[57] The Senior Australians Tax Offset was introduced in 2000-01 and with the Low Income Tax Offset enables single older Australians to have income up to $25 867 in 2007-08 without paying income tax or the Medicare levy. Members of couples can earn up to $21 680 each without paying income tax. They still benefit from the Senior Australians Tax Offset up to a combined income of $68 992. From 1 July 2007 the LITO increased from $600 to $750 and phases out from $30 000 (as opposed to the previous $25 000). The limit of the LITO has been raised from $40 000 to $48 750.[58]

7.38 The Mature Age Worker Tax Offset was introduced in 2004-05 and provides a maximum annual tax rebate of $500 for seniors that remain in the workforce at 55 and older. Eligibility is based solely on income from employment and provides some benefits for net incomes up to $63 000.[59]

7.39 The Senior Australians Tax Offset and the Mature Age Workers Tax Offset have lowered the tax payable on earned income and have been incentives for older people to continue workforce participation.[60] FACSIA submitted that these measures will ensure most retirees will pay little or no tax and, thereby, have an increased disposable income. According to FACSIA the real net tax threshold—where income tax paid exceeds direct government benefits—of a single senior Australian has increased by 42.3 per cent since 1996-97.[61] AIR also supported the Government's income tax reductions through the senior Australians tax offset, the Low Income Tax Offset, as well as changes to Medicare Levy requirements.[62]

7.40 According to AMP and NATSEM, the Government has assisted with initiatives to counter ageism and promote acceptance of employment of older workers. Many older workers suffered from the rapid economic restructure of the 1990s and early 2000s, resulting in forced redundancies and retirement. Government initiatives

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56 Agnes Walker, 'Health Status, Health Inequalities and the Ability of Older Australians to Stay in the Labour Force', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, p. 106.

57 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 42.

58 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 47.

59 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 48.

60 Parliamentary Library Economic, Commerce and Industrial Relations Section, *An Adequate Superannuation-based Retirement Income?*, 16 March 2006, p. 14.

61 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 42, 48.

62 Association of Independent Retirees, *Submission 2*, p. 9.

include: removing the work test for superannuation contributions before the age of 65 that allow continued access to superannuation while working; introducing the age discrimination act and providing pension bonuses for those that work past 65.[63] However, in her submission to the inquiry, Ms Mary Maxwell argued that despite government initiatives and public perceptions, her experiences suggests that prejudices still exist that need to be addressed. She argued:

> Most employers are still reluctant to take on mature-aged workers, even those only still in their 40s. They most certainly are not interested in anyone over 60.[64]

7.41 In the main, however, these government initiatives have been successful in increasing labour market participation across the Australian community - especially since 2002. In particular, there has been a substantial reversal of a long-term decline in participation rates for older people. For the age group 55-59 workforce participation rates rose from 72.1 per cent in August 2002 to 75.8 per cent in August 2005. Similarly, for those aged 60-64, participation rates rose from 46.7 per cent to 54.7 per cent. For the 65 and over age group, participation rates rose from 9.3 per cent to 11. 4 per cent.[65] Since that time, participation rates have continued to increase.[66] FACSIA submitted that according to ABS surveys for August 2005 to June 2005, the average retirement age of those retired was 58 for men and 47 for women. However, the average retirement age of those who had retired in the preceding five years only was 61.5 for men and 58.3 for women.[67] Increased participation rates have alleviated the strain on welfare services, continued to contribute to tax revenues and provided individuals with a greater earning capacity for longer, thereby facilitating an improved standard of living.[68]

7.42 The increase in the participation rate of older people in the labour market has also been, in part, attributable to broad labour market reform and employment growth.[69] There has also been a consequent decline in forced retirements and an

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63 AMP & the National Centre for Social and Economic Modelling, 'May the Labour Force Be With You', November 2005, *AMP.NATSEM Income and Wealth Report Issue 12*, p. 20; Simon Kelly & Ann Harding, 'Funding the Retirement of Baby Boomers', 2004, *Agenda Volume 11 (2)*, p. 107.

64 Ms Mary Maxwell, *Submission 34*, p. 2.

65 Parliamentary Library Economic, Commerce and Industrial Relations Section, *An Adequate Superannuation-based Retirement Income?*, 16 March 2006, p. 13.

66 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, pp 2, 5, 21.

67 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 44.

68 The Hon. Peter Costello MP, *Address to Australian Businesses, Ensuring Australia's Economic Prosperity: The Intergenerational Report*, 10 April 2007, p. 5.

69 The Hon. Peter Costello MP, *Address to Australian Businesses, Ensuring Australia's Economic Prosperity: The Intergenerational Report*, 10 April 2007, p. 5; Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 45.

improvement of attitudes towards employing older Australians. This has probably also occurred in conjunction with an increased motivation for older people to work, with rises in life expectancy and retirement income and lifestyle expectations.[70]

7.43 NIA has called for further reforms to remove incentives for early retirement and to provide positive incentives for older Australians to remain in the workforce. NIA suggested introducing lower income tax rates for people aged over 60. It was argued that the savings in pensions and increased taxation revenue would mean the proposal was revenue neutral and would increase productivity. NIA also called for further policies to facilitate the re-entering of the workforce by older workers, especially those that experience barriers and may need retraining.[71]

Managed or phased retirement

7.44 Extensive campaigns and publicity to promote the need to work longer and invest more in retirement savings have had substantial success in encouraging older people to prepare and better manage their retirements.[72] They have also resulted in an evolution in how Australians perceive retirement, particularly dissolution of the demarcations between retirement and work. There is a greater conception of flexibility and continued engagement in work, so that many retirees gradually or incrementally phase out of the workforce and into retirement through part-time, contract or casual work, rather than a sudden shift that has historically been associated with retirement.[73]

7.45 Of these arrangements, older people are more likely to work part-time than full-time.[74] AMP and NATSEM have found that while the proportion of Australians in full-time work diminishes the closer to the traditional retirement age of 65, the proportion in part-time work increases, representing the phased approach to retirement. However, there is continuing tailing off of participation in all forms of work as Australians eclipse the 65 year mark.[75]

7.46 Many workers have taken advantage of increasingly flexible working arrangements and the 136 per cent growth in part-time jobs over the past 20 years.[76] In

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70 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 45.

71 National Institute of Accountants, *Submission 67,* p. 8.

72 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, p. 21.

73 AMP & the National Centre for Social and Economic Modelling, 'Tomorrow's Consumers', December 2006, *AMP.NATSEM Income and Wealth Report Issue 15,* p. 1.

74 Ann Harding, *Analysing Australia's Aging Population: A Demographic Picture*, 27 September 2005, Paper presented to 'Australia's Ageing Population Summit 2005', Financial Review Conferences, p. 2.

75 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 2.

76 AMP & the National Centre for Social and Economic Modelling, 'May the Labour Force Be With You', November 2005, *AMP.NATSEM Income and Wealth Report Issue 12*, pp 1-2.

2005, 16 per cent of men and 50 per cent of women aged 55-64 and in employment were working part-time.[77] This greater attachment has been driven by a combination of economic necessity for some, and greater flexibility and opportunity for others, according to research by AMP and NATSEM.[78]

7.47 FACSIA maintained that government initiatives—some of which were outlined in the previous section—have enhanced the capacity of older workers to reduce working hours in the retirement transition. These include allowing individuals who have reached preservation age to access superannuation while continuing to work. Other measures include the Pension bonus Scheme, the Mature Age Worker Tax Offset, the Better Super reforms and changes to the Pension Bonus Scheme (in the 2007-08 Budget). The Better Super reforms reduce the amount of tax paid on work or other income and make superannuation benefits tax free for 90 per cent of people aged 60 and over (those that have paid tax on their contributions and earnings). This encourages people to work to age 60 to receive tax-free payments and other benefits.[79]

7.48 In July 2005, new rules applied that made it easier for older workers to continue with part-time employment when reaching preservation age with the introduction of 'transition to retirement' pensions. These measures allowed older people to continue to access superannuation without having to retire or leave their employment.[80]

7.49 Some of the submissions to the inquiry called for additional measures to facilitate greater part-time attachment of older people to the workforce. The submission of Older People Speak Out (OPSO) highlighted that 50 per cent of retirees want part-time work. However, it argued that there was a need to: re-educate employers on the value of older workers, place greater emphasis on up-skilling of workers to facilitate the tapering of hours and foster greater acceptance of job-sharing.[81]

7.50 As noted earlier, some commentators have called for an increase in the level of compulsory superannuation contributions. such as to 15 per cent. However, NATSEM cautioned that the benefits of such an increase are predicated on continuation in full-time employment. The trend towards part-time or casual

77 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 10.

78 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, p. 2.

79 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 45.

80 Lucinda Schmidt, 'Action Plan', 13 July 2005, *Sydney Morning Herald*, p, 8; Parliamentary Library Economic, Commerce and Industrial Relations Section, *An Adequate Superannuation-based Retirement Income?*, 16 March 2006, p. 14.

81 Older People Speak Out, *Submission 94*, p. 4.

employment of Australians approaching or in semi-retirement suggests such measures would provide only small increases in superannuation balances for older people.[82]

Early retirement and vulnerable groups

7.51 Despite the broad improvements in the labour market participation rates and attachment of older people, some sections of the older population continue to retire early with the corollary of experiencing comparatively poorer standards of living. Historically, women have been over-represented in this group. Data collected by NATSEM suggests that older people retiring before the age of 60 include 20 per cent of married and forty per cent of unmarried Australian men, and forty per cent of women. By age 60-64, the majority of married and unmarried women, and unmarried men have retired.[83]

7.52 As has already been discussed, the length of time in the workforce and the timing of retirement can have a significant impact on a person's superannuation balance and retirement income. Delayed retirement can result in a substantial increase in an individual's retirement income.[84] Conversely, early departure from the workforce has the capacity to substantially reduce potential income in retirement. ASF made the point that some older people take greater financial stress into retirement than others because their financial planning did not foresee or plan for involuntary early retirement.[85]

7.53 Retirees aged 50-54 have the lowest income levels of all retirees. These income levels equate to 20 per cent of the income of full-time workers of the same age. More than 60 per cent of early retirees aged 50-54 have less than $10 000 in superannuation, with the average balance being $25 000. Eighteen per cent have a sufficient level of superannuation to provide a reasonable retirement income. In contrast, people aged 50-69 who are still working have average superannuation balances of over $100 000. The difficult financial situation is compounded by the large number of retired households with dependents. According to the Brotherhood of St Laurence, 52 per cent of households aged 50-54 still have children living at home. Thirty-two per cent of households aged 55-59 and 20 per cent of those aged 60-64 still have children living at home.[86]

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82 Simon Kelly & Ann Harding, 'Funding the Retirement of Baby Boomers', 2004, *Agenda Volume 11 (2)*, pp 107-108.

83 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, pp. 2, 5, 21.

84 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, p. 12.

85 *Committee Hansard*, 23 August 2007, p. 5.

86 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, pp 10, 12.

The groups vulnerable to early and involuntary retirement

7.54 According to NATSEM, almost half of current retirees report having retired prematurely after having been pushed out of the workforce.[87] Further, it is likely that many of those who voluntarily retire have done so in response to employer pressure during restructuring.[88] Retirement predominantly involves Australians in the lowest socio-economic and higher socio-economic groups of retirement age. This has reinforced the probability that many of those in retirement have been forced into retirement by redundancy, disability or difficulties in finding alternative employment.[89]

7.55 A report by the Commonwealth Government in conjunction with the University of Melbourne and the Melbourne Institute of Applied Economic and Social Research surveyed the reasons for retirement of people aged 55-64. It found that 28 per cent left due to ill health, disability, stress reasons or to provide care; 23 per cent due to redundancy or dismissal; 21 per cent due to restructuring or the sale of a business; 16 per cent chose to live off investments or income support; and 13 per cent for personal reasons such as taking a break or moving to a new location. Importantly, 40 per cent of those 55-64 who sought a new job found it very difficult to re-enter the workforce.[90] FACSIA reported similar findings noting that approximately 44 per cent of men aged 45 and over retiring from the labour force do so as a result of redundancy.[91]

7.56 The Commonwealth Government, University of Melbourne and Melbourne Institute of Applied Economic and Social Research report highlighted that women aged 45 and over most commonly retired for family and lifestyle reasons. However, the second most common reason was ill health. Men most commonly retired due to ill health, followed by financial or job related reasons. The proportion of women who felt they were pushed or forced to retire declined with age and was 44.8 per cent of those aged 45-54, and 23.4 per cent of those 65 and over.[92]

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87 AMP & the National Centre for Social and Economic Modelling, 'May the Labour Force Be With You', November 2005, *AMP.NATSEM Income and Wealth Report Issue 12*, pp 2, 20.

88 Michael Keating, 'Increased Labour Force Participation', 1 March 2004, *Australia's Ageing Population: Fiscal, Labour Market and Social Implications, Volume 51*, p. 69.

89 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 3.

90 Australian Government Office for Women, *Women: Aspects of Retirement for Older Women*, 2006, p. 7.

91 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, p. 3.

92 Australian Government Office for Women, *Women: Aspects of Retirement for Older Women*, 2006, p. 3.

7.57 The Brotherhood of St Laurence and evidence from the HILDA (Household, Income and Labour Dynamics in Australia) survey highlighted the high incidence of involuntary retirement, which is responsible for early retirement.[93] The Brotherhood of St Laurence argued that involuntary retirement often stems from increasing disability caused by injury in manual labour, low levels of demand for unskilled labour, lower level of education of older workers compared to their younger colleagues and negative perceptions of the productivity of older workers by employers.[94]

7.58 Comparative international research has demonstrated that employees in manual and trade employment are more likely to have suffered from forced retirement. Between the 1960s and the first oil shock of 1973, there were similar rises in unemployment in Australia, New Zealand, the Netherlands and Sweden. However, government policies implemented at a national level affected the structural nature of the unemployment. In particular, there were significant differences in the degree of workforce participation among these countries, with greater declines in workforce participation by older men in Australia and especially the Netherlands. Over the past thirty years, the growth in employment has primarily occurred in skilled, professional industries associated with technological change, with negligible growth and often falls in manual and trade employment. Early retirees are predominantly drawn from former full-time employees of these groups, where job opportunities have declined and they lack the flexible skills required for mobility in the labour market. Job opportunities are likely to increase and, therefore, early retirement for these individuals will decrease, with increasing scarcity of labour as the age-dependency ratio increases. Future generations in this demographic are also likely to be better trained and equipped to cope with redundancy that could follow from labour market restructuring, especially with the increased emphasis on lifetime learning.[95]

7.59 Consequently, the managed or phased retirement process outlined earlier in this chapter may be largely a function of economic opportunity. Not all the submitters concurred with research suggesting phased retirement through part-time or flexible working-conditions contracts was the preference for older Australians. The submission of the Hobsons Bay City Council noted that most residents aged 55 and above work full-time (61 per cent) with most of the unemployed of this demographic looking for full-time, rather than part-time work. Similarly, unemployed residents aged 65 and above are more likely to be looking for full-time work (65 per cent). These age cohorts in the shire are characterised by a below average level of professionals and managers, higher than average proportion of unskilled workers,

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93 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 13.

94 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 13.

95 Michael Keating, 'Increased Labour Force Participation', 1 March 2004, *Australia's Ageing Population: Fiscal, Labour Market and Social Implications, Volume 51*, pp 67-70.

lower than average incomes and higher than average unemployment—when compared to the Melbourne Statistical Division (MSD) average.[96]

7.60 Nearly 60 per cent of the older clients receiving emergency relief provided by the Salvation Army are aged between 56 and 65. According to the Salvation Army, the majority of these are people not working and they struggle to afford increased food costs, petrol costs, and housing.[97]

7.61 The Brotherhood of St Laurence also argued that poor labour market participation rates of older people reflects the greater difficulty faced by mature workers to find new employment. It was maintained that this was a reflection of the effect of major recessions over the past 25 years. Australians employed in labour intensive parts of the manufacturing sector were hard hit by recessions and the workers laid off often had limited tertiary qualifications, which meant that many struggled to find alternate employment.[98] Other evidence on Australian employment demographics are possibly consistent with this view. A 2005 paper on mature age workers suggested that in Australia, 67 per cent of low educated 55-64 year olds are not in employment, compared to the OECD average of 56 per cent.[99]

7.62 The incidence of poor health causing early retirement highlights the limited capacity of increasing participation rates for improving the quality of life of older people and reducing the burden on the government of an ageing population. The proportion and capacity of older people to participate in the workforce is not a constant and declines with age. Many will be unable to remain in the workforce, due to health problems. For instance, up to the age of 50, the majority of Australians do not suffer from a long-term illness. However, over the age of 50 the proportion with such illnesses and disabilities increases rapidly. Econometric modelling has shown that approximately 7 per cent of the 65-70 year old population drop out of the workforce due to poor health. More than 80 per cent of Australians aged 65 and above have at least one long-term chronic ailment. By age 80, 30 per cent of Australians suffer from a severe disability and by 85 that figure more than doubles to 65 per cent.[100]

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96 Hobsons Bay City Council, *Submission 3, Ageing Community Profile: Ageing Well Strategy 2007-2017*, February 2007, pp 6, 37-43.

97 *Committee Hansard*, 23 August 2007, p. 20.

98 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, pp 13-14.

99 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference,* Centre for Public Policy, University of Melbourne, p. 4.

100 Agnes Walker, 'Health Status, Health Inequalities and the Ability of Older Australians to Stay in the Labour Force', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16,* pp 106, 116-117, 121.

The need for investment in retraining and re-skilling older workers

7.63 Government policies related to workforce participation that focus on incentives to delay retirement and disincentives to retire early, such as restricting access to superannuation, do not address problems faced by low skilled older workers. As noted above, many of these workers retire involuntarily, possess redundant skills, and have low levels of literacy and numeracy. Consequently, the retraining of older workers will be crucial to ameliorating the impact of future skills shortages. The high pace of technological change has resulted in the disappearance of older and more traditional occupations, at the same time as employment grows in areas of new occupations that require new skill sets. Retraining and re-skilling promotes adaptability sufficient to accommodate an innovation economy.[101]

7.64 Older workers who receive training are more than 20 per cent more likely to be participating in the workforce. In comparison to other OECD countries, Australia has a high level of workers aged 40-64 who participate in formal training. However, Australia has a low base and is ranked 17th in OECD standards that measure completion of at least upper secondary education. Also, most training is provided to highly skilled workers with 25 per cent receiving training, compared to 7 per cent of low skilled workers.[102]

7.65 The Government has introduced some measures aimed at re-skilling older people. In 2003 the Government focused on efforts to encourage older people to return to and remain in work. The Mature Age Allowance for unemployed people aged 50 and over was discontinued with formerly eligible people receiving Newstart Allowance and subject to mutual obligations, though with less participation requirements. They also gained access to assistance such as training credit and support through Job Network members.[103]

7.66 In the 2004-05 Budget, the Government announced the Mature Age Employment and Workplace Strategy, worth $12.1 million over four years. The strategy provided workshops for workers seeking to retire to provide information on labour market issues, labour market seminars for employment service providers, projects to facilitate job growth for mature age workers and benchmarking and

101 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, pp 5-8.

102 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, p. 9.

103 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, pp 6-7.

showcasing best practice for employment of mature age workers.[104] The Government also initiated the Basic IT Enabling Skills (BITES) for Older Workers to provide low income older workers with basic information technology skills. Also, the Vocation Education and Training Priority Places Programme provides free certificate II level training to low-income older workers and others.[105]

Health and medical assistance

7.67 The Commonwealth Government is the key public funding agency for health and aged care services at a national level, providing almost half of all health spending. While much of this has involved generic support provided across all sectors of society, older people have been key beneficiaries both directly and indirectly. The growth rate in health expenditure has been higher for Australians aged 55 and over than for the total population. The Government's support has involved funding of Medicare including the Medical Benefits Scheme (MBS) to provide patient subsidies for medical services, the PBS that subsidises listed pharmaceuticals, the private health insurance rebate, and contributions to State-run public hospital and community care services as well as to the Third Sector's provision of residential aged care.[106]

7.68 According to FACSIA, government initiatives such as medical benefits, pharmaceutical benefits, aged care subsidies, contributions to free hospital treatment as a public patient and rebates on private health insurance premiums substantially lower or eliminate costs of individuals' use of health and aged care. FACSIA argued that the cost to the Commonwealth has grown in real terms per capita and at a faster rate than the total cost to end users. The outlays have grown from $27.3 billion in 1996-97 to $48.5 billion in 2006-07.

7.69 The Commonwealth contributes large amounts toward the provision of public hospital services and home and community care services for those aged 65 and over as well as increased levels of health insurance rebates.[107] In 2005-06, the Commonwealth Government paid almost $11.5 billion for residential care services and community

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104 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, p. 7.

105 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, p. 7.

106 Deborah Schofield & George Rothman, 'Projections of Commonwealth Health Expenditure in Australia's First Intergenerational Report', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 151-155, 162.

107 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 49.

aged care packages required by those aged 65 and over, as well as Medicare and PBS. Older people contributed a further $2-3 billion over the period.[108]

The Pharmaceutical Benefits Scheme

7.70 Chapter five outlined the current payment structure for the PBS, the government's financial support and especially evidence that arose during the inquiry on its effects on the cost of living of older people. This section will more fully explore the Government's initiatives to ensure the sustainability of the scheme.

7.71 Over the past decade, Commonwealth spending on health has increased at a faster rate than total national health spending including state government and private sector expenditure. Although the aging population has placed increased pressure on government expenditure, the rise in the Commonwealth's spending has been driven primarily by factors such as listing new and often more expensive medicines on the PBS, their greater prescription, and greater use of diagnostic procedures. While real spending on public hospitals and the MBS grew by 1.6 per cent per year—driven primarily by expenditure on older Australians, real spending on the PBS grew by 6.1 per cent per year. This constituted a 10 per cent increase in expenditure per year, with 2001-2002 seeing a 20 per cent increase.[109]

7.72 The older age groups, particularly people aged over 65, are the primary consumers of prescribed medicines, due to a comparatively poorer health status and greater propensity to have potential problems investigated by their doctors. Projections by NATSEM suggest that almost 17 per cent of government outlays go to those aged 75 or more, who represent only 5.8 per cent of the population. Older recipients include both pensioners and self-funded retirees that receive concessions through the Commonwealth Seniors Health Card.[110] The conclusion made by NATSEM following its research into the issues suggests:

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108 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 49.

109 Deborah Schofield & George Rothman, 'Projections of Commonwealth Health Expenditure in Australia's First Intergenerational Report', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 151-157; Laurie Brown, Annie Abello, Ben Phillips and Ann Harding, 'The Australian Pharmaceuticals Benefit Scheme and Older Australians: Changes in Government Outlays and Consumer Costs from the 2002-03 Federal Budget Measures', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 170-172, 182.

110 Laurie Brown, Annie Abello, Ben Phillips and Ann Harding, 'The Australian Pharmaceuticals Benefit Scheme and Older Australians: Changes in Government Outlays and Consumer Costs from the 2002-03 Federal Budget Measures', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 170-172, 182-184.

> The PBS is extremely important in reducing the financial pressures that Australian families, and particularly older Australians, would otherwise face in paying for prescribed pharmaceuticals.[111]

7.73 Although the aging population is expected to provide greater demand for direct health spending, its greatest financial impact will be felt on the increased burden of new health care technology and medications, according to research by NATSEM. The cost of medicines has inexorably risen over recent years and new generation biotechnology drugs and other technologies are expected to provide substantial health benefits but at a much greater cost than traditional medicines. Further, medical practitioners are prescribing larger quantities of more expensive medication. As the major users of prescribed medications and recipients of PBS subsidies are older people, a growth in their numbers is likely to result in increases in the number of prescriptions and costs, unless changes are made to eligibility.[112]

7.74 From 1998, the Government implemented a range of reforms aimed at reducing the cost to the government and consumers of many generic medicines. In order to contain expenditure through the PBS, the Government introduced the Therapeutic Group Premium policy. This involves the Government providing a subsidy equivalent to the lowest priced product in the therapeutic group, with consumers covering the difference if the price of the medication exceeds the subsidy.[113] On 1 January 1999 and again on 1 July 2001, the Commonwealth Government increased the income thresholds for self-funded retirees' eligibility to the Commonwealth Seniors Health Card. This increased the number of self-funded retirees accessing benefits at the concessional rate sixfold.[114] In 2002, additional measures were implemented including: increases in the patient co-payments required and safety net thresholds for the PBS; a review of controls on the prescriptions of

111 Laurie Brown, Annie Abello, Ben Phillips and Ann Harding, 'The Australian Pharmaceuticals Benefit Scheme and Older Australians: Changes in Government Outlays and Consumer Costs from the 2002-03 Federal Budget Measures', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, p. 190.

112 Laurie Brown, Annie Abello, Ben Phillips and Ann Harding, 'The Australian Pharmaceuticals Benefit Scheme and Older Australians: Changes in Government Outlays and Consumer Costs from the 2002-03 Federal Budget Measures', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 171, 191.

113 Deborah Schofield & George Rothman, 'Projections of Commonwealth Health Expenditure in Australia's First Intergenerational Report', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 153-155.

114 Laurie Brown, Annie Abello, Ben Phillips and Ann Harding, 'The Australian Pharmaceuticals Benefit Scheme and Older Australians: Changes in Government Outlays and Consumer Costs from the 2002-03 Federal Budget Measures', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, p. 191.

certain medications; more information for practitioners on the restrictions in the PBS scheme and facilitation of the use of less expensive generic medicines.[115]

7.75 In the 2002-2003 budget, the Commonwealth Government sought to introduce various measures aimed at pro-longing the financial sustainability of the PBS. Although these measures were blocked initially in the Senate, they were successfully passed on 1 January 2005 following the Coalition's securing of a majority in both houses. The measures responded to the inexorable increase in the cost of the PBS that threatened its financial sustainability by spreading the costs and allowing continued listing of new medicines. Despite the gradual increase in the costs of the scheme to the Commonwealth, patient co-payments have not risen above indexation since 1996-1997. The Government raised the co-payment requirement by approximately 28 per cent, and the price of all drugs in a reference pricing group or medicines producing similar health effects, were required to fall by 12.5 per cent when a generic version became available. Further, in 2006 the safety net thresholds were legislated to increase by two scripts per year.[116]

7.76 The Government's 2005 reforms to the PBS ensured that the total quantity of prescriptions fell by 0.9 per cent during the calendar year. This was the first time since 1990-1991—following an earlier co-payment increase—that there was any such decline. It was mainly among general patients at 6.8 per cent with a 0.3 per cent decline involving concessional patients. The reforms were likely to have had the greatest out-of-pocket financial impact on very elderly concessional patients, who were also the greatest users of the scheme.[117]

Conclusion

7.77 There is little doubt that the Commonwealth Government has invested substantially in older persons. The previous Government introduced a swathe of initiatives aimed at enhancing the opportunity to plan financially for retirement and, particularly, to increase attachment to the workforce. Evidence provided to the

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115 The Hon. Peter Costello MP, *Address to Australian Businesses, Ensuring Australia's Economic Prosperity: The Intergenerational Report*, 10 April 2007, p. 5; Deborah Schofield & George Rothman, 'Projections of Commonwealth Health Expenditure in Australia's First Intergenerational Report', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 153-155.

116 Laurie Brown, Annie Abello, Ben Phillips and Ann Harding, 'The Australian Pharmaceuticals Benefit Scheme and Older Australians: Changes in Government Outlays and Consumer Costs from the 2002-03 Federal Budget Measures', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 174, 185, 192.

117 Laurie Brown, Annie Abello, Ben Phillips and Ann Harding, 'The Australian Pharmaceuticals Benefit Scheme and Older Australians: Changes in Government Outlays and Consumer Costs from the 2002-03 Federal Budget Measures', 2007, *Modelling Our Future: Population Ageing Health and Aged Care, International Symposia in Economic Theory and Econometrics Volume 16*, pp 174, 185, 192.

committee during the inquiry, most notably by FACSIA, illustrated that Government initiatives over the past decade have increased the real and disposable income levels and standards of living of older people. This includes changes to the superannuation, tax and pension systems.

7.78 The indexation of the pension to MTAWE has particularly ensured the incomes of some of the most disadvantaged older people have outstripped the CPI. Adjustments to taper rates also have ensured a greater number of older people have been able to continue to access the pension along with superannuation benefits. The Government has introduced various additional payments to further supplement pensioners' incomes and assist in affording cost of living pressures.

7.79 The committee heard concerns about continued stress faced by some older people and arguments that more could be done. Whilst the committee acknowledges these concerns it notes that the Commonwealth faces the difficult task of prioritising and targeting spending within its budget. Further, it can be difficult to tailor policies to cater for a unique series of circumstances suffered by some individuals that leads them to financial stress. Nevertheless, Government initiatives have sought a balance between providing a safety net for disadvantaged older people and ensuring innovation and initiative are rewarded. Over the past decade expenditure on the aged pension has increased by one third.[118] A combination of initiatives has resulted in increasing real disposable income by almost twenty per cent for pensioners on the lowest income levels. The superannuation co-contribution has also been effective and targeted specifically at the most disadvantaged workers in enhancing their retirement incomes.

7.80 But many of the most positive benefits of Government policies for older people will be realised in the future as current workers move into retirement. For example, the proportion of older people receiving the full pension rate is expected to decline over time, with a likely increase in those receiving a part pension as superannuation balances grow. These initiatives will ensure hundreds of thousands more people receive higher superannuation balances, can enjoy a higher standard of living in retirement and reduce the potential strain on the Government.

7.81 Australia has traditionally poor labour force participation among older people. But higher workforce participation is important for improved standards of living in retirement, as well as the capacity of the economy to support the health care and social welfare costs of the population. Workforce participation allows continual contributions to enhance the growth of savings and superannuation balances. It prevents superannuation being drawn upon early and often allows a higher income while the individual is working. Consequently, increasing labour market participation has been a particularly successful policy initiative. This has been achieved through an extension of the preservation age for accessing superannuation, beneficial taxation

118 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 25-27.

arrangements for accessing superannuation at a later age, the gradual alignment of the pension age for men and women, and the removal of age discrimination that exists in relation to the employment of Federal Government employees. The Government has also initiated extensive campaigns to promote acceptance of older people in the workplace and emphasise the need to continue to work longer. This has resulted in many retirees gradually or incrementally phasing out of the workforce and into retirement through part-time, contract or casual work, rather than the sudden shift that has historically been associated with retirement.

7.82 Health is also a key area where the Government has invested substantial resources to assist older people. The committee notes, however, that the ageing population is putting greater strain on the public health system. The cost to the Commonwealth has grown in real terms per capita and at a faster rate than the total cost to end users, a large proportion of whom are older people.