

The Senate

Select Committee on Superannuation

Planning for retirement

July 2003

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TERMS OF REFERENCE

On 12 December 2002, the Senate referred the following matter to the Senate Select Committee on Superannuation for inquiry and report by the last sitting day in June 2003:

Planning for retirement.

In conducting the inquiry the Committee is to examine in particular:

- a) the effects of ageing on workers' productivity;
- b) the continuing relevance of the concept of a fixed retirement age;
- c) the potential to encourage progressive transitions from work to retirement, including through possible new benefit access and contribution arrangements, and part-time work;
- d) any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people;
- e) ways to assist older workers plan for their retirement;
- f) the short and long term effect on the Budget of any proposals for change; and
- g) any issues for the Federal or State workplace relations systems.

CONDUCT OF THE INQUIRY

On 12 December 2002, the Senate referred planning for retirement to the Senate Select Committee on Superannuation for inquiry and report by the last sitting day in June 2003. This reporting date was subsequently deferred to 11 August 2003.

The Committee advertised its terms of reference widely in the press in mid-December. In addition, the Committee wrote to a large number of parties potentially interested in the inquiry, inviting them to lodge a submission.

The Committee received 49 submissions from a range of individuals and organisations. They included consumer groups, superannuation associations, financial industry organisations, professional financial and human resource organisations, peak employer and employee groups and government departments. A list of submissions is at **Appendix One**. The submissions are available electronically at the Committee's web site at www.aph.gov.au/senate_super.

The Committee conducted the following hearings:

Monday 5 May 2003 – Sydney
Thursday 8 May 2003 – Melbourne
Friday 9 May 2003 – Adelaide
Thursday 15 May 2003 – Canberra
Friday 16 May 2003 – Canberra

Oral contributions were taken from 50 witnesses or groups of witnesses. A list of witnesses is at **Appendix Two**. The Committee took 324 pages of evidence. The *Hansard* of the hearings is available at the Hansard site at www.aph.gov.au. References in this report are to the proof Hansard.

A list of tabled documents is at **Appendix Three**.

A list of previous Committee reports is at **Appendix Four**.

TABLE OF CONTENTS

MEMBERSHIP OF THE COMMITTEE	iii
TERMS OF REFERENCE	v
CONDUCT OF THE INQUIRY	vii
PREFACE	xv
LIST OF ABBREVIATIONS	xix
RECOMMENDATIONS	xxi

PART I

THE CURRENT TRANSITION FROM WORK TO RETIREMENT IN AUSTRALIA

CHAPTER ONE - POPULATION AND LABOUR FORCE TRENDS	3
Introduction	3
Australian population trends.....	3
Australian labour force trends	4
International labour force trends	7
CHAPTER TWO - THE WORKFORCE EXPERIENCE OF MATURE AGE WORKERS	11
Introduction	11
The workforce experience of people aged 55-64	11
Reasons for leaving a job amongst workers aged 55-64	12
The likelihood of finding new work for workers aged 55-64	15
Encouraging trends in the employment of workers aged 55-64.....	18

CHAPTER THREE - EMPLOYER ATTITUDES TOWARDS MATURE AGE WORKERS21

Introduction	21
Age retirement legislation in Australia.....	21
Employer discrimination against mature age employees	24
Federal age discrimination legislation.....	27

CHAPTER FOUR - THE PRODUCTIVITY OF MATURE AGE WORKERS.....31

Introduction	31
Research studies on productivity.....	31
Anecdotal evidence on productivity.....	35

CHAPTER FIVE - THE IMPACT OF INVOLUNTARY RETIREMENT ON MATURE AGE WORKERS37

Introduction	37
The impact of joblessness on individuals.....	37
The impact of joblessness on finances	38
The impact of joblessness on families.....	39

CHAPTER SIX - THE CASE FOR CHANGE.....41

Introduction	41
The gap in retirement funding.....	41
Economic growth and productivity	43
A self-correcting problem?.....	43
The need for flexible employment and phased retirement.....	44

PART II

ENCOURAGING PROGRESSIVE TRANSITION FROM WORK TO RETIREMENT IN AUSTRALIA

CHAPTER SEVEN - PART-TIME WORK AND LABOUR MARKET PROGRAMS49

Introduction	49
Part-time work for mature age workers.....	49
Promoting part-time work for mature age workers	53
Government labour force programs.....	55
Reform of government labour force programs.....	58
The Workingconnections job matching service	59

CHAPTER EIGHT - USING SUPERANNUATION TO FINANCE RETRAINING.....	61
Introduction	61
Current restrictions on accessing superannuation savings	61
Consumer understanding of the role of superannuation.....	62
Support for using superannuation to finance retraining	63
Opposition to using superannuation to finance retraining.....	64
 CHAPTER NINE - INCOME SUPPORT ARRANGEMENTS FOR PRE- RETIRES AND RETIREES	 69
Introduction	69
The superannuation accumulation system.....	69
The superannuation benefits system.....	72
Government pensions and allowances	84
Income support arrangements for women	91
Income support arrangements for self-funded retirees.....	94
 CHAPTER TEN - RETIREMENT AND ELIGIBILITY FOR THE AGE PENSION	 97
Introduction	97
The concept of a fixed retirement age in Australia	97
Should the age pension age in Australia be increased?.....	98

PART III

WAYS TO ASSIST OLDER WORKERS PLAN FOR THEIR RETIREMENT

CHAPTER ELEVEN - CURRENT PLANNING FOR RETIREMENT IN AUSTRALIA	105
Introduction	105
Different individuals' planning for retirement	105
The importance of early planning for retirement	106
Financial education standards in Australia.....	107

CHAPTER TWELVE - THE QUALITY OF PAID FINANCIAL ADVICE	111
Introduction	111
The ASIC/ACA and ANZ financial advice surveys	111
Improving the quality of paid financial advice	116
The viability of not-for-profit funds	120
 CHAPTER THIRTEEN - GOVERNMENT AND SUPERANNUATION FUND ASSISTANCE	 123
Introduction	123
Government provided financial advice	123
Assistance provided by superannuation funds	127
Forecasting superannuation savings using government guidelines.....	131
 CHAPTER FOURTEEN - NON-FINANCIAL PLANNING FOR RETIREMENT	 135
Introduction	135
The importance of lifestyle planning.....	135
The impact of good lifestyle planning in retirement	136
Helping retirees plan for retirement	137

PART IV

OTHER ISSUES AND CONCLUSIONS AND RECOMMENDATIONS

CHAPTER FIFTEEN - OTHER ISSUES.....	141
Introduction	141
The Federal and state workplace relations systems.....	141
A major review of the superannuation system	142
State government superannuation schemes	144
 CHAPTER SIXTEEN - CONCLUSIONS AND RECOMMENDATIONS.....	 147

APPENDIX ONE - SUBMISSIONS	171
APPENDIX TWO - PUBLIC HEARINGS	175
APPENDIX THREE - TABLED DOCUMENTS	179
APPENDIX FOUR - LIST OF COMMITTEE REPORTS 1991 - 2003 ...	183
APPENDIX FIVE - THE COTA NATIONAL SENIORS PARTNERSHIP SUBMISSION ON THE PROPOSED INTRODUCTION OF FEDERAL AGE DISCRIMINATION LEGISLATION	189
APPENDIX SIX - ASSUMPTIONS UNDERLYING THE CENTRESTONE CASE STUDY	191
APPENDIX SEVEN - SAMPLE RETIREMENT PROJECTION STATEMENT.....	193
APPENDIX EIGHT – ANNUITIES: REGULATING WITHDRAWALS FROM INDIVIDUAL PENSION ACCOUNTS	195

PREFACE

The Committee's inquiry into planning for retirement arose out of concern raised in the Committee's earlier inquiry into superannuation and standards of living in retirement that many mature age workers in Australia are encountering difficulty in the transition from work to retirement.

Mature age redundancy and unemployment in Australia directly impacts on the lives and families of many Australians. In addition, it has an impact on Australia's productivity and economic growth, and the Government's revenue base and income support system for retirees.

Accordingly, the Committee's inquiry attracted considerable interest. The Committee was pleased to receive a significant number of high quality submissions. The key issues examined by the Committee in this report are:

- a) The low levels of participation of mature age workers aged 55-64 in the labour market, and indications that often their withdrawal from the labour market is both involuntary and unplanned.
- b) Concern that mature age workers currently face discrimination in the workforce, despite evidence that many mature age workers are as productive as their younger counterparts.
- c) The adverse impacts of early involuntary redundancy on mature age workers, including the adverse impact on the labour skills base and economic growth, but also the adverse personal and family impacts of early involuntary redundancy.
- d) Means of promoting part-time work as a stepping-stone in the transition from work to retirement, and changes that could be made to the superannuation and government income support systems to encourage and assist mature age workers to remain in the workforce.
 - Significantly, the evidence before the Committee was strongly against using superannuation savings to finance retraining for mature age workers, and also against any changes to the eligibility age for the age pension.
- e) Ways to reform the retirement income payment system. Members of the Committee wish to highlight that Australia has three options for the future architecture of the retirement income payment system:
 - Firstly, a continuation of the current complex tax and social security rules, which have resulted in insufficient incentives for retirees to take up income streams or for life offices to offer such products.

- Secondly, Labor Senators advocate improving the existing system by developing an aggressive education campaign to educate the public to encourage them to take up income streams on retirement, together with reform of the existing tax and social security rules to offer greater incentive to individuals to voluntarily take up an income stream, with a review of the effectiveness of this option after a 3-5 year period. Such reforms might include the option of including lump-sums under the age pension asset test for Centrelink/DVA purposes.
- Thirdly, Government Senators and Senator Cherry from the Australian Democrats (the Committee majority) believe that the Government should, at some time in the future, move to follow world's best practice as stated by the World Bank and mandate the use of a proportion of superannuation savings for the purchase of either lifetime or term-certain complying annuities/pensions (growth pensions) on retirement.

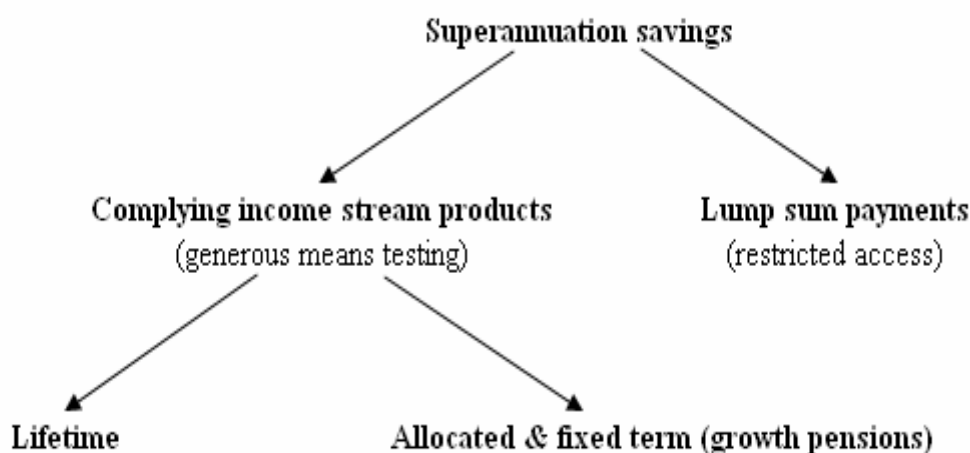
The Committee majority believe that mandating the use of a proportion of superannuation savings for the purchase of either lifetime or term-certain complying annuities/pensions (growth pensions) on retirement would have three significant benefits:

- It would provide greater capital certainty in superannuation pension products and greater certainty for low-income retirees in particular in the drawdown of their assets. This need for greater certainty and security in the drawdown of assets is only increased by the rising life expectancy of retirees.
- It would significantly simplify financial planning for retirees by largely removing the complexities of matching superannuation benefits with the tax and social security rules.
- It would discourage retirees from using superannuation to pay off debt on housing or credit cards, which is contrary to the intended purpose of superannuation to finance retirement as required by the 'sole purpose' test.

By mandating the use of a proportion of superannuation savings for the purchase of a genuine complying annuity on retirement in Australia, the Committee majority believe that life insurance offices and other providers will re-enter the annuity market and offer a range of new and different products to retirees that are currently not on offer. In addition, the Committee majority anticipate that retirees will mix and match between lifetime annuities and allocated/fixed term annuities (growth pensions) according to their individual circumstances and risk profiles.

- The Committee majority believe that during the phase-in of any compulsory annuity products, the Government should continue to allow retirees to access lump sum payments by placing a minimum threshold on the purchase of a complying annuity, below which individuals would not be compelled to purchase an annuity, and could instead take a lump sum payment.

Accordingly, the Committee majority believe that the architecture of the retirement income system in Australia in the future should resemble that shown below.



As indicated above, Labor Senators also support the greater take-up of lifetime or term-certain complying annuities/pensions, but do not support mandating the purchase of such products.

- f) Ways to assist older workers to plan for their retirement, given the current low levels of understanding of the superannuation system, but also the importance of early planning for retirement.
- The evidence before the Committee was in many instances critical of financial planning assistance available to retirees and pre-retirees in Australia. At one end of the spectrum, the financial planning industry has some highly skilled and reputable members who are highly qualified in discharging their professional services. But regrettably, there are still too many instances where retirees are being placed in inappropriate retirement products. Unlike other professions, financial planners have not had the benefit of a century of evolution, hence the Committee is keen to work with the Financial Planning Association to promote the Association's targeting of the five key elements of standards, certification, peer review, continuous professional development and its centre of excellence as a way of moving the profession forward.
 - The Committee notes the positive role of government instrumentalities and in some cases superannuation funds in providing

independent and unbiased avenues of financial advice. However, the Committee is aware that there is still scope for superannuation funds to offer their members greater assistance through the provision of education about retirement income products, during both the accumulation and payment phases.

- g) The need for planning for retirement to encompass lifestyle planning, and not just financial planning.

The Committee makes a number of recommendations for reform. If implemented, the Committee considers that the reforms will go some way to assisting mature age workers to plan better for their retirement and to enjoy a more gradual and stable transition from work to retirement.

In particular, the Committee majority wish to highlight their recommendations for reform of the income payment system, and the desirability of ultimately moving towards the mandatory purchase of complying annuities on retirement. In the opinion of the Committee majority, this is a necessary reform of the superannuation system in Australia. It is a central issue in this report.

The Committee wishes to thank the many people and organisations that took the time to make submissions to the inquiry or to give evidence at the Committee's public hearings.

I commend the report to the Senate.

Senator John Watson
Committee Chair

LIST OF ABBREVIATIONS

ABA	Australian Bankers' Association
ABS	Australian Bureau of Statistics
ACA	Australian Consumers' Association
ACCI	Australian Chamber of Commerce and Industry
ACCIRT	Australian Centre for Industrial Relations Research and Training
ACTU	Australian Council of Trade Unions
AIR	Association of Independent Retirees
APRA	Australian Prudential Regulation Authority
APM	Active Participation Model
APS	Australian Public Service
ARPA(SA)	Australian Retired Persons' Association (South Australia)
ASFA	Association of Superannuation Funds of Australia
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AWT	Australians Working Together
AWU	Australian Workers' Union
COTA	Council on the Ageing
CPI	Consumer price index
CSA	Corporate Super Association
CSHC	Commonwealth Seniors Health Card
DEWR	Department of Employment and Workplace Relations
DSP	Disability support pension
DVA	Department of Veterans' Affairs

FaCS	Department of Family and Community Services
FIS	Financial Information Service
FPA	Financial Planning Association
FSR Act	<i>Financial Services Reform Act 2001</i>
GST	Goods and services tax
IAA	Institute of Actuaries of Australia
ICA	Institute of Chartered Accountants in Australia
IFF	Industry Funds Forum
IFSA	Investment and Financial Services Association
NICRI	National Information Centre on Retirement Investments
NILS	National Institute of Labour Studies
OECD	Organisation for Economic Cooperation and Development
OH&S	Occupational health and safety
Queensland DIR	Queensland Department of Industrial Relations
RBL	Reasonable benefit limit
SCOA	Superannuated Commonwealth Officers' Association
SG	Superannuation Guarantee
SI(S) Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SRF	Seafarers' Retirement Fund

RECOMMENDATIONS

Recommendation 1

The Committee recommends that the Government investigate mechanisms to promote the availability of appropriate part-time positions for mature age workers.

Recommendation 2

The Committee recommends that the Government consider expanding retraining assistance available to mature age workers under the Australians Working Together program.

Recommendation 3

The Committee recommends that the Government look at means of reforming current Commonwealth Government defined benefit schemes to remove the disincentive to continue working beyond certain ages.

Recommendation 4

The Committee majority recommend that the Government move in the future to make retirees convert a proportion of their pre-retirement savings into a complying annuity.

Recommendation 5

The Committee majority recommend that in moving to make compulsory the taking of complying annuities on retirement, the Government implement transitional arrangements so that individuals can have access to restricted lump sum payments.

Recommendation 6

The Committee recommends that the Government consider the appropriateness of the current restrictions on the purchase of complying annuities, to encourage the availability of so-called growth pensions.

Recommendation 7

The Committee recommends that the Government investigate the opportunities for retirees age 55-65 to access the Newstart Allowance, without genuinely looking for work, while also continuing to access superannuation payments.

Recommendation 8

The Committee recommends that the Government look at reforming the age pension means test to treat personal earnings (salary and wages) in the same manner as other forms of income.

Recommendation 9

The Committee recommends that the Government revisit the provisions of the Pension Bonus Scheme to increase its attractiveness to individuals working past age pension eligibility.

Recommendation 10

The Committee recommends that the Government investigate making contributions to a superannuation account on behalf of individuals caring for another person outside of the workforce.

Recommendation 11

The Committee recommends that the Government increase efforts to educate the general population about the importance of planning for retirement.

Recommendation 12

The Committee recommends that the Productivity Commission investigate the remuneration arrangements for financial planners, especially whether there should be a more direct relationship between the amount of work performed and the fee charged.

Recommendation 13

The Committee recommends that the Government re-examine the deductibility rules for financial planners' fees to remove the inducement to pay for financial planners' services through trailing commissions.

Recommendation 14

The Committee recommends that the Government provide significant additional funding to NICRI to expand the scope and availability of the assistance it offers to pre-retirees and retirees.

Recommendation 15

The Committee recommends that the Government continue to encourage superannuation funds to provide assistance to pre-retirees and retirees beyond the accumulation phase, including the provision of appropriate financial education, advice and retirement products.

Recommendation 16

The Committee recommends that the Government take steps to ensure the wide distribution of information on the need for lifestyle planning in retirement.

Recommendation 17

The Committee recommends that the Productivity Commission investigate the remuneration arrangements for superannuation investment fund managers.

PART I

THE CURRENT TRANSITION FROM WORK TO RETIREMENT IN AUSTRALIA

This report is in four parts:

- 1) Part I examines the current transition from work to retirement in Australia;
- 2) Part II looks at means to encourage a more progressive transition from work to retirement in Australia;
- 3) Part III examines ways to assist older workers plan for their retirement; and
- 4) Part IV looks briefly at other issues before presenting the Committee's conclusions and recommendations.

Part I of this report provides information on the current transition from work to retirement in Australia, including an examination of labour force trends, the labour market experience of workers aged 55-64, employer attitudes towards mature age workers, the productivity of mature age workers, the impact of redundancy on mature age workers and the case for a more progressive transition from work to retirement in Australia.

Chapter One

Population and Labour Force Trends

Introduction

1.1 This chapter examines population and labour force trends in Australia and internationally and notes challenges facing Australia in relation to the transition from work to retirement. Those challenges are:

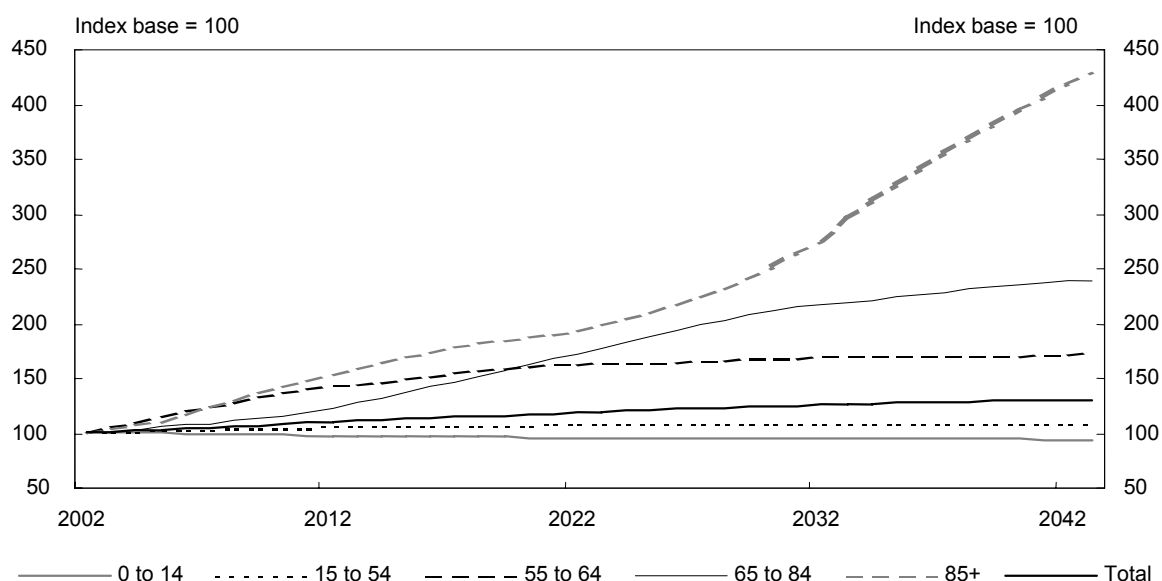
- a) The ageing of the Australian population and the growth of the 55-64 age cohort in the labour market; coupled with
- b) The current low levels of labour force participation by mature age workers in Australia (which is mirrored internationally).

Australian population trends

1.2 Australia's population is ageing. The proportion of the population aged 65 and over is forecast to almost double from the current 12 per cent to 22 per cent in 2031, and to increase to 26 per cent in 2051. The population aged 65 and over will grow from around 2.4 million people to around 6.5 million people over the same period, increasing the number of retired people relative to the number of working-age people.¹

1.3 Chart 1.1 below shows projected growth by age group over the next 40 years in Australia.

1 *Submission 38, FaCS, p. 4*

Chart 1.1: Projected growth by age group over the next 40 years

Source: Commonwealth Treasury, *Intergenerational Report 2002-03*, p. 23.

1.4 In the absence of significant migration, population growth in Australia is expected to continue slowing, from 1.2 per cent in 2000 to around 0.2 per cent by 2042. However, Chart 1.1 shows that while the size of the labour force is projected to grow by just 14 per cent over the next two decades, the number of people aged 55 to 64 is projected to increase by more than 50 per cent. This is expected to be the fastest growing group of labour force age.²

1.5 The Committee also notes that in common with other countries, the average life expectancy in Australia has increased considerably since the beginning of the last century. During the decade of 1901-1910, males aged 16 could expect to live to 64 and women aged 16 to 67. By comparison, males in 2000 aged 16 could expect to live to 77, and females to 82. Furthermore, average life expectancies are expected to improve by an additional 5 years over the next 40 years.³

Australian labour force trends

1.6 The Committee wishes to cite evidence presented by Dr FitzGerald⁴ to the Committee's earlier inquiry into superannuation and standards of living in retirement.⁵ Dr FitzGerald indicated that mature age male participation in the labour force has fallen dramatically over the past half century, while the female labour force

2 Commonwealth Treasury, *Intergenerational Report 2002-03*, p. 22.

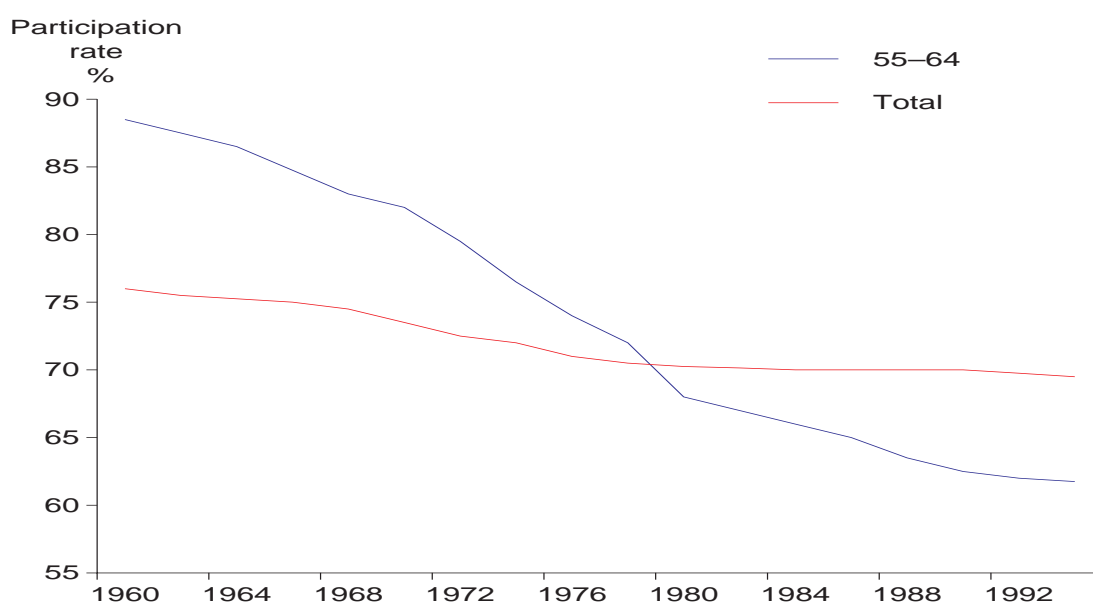
3 *Submission 29*, DEWR, pp. 1, 5-6. See also Commonwealth Treasury, *Intergenerational Report 2002-03*.

4 Co-Chairman of the Allen Consulting Group.

5 That evidence included material presented to the Business Symposium on the Economic and Business Implications of the Ageing of the Baby Boomers held on 4 October 2002.

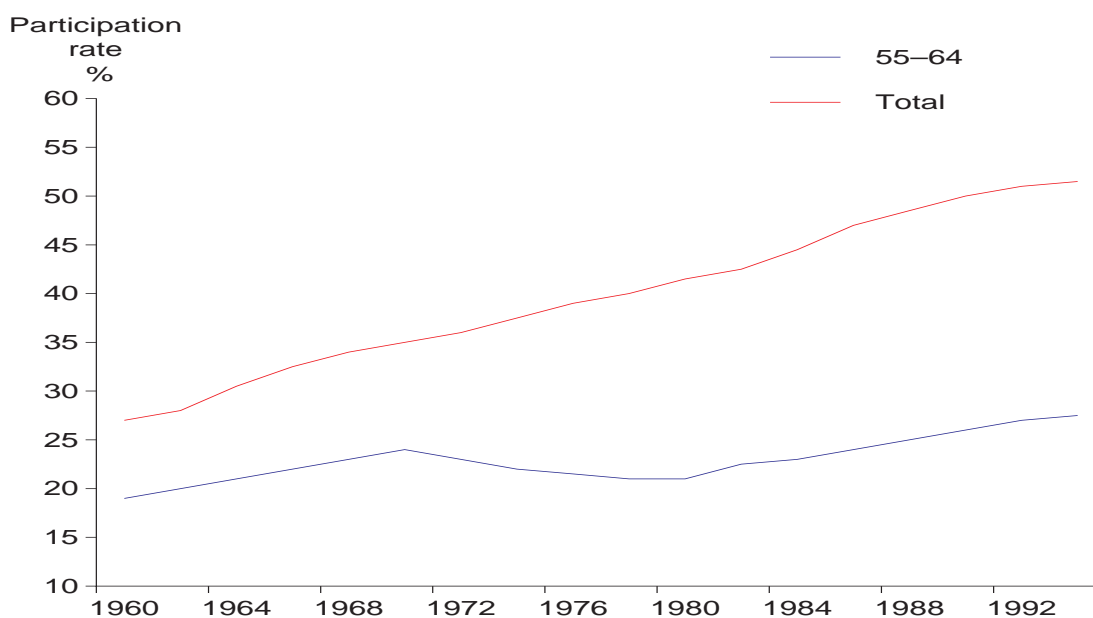
participation rate has increased from a low base. This is shown in Charts 1.2 and 1.3 below.

Chart 1.2: Male labour force participation 1960 - 1996



Source: D. Carey, 'Coping with Population Ageing in Australia', Economics Department Working Papers No. 217, OECD, 1999.

Chart 1.3: Female labour force participation 1960 - 1996

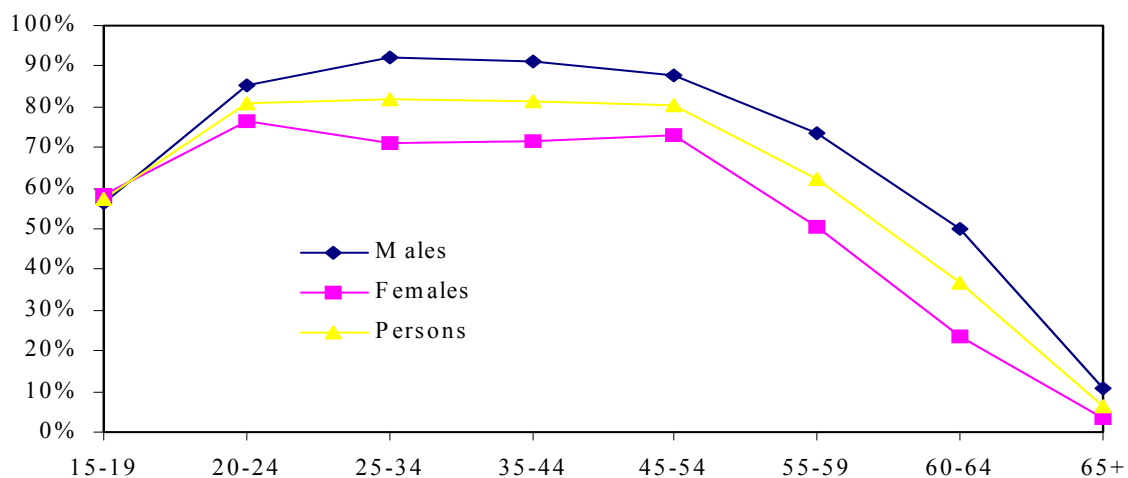


Source: D. Carey, 'Coping with Population Ageing in Australia', Economics Department Working Papers No. 217, OECD, 1999.

1.7 The Committee notes that several parties to this inquiry also highlighted the current low levels of labour force participation amongst mature age workers, especially men:

- a) The WA Department of Education and Training noted that for the 55-64 age cohort, the labour force participation rate for men has been falling over the last two decades, although the rate for women has been rising (from a low base).⁶
- b) The Australian Pensioners' and Superannuants' League Queensland cited research by the Centre for Public Policy at the University of Melbourne entitled *The Transition from Work to Retirement*. That research indicated that the percentage of men in full-time employment aged 55-64 dropped from over 75 per cent in the mid-1970s to just 50 per cent in 2002. Just 33 per cent of men age 60-64 are now in full-time employment.⁷
- c) The Department of Family and Community Services (FaCS) noted that for most people, retirement or withdrawal from the labour force comes earlier than anticipated, with participation rates in 2002 falling from 80.5 per cent for those aged 45-54 to 62.9 per cent for those aged 55-59, and 36.7 per cent for those aged 60-64.⁸ This is shown in Chart 1.4 below.

Chart 1.4: Labour Force Participation Rates, 2002



Source: *Submission 38*, FaCS, p. 7.

1.8 The Department of Employment and Workplace Relations (DEWR) also noted in its written submission to the inquiry the decline in the number of men and women working up to and beyond age 55. DEWR indicated that amongst male

6 *Submission 37*, WA Department of Education and Training, p. 3.

7 *Submission 1*, The Australian Pensioners' and Superannuants' League Queensland Inc, p. 4.

8 *Submission 38*, FaCS, p. 7.

employees, only 73 per cent of those aged 55 worked in ‘traditional jobs’ compared to 83 per cent of those aged 45-54.⁹

International labour force trends

1.9 The Committee notes that the decline in labour force participation of mature age workers in Australia is mirrored in other Organisation for Economic Cooperation and Development (OECD) countries.

1.10 With a few exceptions, the standard age of retirement in public pension systems across the OECD is 65. However, in almost all OECD countries, the average age of retirement for men is now between 60 and 63, although in Italy and France it is below 60.¹⁰ This is shown in Table 1.1 below, which is drawn from the OECD report ‘Increasing Employment: The Role of Later Retirement’.

9 *Submission 29*, DEWR, pp. 1, 7.

10 OECD: ‘Increasing Employment: The Role of Later Retirement’, *OECD Economic Outlook 72*, (OECD, 2002), p. 140.

Table 1.1: Average Effective Retirement Age (Men)

	1970-1975	1980-1985	1990-1995	1994-1999
Australia	63.8	61.1	61.8	62.3
Canada	-	62.6	61.4	62.2
Denmark	-	64.7 ^b	62.3	62.4
Finland	62.0	60.4	58.9	59.8
France	63.5	59.7	59.1	59.3
Greece	-	62.0	62.9	61.7 ^a
Italy	62.3	60.8	57.9	59.3
Japan	70.1	68.4	70.2	69.1
Korea	-	-	70.4	67.1
Netherlands	61.5 ^c	58.7	59.6	61.6 ^a
Norway	67.6 ^d	66.3	63.2	64.2
Poland	-	-	-	60.6
Portugal	65.1 ^f	62.7	64.7	65.3
Spain	64.7 ^d	61.4	60.3	61.1
Sweden	64.7	63.6	62.5	63.3
West Germany	62.8	62.2	60.1	60.5 ^a
United Kingdom	-	62.3 ^e	61.2	62.0
United States	64.2	63.7	63.6	65.1

a 1993-1998

b 1983-1988

c 1971-1976

d 1972-1977

e 1984-1989

f 1974-1979

Source: OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), p. 140.

1.11 The OECD also noted in its report 'Increasing Employment: The Role of Later Retirement' that in a number of countries, particularly in Europe, less than half the male population at age 55 to 64 is currently working. Furthermore, employment of mature age workers has fallen almost everywhere over the past few decades, although this trend appeared to come to a halt in many countries in the second half of the 1990s. This is shown in Table 1.2 below.

Table 1.2: Employment rates of older male workers at age 55-64 as a percentage of the male population aged 55-64^a

	1970 ^b	1980 ^c	1990 ^d	1995	2000
Australia	-	66.6	59.2	55.3	58.5
Austria	-	-	-	42.9	40.2
Belgium	-	47.7	34.3	34.5	35.1
Canada	-	71.3	60.3	53.7	57.7
Czech Republic	-	-	-	51.1	51.7
Denmark	-	63.1	65.6	63.2	61.9
Finland	72.5	55.0	46.3	34.9	43.7
France	74.0	65.3	43.0	38.4	38.5
Germany ^e	78.9	64.1	52.0	48.2	48.2
Greece	-	-	58.4	58.9	55.3
Hungary	-	-	33.3	27.1	33.2
Iceland	-	-	92.6	88.8	94.2
Ireland	82.4	72.3	59.5	59.3	63.0
Italy	47.8	39.0	35.4	44.7	40.9
Japan	84.8	82.2	80.4	80.8	78.4
Korea	-	77.5	76.3	78.8	68.2
Luxembourg	-	37.9	42.9	35.1	37.9
Mexico	-	-	85.1	77.9	79.8
Netherlands	-	60.9	44.2	41.1	50.0
New Zealand	-	-	53.9	62.9	68.3
Norway	82.9	79.5	70.7	70.0	73.1
Poland	-	-	44.3	42.5	36.7
Portugal	-	74.2	65.0	57.7	62.5
Slovak Republic	-	-	-	38.1	35.4
Spain	82.7	71.5	57.2	48.4	55.2
Sweden	84.1	77.5	74.4	64.4	67.8
Switzerland	-	-	85.2	79.0	77.0
Turkey	-	-	58.8	58.4	51.0
United Kingdom	-	62.6	62.4	56.1	59.8
United States	80.7	69.7	65.2	63.6	65.6

a Employment rates for Italy based on male workers aged 60-64 instead of 55-64.

b 1971 for Ireland, 1972 for Norway and Spain.

c 1981 for Ireland, 1983 for Belgium, Denmark and Luxembourg, 1984 for United Kingdom

d 2001 for Canada, Iceland and Mexico, 1992 for Hungary and Poland.

e Western Germany before 1991.

Source: OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), p. 141.

1.12 Given the international trend towards earlier retirement (albeit the trend has perhaps stopped in some countries), the OECD noted that at the same time, people at retirement age across the OECD can expect to live 19-20 years, about 5-6 years longer than 30 years ago. As a consequence, retirees are now drawing on pensions for a much longer period than before.¹¹

11 OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), p. 142.

Chapter Two

The Workforce Experience of Mature Age Workers

Introduction

2.1 This chapter examines current patterns in the transition from work to retirement for Australians in the 55-64 age group. As indicated in the previous chapter, current labour force participation rates for the 55-64 cohort are very low. This chapter examines the reasons for this low rate.

2.2 The evidence before the Committee, based on material provided by FaCS, indicates that the majority of withdrawals from the labour force for the 55-64 cohort are not voluntary, and come prematurely, often because of ill-health, disability, caring responsibilities or involuntary job loss. Furthermore, many of those who subsequently seek another job are unsuccessful.

The workforce experience of people aged 55-64

2.3 In its written submission, FaCS cited a study conducted on its behalf in 2000 by the Wallis Consulting Group. The study was entitled *Workforce Circumstances and Retirement Attitudes of Older Australians*. The study examined the labour market experiences of Australians aged between 45 and 69, and covered people in receipt of an income support payment and those not receiving any payment.

2.4 The findings of the *Workforce Circumstances and Retirement Attitudes of Older Australians* study on the labour force history of persons aged 55-64 are shown in Table 2.1 below.

Table 2.1: Persons aged 55-64, job history status, 2000

Job history	Proportion		
	Men	Women	Persons
Worked in same main job for at least nine years	26.8	13.1	20.1
Last left main job in last nine years	57.6	42.7	50.3
Last left main job ten or more years ago	15.5	41.5	28.2
Have not had job	0.2	2.8	1.5

Source: *Submission 38*, FaCS, p. 8.

2.5 As indicated in Table 2.1, of those persons aged 55-64 in 2000:

- 20.1 per cent had been working in the same main job for at least the past nine years. More men had been working in the same job (26.8 per cent) than women (13.1 per cent);
- 50.3 per cent had last left a main job in the past nine years; and

- 28.2 per cent had last left a main job ten years or more ago. More women (41.5 per cent) fell into this group than men (15.5 per cent).¹

Reasons for leaving a job amongst workers aged 55-64

2.6 Following on from the results listed in Table 2.1 above, the Wallis Consulting Group asked those aged 55-64 who had last left a main job in the last nine years why they had left. The results are summarised in Table 2.2 below.

Table 2.2: Persons aged 55-64 who left jobs in nine years prior to 2000, reason for leaving job

Reason for last leaving a main job	Proportion		
	Men	Women	Persons
Disability/ill-health/caring/stress	26.1	29.8	27.6
Retire/live off investments/income	15.5	16.0	15.7
Involuntary job-related reason	30.0	12.5	22.7
Other job-related reason	20.9	21.0	20.9
Other personal reason	7.6	20.7	13.0

Source: *Submission 38*, FaCS, p. 8.

2.7 Table 2.2 shows that of those 50.3 per cent of people aged 55-64 who left a main job in the nine years prior to 2000:

- 27.6 per cent left because of ill-health/disability, to reduce stress or to care for an elderly or sick relative;
- 22.7 per cent left involuntarily, due to redundancy or dismissal or were otherwise required to leave their job. For men, this was the major single cause of job departure (30.0 per cent), markedly less so for women (12.5 per cent);
- 20.9 per cent left because of other job related reasons, such as the impact of a company restructure, a sale of a business or a desire to move to another job;
- 15.7 per cent left to retire or live off their investments and/or other income support arrangements; and
- 13.0 per cent left for personal reasons, such as a decision to take a break, family reasons or to move to a new location. This factor was more significant for women (20.7 per cent) than for men (7.6 per cent).

2.8 To summarise these findings, of those 50.3 per cent of people aged 55-64 who left main jobs in the nine years prior to 2000, over half left because of ill-health/disability/caring/stress (27.6 per cent) or left involuntarily (22.7 per cent).²

2.9 The Committee examines some of these major reasons for leaving the workforce in greater detail below.

1 *Submission 38*, FaCS, pp. 7-8.

2 *Submission 38*, FaCS, p. 8.

Ill-health and disability

2.10 In its written submission to the inquiry, the Association of Superannuation Funds of Australia (ASFA) noted that one in nine Australians aged 50-64 is on a disability support pension (DSP). ASFA suggested that one explanation for this may be that the DSP is too lavish, however at only \$11,480 a year, ASFA argued that this is unlikely. Rather, ASFA argued that the high uptake of the DSP may be to save face:

There certainly is a core group of individuals who are unable to work because of disability and never would regardless of the level of public income assistance. However, surveys of the retirement intentions and practices of individuals indicate that in some instances loss of job is followed by loss of face and confidence. It is better from the viewpoint of activity testing and means testing to be disabled rather than unemployed. Socially, it is better to be unable to work rather than being unwanted as an employee. This means that some older persons with potential attachment to the paid labour force can spiral downward into a DSP application.³

2.11 ASFA further speculated that the government may intend to tighten eligibility criteria applying to receipt of the DSP. However, ASFA suggested that creating more jobs suitable for mature age workers would be more likely to reduce the number of DSP recipients.⁴

Involuntary retirement

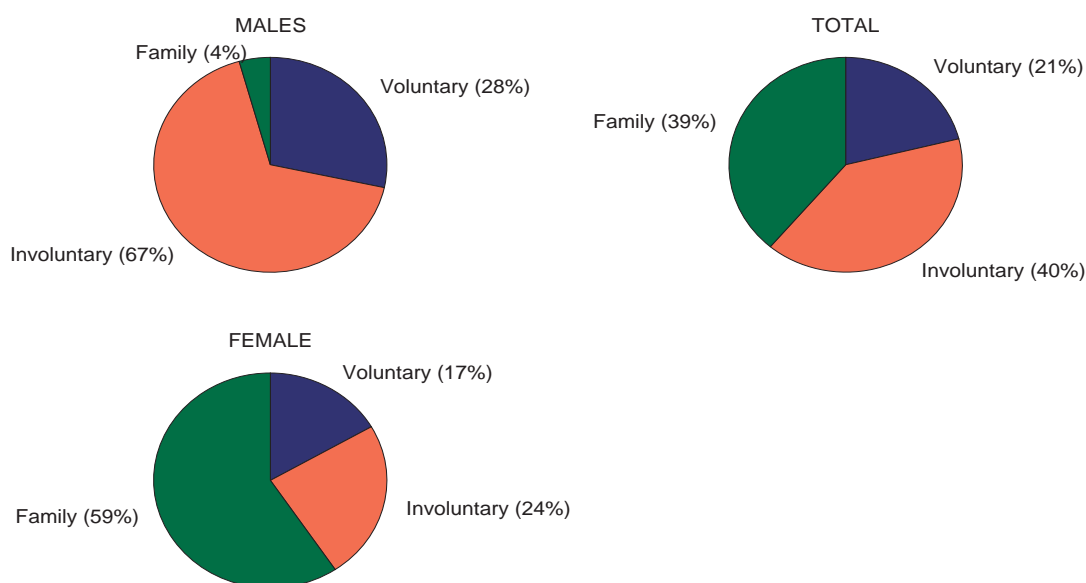
2.12 In its paper *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, the NSW Committee on Ageing argued that a majority of mature age workers leave the workforce unwillingly through retrenchment/redundancy.⁵

2.13 The Committee notes similar evidence presented by Dr FitzGerald to the Business Symposium on the Economic and Business Implications of the Ageing of the Baby Boomers held on 4 October 2002. Dr FitzGerald presented a chart showing that much of the fall in male participation noted above has been involuntary. This is reproduced in Chart 2.1 below.

3 *Submission 33*, ASFA, p. 7.

4 *Submission 33*, ASFA, p. 7.

5 *Submission 2*, NSW Committee on Ageing, Attachment A.

Chart 2.1: Reasons for retirement

Source: ABS, *Retirement and Retirement Intentions*, Catalogue No. 6238.0, 1997.

2.14 Finally, the Committee also received anecdotal evidence on involuntary retirement during hearings. For example, in the hearing on 8 May 2003, Ms Reeve from the COTA National Seniors Partnership noted that many people call themselves retired because it is more socially acceptable than announcing that they are unemployed. And yet, she argued that a great many people are retired who would love to be employed.⁶

Retiring for personal reasons or in order to live off investments

2.15 The Committee notes evidence that while a large number of mature age workers are forced out of the labour force early through redundancy or ill-health/disability, a number of mature age workers retire voluntarily for personal reasons or because they believe they have sufficient savings. As noted in Table 2.2 above, FaCS indicated that the figure is 15.7 per cent.

2.16 While a number of parties to the inquiry argued that it is quite common for Australians to want to retire early, it was suggested that often they cannot afford to retire.

2.17 For example, in its written submission, the Australian Bankers' Association (ABA) argued that too many Australians want to retire at the earliest age possible (that is, age 55 for most) with their Superannuation Guarantee (SG) superannuation, but fail to recognise that these savings alone will not provide enough money for them to

6 *Committee Hansard*, 8 May 2003, p. 171.

maintain an adequate standard of living in their extended retirement.⁷ This position was reiterated by Mr Rice representing the ABA in evidence on 5 May 2003:

So you would be trying to change behaviour away from this expectation that we can all retire at 55 and play golf and we have enough money to do that, when most do not.⁸

2.18 Similarly, Mr Negline from the Institute of Chartered Accountants in Australia (ICA) noted to the Committee in evidence on 5 May 2003 that it is quite common for Australians to want to retire early, and perhaps pursue more enjoyable pursuits. As stated by Mr Negline:

A lot of people are planning—by accident or maybe even by deliberate design—to be in retirement longer than they have worked. Those people, unfortunately, unless they are prepared to save very heavily, are just not going to have enough money to have their desired retirement income when they finally decide not to work forever.⁹

2.19 That said, Mr Negline noted that a recent phenomenon observed in both the USA and Australia is of people who had retired returning to work because they did not have sufficient assets and income in retirement.¹⁰

The likelihood of finding new work for workers aged 55-64

2.20 The Wallis Consulting Group also asked those aged 55-64 who had last left a main job in the last nine years and were currently not in the labour force if they had wanted to continue working or had tried to find new work. The results are summarised in Table 2.3 below.

7 *Submission 41, ABA, p. 5.*

8 *Committee Hansard, 5 May 2003, p. 34.*

9 *Committee Hansard, 5 May 2003, p. 94*

10 *Committee Hansard, 5 May 2003, pp. 88, 91.*

Table 2.3: Persons aged 55-64 not in the labour force who wanted to continue working when they last left a main job or had looked for work since leaving the labour force, 2000

Reason for last leaving a main job	Proportion		
	Men	Women	Persons
Disability/ill-health/caring/stress	29.3	21.3	25.6
Retire/live off investments/income	52.1	47.9	50.9
Involuntary job-related reason	47.9	23.8*	33.5*
Other job-related reason	44.5**	21.8	27.9
Other personal reason	17.2	16.9	17.1

* A small number of cases were excluded from analysis due to missing data on relevant variables.

** Sampling variability too high for most practical purposes.

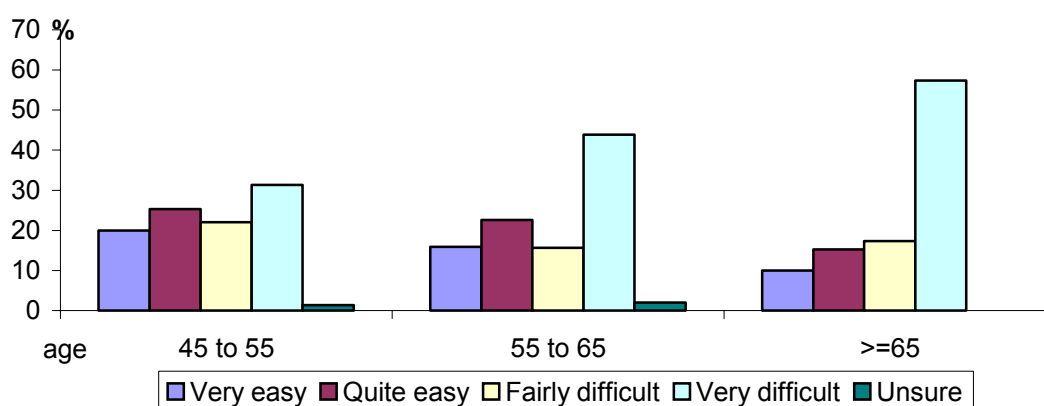
Source: *Submission 48*, FaCS Supplementary, p. 9.

2.21 Table 2.3 shows that of persons aged 55-64 not in the labour force in 2000:

- 50.9 per cent of those who had left a job voluntarily claimed to have sought a new job. A higher percentage of men (52.1 per cent) did so than women (47.9 per cent);
- 33.5 per cent of those who had left a job involuntarily claimed to have sought a new job. A higher percentage of men (47.9 per cent) did so than women (23.8 per cent);
- 27.9 per cent of those who had left a job because of job related reasons – the impact of a company restructure, a sale of a business or a desire to move to another job – had sought a new job; and
- relatively few people who left a job due to disability, illness, to reduce stress or to care for an elderly or sick relative sought a new job (around 17 per cent of both men and women).¹¹

2.22 The Wallis Consulting Group also examined the difficulties that people aged 45-55, 55-65 and over 65 faced in finding new work. The results are shown in Chart 2.2 below.

11 *Submission 48*, FaCS supplementary, pp. 8-9.

Chart 2.2: Difficulty of re-entering workforce rises with age

Source: *Submission 38, FaCS, p. 9.*

2.23 Chart 2.2 shows that:

- Around 20 per cent of people aged 45-55 said they found it fairly difficult and over 30 per cent found it very difficult to re-enter the workforce. That is, over half of the population within the 45-55 age group found it difficult to re-enter the workforce.
- Around 15 per cent of people aged 55-65 said they found it fairly difficult and over 40 per cent found it very difficult to re-enter the workforce. That is, almost 60 per cent of the population within the 55-65 age group found it difficult to re-enter the workforce.

2.24 The Committee also notes research on high duration unemployment reported by Professor Peetz in a paper entitled *Retrenchment and Labour Market Disadvantage: The Role of Age, Job Tenure and Casual Employment*. This paper was presented to the Association of Industrial Relations Academics of Australia and New Zealand, 7 February 2003.

2.25 Professor Peetz analysed data on unemployment duration by age from the labour force survey. This is shown in Table 2.4 below.

Table 2.4: Proportion of Unemployed Persons with High Duration Unemployment and Incidence of High Duration Unemployment, by Age (June quarters 1997, 2001, 2002)

Proportion of unemployed persons with high duration unemployment	1997	2001	2002
Aged 55 and over	67%	57%	57%
Aged 54 and under	44%	34%	33%
Incidence of high duration unemployment – ratio of aged 55+ to 54 and under	1.5	1.7	1.8

Source: ABS, *Labour Force, Australia*, Cat No 6203.0, various months. Cited in D.Peetz, 'Retrenchment and Labour Market Disadvantage: The Role of Age, Job Tenure and Casual Employment', Paper presented to the Association of Industrial Relations Academics of Australia and New Zealand, 7 February 2003, p. 2.

2.26 In commenting on the findings in Table 2.4, Professor Peetz observed that in June 1997, 67 per cent of unemployed persons aged 55 and over were in high duration unemployment, compared with only 44 per cent of the unemployed aged 54 and under. By 2002, the proportion of the unemployed persons in high duration unemployment in both groups had fallen, but the fall for the aged 55 and over (67 per cent to 57 per cent) was proportionally smaller than the fall for the aged 54 and under (44 per cent to 33 per cent).¹²

2.27 Professor Peetz also argued that once unemployed, mature age workers find it extremely difficult to regain work. In support, Professor Peetz cited data that in 1997, 65 per cent of unemployed persons aged 55 and over had been unemployed for 26 weeks or more, compared to 37 per cent of unemployed 24 to 34 year olds.¹³ In addition, the Australian Bureau of Statistics (ABS) supplementary survey on successful and unsuccessful job search experiences reveals that jobseekers in older age groups are least likely to be successful in finding a job (ABS Cat no 6245.0, July 2000).¹⁴

2.28 Finally, Professor Peetz also noted that where mature age workers are retrenched and find new position, those positions are often less secure, less well paid, and more likely to be casual and part-time. As shown in Table 2.5 below, retrenched employees with long prior job tenure are more likely than other retrenched employees to shift from full-time to part-time work.

Table 2.5: Proportion of permanent employees who changed from full-time to part-time status, by duration in job from which retrenched or made redundant (persons aged 18 – 64)

Duration in job from which retrenched or made redundant	Proportion of permanent employees who changed from full-time to part-time status	
	1997	2001
Under 12 months	11.0	12.5
Between 1 and 5 years	13.5	12.0
5 years and over	19.4	17.4
All	14.9	14.3

Source: ABS Cat No 6266.0. Unpublished data. Cited in D.Peetz, 'Retrenchment and Labour Market Disadvantage: The Role of Age, Job Tenure and Casual Employment', Paper presented to the Association of Industrial Relations Academics of Australia and New Zealand, 7 February 2003, p. 5.

12 D.Peetz, 'Retrenchment and Labour Market Disadvantage: The Role of Age, Job Tenure and Casual Employment', Paper presented to the Association of Industrial Relations Academics of Australia and New Zealand, 7 February 2003, p. 2

13 D.Peetz, 'Retrenchment and Labour Market Disadvantage: The Role of Age, Job Tenure and Casual Employment', p. 2.

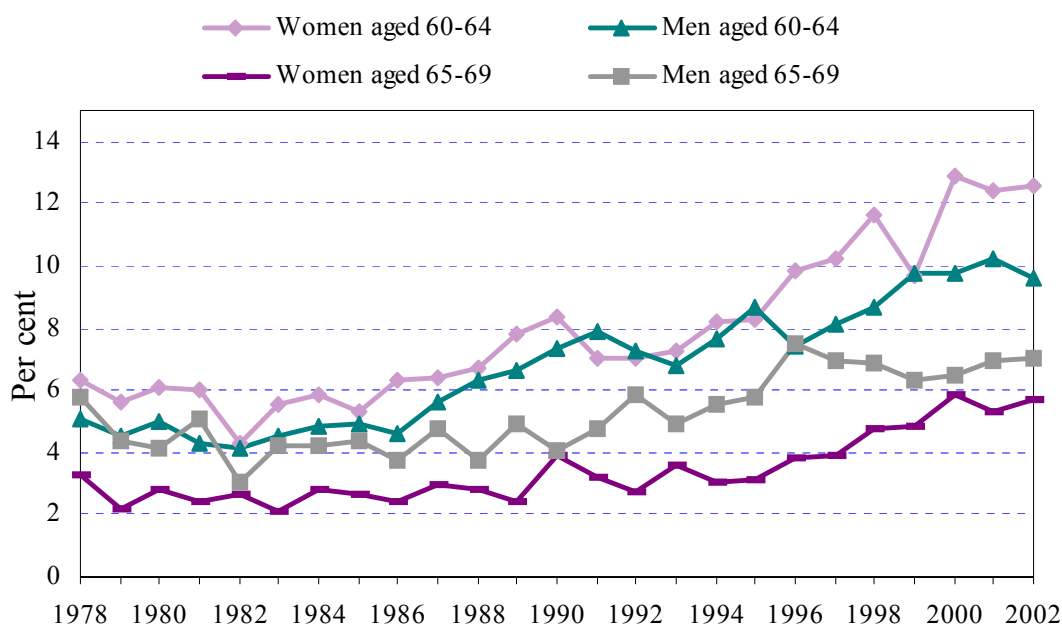
14 D.Peetz, 'Retrenchment and Labour Market Disadvantage: The Role of Age, Job Tenure and Casual Employment', p. 3.

Encouraging trends in the employment of workers aged 55-64

2.29 In its written submission, FaCS noted that notwithstanding the relatively low workforce participation rates of mature age people, ABS labour force data indicate that there are some encouraging trends emerging. The proportion of people aged 55-64 in employment has picked up over the last five years, reflecting growth in part-time employment. Since 1978:

- there has been an increase in part-time employment for both men and women aged 60-69, but particularly for women aged 60-64. This is shown in Chart 2.3 below.
- there has been a slight increase in full-time employment for women aged 60-64. This is shown in Chart 2.4 below.¹⁵

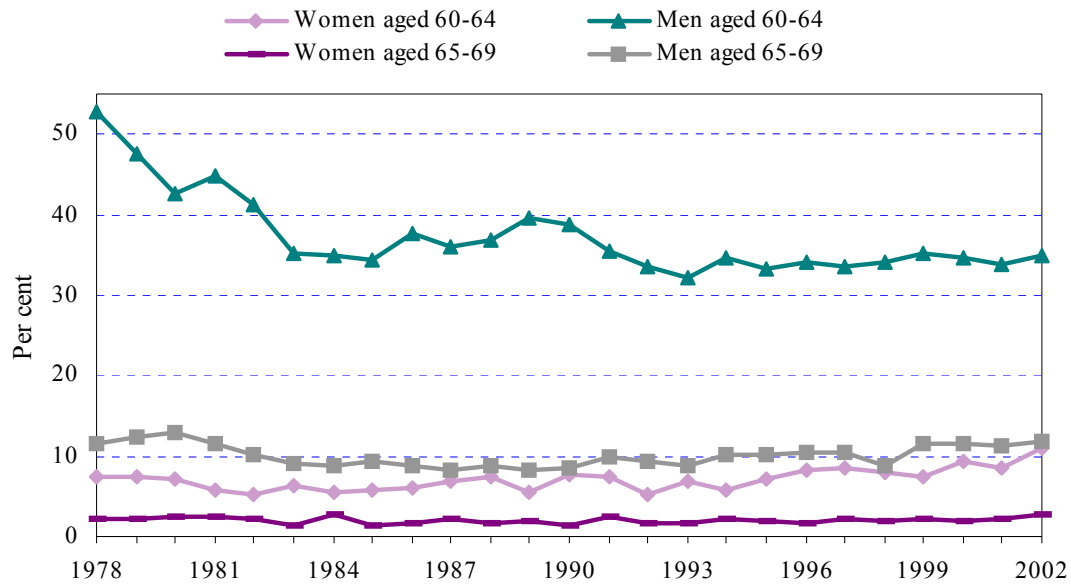
Chart 2.3: Proportion of older persons employed part-time by sex and selected age group, Australia 1978-2002*



* ABS Labour Force data cubes, Selected Summary Tables, Australia, Monthly (Catalogue No. 6291.0.40.001).

Source: *Submission 38*, FaCS, p. 11.

Chart 2.4: Proportion of older persons employed full-time by sex and selected age group, Australia 1978-2002*



*Uses August data points only

Source: *Submission 38*, FaCS, p. 11.

Chapter Three

Employer Attitudes Towards Mature Age Workers

Introduction

3.1 This chapter examines age retirement legislation in Australia. Only in Tasmania and the Northern Territory does legislation allow discrimination on the grounds of age. The chapter also examines evidence that despite legislation largely prohibiting compulsory retirement of mature age employees, some employers nevertheless discriminate against mature age employees.

Age retirement legislation in Australia

3.2 Only a selected group of employees can be compulsorily retired in Australia. Tasmania and the Northern Territory are the only states or territories that allow discrimination on the grounds of age. In addition, there are some professions where the public seems to demand compulsory retirement for reasons of safety such as airline pilots.

3.3 However, in its written submission, the WA Department of Community Development noted legislation at the state level which enforce a notion of fixed retirement, although this is contrary to a labour system based on ability and merit and not age. The Department highlighted:

- a) The *WA Workers Compensation and Rehabilitation Act 1981*, which treats workers under the age of 65 more favourably than those aged 65 or over.
- b) The *WA Judges Retirement Act 1937*, the *District Court of Western Australia Act 1967* and other acts that require the judiciary to retire at age 65.¹

3.4 In its written submission, DEWR provided a summary of federal and state legislation on compulsory age retirement. This is repeated below.

Federal

3.5 Mandatory retirement has been abolished by legislation. The *Abolition of Compulsory Age Retirement (Statutory Officeholders) Act 2001* contains a schedule with a listing of a number of amendments to Commonwealth acts which contained

1 *Submission 22*, WA Department of Community Development, pp. 1,3. See also *Submission 45*, ACCI, p. 5.

provisions prescribing a compulsory retirement age (usually 65). The Act came into effect on 29 October 2001.

3.6 The government removed the compulsory retirement age for the Australian Public Service (APS) when it enacted the *Public Service Act 1999*. This Act does not provide for a maximum retirement age for APS employees. The Act replaced the *Public Service Act 1922*, which provided maximum retirement ages – usually age 65 – for various classes of APS employees. The *Public Service Act 1999* presently provides for a minimum retirement age of 55 which may be varied by regulation.

New South Wales

3.7 Under section 49ZE of the *Anti-Discrimination Act 1977*, it is against the law to compulsorily retire an employee on the ground of the employee's age. It applies to all employees in New South Wales whether or not employed under an award or agreement. An employee can still choose to stop working at any age, but in general, it must be their choice not their employer's choice when they retire.

3.8 The only people employed in NSW that can be compulsorily retired are:

- people employed under a federal award that specifically provides for a compulsory retirement age;
- judges and magistrates;
- state police officers; and
- an officer, not appointed for a fixed term, who can only be removed from office by either or both Houses of Parliament.

Victoria

3.9 The *Equal Opportunity Act 1995* prohibits compulsory retirement, with the exception of people working as judicial officers and public sector workers (those covered by the *Police Regulation Act 1958*, *Teaching Service Act 1981*, *Public Sector Management Act 1982* and *Health Services Act 1988*).

Queensland

3.10 Queensland's *Anti-Discrimination Act 1991*, s.15, prescribes that a person must not discriminate in dismissing a worker (dismissing explicitly includes forced retirement). In s.106A it states that:

- (1) This Act has no effect on the imposition of a compulsory retirement age on:
 - a) a Supreme Court judge; or
 - b) a District Court judge; or
 - c) a magistrate; or
 - d) a member of the Land Court; or

- e) the President of the Industrial Court; or
- f) an industrial commissioner; or
- g) a fire officer within the meaning of the *Fire and Rescue Service Act 1990*; or
- h) the chief executive of Queensland Railways; or
- i) an employee of Queensland Railways; or
- j) a police officer; or
- k) a staff member within the meaning of Statute No. 14 (staff tenure) made under the *University of Queensland Act 1965* while provisions under the Statute about compulsory retirement age are in force; or
- l) a director of a public company or subsidiary of a public company; or
- m) another person prescribed by regulation.

South Australia

3.11 Under the *Equal Opportunity Act 1994*, s.85B, it is unlawful to discriminate against an employee on the ground of age by dismissing an employee unless there is a genuine occupational requirement that a person be a certain age.

Western Australia

3.12 The *Equal Opportunity Act 1984* prohibits compulsory retirement. It states that it is unlawful for a person to discriminate on the grounds of age by dismissing an employee. There are exceptions to this provision, namely that the person can be offered participation in a voluntary phased-in retirement scheme, voluntary retirement scheme, retirement incentives scheme, severance scheme or other like scheme. Exceptions to this provision are:

- a) Judges within the meaning of the *Judges' Retirement Act 1937*;
- b) Masters within the meaning of the *Supreme Court Act 1935*;
- c) District Court Judges within the meaning of the *District Court of Western Australia Act 1969*;
- d) Family Court Judges or acting Family Court Judges within the meaning of the *Family Court Act 1997*;
- e) Judges or magistrates within the meaning of the *Children's Court of Western Australia Act 1988*;
- f) Stipendiary magistrates within the meaning of the *Stipendiary Magistrates Act 1957*;

- g) Presidents or Commissioners within the meaning of the *Industrial Relations Act 1979*;
- h) Judges within the meaning of the *Liquor Licensing Act 1988*; and
- i) Solicitor-Generals or acting Solicitor-Generals within the meaning of the *Solicitor-General Act 1969*.

Tasmania

3.13 Tasmania's *Anti-Discrimination Act 1991* says that a person must not discriminate on the grounds of age, although s.35 states that a person may discriminate against another person on the grounds of age in relation to voluntary or compulsory retirement.

Australian Capital Territory

3.14 Section 10 of the ACT *Discrimination Act 1991* states that it is unlawful for an employer to discriminate against an employee on the grounds of age by dismissing the employee. Exceptions include people employed for the purpose of theatre, photography, art and other similar occupations where a person of a certain age is required for reasons of authenticity. Additionally, it is lawful to discriminate on the grounds of age when an employee is providing a welfare service which can be more effectively provided by someone of a certain age.

Northern Territory

3.15 Section 36 of the *Anti-Discrimination Act 1992* states that a person may discriminate on the grounds of age by imposing a standard age for commencement of work or a standard retirement age.

Employer discrimination against mature age employees

3.16 Despite the evidence noted above that only a selected group of employees can be compulsorily retired in Australia, the Committee was nevertheless presented with evidence during the inquiry that employers prefer employing younger workers over mature age workers.

3.17 In its written submission to the inquiry, ASFA cited research conducted by Drake International in 1999 of 500 executives and human resource managers which showed that mature age workers were least preferred for recruitment and most preferred for retrenchment. Drake found that the preferred age group when recruiting employees is 31-40, while the preferred age group when retrenching employees is 50 and over.² This is shown in Charts 3.1 and 3.2 below.

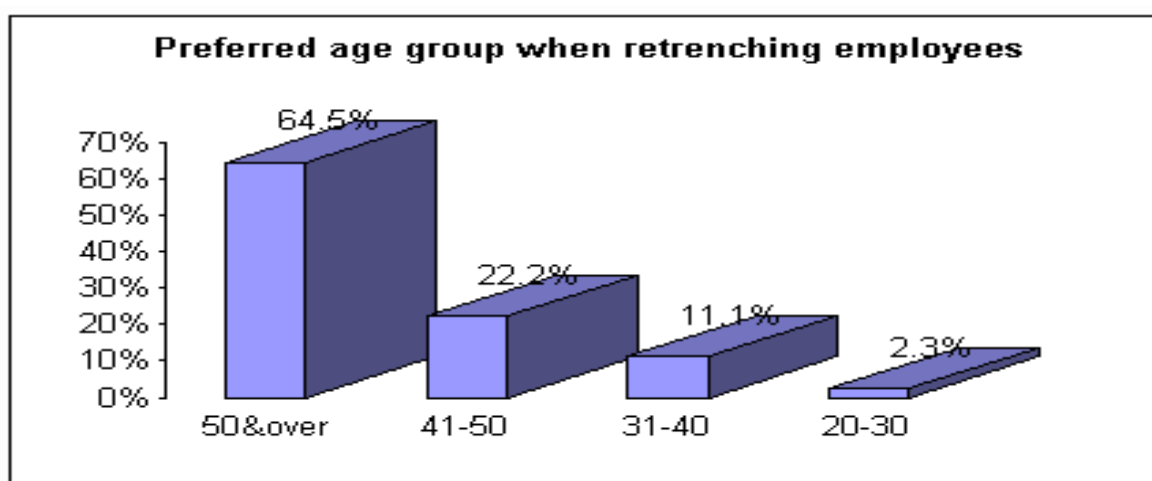
2 *Submission 33, ASFA, pp. 8-9.*

Chart 3.1: Preferred age groups when recruiting and selecting employees



Source: Drake Personnel Limited, 1999.

Chart 3.2: Preferred age groups when retrenching employees



Source: Drake Personnel Limited, 1999.

3.18 This evidence was reiterated by Dr Linklater from the NSW Committee on Ageing in the Committee's public hearing on 5 May 2003:

I guess the flip side of this that we found is that, when a company wishes to downsize or cut its staff, the attitudinal thing comes out in that they feel it is more acceptable, culturally and socially, to keep the younger people on; they have got growing families. They feel that the older people have greater access to savings and superannuation and are going to retire soon anyway. So you have that attitudinal, cultural thing appearing there as well.³

3.19 The Australian Council of Trade Unions (ACTU) and Professor Lowther also noted a study by the Australian Centre for Industrial Relations Research and Training

3 *Committee Hansard*, 5 May 2003, p. 84.

(ACCIRT), which found that mature age workers are perceived by employers on two levels:

- On one level they are perceived as being more experienced and mature, having a better work ethic, being more committed to their jobs, and being more reliable and loyal (evidenced by their lower rates of absenteeism and turnover).
- However, they can also be perceived as inflexible and rigid, with fewer abilities (physical and psychological), unreceptive to new technology, more resistant to organisational change, lacking appropriate skills, difficult to retrain, and lacking energy and enthusiasm.⁴

3.20 The ACTU also noted a report published by the Consultative Committee on Ageing which found that it was “fairly clear” that employers used downsizing as a way of eliminating mature age workers. ACCIRT agreed, stating that industry restructuring has been seen as a way of ridding the workforce of mature age workers by targeting them for redundancy.⁵

3.21 The Committee also notes the research of Professor Peetz, who cited considerable evidence that older people face disadvantage in the labour market. Professor Peetz cited a Morgan and Banks survey from December 1997 which indicated that Australian companies regarded the ideal age for employees as between 25 and 35, and that almost a third of bosses believed the workers over 40 to be less flexible in their work practices.⁶ In addition, Professor Peetz cited a range of studies showing that despite the existence of laws prohibiting discrimination on the basis of age, employers are reluctant to take on older employees.⁷

3.22 These concerns were also reiterated by Ms Fogg from the NSW Committee on Ageing in relation to recruitment agencies during the hearing on 5 May 2003. She observed:

There is certainly anecdotal evidence that recruitment agencies are some of the worst offenders of disguised age discrimination against mature workers. What is required is a change in attitudes about the performance and potential of mature age workers, their ability to retrain and the value of their existing skills.⁸

3.23 However, on a more positive note, the Committee notes the evidence of Mr Free from the NSW Committee on Ageing that Westpac recently sought to recruit

4 ACCIRT, *Productivity of Mature and Mature age workers: Employers' Attitudes and Experiences*, University of Sydney, 1996.

5 S.Encel & H.Studencki, *Job Search Experience of Mature age workers* Consultative Committee on Ageing, Sydney, 1995

6 D.Peetz, 'Retrenchment and Labour Market Disadvantage: The Role of Age, Job Tenure and Casual Employment', p. 1.

7 See VandenHeuvel, 1999; O'Brien, 2000; Athanasou, Pithers & Petoumenos, 1995.

8 *Committee Hansard*, 5 May 2003, p. 80.

people in the 55-plus age bracket specifically to deal with people of that age group who were looking at safe ways to invest lump sums and other funds for retirement.⁹

Federal age discrimination legislation

3.24 During the federal election in 2002, the Government made a commitment to introduce federal legislation to prohibit age discrimination. In December 2002, the Attorney-General's Department released an information paper on the proposals for Commonwealth age discrimination reform. The paper invited comments by 12 February 2003.

3.25 In the executive summary to the paper, the Government indicated that its proposed age discrimination legislation would prohibit discrimination based on age in a range of areas of public life:

- in employment;
- in the provision of goods, services or facilities;
- in access to premises, places or transport;
- in the administration of Commonwealth laws and programs;
- in education;
- in the provision of accommodation;
- in dealings with land; and
- in requests for information on which age discrimination might be based.

3.26 However, the Government also indicated that there would be some exemptions from the prohibition on age discrimination, which would be specified in the legislation, including:

- a) Positive discrimination: This would allow favourable treatment for people of a particular age group.
- b) Exemptions to comply with other laws: It was proposed that compliance with state and territory laws would over-ride the Commonwealth prohibition on age discrimination, subject to a power to prescribe exceptions to that exemption in particular cases. For example, this would mean that state laws about the minimum age for driving would not be affected by the proposed Commonwealth age discrimination legislation. It was also proposed that compliance with age-based provisions in specified Commonwealth laws would not be affected by the age discrimination legislation.
- c) Exemptions for employment: It was proposed that it would be permissible to discriminate on the basis of age where the

9 *Committee Hansard*, 5 May 2003, p. 85.

discrimination was based on the inherent requirements of the job. As the Government announced at the time of its commitment to age discrimination legislation, youth wages would also continue to be permitted. It was also proposed to allow discrimination in employment in order to comply with industrial awards or workplace agreements.

- d) Exemptions for goods and services: Some exemptions were proposed that related to the provision of goods, services or facilities. One exemption in this area was for discrimination in superannuation that arises from compliance with age criteria under the Commonwealth superannuation regime. This exemption would recognise that retirement income policy is necessarily age-based to ensure that funds are accrued during working life for use in retirement.¹⁰

3.27 The Committee notes that in its written submission to this inquiry, the COTA National Seniors Partnership welcomed the Government's commitment to introducing federal age discrimination legislation, but indicated that it has expressed a number of concerns to the Attorney-General.

3.28 Most notable amongst these concerns, the COTA National Seniors Partnership argued that by exempting much Commonwealth legislation from the provisions of age discrimination legislation, the Commonwealth provides a negative role model to the community. Accordingly, the COTA National Seniors Partnership argued that Commonwealth legislation and regulations should be reviewed and amended to eliminate their discriminatory provisions.

3.29 The full details of the COTA National Seniors Partnership's objections to the proposed age discrimination legislation are reproduced at **Appendix Five**.¹¹

3.30 The Committee also notes the submission from the Australian Chamber of Commerce and Industry (ACCI) in which it opposed the introduction of federal age discrimination legislation, on the basis that employers should be able to make a judgment about the abilities of individuals in their workplace. ACCI made a number of points, including:

- There is no significant evidence of Australian industry applying policies or practices that improperly discriminate against people on the grounds of age such as to warrant a new national regulatory regime;
- In any event, there are multiple existing anti-age discrimination laws in the states and territories and in federal workplace relations legislation which are more than sufficient to provide regulatory controls and redress in particular cases; and

10 Attorney-General's Department, 'Proposals for Commonwealth Age Discrimination Legislation', Information Paper, December 2002.

11 *Submission 31*, COTA National Seniors Partnership, pp. 13-14.

- If there is to be a national age discrimination law, this should be in substitution for existing state and territory laws, and not in addition. Employers should not be exposed to an additional layer of regulation on an already regulated topic, creating multiple and different rights and obligations, confusion and complexity.¹²

12 *Submission 45, ACCI, pp. 13-14.*

Chapter Four

The Productivity of Mature Age Workers

Introduction

4.1 This chapter examines the productivity of mature age workers. While the previous chapters identified that mature age workers face high levels of discrimination in the workforce, many parties to the inquiry argued that mature age workers are just as productive as their younger colleagues.

Research studies on productivity

4.2 In its written submission to the inquiry, DEWR examined three age-related factors that might be expected to influence the productivity of mature age workers relative to younger workers:

- a) Education and training: DEWR cited research by the National Institute of Labour Studies (NILS) in 2001 which found that mature age workers are far less likely to have post-school qualifications and are more likely to be working in low skilled blue-collar jobs.¹
- b) Health, mental and physical ability: DEWR cited a study by Warr that there is no significant overall difference between the job performance of older and younger workers. In almost every case, the variations within an age group far exceed the average differences between age groups.² DEWR cited some evidence that the ability to perform constant physical work declines with age and that this can affect the employability of mature age workers in some industries (e.g. construction) and occupations (e.g. heavy labouring). However, jobs of this nature can usually be undertaken differently and any lack of

1 *Submission 29*, DEWR, p. 3.

2 See P.Warr, 'Age and Job Performance', in J.Snel and R.Cremer (eds.), *Work and Ageing: A European Perspective*, London: Taylor and Francis, 1994 (reported in Human Resources Development Canada, 1999).

physical strength can be compensated for by skill and experience-related qualities.³

- c) Absenteeism and accidents: DEWR cited research on aged-related absenteeism and accidents which indicates that unavoidable absence, including sickness, injury and associated costs, rise sharply from 50 years of age in Australia,⁴ but that avoidable absences from work decline with age.⁵

4.3 Based on these factors, DEWR concluded that an ageing workforce is not necessarily linked to lower productivity.⁶ This was reiterated by Mr Matheson representing DEWR in the hearing on 15 May 2003.⁷

4.4 The Committee notes that various other parties also examined these three age-related factors in their evidence. This is discussed in greater detail below.

Education and Training

4.5 In its written submission, the WA Department of Community Development cited a 2002 Productivity Commission staff research paper which found that younger workers have on average greater educational attainments than mature age workers, but that mature age workers have the greater level of workforce experience.⁸ The department expanded on this point as follows:

- a) Younger workers have an advantage over mature age workers when it comes to speed and physical strength, and they generally start their working life with a higher average level of formal education than mature age workers did; however

3 See R.Pickersgill, C.Briggs, J.Kitay, S.O'Keefe, and A.Gillezeau, 'Productivity of Mature Age Workers: Employers' Attitudes and Experiences', *ACCIRT Monograph*, No 13, University of Sydney, 1996 (reported in Department of Employment, Workplace Relations and Small Business, *Submission to the House of Representatives Standing Committee on Employment, Education and Workplace Relations: Inquiry into Issues Specific to Workers over 45 years of Age Seeking Employment or Establishing a Business Following Unemployment*, Canberra, August 1999).

4 See L.Bennington and P.Tharenou, 'Mature Age Workers: Myths, Evidence and Implications for Australian Managers', *Asia Pacific Journal of Human Resources*, Vol 34, No 3, Australian Human Resources Institute, Sydney, 1996.

5 *Submission 29*, DEWR, p. 4.

6 *Submission 29*, DEWR, p. 1.

7 *Committee Hansard*, 15 May 2003, pp. 277-278.

8 P.Barnes & S.Kennard, *Skills and Australia's Productivity Surge*, Productivity Commission Staff Research Paper, Canberra, 2002, p. xvi.

- b) Mature age workers have greater experience (both work-related and general), corporate knowledge and more mature judgment. They also take less time off than younger workers do.⁹

4.6 In his written submission, Professor Lowther cited research evidence which indicates that many older adults possess the ability to gain new cognitive skills or to enhance skills obtained earlier in life. Professor Lowther suggested that employers tend to put more value on the mechanics of the cognitive system (ie processing speed, reasoning and working memory capacity), which tend to decline slightly in mature age workers. However, he argued that any such decline is offset by mature workers' improved capacity to apply their knowledge through acculturation, education and training resulting from their longer job and life experiences.¹⁰

4.7 The ACTU also noted the study by ACCIRT cited earlier which found that where workplaces adopt a positive approach to integrating mature age workers' skills and experience, those workplaces have become more productive.¹¹ However, the ACTU also cited research produced for the NSW Office on Ageing by the University of Queensland which showed that employers often offered mature age workers lower levels of training and retraining and lower promotion rates.¹²

Health, mental and physical ability

4.8 In his written submission, Professor Lowther argued that an active 65 year old has the same memory and learning skills as an active 25 year old. In support, Professor Lowther cited a 1986 study which found that mature age workers' 'output level, accuracy and steadiness of work output' were positively related to their increasing age.¹³

4.9 Professor Lowther also cited the Seattle Longitudinal Study in the USA from 1998 which tracked 18,000 people over 36 years to test verbal ability, spatial reasoning, numeric ability and perceptual speed. The study found that individuals peak in their inductive reasoning and spatial orientation in their 50s, and in their verbal ability and verbal memory in their 60s. However, the study also pointed to overlap in these areas between younger and mature age workers, right up to workers in their 80s.¹⁴

9 *Submission 22*, WA Department of Community Development, p. 1.

10 *Submission 4*, Professor Lowther, p. 2.

11 ACCIRT, *Productivity of Mature and Mature age workers: Employers' Attitudes and Experiences*, University of Sydney, 1996.

12 *Submission 24*, ACTU, p. 2.

13 *Submission 4*, Professor Lowther, p. 2.

14 *Submission 4*, Professor Lowther, p. 2

4.10 Similarly, studies by Rix¹⁵ and Shea¹⁶ cited by the COTA National Seniors Partnership found that differences in productivity are much greater within age groups than between age groups, and that changes in physical ability, cognitive performance and personality have little effect on productivity except in the most physically demanding tasks.¹⁷ A Canadian study cited by ACCI made similar findings:

The productivity of mature age workers remains relatively constant. The findings indicate that variations in productivity within an age group are more significant than variations between age groups. The data show that ability to read and write improves with practice and deteriorates if not used.¹⁸

4.11 Finally, the ACCIRT study cited by the ACTU found that there is no noticeable loss of productivity as workers age, except amongst mature age workers in demanding physical work. As a result, the ACTU argued that differences in productivity between workers are individual, and there should be no age-based generalisations about ability.¹⁹

Absenteeism and accidents

4.12 In his written submission, Professor Lowther noted that mature age workers have lower levels of absenteeism, and stay in a position longer:

- Workers aged between 55-69 stay in a job longer than younger colleagues. For example a study showed that in any one year there is a 25 per cent greater turnover of jobs in the 20-24 age group compared with the 55-69 age group;
- A World Health Organisation study showed that attendance records are better for the mature age group; and
- A 1988 ABS data showed that only 14 per cent of employees absent on sick leave were in the 55+ age group.²⁰

4.13 The COTA National Seniors Partnership also cited a study by Access Economics which found that mature age workers:

- Are highly productive;
- Possess experience and wisdom;

15 S.E.Rix, 'Mature Age Workers', in E.Vierck(ed), *Choices and Challenges: An Older Adult Reference Series*, (Santa Barbara CA: ABC-CLIO Inc, 1990).

16 G.F.Shea, *Managing Older Employees*, (San Francisco; Jossey-Bass, 1991), p. 153.

17 Cited in *Submission 31*, COTA National Seniors Partnership, pp. 5-6.

18 Human Resource Development, *Canada Mature Age Workers in the Labour Market: Employment Challenges*, cited in *Submission 45*, ACCI, pp. 3-4.

19 *Submission 24*, ACTU, p. 2.

20 *Submission 4*, Professor Lowther, p. 3.

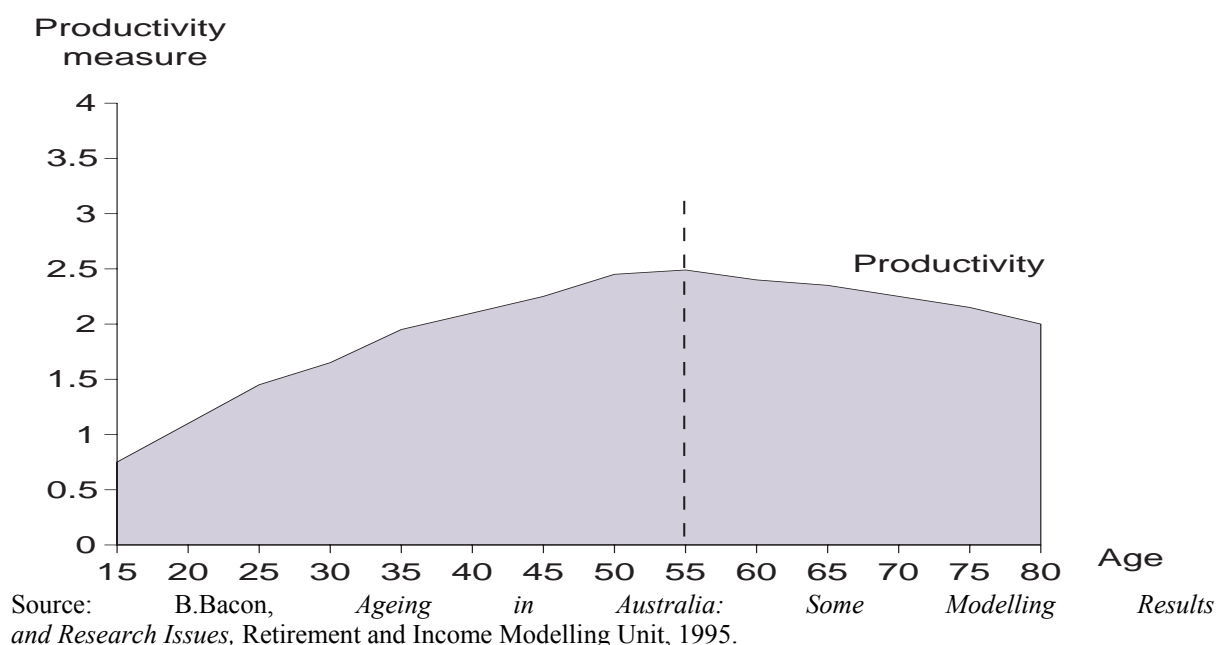
- Produce above average quality work;
- Are loyal to their employer;
- Have a good work ethic;
- Have lower turnover rates; and
- Have lower absenteeism levels.²¹

4.14 Finally, the WA Department of Education and Training argued that productivity declines little with age. The department noted that research shows that turnover rates fall and worker loyalty, work ethic and reliability increase with age.²²

Research by Dr FitzGerald

4.15 The Committee also notes research presented by Dr FitzGerald to the Committee during its recent inquiry into superannuation and standards of living in retirement. Dr FitzGerald argued that mature age workers are inherently productive, albeit in different ways to younger workers. Dr FitzGerald also presented a chart of productivity by age, reproduced in Chart 4.1 below.

Chart 4.1: Productivity by Age



Anecdotal evidence on productivity

4.16 As noted above, there is no objective evidence that productivity decreases with age in most occupations, with a few exceptions such as labouring positions where physical capabilities limit productivity.

21 Access Economics, *Population Ageing and the Economy*, Commonwealth of Australia, 2001, pp. 6-10.

22 *Submission 37*, WA Department of Education and Training, p. 1.

4.17 A number of parties making submissions to the inquiry also argued anecdotally that the productivity of workers engaged in hard physical duties deteriorates with age, but that the productivity of workers in non-physical labour positions continues to increase up until retirement due to their knowledge and experience:

- The Australian Retired Persons' Association (South Australia) (ARPA(SA)) noted that a judge can work productively to age 75 or beyond, whereas a labourer may become less effective by age 55 or thereabouts.²³
- The Association of Independent Retirees – Whyalla and Districts Branch noted that some of its members had been engaged in heavy physical work throughout their working lives, and had reached their peak performance fairly early in life (around 40).²⁴
- The COTA National Seniors Partnership argued that mature age workers provide mentoring and support to younger workers, are often the bearers of corporate memory, and provide a role model of reliability and diligence to younger employees.²⁵
- ACCI noted that mature age workers generally have more experience and other skills which add to their employability and productivity. These attributes include strategic thinking, prudence, a sense of responsibility, fewer absences and loyalty to the employer.²⁶

4.18 The Committee also notes that in hearings, Ms Rubinstein from the ACTU argued that many workers, particularly blue-collar workers, are physically worn out by the time they reach retirement age.²⁷

23 *Submission 13*, ARPA(SA), p. 2.

24 *Submission 20*, The Association of Independent Retirees – Whyalla and Districts Branch, p. 3.

25 *Submission 31*, COTA National Seniors Partnership, p. 5.

26 *Submission 45*, ACCI, p. 3.

27 *Committee Hansard*, 8 May 2003, p. 116.

Chapter Five

The Impact of Involuntary Retirement on Mature Age Workers

Introduction

5.1 This chapter examines the impact of unplanned and often early retirement on mature age workers. Although not specifically raised in the Committee's terms of reference, nevertheless the Committee believes that it should address this matter. In doing so, the Committee draws heavily on the research conducted by the NSW Committee on Ageing in its report, *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*.

The impact of joblessness on individuals

5.2 In its report *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, the NSW Committee on Ageing noted a study on the impact of unemployment on mature workers, their families and lifestyles by Lobo and Parker.¹ Lobo and Parker found that the effects of job loss and unemployment on mature age workers tend to be staged, with initial reactions of anger, shock and betrayal often followed by a deeper sense of loss, rejection and failure.²

5.3 Lobo and Parker also made a number of observations on the job search process:

- a) Where workers immediately seek re-employment, the more intensive the job search and more frequent the rejection of applications, the more intense the feelings of personal inadequacy and failure;
- b) Over time, the pattern of application and failure compounds to an extent that many people reduce the intensity of their job search and eventually withdraw entirely as discouraged job seekers;
- c) The longer a person looks for work, the less effective the search tends to become, as a result of both the person's loss of contact with the

1 F.Lobo & S.Parker, *Late Career Unemployment: Impacts on Self, Family and Lifestyles*, HM Leisure Planning Pty Ltd, Williamstown, 1996.

2 See NSW Committee on Ageing, *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, 2002, p. 55.

world of work and of his or her diminishing effectiveness in managing time.³

5.4 Beyond the job search process, Lobo and Parker also found that over time, the sense of identity of unemployed people can be quite seriously damaged – they lose the status associated with work, the sense of making a contribution, the contact with colleagues, and outside friends and networks.

5.5 In turn, unemployed people often experience depression, anxiety and general distress, together with low self esteem and confidence, and a reduction in well-being. Indeed, people with a stronger personal commitment to having a job and who undertake more intense job search activity are likely to experience worse mental health during unemployment. After many months of a fruitless job search, depression changes in character, and is often associated with feelings of lethargy, resignation and withdrawal.⁴

5.6 The Committee notes that issues of depression and loss of confidence amongst the jobless were also raised by Dr Linklater from the NSW Committee on Ageing in the hearing on 5 May 2003. Dr Linklater suggested that many people who are retrenched often indicate that they have taken early retirement, because they find it psychologically devastating to be faced with retrenchment at their age.⁵

The impact of joblessness on finances

5.7 In its report *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, the NSW Committee on Ageing noted that for most people, job loss or unplanned early retirement have serious financial effects. For many, long-term unemployment carries the high probability of rapidly diminishing economic circumstances and prospects, often ending in long-term dependence on social security. This contrasts bleakly with what was expected to be a period of family consolidation as children became independent and consolidate their own economic security, perhaps with assistance from their parents.

5.8 The NSW Committee on Ageing further noted that unplanned early retirement often means that household expenditure is reduced to necessities and major household service bills or household repayments become a major problem. Expenditure on entertainment and leisure becomes a luxury.⁶

3 Cited in NSW Committee on Ageing, *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, 2002, p. 55.

4 Cited in NSW Committee on Ageing, *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, 2002, pp. 55-56.

5 *Committee Hansard*, 5 May 2003, p. 78.

6 Cited in NSW Committee on Ageing, *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, 2002, p. 56.

The impact of joblessness on families

5.9 The NSW Committee on Ageing noted in its report *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers* that the experience of unemployment may dramatically change the distribution of domestic work and power within the home:

- a) For men, the family reaction can range from one of sympathetic support through to disdain and being seen as less of a real man. The psychological effect of unemployment on mature age men can be transferred to their domestic situation, with the man often feeling less adequate. Anecdotal evidence suggests a high level of family breakdown in these families.
- b) For women, the effects can be more diverse. Some women, although by no means all, may be less likely to perceive their role and status in the family and society based on their employment. For those women who are employed but whose partners are not, the role reversal can be very stressful. For single women, the transition can be especially stressful as they are less likely to have significant superannuation savings or other savings, or to receive redundancy packages.

5.10 The NSW Committee on Ageing further noted that the longer the period of joblessness and the more profound the economic, social, psychological and physical impact, the greater direct and indirect burden placed on immediate family members and the wider society.

5.11 In this regard, the Committee notes that during the hearings, it was provided with evidence of the effects of retrenchment on individual families. The Committee notes the example of a mature age male who was retrenched prior to the age of 50, but was unable to find new work. That event had a very significant effect on the individual's self-esteem and the family's structure and balance. In the particular case cited, the individual involved lost an important part of his identity and was uncertain of his position in society.

Chapter Six

The Case for Change

Introduction

6.1 This chapter examines the economic arguments for encouraging a more progressive transition from work to retirement in Australia. Quite apart from the personal and family impacts of early and unplanned retirement noted in the previous chapter, a more progressive transition from work to retirement in Australia would help redress the gap in funding of retirement and the resultant burden on the government, and improve Australia's economic growth and efficiency.

6.2 The Committee notes, however, evidence that the current under-employment of mature age workers and pressure on the government's retirement income support system may be addressed in the future simply by labour force pressure for mature age workers to remain in the workforce as the absolute numbers of workers declines.

The gap in retirement funding

6.3 During the inquiry, various parties argued that a more progressive transition from work to retirement in Australia would go some way to addressing the current gap in private funding of retirement. The fundamental determinants of retirement incomes are the capacity for workers to earn income and save, together with the length of time that retirees spend out of the workforce.

6.4 In this regard, the ABA argued in its written submission that if superannuation fund members could be encouraged to defer retirement beyond 65, there would be many fiscal advantages including longer time for contributions to accumulate, a reduced period of consumption in retirement and additional contributions to society through taxes and expenditure. For example, if a male aged 65 on average weekly earning was prepared (and able) to defer retirement for five years, the government would generate savings of nearly \$100,000 under existing rules.¹

6.5 In its report *Superannuation and standards of living in retirement*, the Committee noted a high degree of consensus that the desirable income target for a retiree is a replacement rate of 70-80 per cent of pre-retirement expenditure (which equates to approximately 60-65 per cent of gross pre-retirement income), a target which would have to be higher for those on less than average weekly earnings, and lower for those on high incomes.

1 *Submission 41, ABA, p. 7.*

6.6 At the same time, however, the Committee noted in *Superannuation and standards of living in retirement* that notwithstanding the substantial increase in superannuation coverage as the superannuation system in Australia matures, the majority of older Australians will still rely on the age pension for a significant part of their income.

6.7 The Committee notes in particular that most baby boomers have not had the benefit of a full working life under the compulsory superannuation system and, other savings aside, that their incomes in retirement are likely to fall well short of the consensus target level of 70-80 per cent of pre-retirement expenditure (approximately 60-65 per cent of gross pre-retirement income).

6.8 In its written submission, FaCS indicated that by 2050, with a fully mature superannuation system, it is expected that 75 per cent of people aged 65 or over will still receive the age pension. Of those receiving the age pension, only one-third will receive the full rate. Currently, two-thirds of people receiving the age pension receive the full rate.²

6.9 Table 6.1 below shows projected Commonwealth spending on payments to individuals, including age and service pensions, from 2001-02 to 2041-42. The table shows a large increase in expenditure on the age and service pension which reflects the ageing of the population. This is despite the expected decline in the eligibility for the age and service pension in the future due to the maturing of the superannuation system.³

Table 6.1: Projected Commonwealth spending on payments to individuals (per cent of GDP)

	2001-02	2006-07	2011-12	2021-22	2031-32	2041-42
Age and service pension	2.93	2.83	2.90	3.64	4.28	4.59
Disability support pension	0.91	0.72	0.79	0.84	0.85	0.86
Parenting payment (single)	0.59	0.60	0.61	0.61	0.61	0.60
Unemployment allowances	0.85	0.78	0.71	0.59	0.49	0.41
Family tax benefit	1.57	1.34	1.22	1.08	1.01	0.93
Total	6.85	6.26	6.23	6.76	7.24	7.38

Source: Commonwealth Treasury, *Intergenerational Report 2002-03*, p. 44.

6.10 The Committee reiterates its observation from its earlier report into *Superannuation and standards of living in retirement* that the ageing of the population, together with the declining participation of mature age workers in the labour force, will place some strain on the superannuation system.

6.11 However, the Committee notes that despite some strain on the superannuation system, there is no funding crisis in the pension system, as is presently the case in

2 *Committee Hansard*, 15 May 2003, p. 272.

3 Commonwealth Treasury, *Intergenerational Report 2002-03*, p. 44.

some European countries, most of which guarantee a non means-tested pension at a fixed proportion of a retiree's salary, in some cases as high as 70 per cent. In Australia, the basic pension is comparatively very low, and income and means-tested, making it considerably less expensive to maintain than its European counterparts.

Economic growth and productivity

6.12 The Committee also notes evidence to the inquiry that more progressive transition from work to retirement in Australia will contribute to maintaining and increasing economic growth and productivity in Australia, increasing gross domestic product and therefore the capacity of government to fund retirement incomes and services in the future.⁴

6.13 Through the early withdrawal of mature age workers from the labour force, Australia is losing individuals from the workforce with considerable skills and knowledge in all industries and occupations, with associated implications for Australia's productivity and income and social security systems.⁵ With lower productivity, the gap between GDP growth and CPI growth narrow, as a consequence of which, CPI safety net payments become a higher proportion of GDP. This point was made by a number of parties to the inquiry. For example:

- the WA Department of Education and Training argued that economic growth is driven by both rising productivity and growth in the workforce.⁶
- The NSW Committee on Ageing noted that low participation by mature age workers in the labour force entails lost skills and experience for industry, and less tax revenue and increased social security payments for government.⁷

6.14 The Committee also notes evidence from DEWR that in the Prime Minister's speech of November 2002, *Strategic Leadership for Australia – Policy Directions in a Complex World*, the Prime Minister highlighted the need to ensure:

that the skills and experience of older Australians are fully utilised and that the social safety net is focused on those in need, yet does not deter participation and self-reliance.⁸

A self-correcting problem?

6.15 During the inquiry, the Committee was presented with evidence that the current under-employment of mature age workers, and the pressure on the retirement incomes system, may be addressed in the future simply by labour force pressure for

4 *Committee Hansard*, 15 May 2003, p. 270.

5 See *Committee Hansard*, 5 May 2003, p. 93.

6 *Submission 37*, WA Department of Education and Training, p. 1.

7 *Submission 2*, NSW Committee on Ageing, Attachment A.

8 *Submission 29*, DEWR, p. 22

mature age workers to remain in the workforce as the absolute numbers of workers declines. This pressure is likely to be determined by a number of factors, including fertility rates, immigration patterns and Australia's ongoing population policy, the state of the economy, and ongoing trends in labour productivity.⁹

6.16 This position was expressed most clearly by Dr Kates from ACCI during the hearing on 15 May 2003. Dr Kates argued that in the future, as the number of people of what is currently considered to be working age declines, businesses will seek out people with talents and skills in their 60s and 70s to fill positions. Dr Kates continued:

What will, in fact, happen is that businesses will recruit mature age workers and the demographic of certain jobs will change so that those you think would be taken on by young persons will often be switched to older persons. The more physical kinds of work may be taken up by younger people and the less physical, office type work will be taken up by people who have traditionally worked in offices but will continue to work there longer. The demand side by employers will make a huge difference as to how this demographic problem is handled.¹⁰

6.17 Indeed, the Committee notes anecdotal evidence from Dr Parkinson of ARPA(SA) that mature age workers are already taking on jobs previously once taken by younger workers:

I can give an example of what is happening. I notice that in the last six months, instead of my free suburban newspaper being delivered by a boy on a bike, it is now delivered by a lady who is probably in her late 50s or early 60s walking around. I think it is the beginning of that change. I find that the young people of my grandchildren's generation who are now 14 or 15 are now finding different sorts of things. I have a 14-year-old grandson who works after school in a computer repair and software provider's business. His friends tend to be doing things a bit different from going to McDonald's and so on.¹¹

The need for flexible employment and phased retirement

6.18 Given the decline in labour force participation of mature age workers in Australia, the Committee notes that in its written submission, the Council on the Ageing (COTA) National Seniors Partnership cited a recent report by BIS Shrapnel released on 21 January 2002 highlighting the need for a coordinated response to Australia's ageing population. The study found that ageing of the workforce will halt the growth of the workforce by the late 2020s, requiring the enhancing of the skills of

9 See *Committee Hansard*, 5 May 2003, pp. 81-82.

10 *Committee Hansard*, 15 May 2003, p. 247.

11 *Committee Hansard*, 9 May 2003, p. 184.

mature age workers and the opening up of options for flexible employment and phased retirement.¹²

6.19 The Committee acknowledges that there are likely to be labour force pressures in the future which encourage mature age workers to remain in the workforce. However, the Committee also believes that the Government should look to encourage options for flexible employment and phased retirement in Australia. This is addressed in the following part of this report.

12 *Submission 31, COTA National Seniors Partnership, p. 7.*

PART II

ENCOURAGING PROGRESSIVE TRANSITION FROM WORK TO RETIREMENT IN AUSTRALIA

Part II of this report looks at means to encourage progressive transition from work to retirement in Australia. It includes an examination of part-time work and labour market programs, the possibility of using superannuation to finance retraining, possible changes to the income support arrangement for retirees and eligibility for the age pension.

Chapter Seven

Part-time Work and Labour Market Programs

Introduction

7.1 This chapter initially examines the desirability of promoting part-time work as a stepping-stone for mature age workers in a gradual transition from work to retirement. In this regard, the Committee notes the example provided by some public sector employment policies for mature age workers, and also by the Australian Workers' Union's (AWU's) "Smart Hours" campaign.

7.2 Subsequently, the chapter also examines the range of government labour force programs and employment services designed to facilitate and encourage the participation of mature age workers in the workforce. It also considers the operation of the private sector 'Workingconnections' job matching service.

Part-time work for mature age workers

The benefits of part-time work

7.3 During the conduct of the inquiry, a number of parties argued that part-time work can be an integral step in the transition from work to retirement for mature age workers.

7.4 For example, in its written submission, ACCI cited a study of OECD countries by Delsen, Lei, Genevieve and Reday-Mulvey (eds). The study noted a large number of arguments in favour of increasing the availability of part-time work to mature age workers:

- a) Part-time work reduces work hours according to a graduated and agreed arrangement and constitutes a way of avoiding the 'pension shock';
- b) Part-time work provides a means of achieving greater flexibility and individualisation of working life by distributing work and free time more evenly over the latter part of the occupational cycle;
- c) Part-time work provides a 'soft' form of personnel reduction, a means of reducing growing exclusion of older employees from the labour force and, for management, cost-effective opportunities to retrain people with valuable corporate knowledge and precious technical skills; and

- d) Part-time work reduces retirement and unemployment costs not only by reducing the relative volume of benefits but also by lengthening the contribution period and by increasing the contribution base.¹

7.5 Similarly, the ABA indicated its support for the present three pillar structure of the Australian retirement system, but argued that there is scope for developing a fourth pillar, namely part-time work. The ABA argued that this would lead to a more effective amalgam of government provided benefits and superannuation and other savings to encourage greater workforce participation by persons aged over 55. The ABA also cited a number of examples where society could tap into the experience of mature age workers:

- a) Schools struggle to attract and retain mature age teachers (especially males), yet there are many skilled and experienced elderly people who could teach part-time (eg for one term a year or for two days a week);
- b) Manual workers often have difficulties as they get older due to physical problems. This should not preclude them from working within their industry in a role that is less physically demanding but still requires experience. It might be possible for elderly employees to be engaged in call centers and other communication outlets where their expertise and experience would be invaluable.²

The availability of part-time work for mature age workers

7.6 In its written submission, DEWR noted an increase in the availability of part-time work in awards and agreements:

- a) Awards: DEWR noted that award restrictions on the availability of part-time work have been removed through changes brought in by section 89A(4) of the *Workplace Relations Act 1996*. Section 89A(4) states that awards cannot contain provisions limiting the number or proportion of employees who can be employed in a particular type of employment or the setting of maximum or minimum hours of work for regular part-time employees. DEWR indicated that such provisions are being removed from awards during the award simplification process, which is largely complete – of 2,155 current awards (as at 28 February 2003) only 276 (13 per cent) still needed to be simplified. DEWR suggested that the availability of regular part-time work has been further enhanced by a 1997 change to the *Workplace Relations Act* obliging the Australian Industrial Relations Commission to ensure, where appropriate, that awards contain

1 Cited in *Submission 45*, ACCI, p. 7.

2 *Submission 41*, ABA, p. 2.

provisions enabling the employment of regular part-time employees (s.143(1C)(b)).

- b) Agreements: DEWR noted that there has been a steady increase in the proportion of federal certified agreements with provisions concerning part-time work. The DEWR Workplace Agreements Database shows that in 1997 some 15 per cent of agreements (covering 43 per cent of agreement-covered employees) had provisions relating to part-time work. In contrast, some 35 per cent of all current agreements (covering 72 per cent of all agreement-covered employees) have provisions on part-time work. Furthermore, DEWR noted that only a fairly small proportion of agreements totally replace the relevant award, therefore employees covered by an agreement which does not provide for part-time employment may still have access to such work through their award.³

7.7 In evidence to the Committee on 15 May 2003, Mr Matheson from DEWR commented that the increasing availability and take up of part-time work largely reflects the preference, particularly of women, to balance work and family and lifestyle considerations.⁴

7.8 DEWR expanded on this point in its response to questions on notice, arguing that most part-time workers are satisfied with the hours they are working. DEWR cited data from the ABS *Labour Force Survey* that showed that, in May 2003, almost three-quarters of part-time workers were satisfied with the hours they were currently working. Just over a quarter of part-time workers (25.7 per cent) would have preferred more hours, but only 9.5 per cent of part-time workers were available and looking for more part-time hours or full-time work.⁵

7.9 However, despite an increase in the availability of part-time work in awards and agreements, the Committee notes evidence that the available part-time positions may not be suitable for mature age workers.

7.10 In its written submission, the WA Department of Education and Training noted research it has conducted into the changing nature of the workplace, and its implications for mature age workers. It noted that most part-time jobs created in recent years have tended to be transient and unsuitable for mature age workers:

- a) Over the 6-year period to 2002, 54 per cent of all jobs growth in WA was in part-time jobs in service industries;
- b) These part-time jobs were more likely to be offered to the 'more vulnerable segments of the labour market' – women, young people

3 *Submission 29*, DEWR, pp. 14-15.

4 *Committee Hansard*, 15 May 2003, pp. 282, 285-286.

5 DEWR response to questions on notice, 1 July 2003.

and migrants – and offered less job security, and lower pay and conditions;

- c) There is evidence that service industries, particularly the retail sector, offer fewer formal training opportunities for their workers.⁶

7.11 Similarly, the Institute of Actuaries of Australia (IAA) argued in its written submission that while there are plenty of opportunities for part-time work, many part-time positions are of a piecework nature or are highly intensive, where younger and more active workers tend to be favoured.⁷

7.12 The Committee also notes the following case study provided by Dr Parkinson of ARPA(SA) in the hearing on 8 May 2003 on the difficulty a member of ARPA(SA) encountered in obtaining part-time work:

If I can give an example, one of our members, with whom I had a long conversation in preparing for this hearing, is a former senior police officer who for a number of reasons took retirement at the age of 59. He is very tense about the fact that within the police force there is a whole list of unsolved murders in this state and they are not being dealt with, simply because the resources are not there to review the cases. He would desperately like to go back, three days a week, and sit there and sift through the evidence of all those murder cases—put a new set of eyes over them—and put his findings back to the operational people. He has made that suggestion but, unfortunately, the way the force is structured, it is not possible for them to re-employ him in a position that would allow him to do that for three days a week.⁸

7.13 Dr Parkinson further submitted that there is a culture in Australia against part-time work, and that many employers regard part-time workers as less valuable than full-time workers. However, Dr Parkinson argued that from his experience in running a small business, part-time workers are generally of greater value relative to their salary than full-time workers.⁹

7.14 In this regard, the Committee wishes to note an interesting point raised by Mr McArthur from the Association of Independent Retirees – Whyalla and Districts Branch in the hearing on 9 May 2003.

7.15 Mr McArthur suggested that many people have reached the top of their profession by the time they are nearing retirement age, and that many would like to take a step back at work and occupy a lower position for a few years before retiring fully. However, Mr McArthur, who cited his own experience as a school principal,

6 *Submission 37*, WA Department of Education and Training, p. 2.

7 *Submission 47*, IAA, p. 12.

8 *Committee Hansard*, 9 May 2003, p. 182.

9 *Committee Hansard*, 9 May 2003, p. 182.

argued that in many instances, social pressures prevent mature age workers from such a scaling-down of work commitments.

7.16 Accordingly, Mr McArthur suggested that the transition from work to retirement does not necessarily demand continuous enhancement of skills. It may also require a shift in public attitudes to support individuals taking a backward step in an organisation and undertaking part-time work.¹⁰

Promoting part-time work for mature age workers

7.17 Given the arguments in favour of part-time work for mature age workers, the Committee notes recommendations to promote the availability of part-time work for mature age workers.

7.18 In its written submission, the ABA made a number of recommendations that could promote the greater availability of part-time work for mature age workers:

- a) Employers could consider identifying positions which should be kept available for older employees and used for job-sharing or part-time employment;
- b) In appropriate industries, employers could use “work from home” arrangements to encourage men and women, especially with family responsibilities, to remain in the workforce;
- c) The government could provide tax incentives to employers to ensure that older employees are given opportunities for retraining so that they can stay in the workforce longer; and
- d) State governments could reduce or remove payroll tax on remuneration for older employees.

7.19 The Committee also notes the progressive employment policies for part-time workers being implemented by public sector agencies, and being pursued by the AWU through its “Smart Hours” campaign. These examples are discussed below.

Public sector employment policies

7.20 In June 2002, the Queensland Department of Industrial Relations (DIR) released its *Workforce demographics toolkit: Framework and strategies for an ageing workforce*. The toolkit is designed to encourage and assist Queensland public sector agencies to facilitate progressive transition from work to retirement for public service employees. Suggested strategies cover a range of flexible work practices, including part-time employment and job sharing.

10 *Committee Hansard*, 9 May 2003, pp. 202-205.

7.21 The Queensland DIR also intends to develop proposals for the effective implementation of phased retirement incentive options in Queensland public service agencies. This could include financial incentives which assist employees manage the impact of superannuation and taxation on their pre and post-retirement incomes – subject to a cost-benefit analysis, an examination of relevant legislation and Government approval.¹¹

7.22 The Queensland DIR also lists a number of family friendly measures which could be used to benefit mature age workers:

- a) Flexible starting and finishing times.
- b) Banked time to allow extra paid time off.
- c) Permanent part-time positions.
- d) Job-sharing where two or more employees make a voluntary arrangement. Job sharing arrangements can lead to lower absenteeism, as one employee can cover for the other if he or she is ill or on leave.
- e) Telecommuting to allow an employee to work from home. In many cases telecommuting improves productivity, as employees are able to complete tasks without distractions.
- f) Purchased leave, such as the 48/52 system which allows employees to negotiate an extra four weeks of unpaid leave per year, but without imposing an extra financial burden on the employer.¹²

7.23 The Queensland Department of Families also noted in its written submission that it is gathering information on succession planning within the department to ensure the passing on of knowledge and experience by employees nearing retirement. One option being explored by the department is for officers to ‘ease out’ of the workforce gradually. However, for many officers, this is not an attractive financial option as it would have a significant impact on their final superannuation payment (due to the lower salary on exit).¹³

The AWU’s “Smart Hours” campaign

7.24 In its submission, the AWU noted that at its biennial National Conference in 2003, the union adopted its so-called “Smart Hours” campaign. Under the “Smart Hours” proposal, an employee (aged over 50 with 10 years service) wishing to retire must give 12 months notice in order to commence a four staged retirement plan:

11 *Submission 23*, Queensland DIR, pp. 2-3.

12 *Submission 23*, Queensland DIR, pp. 4-5.

13 *Submission 9*, Queensland Department of Families, p. 1.

- a) First 3 months the employee trains his or her replacement;
- b) Second 3 months no more night shifts;
- c) Third 3 months the employee works Monday to Friday; and
- d) Final 3 months the employee enrolls in training programs relevant to their interest, and they get retirement and financial advice.

7.25 In its submission, the AWU indicated that this campaign is in response to the AWU's experience that too often workers approaching the end of their working life suffer a tumultuous transition from work to retirement. The AWU stated its belief that workers doing shift work or working long hours need time to adapt before retiring. Accordingly, the AWU is seeking to put a clause in every work agreement to meet the above priorities.¹⁴

Government labour force programs

7.26 In its written submission, DEWR indicated that it has a number of labour force programs and employment services designed to encourage and facilitate the participation of mature age workers in the workforce. These include Job Network services, the Active Participation Model, and Australians Working Together – an initiative to support mature age employment. These programs are examined below.¹⁵

Job Network

7.27 Job Network is a national network of around 200 private, community and government organisations responsible for finding jobs for unemployed people, particularly the long-term unemployed. Job Network is designed to provide flexible assistance tailored to the individual job seeker. Just under 20 per cent of all commencements in Job Network are of mature age.

7.28 Job Network members can meet employer demands for skilled labour in a number of ways. By listing job vacancies on JobSearch (www.jobsearch.gov.au), as well as searching their own job seeker registers, Job Network members may be able to locate job seekers who already possess the required skills or experience. In addition, intensive assistance providers may choose to address shortages of candidates with lower level skills through the provision of training to their clients. The payment structure for intensive assistance encourages major upgrading of skills by recognising educational outcomes.

7.29 However, consistent with public employment services in other industrialised countries, DEWR noted in its written submission that Job Network largely services the less-skilled segment of the Australian jobs market. Job Network, therefore, is not

14 *Submission 35*, AWU, p. 3.

15 *Submission 29*, DEWR, pp. 11-13.

able to directly address shortages in highly skilled or professional vocations, or to fill jobs requiring extensive training or formal qualifications.¹⁶

7.30 This point was raised by the NSW Committee on Ageing in its report *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*. It noted that mature age job seekers are in fact under represented amongst people using Job Network services, and amongst people having success using Job Network services, although the employment outcomes of the network for mature age workers are improving.¹⁷

7.31 Similarly, Workingconnections noted that the government's employment support mainly reaches people who do not come from a high-earning, professional background. As a result, the training available to them is often too basic. As stated by Ms Johnston in the hearing on 8 May 2003:

There is an awful lot of training done that gets nowhere. People come onto my database, we ask for their software skills and they say, 'I've got MYOB.' They have done three months MYOB training at a TAFE course or something, but it is totally useless out in the workplace because they have had no business experience with it. A lot of training is done because it fills the boxes, but it does not actually relate to the practical experience that makes people employable.¹⁸

The Active Participation Model

7.32 DEWR indicated in its written submission that from July 2003, the Active Participation Model (APM), provided under the new Job Network Service contract, will provide even more help to those most in need:

- a) Those who are most disadvantaged in the labour market will receive intensive support services from the date they are unemployed.¹⁹
- b) A single provider will work with each job seeker, whereas previously job seekers would have to register with a number of providers. In addition, job seekers will be given an account which will enable them to purchase a wider range of services together with approximately \$800, which can be used for taxi or bus fares to help them find work.²⁰

16 *Submission 29*, DEWR, p. 19

17 NSW Committee on Ageing, *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*, p. 94.

18 *Committee Hansard*, 8 May 2003, p. 130.

19 *Submission 29*, DEWR, p. 12.

20 *Committee Hansard*, 15 May 2003, p. 279.

- c) The APM will provide better linkages to complementary employment and training opportunities outside Job Network. Arrangements will be put in place whereby Job Network members can refer job seekers to complementary programs. DEWR is also establishing Memoranda of Understanding with state governments; as a result there will be stronger linkages between DEWR and state employment programs.²¹

Australians Working Together

7.33 The Australians Working Together (AWT) program introduces a number of services and incentives aimed specifically at helping job seekers aged over 50. They include:

- extra support and information about available services, including financial advice;
- Training Accounts – up to \$800 in value for eligible job seekers to undertake accredited, work-related training; and
- Training Credits for completing Work for the Dole and community work requirements.

7.34 Also under the AWT program, older job seekers have immediate access to Job Search Training, without first having to be unemployed for three months, as well as access to the Personal Support Program which assists people with severe or multiple obstacles to getting a job.

7.35 Transition to Work services are also available for people over 50, including those not on income support, who have been out of the workforce for two years or more or who are starting work for the first time.²²

7.36 The Committee also notes evidence from Ms McNally and Mr Matheson representing DEWR in the hearing on 15 May 2003 that DEWR is currently conducting joint workshops throughout Australia in conjunction with the COTA National Seniors Partnership to educate mature age workers about the changing nature of the labour market. This program of workshops was initially announced in *Australians Working Together*, and included four pilot workshops in 2001-02. A further fifteen workshops were held in 2002-03.²³

21 *Submission 29*, DEWR, p. 12.

22 *Submission 29*, DEWR, p. 12.

23 *Committee Hansard*, 15 May 2003, p. 278. See also DEWR responses to questions on notice, 1 July 2003.

Reform of government labour force programs

7.37 In its written submission, the COTA National Seniors Partnership recommend that the government's labour market programs need to be developed specifically for mature workers encompassing:

- Referral to appropriate services and training;
- Career advice;
- Assistance with job searches;
- Information technology training;
- Transition to retirement programs;
- Education about the labour force in the 21st century;
- Specialisation in the Job Network for dealing with mature workers – this should include specialised providers who are mandated to share information on best practice for mature age employment issues; and
- Better resources for Australians Working Together initiatives including the Transition to Work Program and the Prime Minister's Business Community Partnerships.²⁴

7.38 Similarly, in its written submission, the ICA noted that while there are a number of programs which focus on retraining, they are often aimed at the long-term unemployed and do not recognise the increased difficulty experienced by mature age workers when seeking employment. The ICA suggested that any break in employment prior to retraining can often lead to effective retirement due to discouragement and attitude change. Accordingly, the ICA recommended that the Government develop programs which enable older unemployed persons to re-skill in a timely manner and not following extended periods of unemployment which lead to loss of existing skills and act as a deterrent to potential employers.²⁵

7.39 This point was also raised by the ABA in its written submission. The ABA argued that government funded programs should place greater emphasis on encouraging existing mature age employees to be retained and retrained, rather than encouraging employers to dispense with older employees who may then qualify for retraining under the government's programs.²⁶

7.40 Finally, the Committee also notes the evidence of Dr Linklater from the NSW Committee on Ageing on the success of the NSW Mature Workers Program, which has a 70 per cent success rate in placing people in employment or education programs at an average cost of less than \$420. She suggested that this program has been successful simply because it informs people of their employment choices. Dr

24 *Submission 31*, COTA National Seniors Partnership, pp. 7-10.

25 *Submission 36*, ICA, p. 2.

26 *Submission 41*, ABA, p. 14.

Linklater noted that many older people simply do not know what employment options and employment assistance are available to them.²⁷

The Workingconnections job matching service

7.41 The Committee received a submission from Ms Johnson on behalf of Workingconnections, which is the job-matching service of the ARPA Over 50s Association Ltd. The Workingconnections service has been running for approximately a year, and is based on a small membership fee for both employers and mature job seekers.²⁸ Ms Johnston herself works part-time, two days a week for Workingconnections. She is the only staff member.²⁹

7.42 In the hearing on 8 May 2003, Ms Johnston indicated that Workingconnections currently has 275 mature people actively looking for work, and is generally placing one-or-a-bit people per week. Over 85 per cent of the people on the Workingconnections database are professionals who have been made redundant, of whom 80 per cent are men. Workingconnections also has 110 employers signed on.³⁰

7.43 In the hearing on 8 May 2003, Ms Johnston cited the story of a man on the database. In the Committee's opinion, it provides a human face to the job search for many mature age workers:

One fellow was in executive recruitment. He was even headhunted internationally and brought to Australia by a large consultancy that changed its direction three months later, and he found himself out on the street. He took a mortgage on his house and trained himself in quite an expensive training program in IT over two years, just to graduate as the IT business fell apart. He was 50 and, being an intelligent pragmatist, he looked around and said, 'I'm unlikely ever to find full-time work again,' and he set about doing a couple of things. He set about defining what it was that he really loved doing, and he has established a small and slowly growing business of training people in their homes to use IT and become IT literate. He also realised that he had to bring in income in other ways, so he looked at what he had been good at over his lifetime. He had come out of executive recruitment, so he said, 'I know what makes a good resume,' and he now brings in some income by writing resumes and job applications for people. His first degree was in maths, so he does some maths tutoring. He brings in some money by subediting on contract, because that was something he had already been doing.

He is an extraordinary fellow. He will do anything. He says, 'I never know who I'm going to meet.' He applies for jobs like washing cars. He has his

27 *Committee Hansard*, 5 May 2003, p. 81.

28 *Submission* 18, Workingconnections, p. 1.

29 *Committee Hansard*, 8 May 2003, p. 125.

30 *Committee Hansard*, 8 May 2003, p. 124.

chauffeur's licence, so he chauffeurs a couple of days a week because, he says, 'I never know what bigwig is going to be in the back of my stretch limo who might be the conduit to a job for me.' He supports his wife, who makes and sells jewellery. They go around markets together. He brings in a livelihood but it is hard work and very insecure. He pays his mortgage but there is no provision in any of his casual jobs for superannuation or to even think about retirement income.

7.44 The Committee wishes to place on record its recognition of the work being done by organisations such as Workingconnections, and their importance to society.

Chapter Eight

Using Superannuation to Finance Retraining

Introduction

8.1 This chapter examines the possibility of using individual's accumulated superannuation savings to finance retraining. The aim of such a proposal would be to allow mature age workers to gain new skills and experience that would help them to remain in or re-enter the workforce.

8.2 The Committee examines the current restrictions on accessing superannuation savings prior to the preservation age (currently 55), and consumer understanding of the role of the superannuation system. The Committee subsequently considers arguments in favour of and against the use of superannuation to finance retraining.

Current restrictions on accessing superannuation savings

8.3 In its written submission, Treasury noted that current Government policy is that superannuation savings that have received concessional tax treatment should be used to provide income in retirement and should not be withdrawn from the superannuation system for other purposes before retirement.

8.4 Accordingly, under the *Superannuation Industry (Supervision) Act 1993* (SI(S) Act), superannuation savings must currently be maintained for the core purpose of providing retirement, retirement age and death benefits. Superannuation savings are not available for retraining purposes under the so-called sole purpose test.

8.5 However, there are provisions for the early release of superannuation savings in certain limited circumstances, such as severe financial hardship and on specific compassionate grounds. These circumstances are examined below.¹

Severe financial hardship

8.6 In its written submission, Treasury noted that there are two criteria that an applicant must satisfy in order to be eligible for an early release of superannuation benefits on severe financial hardship grounds. The applicant must be able to show that they have been in receipt of a qualifying Commonwealth income support payment for a continuous 26-week period, and must also satisfy the trustee that they are unable to meet reasonable and immediate family living expenses.

1 *Submission 46, Treasury, p. 4.*

8.7 If members satisfy both of the above tests, the fund trustee may, in any twelve-month period, release to them one lump sum payment. The payment is to be no more than a gross amount of \$10,000 and no less than \$1,000, or the balance of the member's benefit if that is less than \$1,000.²

Compassionate grounds

8.8 In its written submission, Treasury noted that benefits are released on compassionate grounds only in very limited circumstances. These circumstances are defined in regulations and cover expenses in respect of medical treatment, medical transport, modifications necessary to the family home due to disablement, palliative care, and funeral expenses. Funds may also be released on compassionate grounds to prevent foreclosure of a mortgage or exercise of a power of sale over the member's principal place of residence.³

Consumer understanding of the role of superannuation

8.9 Given the current restriction on access to superannuation savings, the Committee notes that any move to access superannuation to finance retraining would require the sole purpose test in the SI(S) Act to be revisited.

8.10 In this regard, the Committee notes the evidence from representatives of the Australian Securities and Investments Commission (ASIC) at the hearing on 8 May 2003 in relation to the use of superannuation to finance retraining. In her evidence, Ms McAlister from ASIC expressly did not state a position either supporting or opposing the use of superannuation to finance retraining. However, she noted that any proposal to change the sole purpose test to allow fund members to receive a present-day benefit from their accumulated funds (to finance retraining) raises various considerations:

- a) The introduction of new additional contribution and payment standards to allow access to superannuation funds for the purpose of retraining might pose a risk of exacerbating existing deficiencies in consumer understanding of superannuation – especially the important and basic proposition that superannuation is meant to provide income and benefits in retirement.
- b) A related risk is that changes to superannuation payment standards would further complicate retirement savings products themselves, leading to an exacerbation of deficiencies in effective disclosure. Many funds find it hard to communicate the preservation rules clearly and effectively at the moment, and the introduction of more rules may only increase the difficulties.

2 *Submission 46*, Treasury, p. 4.

3 *Submission 46*, Treasury, p. 4.

- c) Changes to superannuation payment standards may also create conduct that is aimed at illegal early release of superannuation benefits. If changes were to be put in place to allow mature age workers to access their superannuation to finance retraining, then appropriate safeguards would need to be developed to guard against abuse.⁴

8.11 Put simply, the message to consumers has always been that “Superannuation is for your retirement”. However, making exceptions to that message could undermine that fundamental and basic premise.⁵

8.12 The Committee also notes the evidence of Mr Brunner from the Australian Prudential Regulation Authority (APRA) on this matter. Mr Brunner indicated to the Committee in the hearing on 16 May 2003 that APRA follows the requirements of the SI(S) Act in relation to sole purpose and early release, but that some of the ancillary arrangements in relation to release of superannuation make it ‘very difficult ... to administer the legislation and regulations.’⁶

8.13 Given the current restrictions on the early release of superannuation funds, Treasury nominated a number of matters which would need to be considered under any arrangement to use superannuation to finance retraining. They include:

- a) A minimum length of time a person needs to be unemployed to access this option;
- b) The types of training courses that would qualify;
- c) The administration arrangements that would be required to ensure integrity; and
- d) The age of applicants.⁷

Support for using superannuation to finance retraining

8.14 The Committee notes that a number of parties to the inquiry supported the use of superannuation to finance retraining:

- The Superannuated Commonwealth Officers’ Association (SCOA) supported accessing superannuation to finance retraining, and advocated that if employees were to do so, then they should receive favourable taxation treatment for any superannuation monies used.⁸

4 *Committee Hansard*, 8 May 2003, p. 100

5 *Committee Hansard*, 8 May 2003, p. 104.

6 *Committee Hansard*, 16 May 2003, p. 305.

7 *Submission 46*, Treasury, p. 5.

8 *Submission 12*, SCOA, pp. 3,4.

- The Association of Independent Retirees – Whyalla and Districts Branch supported giving individuals access to their superannuation to finance retraining if they so desire, but would not support requiring mature age workers to use their superannuation in this way.⁹
- The Financial Planning Association (FPA) indicated its support for allowing older Australians aged over 55 to access part of their voluntary contributions to superannuation to fund retraining, especially for those older Australians who are retrenched and receive no government and/or corporate financial assistance for upskilling or retraining.¹⁰
- Mr Kemp in a private submission supported this initiative, provided that a Government retirement pension scheme exists as a guarantee of future financial security.¹¹

8.15 In its written submission, the ICA also indicated that it would welcome measures that see superannuation savings being available to provide education and re-skilling. However, it argued that such education and re-skilling should be focused on keeping people in work, and should not replace existing government programs aimed at assisting the unemployed to return to work.¹² This position was reiterated by Mr Negline from the ICA in the hearing on 5 May 2003:

Purity is fine in heaven. Unfortunately we live in a real world where people need to be retrained and re-skilled on a continual basis—whether it be learning the latest word processing package, learning to use a new machine or learning for a new career. Some research that came out of the United States some years ago said that people entering the work force now would face 14 different careers during their working lives. The need to be retrained is obvious.¹³

8.16 Mr Negline continued that superannuation should really be about life fulfillment as opposed to purely providing an income in retirement. Retraining using superannuation savings may give individuals the ability to remain in the work force for a greater period of time as well as making their retiring years much more meaningful.¹⁴

Opposition to using superannuation to finance retraining

8.17 The Committee notes that although some parties to the inquiry supported using superannuation to finance retraining, the majority of parties to the inquiry

9 *Submission 20*, The Association of Independent Retirees – Whyalla and Districts Branch, p. 5.

10 *Submission 32*, FPA, p. 14.

11 *Submission 10*, Mr Kemp, p. 1.

12 *Submission 36*, ICA, p. 3.

13 *Committee Hansard*, 5 May 2003, p. 89.

14 *Committee Hansard*, 5 May 2003, p. 89.

opposed using superannuation savings to finance retraining. Three basic arguments were made:

- a) Superannuation savings are needed to finance retirement;
- b) Jobs may not be available at the end of any retraining; and
- c) Responsibility for financing retraining rests with the government and employers.

8.18 These arguments are summarised below.

Superannuation savings are needed to finance retirement

8.19 The argument that superannuation savings are needed to finance retirement was made by a large number of parties to the inquiry:

- The COTA National Seniors Partnership suggested that using superannuation to finance retraining runs counter to the idea that people are saving to provide for themselves in later life. The Partnership suggested that reducing superannuation savings to pay for retraining may dramatically reduce an individual's end benefit.¹⁵
- ACCI argued that superannuation has the stated goal of providing income through the retirement years and as such should be preserved until retirement age. Accordingly, ACCI argued that it is essential that superannuation funds are not 'frittered away' in less productive uses.¹⁶

8.20 Similar arguments were made by the Association of Independent Retirees (AIR), the Corporate Super Association (CSA), ASFA, the WA Department of Community Development and the IAA.

Jobs may not be available at the end of retraining

8.21 In its written submission, DEWR noted that currently, the incidence of mature age job seekers being re-employed is low. As a result, it argued that mature age workers who accessed their superannuation to finance retraining may still be unable to find employment at the end of the training period. This position was reiterated by Mr Matheson from DEWR in the hearing on 15 May 2003.¹⁷

8.22 Similarly, the WA Department of Community Development also noted that there is no guarantee that a mature age worker will get a job after paying for

15 *Submission 31*, COTA National Seniors Partnership, p. 25.

16 *Submission 45*, ACCI, p. 8.

17 *Committee Hansard*, 15 May 2003, pp. 279-280.

retraining, leaving less money to retire on and creating greater dependency on pensions and allowances.¹⁸

8.23 Finally, ARPA(SA) also argued that the use of superannuation entitlements to finance retraining on the ‘off chance’ of securing a job is not an option likely to appeal to many mature age workers. ARPA(SA) also raised the possibility that under such a system, ‘jobs more suitable to older people’ could quickly become trivial and demeaning.¹⁹

Responsibility for financing retraining rests with the government and employers

8.24 In their written submissions, the COTA National Seniors Partnership and the IAA suggested that responsibility for retraining of mature age workers rests with the government, and that the government should ensure that suitable labour market programs are in place to assist unemployed people to re-enter the workforce by providing training vouchers, suitable courses, advice and advocacy services.²⁰

8.25 In this regard, ASFA noted in its written submission that the Commonwealth offers a range of training and retraining assistance through the Job Network. As indicated earlier, the Australians Working Together initiative gives extra resources to Job Network members to use for mature age unemployed people. This includes a training account of up to \$800 that is available to spend in addition to the other resources available through the intensive support mechanisms of the Job Network member services. These training accounts are able to be used to purchase vocational related training that might assist mature age workers get into employment.

8.26 ASFA also cited the training and retraining assistance available from the NSW Government under the Mature Workers Program. ASFA noted that this program offers the following retraining assistance to people over 40:

- a) advice on what training requirements are needed to improve, upgrade or learn new skills;
- b) help with getting into appropriate training or retraining courses;
- c) practical assistance in writing a resume and covering letters to potential employers;
- d) help with improving interview skills; and
- e) work experience placements.

8.27 ASFA further noted that such government provided programs have the advantage of offering training where there is objective evidence of possible

18 *Submission 22*, WA Department of Community Development, pp. 2-3.

19 *Submission 13*, ARPA(SA), pp. 2-3.

20 *Submission 31*, COTA National Seniors Partnership, p. 25. See also *Submission 47*, IAA, p. 14.

advantages to the individual of undertaking such training. By contrast, ASFA suggested that self-selected training can run a greater risk of not adding to the employability of an individual.²¹

8.28 The WA Department of Community Development also argued that any necessary retraining is the responsibility of the employer (if the worker is still in employment) or the government, as part of its responsibility to provide equal employment opportunities for citizens.²²

8.29 In this regard, the WA Department of Education and Training indicated that it has developed a number of strategies to promote training:

- The Department's *Profit from Experience* program is designed to help support mature age people to re-enter the workforce and enable employers to profit from the skills, knowledge and experience of mature aged people. The *Profit from Experience* program provides:
 - a network of support officers providing personal assistance and advice;
 - assistance to equip mature age people to return to work;
 - assistance to identify and explore suitable work options;
 - formal recognition of current skills; and
 - grants to eligible individuals to gain specific skills.
- The Department's *Competitively Allocated Training* program aims to increase opportunities for people under represented in vocational education and training and improve pathways into further training and/or employment.
- The *First Click* computer literacy fund was established to provide learning materials and grants to community groups to run computer training sessions, targeting particular groups in the community, such as the mature aged.
- The Department offers a number of support services through its *Building Diversity in Vocational and Education Training and Employment Framework*. The framework provides funding for specifically designed programs and services, removing systemic barriers which may impact on participation in vocational education and training and employment.
- The *Skills Recognition Policy* formally recognises the skills and experience people have gained through work/life experience and informal training in the workplace.
- Mature aged people historically undertake a higher proportion of *Adult Community Education* courses than younger Australians. *Adult Community*

21 *Submission 33*, ASFA, pp. 17-18.

22 *Submission 22*, WA Department of Community Development, pp. 2-3.

Education courses assist mature aged people develop skills/knowledge and the confidence to adapt to changing values and technology.²³

8.30 Finally, the Committee also notes that the issue of retraining was raised by Ms Fogg from the NSW Committee on Ageing during the hearing on 5 May 2003:

I think the evidence is that mature workers themselves often need a lot of encouragement to undertake training. They may not recognise their own skills deficit because they have not been in that situation before. They do not really know the labour market or they only know their own small bit of it. They may need quite a lot of guidance as to what form of training would suit them best, would build on their existing skills and would enable them to either stay in work or get new work. I think that there is a lot that employers can do—and there are certainly programs around the world that do this—in the way of encouraging mature workers to undertake training of various sorts. So a change in attitude is required by both employers and mature age workers themselves.²⁴

8.31 Given such arguments for government to encourage employers to provide additional training and re-skilling of mature age workers, the Committee notes recommendations 13, 14 and 15 of the NSW Committee on Ageing in its report *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*:

- a) Recommendation 13: NSW should encourage the Commonwealth, through the Australian National Training Authority, to take action to increase the level of employer provided or funded training, either through mandating a certain amount of expenditure per employee for training or through a compulsory levy on employers.
- b) Recommendation 14: NSW should request that the Commonwealth amend the relevant provisions of the social security system to amalgamate Austudy and Newstart and create a single payment with sufficiently flexible activity testing arrangements to allow mature age unemployed people to undertake long-term training without suffering a drop in payment level.
- c) Recommendation 15: NSW should encourage the Commonwealth and other States to pass legislation requiring industrial awards and workplace agreements to make provision for unpaid study leave for employees seeking to upgrade their skills.

23 *Submission 37*, WA Department of Education and Training, pp. 2-3.

24 *Committee Hansard*, 5 May 2003, pp. 80-81.

Chapter Nine

Income Support Arrangements for Pre-retirees and Retirees

Introduction

9.1 This chapter examines possible changes that could be made to the superannuation and government income support arrangements to encourage mature age workers to remain in employment and to assist retirees to gain access to an adequate income in retirement.

The superannuation accumulation system

The SG Rate

9.2 The Committee noted in Chapter Six trends in retirement incomes in Australia, including information on the pressure on the age pension system expected in the future as the population ages. This was based on evidence from the Committee's earlier report *Superannuation and standards of living in retirement*.

9.3 Given this forthcoming pressure on the age pension system, various parties to the inquiry advocated that the SG system be extended. For example, the ABA noted in its written submission that many retirees expect to rely on SG contributions in retirement, yet for many of them, SG contributions alone will not provide enough money for them to maintain an adequate standard of living in their extended retirement.¹

9.4 Similarly, the AWU argued that Australia needs to start lifting superannuation contributions now to ensure that workers have a secure retirement. The AWU advocated increasing the SG levy to 15 per cent over the next eight years, and indicated that it is making this a bargaining agenda item.²

9.5 The Committee also notes the evidence of Mr Covick, Associate Professor in Economics at Flinders University, on 9 May 2003. He advocated two strategies to encourage additional savings during the remunerated working years without drawing down public savings:

1 *Submission 41, ABA, pp. 4-5.*

2 *Submission 35, AWU, p. 4.*

- a) Increasing the SG rate to 10, 11 or 12 per cent;
- b) Extending the SG arrangements to those parts of the younger working population not currently properly covered by it, notably the self-employed and those who are unable to work.³

The Superannuation Surcharge

9.6 In its written submission, the ABA argued that the superannuation surcharge is an inefficient tax which is expensive to collect. In addition, people who have deferred making contributions until later in life pay more than people who spread their contributions over their lifetime. This can impact on persons whose normal income is well below the threshold for paying the surcharge. This was reiterated by Mr Rice representing the ABA in the hearing on 5 May 2003:

I think the surcharge is an inefficient tax. It costs a lot to raise. It would be better to look at manipulating the tax rates of high income earners on their personal tax rather than within superannuation. That is a debate we have had for seven or eight years now.⁴

9.7 The Committee also notes the evidence of Dr Olsberg in the hearing on 5 May 2003 when she noted that the superannuation surcharge could be assessed on the basis of total savings in superannuation over a lifetime, rather than on current income. Under such a scheme, people with superannuation savings of less than \$300,000, for example, would be exempt from paying the 15 per cent surcharge. This would provide an inducement for individuals without sufficient superannuation savings to contribute more to their superannuation without facing a 30 per cent up-front tax rate.⁵

Rules relating to contributions

9.8 The current superannuation work test rules require that employees aged 65-75 can only contribute to a super fund if they are working 10 hours or more per week.⁶ Contributions to a superannuation fund can be accepted for a member under the following conditions:

- a) Age 65-70 and working 10 hours per week: award, SG, voluntary member, voluntary employer and spouse contributions can be accepted.

3 *Committee Hansard*, 9 May 2003, p. 189.

4 *Committee Hansard*, 5 May 2003, p. 32.

5 *Committee Hansard*, 5 May 2003, p. 53.

6 Prior to 1 July 2002, those aged over 70 could not make personal contributions. See *Submission 46*, Treasury, p. 2.

- b) Aged 65-70 and working under 10 hours per week: award or SG contributions only. Member, voluntary employer and spouse contributions cannot be made.
- c) Over age 75: award contributions only. SG contributions, member, voluntary employer and spouse contributions cannot be made after age 70.⁷

9.9 In their written submissions to the inquiry, the Superannuated Commonwealth Officers Association, the Association of Independent Retirees – Whyalla and Districts Branch, the IAA and ASFA all cited these work test rules. ASFA gave particular attention to this matter.

9.10 ASFA noted that up to age 65, there are no real limits, other than the reasonably generous limits on deductible contributions per employee, on contributions to funds. Between the ages of 65 and 70, ASFA noted that a super fund may accept contributions by or in respect of a member, provided that the member is gainfully employed or the contributions are mandated employer contributions relating to pre-age 65 employment. Where the member has reached 70 years of age, the fund may continue to accept employer contributions if they are mandated under an award (the SG does not apply to persons 70 or over) or the contributions are personal contributions. ASFA continued:

Navigating this maze of tests about payment of benefits and contributions is not something that those of advancing years (or any age for that matter) should be required to do. ASFA considers the rules relating to both contributions and the cashing of benefits for people who have reached preservation age are complex, inequitable, difficult to apply and not suitable for the modern workforce. ASFA advocates the adoption of a policy that would permit a gradual or phased retirement for people after age 60.

9.11 Accordingly, ASFA recommended that the contributions and cashing rules for those over their preservation age be modified so that individuals can change labour force status (full-time employment to part-time employment to withdrawal from the paid workforce, or the reverse or any mix of this pattern) without seriously compromising their superannuation options or outcomes.

9.12 For instance, individuals who have reached their preservation age should be allowed to move from full-time to part-time employment with the same employer and be able to access their superannuation benefits to supplement their income. As well, drawing down on a superannuation benefit should not prevent an individual from contributing to the fund they are receiving the benefit from, or another fund.⁸

9.13 Similarly, the IAA in its written submission argued that the inability to contribute at older ages, and the lack of compulsory SG contributions after age 70,

⁷ *Submission 47, IAA, p. 9.*

⁸ *Submission 33, ASFA, pp. 14-15.*

distinctly disadvantages some people, such as those with broken work patterns or who commenced contributions later in life. Accordingly, the IAA argued that the rules relating to contributions for those aged over 65 should be reviewed.⁹

9.14 The Committee notes that this issue was also raised in hearings. Mr Smith representing the Investment and Financial Services Association (IFSA) noted in evidence on 5 May 2003 that after the age of 65, there is a nexus between employment and contributions which does not exist up until that age, and advocated the removal of this additional complication from the contribution rules in the SI(S) Act.¹⁰ Ms Rubinstein from the ACTU similarly stated:

We support the changes to the law to allow for voluntary contributions to be made by workers up to the age of 75. We believe that the SG ought to be payable as well up to the age of 75. ... It is clearly discriminatory and based on outmoded actuarial approaches to superannuation which are clearly inappropriate in accumulation schemes.¹¹

9.15 In its hearing on 15 May 2003, the Committee raised with representatives of Treasury the issue of the contribution and cashing-out standards that apply to fund members over the age of 65. In response, Mr Brake indicated that the Government has asked Treasury to review these matters, and that Treasury has accordingly started consultations with industry.¹²

The superannuation benefits system

The superannuation preservation age

9.16 The superannuation preservation age is the earliest age that superannuation lump sums can be accessed following retirement. Currently, the superannuation preservation age in Australia is 55, but it is being increased to 60 on a phased basis.¹³

9.17 In their written submissions to the inquiry, the CSA, the FPA and the COTA National Seniors Partnership all supported an increase in the superannuation preservation age, to prevent 'double dipping':

- The CSA argued that access to superannuation at age 55 puts additional strains on retirement savings because benefits are regularly accessed up to 10 years before the age envisaged when retirement benefits were funded.¹⁴

9 *Submission 9, IAA, p. 9.*

10 *Committee Hansard, 5 May 2003, p. 59.*

11 *Committee Hansard, 8 May 2003, p. 117.*

12 *Committee Hansard, 15 May 2003, p. 289.*

13 *Submission 46, Treasury, p. 2.*

14 *Submission 25, CSA, p. 6.*

- The FPA noted that the government has initiated a policy to link access to super with retirement. However, the FPA argued that this policy should be redesigned so that lump sum superannuation benefits are linked to age pension age. This would steer people away from taking lump sum payments at age 55 and then at age 65 relying on the age pension.¹⁵
- Similarly, the COTA National Seniors Partnership argued that it is illogical that the superannuation preservation age ever differed from the age pension eligibility age, since it inevitably leads to “double dipping”. To address this, the Partnership recommended that the current process of increasing the superannuation preservation age progressively to 60 years of age should be extended so that it ultimately matches the age pension eligibility age.¹⁶

9.18 The Committee notes, however, the opposition of the ACTU to any increase in the superannuation preservation age.¹⁷

9.19 The Committee also notes the paper by the OECD in the *OECD Economic Outlook* cited earlier entitled ‘Increasing Employment: The Role of Later Retirement’. In this paper, the OECD noted that before the age of 60, there is virtually no incentive to retire under the regular old-age pension system in any OECD country. However, significantly, the OECD listed Australia as one of the few exceptions to that rule because of the ability of individuals currently to draw on their mandatory savings from 55.¹⁸

Fixed term income stream products

9.20 Various parties to the inquiry argued for stronger incentives for individuals to take fixed-term income stream products rather than lump sum payments on retirement.¹⁹

9.21 In its written submission, IFSA reiterated the observations of the Committee from its report *Superannuation and standards of living in retirement* that many rules in tax and superannuation legislation appear to assume that a person retires once, and only once, from the workforce. For example:

- An income stream, once commenced, cannot be suspended if the purchaser returns to work – it must be commuted and restarted.
- An income stream, once commenced, cannot be topped up with new monies – it must be commuted and restarted.

15 *Submission 32*, FPA, pp. 11-12.

16 *Submission 31*, COTA National Seniors Partnership, p. 23.

17 *Committee Hansard*, 8 May 2003, p. 116.

18 OECD: ‘Increasing Employment: The Role of Later Retirement’, *OECD Economic Outlook 72*, (OECD, 2002), pp. 146-148.

19 See the Australian Pensioners’ and Superannuants’ League Queensland, Centrestone, the ICA, the IAA.

9.22 To remove these perceived anomalies, IFSA argued for a wholesale rewrite of the release of benefits rules and income stream provisions in superannuation, tax and social security legislation.²⁰ This was reiterated by Mr Smith representing IFSA in evidence on 5 May 2003:

We see a number of people [moving] from a retired status back into the accumulation phase of a fund and that is where we need some flexibility in the rules. We need flexibility to allow people to have the right mix of investments or pensions or accumulation stage assets to fit their situation. Any rule introduced into the SI(S) regulations should be flexible enough for the new type of transition in retirement ...²¹

9.23 The ICA also argued that future retirement income products should be developed which enable the contribution of additional assets during retirement as homes are downsized to suit the changing family structure.²²

9.24 In response to this issue, the Committee notes the written submission of Treasury in which it addressed the reasons for the current restriction on adding contributions to a fixed term income stream product once it has commenced:

- a) Allowing amounts to be added to a pension would blur the distinction between the accumulation and pension phases of superannuation which currently have distinct taxation treatments within a fund. Specifically, no earnings tax is payable by a fund in respect of assets backing pensions, however earnings tax is payable with respect to assets in the accumulation phase.
- b) Each time new contributions were added to the pension, the fund would need to recalculate a pension's undeducted purchase price, rebateable proportion, minimum and maximum drawdown amounts and RBL value.
- c) The ability to contribute to a pension, for example annually, would result in higher drawdowns in the early years of the pension, relative to if the new contributions were in an accumulation fund until the person completely retired.
- d) The impact of fees and charges and the potential for additional complexity would also need to be considered.²³

9.25 The Committee also notes the evidence of Mr Clare from ASFA that one of the main impediments to the purchase of retirement income streams at the present

20 *Submission 27*, IFSA, pp. 4-5. See also *Committee Hansard*, 5 May 2003, pp. 56-57.

21 *Committee Hansard*, 5 May 2003, p. 60.

22 *Submission 36*, ICA, p. 2.

23 *Submission 46*, Treasury, pp. 3-4.

time is that current average retirement savings are in the order of \$65,000 – simply not enough to justify the taking of an income stream. Such small sums, Mr Clare noted, can be better used in retirement to replace a car or white goods, or make repairs to the house. As the superannuation system matures and average superannuation retirement savings increase, Mr Clare suggested that the taking of income streams may become more of an issue.²⁴

9.26 In the hearing on 16 May 2003, Mr Brunner from APRA indicated that if government policy moved to encourage the take up of allocated pensions, APRA would be concerned to ensure the financial viability of the funds, including their capitalisation, and that they had the ability to continue to pay the income stream as agreed.²⁵

Reasonable Benefit Limits (RBLs)

9.27 In their written submissions to the inquiry, the FPA and Centrestone argued that the Government should either abolish or raise the RBL, on the basis that it is a punitive tax limiting the build-up of retirement savings.

9.28 The FPA noted in its written submission that RBLs were introduced to steer retirees into purchasing pensions with their superannuation savings rather than taking the money as a lump sum. However, the FPA argued that the RBL system is clearly not achieving its policy intent, and rather is hindering those who can save from contributing excess money into super, because of fear of reaching the RBL quickly before retirement.

9.29 Accordingly, the FPA recommended that the government abolish RBLs. Alternatively, as a means of encouraging older Australians to take an allocated pension rather than a lump sum (the original intent of RBLs) the FPA recommended doubling the RBLs for allocated pensions and retaining the current level for lump sums.²⁶

9.30 Centrestone also argued that if the Government aims to encourage people to work longer and build up their retirement benefits, it is contradictory to limit the amount of superannuation that they can received through punitive taxation under the RBL system.²⁷ Centrestone also noted that the current RBL legislation is failing to encourage the use of income streams – only those individuals who are least likely to draw on government support are encouraged into income streams as only those with lump sums in excess of approximately half a million dollars exceed the lump sum RBL.²⁸ In the hearing on 5 May 2003, Ms O’Keefe from Centrestone noted:

24 *Committee Hansard*, 5 May 2003, p. 41.

25 *Committee Hansard*, 16 May 2003, pp. 317-318.

26 *Submission 32*, FPA, pp. 16-17.

27 *Submission 3*, Centrestone Wealth Management Pty Ltd, p. 11.

28 *Submission 3*, Centrestone Wealth Management Pty Ltd, p. 16.

Another proposal that we raised in our submission to encourage people to adequately plan for their retirement was the abolishment of RBLs—reasonable benefits limits. In practice, RBLs limit the amount of money that people want to put into super. If the aim is to encourage people to work longer and contribute to super, the idea of RBLs does not really fit in, as it can discourage people who may have excessive benefits to make further contributions. So it puts a limit on the amount of money that you would want to put into super.²⁹

9.31 In response to these arguments in favour of abolishing or raising RBLs, Senator Sherry noted that very few people are ever going to reach the RBL, and that there should be some limits to tax concessions for high wealth individuals. Without such a limit, there is effectively a tax transfer to high wealth individuals.³⁰

9.32 Against this viewpoint that RBLs should be abolished or raised, Associate Professor Covick noted that the only real encouragement under the current superannuation framework for individuals to put their retirement savings into prudently managed vehicles is the RBL system. However, Associate Professor Covick argued that the current arrangements are deficient because those that are most at risk of running out of savings in their retirement are also most likely to fall below the RBL, and therefore receive no encouragement not to take a lump sum payment. He continued:

The taxation (and social security means-testing) advantages currently provided to so-called ‘allocated pensions’ may be perceived by less-well-informed retirees (and workers approaching retirement) as providing these products with some sort of stamp of government approval as prudent means of deploying one’s retirement savings. These products typically provide zero longevity insurance. These products are available across a broad spectrum of capital-risk. It is madness for public policy to provide no significant ‘encouragement’ for ‘below lump sum RBL’ retirees to deploy their monies into true prudently managed life annuities as compared with putting the same monies into so-called allocated pensions with significant capital-risk properties.³¹

9.33 In follow-up testimony in the hearing on 9 May 2003, Associate Professor Covick argued that the Government should restrict access to lump sum payments to the very rich. He advocated that only once a retiree has accumulated sufficient savings to buy an appropriate annuity should they be permitted to take the remainder, or a proportion of the remainder, as a lump sum.³²

29 *Committee Hansard*, 5 May 2003, p. 21.

30 *Committee Hansard*, 5 May 2003, p. 21.

31 *Submission 8*, Associate Professor Covick, p. 3.

32 *Committee Hansard*, 9 May 2003, pp. 191-192.

9.34 The Committee notes that Mr Rice, representing the ABA, also argued in the hearing on 5 May 2003 that the Government should reduce the amount of lump sum that people can take on retirement, thereby forcing them to take income streams.³³

9.35 The Committee addresses the issue of income streams and life annuity products below. However, the Committee notes that many people still prefer to take a lump sum on retirement rather than an income stream in order to pay off their housing loan or other debts.

Life Annuity Products

9.36 The Committee wishes to cite in some detail the evidence of Associate Professor Covick to the Committee in the hearing on 9 May 2003 on the subject of life annuity products.

9.37 Associate Professor Covick noted that, through the social security system, the government provides retirees with a safety net to prevent them from having an intolerably low standard of living. At the same time, however, he argued that the government's mechanisms for trying to get individuals to attempt to provide for their own retirement are not geared correctly – individuals are not being compelled to take incomes that last the remainder of their lives, topped up by government payments if need be. Associate Professor Covick provided the following analogy:

... if you had a system whereby everybody whose house ever burnt down had the government come in and pay for its reconstruction, nobody in their right mind would ever insure their own house against fire. We want people to insure themselves against running out of money after they have retired. You cannot have a system that says, 'If you do run out of money, we'll look after you; don't worry about it,' and, if we have managed successfully to compel you to save a couple of hundred thousand dollars: 'Do what you want with that. You can have a tolerable living standard, paid by taxing working people after they have retired.'³⁴

9.38 Accordingly, Associate Professor Covick argued that the Government should take steps to 'encourage' the taking of live annuity products – products that provide retirees with a steady income for the remainder of their lives, regardless of how long that may be. Furthermore, those products should be geared to real earnings, and not the consumer price index (CPI), in order to keep up with improvements in community living standards 10, 15 or 25 years ahead.³⁵

9.39 By way of 'encouragement' for mature age workers to take life annuities, Associate Professor Covick argued that people are compelled to save money towards their retirement during their working lives, so why not compel people to place a reasonable proportion of their savings in a life annuity product? This would prevent

33 *Committee Hansard*, 5 May 2003, p. 34.

34 *Committee Hansard*, 9 May 2003, p. 194.

35 *Committee Hansard*, 9 May 2003, p. 189.

them from spending it too rapidly, or from investing it in risky assets on the advice of a charlatan.³⁶

9.40 Associate Professor Covick acknowledged that the disadvantage that many people see in life annuities is the fear that the life insurance company will go broke, or that they will die tomorrow or next week, in which case their superannuation savings would become a windfall for the insurance company. In addition, many people see the returns of life annuities as too low. Associate Professor Covick suggested two reasons for this:

- a) The bulk of people do not appreciate what their average life expectancy is. Many people have a fair knowledge of average life expectancies at birth in Australia. However, if you have lived to 65 already without dying, your life expectancy is considerably higher than the average life expectancy at birth. Actuarial tables take this into account, with the result that the prices for life annuities often look high.
- b) Life officers add on to what is actuarially fair various margins. One margin is just profit margin to run the operation and pay the administrative costs. Another is associated with the risk of looking after the portfolio. A third is the adverse selection margin – life insurance officers assume that people buying life annuity products are more healthy than the general population, otherwise they would not want a life product.³⁷

9.41 In response to this perceived problem, Associate Professor Covick indicated that many life insurance companies would like to offer life annuities which would give the individual a residual lump sum if they died within, say, the first 10 years. Life insurance companies believe that such a product would attract far more customers. However, at the moment life insurance companies cannot create such a product because it would not pass the test of a qualifying life annuity. Associate Professor Covick continued:

So, if the definition of a qualifying life annuity were altered to allow perpetuities with a capital value when the person died, or life annuities which had a lump sum payout if the person died before some relatively short period of time, that, it strikes me, would be compatible with the intent of current policy arrangements. At the same time, it would provide a much greater incentive to a larger number of individuals to take proper longevity insurance embodied life annuities.³⁸

36 *Committee Hansard*, 9 May 2003, p. 189.

37 *Committee Hansard*, 9 May 2003, pp. 192-193.

38 *Committee Hansard*, 9 May 2003, p. 191.

9.42 The Committee notes that the attractiveness of life annuity products was also raised by other parties to the inquiry. In the hearing on 5 May 2003, Mr Rice representing the ABA noted that almost all annuities are sold as term certain annuities, and that life companies are reluctant to take on the longevity risk that an individual may live considerably beyond their average life expectancy.³⁹

9.43 Mr Rice also noted that many life annuity products provide very low returns, due to increasing life expectancies and uncertainty, and that accordingly people do not find them attractive.⁴⁰

9.44 This point was also made by Mr Clare from ASFA:

The main reason that life annuities and the like have not taken on in Australia is that the implicit rate of return and the income streams generated by a capital sum are relatively low and there is a lack of flexibility where in most cases at death there is nothing to the estate or dependents—it goes into the life office funds, to contribute both to their profits and the payment of income streams to people who live longer than the life expectancy for that group.⁴¹

Purchasing a life annuity from the government

9.45 Flowing on from the issues raised above in relation to the take up of genuine life annuity products, the Committee notes that a major issue raised during the inquiry was the possibility of the government offering a life annuity product for purchase in the market place. This might fill the perceived gap in the private sector provision of life annuity products.

9.46 This suggestion was first raised by the ABA. In its written submission, the ABA raised the possibility of allowing those retirees who are not eligible to receive a full age pension to be able to use their accumulated superannuation assets to purchase one, in whole or in part, from the government on retirement.⁴² This suggestion was further elucidated by Mr Connolly representing the ABA at the hearing on 5 May 2003:

One option would be to allow people who do not currently qualify for either a full pension or even a part pension to buy their pension by effectively transferring the equivalent value, either through direct transfer or through buying it from other assets that they may have. Our experience of the marketplace suggests that in Australia there is an inordinate desire to access the pension. People will go to the most extraordinary lengths to distort their financial situation; they will actually run at a major loss if necessary in terms of the opportunity cost factors just to qualify for at least a part

39 *Committee Hansard*, 5 May 2003, p. 37.

40 *Committee Hansard*, 5 May 2003, p. 37.

41 *Committee Hansard*, 5 May 2003, p. 42.

42 *Submission 41*, ABA, p. 1.

pension. This is precisely one of the reasons why we have said that we have to stop all this and get back to the fundamentals.⁴³

9.47 The Committee raised this proposal for the purchasing of a life annuity type product from the government, similar to the age pension, with a number of parties during hearings, noting that the government has the potential to offer some alternative products and overcome some of the uncertainty in the market.

9.48 In response, Associate Professor Covick noted that a government purchased age pension could be used to address this issue of longevity risk, and that there would be no impediment to the government offering a life annuity product with the same features as the current age pension at a price which is the actuarially fair present value.

9.49 Mr Clare from ASFA supported the proposal in the hearing on 5 May 2003, but noted that the capital sum that would be required to replicate the age pension in full would most likely be over \$200,000 in lump sum terms. In addition, the government would have to consider whether it could offer an income in excess of that offered in the private sector without some form of implicit subsidy from the taxpayer.⁴⁴ Mr Clare continued:

If the government provided some subsidy, either through the concessional social security treatment or, if they were a provider, through providing more attractive returns, there would be greater interest.⁴⁵

9.50 Similarly, Dr Parkinson from ARPA(SA) indicated in the hearing on 9 May 2003 that some of the association's members had had difficulty in buying annuities or setting up appropriate income streams. Accordingly, he welcomed the suggestion of purchasing a pension from the government.⁴⁶

9.51 The Committee also raised this proposal for the government to provide a life annuity type product at a competitive rate with representatives of Treasury in the hearing on 15 May 2003. In response, Mr Rosser from Treasury indicated Treasury's belief that the Government relies on the provision of retirement products through the competitive market.⁴⁷

Rules on the taking of superannuation benefits

9.52 The current superannuation rules require that those over age 65 draw down their superannuation where they are not working at least part-time. A member between 65 and 75 must work at least 10 hours per week in order to avoid having to

43 *Committee Hansard*, 5 May 2003, p. 34.

44 *Committee Hansard*, 5 May 2003, pp. 41-42.

45 *Committee Hansard*, 5 May 2003, p. 42.

46 *Committee Hansard*, 9 May 2003, p. 183.

47 *Committee Hansard*, 15 May 2003, p. 292.

draw down, while those over age 75 must work full-time (at least 30 hours per week).⁴⁸

9.53 In its written submission, ASFA noted that where a member is aged over 65, the trustee must have in place monthly monitoring arrangements to determine whether the member satisfies the gainful employment test in respect of each week. Individuals with intermittent work patterns face the risk of having contributions returned, unaccepted by a fund. They may even have their entire balance paid out without it being requested.

9.54 ASFA argued that these current restrictive provisions relating to the gainful employment test should be revised, so as to be more supportive of a flexible approach to work and retirement. ASFA suggest the work test be simplified by using a “look back” test for the employment status of those aged 65 or over:

- a) For employees, the “look back” evidence could be a copy of a group certificate or certificates indicating receipt of income from employment of, say, more than \$5,000 in the year.
- b) For the self-employed, the “look back” evidence could be a letter from an accountant indicating the employment arrangements and/or income from personal exertion of the member, together with a statement of intent that they will work during the forthcoming year.⁴⁹

9.55 This issue was also raised by Mr Stanhope from IFSA in evidence on 5 May 2003. He cited the following example:

Say you are over 60 and you are employed. You might have been with that employer for a long time and know a lot about the business. You do not want to work particularly anymore but you might want social interaction and it comes with a reasonable salary for the time you spend there, or you might actually need a bit of work but you do not want to work full-time anymore, for a host of reasons, perhaps including caring for an aged relative. If you retire from an employer and continue part-time employment with that employer, you cannot draw your benefits; you cannot cash your benefits and commence your age pension, because you are still having superannuation paid in respect of that employment, even though by any notion that you and I might have you are retired.⁵⁰

9.56 As indicated earlier, the Committee raised the issue of the contribution and cashing-out standards that apply to fund members over the age of 65 with representatives of Treasury in its hearing on 15 May 2003. In response, Mr Brake

48 *Submission 46*, Treasury, p. 2.

49 *Submission 33*, ASFA, pp. 13-14.

50 *Committee Hansard*, 5 May 2003, p. 67.

indicated that the Government has asked Treasury to review these matters, and that Treasury has accordingly started consultations with industry.⁵¹

Accessing superannuation to supplement part-time work income

9.57 During the inquiry, a number of parties argued that part-time workers should be able to access part of their superannuation as an income stream to supplement their income and to compensate for lost wages.⁵² Doing so would encourage mature age workers to take up part-time work.

9.58 In its written submission, the FPA noted that some government policy decisions have already gone some way towards encouraging a progressive transition from work to retirement. For example, as a result of a budget announcement in 1996, Australians aged 65-70 with part-time work can continue to contribute to a superannuation fund. Also, people aged 50 and over can now undertake unlimited full-time voluntary work and still qualify for social security allowance.

9.59 However, the FPA recommended that the Government consider adopting a policy which would allow mature age workers (age 55 and over) to choose whether they want to revert to part-time work, and top up their income (up to age pension amount) by placing parts of their super into an income stream. This would allow mature age workers the flexibility to choose a lifestyle and remain in contact with the workforce, while not facing a large drop in income.⁵³

9.60 As an alternative option to accessing superannuation entitlements in conjunction with part-time work, the Association of Independent Retirees – Whyalla and Districts Branch raised the option of taking employers' SG contributions directly as income.

Defined benefit schemes

9.61 In its written submission, the Combined Pensioners and Superannuants Association of NSW noted that under some government defined benefit schemes, the maximum benefit becomes payable before age 60, in which case the Commonwealth preservation rule can mean a member is adversely affected. In the case of members born after July 1964, members can take benefits before age 60, but only if they agree to receive the preserved component of the benefit in the form of a non-commutable pension or allow the preserved component of their entitlement to remain in the scheme until a condition of release has been met.⁵⁴

51 *Committee Hansard*, 15 May 2003, p. 289.

52 See the Superannuated Commonwealth Officers Association, ARPA(SA) and the FPA.

53 *Submission 32*, FPA, pp. 12-14.

54 *Submission 39*, Public Service Association of NSW, and *Submission 40*, The Combined Pensioners and Superannuants Association of NSW, p. 2.

9.62 As a result, the Combined Pensioners and Superannuants Association of NSW noted that it is difficult for its members in defined benefit schemes to work part-time or on an ad hoc basis, because their benefits are based on the highest salary when retiring. Although they may subsequently take part-time work, at a lower rate of pay, the preservation rules can prevent this.⁵⁵

9.63 The Committee notes the OECD paper ‘Increasing Employment: The Role of Later Retirement’ which indicates that various OECD countries have taken measures to make pension systems more neutral so that people retiring later (having contributed more) will have a correspondingly greater pension. This reduces or eliminates the implicit tax on continuing to work.

9.64 For example, in Sweden, Italy, Poland and Hungary, public pensions are being progressively transformed from defined benefit schemes to notional defined contribution schemes. In these systems, pension benefits depend on accumulated contributions – these are registered in notional individual accounts which are transformed into an annuity on retirement. The level of benefit depends on time in the workforce and the notional interest rate.

9.65 Other countries such as Germany, Finland, France and Ireland, which are still running defined benefit schemes, have also reduced the implicit tax rates by increasing pension accrual rates so that the replacement rate increases more if people work longer.⁵⁶

A drafting task force

9.66 As a concrete solution to many of the issues identified above in relation to the current superannuation system, and problems relating to anomalies in the SI(S) Act and SI(S) regulations, and relevant taxation and social security legislation, Mr Stanhope from IFSA proposed the formation of a drafting task force within Treasury. Its role would be to examine the relevant legislation and regulations, identify any provisions that are problematic, and rewrite them.⁵⁷

9.67 The Committee raised this proposal with Treasury representatives during the hearing on 15 May 2003. In response, Mr Brake argued that Treasury has a continuous brief to look at legislation under its portfolio, and to bring problems to the Government’s attention.⁵⁸

55 *Submission 39*, Public Service Association of NSW, and *Submission 40*, The Combined Pensioners and Superannuants Association of NSW, p. 2.

56 OECD: ‘Increasing Employment: The Role of Later Retirement’, *OECD Economic Outlook 72*, (OECD, 2002), pp. 145-146.

57 *Committee Hansard*, 5 May 2003, p. 69.

58 *Committee Hansard*, 15 May 2003, p. 298.

Government pensions and allowances

9.68 In its paper, 'Increasing Employment: The Role of Later Retirement' the OECD advocated a number of strategies to encourage mature age workers to remain in the workforce, so as to cope better with the ageing of the population in OECD countries. One of those strategies was reducing the incentive to retire early in government pensions and allowances.

9.69 The OECD noted that a number of countries - Germany, Belgium, Italy, Finland, the Netherlands, Hungary, the UK and Canada - have recently started to tighten access to early retirement pensions, disability benefits and/or unemployment-related schemes. However, some countries have gone the other way by introducing an early retirement scheme (Norway), or making the existing system more generous and accessible to unemployed mature age workers (Spain).⁵⁹

9.70 During the conduct of the inquiry, a number of parties made suggestions for reform to government pensions and allowances here in Australia. These are examined below.

Newstart Allowance

9.71 In its written submission, Centrestone Wealth Management argued that the Newstart Allowance, in some instances, rewards people for failing to adequately save for retirement or using their retirement benefits for non-retirement purposes.⁶⁰ Centrestone raised four points.

9.72 First, Centrestone argued that mature age people can often receive the Newstart Allowance at age 50 without having to look for paid work. In its submission, Centrestone cited Section 603AA(1) of the *Social Security Act 1991*, which states:

Subject to subsection (3), a person who has reached 50 years is taken to satisfy the activity test in respect of a period (the relevant period) if the person:

(a) is engaged in approved full-time unpaid voluntary work for an approved organisation for at least 32 hours in the period; or

(b) is engaged for at least 40 hours in the period in a combination of:

(i) approved unpaid voluntary work for an approved organisation; and

(ii) suitable paid work for another person.

59 OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), pp. 145-146.

60 Centrestone Wealth Management has been a licensed securities dealer and insurance broker since 1984. Its retired clients are mainly self-funding, with some receiving a part pension.

9.73 However, in its submission, Centrestone argued that there appears to be substantial anecdotal evidence that people over the age of 50 are effectively advised by Centrelink that it is acceptable to breach the activity test – thereby discouraging people from seeking work.⁶¹

9.74 Second, Centrestone argued that there is no disincentive to withdrawing superannuation in order to supplement Newstart Allowance. In December 2002, the Family Law Legislation Amendment (Superannuation) (Consequential Provisions) Bill repealed sections in the *Social Security Act 1991* and the *Veterans' Entitlements Act 1986*. As a result, the growth component of early withdrawals from superannuation is no longer assessed as income. Accordingly, Centrestone argued that an individual can supplement government income support with superannuation withdrawals.⁶²

9.75 Third, Centrestone noted that superannuation is not means tested for Centrelink/Department of Veterans' Affairs (DVA) purposes if a person has not reached age pension age. Effective from 1 July 2001, superannuation benefits have been treated as exempt assets and are not income or asset tested for Centrelink/DVA purposes. Previously, superannuation assets commenced to be means tested for people who had been in receipt of income support for at least 39 weeks after reaching age 55. As a result, Centrestone argued that people aged 55 have a 10-year window of opportunity in which they can effectively 'hide' accumulating superannuation assets and receive the Newstart allowance.⁶³

9.76 Fourth, Centrestone argued that the conditions of release of superannuation benefits, especially in relation to reaching preservation age and permanently retiring, are quite artificial. Centrestone noted that an individual can state that they are permanently retired, access their superannuation benefits, and then work again. Alternatively, they can elect to receive a Centrelink benefit while depleting their superannuation savings, and then be eligible for the age pension.⁶⁴

9.77 In its written submission, Centrestone offered the following case study on the Newstart Allowance comparing different scenarios for two couples faced with the option of retiring fully from the workforce at age 55.

61 *Submission 3*, Centrestone Wealth Management Pty Ltd, pp. 3-4

62 *Submission 3*, Centrestone Wealth Management Pty Ltd, pp. 3-4.

63 *Submission 3*, Centrestone Wealth Management Pty Ltd, pp. 4-5.

64 *Submission 3*, Centrestone Wealth Management Pty Ltd, p. 5.

Box 9.1: Newstart Allowance case studyPart A

John and Margaret, aged 55 and 53 respectively, are a couple who own their own home with an outstanding mortgage of \$60,000. John has been working for his employer for many years, and as a result of restructuring in the company, is offered a redundancy package of \$150,000.

John decides to accept the redundancy offer. He receives approximately \$67,500 as a tax free cash payment and uses this to retire the mortgage debt of \$60,000 (and the residue is placed in his bank account). He elects to directly receive the remaining taxable portion. He deposits this in his bank account and then makes a \$65,000 spouse contribution into a superannuation fund for Margaret as she has only a small amount of superannuation (\$8,000). Margaret works as a receptionist in a doctor's surgery and earns \$28,000 for the financial year.

In addition, John has a superannuation benefit totaling approximately \$500,000, of which \$200,000 is preserved. John's superannuation is a mixture of pre-1983, post-1983 and undeducted components.

John visits the local Centrelink office to determine his entitlement to unemployment benefits. He is advised that as a result of Margaret's income he will not qualify. After some discussion, Margaret decides that she will cease working and they will both apply for unemployment benefits. To their surprise, they discover that there are no rigorous work test requirements imposed and they decide that they will follow the example of many of their friends, and travel around Australia.

As John and Margaret were accustomed to a very comfortable lifestyle, they continue to spend at their pre-retirement rate where their cost of living was \$60,000. This is achieved by drawing down from superannuation to supplement the Newstart that they both receive.

*We estimate that John and Margaret will be entitled to the full amount of income support until John reaches age pension age, ten years after the Newstart Allowance first became payable (based on assumptions in **Appendix Six**). When John reaches age pension age, they will be eligible to receive approximately 90 per cent of the maximum pension and allowance payments (based on assumptions in **Appendix Six**) as John's superannuation assets (estimated to then only total \$185,000 after consumed drawdowns) will now be counted. There is a high probability that John and Margaret will also be entitled to at least a part age pension when Margaret is of age pension age due to their depleted superannuation assets.*

Comment by Centrestone

It must seriously be questioned whether these are needs based benefits and whether they should be paid to support a lifestyle of \$60,000 per annum.

Part B

Next door to John and Margaret are another couple, Ted and Maureen, who are approximately the same age as John and Margaret. Ted also worked in the same company as John and was offered a redundancy package.

In contrast to John and Margaret, Ted and Maureen wished to continue working. Ted managed to obtain a part-time job where he received about half of his former salary and Maureen continued working in her part-time job. Between them they were able to achieve a reasonable standard of living on the net salaries they received. Ted's superannuation was able to accumulate to ensure a comfortable retirement in the future. They did not receive any government support and it is very likely that in their retirement years they will be fully self funding.

After John and Margaret returned from their 18 month holiday around Australia, they invited Ted and Maureen for a barbeque. As they sat around talking about their experiences, John and Margaret were very positive about John's redundancy as it had offered them the opportunity to embrace a life of leisure while they were still fit enough to enjoy it. They commented that Ted and Maureen were crazy to continue to work when the government can in reality, partly pay for people to take a long holiday.

Comment by Centrestone

This is the kind of scenario that is being repeated throughout Australia and the attitude of getting something for nothing is possibly replacing values of being self sufficient. Many people express the question 'Am I being foolish to not try and get this money for nothing?'

*Our modeling shows that John and Margaret would receive income support of almost \$200,000 over the ten years until John reaches age pension age. Over that time they pay no income tax (with the exception of lump sum taxes on withdrawals from superannuation). When John reaches age pension age they would be eligible to receive approximately 90 per cent of maximum benefits (based on assumption in **Appendix Six**). This trend would most likely continue when they are both receiving age pension due to their depleted assets.⁶⁵*

9.78 The Committee took evidence from Mrs Keavney and Ms O'Keefe from Centrestone Wealth Management in its hearing in Sydney on 5 May 2003 in which the above issues in relation to Newstart Allowance and the case study were raised. The Committee notes the evidence of Ms O'Keefe:

We are saying that there are strategies and loopholes out there that can enable people to receive income support when they might have sufficient funds. We face an ethical dilemma: for example, somebody who is aged 55 and is not working can get income support. They could have \$800,000 in super and still receive full income support, because superannuation is not

65 *Submission 3, Centrestone Wealth Management Pty Ltd, pp. 6-8.*

means tested if you are under aged pension age. So we face this dilemma: do we tell people to be self-responsible and use that \$800,000 that they have accumulated, or do we say, 'You can actually keep that in superannuation and get Newstart for 10 years'? We face that ethical dilemma.⁶⁶

9.79 In response, the Committee noted in the hearing on 5 May 2003 that only a small segment of the population have a considerable sum of the order of \$800,000, or even \$400,000 or \$500,000 in superannuation in the case of John and Margaret. While it may be possible to 'crack down' on such high wealth individuals, the majority of early retirees aged 55-65 are unlikely to have such large amounts preserved in superannuation. As a result, forcing those early retirees with only modest superannuation savings to rely on those savings from age 55, rather than accessing the Newstart Allowance, may only mean that they run down their superannuation saving before age 65, and are forced to rely even more heavily on the age pension at 65.⁶⁷

The age pension means tests

9.80 In its written submission, Treasury noted that eligibility for the age pension, while subject to a means test, does not distinguish between earned income (from wages and salary) and income from investments. That is, receipt of earned income will not of itself preclude a person from entitlement to the age pension.⁶⁸

9.81 However, in its written submission, ASFA noted that in determining age pension entitlement, different types of income are treated differently:

- a) Personal earnings (salary and wages) are included in the income test on the basis of income received in the applicable two weeks;
- b) Other forms of income are in effect averaged over the entire year even though such earnings are attributed to specific fortnights.

9.82 ASFA argued that these different arrangements discourage intermittent and casual work due to loss of the age pension and very high marginal tax rates. Accordingly, ASFA recommended that there be better integration of work and retirement by introducing an income bank for age pensioners for income derived from employment.⁶⁹

9.83 This issue was also highlighted by the COTA National Seniors Partnership, which noted that the income test on the age pension permits an individual to earn \$30 a week without a reduction in the pension. However, a person earning \$1,560 in a week (rather than \$30 for 52 weeks) loses a fortnight's pension, penalising those working in blocks rather than small weekly increments.

66 *Committee Hansard*, 5 May 2003, p. 12.

67 *Committee Hansard*, 5 May 2003, pp. 14-15.

68 *Submission 46*, Treasury, p. 3.

69 *Submission 33*, ASFA, pp. 15-16.

9.84 On a different matter, the ABA argued in its written submission that in view of the significant accumulation of assets by the so called “baby-boomer” generation, there is a case for incorporating the existing income and assets test into a “deemed” income test which would be applied to the designated assets of all pensioner applicants. This idea was further elucidated by Mr Rice representing the ABA in the hearing on 5 May 2003:

There is a significant problem with people who are retired at the moment in that they need to have their income and assets test every six months or quarterly, and it is inefficient. We looked at two potential alternatives to that: one was to look at people at the time they retire, and make a decision as to what their entitlement will be for the rest of their life at that time—and there are issues with that—but that is one way of doing it. The other way is to try and simplify the tests. Instead of looking at people’s assets and income, you just put a deemed income on all assets. It is really to design a simpler test.⁷⁰

9.85 Finally, although it acknowledged that this would be highly sensitive politically, the ABA noted that the social security system would be more equitable if the family home above a reasonable threshold was taken into account in the assets test. This threshold could be set at a high level in today’s prices (say, \$1,000,000). It would also not apply to existing retirees and those (say) within 5 years of retirement. This would encourage future retirees to unlock the “excessive” equity in their family homes and use it to fund their own retirement.⁷¹

The Pension Bonus Scheme

9.86 In its written submission, FaCS noted that under the Pension Bonus Scheme introduced on 1 July 1998, people of age pension age can defer claiming the age pension while continuing to work. Currently, however, few people of age pension age are working:

- a) 5.7 per cent of women are employed part-time and 2.6 per cent full-time; and
- b) 7 per cent of men are employed part-time and 11.9 per cent full-time.

9.87 FaCS indicated that at 31 December 2002, 48,740 were registered for the Pension Bonus Scheme, or about a quarter of those of age pension age who are working.⁷²

9.88 However, during the conduct of the inquiry, various parties argued that the Pension Bonus Scheme needs to be expanded, made more attractive and better publicised.⁷³

70 *Committee Hansard*, 5 May 2003, p. 33.

71 *Submission 41*, ABA, p. 11.

72 *Submission 38*, FaCS, p. 5.

9.89 ASFA argued that the Pension Bonus Scheme has not been successful in encouraging individuals to work past age pension eligibility. ASFA argued that the scheme has failed because:

- a) The scheme has not been well publicised;
- b) The quantum of bonus payment in lieu of the age pension is not great;
- c) There is a requirement to work 960 hours a year, which is high for individuals who may only want to work on a part-time or intermittent basis; and
- d) The labour force participation rate for persons of age pension age is very low and is mostly made up of professionals and the self-employed who are less likely to be eligible for the age pension.

9.90 Regarding publicity of the Pension Bonus Scheme, Centrestone also argued that although the Pension Bonus Scheme is an encouragement to remain working at least 20 hours per week for 48 weeks in the year, few people are aware of the scheme.⁷⁴ Ms O'Keefe from Centrestone noted in the public hearing of 5 May 2003:

The second scheme that would encourage progressive transitions from full-time work to part-time work would be the pension bonus scheme. That scheme is run by DVA and Centrelink but not a lot of people are aware of it, even though it is advertised from time to time. Not a lot of people have taken up the scheme. Increased advertising and public education programs saying, 'This scheme is available and you can get a bonus when you finally get the age pension' would encourage people to work past age pension age.⁷⁵

9.91 Similarly, the FPA noted that the Pension Bonus Scheme promotes progressive transition from work to retirement, but according to the many financial planners, not many people are aware of the scheme. This could be addressed by a public education campaign.

9.92 In relation to the quantum of bonuses in lieu of the age pension, the IAA argued that the scheme requires deferment of the age pension for five years to achieve reasonable compensation for the deferment:

For example, a man who is eligible for the full age pension [at 65] but defers commencing his age pension until age 67 will only receive approximately \$4,200 as a bonus, in return for having foregone more than \$22,000 of age pension payments (less than 20 per cent compensation). If he defers for five

73 See the Australian Pensioners' and Superannuants' League Queensland, Centrestone, The COTA National Senior Partnership, the FPA, the ABA.

74 *Submission 3*, Centrestone Wealth Management Pty Ltd, p. 12.

75 *Committee Hansard*, 5 May 2003, p. 19.

years, the percentage compensation increases to 46 per cent (\$26,200, compared to \$55,000 foregone).⁷⁶

9.93 Accordingly, ASFA recommended that the amount and conditions for the Pension Bonus Scheme be reviewed so as to make it more attractive to potential users, particularly those contemplating part-time or flexible work in the early years of their retirement, and more actuarially fair.⁷⁷

9.94 Finally, the COTA National Seniors Partnership noted that the Pension Bonus Scheme is weighted towards retirement at 70. Time worked after the age of 75 is not included when calculating the bonus.⁷⁸

Carer's benefits

9.95 The COTA National Seniors Partnership noted that carers are recognised in a number of overseas countries as making a valuable contribution to society and are assisted in a variety of ways. Many women give their time to care for others, but suffer, through their absence from the workforce, from reduced superannuation accumulation and, ultimately, lower retirement incomes.

9.96 Accordingly, the COTA National Seniors Partnership recommended that carer's benefits similar to those available in the UK, Canada and Germany be introduced such that contributions to a superannuation account are made by government on behalf of women caring for another person (child, parent or significant other) for the duration of their absence from the workforce.⁷⁹

The Commonwealth Seniors Health Card (CSHC)

9.97 In its written submission, the FPA recommended that one way to further encourage a progressive transition from work to retirement would be to reward workers staying on in the workforce on at least a part-time basis with access to the CSHC from age 55, rather than age pension age.

Income support arrangements for women

9.98 In her written submission to the inquiry, Dr Olsberg from the University of New South Wales Research Centre on Ageing and Retirement raised concerns that women, in particular, are likely to have insufficient income in retirement. Dr Olsberg suggested a number of reasons for this:

- a) Women do not have enough time and enough money put into superannuation over the course of their working lives. Compulsory

⁷⁶ *Submission 47, IAA, p. 12.*

⁷⁷ *Submission 33, ASFA, p. 16.*

⁷⁸ *Submission 31, COTA National Seniors Partnership, p. 24.*

⁷⁹ *Submission 31, COTA National Seniors Partnership, pp. 16-17.*

retirement-income schemes are presently dependent upon an individual's employment and wage level.

- b) Women's working patterns, their lifelong earnings and therefore their capacity to accumulate sufficient retirement savings are crucially compromised by interruptions to paid employment due to child-bearing and rearing and other family responsibilities.
- c) Women live longer than men – 82 years on average compared to 78 for men. As a result, women must rely on their superannuation for a longer period in retirement, often living alone.
- d) The high level of divorce and low remarriage levels of divorced women mean that expectations of financial security through access to a partner's superannuation may not always be realised.
- e) Research reveals that both women and men have low levels of understanding of superannuation and find fund information overly complex and hard to grasp. As a result, both women and men display low levels of commitment to superannuation savings, and often forgo opportunities to make long-term savings due to a disinclination to sacrifice current spending for future savings, as well as lack of surplus discretionary income.⁸⁰

9.99 The Queensland DIR also cited research by the Ministerial Taskforce on Work and Family in 2002 that women found it more difficult to accumulate retirement funds, often due to more interrupted work patterns through their working life. Accordingly, Queensland DIR recommended measures to improve the labour force attachment of women, a reconsideration of superannuation accumulation rules, and possibly encouraging women to defer retirement.⁸¹

9.100 In her subsequent evidence to the Committee on 5 May 2003, and in a document tabled with the Committee, Dr Olsberg summarised four strategies for increasing the retirement income of women. These are discussed below.

Greater equity for women in the paid workforce

9.101 Dr Olsberg noted that because superannuation is essentially linked to the workplace, the large proportion of women who work in casual or part-time jobs, or who have broken patterns of work, continue to be poorly off in retirement. To address this, Dr Olsberg nominated a number of strategies:

- a) The continued payment of SG contributions to women/men on maternity/paternity leave.

80 *Submission 6*, Dr Olsberg, executive summary.

81 *Submission 23*, Queensland DIR, pp. 1-2.

- b) Payment of the SG contribution by the government to women in receipt of carer's benefits.
- c) Or alternatively, a system of credit bonuses to allow people to accrue additions to their age pension on the basis of their service to society in caring for others.⁸²

Education and incentives to save

9.102 Dr Olsberg argued that there is a need to develop an understanding in the general population of the importance of saving. Education campaigns and retirement planning seminars should be targeted according to different superannuation savings levels, occupations, personal circumstances and levels of financial expertise. Furthermore, Dr Olsberg argued that there should be additional incentives to save, including:

- a) Co-contributions to saving from government or employers; and
- b) Tax incentives for those on higher incomes or direct subsidies for those on lower incomes.

9.103 Dr Olsberg also looked at tax reduction measures as an incentive to save. She argued that:

- a) The 15 per cent contributions tax could be discounted or even eliminated for individuals with below average incomes;
- b) The superannuation surcharge could be means tested on the basis of total superannuation savings. For example, women or men with total savings of less than \$300,000 could be exempt from paying the surcharge; and
- c) Superannuation fund structures and regulations could be amended to make it easier for women not in regular paid employment to make additional voluntary contributions to superannuation accounts.⁸³

Financial Planning and Maximising Women's Investments

9.104 Dr Olsberg argued that major investment houses, banks and fund managers should be encouraged to develop products which offer maximum investment opportunities for women and men with saving patterns that fluctuate over the course of their life, and for women and men with lesser amounts of money.

82 *Committee Hansard*, 5 May 2003, pp. 50-51. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

83 *Committee Hansard*, 5 May 2003, pp. 51-53. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

9.105 In addition, as noted later in this report, Dr Olsberg also mentioned that the National Information Centre on Retirement Investments (NICRI) and Centrelink provide excellent financial guidance and advice, but that hardly anybody knows about them. Accordingly, she also argued that greater resources and promotion should be given to these sorts of services.⁸⁴

Increasing women's role in the governance of Australia's superannuation and retirement incomes system

9.106 Dr Olsberg argued that women's role on trustee boards and management committees must be increased in order to ensure that women can take a leading role in the policy making process in any forthcoming review of Australia's national superannuation and retirement savings system.⁸⁵

Income support arrangements for self-funded retirees

9.107 In its written submission, the SCOA argued that self-funded retirees are not being treated fairly by the Commonwealth Government:

- a) The age pension is paid separately to each member of a couple, providing income splitting benefits, whereas most self-funded retiree couples do not enjoy this benefit because the income is mostly paid to one member of the couple.
- b) On introduction of the goods and services tax (GST), the age pension was increased in compensation. However, there has been no similar compensation for self-funded retirees, not even those on a relatively low retirement income.⁸⁶

9.108 Similarly, the Country Women's Association of Victoria raised the position of farmers as self-funded retirees. It advocates tax relief on retirement on the sale of farming assets including livestock, plant and equipment.⁸⁷

9.109 The Association of Independent Retirees – Whyalla and Districts Branch also raises the position of self-funded retirees. It argued that self-funded retirees are coming under increased financial pressure as super funds perform badly, and costs rise at a rate far in excess of CPI, often as a result of government decisions. The Association cited:

84 *Committee Hansard*, 5 May 2003, p. 53. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

85 *Committee Hansard*, 5 May 2003, pp. 53-54. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

86 *Submission 12*, SCOA, p. 2.

87 *Submission 19*, The Country Women's Association of Victoria, p. 1.

- An increase in electricity costs in SA by 30 per cent since January due to the federally imposed electricity policy;
- Greatly increased insurance costs following the collapse of HIH; and
- An increase in the costs of everyday goods and services due to the GST.⁸⁸

9.110 This point was reiterated in hearings on 9 May 2003 by Mr Shaw from the Association of Independent Retirees – Whyalla and Districts Branch. He argued that through the SG system, almost all retirees in the future will be to some degree self-funded. Accordingly, Mr Shaw argued that the government should provide greater concessions and other assistance to self-funded retirees.

88 *Submission 20*, The Association of Independent Retirees – Whyalla and Districts Branch, pp. 1-2.

Chapter Ten

Retirement and Eligibility for the Age Pension

Introduction

10.1 This chapter examines the concept of the fixed retirement age in Australia, and some of the factors influencing the decision to retire. It also considers submissions put to the Committee on eligibility for the age pension. Although this issue was not specifically raised in the Committee's terms of reference, a number of parties chose to comment on it.

The concept of a fixed retirement age in Australia

10.2 In his written submissions to the inquiry, Professor Lowther noted that prior to the 20th century, the concept of a retirement age hardly existed – at the turn of the 20th century, 90 per cent of men worked until they were physically unable to. It was only with the introduction of state funded social security and pension benefits in industrialised countries – pioneered in the 1880s by the German Chancellor Bismarck – that this changed. Australia adopted age 65 as a marker of old age and the eligibility point for receipt of the old age pension in 1908.¹

10.3 That said, FaCS, the WA Department of Community Development and the COTA National Seniors Partnership all noted in their written submissions that Australia does not have an official fixed retirement age, and proposed age discrimination legislation would prohibit dismissal on the basis of age unless specific exemptions apply. However, there are various factors influencing the decision to retire:

- a) The preservation age for superannuation, currently 55 but rising to 60 by 2024;
- b) The age at which people may claim the age pension, which is 65 for men and 62½ for women (rising to 65 by 2014);²
- c) The age until which people can contribute to superannuation, which is 75.³

1 *Submission 4*, Professor Lowther, p. 4.

2 From 1 July 2003, eligibility for the age pension for women increased to 62½ from 62 for women born after 1 July 1941.

3 *Submission 38*, FaCS, p. 5.

10.4 A number of parties argued in their written submissions that eligibility for the age pension represents an effective retirement age in Australia. For example, the ABA noted that the vast majority of retired Australians still receive a full or part age pension, and still regard the age at which they become entitled to it as the de-facto standard for their retirement age.⁴

10.5 Similarly, the IAA noted that there is no fixed retirement age in Australia at which an individual must retire, but that the age pension age effectively represents the age beyond which the community considers there to be no obligation to work.⁵

10.6 However, other parties downplayed the link between eligibility for the age pension and perceptions of a retirement age. For example, ASFA suggested that there is only a limited link between retirement on the one hand, the superannuation preservation age (currently 55) and entitlement to the age pension on the other. ASFA acknowledges that there is some clustering of eligible termination payments at age 55 and 65, but argued that such payments are often taken over a spread of time, and that in any event, receipt of an eligible termination payment does not necessarily equate with retirement. ASFA concluded:

Taken together, these factors and statistics suggest that a concept of a fixed retirement age does not have much continuing relevance because in practice a fixed retirement age is neither enforced or pursued in most instances.

10.7 That said, ASFA acknowledged that receipt of the age pension generally rules out all but minor attachment to the paid labour force, and that there is no evidence of significant numbers of mature age workers returning to full-time work subsequent to taking the age pension.

10.8 Similarly, SCOA suggested that the concept of a fixed retirement age is no longer relevant because successive governments have encouraged workers to plan for and contribute to their own retirement income, and because different individuals have different health and social circumstances.⁶

10.9 Finally, the ICA suggested that many Australians are choosing to work longer and have a gradual transition into retirement, and that the Australian community is fitter and healthier, leading to different expectations in retirement.

Should the age pension age in Australia be increased?

10.10 One obvious means of encouraging mature age workers to remain in the workforce is to increase the age of eligibility for the age pension beyond the current 65 years (currently 62½ years for women).

4 *Submission 41, ABA, p. 7.*

5 *Submission 47, IAA, p. 7.*

6 *Submission 12, SCOA, p. 4*

10.11 The Committee again notes the research conducted by the OECD and reported in the *OECD Economic Outlook* for 2002 entitled 'Increasing Employment: The Role of Later Retirement'. In this paper, the OECD advocated a number of strategies for keeping mature age workers in the workforce, so as to cope better with the ageing of the population in OECD countries.

10.12 One strategy advocated by the OECD to keep mature age workers in the workforce was to increase the earliest and/or the standard age of retirement. The OECD noted that a number of countries are already moving in this direction:

- a) New Zealand has progressively increased the standard age of retirement from 60 to 65.
- b) Canada has introduced a flexible retirement age from 60-70.
- c) The US is increasing the retirement age from 65 to 67, to be phased in by 2022.
- d) Italy and Hungary have raised the standard age of retirement from 60 to 65 and 60 to 63 respectively.
- e) Japan and South Korea (where the retirement age for the state pension is 65 and 60 respectively) have increased the retirement age for flat-rate benefits from 60 to 65, and in Japan the age for the income-related pension will also be increased at a later date.
- f) Australia, Belgium, Germany, the UK, Austria, Hungary and Italy (for new age pension recipients) have increased the retirement age of women so that it will be equal to that of men (sometimes after a phasing in period).

10.13 However, the OECD also noted that Denmark has gone in the other direction by lowering the normal retirement age from 67 to 65, although conditions for early retirement have been tightened at the same time.⁷

10.14 In their written submissions to the inquiry, Professor Lowther and the IAA supported the possibility of raising the age of eligibility for the age pension beyond the current 65 (currently 62½ for women):

- Professor Lowther argued that the age for retirement should be gradually increased as life expectancy increases, to produce a more favourable dependency ratio and reduce the burden on the full-time working population, and perhaps help counter intergenerational disputes over the issue. Professor Lowther suggested that retirement itself should become a broader concept of a different stage of life free from the constraints of career and family development, and

7 OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), p. 145.

should begin with either a graded withdrawal from full-time work or a cyclical process of work, community commitments and updating of skills.⁸

- The IAA noted that improvement in levels of health and fitness of older people and increasing longevity generally may create a desire in the community for an increase in the age pension age. The IAA acknowledged that such a change has the potential to be controversial, but that it need not be if it is phased in gradually and if the need for change is explained carefully.⁹

10.15 However, the majority of parties to the inquiry from a broad cross section of backgrounds opposed any move to increase the eligibility age for the age pension:

- ASFA dismissed any notion of increasing the age of eligibility for the age pension beyond the current settings on the basis that the current eligibility ages are remarkably unsuccessful at keeping individuals in the labour force until they qualify for the age pension. Accordingly, ASFA recommended that while keeping the eligibility age for the age pension at 65, policy attention should be given to helping people stay in the labour force through flexibility of retirement age and practices.¹⁰
- The Australian Pensioners' and Superannuants' League of Queensland argued that a fixed retirement age is a protection for older employees, and that an open ended retirement age could be a recipe for exploitation. Indeed, the League advocated that eligibility for the age pension should be set at 60, thereby opening up jobs for the young, while giving a reasonable length of healthy retirement to mature age workers.
- The ACTU strongly opposed any proposal that would make it harder for workers to retire at an age chosen by them, and rejected any lifting of the preservation age for superannuation or eligibility for the age pension.¹¹ Ms Rubinstein from the ACTU indicated in the hearing on 8 May 2003 that the ACTU is also opposed to changes to Commonwealth public service superannuation that would require public servants to work longer before being able to access their benefits.¹²
- The COTA National Seniors Partnership argued that the current age limits for eligibility for the age pension should remain unchanged for two reasons:
 - Retirement planning is long-term – changing the age at which a person becomes eligible for the age pension has the potential to disrupt the planning of many people now in their 40s and 50s.

8 *Submission 4*, Professor Lowther, p. 5-6.

9 *Submission 47*, IAA, p. 8.

10 *Submission 33*, ASFA, pp. 10-12.

11 *Submission 24*, ACTU, p. 3.

12 *Committee Hansard*, 8 May 2003, p. 116.

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- Some jobs are more arduous than others, and individuals may be unable to remain in or return to the workforce beyond the age of 65.
 - The Association of Independent Retirees – Whyalla and Districts Branch contended that there should remain a specified age at which a person can elect to cease working, and suggested that 65 is an appropriate age. To abolish that age as a point of retirement would increase the complexity and uncertainty of retirement planning for individuals. The branch concluded:

As self-funded retirees, we would view any change in the fixed retirement age with concern. It would signal an intention to alter the age at which persons who are currently working, and saving to fund their retirement, would have access to their funds. We would not support this position.¹³

10.16 The Committee also notes the evidence of Dr Linklater from the NSW Committee on Ageing in the hearing on 5 May 2003. Dr Linklater indicated the Committee's opposition to any proposal to increase the eligibility age for the age pension, on the grounds that the focus of government should be on encouraging people who have retired early, often involuntarily, back into the labour force, rather than on encouraging those who have reached age pension age to remain in the workforce.¹⁴

13 *Submission 20*, The Association of Independent Retirees – Whyalla and Districts Branch, p. 3.

14 *Committee Hansard*, 5 May 2003, p. 82.

PART III

WAYS TO ASSIST OLDER WORKERS PLAN FOR THEIR RETIREMENT

Part III of this report examines ways to assist older workers plan for their retirement. It includes an examination of current planning for retirement in Australia, the quality of paid financial advice provided to pre-retirees and retirees, the availability of unpaid financial advice from the government and superannuation funds, and the importance of non-financial planning for retirement.

Chapter Eleven

Current Planning for Retirement in Australia

Introduction

11.1 This chapter initially examines current evidence on when, why and how individuals plan for retirement in Australia, and considers the importance of early preparation for retirement, well in advance of withdrawal from the labour force. The chapter also considers current financial understanding and education levels in Australia and means by which they might be improved.

Different individuals' planning for retirement

11.2 In its written submission, IFSA cited the results of its 2001 research project *Retirement Savings – Desires and Drivers* which explored when and why, and to a lesser extent how, people aged over 45 prepare financially for retirement. IFSA found that:

- a) Many pre-retirees do not have a clear idea of when they will retire;
- b) The median age at which people consciously commenced to save for retirement is 45, while the mean age is 36; and
- c) Retirement is somewhat unplanned for many people.

11.3 Of those people actually planning for retirement (the minority), IFSA found that they tended to display the following characteristics:

- They were looking forward to retirement because of lifestyle aspirations;
- They were encouraged by their employer to pay attention to their financial position in retirement through education by the company's superannuation fund;
- They were in a very favourable superannuation scheme or one that otherwise encouraged high employee contributions;
- They feared ill-health, redundancy or forced early retirement;
- They had previously suffered a business failure or other severe denting of life savings plan;
- They were women for whom divorce or death of a spouse had triggered retirement planning;
- They were people who had come into a sudden inheritance and had realised that it was the only nest egg they had in retirement;
- They were natural accumulators of wealth; and

- They were parents who had realised that with their children leaving home, they had additional disposable income available for savings.

11.4 IFSA also found agreement with the statement that *saving or investing for my retirement is important to me*, and strong disagreement with the statement *I live for today and don't worry about saving money*. However, despite these findings, IFSA found that people neither agreed nor disagreed with the statement *I feel confident I will have enough money in retirement to provide a good standard of living*.¹

11.5 FaCS also cited in its submission the results of its survey entitled *Workforce Circumstances and Retirement Attitudes of Older Australians* in relation to financial planning. It found that amongst people aged 45-69 who had ceased work at a time they had chosen:

- 70 per cent had taken some financial planning steps prior to their retirement. The range of planning activities reported included consulting financial advisers, establishing a superannuation fund, drawing up a budget and/or starting to make financial investments; but
- 30 per cent had not taken any financial planning steps.

11.6 The Committee notes that FaCS indicated that these results applied to only a small sample group.²

The importance of early planning for retirement

11.7 Given the evidence on preparation for retirement summarised above, the Committee wishes to highlight evidence it received during the inquiry that planning for retirement should begin early, well in advance of retirement.

11.8 For example, in the hearing on 9 May 2003, Dr Parkinson from ARPA(SA) argued that financial planning for retirement should begin 20 years in advance. Similarly, Mr Shaw from the Association of Independent Retirees – Whyalla and District Branch made the comment:

I can remember at age 20, when working for BHP, having to make a choice as to whether or not I would join the superannuation fund. I had colleagues who were the same as me who said, 'I'd rather buy a car or go to the pub on a Friday night,' and opted out of joining the superannuation fund. Thinking back, it was probably one of the most important decisions I ever made in my life when I decided to begin to contribute to a superannuation fund at age 20. If we can impart that notion to young people today at that same age we would do them an enormous service for the future.³

1 *Submission 27*, IFSA, pp. 1-2. See also *Committee Hansard*, 5 May 2003, p. 57.

2 *Submission 38*, FaCS, p. 12.

3 *Committee Hansard*, 9 May 2003, p. 199.

11.9 The Committee also notes the submission of Mr Kemp that the government should be reinforcing to the young and old alike the importance of early planning for retirement.⁴

Financial education standards in Australia

11.10 During the inquiry, various parties raised the issue of financial education standards in Australia and community understanding of the superannuation system when planning for retirement.

11.11 For example, in its written submission, ACCI argued that the government has an important role to play in ensuring that the community understands that the age pension and the SG go only part of the way towards providing an adequate income in retirement and that it is essential for individuals to make additional arrangements to secure their own future.⁵

11.12 This position was supported by representatives of the ABA. In evidence to the Committee on 5 May 2003, Mr Connolly representing the ABA observed that the whole issue of information and education is critical. Accordingly, he argued that there is a case for establishing, for a limited time, a small committee, working through Treasury perhaps, which could advise Ministers and Government Departments on improving consumers' understanding of superannuation.⁶

11.13 A number of parties to the inquiry also referred to the \$28.7 million allocated to the Australian Taxation Office (ATO) in the 2002-03 Budget to undertake an extensive financial education campaign and to administer choice of superannuation under the amendments proposed in the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002, currently in the Senate.

11.14 In its written submission, ASFA argued that the education campaign should go ahead, regardless of the status of the choice legislation in the Senate, and that additional funding should be provided to the ATO. ASFA noted a recent FPA survey that up to 30 per cent of employees can exercise choice of fund, a majority are able to exercise investment choice, and the vast majority of employees are able to decide on the destination of their superannuation balance when they retire, resign or are retrenched. Indeed, ASFA recommended that double the allocated \$28.7 million – \$52.8 million – be allocated to a comprehensive public education campaign over three years to be conducted by the ATO or by ASIC.⁷

11.15 In her evidence to the Committee on 5 May 2003, Ms Wolthuizen from the Australian Consumers' Association (ACA) also recommended that the \$28.7 million

4 *Submission 10*, Mr Kemp, p. 1. See also *Committee Hansard*, 9 May 2003, p. 218.

5 *Submission 41*, ACCI, p. 9.

6 *Committee Hansard*, 5 May 2003, p. 31.

7 *Submission 33*, ASFA, pp. 19-20. See also *Committee Hansard*, 5 May 2003, p. 40.

currently allocated for consumer education be spent, regardless of the outcome of choice of superannuation legislation currently before the Senate:

It is far better to spend the money now to try to bring up people's levels of understanding and comprehension, and then introduce super choice once we have a clearer sense that people will have the ability to manage it properly.⁸

11.16 Ms Wolthuizen also argued that the problem of better education should be addressed at all levels of government. She noted that ASIC is currently examining ways to introduce units into curricula at the primary and secondary level to boost levels of financial education. Beyond that, there is a role for general education campaigns run by either ASIC or the ATO. In addition, there is a role for government to look at increasing its expenditure and resources directed at providing individuals with independent advice.⁹

11.17 That said, Ms Wolthuizen indicated her belief that it is extremely unlikely that Australia will ever get to the point where people are going to have a very high level of understanding of superannuation products:

We could devote as many resources to [financial planning] as we do to other areas of life education, such as sex education, and we are never going to get the level of understanding that we would hope from Australian consumers which would put them in a situation where they could properly protect themselves against financial loss and make the best arrangements for their long-term financial security. As has been put to me, one of the best outcomes you can hope for from education is that you get a subsector of consumers who are so aware, vocal and good at self-advocacy that they can exert pressure on the industry. But we are never going to be in a position where you can expect that from the majority of the Australian population.¹⁰

11.18 This position was also expressed by a number of other parties to the inquiry. For example, in evidence to the Committee on 5 May 2003, Mr Negline from the ICA agreed that it is impractical to educate all Australians to a point where they could manage successfully their own superannuation, and drew an analogy with people's health:

You could say that about people's health, too, couldn't you? That if you could educate them all well enough, they wouldn't need a doctor?¹¹

11.19 Similarly, in response to a question from Senator Sherry whether education is sufficient to protect consumers, Ms McAlister from ASIC stated in the hearing on 8 May 2003:

8 *Committee Hansard*, 5 May 2003, p. 4.

9 *Committee Hansard*, 5 May 2003, p 5.

10 *Committee Hansard*, 5 May 2003, p. 7.

11 *Committee Hansard*, 5 May 2003, p. 97.

Education of itself would not be sufficient, no. I think it goes a long way. I guess a fundamental premise of the financial services regulatory regime at the moment is the informed consumer; that is a key plank. Obviously, having informed consumers is a very important plank, but of itself it is not enough. You can have a strong regulator, and you have to have clear and enforceable rules.¹²

12 *Committee Hansard*, 8 May 2003, p. 105.

Chapter Twelve

The Quality of Paid Financial Advice

Introduction

12.1 This chapter examines the quality of financial advice available to retirees and mature age employees approaching retirement. During the inquiry, a great deal of concern was expressed that financial planners are not, in all instances, acting in the best interests of their clients, with the result that retirees are being placed in inappropriate retirement products which do not serve them well in retirement.

The ASIC/ACA and ANZ financial advice surveys

12.2 In its written submission, the FPA indicated that financial plans prepared by financial planners generally:

- Outline the person's financial position and needs;
- Set out the person's goals;
- Explain the overall strategy to achieve them;
- Recommend investments and other steps for the person to manage their money;
- Show how each investment and any other steps will get the person to their goals;
- Discuss the risks and how to deal with them;
- Show all costs to the person; and
- Inform the person about any remuneration and other benefits that the adviser may receive for their professional skills.

12.3 However, on 11 February 2003, ASIC and the ACA released a joint survey very critical of the quality of advice provided by financial planners. The results of the survey are shown in Table 12.1 below:

Table 12.1: Results of ASIC and ACA survey of the quality of advice provided by financial planners

Grade	No. of Plans	Percentage
<i>Very good</i>	2	2
<i>Good</i>	23	19
<i>OK</i>	36	29
<i>Borderline</i>	30	24
<i>Poor</i>	21	17
<i>Very Poor</i>	12	10
Total	124	100

12.4 ASIC/ACA indicated that common deficiencies in plans included:

- failing to provide an Advisory Services Guide (15% of planners);
- failing to show how the recommended strategy and action was appropriate for the client;
- being hard to read and ‘padded’ with reams of generic information;
- ignoring key client requirements and not explaining why;
- recommending higher-fee investments (such as some wrap accounts and master trusts) without showing why these were better than cheaper alternatives; and
- recommending a switch without showing how new investments would be better than existing investments.

12.5 Commenting on the results of the survey, ASIC Executive Director of Consumer Protection, Mr Kell, said:

The overall results of the survey show that many people aren't getting the quality of advice they deserve. This is a wake-up call to the financial advisory industry that significant improvements are needed.¹

12.6 The Committee also notes that on 2 May 2003, the ANZ released the results of its first financial literacy survey, which looked at the ability of Australians to make informed judgments and decisions about the use and management of their money. Some of the key findings were:

- While investment fundamentals are well understood, with 85 per cent of people knowing that high returns equal high risk, nevertheless investors are potentially susceptible to misleading claims, with 47 per cent indicating that they would invest for ‘well above market rates and no risk’.
- Planning for retirement is poor with only 37 per cent of people having worked out how much money they needed to save for retirement. Many also have

1 ASIC Media Release 03-037, *Financial Planner Survey Results Released*, 11 February 2003.

unrealistic expectations, with 50 per cent expecting to be living ‘at least as comfortable in retirement as they are today’.

- Knowledge of fees and charges varies with 88 per cent of credit card users and 78 per cent of those with bank accounts knowing their fees well. However, only 60 per cent of people with managed investments and 44 per cent of those with superannuation knew their fees well.
- Most people understand their bank account and credit card statements, however 21 per cent of people cannot understand their superannuation statements and further testing revealed that only 40 per cent can identify key items on a superannuation statement correctly.²

12.7 The Committee notes that the quality of financial advice clearly has implications for planning for retirement by mature age workers. The provision of poor quality advice to mature age workers has the potential to deprive them of a comfortable retirement, forcing them to rely more heavily on government provided assistance.

12.8 Various parties cited the findings of the ASIC/ACA survey of financial advice in their written submissions to the inquiry.³ For example:

- a) The COTA National Seniors Partnership expressed its concern that thousands of people have received advice that is borderline, poor or very poor, leaving their capital and retirement income potentially at risk or underperforming.⁴
- b) Similarly, the ACTU argued that there is a need for greater disclosure of fees and commissions in the superannuation industry, and greater regulation of the financial planning industry.⁵

12.9 Similar concerns arising from the ASIC/ACA and ANZ surveys were also raised in hearings. Ms Wolthuizen from the ACA noted that there are some very alarming deficiencies when it comes to the quality of advice offered by financial advisers and consumer comprehension of financial products, particularly when it comes to superannuation and planning for retirement. Ms Wolthuizen noted:

- The ANZ research shows that even basic understanding is very low when it comes to retirement planning and super. The ANZ survey found that 55 per cent of respondents knew nothing about super fees, and only 37 per cent had worked out how much they would need for retirement. The survey also cited a hypothetical scenario put to respondents of a 53-year-old with just over \$25,500 in superannuation savings. The respondents were asked whether that would be

2 ANZ, Media Release, ‘ANZ Releases Australia’s First Financial Literacy Survey’, 2 May 2003.

3 See IFF, the ACTU, Mr Mair, the COTA National Seniors Partnership.

4 *Submission* 31, COTA National Seniors Partnership, pp. 28-29.

5 *Submission* 24, ACTU, p. 4.

enough for the 53-year-old to retire on at 65. While a majority said no, there were still a proportion who indicated that, yes, \$25,500 would be more than enough for the 53-year-old to live on comfortably from the age of 65.⁶

- The ASIC/ACA survey found that 51 per cent of the plans assessed received borderline or fail ratings, and only two out of 124 were rated as being very good. The common problems were out and out non-compliance; failure to know clients – such things as risk profile forms being sent out after the plan had been provided; or no consideration of the client’s existing financial position or existing investments and assets or no consideration of specific goals, such as wanting to pay for children’s education.⁷

12.10 In response to the findings of the ASIC/ACA and ANZ surveys, Mr Hristodoulidis from the FPA, which represents some 14,500 financial planners across Australia, acknowledged in the hearing on 8 May 2003 that the FPA was concerned about the findings. At the same time, Mr Hristodoulidis indicated that the FPA was disappointed at the emphasis placed on some of the results in the two surveys and the impact this may have on consumer confidence.⁸

12.11 Mr Hristodoulidis noted that the FPA, since its inception some 10 to 15 years ago, has been to the forefront in raising the standards of advice and practice in the financial planning industry. In the last two years, he indicated that the FPA has received 262 complaints against members, conducted 26 disciplinary hearings and posted 46 charges of misconduct. The FPA also recently launched its Professional Partner Program, aimed at driving incompetent and unethical planners out of the industry.⁹

Case Study

12.12 The Committee wishes to cite a case study showing the difficulties faced by many retirees when investing their superannuation entitlements. The case study is based on evidence tabled by Mr Potticary in the hearing on 9 May 2003.

12.13 Mr Potticary retired in mid-1997, at which time he took a separation package of approximately \$68,000. He invested this in an allocated pension on the advice of a financial planner. Table 12.2 below shows the performance of that pension since 1997.

6 *Committee Hansard*, 5 May 2003, p. 2.

7 *Committee Hansard*, 5 May 2003, p. 3.

8 *Committee Hansard*, 8 May 2003, p. 144.

9 *Committee Hansard*, 8 May 2003, pp. 144-145.

Table 12.2: Mr Potticary's Allocated Pension – 30/6/1997 – 31/12/2002

Date	Initial investment	Initial fee + 6 monthly fee	Tax + payg	Fund earnings	Pension payment
30/6/97	\$68,000	\$2,400		\$104	
31/12/97		\$608	\$306	\$2,043	
30/6/98		\$608	\$411	\$2,821	\$4,207
31/12/98		\$605	\$103	\$2,260	\$2,151
30/6/99		\$604	\$103	\$1,321	\$2,151
31/12/99		\$587	\$107	\$4,255	\$2,163
30/6/00		\$594	\$107	\$1,511	\$2,164
31/12/00		\$612	\$59	\$896	\$2,189
30/6/01		\$597	\$59	\$2,030	\$2,248
31/12/01		\$581	\$61	\$428	\$2,234
30/6/02		\$583	\$299	-\$405	\$2,234
31/12/02		\$583	\$294	-\$99	\$2,140
Total 31/12/02	Now worth \$54,980*	\$8,931#	\$1,909^	\$18,947~	\$23,822

* \$ value of investment has decreased by \$13,020

Total fees charged represent 47 per cent of earnings

^ Widely varying amounts of tax show instability in government taxation policies

~ Negative fund earnings are a source of worry for retirees and make them wonder whether allocated pensions are worthwhile at all. The fund earnings have been negative for the last 18 months.

Source: Mr Potticary, tabled document, 9 May 2003.

12.14 The Committee notes a number of points out of the above case study:

- a) Mr Potticary paid an initial fee of \$2,400, and currently pays ongoing fees every 6 months.
- b) The total fees and charges on the allocated pension from 30 June 1997 to 31 December 2002 amount to \$8,931, which represents 47 per cent of the earnings (\$18,947).
- c) The value of the investment has decreased by \$13,020, including negative returns at 30 June 2002 and 30 December 2002.

12.15 In the hearing on 9 May 2003, Mr Potticary indicated to the Committee that he did not understand the fee structure or cost structure of the allocated pension at the time he took it, and did not appreciate the impact of ongoing fees commissions on his retirement income.¹⁰

¹⁰ Committee Hansard, 9 May 2003, p. 242.

12.16 Mr Potticary also acknowledged that at the time of taking the allocated pension, he should have sought advice from a different financial planner.¹¹

12.17 The Committee appreciates the evidence of Mr Potticary as an example of the difficulty faced by many retirees when it comes to investing their superannuation lump sum.

Improving the quality of paid financial advice

12.18 During the inquiry, various parties made reference to measures designed to improve the quality of paid financial advice available to pre-retirees and retirees.

The Financial Services Reform Act

12.19 The *Financial Services Reform Act 2001* (FSR Act) is a new licensing regime for those carrying on a financial services business. The FSR Act, which is enforced by ASIC, includes a number of measures designed to improve the quality of financial advice:

- a) It outlines the requirements that must be met by a financial service provider to obtain a license.
- b) It requires that clients of financial service providers be provided with a financial services guide which presents information, for example, on fees, commissions and charges, so that the client can make an informed decision.
- c) It requires that financial service providers outline the basis of their advice to a client, including any charges in taking up the product and any benefits the client might lose, amongst other things.¹²

12.20 The FSR Act commenced on 11 March 2002. However, it has a two-year transition period until 11 March 2004. In the hearings on 15 May 2003, Mr Rosser from Treasury noted that currently the FSR Act is just over half way through the transition period. Approximately 800 licenses have been issued, but ASIC ultimately expects to issue about 6,000 licenses.¹³

Financial industry commissions

12.21 In its written submission, the Industry Funds Forum (IFF) focused on the issue of commissions to financial planners for the sale of financial products and the impact commissions may have on the level of retirement incomes. The IFF noted that there are several different types of commissions:

11 *Committee Hansard*, 9 May 2003, p. 242.

12 *Submission 46*, Treasury, p. 6.

13 *Committee Hansard*, 15 May 2003, p. 295.

- a) Up-front commissions which may be deducted immediately from a new account and paid to the selling financial planner.
- b) Trailing commissions, which are currently more common. These commissions may be deducted from the consumer's account on an annual basis for an indefinite period.
- c) Volume servicing commissions whereby, as an agent's sales volumes for a particular financial institution increase, the rate of the commission increases.

12.22 The IFF argued that the system of percentage commissions clearly has the capacity to act against the best interests of retirees and those planning their retirement. A percentage fee is an inappropriate charging mechanism because there is not a direct relationship between the amount of client money and the amount of work involved for the financial planner. The IFF continued:

The system needs reform, where the desirable outcome would provide for a more direct relationship between the level of work and the fees charged, and incentives to provide conflict-free, objective advice.¹⁴

12.23 In her evidence to the Committee on 5 May 2003, Ms Wolthuizen from the ACA also argued that the Government should examine restrictions on, or the removal of, commissions as a whole. However, she argued that the FSR Act essentially entrenches commission based remuneration arrangements. She noted:

FSR is disappointing in the sense that it relies on disclosure as the means of trying to overcome the conflict of interest that is presented by commission remuneration. We have found that commission remuneration is not in consumers' interest.¹⁵

12.24 Accordingly, Ms Wolthuizen expressed the ACA's preferred position that commissions be banned and the industry operate on a fee-for-service basis.¹⁶

12.25 In response to these arguments, Mr Hristodoulidis from the FPA argued in the hearing on 8 May 2003 for the maintenance of commissions as a means of paying for financial advice, provided that the disclosure regime under the FSR Act is appropriate. Mr Hristodoulidis commented that 20 per cent of respondents to the ANZ financial advice survey, and 30 per cent of respondents to a Roy Morgan survey conducted on choice, indicated that they would prefer to pay for advice through a commission rather than an up-front fee.¹⁷

14 *Submission 7*, IFF, pp. 2-3.

15 *Committee Hansard*, 5 May 2003, p. 8.

16 *Committee Hansard*, 5 May 2003, p. 8.

17 *Committee Hansard*, 8 May 2003, p. 147.

12.26 Senator Sherry subsequently also raised with Mr Hristodoulidis whether there is a conflict of interest where financial planners are paid to provide independent advice, but at the same time may be remunerated in part or in whole based on the commission they collect from the products they recommend. In response, Mr Hristodoulidis argued that the new FSR Act obliges financial advisers to disclose any conflict of interest, and to make it clear to the client what they are entering into.¹⁸

12.27 In reply to Mr Hristodoulidis, Senator Wong noted that the safeguard provided by the FSR Act may not be sufficient, given the findings from the ASIC/ACA survey that commission-only agents performed particularly badly, even when compared to the general underperformance of the industry, receiving only a 44 per cent average score under the survey. In answer, Mr Hristodoulidis made two substantive points:

- a) The results from the ASIC/ACA survey show that financial planners who offered their clients the option of paying fee-for-service or commission actually outperformed the fee-for-service only providers.
- b) The ASIC/ACA survey was conducted under the old Corporations Law, whereas the new FSR Act actually raises the hurdle of what needs to be disclosed, and the penalties for non-disclosure.¹⁹

12.28 Finally, the Committee notes that in the hearing on 8 May 2003, Ms McAlister from the industry regulator, ASIC, expressed her belief that the new FSR Act will address the issue of commissions:

What we are saying is that we see the new law as significantly raising the standards around disclosure of commissions ... We have not really seen whether the new law standards, combined with strong regulatory messages about the way we think those new law standards ought to be implemented and administered by industry, have had an impact yet.²⁰

12.29 In addition, the new FSR Act includes provisions that whatever advice is given to consumers, it must be appropriate to their needs, circumstances and objectives.²¹

18 *Committee Hansard*, 8 May 2003, p. 148.

19 *Committee Hansard*, 8 May 2003, p. 160.

20 *Committee Hansard*, 8 May 2003, p. 111.

21 *Committee Hansard*, 8 May 2003, p. 111.

The deductibility of financial planner fees

12.30 In its written submission, the FPA noted that generally, financial plans take from 7 hours to 30 hours of work to complete, which at a cost of \$200 an hour, means an overall cost from \$1,400 to \$6,000. However, the FPA continued that the up-front cost of a plan is not tax deductible. This seriously inhibits the provision of fee-for-service financial advice.²² This point was also made by IFSA²³ and the ABA²⁴ in their written submissions.

12.31 In the hearing on 8 May 2003, Mr Hristodoulidis from the FPA argued that the up-front cost of preparing a financial plan should be tax deductible:

The critical aspect at the moment is that you have two systems operating. You have a system where the cost of obtaining some advice is tax deductible, and the fees and charges for other forms of advice that you may receive are not deductible. We are saying that there needs to be consistency in the approach.²⁵

12.32 The Committee also raised this issue with Mr Negline from the ICA in the public hearing on 5 May 2003. He also indicated that initial advice provided by a registered financial planner is not deductible if it is paid for by an up-front fee. This is because the up-front fee is perceived, from a legal taxation perspective, as relating to a capital investment. By contrast, trailing commissions relating to ongoing advice are perceived, from a legal taxation perspective, as relating to income, and hence are tax deductible.²⁶

12.33 This advice was confirmed by representatives of Treasury in the hearing on 15 May 2003. Mr Brake reiterated to the Committee that the general tax principle is that deductions can only be claimed for expenses incurred in earning assessable income, and that superannuation advice paid for by an individual in advance is not incurred in earning an assessable income.²⁷

12.34 To address this perceived problem, the FPA recommended in its submission that the ATO and the Federal Government develop an investment advice related expense section in the *Income Tax Assessment Act 1997* similar to the treatment of tax-related expenses in Section 25-5 of the *Income Tax Assessment Act 1997*. This section specifically provides a tax deduction for expenses incurred in connection with the person's tax related affairs, even expenses of a capital nature that would otherwise

22 *Submission 32*, FPA, pp. 15-16.

23 *Submission 27*, IFSA, pp. 2-3.

24 *Submission 41*, ABA, p. 13.

25 *Committee Hansard*, 8 May 2003, pp. 146-147.

26 *Committee Hansard*, 5 May 2003, p. 90.

27 *Committee Hansard*, 15 May 2003, p. 299.

be denied under Section 8-1. The FPA suggested that a similar section could be inserted to make the up-front cost of a financial plan deductible.²⁸

An 'Australian standard' for financial planners

12.35 In his private written submission, Mr Mair argued for the development of an 'Australian standard' for financial plans and their disclosure of pricing by Standards Australia. Mr Mair criticised the Government for refusing to play a greater role in promoting standards for the 'services' and 'product' offered by the financial services industry and their terms of sale.²⁹

12.36 Senator Lightfoot raised this issue with Mr Brunner from APRA in the hearing on 16 May 2003. In response, Mr Brunner indicated that Standards Australia sets standards that are at a fairly generic level, providing guidelines for all financial industry members, whether they are in banking, superannuation or insurance. However, Mr Brunner argued that specific standards for particular industries such as the superannuation industry should be implemented through disallowable instruments put before the Parliament. As stated by Mr Brunner:

The Standards Australia standards are a very useful starting point, but I think developing the specific standards as disallowable instruments is a more effective way of providing standards for superannuation than developing a specific Standards Australia standard for superannuation.³⁰

The viability of not-for-profit funds

12.37 Given the evidence cited above in relation to financial planning standards, commissions in the financial planning industry and the FSR Act, the Committee notes the concern expressed by Mr Brookes from the CSA in the hearing on 8 May 2003 in relation to the viability of not-for-profit corporate funds and the fund recommendations made by financial planners.

12.38 Mr Brookes argued that that the superannuation industry is being 'oligopolised' – not-for-profit corporate funds are being forced out of the superannuation market and progressively replaced by for-profit, commission-driven financial conglomerates. In support, Mr Brookes cited APRA figures that the number of corporate funds had been reduced from 3,200 to 2,600 as at the end of last year.³¹

12.39 Mr Brookes further argued that this is to the detriment of superannuants. Mr Brookes cited research by APRA that not-for-profit provision of super has the highest return on assets for superannuants – about 6½ per cent per annum at present (50 per

28 *Submission 32*, FPA, pp. 15-16.

29 *Submission 26*, Mr Mair, p. 3.

30 *Committee Hansard*, 16 May 2003, p. 312.

31 *Committee Hansard*, 8 May 2003, p. 133.

cent better than the retail sector). In addition, he argued that the cost structure of not-for-profit funds is massively lower than that of retail funds.

12.40 Mr Brookes also argued that contributors to many corporate not-for-profit funds are willing to pay above the SG rate of 9 per cent. The average contribution to members of the CSA is 11½ per cent – 2½ per cent over and above the SG rate. In addition, two-thirds of corporations pay for the administration costs of corporate funds, and 62 per cent also pay the members' insurance costs.

12.41 Mr Brookes attributed the oligopolisation of the superannuation industry to the difficulty for the consumer in getting clear, independent, unbiased and disinterested advice. As Mr Brookes noted:

It is very hard to do, because the so-called independent consultant, who is perhaps an asset consultant, has almost certainly got their fingers in other pies—for instance, a master trust or a financial planning subsidiary. They could go to the bank manager. The bank manager unfortunately is part of financial planning. Even an asset consultant in an investment management firm is as well. Witness the takeover by banks of those very mechanisms. Witness the reverse point, where investment consultants have gone into financial planning. How about financial planning itself? At the moment, you get advice. One is obliged, through the barriers to entry and the barriers to staying in the game, to go to a financial planner. Surprise, surprise: at last count 80 per cent of those firms are owned by the financial conglomerates. As was pointed out earlier, the advice given by those planners is limited, is biased and has commission attached to it.³²

12.42 Elaborating this point, Mr Brookes argued that financial planners are simply not paid to give independent advice. Rather, it is in their interest to direct retirees into for-profit retail funds, in order to earn money from commissions.³³ Mr Brookes continued:

If we look at the incidence of oligopolisation—it is a long word but it does summarise it all very well—we see that the question for the Australian independent person is: to whom do I turn for fair, independent advice? That is the central question: who do you go to? Before the financial services act, one could turn to the guardians of one's own money, and by that I mean the trustees of the corporate not-for-profit fund, who in fact represent themselves; that is, the members of the fund. The advice there was freely given, independent, disinterested; that is, there was no commercial advantage or link to the provision of that advice. With the advent of more regulation, more control and more cost—that is, the financial services act—the provision of that advice is now subject to a licence.³⁴

32 *Committee Hansard*, 8 May 2003, p. 134.

33 *Committee Hansard*, 8 May 2003, p. 134.

34 *Committee Hansard*, 8 May 2003, p. 133.

12.43 Senator Wong subsequently raised with Mr Brookes her interpretation of his argument, namely that the FSR Act may of itself be leading to a decline in the availability of disinterested and impartial financial advice. In response, Mr Brookes argued that there are some aspects of the FSR Act which are really excellent, but that the downside is that it treats not-for-profit funds exactly the same as if they were for profit funds. Put simply, corporate funds are not permitted to give information to members of the fund regarding the operation of the fund.³⁵

12.44 Senator Wong in turn suggested that there might have been some difficulty in the industry if industry and corporate funds were treated differently to retail funds in relation to the giving of information to members. In response, Mr Brookes commented:

I wonder why. If the basis is that those who stand to gain from doing something should be regulated in a certain way, it is a different playing field entirely for those who do not stand to gain or who stand to gain nothing. ... The fear—and it is fear of being sued, fear of liability—is that different members of regulatory bodies will have different opinions on what they consider is advice versus information. In other words, there is a clear exemption there, but the interpretation of it is various.³⁶

12.45 Subsequently at the hearing on 8 May 2003, the Committee raised with Mr Hristodoulidis from the FPA the likelihood that financial planners would recommend industry, corporate and public sector funds which do not pay commissions, and which are not on their list of products to recommend. In response, Mr Hristodoulidis noted that there are some financial planning groups which do recommend industry and corporate funds. In addition, a consumer may go to a financial planner, who may recommend that the consumer stay in their current industry or corporate fund, rather than moving to a retail fund.³⁷

12.46 The Committee also raised with Mr Hristodoulidis whether financial planners should be required to have on their recommended list of funds a representative cross-section of funds from industry, corporate and retail sectors, or whether a planner should be permitted only to have commission based products on their list. In response, Mr Hristodoulidis indicated that just because financial planners do not have a particular fund on their list does not mean that they will not recommend that fund.³⁸

35 *Committee Hansard*, 8 May 2003, pp. 135-136.

36 *Committee Hansard*, 8 May 2003, p. 136.

37 *Committee Hansard*, 8 May 2003, p. 152.

38 *Committee Hansard*, 8 May 2003, p. 152.

Chapter Thirteen

Government and Superannuation Fund Assistance

Introduction

13.1 This chapter examines the financial advice and assistance available to pre-retirees and retirees from the government and from superannuation funds. The government provides a number of financial advisory services free of charge through a variety of mechanisms and from various institutions. In addition, an increasing number of superannuation funds provide financial advice, education and retirement products. The chapter also examines the proposal for forecasting superannuation savings using government stipulated guidelines.

Government provided financial advice

13.2 The Committee notes that the government provides a number of independent financial planning advisory services. The Committee summarises these services below.

FaCS' Financial Information Service

13.3 In its written submission, FaCS noted that it provides a Financial Information Service (FIS) to pre-retirees and retirees. FaCS indicated that between 1 July 2002 and 20 March 2003, FIS Officers (there are approx 120 throughout Australia) took 142,027 calls and conducted 53,082 interviews throughout Australia. Over the same period, 1,442 FIS seminars were held, attended by 52,820 people.¹

FaCS Portfolio Retirement Planning Information

13.4 FaCS also noted in its written submission that it produces, in association with Centrelink, a number of publications to assist pre-retirees and retirees:

- *Investing Money – Your Choices*, which provides information on the basics of financial planning and on different types of financial products, including the taxation and social security treatment of those products. This is a joint FaCS/NICRI publication.
- *Home and Residence – Choices for Older People*, which aims to assist older people and their families with important lifestyle and housing decisions. Information is also provided on how older people can get the care they need, whether in their own home or in residential care.

1 *Submission 38, FaCS, pp. 13-14.*

- *Australian Retiree – Your Choices*, which is a resource to help self-funded retirees become aware of the products, services, concessions and organisations available to assist them to maximise their choices and lifestyle through retirement.
- *Moving House – Your Choices*, which aims to assist people to improve their lifestyle in retirement by making informed choices about their housing. It provides a practical guide to selling, buying, financing, renovating and moving. It also provides information on helpful organisations and how different decisions may affect entitlement to payments.
- *Understanding Retirement Income Streams*, which explains retirement income streams and how they might be used in retirement planning. It is a joint publication that was developed with the former Australian Retirement Income Streams Association Limited.

13.5 FaCS also noted in its written submission that Centrelink produces a number of publications, including:

- *Age Pension News for Seniors*, a quarterly magazine distributed to all people on the age pension, the Veterans' Affairs service pension or holding a CSHC. It keeps readers informed about issues of interest and changes that may affect retirees.
- *Are you planning for or needing help in retirement*, a booklet that provides information about payments and services people may be able to access if they are planning for or needing help in retirement.²

13.6 In addition, FaCS is currently producing, in association with IFSA, a third edition of *Understanding Retirement Income Streams*.

13.7 The Committee notes evidence during hearings praising the assistance made available to retirees by Centrelink. The Committee notes in particular the comments of Dr Olsberg cited earlier, and also the following comments by Mr Potticary, who appeared before the Committee on 9 May 2003:

With regard to some of the information people were talking about this morning, I think Centrelink are the best ones to provide that. I have been to a lot of their seminars and they have such a high and wide range of products. I cannot really fault them. They are impartial as well.³

The National Information Centre on Retirement Investments

13.8 NICRI is a FaCS funded advisory service available to pre-retirees and retirees in Australia. It does not accept financial assistance from the industry (so as to guarantee its independence), and its services are provided free of charge.

2 *Submission 38*, FaCS, pp. 14-15.

3 *Committee Hansard*, 9 May 2003, p. 239.

- 13.9 In its written submission, NICRI indicated that it delivers three main services:
- a) Freecall telephone services: NICRI's freecall telephone service is available to consumers Australia wide. In the 2001/02 financial year, NICRI assisted 6,917 callers.
 - b) Publications: NICRI researches, writes and publishes a range of leaflets and technical papers relating to general information about the investment industry, investment products and the financial planning process. In 2000/01, NICRI distributed approximately 200,000 leaflets. NICRI has also worked closely with FaCS and Centrelink in the co-production of several publications, notably *Investing Money: Your Choices*.
 - c) Seminars: NICRI participates in seminars run by the FIS. In the previous 12 months, talks and training sessions were also presented to 19 non-government organisations including pensioner/older person's organisations, financial counseling groups and education institutions such as TAFEs.

13.10 NICRI also launched a website in 2000 to inform consumers of its services and to answer questions via email.⁴

13.11 During the Committee's hearing on 15 May 2003, Mr La Brooy and Ms Schilg from NICRI appeared before the Committee. Mr La Brooy indicated that although NICRI only assisted 7,000 odd people over the phone in 2001/2002, which is a very small percentage of all retirees in 2001/02, its budget was only \$450,000 (2½ people are employed to answer the phones). Mr La Brooy also indicated that since its establishment 13 years ago, NICRI has assisted approximately 82,000 consumers and has distributed 3.5 million publications.⁵

13.12 In relation to the source of inquiries to NICRI, Mr La Brooy indicated that the bulk of inquiries are prompted by presentations made by NICRI to the Council of the Ageing and the AIR. In addition, an increasing number of inquiries are being initiated from the internet.⁶

13.13 The Committee also notes the evidence of Mr La Brooy that up to 30 per cent of calls to NICRI are from people who have been sold inappropriate products relative to their age and income status. In many cases, those people have been placed in products which did not suit their risk profile and have been exposed to the downturn in the stock market.⁷

4 *Submission 34*, NICRI, p. 3.

5 *Committee Hansard*, 15 May 2003, pp. 258, 260, 262.

6 *Committee Hansard*, 15 May 2003, p. 262.

7 *Committee Hansard*, 15 May 2003, p. 261.

13.14 The Committee notes that a number of parties to the inquiry praised the assistance available to pre-retirees and retirees offered by NICRI and recommended that it receive additional funding.

13.15 For example, the AIR expressed great concern at the present lack of genuinely independent advice for pre-retirees and retirees and accordingly recommended a major expansion in the funding and capability of NICRI.⁸ This was reiterated by Mr Goodacre from the AIR in the hearing on 5 May 2003. Mr Goodacre argued that NICRI has been of considerable value to AIR members in the provision of financial assistance and noted in particular the value of their various simple and useful pamphlets.⁹

13.16 Similarly, the COTA National Seniors Partnership also recommended in its written submission that organisations such as NICRI be given more funding to provide financial and investment information, training, advice and support to older people.¹⁰ In evidence to the Committee in the hearing on 8 May 2003, Ms Reeve from the COTA National Seniors Partnership stated:

We do think that there needs to be quite a range of advice available, and that certainly the work of NICRI ought to be advanced. Apart from their general work in putting out leaflets, we have used them on occasions in seminars with people, and they find that one level of education useful.¹¹

ASIC Publications

13.17 At the hearing on 8 May 2003, Mrs Longo from ASIC noted that ASIC also has a number of consumer publications available to the public, including:

- *Super decisions*, which covers basic questions about superannuation that consumers should consider when assessing their superannuation savings.
- *Don't kiss your money goodbye*, which is designed to assist consumers to choose a financial planner who is likely to be able to meet their needs.
- *You can complain*, which is a guide to assist people in learning how to complain and where to complain.

13.18 In addition, Mrs Longo noted that ASIC also releases specific alerts from time to time dealing with particular scams. Alerts relating to scams were released in January, February and March of this year.¹²

8 *Submission 16*, AIR, pp. 5-6.

9 *Committee Hansard*, 5 May 2003, pp. 70-71.

10 *Submission 31*, COTA National Seniors Partnership, pp. 28-29.

11 *Committee Hansard*, 8 May 2003, p. 177.

12 *Committee Hansard*, 5 May 2003, p. 101.

The Pre-Retirement Association in the UK

13.19 In its written submission, the COTA National Seniors Partnership noted the work of the Pre-Retirement Association in the UK in pioneering a range of innovative services for people in mid-life. It was set up in the 1960s and undertakes a range of activities including:

- Professional training;
- Business services;
- Research; and
- Advocacy.

13.20 The COTA National Seniors Partnership argued that the work of the Pre-Retirement Association has lessons for Australia at a number of levels:

- a) It has established the study of mid-life and pre-retirement as serious academic disciplines at British universities;
- b) The association offers courses to individuals encompassing a very wide range of issues including health, finance, work, leisure and caring, courses which are generally unavailable in Australia;
- c) The association has established pre-retirement and mid-life planning as a profession in its own right in the UK, with a set of professional standards, codes of conduct and commitment to best practice; and
- d) The association works with business to obtain best practice for mature age workers.

13.21 Given these considerations, the COTA National Seniors Partnership recommended that the Australian Government fund the establishment and recurrent costs of an organisations similar to the UK's Pre-Retirement Association in Australia.¹³

Assistance provided by superannuation funds

13.22 The Committee notes that many superannuation funds also provide direct advice and assistance, including the provision of retirement products, to their members.

13.23 In its written submission, ASFA cited details from a recent survey of its members in regard to the incidence of different services and retirement products which help workers plan for their retirement. This is cited in Table 13.1 below:

13 *Submission 31, COTA National Seniors Partnership, pp. 29-30.*

Table 13.1: Services offered by funds which assist members to plan for retirement, June 2002

	Financial advice	Allocated pension	Member education	Online information /enquiries/ websites
Corporate				
% of funds	28%	33%	50%	33%
% of membership	32%	68%	91%	46%
Industry				
% of funds	57%	57%	83%	67%
% of membership	68%	77%	95%	90%
Public Sector				
% of funds	43%	50%	79%	93%
% of membership	61%	50%	90%	81%

Source: Surveys conducted by *Superfunds* magazine of funds in each sector.

13.24 The Committee addresses below the issues raised in Table 13.1: member education, financial advice and the availability of allocated pensions.

Member education

13.25 The Committee notes the evidence from Table 13.1 above that 91 per cent of corporate fund members, 95 per cent of industry fund members and 90 per cent of public fund members have access to education services from their fund.

13.26 In the hearing on 5 May 2003, the Committee reiterated its belief to Mr Clare from ASFA that superannuation funds have a social responsibility to provide educational advice to their members.¹⁴

13.27 In response, Mr Clare acknowledged that funds can and should provide a wide range of educational material for their members, and that such information is often likely to be unbiased and better than information available from other sources.¹⁵

Financial Advice

13.28 The Committee notes the evidence from Table 13.1 above that only 32 per cent of corporate fund members, 68 per cent of industry fund members and 61 per cent of public fund members have financial advice services available to them from their fund.

13.29 During the inquiry, a number of parties argued that superannuation funds should provide a financial advice service to their members. For example, the ABA argued in its written submission that most, if not all, superannuation fund managers

14 *Committee Hansard*, 5 May 2003, p. 46.

15 *Committee Hansard*, 5 May 2003, p. 46.

and administrators have the capability to provide fund members not only with a range of generic information, but also with useful personal financial information which would help educate the wider superannuated population and encourage them to seek higher level financial advice when required.¹⁶

13.30 This was also reiterated by Mr Goodacre from AIR in the hearing on 5 May 2003. He argued that superannuation funds have a responsibility to enter into not only the education process, but to ensure that superannuants have access to independent financial advice (and not finance industry advisers as sometimes happens) at least five years in advance of their retirement.¹⁷

13.31 In response to this issue, Mr Clare from ASFA noted in the hearing on 5 May 2003 that there are regulatory issues under the new ASIC licensing regime in relation to what is general advice and what is specific financial advice requiring licensed individuals to be involved.¹⁸

13.32 The Committee acknowledges this issue but notes the evidence of the Committee Chair that some funds have addressed this problem by setting up an independent organisation that provides advice on behalf of the fund. An example is the Catholic Teachers' Superannuation Fund.¹⁹

The availability of allocated pensions

13.33 The Committee notes the evidence from Table 13.1 that 68 per cent of corporate fund members, 77 per cent of industry fund members and only 50 per cent of public fund members can take an allocated pension from their fund.

13.34 In the hearing on 5 May 2003, the Committee raised with Mr Clare from ASFA the fact that many funds do not offer a range of pension annuity products for their members to select from in retirement. As a result, members are forced to move their accumulated superannuation upon retirement to a separate income product provider, with associated costs, and the risk of receiving poor advice. As stated by Senator Sherry:

... as a basic service, it should be a requirement of all funds—and from your statistics it appears many are not doing it—to provide as an option a pension annuity and a number of different products for a person to select from if they so wish.²⁰

13.35 In response, Mr Clare noted that some small funds may not be in a position to offer superannuation type products, and that their basic role is the accumulation of

16 *Submission 41, ABA, pp. 15-16.*

17 *Committee Hansard, 5 May 2003, p. 71.*

18 *Committee Hansard, 5 May 2003, p. 46.*

19 *Committee Hansard, 5 May 2003, p. 46.*

20 *Committee Hansard, 5 May 2003, p. 44.*

superannuation. Furthermore, Mr Clare noted that many pension annuity products can be purchased in the market place from a range of funds, including relatively low-cost options that are available from public offer funds.²¹

13.36 The Committee believes, however, that the case study cited below offers a good example of a fund which has been able to offer its members financial advice and a range of pension annuity products.

Case study

13.37 The Committee notes the work of the trustees of the Seafarers' Retirement Fund (SRF) in offering financial planning advice and a range of pension annuity products to their members. This case study is discussed in Box 13.1 below.

Box 13.1: 'Cradle to grave' superannuation and the Seafarers' Retirement Fund

The trustees of the SRF indicated in their written submission that during the late 1980s, the fund sought on many occasions to provide financial advice to its members under a 'whole of life' approach to superannuation. However, it was unable to do so. First, fund trustees were warned not to by its legal advisors, and secondly, the range of retirement products was restricted to life pensions, which were not popular with members because in the event of death, any unpaid amount is lost to their estate.²²

Following the introduction of the allocated pension in 1991, the SRF was able to offer an allocated pension in June 1993 which:

- *Enabled members to stay with the fund;*
- *Enabled members to draw a flexible pension to suit their needs (within the allocated pension minimum and maximum) and with the ability to index or commute;*
- *Enabled members to have a joint allocated pension with their spouse on a survival basis; and*
- *Ensured that the member's estate would receive the balance of capital in the event of the death of the member.*

More recently, the fund has also introduced a number of new products, including approved deposit rollover accounts, fixed term annuities and life pensions.²³

21 *Committee Hansard*, 5 May 2003, pp. 44-45.

22 *Submission 30*, Seafarers' Retirement Fund, p. 2.

23 *Submission 30*, Seafarers' Retirement Fund, pp. 2-3

In its submission, the trustees of the SRF noted however that the fund faced a number of impediments to offering post-retirement products:

a) Licensing requirements: The trustees noted that increasing complexity is forcing funds to the point of having to obtain a dealer's license in order to be able to provide general advice in relation to their own products. Most funds only obtain a license to give product or general advice – not personal advice. As a result, they cannot compete for funds being rolled into master trust or bank products or the like.

b) Financial planning industry: The trustees noted that financial planners who are generally remunerated on a commission basis do not recommend investment in the SRF.

In its submission, the trustees of SRF noted however that they have overcome these barriers through entering into arrangements with Industry Fund Services, which has a full financial planning license. The IFS works on a fee-for-service basis – there are no commission based products included. As a result, the SRF can be considered and compared with other products available in the marketplace.

The trustees of the SRF also noted that they are seeking to offer pre-retirement counselling to educate members on issues associated with retirement, financial planning and the like, by developing programs which can be conducted by licensed financial planners on the fund's behalf.²⁴

Forecasting superannuation savings using government guidelines

13.38 In his written submission, Mr Wickham, a fellow of the IAA, argued that one very effective means of assisting workers to plan for their retirement would be for their superannuation fund to provide them with a statement of projected benefits at age 65. The projections could show the value of their lump sum benefit translated into an annual income.

13.39 Mr Wickham noted that in the UK, the regulator, the Financial Services Authority, requires that a benefit projection statement be provided annually for all accumulation style superannuation benefits. The Financial Services Authority, in conjunction with the Institute of Actuaries (UK), has set standard assumptions that allow actuaries and administrators to calculate these projected benefits.²⁵

13.40 **Appendix Seven**, taken from Mr Wickham's submission, provides an example of what such a statement might look like in the Australian context.

13.41 In the hearing on 16 May 2003, the Committee placed on notice with APRA a request for additional details on benefit projections in the UK. In its response to questions on notice dated 3 June 2002, APRA indicated that the UK has both a state

²⁴ *Submission 30*, Seafarers' Retirement Fund, p. 4.

²⁵ *Submission 44*, Mr Wickham, pp. 1-2.

pension system and a private stakeholder pension system, both of which provide benefit projections to their members. Additional details are provided in Box 13.2 below.

Box 13.2: The UK pension system and forecasting of benefits on retirement

State pensions

In the UK, state pensions are provided if a person has a full National Insurance contribution record and has reached retirement age. The Pension Service, part of the Department for Work and Pensions, provides pension forecasts that show in today's prices how much a person is likely to receive in retirement from a pension. A state pension forecast shows a person the state pension already earned (ie the national insurance contributions a person has already made or been credited with), and what they can expect to have earned by state pension age.

Stakeholder pensions

The Financial Services Authority (UK) regulates the marketing and promotion of all stakeholder pension schemes. A stakeholder pension is a private pension, not a state pension, to which a member can contribute whether they are in employment, a fixed-contract worker, self-employed or even not working but able to afford contributions. Stakeholder pension accounts can be opened with a bank, building society, insurance company, investment company, or through a financial advisor. The Financial Services Authority aims to ensure that the information given about schemes is clear and not misleading.

According to a Financial Services Authority Factsheet 'Stakeholder pensions and decision trees', a firm that offers stakeholder pensions must give prospective pension holders a copy of their Key Features Document. This sets out basic information about the product, such as charges and investment choices available, and helps potential holders compare stakeholder pensions. The Key Features Document gives the reader the key information they need to decide whether or not to invest. Every company uses the same format, set by the Financial Services Authority, so the reader can easily compare one investment with another.

The Financial Services Authority requires that the Key Features Document gives the reader of a plan the following information:

- *The name of the plan;*
- *The nature of the plan;*
- *An illustration of the plan;*
- *A description of the plan;*
- *The effect charges may have on the plan;*
- *How the growth of the plan might be reduced by charges over the life of the plan;*
- *How much the adviser or salesperson will be paid; and*
- *Additional information such as a detailed description of each charge, how to complain, who to contact for more information, and so on..*

The Financial Services Authority, in conjunction with the Association of British Insurers, also provides a 'Pensions Calculator' on its website which gives the private pension holder an estimate of the amount of pension income they could attain when they retire, based on the level of regular contributions that they choose.

The assumptions underlying the Financial Services Authority's 'Pensions Calculator' are:

- *Investment growth: The pension fund will grow by 7% a year until retirement;*
- *Inflation: The Retail Prices Index will rise by 2.5% a year until retirement;*
- *Pension fund charges: The company providing the pension will charge 1% of the person's fund each year;*
- *Income tax rebates: The Government will add a tax rebate to the contributions made at the basic rate (22%), so that every £1 that goes into the fund consists of 78p from pension holder and 22p from the Government;*
- *Annuity rates: Upon retirement, the pension fund is used to buy a pension income, called an annuity. The calculator has estimated what annuity rates might be on retirement; and*
- *Life expectancy: The average life expectancy is assumed..*

The Pension Calculator estimates also assume that:

- *The person keeps up regular monthly payments from now until retirement; and*
- *Each year the monthly payments made increase by a minimum of the estimated rate of inflation (at 2.5%).*

The Financial Services Authority also encourages readers to compare stakeholder pension providers through comparative tables.

13.42 The Committee raised with various industry representatives in hearings the proposal for forecasting of superannuation benefits based on government established guidelines:

- Mr Rice representing the ABA agreed that such forecasts could be useful in giving individuals a realistic expectation of their likely retirement savings, and possibly dispelling expectations that they can 'retire at 55 and play golf'.²⁶
- Similarly, Mr Negline from the ICA supported the concept of forecasting retirement income saving 20 or 30 years in advance, but noted that any forecasting is subject to assumptions about investment markets, income levels, employment patterns and so on.²⁷

²⁶ *Committee Hansard*, 5 May 2003, p. 35.

²⁷ *Committee Hansard*, 5 May 2003, pp. 94-95.

- Ms Johnston from Workingconnections enthusiastically supported forecasting of likely retirement incomes for individuals. She argued that the more information, and therefore power, that people have to make decisions the better.²⁸
- Mr Brookes from the CSA noted that there is a gap at present in the forecasting of benefits in the future, but that the dangers of those forecasts are that they are extrapolations based on market outcomes and fees and charges and so forth.²⁹
- Mr Hristodoulidis from the FPA argued that the concept has merit, but that the assumptions behind any forecasting are critical.³⁰

13.43 The Committee also raised this issue with representatives of Treasury in the hearing on 15 May 2003. Mr Rosser from Treasury argued that projections are notoriously difficult and unreliable, and have the potential to be misleading. This is because they are heavily reliant on assumptions which can change quite rapidly.³¹

13.44 In response, the Committee noted that Treasury currently makes assumptions about long-term investment rates of returns, tax levels and so forth when preparing projections, as seen in the *Intergenerational Report*.³²

28 *Committee Hansard*, 8 May 2003, p. 131.

29 *Committee Hansard*, 8 May 2003, p. 143.

30 *Committee Hansard*, 8 May 2003, p. 154.

31 *Committee Hansard*, 15 May 2003, p. 298.

32 *Committee Hansard*, 15 May 2003, p. 274.

Chapter Fourteen

Non-financial Planning for Retirement

Introduction

14.1 During the inquiry, various parties argued that planning for retirement should include more than just financial planning – it should also include planning for such things as personal relationships, health, housing, and intellectual and social activities. The Committee was particularly interested in this issue and was keen to raise the non-financial aspects of planning for retirement with parties during the conduct of hearings.

The importance of lifestyle planning

14.2 A number of parties highlighted to the Committee in their written submission the importance of good lifestyle planning prior to retirement. For example:

- ARPA(SA) argued that planning for retirement should involve more than just financial planning (although that is important) and should also encompass planning a retirement lifestyle through organisations such as ARPA(SA).¹
- AIR argued that financial planning for retirement should be accompanied by planning in other areas of life such as personal relationships, leisure time, health, accommodation and lifestyle choices.²
- The Association of Independent Retirees – Whyalla and Districts Branch observed that retirement planning sessions tend to focus only on financial planning, with no information about living and growing in retirement.³

14.3 The importance of lifestyle planning was also raised during hearings. For example, Mr Goodacre representing AIR noted in the hearing on 5 May 2003 that when he was preparing for retirement, his financial adviser included in his planning consideration of Mr Goodacre's lifestyle priorities – such as traveling in retirement. As such, his financial planner went beyond consideration of the financial side of retirement.⁴

1 *Submission 13*, ARPA(SA), p. 3.

2 *Submission 16*, AIR, p. 8.

3 *Submission 20*, The Association of Independent Retirees – Whyalla and Districts Branch, p. 6.

4 *Committee Hansard*, 5 May 2003, pp. 73-74.

The impact of good lifestyle planning in retirement

14.4 In his evidence on 5 May 2003, Mr Goodacre also noted that retirement fundamentally changes a couple's relationship, and suggested that both parties in a relationship should be involved in activities that take them away from their partners.⁵ In addition, involvement in voluntary activities in retirement, such as Meals on Wheels, can help older people stay mentally alert and content:

A lot of our members facilitate that transfer by undertaking a good deal of voluntary work in retirement. So those opportunities should be emphasised and the variety of those opportunities should be drawn to the attention of workers pre-retirement so that they can say, 'Yes, I would be interested in doing that,' or, for example, 'I would be interested in going to the Australian Museum and assisting there on a voluntary basis.' In my view, those are the things that make retirement a rewarding activity. In my case, I think I have probably put 10 years of my 15 or 16 years of retirement actively into this association, and that has kept me mentally alert. I think I have developed something from it, and I believe I have gained as much as I have put into the organisation by being involved on behalf of other people. That is one form of voluntary work. Meals on Wheels is another typical one, and there are so many activities. I can never understand people in retirement who you hear saying, 'I have no idea what I'm going to do,' because there are so many things that can be done, and they really are attractive activities.⁶

14.5 Various other parties also argued that good lifestyle planning for retirees can significantly improve the quality of life and health outcomes. For example, ARRA(SA) noted in its written submission that retirees involved in sporting, intellectual and social activities are demonstrably less likely to need health and community care.⁷ This was reiterated by Dr Parkinson from ARPA(SA) in the hearing on 9 May 2003:

We believe that the seeming longevity of members of ARPA is because most of them are fully involved in a whole range of activities. If you compare them with people who are not involved, they seem to either die earlier or need long-term care or even mental health care. A lot of that, I am sure, in those later years comes from a lifestyle which does not involve the person. It cuts them off from the rest of society, does not give them social opportunities, and does not stimulate them intellectually or physically. I firmly believe that if we can involve older Australians in a range of activities, make them feel wanted and make them feel they are contributing, many mental health problems just would not occur.⁸

5 *Committee Hansard*, 5 May 2003, pp. 71-72.

6 *Committee Hansard*, 5 May 2003, p. 73.

7 *Submission 13*, ARPA(SA), p. 3.

8 *Committee Hansard*, 9 May 2003, p. 186.

14.6 The Committee also notes the work of the University of the Third Age.⁹ In its written submission to the inquiry, the University of the Third Age noted that it provides to those aged over 50 various courses at nominal cost on a range of subjects.¹⁰

14.7 This was reiterated to the Committee by Mr Lawton representing the University of the Third Age in the hearing on 9 May 2003. He indicated that members of the Adelaide group pay an annual fee of \$60, in return for which the University offers about 150 courses a year, mostly language and humanities courses such as the history of buildings in and around Adelaide and the history of the motor car. It also offers physical courses such as Tai Chi and yoga.¹¹ Mr Lawton also commented:

As far as the students are concerned, people have said to me that it has changed their lives, and sometimes they have said, 'It has saved my life.'¹²

14.8 In response to a question on notice, Mr Lawton also provided the Committee with a study by Sindell and Vassella entitled 'U3As in Australia and New Zealand: Society's four million dollar bonanza',¹³ which noted that participation in organised activity such as that available at the University of the Third Age increases mental stimulation and late life health and well being.¹⁴

Helping retirees plan for retirement

14.9 Given the importance of good lifestyle planning for pre-retirees and retirees, the Committee notes the evidence of Dr Parkinson from ARPA(SA) to the Committee on 8 May 2003 that many people need education and training about what changes to expect to their lifestyle in retirement, and how to plan accordingly.¹⁵

14.10 Therefore, Dr Parkinson advocated that the government, perhaps in combination with employers, should be prepared to set aside a modest amount of money to train a small group of retirees who have successfully made the transition to

9 The organisation originated in France in 1972 in Toulouse. In France it was the wish of the government at that time that universities – that is formal degree granting universities – should provide courses for retired people which were non-credit courses but which would be offered at lower fees than would apply to those in degree courses. This spread through France mainly by government action and then the idea spread through other European countries. The title comes from the French reference to retirement as the 'third age'.

10 *Submission 11*, The University of the Third Age.

11 *Committee Hansard*, 9 May 2003, pp. 210-211.

12 *Committee Hansard*, 9 May 2003, p. 211.

13 Referring to saved teaching costs and the U3A's contribution to community health.

14 Mr Lawton, Response to questions on notice, 14 May 2003.

15 *Committee Hansard*, 9 May 2003, p. 181.

retirement to be presenters and mentors to people coming towards the end of their careers.¹⁶

14.11 At the same time, however, the Committee notes the evidence of Mr Kemp, chairman of the Gawler Branch of the University of the Third Age, in the hearing on 9 May 2003:

I am critical of retirement seminars. They only catch a very small group of people; they do not catch the huge number of retirees. One of the best bits of advice I received was, 'Stay where you are.' You do not often hear that. People say, 'I would like to go to live in Victor Harbour when I retire.' They leave the area where they have built up their little society—all their contacts—and they go and live at the beach and they do not know anybody. They become lonely retirees, and they want to go back home. One of the best bits of advice for retirees is, 'Stay put in your society and help that society.'¹⁷

14.12 In response to this evidence on the need to plan lifestyle in retirement, the Committee notes that FaCS makes available a range of booklets to assist pre-retirees and retirees. The issue is their distribution to individuals, and whether additional distribution mechanisms have to be made available through employers, superannuation funds, interest groups such as the University of the Third Age and other retiree groups.¹⁸

16 *Committee Hansard*, 9 May 2003, pp. 180-181.

17 *Committee Hansard*, 9 May 2003, p. 218.

18 *Committee Hansard*, 9 May 2003, p. 221.

PART IV

OTHER ISSUES AND CONCLUSIONS AND RECOMMENDATIONS

Part IV of this report looks briefly at other issues raised during the conduct of the inquiry before presenting the Committee's conclusions and recommendations.

Chapter Fifteen

Other Issues

Introduction

15.1 This chapter examines other issues that were raised during the conduct of the inquiry:

- The Federal and state workplace relations systems;
- The suggestion for a major review of the superannuation system; and
- State government superannuation schemes.

The Federal and state workplace relations systems

Rightful superannuation entitlements

15.2 In its written submission, the Australian Pensioners' and Superannuants' League Queensland argued that there are thousands of 'fly-by-night' employers who are going in and out of business in any one year. The League argued that often the employees of these businesses – temporary, casual and part-time staff or short-term contractors – never receive their rightful superannuation (or other) entitlements.¹

Occupational health and safety (OH&S)

15.3 In its written submission, DEWR indicated that it is currently examining initiatives in relation to OH&S for mature age workers. One issue is whether there needs to be different work measures, for example improved lighting, to enable mature age workers to continue to work without risk of injury. DEWR suggested, however, that most research papers in this area stress that accommodating mature age workers at work is not normally a major undertaking, and usually benefits younger workers as well.²

Unfair dismissal laws

15.4 In its written submission, Workingconnections argued that most work opportunities for mature professionals are in small businesses, on a part-time or contract basis. However, small businesses are generally averse to employing people in traditional, secure superannuated relationships. Workingconnections suggested that

1 *Submission 1*, The Australian Pensioners' and Superannuants' League Queensland Inc, p. 10.

2 *Submission 29*, DEWR, . 23.

removal of the threat of unfair dismissal for small business would enable many more people to find work.³

15.5 This evidence was reiterated by Ms Johnson from Workingconnections in the hearing on 8 May 2003:

A lot of the fear about unfair dismissal is anecdotal. You sit people down and they will all have stories about this, that and the other business et cetera, but it is very genuine and it does prevent employment, as do the complexity and the on-costs of employing for businesses. A small business might want somebody three days this week and four days next week but can only really employ them gainfully one day the week after—this does not make for security for a worker—but, in some ways, they would rather do without that and have their business suffer than get caught up in something where they lose their ability to manoeuvre or take on somebody that is not right. If you have a business of five people and 20 per cent of your business has the wrong person in it and you are stuck, then it undermines the business totally.⁴

A major review of the superannuation system

15.6 In its written submission, the ABA recommended that in the light of this inquiry, and issues raised by the Committee in its recent report, *Superannuation and standards of living in retirement*, the Government should undertake a major review of superannuation (and the welfare payments system in so far as it impacts upon retirement income). In making this recommendation, the ABA observed:

A major review should have the objective of achieving (where possible) full integration, based upon the development of an effective ‘safety net’ which will provide all Australians with an adequate income when they are unable to provide for themselves at any stage of their lives.

Major change to the present retirement income system is required and any deferral will make the ultimate decisions less palatable and their implementation more difficult.⁵

15.7 This position was reiterated by Mr Bell from the ABA in the hearing on 5 May 2003. He noted that there have been a number of inquiries into the superannuation system, and a lot of valuable information provided, and that it is time for some measure of finality to be brought to the superannuation system.⁶ Mr Connolly, appearing on behalf of the ABA, continued:

3 *Submission 18*, Workingconnections, p. 2.

4 *Committee Hansard*, 8 May 2003, p. 127.

5 *Submission 41*, ABA, p. 3.

6 *Committee Hansard*, 5 May 2003, p. 28.

The present system has effectively evolved – and I stress the word ‘evolved’ – over the last 20-odd years. As with any evolution, there are times when you need to look back and times when you need to look forward to see where you are actually aiming to be. We have suggested that a time frame of 40 years, in the context of the role of superannuation, is not excessive in terms of setting your clearly defined objectives. I do not think that has really been done. The objectives which we have currently have been confused to some degree between two fundamental points: are we trying to design a retirement income policy which makes the role of the state less – in other words, with more emphasis on individual personal support – or are we trying to devise a system which is in fact a mixture of both? As I recall, back in the early eighties, when the whole major debate was in place, we were told that the emphasis was placed on financial independence in retirement. You very rarely hear that word today. The emphasis is now clearly on a mix of the two.⁷

15.8 The Committee Chair subsequently raised with the representatives of the ABA the form any such inquiry should take. In response, Mr Rice representing the ABA argued that any inquiry should have the support of the major parties, although he did not necessarily agree with the proposition that the inquiry should be a royal commission.⁸

15.9 Senator Sherry also raised with the representatives of the ABA whether Australia should have a defined goal in terms of what is an adequate retirement income. In response, Mr Bell and Mr Rice agreed that it would be good to have a national goal in terms of superannuation savings. Such an objective might be to say that in 40 years time, when the superannuation system is fully mature, only 10 per cent, or 25 per cent, or 50 per cent of Australians would be dependent on social security.⁹

15.10 The Committee also subsequently raised this issue in hearings with industry representatives:

- Mr Clare representing ASFA indicated that ASFA at one time supported a wide-ranging inquiry, but has since moved to advocate more immediate reforms in response to clearly identified problems.¹⁰
- Ms Bloch and Mr Stanhope representing IFSA indicated that the settings of the superannuation system in Australia are broadly right, and that without having seen the ABA’s submission, IFSA believes that there is a good understanding of many of the issues facing the superannuation system.¹¹

7 *Committee Hansard*, 5 May 2003, p. 29.

8 *Committee Hansard*, 5 May 2003, p. 30.

9 *Committee Hansard*, 5 May 2003, pp. 30-31, 33.

10 *Committee Hansard*, 5 May 2003, p. 40.

11 *Committee Hansard*, 5 May 2003, pp. 61-62.

15.11 Members of the Committee also raised the ABA proposal for a major review of superannuation with the representatives of ASIC in the hearing on 8 May 2003. In response, Ms McAlister indicated that from the regulator's point of view, incremental change is easier to manage than a complete overhaul of the superannuation system, and that accordingly, ASIC would prefer to address specific flaws in the system as they are identified.¹²

15.12 Finally, the Committee again raised the issue with representatives of Treasury in the hearing on 15 May 2003. Mr Brake from Treasury indicated that Australia already has a very sophisticated retirement income system, but that any proposal for a major inquiry would be a matter for the Government.¹³

State government superannuation schemes

15.13 The Committee notes the submission of the South Australian Government Superannuation Federation. It cited the progressive closure of public sector defined benefit schemes, notably in South Australia,¹⁴ and argued that this is inconsistent with the objective of the Commonwealth Government in seeking to ensure an adequate retirement income for all retired Australians.¹⁵

15.14 To rectify this, the Federation argued that Super SA should be prepared to offer current retirees post-retirement income stream products, in particular allocated pensions. Such products could utilise the in-house investment infrastructure already in place for the accumulation fund to handle investment of lump sums rolled over to an income stream product.¹⁶

15.15 In response to concerns that such an approach to in-house allocated pensions would expose the employer (the State Government) to unacceptable financial risks, the Federation argued that:

In practice, the risk is borne entirely by allocated pension recipients because a principle underlying these products is that the level of pension depends on the residual capital (net of costs and draw down), and in turn, the residual capital reflects investment performance. The risk, or more precisely the lack of risk, is no different than the risk inherent in the existing accumulation superannuation scheme.¹⁷

15.16 The Committee notes that this issue was also raised by Mr Butterworth, Mr Crawshaw and Mr Smith representing the South Australian Government

12 *Committee Hansard*, 8 May 2003, p. 103.

13 *Committee Hansard*, 15 May 2003, p. 299.

14 The SA Government defined benefit scheme closed in 1985.

15 *Submission 17*, South Australian Government Superannuation Federation, p. 1.

16 *Submission 17*, South Australian Government Superannuation Federation, p. 2.

17 *Submission 17*, South Australian Government Superannuation Federation, p. 3.

Superannuation Federation in the Committee's hearing on 9 May 2003. Mr Crawshaw noted to the Committee:

In relation to the specifics of our written submission, there is no post-retirement product being offered by the state government to assist people to make the transition to retirement. What the State Superannuation Board people tell me is that most of those people go to private providers, usually commercial providers, who provide those products at highest cost and not necessarily at the highest return. We believe that people are getting a very poor deal as they leave government employment. We have been urging government for some time now to introduce its own post-retirement products as a number of other state governments do. While we have had some negative responses from the state government, the most recent response to that has been on the positive side, without making a commitment.¹⁸

18 *Committee Hansard*, 9 May 2003, p. 226.

Chapter Sixteen

Conclusions and Recommendations

Population and labour force trends

16.1 Australia is facing a number of challenges in relation to the transition from work to retirement.

- a) Firstly, Australia's population is ageing. While the size of the labour force is projected to grow by just 14 per cent over the next two decades, the number of people aged 55-64 is projected to increase by more than 50 per cent. This is expected to be the fastest growing working-age cohort in the population.
- b) Secondly, while there is expected to be significant growth in the number of people aged 55-64, they currently have very low levels of labour force participation. This is also the case internationally. Labour force participation rates in 2002 in Australia fell from 80.5 per cent for the 45-54 age cohort, to 62.9 per cent for the 55-59 age cohort, to only 36.7 per cent for the 60-64 age cohort.

The workforce experience of mature age workers

16.2 In its written submission, FaCS indicated that the majority of mature age workers in Australia retire involuntarily and prematurely from the labour force, as reflected in their low labour force participation rates. FaCS indicated that the causes of early retirement, listed in order of importance, are:

- a) ill-health, disability, stress or caring for an elderly or sick relative;
- b) involuntary retirement due to redundancy or dismissal (particularly for men);
- c) other job related reasons, such as the impact of a company restructure, sale of business, or desire to move to another job;
- d) choosing to live off investments and/or income support; and
- e) personal reasons, such as a decision to take a break, family reasons, or a move to a new location.

16.3 FaCS also indicated that for a majority of mature age workers who lose a job, the search for a new job (if it occurs) is often unsuccessful.

16.4 Given this evidence, the Committee notes that the uncertainty of future employment for many workers aged 54-65, and the fact that a lot of job departures are not voluntary or planned, must significantly reduce the capacity of individuals to plan for their retirement.

Employer attitudes towards mature age workers

16.5 The Committee notes that under current age retirement legislation in Australia, only a select minority of employees can be compulsorily retired. However, despite this legislative restriction, the Committee was presented with significant evidence that the major cause of involuntary and premature retirement of mature age workers in Australia is discrimination in the workplace. A number of studies were cited to the Committee, variously suggesting that:

- a) mature age workers are least preferred for recruitment, and most preferred for retrenchment. Drake found that the preferred age group when recruiting employees is 31-40, while the preferred age group when retrenching is 50 and over.
- b) mature age workers are perceived by employers as having deteriorating physical and mental abilities, being unreceptive to new technology, being resistant to organisational change, lacking appropriate skills, and lacking the drive, ambition, energy and creativity of younger employees.

16.6 The Committee notes that the Commonwealth Government is currently moving to introduce federal age discrimination legislation in Australia. The Committee welcomes this initiative.

The productivity of mature age workers

16.7 As indicated above, the Committee believes that mature age workers face high levels of discrimination in the workforce. However, the Committee notes a large number of studies and anecdotal evidence which collectively strongly suggests that mature age workers are just as productive as younger workers. The only instance where this may not be the case is in relation to positions requiring hard physical labour. The Committee examined three issues in relation to the productivity of mature age workers:

- a) Education and training: The evidence suggests that younger workers may have higher levels of educational attainment than mature age workers, but that mature age workers have greater experience (both work-related and general), corporate knowledge and more mature judgment.
- b) Health, mental and physical ability: The evidence suggests that mature age workers generally have the same verbal ability, spatial reasoning, numeric ability and perceptual speed as younger workers.

- c) Absenteeism and accidents: The evidence suggests that mature age workers have lower levels of absenteeism, and stay in a position longer than younger workers.

16.8 Given this evidence, the Committee believes that employers in Australia are wrong to discriminate on the basis of age against mature age employees and that in some instances employers are doing themselves a disservice by not employing or keeping in employment older workers.

The impact of unplanned retirement on mature age workers

16.9 Given the current patterns of involuntary and premature retirement for many mature age workers in Australia, the Committee notes that for many, forced withdrawal from the labour force can have quite serious personal and family consequences.

16.10 Involuntary and premature retirement can lead to the loss of status associated with work, the sense of making a contribution, contact with colleagues, and outside friends and networks. In turn, involuntarily unemployed people often experience depression, anxiety and general distress, together with low self-esteem and confidence, and a reduction in well-being. In many cases, this places a greater direct and indirect burden on immediate family members and the wider community.

16.11 Leaving aside pure economic and financial arguments discussed below, the Committee believes that there are good reasons for promoting the availability of employment for mature age workers on the basis of the individual's personal well-being and the well-being of society.

The case for change

16.12 The ageing of the population, coupled with the low levels of participation of mature age workers in the labour force, is expected to place significant strain on the superannuation system and the capacity of the government to guarantee retirement incomes and services in the future.

16.13 Accordingly, the Committee believes that it is in Australia's economic interest for mature age workers to be encouraged to remain in the workforce. Keeping mature age workers in the workforce would broaden the skills base of the Australian economy, with associated implications for Australia's productivity and GDP, and the government's capacity to fund the income support and social security systems.

16.14 There is evidence that the current under-employment of mature age workers may be reversed in the future simply by labour force pressure for mature age workers to remain in the workforce as the absolute numbers of workers declines. Nevertheless, the Committee believes that the Government should take positive steps to encourage progressive transition from work to retirement in Australia.

Part-time work and labour market programs

Part-time work

16.15 The Committee notes that part-time work can be an integral step in a gradual transition from work to retirement. It enables mature age workers to retain a connection to the workforce, while maintaining an income and pro-rata conditions of employment such as annual leave and sick leave.

16.16 In its evidence to the inquiry, DEWR indicated that part-time work is increasingly available in awards and agreements. However, the Committee is concerned that the majority of available part-time positions may not be suitable to mature age workers – they may be of a piecework nature or be highly intensive, where younger and more active workers tend to be favoured.

16.17 Accordingly, the Committee believes that the Government should investigate mechanisms to promote the availability of appropriate part-time positions for mature age workers. Those mechanisms might involve tax incentives or training incentives for employers, or working with industry and the unions to develop progressive employment practices, such as those implemented by the Queensland DIR and the AWU.

Recommendation 1

The Committee recommends that the Government investigate mechanisms to promote the availability of appropriate part-time positions for mature age workers.

Labour market programs

16.18 In its evidence to the inquiry, DEWR indicated that it has a number of labour market programs and employment services designed to encourage and facilitate the participation of mature age workers in the workforce. They include Job Network services, the Active Participation Model, and Australians Working Together – an initiative to support mature age employment.

16.19 The Committee notes evidence that up until now, mature age job seekers have been under-represented amongst people using Job Network services, and amongst people with successful outcomes from the service. The DEWR Survey of Job Seeker Perceptions found that mature aged workers were less likely to be offered a job interview or training than younger workers by their job network provider.¹

16.20 However, the Committee recognises and welcomes recent moves to provide specialist services for mature age people in the Job Network through the Australians Working Together initiative.

1 Reported in Productivity Commission, *Independent Review of the Job Network Draft Report*, March 2002, p. 6.13.

16.21 The Committee also wishes to record its recognition of the work being done by private job matching organisations such as Workingconnections.

Using superannuation to finance retraining

16.22 The Committee's terms of reference raise the possibility of using superannuation to finance retraining of mature age workers to help them remain in the workforce, or to re-enter the workforce.

16.23 Current government policy is that superannuation savings should be used to provide income in retirement, and should not be withdrawn from the superannuation system for any other purpose prior to retirement. Although superannuation savings can be accessed prior to retirement in certain limited circumstances, such as severe financial hardship or on compassionate grounds, there are tight rules on such access.

16.24 Given these restrictions, the Committee acknowledges concerns expressed by ASIC and others that any move to allow access to superannuation to finance retraining would undermine the fundamental proposition that superannuation savings should be put aside to finance income and benefits in retirement. The Committee also notes a number of other arguments why superannuation savings should not be used to finance retraining:

- a) Superannuation savings are needed to finance retirement;
- b) Jobs may not be available at the end of any retraining; and
- c) Responsibility for financing retraining rests with the government and employers.

16.25 Accordingly, the Committee does not believe that the Government should make superannuation savings available to finance retraining. The core role of the superannuation system is to finance retirement.

16.26 The Committee believes that responsibility for retraining of mature age workers rests with the Government. The Committee notes that the Australians Working Together package provided Training Credits of \$800 each for 69,000 mature aged and indigenous job seekers in the Job Network. Consideration should be given to expanding this program to provide greater access to retraining for mature aged workers.

Recommendation 2

The Committee recommends that the Government consider expanding retraining assistance available to mature age workers under the Australians Working Together program.

The superannuation accumulation system

16.27 The Committee notes below a number of suggestions to improve the superannuation accumulation system as it relates to mature age workers.

The SG Rate

16.28 A number of parties to the inquiry recommended an increase in the SG rate from the current 9 per cent to anything up to 15 per cent, on the basis that SG contributions alone will not provide enough savings for many in retirement.

16.29 At the same time, the Committee considers that the current economic and employment climates are difficult ones in which to contemplate additional compulsory employer superannuation contributions. The Committee is also reluctant to propose compulsory member contributions because of the immediate reduction in living standards that would result.

16.30 The Committee notes that these matters were raised with the Government by the Committee in its earlier report on *Superannuation and standards of living in retirement*. The Committee is currently awaiting a response to that report.

The superannuation surcharge

16.31 Parties to the inquiry advocated the levying of the superannuation surcharge on the basis of savings over a lifetime, rather than on the basis of current income. Under such a scheme, someone of mature age with superannuation savings of less than say \$150,000, but with a high income, would not be levied the superannuation surcharge, thereby giving them a greater incentive to contribute to their superannuation.

16.32 As noted in the Committee's earlier report entitled *Superannuation and standards of living in retirement*, the Committee believes that the surcharge is an inefficient tax which is costly to administer. It imposes costs on all members, irrespective of whether they are liable to pay the surcharge or not.

Rules relating to contributions

16.33 Various parties to the inquiry recommended reform of the work test rules which require that employees aged 65-75 can only contribute to a super fund if they are working 10 hours or more per week. The Committee understands that Treasury is currently examining this issue.

The superannuation benefits system

16.34 The Committee notes below a number of suggestions to improve the superannuation benefits system as it relates to mature age workers.

The superannuation preservation age

16.35 During the inquiry, a number of parties recommended an increase in the superannuation preservation age to the age of eligibility for the age pension, thereby preventing “double dipping”. A variation on this was for linking the taking of lump sum superannuation benefits (as opposed to taking an income stream) to the age of eligibility for the age pension.

16.36 The Committee notes that the Government is currently in the process of increasing the superannuation preservation age to 60.

Rules on the taking of superannuation benefits

16.37 As with the rules relating to contributions for the over 65, the Committee notes that the current rules on the taking of superannuation benefits are complex. Currently, a member between 65 and 75 must work at least 10 hours per week in order to avoid having to draw down their savings, while those over age 75 must work full-time (at least 30 hours per week).

16.38 The Committee again understands that Treasury is currently examining this issue.

Defined benefit schemes

16.39 The Committee acknowledges that some Commonwealth and state government defined benefit schemes act to discourage individuals from continuing to work beyond the age of 60, or even 55, or from continuing to work part-time.

16.40 In response, the Committee notes that various OECD countries have taken measures to make pension systems more neutral, so that people retiring later (having contributed more) will have a correspondingly greater pension. For example, in Sweden, Italy, Poland and Hungary, public pensions are being progressively transformed from defined benefit schemes to notional defined contribution schemes. In these systems, the level of benefit depends on time in the workforce and the notional interest rate.

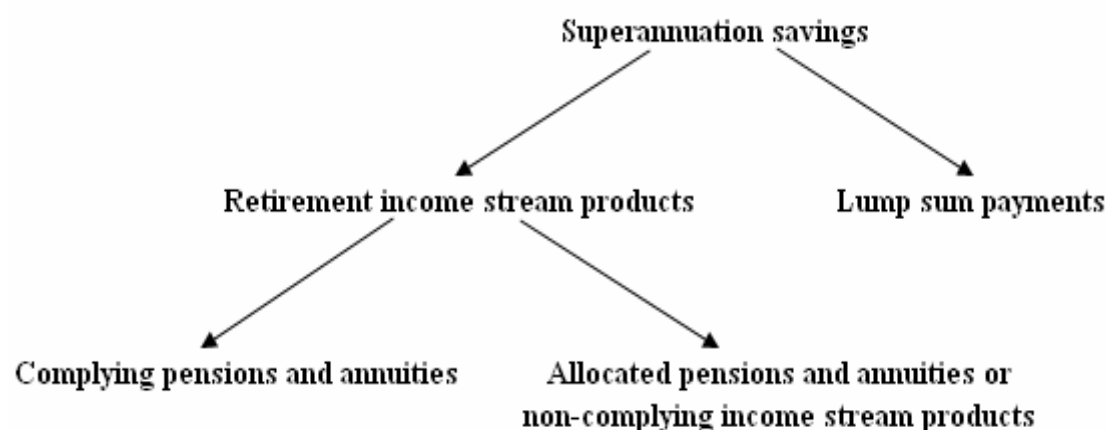
Recommendation 3

The Committee recommends that the Government look at means of reforming current Commonwealth Government defined benefit schemes to remove the disincentive to continue working beyond certain ages.

The taking of income stream products on retirement

The current retirement income system

16.41 The Committee notes that under the current retirement income arrangements in Australia, retirees have a number of options when taking their superannuation benefits. These are shown in Figure 16.1 below.

Figure 16.1: Current architecture of the retirement income system

16.42 Currently, the Government offers incentives to retirees through the tax system and the age pension means test to take retirement income pensions – either complying annuities or allocated pensions (the means tests are more generous for complying annuities) – as opposed to taking lump sum payments.

16.43 However, the Committee notes that APRA statistics show that only 27 per cent of superannuation payouts in 2001 were taken either directly (20 per cent) or indirectly (7 per cent rolled-over later) as a retirement income pension. The remaining 73 per cent were taken as a lump sum payment. This is shown in Table 16.1 below.

Table 16.1: Pension and lump sum payments from superannuation funds for 2001

Type of scheme	Lump sum payments (\$)	Pension Payments (\$)	Proportion of lump sum payments
Public sector	7,170	3,628	66%
Industry	1,570	70	96%
Corporate	2,887	463	86%
Retail	10,958	2,084	84%
Small fund	2,008	63	97%
Total	24,008	6,308	80%

16.44 The Committee notes that complying lifetime annuities are particularly unpopular with retirees. Only 4 per cent of income stream sales in 2001 were of complying lifetime annuities. The unattractiveness of complying lifetime annuities is due to several factors:

- a) Complying life annuities in the market place have a built in longevity margin because of the risk that only healthy people will be in the market to buy them (so-called adverse selection). As a result, returns are low.

- b) Complying life annuities must provide a guaranteed rate of return to investors. The capital backing the annuities must therefore generally be invested long-term in conservative assets (bonds and cash). Times of low interest rates make it unattractive to “lock-in” to a guaranteed long-term investment. As a result, returns are lowered further.
- c) Complying life annuities entail a loss of capital to the estate on death. The longest the capital can be guaranteed for is 10 years, which is less than the life expectancy of most people.

16.45 The unpopularity of complying lifetime annuities is despite the fact that they have some attractive features. Under the *Social Security and Veterans’ Affairs Legislation Amendment (Budget and Other Measures) Act 1998*, complying life annuities qualify for a higher RBL and are eligible for asset test exemption and preferential income test treatment. In effect, retirees can still draw the age pension according to generous means testing arrangements in addition to their annuity.

Reform of the retirement income system

16.46 During the inquiry, various parties again raised issues in regard to the take-up of retirement income products, as opposed to lump sum payments, on retirement. Many of these issues reiterated concerns expressed by the Committee in its report *Superannuation and standards of living in retirement*.

16.47 In particular, the Committee notes the evidence of Associate Professor Covick. He argued that the Government should be encouraging or even compelling individuals to purchase a genuine complying annuity on retirement. Doing so, he argued, would ensure retirees had a capital guaranteed rate of return, and an orderly drawdown of assets, thereby removing the risk that they would run out of money in retirement. Where necessary, Associate Professor Covick argued, such a life annuity should be topped up by government through the age pension system.

16.48 In addition, Associate Professor Covick advocated to the Committee a lowering of RBLs, on the basis that RBLs are the only means at present of encouraging individuals to put their retirement savings into prudently managed vehicles which pay a steady income stream.

16.49 Members of the Committee wish to highlight that Australia has three options for the future architecture of the retirement income payment system:

- a) Firstly, a continuation of the current complex tax and social security rules, which have resulted in insufficient incentives for retirees to take up income streams or for life offices to offer such products. In the Committee’s opinion, the present retirement income stream arrangements are complex, not easily understood and have resulted in life offices withdrawing from the annuity market. As a result, the Committee believes that people are being disadvantaged in their retirement through the complex interaction between the superannuation and tax/social security systems.

- b) Secondly, Labor Senators advocate improving the existing system by developing an aggressive education campaign to educate the public to encourage them to take up income streams on retirement, together with reform of the existing tax and social security rules to offer greater incentive to individuals to voluntarily take up an income stream, with a review of the effectiveness of this option after a 3-5 year period. Such reforms might include the option of including lump-sums under the age pension asset test for Centrelink/DVA purposes.
- c) Thirdly, Government Senators and Senator Cherry from the Australian Democrats (the Committee majority) support the argument of Associate Professor Covick and believe that the Government should, at some time in the future, move to follow world's best practice as stated by the World Bank and mandate the use of a proportion of superannuation savings for the purchase of either lifetime or term-certain complying annuities/pensions (growth pensions) on retirement.

16.50 The World Bank has indicated that Australia is one of only two countries with mandatory, individual superannuation accounts which allow members access to their whole fund balance when they retire.² The World Bank offers a number of arguments in favour of forcing retirees to convert a set amount of their pre-retirement savings into an annuity:

- a) It solves the problem of 'myopia'. Myopic people spend their savings early in retirement;
- b) It addresses the lack of information people have – on inflation or life expectancy, for example – when making income choices; and
- c) It is an obvious response to the so-called 'moral hazard' of adverse selection – people will not save enough if they expect the government to rescue them in their old age.³

16.51 The full text of the World Bank paper *Annuities: Regulating withdrawals from individual pension accounts* is at **Appendix Eight**.

16.52 The Committee majority believe that the use of a proportion of superannuation savings for the purchase of either lifetime or term-certain complying annuities/pensions (growth pensions) on retirement would have three significant benefits:

2 World Bank Pension Reform Primer, *Annuities: Regulating withdrawals from individual pension accounts*, p. 5.

3 World Bank Pension Reform Primer, *Annuities: Regulating withdrawals from individual pension accounts*, p. 3.

- a) It would provide greater capital certainty in superannuation pension products and greater certainty for low-income retirees in particular in the drawdown of their assets. This need for greater certainty and security in the drawdown of assets is only increased by the increasing life expectancy of retirees.
- b) It would significantly simplify financial planning for retirees by largely removing the complexities of matching superannuation benefits with the tax and social security rules.
- c) It would discourage retirees from using superannuation to pay off debt on housing or credit cards, which is contrary to the intended purpose of superannuation to finance retirement as required by the 'sole purpose' test.

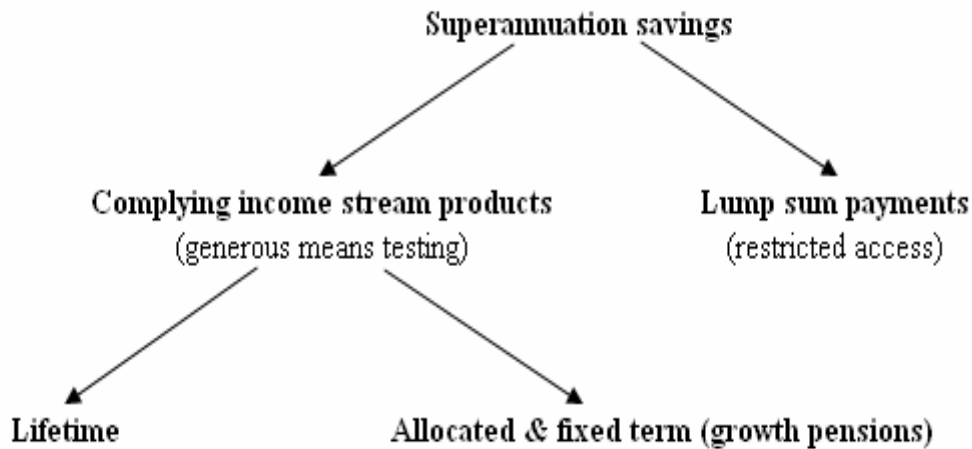
16.53 Under the proposal of the Committee majority for mandating the purchase of either lifetime or term-certain complying annuities/pension on retirement, the Government would need to restrict access to lump sum payments. However, the Committee majority acknowledge that there may need to be arrangements for individuals with small superannuation nest eggs to continue to take a lump sum payment.

Recommendation 4

The Committee majority recommend that the Government move in the future to make retirees convert a proportion of their pre-retirement savings into a complying annuity.

16.54 The Committee majority note that the timing of such a move to mandate the purchase of a genuine complying annuity on retirement will depend on the increase in superannuation savings in Australia as the superannuation system matures. Currently, average retirement savings are in the order of \$65,000 – although many superannuants, such as DIY superannuants, have significantly greater savings.

16.55 Based on the conclusions outlined above, the Committee majority believe that the architecture of the retirement income system in Australia in the future should resemble that shown in Figure 16.2 below.

Figure 16.2: Proposed architecture of the retirement income system

16.56 By mandating the use of a proportion of superannuation savings for the purchase of a genuine complying annuity on retirement in Australia, the Committee majority believe that life insurance offices and other providers will re-enter the annuity market and offer a range of new and different products to retirees that are currently not on offer. This is because they will have a guaranteed market.

16.57 The Committee majority also anticipate that under these revised arrangements, retirees would mix and match between lifetime annuities and allocated/fixed term annuities (growth pensions) according to their individual circumstances and risk profiles. For example, certain retirees, for personal reasons such as their health, may not wish to purchase lifetime annuities, and would be better served by a fixed term annuity (with term annuities, the remaining capital can be left to the estate).

16.58 As indicated above, Labor Senators also support the greater take-up of lifetime or term-certain complying annuities/pensions, but do not support mandating the purchase of such products.

Transitional arrangements

16.59 The Committee majority recognise that any move to mandate the purchasing of complying annuities on retirement would need to be accompanied by transitional arrangements over a long period of time.

16.60 Importantly, the Committee notes that many retirees currently take their entire superannuation savings as a lump sum payment on their exit from the workforce to pay off their house or credit card. Accordingly, they may not wish to purchase a complying annuity on retirement.

16.61 In the short-term, the Committee majority do not believe that such people should be disadvantaged by being forced to purchase a complying annuity. However,

in the long-term, the Committee majority believe that measures must be taken to reverse the practice of using all superannuation savings to pay off consumer debt.

16.62 To allow retirees to continue to access lump sum payments in the short to medium term, the Committee majority believe that the Government should consider placing a minimum threshold on the purchase of a complying annuity, below which individuals would not be compelled to purchase an annuity and could instead take a lump sum payment. Again, this could be a transitional arrangement which could be revisited in the long term as the superannuation system matures.

Recommendation 5

The Committee majority recommend that in moving to make compulsory the taking of complying annuities on retirement, the Government implement transitional arrangements so that individuals can have access to restricted lump sum payments.

Growth pensions

16.63 Government, Democrat and Labor Senators all agree that in order to increase the competitiveness of complying annuity products offered privately in the market place, the Government should move to make complying annuity products more attractive to retirees. The Committee notes evidence provided by AMP that complying annuities would be more attractive to retirees if they could be invested in a range of assets:

- a) First, this would allow the providers to remove the rate of return guarantee from the product and pass some of the investment risk and reward to the retirees, making the annuity cheaper as a result;
- b) Second, retirees would have greater investment choice, allowing them to select assets; and
- c) Third, this would allow retirees to benefit from a long-term investment in growth assets, with the potential for capital growth and therefore improved retirement income. It also avoids retirees having to lock in at a low rate of return.⁴

16.64 The Committee notes that in its report *Superannuation and standards of living in retirement*, the Committee made a recommendation that the Government remove the requirement of guaranteed returns from complying annuities, thereby promoting the development of growth pensions which provide higher returns. The Committee reiterates this recommendation.

4 AMP submission to the Committee's inquiry into superannuation and standards of living in retirement.

Recommendation 6

The Committee recommends that the Government consider the appropriateness of the current restrictions on the purchase of complying annuities, to encourage the availability of so-called growth pensions.

Government pensions and allowances

16.65 The Committee notes below a number of suggestions to improve the government pensions and allowances system as it relates to mature age workers.

Newstart Allowance

16.66 The Committee notes the evidence from representatives of Centrestone in relation to the opportunities available for high wealth individuals, through various strategies and loopholes, to access the Newstart Allowance from age 55 to 65.

16.67 The Committee acknowledges these arguments and believes that there is scope for preventing access to Newstart Allowance for high wealth individuals. At the same time, the Committee notes that the majority of retirees who currently rely on Newstart Allowance would not have large superannuation savings. As a result, if they were not able to access Newstart Allowance, the effect might be that they run-down their superannuation saving before age 65, and would be forced to rely even more heavily on the age pension at 65.

Recommendation 7

The Committee recommends that the Government investigate the opportunities for retirees age 55-65 to access the Newstart Allowance, without genuinely looking for work, while also continuing to access superannuation payments.

The age pension means test

16.68 The Committee notes that receipt of an earned income does not preclude an individual from receipt of the age pension. However, in determining age pension entitlement, different types of income are treated differently:

- a) Personal earnings (salary and wages) are included in the income test on the basis of income received in the applicable two weeks;
- b) Other forms of income are, in effect, averaged over the entire year, even though such earnings are attributed to specific fortnights.

16.69 These arrangements mean that people in receipt of the age pension are discouraged from intermittent and casual work. For example, a person can earn \$30 a week without a reduction in the pension. However, a person earning \$1,560 in a week (rather than \$30 a week over 52 weeks) loses a fortnight's pension. This arrangement in effect penalises those earning income in blocks rather than in small weekly increments.

Recommendation 8

The Committee recommends that the Government look at reforming the age pension means test to treat personal earnings (salary and wages) in the same manner as other forms of income.

The Pension Bonus Scheme

16.70 The Committee notes arguments that the Pension Bonus Scheme has not been particularly successful in encouraging individuals to work past age pension eligibility. Various points were raised during the inquiry:

- a) The scheme has not been well publicised;
- b) The quantum of bonus payment in lieu of the age pension is not great;
- c) There is a requirement to work 960 hours a year, which is high for individuals who may only want to work on a part-time or intermittent basis; and
- d) The labour force participation rate for persons of age pension age is very low and is mostly made up of professionals and the self-employed who are less likely to be eligible for the age pension.

Recommendation 9

The Committee recommends that the Government revisit the provisions of the Pension Bonus Scheme to increase its attractiveness to individuals working past age pension eligibility.

Carer's benefits

16.71 The Committee notes the recommendation of the COTA National Seniors Partnership that carer's benefits similar to those available in the UK, Canada and Germany be introduced such that contributions to a superannuation account are made by government on behalf of women caring for another person (child, parent or significant other) for the duration of their absence from the workforce.

Recommendation 10

The Committee recommends that the Government investigate making contributions to a superannuation account on behalf of individuals caring for another person outside of the workforce.

Income support arrangements for women

16.72 The Committee notes evidence from Dr Olsberg that women in particular are likely to have inadequate income in retirement due to insufficient time in the workforce, women's working patterns, women's longer life expectancy and the impact of family break-up.

16.73 In response, Dr Olsberg summarised four strategies for increasing the retirement income of women:

- a) Greater equity for women in the paid workforce, including the payment of SG contributions during maternity/paternity leave and the payment of a carer's benefit.
- b) Better education about the importance of saving and additional incentives to save such as co-contributions from government and subsidies and tax-cuts for those on low incomes.
- c) Better financial planning to maximise women's investments, including the development of financial products which offer maximum investment opportunities for savings patterns that fluctuate over the course of a lifetime.
- d) Increasing the role of women in the governance of Australia's superannuation and retirement incomes system.

16.74 The Committee notes that many of these issues, such as paid maternity/paternity leave, carer's benefits, financial education standards, co-contributions and tax-cuts for low income earners are addressed elsewhere in this report, or are currently being considered by the Government or the Parliament. The Committee accepts, however, that in many instances, successful resolutions on many of these issues are of particular importance to women.

Income support arrangements for self-funded retirees

16.75 During the inquiry, concern was expressed by various parties that the government should be providing additional concessions and assistance to self-funded retirees, on the basis that throughout their working lives, self-funded retirees have foregone other spending in order to maintain some degree of independence in retirement.

16.76 The Committee noted in its earlier report *Superannuation and standards of living in retirement* that various concessions for self-funded retirees, including the Senior Australian Tax Offset (SATO), were introduced in the 2001-02 Budget. SATO allows self-funded single retirees to have an income up to \$20,000 a year without paying income tax or the Medicare levy. The SATO phases-out over the income range \$20,000 to \$37,840 (for singles). Similarly, couples can have combined incomes up to \$32,612 without paying tax (depending on the income split between the partners). For couples, the SATO phases out between \$32,612 and \$58,244, if incomes are evenly divided.

16.77 The Committee also noted in its earlier report that the Government substantially increased in the 2001-02 Federal Budget eligibility for the CSHC. Singles with incomes below \$50,000 and couples with incomes below \$80,000 are

now eligible for the card, even where they are not entitled to the age pension. Over 225,000 self-funded retirees currently hold a CSHC.⁵

Retirement and eligibility for the age pension

16.78 The Committee notes that a number of parties to the inquiry expressed the view that the concept of a fixed retirement age is no longer relevant, on the basis that governments have encouraged workers to plan for and contribute to their own retirement income, and that different individuals have different health and social circumstances and different expectations in retirement.

16.79 However, other parties noted that people have expectations of retirement at certain ages, built around the preservation age for superannuation, the age at which people may claim the age pension, and the age up until which people can contribute to superannuation. These points represent the age beyond which the community considers there to be no obligation to work.

16.80 The Committee also notes that some countries are increasing the age of eligibility for the age pension as a means of forcing mature age workers to remain in the workforce. The Committee does not agree with this approach, and believes that the focus of the Government should be on encouraging rather than forcing mature age workers to remain in or return to the workforce.

Current planning for retirement in Australia

16.81 The Committee notes evidence to the inquiry that a significant proportion of the Australian population does not plan adequately for retirement. This is clearly of concern to the Committee. For a successful and fulfilling retirement, planning for retirement should begin well in advance of withdrawal from the labour market.

16.82 The Committee notes that the failure of many in the Australian population to plan for retirement may be attributable in part to their lack of financial education. The Committee endorses calls for the Government to play a primary role in making individuals aware of the need to secure their own futures.

Recommendation 11

The Committee recommends that the Government increase efforts to educate the general population about the importance of planning for retirement.

The quality of paid financial advice

16.83 The quality of paid financial advice for pre-retirees and retirees was a significant issue during the inquiry.

5 Senate Select Committee on Superannuation, *Superannuation and Standards of Living in Retirement*, pp. 142-143.

16.84 The Committee notes with concern evidence that financial planners are not in some instances acting in the best interests of their clients, with the result that retirees are being placed in inappropriate retirement products which do not serve them well in retirement. The basis of this concern is that while individuals are seeking professional and unbiased advice, the structure of the industry operates to prevent this.

Financial industry commissions

16.85 The Committee is of the opinion that the mechanisms for remunerating financial planners need reform. Currently, most financial planners are remunerated for their services through trailing commissions, which may be deducted from the consumer's account on a recurring basis for an indefinite period. The Committee does not believe that this system encourages financial planners to provide conflict-free, objective advice, simply because some financial products provide greater commissions than others. A more desirable outcome would be a more direct relationship between the amount of work for the financial planner and the fee charged.

16.86 In this regard, the Committee welcomes the reforms that the Government has introduced through the new FSR Act to improve financial disclosure standards, including obligating financial advisers to disclose to their clients any conflict of interest. In addition, the new FSR Act includes requirements that advice given to consumers must be appropriate to their needs, circumstances and objectives.

16.87 Nevertheless, the Committee believes that the Government should consider means by which to apply a more direct relationship between the amount of work involved for the financial planner and the fee charged.

Recommendation 12

The Committee recommends that the Productivity Commission investigate the remuneration arrangements for financial planners, especially whether there should be a more direct relationship between the amount of work performed and the fee charged.

The deductibility of financial planners' fees

16.88 Following on from its recommendation above, the Committee notes that the payment of an up-front fee for a financial plan is currently not tax deductible, whereas ongoing fees are perceived as relating to income, and hence are tax deductible.

16.89 Treasury indicated that the reason for this is the general tax principle that deductions can only be claimed for expenses incurred in earning assessable income, and that superannuation advice paid for by an individual in advance is not incurred in earning an assessable income.

16.90 Nevertheless, the Committee believes that the current taxation arrangements provide an undesirable inducement to pay for financial services through trailing commissions.

Recommendation 13

The Committee recommends that the Government re-examine the deductibility rules for financial planners' fees to remove the inducement to pay for financial planners' services through trailing commissions.

Not-for-profit funds

16.91 The Committee notes the evidence of Mr Brookes from the CSA that not-for-profit funds are being forced out of the superannuation market and progressively replaced by for-profit, commission driven financial conglomerates, to the detriment of consumers.

16.92 The Committee accepts that it is unlikely, despite the provisions of the FSR Act, that financial planners would recommend that their clients invest in industry, corporate and public sector funds which do not pay commissions, and which are not on their list of products to recommend.

16.93 The Committee believes that the solution to this problem is to ensure that financial planners provide independent and unbiased advice by removing any commercial advantage from the provision of that advice. In the Committee's opinion, the decline of not-for-profit funds makes more urgent the recommendations made by the Committee above.

Government and superannuation fund assistance

Government provided financial advice

16.94 The Committee notes that there is a range of well regarded, independent financial advice provided to pre-retirees and retirees by the government through FaCS. The Committee believes that the availability of such advice is very important, in the light of evidence cited above about the difficulty of obtaining independent, unbiased financial advice privately.

16.95 The Committee observes in particular that a number of parties to the inquiry were highly complimentary about the FIS provided by FaCS, and the services provided by NICRI. The Committee recognises, however, that NICRI operates on a budget of only \$450,000 per annum, which severely curtails its capacity to provide assistance to pre-retirees and retirees.

Recommendation 14

The Committee recommends that the Government provide significant additional funding to NICRI to expand the scope and availability of the assistance it offers to pre-retirees and retirees.

Assistance provided by superannuation funds

16.96 The Committee notes that superannuation funds provide varying levels of direct advice and assistance to their members. Based on the evidence available to the Committee, the Committee makes the following observations:

- a) Almost all corporate, industry and public funds make available education services to their members. The Committee welcomes this commitment.
- b) Fewer corporate, industry and public funds make available financial advice services to their members. The Committee notes that there are regulatory issues under the new ASIC licensing regime in relation to what is general advice and what is specific advice requiring licensed individuals to be involved. However, the Committee notes that some funds have addressed this problem by setting up an independent organisation that provides advice on behalf of the fund.
- c) Only a certain number of corporate, industry and retail funds provide pension annuity products for their members to select from in retirement. As a result, some fund members are forced to move their accumulated superannuation upon retirement to a separate income product provider, with associated costs, and the risk of receiving poor advice.

Recommendation 15

The Committee recommends that the Government continue to encourage superannuation funds to provide assistance to pre-retirees and retirees beyond the accumulation phase, including the provision of appropriate financial education, advice and retirement products.

Forecasting superannuation savings using government guidelines

16.97 The Committee notes the proposal that the Government establish guidelines which could be used by superannuation funds to project superannuation savings for individuals in retirement. In the UK, the regulator, the Financial Services Authority, requires that a benefit projection statement be provided annually for all accumulation style superannuation benefits, based on standard assumptions.

16.98 During the inquiry, a number of parties welcomed such a proposal, on the basis that it would assist individuals in their planning for retirement. At the same time, however, a number of parties drew attention to the uncertainties involved in

projecting superannuation savings far into the future, due to the difficulties of projecting long-term rates of returns, tax levels and so forth.

16.99 The Committee believes that there may be merit in the Government investigating the standard assumptions established by the Financial Services Authority in the UK for the generation of benefit projection statements. At the same time, the Committee is doubtful whether similar assumption and projection statements could realistically be adopted in Australia.

Non-financial planning for retirement

16.100 The Committee believes that planning for retirement should involve more than just financial planning. Clearly, lifestyle planning of personal relationships, health, housing and intellectual and social activities are an equally important part of the equation.

16.101 However, the evidence before the Committee suggests that often lifestyle planning does not receive the attention it deserves. The Committee believes this to be a cause for concern, given the evidence that good lifestyle planning in retirement can significantly improve an individual's mental alertness and well being, and decrease the need for health and community care.

16.102 The Committee notes that FaCS makes available a range of booklets on lifestyle planning in retirement. However, the Committee believes that the Government should investigate whether they are readily available to retirees, including through employers, superannuation funds and retiree groups.

Recommendation 16

The Committee recommends that the Government take steps to ensure the wide distribution of information on the need for lifestyle planning in retirement.

Other Issues

A major review of the superannuation system

16.103 The Committee notes the call of the ABA for a major review of the superannuation system, something perhaps akin to a Royal Commission. However, the Committee does not believe such a major review is warranted at this time, and prefers to pursue ongoing incremental improvement to the superannuation system.

The remuneration of superannuation investment fund managers

16.104 Although not specifically raised during the inquiry, the Committee wishes to comment on the remuneration arrangements for superannuation investment fund managers. Currently, investment fund managers are generally paid a fixed fee, based on the size of their portfolio under management, regardless of the performance of the fund. The Committee considers, however, that there may be merit in a component of

investment fund managers' remuneration being determined on the basis of their performance and movement in the fund's assets under management.

Recommendation 17

The Committee recommends that the Productivity Commission investigate the remuneration arrangements for superannuation investment fund managers.

16.105 This should not be taken as an endorsement of commission-based remuneration, about which the Committee has expressed its concerns in Recommendations 12 and 13.

16.106 The Committee also wishes to comment on the desirability of superannuation fund managers moving to standardise the terms used in their fund prospectuses, and making information on financial performance, fees and charges available to readers in a simple format on the one page.

Investment by superannuation trustees in hedge funds

16.107 Although not specifically raised during the inquiry, the Committee wishes to comment on investment by superannuation trustees in hedge funds.

16.108 On 26 June 2003, APPA reported the results of its survey on the level of superannuation monies invested in hedge funds. The survey found that 15 per cent of surveyed trustees reported making hedge fund investments, although on average they invested only 4 per cent of their portfolio in hedge funds. Nevertheless, this is a large increase on the levels of three or four years ago. A small proportion of funds reported that over 10 per cent of their portfolio had been allocated to hedge funds.

16.109 The Committee is aware that APRA is currently exploring ways to work with the hedge fund industry association, the Alternative Investment Managers' Association (AIMA), to develop more guidance for disclosure by hedge funds and asset consultants to superannuation trustees. In addition, APRA is keen to ensure that investment in hedge funds is consistent with superannuation fund's investment objectives.

16.110 The Committee endorses these moves by APRA, and will continue to monitor APRA's scrutiny of investment by superannuation trustees in hedge funds.

State government superannuation schemes

16.111 The Committee notes the evidence of the South Australian Government Superannuation Federation in relation to the progressive closure of South Australian Government defined benefit schemes. Members of the Federation argued that this is inconsistent with the objectives of the Commonwealth Government in seeking to ensure an adequate retirement income for all Australians, and suggested that the Commonwealth should urge the states to offer retirees post-retirement income products, in particular allocated pensions.

16.112 In response, as discussed in this report, the Committee supports the widespread provision of post-retirement income products, but does not feel that the Commonwealth can legitimately comment directly on the superannuation arrangements of individual state governments.

Senator John Watson
Committee Chair

Appendix One

Submissions

- 1 Australian Pensioners' and Superannuants' League Qld Inc
- 2 NSW Committee on Ageing
- 3 Centrestone Wealth Management Pty Limited
- 4 Emeritus Professor Dennis Lowther
- 5 Mr Paul Kenny, Flinders University, South Australia
- 6 Dr Diana Olsberg, University of New South Wales Research Centre on Ageing & Retirement (RCAR)
- 7 Industry Funds Forum
- 8 Professor Owen Covick, Flinders University, South Australia
- 9 Department of Families Queensland
- 10 Mr Les Kemp
- 11 University of the Third Age – Adelaide
- 12 Superannuated Commonwealth Officers' Association
- 13 Australian Retired Persons Association (SA) Inc
- 14 Industry Funds Forum (Supplementary Submission)
- 15 Retired Union Members' Association of SA Inc
- 16 Association of Independent Retirees (A.I.R.) Limited
- 17 South Australian Government Superannuation Federation
- 18 workingconnections, Over 50s Association
- 19 Country Women's Association of Victoria Inc
- 20 Association of Independent Retirees (A.I.R.) Limited, Whyalla and Districts Branch
- 21 Australian Council of Public Sector Retiree Organisations Inc

- 22 Department for Community Development, Western Australia
- 23 Department of Industrial Relations, Queensland
- 24 ACTU
- 25 Corporate Super Association
- 26 Mr Peter Mair
- 27 IFSA
- 28 Confidential
- 29 Department of Employment and Workplace Relations
- 30 Seafarers' Retirement Fund
- 31 COTA National Seniors Partnership
- 32 Financial Planning Association of Australia Limited
- 33 The Association of Superannuation Funds of Australia Ltd
- 34 National Information Centre on Retirement Investments Inc
- 35 The Australian Workers' Union
- 36 The Institute of Chartered Accountants in Australia
- 37 Department of Education and Training, Western Australia
- 38 Department of Family and Community Services
- 39 Public Service Association of New South Wales
- 40 Combined Pensioners' and Superannuants' Association of New South Wales
- 41 Australian Bankers' Association
- 42 Dr Diana Olsberg, University of NSW Research Centre on Ageing & Retirement (Supplementary Submission)
- 43 Association of Independent Retirees Limited (**CHECK**)
- 44 Mr Darren Wickham
- 45 Australian Chamber of Commerce and Industry
- 46 Department of the Treasury

- 47 Institute of Actuaries of Australia
- 48 Department of Family and Community Services (Supplementary Submission)
- 49 University of the Third Age – Adelaide (Supplementary Submission)

Appendix Two

Public Hearings

Monday, 5 May 2003, Sydney

Australian Consumers' Association

Ms Catherine Wolthuizen, Senior Policy Officer

Centrestone Wealth Management

Mrs Glenese Keavney, Authorised Representative

Ms Carly O'Keefe, Technical Research Analyst

Australian Bankers' Association

Mr David Bell, Chief Executive Officer

Mr David Connolly, Consultant

Mr Michael Rice, Consultant

Association of Superannuation Funds of Australia

Mr Ross Clare, Principal Researcher

University of New South Wales Research Centre on Ageing and Retirement

Dr Diana Olsberg

Investment and Financial Services Association

Ms Jo-Anne Bloch, Deputy Chief Executive Officer

Mr Bill Stanhope, Senior Policy Manager

Mr Kevin Smith

Association of Independent Retirees Ltd

Mr Stanley Goodacre, Chair, Taxation and Investment Review Group

NSW Committee on Ageing

Dr Dawn Linklater, Chair

Mr John Cormack, Chair, Subcommittee on Mature Age Employment

The Hon. Ross Free, Deputy Chair

Ms Sarah Fogg, Senior Policy Officer

Institute of Chartered Accountants in Australia

Mr Anthony Negline

Thursday, 8 May 2003, Melbourne

Australian Securities and Investments Commission

Mrs Angela Longo, Special Adviser, Consumer Protection

Ms Pam McAlister, Director, Legal and Technical Operations

workingconnections, Over 50s Association

Ms Grace Johnston

Corporate Super Association

Mr Nicholas Brookes, Chief Executive Officer

Mrs Elizabeth Goddard, Head of Research

Financial Planning Association of Australia

Hristodoulidis, Mr Con, National Manager, Policy and Government Relations

Mr Kenneth Robinson, Member, Superannuation Committee

Ms Margaret Sousou, Adviser, Policy and Government Relations

COTA National Seniors Partnership

Ms Patricia Reeve, Director, National Policy Secretariat

Friday, 9 May 2003, Adelaide

Australian Retired Persons Association (S.A.) Inc

Dr Geoffrey Parkinson, President

Mr Owen Covick (Private Capacity)

Association of Independent Retirees – Whyalla and Districts Branch

Mr Ian McArthur, Secretary

Mr Robert Shaw, Branch President

University of the Third Age – Adelaide Inc

Mr Colin Lawton

Mr Leslie Kemp (Private Capacity)

South Australian Government Superannuation Federation

Mr Adrian Butterworth, Treasurer

Mr Kevin Crawshaw, Committee Member

Mr Kenneth Smith, Executive Officer

Retired Union Members Association of South Australia Inc

Mr Victor Potticary, Secretary

Thursday, 15 May 2003, Canberra

Australian Chamber of Commerce and Industry

Mr Peter Johnson, Economist

Dr Steven Kates, Chief Economist

National Information Centre on Retirement Investments Inc

Mr Basil La Brooy, Community Education Officer

Ms Wendy Schilg, Director

Department of Family and Community Services

Mr Neil Burton, Assistant Director, Seniors and Means Test Branch

Mr Alex Dolan, Assistant Secretary, Seniors and Means Test Branch

Department of Employment and Workplace Relations

Mr Alexander Anderson, Assistant Secretary, Strategic Policy Branch,
Workplace Relations Policy and Legal Group

Mr Scott Matheson, Assistant Secretary, Economic and Labour Market Analysis Branch

Ms Carolyn McNally, Assistant Secretary, Priority Groups Policy Branch

Department of the Treasury

Mr Roger Brake, General Manager, Superannuation, Retirement and Savings Division

Ms Rosemary Deininger, Manager, Superannuation, Retirement and Savings Division

Mr Michael Rosser, Manager, Consumer Protection Unit, Financial System Division

Friday, 16 May 2003, Canberra

Australian Prudential Regulation Authority

Mr Greg Brunner, General Manager, Policy Development

Appendix Three

Tabled Documents

Monday 5 May 2003

‘Women and Retirement Savings - Ways forward?’, tabled by Dr Diana Olsberg, UNSW Research Centre on Ageing & Retirement (RCAR)

NICRI publications *Introducing NICRI*, *Estate Planning* and *Enduring Power of Attorney* tabled by Mr Stanley Goodacre, Association of Independent Retirees Ltd

Thursday 8 May 2003

Don't kiss your money goodbye, tabled by Mrs Longo, ASIC

You can complain, tabled by Mrs Longo, ASIC

Consumer Education Strategy 2001 – 2004, tabled by Mrs Longo, ASIC

International Cold Calling Investment Scams, tabled by Mrs Longo, ASIC

Where do I start?, tabled by Mrs Longo, ASIC

Fido, tabled by Mrs Longo, ASIC

Super Decisions – English, Vietnamese, Arabic and Chinese tabled by Mrs Longo, ASIC

Professional Partner Program, tabled by Ms Sousou, Financial Planning Association

The FPA Financial Literacy Project, tabled by Ms Sousou, Financial Planning Association

Media Release ‘FPA launches Professional Partner Strategy’, 30 April 2003, tabled by Ms Sousou, Financial Planning Association

Friday 9 May 2003

Explore some exciting new learning opportunities, tabled by Mr Lawton, University of the Third Age – Adelaide Inc

Beyond Cinderella – Towards a learning society, tabled by Mr Lawton, University of the Third Age Adelaide Inc

‘U3As in Australia and New Zealand: Society’s four million-dollar bonanza’, tabled by Mr Lawton, University of the Third Age – Adelaide Inc

Thursday 15 May 2003

The following brochures were tabled by NICRI:

Introducing NICRI

Investing with Safety

Deeming Accounts

Complaint Resolution Schemes

Enduring Power of Attorney

Estate Planning

Negative Gearing

Introducing Rollovers

Rollover Safety

Retirement Income Stream Products: A comparison

A Super Checklist

Understanding Risk

A guide to the Financial Planning Process

Income and Expenditure Sheet

Allocated Annuities

Allocated Pensions

Bond Trusts

Cash Management Trusts

Equity Trusts

First Mortgages

Fixed Interest Investments (excluding Term Deposits)

Funeral Bonds and Prepaid Funeral Plans

Introducing Immediate Annuities

Insurance & Friendly Society Bonds

Investment Fees

Master Trusts and Wrap Accounts

Mortgage Trusts

Property Trusts

Shares

Term Deposits

Unit Trusts

Redundancy and You

Immediate Annuities

A Super Guide

Profile - National Information Centre on Retirement Investments Inc (NICRI) tabled by Mr Basil La Brooy, National Information Centre on Retirement Investments Inc (NICRI)

Appendix Four

List of Committee Reports 1991 - 2003

Reports and papers of the previous Select Committees on Superannuation (1991-1998)

- *Super System Survey* - A Background Paper on Retirement Income Arrangements in Twenty-one Countries (December 1991)
- First Report of the Senate Select Committee on Superannuation - *Safeguarding Super* - the Regulation of Superannuation (June 1992)
- Second Report of the Senate Select Committee on Superannuation - *Super Guarantee Bills* (June 1992)
- *Super Charges* - An Issues Paper on Fees, Commissions, Charges and Disclosure in the Superannuation Industry (August 1992)
- Third Report of the Senate Select Committee on Superannuation - *Super and the Financial System* (October 1992)
- *Proceedings of the Super Consumer Seminar*, 4 November 1992 (November 1992)
- Fourth Report of the Senate Select Committee on Superannuation - *Super - Fiscal and Social Links* (December 1992)
- Papers relating to the Byrnwood Ltd, WA Superannuation Fund, 25 March 1992; Interim Report on Fees, Charges and Commissions in the Life Insurance Industry, 3 June 1992 (February 1993)
- Fifth Report of the Senate Select Committee on Superannuation - *Super Supervisory Levy* (May 1993)
- Sixth Report of the Senate Select Committee on Superannuation - *Super - Fees, Charges and Commissions* (June 1993)
- Seventh Report of the Senate Select Committee on Superannuation - *Super Inquiry Overview* (June 1993)
- Eighth Report of the Senate Select Committee on Superannuation - *Inquiry into the Queensland Professional Officers Association Superannuation Fund* (August 1993)

- Ninth Report of the Senate Select Committee on Superannuation - *Super Supervision Bills* (October 1993)
- Tenth Report of the Senate Select Committee on Superannuation - *Super Complaints Tribunal* (December 1993)
- Eleventh Report of the Senate Select Committee on Superannuation - *Privilege Matter Involving Mr Kevin Lindeberg and Mr Des O'Neill* (December 1993)
- A Preliminary Paper Prepared by the Senate Select Committee on Superannuation for the Minister for Social Security, *Options for Allocated Pensions Within the Retirement Incomes System* (March 1994)
- Twelfth Report of the Senate Select Committee on Superannuation - *Super for Housing* (May 1994)
- Thirteenth Report of the Senate Select Committee on Superannuation - *Super Regs I* (August 1994)
- Fourteenth Report of the Senate Select Committee on Superannuation - *Super Regs II* (November 1994)
- Fifteenth Report of the Senate Select Committee on Superannuation - *Super Guarantee - Its Track Record* (February 1995)
- Sixteenth Report of the Senate Select Committee on Superannuation - *Allocated Pensions* (June 1995)
- Seventeenth Report of the Senate Select Committee on Superannuation - *Super and Broken Work Patterns* (November 1995)
- Eighteenth Report of the Senate Select Committee on Superannuation - *Review of the Superannuation Complaints Tribunal* (April 1996)
- Nineteenth Report of the Senate Select Committee on Superannuation - *Reserve Bank Officers' Super Fund* (June 1996)
- Twentieth Report of the Senate Select Committee on Superannuation - *Provisions of the Social Security Legislation Amendment (Further Budget and Other Measures) Bill 1996 - Schedule 1* (November 1996)
- Twenty-first Report of the Senate Select Committee on Superannuation - *Investment of Australia's Superannuation Savings* (December 1996)
- Twenty-second Report of the Senate Select Committee on Superannuation - *Retirement Savings Accounts Legislation* (March 1997)
- Twenty-third Report of the Senate Select Committee on Superannuation - *Superannuation Surcharge Legislation* (March 1997)

- Twenty-fourth Report of the Senate Select Committee on Superannuation - *Schedules 1, 9 & 10 of Taxation Laws Amendment Bill (No. 3) 1997* (June 1997)
- Twenty-fifth Report of the Senate Select Committee on Superannuation - *The Parliamentary Contributory Superannuation Scheme & the Judges' Pension Scheme* (September 1997)
- Twenty-sixth Report of the Senate Select Committee on Superannuation - *Super - Restrictions on Early Access: Small Superannuation Accounts Amendment Bill 1997 and related terms of reference* (September 1997)
- Twenty-seventh Report of the Senate Select Committee on Superannuation - *Superannuation Contributions Tax Amendment Bills* (November 1997)
- *Super Taxing* - An information paper on the Taxation of Superannuation and related matters (February 1998)
- Twenty-eighth Report of the Senate Select Committee on Superannuation – *Choice of Fund* (March 1998)
- Twenty-ninth Report of the Senate Select Committee on Superannuation - *Superannuation Legislation (Commonwealth Employment) Repeal and Amendment Bill 1997, Commonwealth Superannuation Board Bill 1997, Superannuation Legislation (Commonwealth Employment - Saving and Transitional Provisions) Bill 1997* (April 1998)
- Thirtieth Report of the Senate Select Committee on Superannuation - *Workplace Relations Amendment (Superannuation) Bill 1997* (May 1998)
- Thirty-first Report of the Senate Select Committee on Superannuation - *Resolving Superannuation Complaints* - options for dispute resolution following the Federal Court decision in *Wilkinson v CARE* (July 1998)

Reports and papers of the Select Committee on Superannuation and Financial Services - 39th Parliament (1999 - 2002)

- *Choice of Superannuation Funds (Consumer Protection) Bill 1999* (November 1999)
- *Superannuation Legislation Amendment Bill (No. 4) 1999* (November 1999)
- *Roundtable on Choice of Superannuation Funds* (March 2000)
- *Provisions of the Superannuation (Entitlements of Same Sex Couples) Bill 2000* (April 2000)

- *New Business Tax System (Miscellaneous) Bill No 2 2000* (June 2000)
- *Financial Sector Legislation Amendment Bill (No 1) 2000* (August 2000)
- *Interim report on the Family Law Legislation Amendment (Superannuation) Bill 2000* (November 2000)
- *Taxation Laws Amendment (Superannuation Contributions) Bill 2000* (December 2000)
- *Family Law Legislation Amendment (Superannuation) Bill 2000* (March 2001)
- *The opportunities and constraints for Australia to become a centre for the provision of global financial services* (March 2001)
- *A 'reasonable and secure' retirement? The benefit design of Commonwealth public sector and defence force unfunded superannuation funds and schemes* (April 2001)
- *Enforcement of the Superannuation Guarantee Charge* (April 2001)
- *Issues arising from the Committee's report on the Taxation Laws Amendment (Superannuation Contributions) Bill 2000* (May 2001)
- *Report on the Provisions of the Parliamentary (Choice of Superannuation) Bill 2001* (August 2001)
- *Prudential supervision and consumer protection for superannuation, banking and financial services - First Report* (August 2001)
- *Prudential supervision and consumer protection for superannuation, banking and financial services - Second Report - Some case studies* (August 2001)
- *Prudential supervision and consumer protection for superannuation, banking and financial services - Third Report - Auditing of Superannuation Funds* (September 2001)
- *Early Access to Super – A Discussion Paper* (November 2001)
- *Early Access to Superannuation Benefits* (January 2002)
- *Investing Superannuation Funds in Rural and Regional Australia - An Issues Paper* (February 2002)

Reports of the Select Committee on Superannuation - 40th Parliament (2002-2003)

- *Taxation Laws Amendment (Superannuation) Bill (No. 2) 2002, and Superannuation Guarantee Charge Amendment Bill 2002* (June 2002)
- *Taxation Treatment of Overseas Superannuation Transfers* (July 2002)
- *Provisions of the Superannuation (Government Co-contribution for Low Income Earners) Bill 2002 and Provisions of the Superannuation Legislation Amendment Bill 2002* (September 2002)
- *Provisions of the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002* (November 2002)
- *Superannuation and standards of living in retirement – Report on the adequacy of the tax arrangements for superannuation and related policy* (December 2002)
- *Provisions of the Superannuation Industry (Supervision) Amendment Bill 2002 and the Superannuation (Financial Assistance Funding) Levy Amendment Bill 2002* (March 2003)

Appendix Five

The COTA National Seniors Partnership Submission on the Proposed Introduction of Federal Age Discrimination Legislation

COTA National Seniors Partnership Submission

Mature aged workers' participation in the workforce is one of the keys to maintaining and increasing productivity. Age discrimination is a major barrier to mature age people remaining in or re-accessing the workforce. The Government's commitment to introducing federal age discrimination legislation is welcome, but we have expressed a number of concerns in response to the Attorney General's proposals, including:

- **By exempting much Commonwealth legislation from the provisions of age discrimination legislation, the Commonwealth provides a negative role model to the community.** Leadership is required to change entrenched attitudes and behaviours. Any public education campaign will be undermined by the Commonwealth's own reticence in embracing its own age discrimination laws. The Commonwealth must demonstrably support this legislation by minimising exemptions. The default setting should be that the age discrimination shall apply and that exemptions shall be minimised and exceptional.
- **The proposed legislation perpetuates and supports age discrimination.** Chronological age should not be used as a proxy measure for competence. All Commonwealth legislation and regulations should be reviewed and amended to eliminate their discriminatory provisions. Good cause must be shown in cases where age is maintained as a criterion for denial of access to an opportunity available under federal law. Exemptions should be the rare exception, not the rule.
- Age discrimination must not be the "poor cousin" of HREOC – it must be viewed as being equally important as all other forms of discrimination. The Act will need to be administered by its own Deputy President/Commissioner, and adequate resources must be made available for public education and other supporting measures. Again, this will demonstrate the government's commitment to this legislation.
- The new arrangements in regard to enforceable determinations through the Federal Court **need to ensure that complainants are not disqualified from taking cases forward due to cost or other barriers.** Older people may well be discouraged from seeking redress through the Federal Court due to costs and other barriers. The proposed legislation does not address this issue.

- Additionally, **a whole of government approach is needed** to address age discrimination. Individual departments should not be allowed to maintain discriminatory practices through seeking exemption for each “special case” as the result will be that the many and various exemptions will undermine the totality of the legislation and its intent. The Commonwealth government needs to be seen to lead by example.
- We endorse the conclusion of the Victorian, South Australian and Western Australian Equal Opportunity Commissions and the Australian Employers Convention that:

These issues cross-cut portfolios...To successfully address structural barriers (to age discrimination) the restrictive boundaries of individual portfolios must be overcome.¹ (Parenthesis added.)

And the comments of Age Concern England:

The action of government departments in tackling age discrimination themselves will be an important part of the tone and approach of Government. If government departments are perceived to be reluctant in their approach, and/or arguing for exemptions, this is likely to impede the effectiveness of measures designed to combat discrimination in employment and health and social care. The government will need to be seen as leading by example.²

Our full submission to the Attorney General is on our home page www.cota.org.au
We note that the Human Rights and Equal Opportunity Commission has made a number of comments that are similar to those in our submission, as have other organisations and individuals.

1 The Victorian, South Australian and Western Australian Equal Opportunity Commissions and the Australian Employers Convention. *Age Limits: age-related discrimination in employment affecting workers over 45*. March 2001, p. 23.

2 *Age Discrimination Policy Position Paper*. Age Concern England. September 2002, p. 9.

Appendix Six

Assumptions underlying the Centrestone Case Study

The Centrestone case study cited in Box 9.1 regarding John and Margaret is based on the following assumptions:

- The cost of living of \$60,000 is indexed annually by 2.5 per cent to represent an assumed rate of inflation;
- The income support payable is indexed each year by 2.5 per cent to represent an assumed rate of inflation;
- The earning rate of the assumed mix of superannuation is 6.08 per cent for the first two years due to the higher proportion of cash to allow for initial anticipated withdrawals. The average earning rate in later years is 6.57 per cent as the cash holding has been withdrawn;
- John and Margaret have a car and caravan, which they owned before the redundancy payout, valued in the first year at \$50,000. After ten years, the value is estimated to be \$10,000;
- Financial planning fees are applicable as per our set fee structure and are in addition to the \$60,000 cost of living;
- Neither John nor Margaret pay income tax on the income support received due to rebates;
- The total assessable assets they hold are less than the current asset test threshold and the income counting from all sources is less than the current income test threshold;
- At commencement, John had \$50,000 of undeducted contributions;
- John and Margaret initially had \$7,500 cash at the bank when they were both receiving allowances and home contents value of \$10,000 has remained constant; and
- The income support income and asset test thresholds used are based on current values.

Appendix Seven

Sample Retirement Projection Statement

Your Projected Retirement Benefit

Date Statement Produced 1 July 2003

This statement is a guide to the amount of benefit that you might get when you retire. In this statement, we refer to this as an ‘illustration’.

Please read all of this statement. The notes on the next page explain more about the way your illustration has been calculated and what will decide how much your final benefit will be.

About you

Your name:	John Citizen
Your date of birth:	1/1/1950
Your Membership Number:	12345
The name of your super fund:	The Very Good Superannuation Fund
The value of your account balance at 1/7/03:	\$100,000.00

Your future benefits

On the assumptions we have made we estimate that:

- **your lump sum benefit on retirement at age 65 will be \$200,000.**
- **with this lump sum you could roll it over and purchase an annuity giving you an income of \$12,000 per annum or \$1,000 per month (before tax) for the rest of your life.**

The amount of benefit is shown in today’s prices. This illustration is not a promise or guarantee that when you retire you will receive the amount of benefit shown here. This is because the illustration is based on the position in our records as at 1/7/03 and on a number of assumptions.

However, what actually happens may vary considerably from these assumptions, and so **your actual benefit when you retire may be significantly different from the amount shown here.** The longer the period from now till your retirement date, the more likely it is that significant differences will arise.

If you have any questions about your illustration you can phone us on: 1800 000 000 or you can write to us at: GPO Box 999999, Sydney NSW 2001

This illustration should not be used as the only basis for reviewing your superannuation arrangements, or for deciding which super fund to choose. Because of this, you should consider getting further information or advice before you review your superannuation arrangements.

Notes:

This illustration is to help you plan for your retirement. It shows the amount of benefits that might be payable when you retire, **in today's prices** (so that you can see what you would be able to buy if you had this amount of benefit now). We are required by law to provide it, and to use various assumptions in our calculations.

Among other things, your final benefit will depend on:

- when you actually retire and start to take your benefit; we have assumed that your retirement date will be 1/1/2015;
- the actual contributions made; we have assumed that you will continue to pay your personal contributions at the rate of 3% of your salary (by salary sacrifice);
- the way your own fund is invested, and the investment growth it achieves; the way in which we have assumed that your super fund is invested, and the investment growth we have assumed it will receive, may not reflect what actually happens between now and when you retire;
- how much it costs to buy an annuity when you retire; the actual cost may be significantly different from our assumption;
- whether you choose to buy a fixed annuity or one that increases each year; we have assumed that you will buy a annuity that will increase each year in line with inflation (the Consumer Prices Index); and
- what allowance (if any) you make for a annuity for your wife - we have assumed that when you retire you will be married to Mrs Citizen, who will receive a annuity equal to half of your annuity if she survives longer than you do.

Appendix Eight

Annuities: Regulating Withdrawals from Individual Pension Accounts

Annuities

Regulating withdrawals from individual pension accounts

Pension, to most people, implies a regular payment from a specific age—such as retirement—until death. Individual retirement accounts are a vehicle for retirement savings but they do not become a pension in the conventional sense of the word until they are converted to an ‘annuity’. How much and what type of annuitization should be mandated are key policy questions facing reformers.

The value of annuities

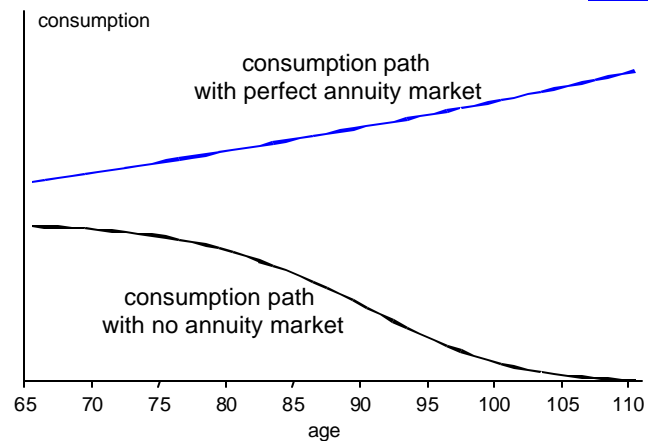
Economists believe that annuities can make people better off. The intuition is straightforward. Life expectancy is normally uncertain. So people would have to spend accumulated wealth slowly after retirement to ensure an adequate income should they live a long time. This kind of self-insurance is costly because it increases the chances that people will consume less than they could have if they knew when they were going to die. This cost can be reduced with annuities, which pool risk across individuals.

An annuity is a kind of insurance against the risk of exhausting savings in old age. The benefit of this ‘longevity insurance’ depends on how conservative people are. More cautious individuals would spend less of their savings in the early years of retirement if there were no annuities as they sought to avoid any chance of running out of money toward the end of their lives. The benefit also depends on interest rates, life expectancy and how much people plan for the long term. Under

reasonable assumptions about each of these variables, an annuity has been estimated to be worth 50-100 per cent of wealth at age 65.

Annuities can raise welfare

1



Demand for annuities

Given these impressive magnitudes, it would seem safe to expect that there would be significant demand for annuities. But in fact, actual demand is quite limited. This is because the decision whether to buy an annuity is affected by transaction costs, market imperfections and other factors, which were not considered above. Understanding these reasons is important when thinking about how governments should intervene in the benefit withdrawal stage of an individual accounts system.

This briefing is part of the World Bank's Pension Reform Primer: a comprehensive, up-to-date resource for people designing and implementing pension reforms around the world. For more information, please contact Social Protection, Human Development Network, World Bank, 1818 H Street NW, Washington, D.C. 20433; telephone +1 202 458 5267; fax +1 202 614 0471; e-mail socialprotection@worldbank.org. All Pension Reform Primer material is available on the internet at www.worldbank.org/pensions

Adverse selection

One possible explanation for low annuity demand is a market failure known as ‘adverse selection’. The potential for adverse selection is often used to justify government intervention in annuities markets.

Adverse selection can occur when people know something about their mortality risk that annuity providers find costly or impossible to find out. This information asymmetry means that people with higher mortality could expect to lose out from buying an annuity. The average life expectancy of annuitants increases, so providers must raise the price. This drives still more people out of the market. The market fails, because some people are unable to buy a fairly priced annuity.

A number of studies have documented annuity prices significantly higher than those that would be charged if insurance companies were to base their calculations on the relevant interest rates and projected population mortality. In other words, annuity prices were not ‘actuarially fair’. Depending on the discount rate applied, the premium paid by annuitants in the United Kingdom and the United States was typically between 7 and 15 per cent. This evidence, combined with the observation that annuitants live longer than the general population, provides support for the market failure explanation.

Other factors reducing demand

But there are many other potential explanations for underdeveloped annuity markets. These fall into two categories: factors reducing the desirability of longevity insurance or means of providing a viable alternative to annuity products offered in the market.

We begin with *bequests*. Standard life annuities are, by definition, exhausted when people die. Yet people often want to leave some of their wealth to their family or even to charity. As well as concern for their family’s well-being, bequests can be used to encourage relatives to look after them in their old age in exchange for the promise of the inheritance. Bequests, whether strategic or altruistic, can reduce the usefulness of annuities.

Precautionary savings can also reduce the demand for annuities. A sudden medical emergency requires liquidity and flexibility that is impossible if wealth is fully annuitized. In the absence of health insurance, this motive can be a serious disincentive to purchasing an annuity.

There are at least two important substitutes for annuities purchased from private insurers. The first is a *public pension*. In the United Kingdom and the United States, more than half of the average household’s wealth is held in the form of a public pension. This proportion is even higher in countries with more generous benefits, such as France, Germany and Italy.

The second substitute—the *family*—can be described as an ‘incomplete’ annuities market. In theory, even a small family unit can make informal arrangements providing much of the benefit of buying an annuity. The advantages of keeping it in the family include low monitoring and transaction costs. And depending on the social sanctions that are possible, enforcement mechanisms in this informal market may be very effective. Simulations have shown that intra-family arrangements could generate as much as three-quarters of the welfare gains from an actuarially fair annuity market.

Empirical studies have not found much evidence of transfers within families that fit this model. But this is hardly surprising: the studies have focused on industrialized countries with broad public and private annuity provision. In contrast, within-family provision may well be important in traditional societies and rural communities. Here, the transaction costs of buying annuities are highest while informal contracts are common practice.

The desire for liquid assets or bequeathable wealth and the availability of substitutes for private annuities must be taken into account when designing benefit rules in a defined contribution pension system. Also, transaction costs and the state of the insurance sector (including regulatory capacity) should be borne in mind.

Why limit withdrawals?

The fact that few people buy annuities voluntarily poses a challenge for reforms relying on defined contribution schemes. To reduce old age poverty and provide a reasonable degree of earnings replacement in retirement, government intervention may be warranted.

Mandatory provision for income in old age is usually justified on two grounds. First, paternalism. People are myopic, and left to their own devices will not save enough. Others may be forward looking, but may lack the information needed to make sensible savings choices. Secondly, there is the phenomenon economists call ‘moral hazard’. People will not save enough if they expect government to rescue them in their old age. And governments in many countries cannot credibly commit to leave pensioners destitute.

These same arguments apply to withdrawals in retirement savings systems. Myopic people might spend their savings early in retirement. And public safety nets encourage even the forward looking to spend to use up their wealth and then rely on government support. Lack of information—on inflation or life expectancy, for example—can also mean people make choices they later regret.

Mandating annuities

Forcing people to convert the whole of their retirement savings into an annuity is an obvious solution to the problems of myopia, lack of information and moral hazard. It also seems a sensible response to the possibility of ‘adverse selection’ mentioned earlier.

But we have already noted several reasons why people can find annuities unattractive, even when they have perfect foresight. Mandating annuities could reduce the welfare of these people, for example, by preventing them from leaving money to their children. Moreover, public policy objectives can be achieved without requiring full annuitization of wealth.

Minimum annuity levels

The tensions between individual preferences and public policy objectives point to the need to strike

a careful balance as opposed to a blanket mandate to annuitize. This balance will be different in each country but a sensible starting point is to require people to take out an annuity of a minimum level. No one will be left destitute as a result of myopia. And, if the minimum is set higher than the safety net income, it mitigates the moral hazard problem.

A gap between the social safety net income and the minimum annuity is advisable for two reasons. First, the social safety net might be uprated more rapidly (by earnings, for example) than the annuity. So after a long period of retirement, the annuity might actually fall below the safety net.

Secondly, the safety net income is often set at a level that is much lower than would be a reasonable replacement rate for an average wage worker. People with a reasonable level of accumulated retirement savings should not be permitted, through myopia, to dissipate this wealth and then fall to the safety net level. Another way to avoid such a situation is to mandate not only the minimum annuity level but also a minimum replacement rate target based on the worker’s own pre-retirement earnings. Naturally, the higher this mandated replacement rate, the greater the likelihood that the certain individuals will, in their view, hold too much of their wealth in the form of an annuity.

Finally, in mandating the minimum annuity, policymakers must take the interests of scheme members’ dependants into account. Widows tend to be poorer than the rest of the elderly and women tend to live longer than men. If people can tie their annuity to their own life alone, then the government might have to support many surviving spouses. Problems of myopia and moral hazard suggest that at least the minimum annuity should be required to provide for survivors. Of course, the stream of income required to maintain living standards need not be as high as when both spouses were alive.

Indexation

The purpose of mandating annuities will be undermined if the purchasing power of the payment declines over time. Even low levels of inflation can dramatically affect living standards.

For example, 2½ per cent inflation over 25 years would nearly halve the value of a level (unindexed) annuity.

Inflation indexed annuities are not common. Even when they are widely available, as in the United Kingdom, take up is very low. This suggests another kind of myopia: people are unaware of the longer-term effects of inflation on their benefits. In economics terms, 'money illusion' is at work. Inflation protection should therefore be required for at least the minimum mandatory annuity and perhaps for all annuity products.

So that private insurers can offer inflation protection, the government will probably need to issue indexed public bonds. These allow annuity providers to insure their liabilities. But finance ministries have often opposed indexed bonds because they legitimize inflation and inflationary expectations. If people are protected from inflation's adverse effects, the argument goes, they will be reluctant to support painful macroeconomic stabilization programs.

Broader macroeconomic concerns must of course take precedence over the narrower interests of the retirement income system. But, once expectations of permanently high inflation are eliminated, there are more effective means of ensuring stability and credibility, such as an independent central bank.

Draw-downs and annuity options

A draw-down is an alternative way of spreading accumulated retirement savings over time. Rather than purchasing an annuity, an individual withdraws his balance according to a preset formula that takes into account average life expectancy and the interest rate. The main problem with draw-down is the risk that people might outlive their resources. A draw-down option could also exacerbate adverse selection: people with shorter life expectancy are able to opt out of the annuity market.

Scheduled withdrawals are useful for people who want to share in the investment returns (and risks) of the provider. In contrast, a standard life annuity contract is based implicitly on a fixed rate of return. Since insurance companies assume all the

risk, the implicit interest rate is usually closer to the yield on government bonds with a similar duration.

An alternative product is a variable annuity. This is again an irrevocable contract, but the buyer shares in the risk and the return of investing the fund. If returns are low, future payments can be reduced (and vice versa). In Argentina, for example, annuities must generate at least a 4 per cent nominal rate of return. Above that level, annuity buyers and sellers can agree to split the returns in any way they agree.

Many other variants that customize the level and duration of the annuity income stream and associated risks can be offered. Some contracts allow for a fixed period of payments, say 20 years, even if the annuitant dies before the period is up. Some annuities allow for deferral of payments for several years. Limited inflation protection can be purchased at lower cost than a fully indexed annuity. An infinite number of combinations can be devised.

Timing of withdrawal

The value of accumulated retirement savings can, depending on how funds are invested, be volatile. Annuity rates also vary over time with long-term interest rates. In the United Kingdom, for example, an annuity for a 65 year old man fell from over 15 per cent of the fund in 1990 to around 10 per cent in 1998.

Variations in the fund value and annuity rates mean the time at which retirement savings are converted to an annuity can have enormous effects on pension income. So, for example, if people are forced to convert to an annuity at a set pensionable age, they will lose out if that coincides with, say, a stock-market crash. This 'timing risk' can be mitigated by allowing people to choose when they annuitize drawing down retirement savings in the meantime. But even professionals fail to predict stock-market and interest rate trends.

There is a better solution to the problem of timing risk. Annuitization can be thought of as a one-time portfolio shift, from a broad range of investments to a narrow portfolio: the investments of the insurer backing the annuity, predominantly

in bonds. Variable annuities are based on a broader portfolio. The insurer invests in a range of assets, and the annuity pay-out adjusts to reflect their value. This obviates the need for the one-time portfolio shift associated with timing risk. Variable annuities are also a better way of delivering the flexibility of investments achieved by draw-down.

Early international experience

Only two of the countries with mandatory, individual accounts—Australia and Hong Kong—allow members access to the whole fund balance when they retire. Australians generally take a lump-sum pay-out at retirement. (What happens thereafter is complicated by the presence of an income and asset tested public pension program.) Hong Kong will only begin collecting mandatory contributions in late 2000, so there is no experience of withdrawals yet.

Another dozen countries with individual account schemes restrict withdrawals in one way or another. In the United Kingdom, for example, people can take out a lump-sum of up to a quarter of their accumulated pension fund. They can draw down the rest of the fund gradually after retirement. But they must buy an annuity with the remainder by age 75 at the latest. Sweden will force people to buy annuities with their mandatory pension funds. Sweden is the only country where the government provides all annuities. The new schemes in Hungary and Poland also require annuitization but with private insurers.

Latin American schemes strongly encourage annuities but most allow for scheduled withdrawals. In Chile, about half of the quarter million pensioners in the new private scheme have opted for some form of annuity.

Regulations

Once the decision is made to restrict withdrawals, a series of difficult regulatory choices arise. Several have already been mentioned. For example, what are the specific types of annuities allowed and who can offer them? What is the minimum annuity that the retiring worker must purchase? The rules governing pricing and the way these

complex products are sold lead to additional regulations. Finally, there may be implicit or explicit guarantees which may necessitate further rules and a process for monitoring them.

The most basic decision is the benefit level below which restrictions will be applied. In Latin America, the minimum annuity level is usually set both in terms of the worker's own pre-retirement earnings and some absolute minimum specified by the government. For example, workers in Argentina, Peru and Chile have the option of taking a lump sum if the remainder of the balance would allow them to purchase an annuity that provides a replacement rate of 70 percent.

In Chile, the minimum is determined according to a formula which states that if the individual can purchase an annuity of value equal to or greater than the higher of 1.2 times the minimum pension or a 70 percent replacement rate of the previous five years' average real earnings, the rest of the balance can be taken in the form of a lump sum. Since the ceiling on taxable earnings is twice the average wage, this means that highest mandated annuity is 140 percent of the average wage. This type of rule also provides flexibility with regard to the retirement age.

Annuity providers

During the accumulation stage, some countries with individual accounts have relied on specialized institutions. This is true for all of the Latin American reforms and is also the case in Hungary and Poland. In contrast, with the exception of Argentina and perhaps Poland, most of these systems allow annuities to be purchased from regular life insurance companies and not only specialized firms.

The problem with requiring specialized institutions is that separate capital requirements, staff and other costs of doing business are increased. This may limit competition and is likely to result in higher transaction costs for annuitants. On the other hand, weaker providers could lead to default and trigger expensive guarantees. A compromise is to allow life insurance companies to participate

but to require stricter standards for acquiring a license to sell annuities in the mandatory system.

Regulating annuity prices

Annuity providers might offer different annuity prices according to individual characteristics that are related to life expectancy. Sex, marital status, income and parents' longevity are all attributes that affect people's mortality risk. If insurers do not take account of available information, they might be undercut by competitors offering better terms to better risks. They would face their own individual adverse selection effects.

However, differential annuity pricing raises some important public policy issues. For example, lower annuity payments to a woman than to a man with the same accumulated retirement fund is actuarially accurate. Even though people are aware that women live longer on average, governments often require insurers to offer unisex annuity rates. The redistribution from men to women that this implies is justified as a way of avoiding the perception of discrimination when women receive lower annuity rates. Some other issues may become even more important in the future. For example, the use of private medical information and the potential for genetic testing are key sources of longevity information that will become easier to obtain in the next decades.

In practice, most of the countries with individual account schemes impose strict regulations on the way annuities are calculated and sold. Governments specify age-specific survival expectations used in the calculations. These may differ from national mortality data as is the case in Argentina, Chile, Colombia and Peru where special tables were sanctioned. All of these tables have significantly lower mortality rates than those found in population-based tables. The difference persists even compared with projected mortality, ranging from around 3 per cent in Argentina to almost 14 per cent in Peru. The lack of reliable mortality data on potential annuitants poses a major challenge to annuity providers and supervisory authorities.

The interest rates used in annuity calculations are also regulated in Latin America. In Argentina,

insurance companies are required to use a 4 per cent nominal rate for both reserves and pricing. In Chile, reserves had to be discounted at 3 per cent a year real until 1988. Since then, reserves are discounted at the long-term rate on the underlying assets. The situation in Peru and Colombia is similar, with a 4 per cent fixed interest rate for reserves in Colombia and 3 per cent in Peru. The rate used to calculate the annuity is not stipulated. It is typically around 4 per cent in Colombia and almost 6 per cent in Peru.

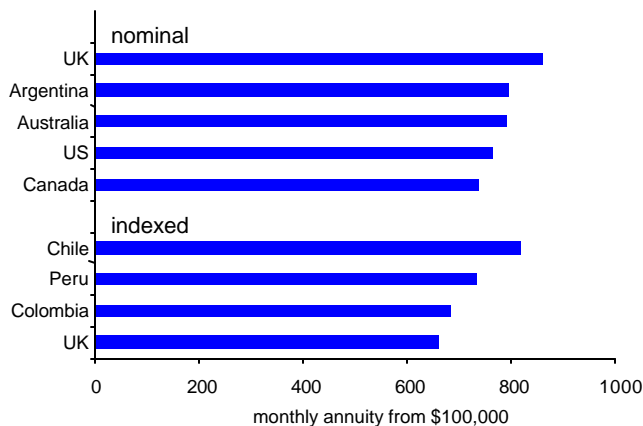
Figure 2 compares the monthly payment that could be purchased with \$100,000 in Australia, Canada, the United Kingdom and the United States with quotes from four Latin American countries. The data are drawn from several sources, but they refer to the same kind of individual and the same type of annuity. In the four cases at the bottom of the chart, the annuity is price indexed. The five bars at the top refer to nominal annuities. Note that the Argentine annuity allows the holder to share in returns in excess of four percent.

The pay-out from a nominal annuity lies between \$700 and \$880 a month. Inflation indexed annuities range from around \$620 in the UK to almost \$820 in Chile. Interestingly, the indexed annuity in the United Kingdom pays a much lower amount than the indexed Latin American products: 60 per cent less than in Chile. Part of the explanation is the fact that Chilean annuitants have life expectancies that are five percent lower than their (voluntary) counterparts in the United Kingdom. Real interest rates are also higher in Chile. Unfortunately, because life expectancy of annuitants, interest rates and even the competitiveness of the insurance industry vary, these figures do not tell us how close these amounts come to providing a fair annuity.

This requires an estimate of the 'money's worth' of annuities sold. A widely used measure of this is the ratio of the fair annuity price to the market price. Several studies have measured the money's worth ratio in the United Kingdom and the United States. Typical results are in the 85-90 per cent range. But this does not measure the fairness of annuity prices to people buying them. Using

annuitants' life expectancies, the ratio tends to be very close to 100 per cent.

Annuity rates around the world 2



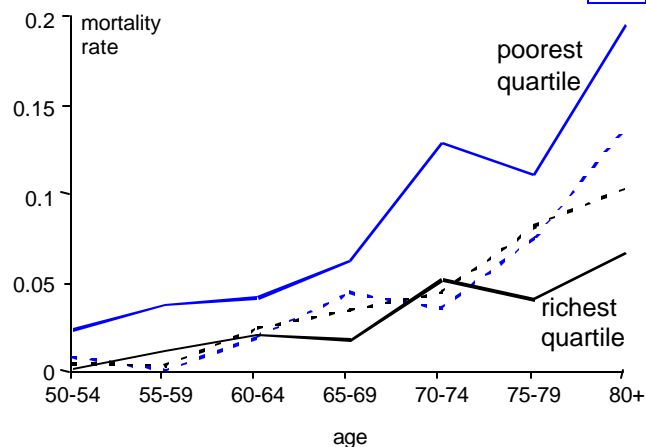
But this calculation is problematic, especially in developing countries. First, many countries do not have annuitant mortality tables or even projected life tables. So these have to be assumed. Secondly, few countries have long-term bond markets or, if they do, they are illiquid. It is difficult then to discount future annuity payments. Money's worth ratios also ignore the risk that an insurer will default, which will affect cross-country comparisons significantly. Finally, money's worth calculations implicitly assume that projected mortality is certain. In fact, demographers have often made serious errors in forecasting mortality. If this risk is taken into account, a significant part of the difference between 'fair' and observed annuity prices can be explained.

Mortality and wealth

Perhaps the most difficult issue in annuity pricing is the potential for redistribution from those with lower lifetime income and wealth to higher income annuitants. This occurs when there is a positive relationship between longevity and wealth. Indeed, this is simply the corollary of the redistribution to groups that are systematically longer lived in public pension schemes. Studies have found such unintended redistribution in the Netherlands, Sweden, the United Kingdom, and the United States.

Figure 3 shows the wealth-mortality relationship for older households in the United States based on the Health and Retirement Study. People in the poorest quarter of the population are on average four times as likely to die in any period than the richest quarter.

Wealth and mortality in the US 3



This relationship has several important policy implications. First, it suggests that at least some of the observed differences between population and annuitant mortality rates can be explained by greater demand for annuities among people in the higher wealth quartiles. This casts some doubt on the evidence of adverse selection and supports a simpler explanation.

Another implication is that national mortality tables understate longevity in countries with partial pension system coverage, because people in the informal sector tend to be poorer than average. So their mortality rates are likely to be higher than those of members of the pension system.

Most important however, is the possibility that mandatory annuitization will lead to unintended redistribution away from workers with lower lifetime incomes. Jeffrey Brown of Harvard University finds that that these transfers could amount to as much as 20 per cent of pension assets for low-income workers in an individual accounts scheme. But he also suggests that these transfers can be reduced by allowing for guaranteed payment periods, bequest options and joint-life annuities. Of course, these options lead to

lower benefits for annuitants themselves since these options are more expensive than a standard life annuity.

Transparency and supervision

Efforts to improve consumer financial literacy and to regulate and supervise new pension systems have, naturally, tended to focus on the accumulation stage, as contributions and investment returns build up in retirement savings accounts. In contrast, there has been relatively little consideration of the conditions in the insurance sector and the supervisory apparatus required for the benefit stage of the system. Early experiences, especially in Latin America, highlight the need for better information and transparency in the new annuities markets. Parallel reforms in the insurance sector may be necessary to ensure the success of the reform.

Further reading

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Conclusions and recommendations

- regulation of withdrawals in pension systems based on individual accounts needs to balance public policy objectives and individual circumstances
- family arrangements can provide a large portion of the welfare gains of annuities
- and preferences vary including the desire to bequeath wealth and take precautions for medical expenses
- at the same time mandatory annuitization protects pensioners against longevity risk and reduces government's social safety net liabilities, by ensuring people do not spend all their savings early
- balancing these different objectives means that mandatory annuitisation of the whole of retirement savings is unlikely to be optimal
- the best strategy is to set a minimum, indexed annuity with adequate survivor's provision, with flexibility for any remaining retirement savings

