

# PLANNING FOR RETIREMENT

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*ACCI SUBMISSION  
TO THE  
SENATE SELECT COMMITTEE ON SUPERANNUATION*

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MAY 2003

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### **Background**

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations. ACCI's members are employer organisations in all States and Territories and all major sectors of Australian industry.

Through our membership, ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, over 55,000 enterprises employing between 20-100 people, and over 280,000 enterprises employing less than 20 people. This makes ACCI the largest and most representative business organisation in Australia.

Membership of ACCI comprises State and Territory Chambers of Commerce and national employer and industry associations. Each ACCI member is a representative body for small employers or sole traders, as well as medium and large businesses.

### **Planning for Retirement**

Both because of the demographics and because of the structural shifts in retirement savings towards the superannuation guarantee, there are reasons for concern about the ability of the Australian economy to fund the number of retirees who will be growing as a proportion of the total population over the next two decades. The normal population pyramid – with the number of persons in the community declining with age as a percentage of the total – will not occur. Instead, there is virtually certain to be an increase in both the absolute and relative number of persons in older age groups and a decrease in the relative number of those of working age.

There is a second issue, and this to an important extent mitigates the first, and that is the likelihood that a larger proportion of older persons will want to continue in the labour force past age levels which have traditionally been seen as the retirement age. Partly because of the less arduous nature of work, partly because older persons are likely to live longer and remain healthier than earlier generations, and partly because of the interest that work provides, there is the likelihood of a greater labour supply amongst persons of such older groups.

There will thus be an increased demand for the skills that can be provided by older workers and also an increased supply of those willing and able to be employed.

Thus the narrow question posed – *planning for retirement* – is not entirely the proper perspective. The more appropriate question is

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planning for an ageing population in which retirement is only one of a number of options available to older Australians. Considerations of retirement in isolation from considerations of the income earning potential by older Australians will not provide the proper perspective on the relevant issues.

Most importantly, there is some discussion of a boom economy driven by catering to the demands of older Australians who have large incomes with which to buy. This is a mirage that will not and cannot be fulfilled unless there is focused consideration on who will work to provide the goods and services consumed by a non-working older population. Demand in isolation of answers to questions of supply are entirely hollow. It is to the productive side of the economy that far more attention must be given than is the case at present.

That is why greater focus must be placed on understanding the production side of the economy as the population ages and more individuals reach what are the current retirement ages. As a society we will need to establish a framework in which older workers are encouraged to remain within the workforce. This will require a coordinated policy response in terms of the Age Pension, the Superannuation Guarantee, other forms of retirements saving, tax policy and the labour relations system.

Attached as **Appendix 1** is ACCI's policy on retirement incomes.

### **(a) The effects of ageing on workers' productivity**

In order to establish the effects of ageing on productivity it is necessary to consider many factors. These include education, available skills, physical and mental health (and their influence on absenteeism) and accumulated experience which all affect a worker's productivity. Influences on productivity are not age related *per se* but are related to an employee's ability to do the particular job at hand. It therefore cannot be assumed that younger workers will always be more productive than older workers or that a worker's productivity necessarily declines with age.

Formal training and qualifications and on-the-job training are components of a person's human capital which to various degrees determine an individual's value added in any particular area of work. While qualifications are an important part of establishing a career, the ability to adapt to new situations plays an important part in maintaining relevance in the workplace.

This ability to adapt to new technologies and ideas is pertinent to older workers as lifetime learning becomes more important. Being

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able to do so is in part a function of a person's mental health; workers who are least able to learn and develop new skills will be seen as less productive in the new environment and therefore their employment prospects are less certain.

Ageing persons whose physical abilities are likely to deteriorate, generally do not suffer degeneration of their social and mental abilities. The physical nature of some industries would preclude a significant proportion of older person's from working. Many careers, however, include advancement which reduces the amount of physical labour and represents a change in skills mix and not a reduction in productivity.

The reduction of physical strength and endurance in older workers is replaced with other qualities that may more than offset any perceived weakness. With a higher degree of competence coupled with experience, older workers may make a valuable contribution to a firm's productivity in less tangible ways. In fact, normal ageing may not affect a person's ability even to do more demanding work.

Future groupings of older workers are less likely to have worked in manual jobs, as evident by the decline in the relative importance of those industries. They are therefore more likely to be employed in the knowledge economy. Furthermore as the health and educational standards of older workers improve, their productivity as a group need not decline and will most likely increase in the coming years.

Older 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
- loyalty to employer

With respect to absenteeism, ill health often increases for older workers but short-term absenteeism falls. To the extent that any one of these outcomes are less disruptive than the other, this will determine the degree of inconvenience faced by the firm from older workers compared to younger workers. As a Canadian study has argued:

“The productivity of older workers remains relatively constant. The findings indicate that variations in productivity within an age group are more significant than

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variations between age groups. The data also show that ability to read and write improves with practice and deteriorates if not used. Thus, an environment that promotes ongoing learning and knowledge acquisition appears to improve workers' training potential. Policies that promote lifelong learning will help prevent skills obsolescence".<sup>1</sup>

The issues associated with ageing may not necessarily imply that older workers are considered as suitable employees. Employer perceptions of older workers will to some degree decide whether or not these workers are able to retire at a time convenient to them.

Institutional change that allows greater flexibility in the workplace to encourage part-time work and work sharing that may be more conducive to the work patterns of older workers need to be put in place. Education and training facilities will need to be accommodated to the needs of an ageing workforce, and workers who are still in the prime of life should be encouraged to maintain their own skills development to allow them to be mentally able to continue their education in later years.

### **(b) The continuing relevance of the concept of fixed retirement age**

In previous years, the Age Pension and a fixed retirement age were relevant for working people and seen as a right for all citizens. However, with the changing nature of work, and increased prospects of being able to work during later life due to better standards of health, along with having to fund ones own retirement, the argument for an inflexible approach to retirement is weaker. It is no longer necessary nor desirable to follow an all or nothing approach to retirement.

The firm and the employee should principally set the employment status and retirement age of workers. Factors such as the ability to perform duties, productivity, health, personal preferences and the availability of incentive packages will all be important contributors to the timing of retirement. A mandatory retirement age should not be an obstacle to competent employees working past the normal retirement age enabling them to maintain a higher standard of living.

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<sup>1</sup> Human Resource Development. "Canada Older Workers in the Labour Market: Employment Challenges", Programs and Policy Implications, The situation of older workers in Canada. [http://www.hrdc-drhc.gc.ca/sp-ps/lmp/owe\\_situation.shtml#productivity](http://www.hrdc-drhc.gc.ca/sp-ps/lmp/owe_situation.shtml#productivity)

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The early retirement of older workers is an enormous waste of resources. Governments should be encouraging workers to stay in employment longer by making it easier to retire gradually and thereby enable people to fund a higher proportion of their own retirement.

Key influences as to when older workers retire are health and disability, family, work preferences and opportunities rather than any particular legislation. If older workers are becoming healthier then the decision to leave the workforce will increasingly be determined by other factors. As the incidence of ill health among older workers declines we could expect to see them in the labour force for longer although, there are a number of competing stimuli.

With older workers becoming increasingly active and healthy many may prefer to stay longer in the workforce but reduce their hours. The intrinsic value of work means older people may get substantial economic and social wellbeing from increasing their length of time in the labour market, or withdrawing from the workplace gradually though part-time employment. Those that are looking forward to retirement will not be adversely affected by changes that allow greater flexibility.

Even without policy intervention the number of workers age 60+ in the labour force has already begun to increase. This natural growth in the labour force for older workers should not cease simply because a person reaches retirement age. Legislation that acts to discourage workers who have inadequate levels of superannuation from earning a higher income and funding more of their retirement must be abolished.

Increasing participation in the workforce by younger women means that older women will be more likely to be employed in the future as a new generation of women replaces the last. Females in comparison with males are less likely to have been in continuous work and therefore face to a greater degree the problem of having an inadequate amount of savings on which to retire. Extending and making more flexible the retirement age could prove to be especially beneficial to women.

A mandatory retirement age is diminishing in relevance and applicability today, to only a few professions. At the Federal and certainly at the State level, the abolition of mandatory retirement (except in certain cases) has generally been placed into either Equal Opportunity or Anti-Discrimination legislation. The notion of somebody being forcibly retired in Australia is increasingly anachronistic.

**(c) The potential to encourage progressive transitions from work to retirement, including through possible new benefit access and contribution arrangements and part-time work.**

In order to keep older workers in the labour force Australia must develop a more flexible approach to part-time work and superannuation, especially when a person decides it is time to retire but wishes to maintain either part-time or casual employment. In order to encourage this transition, the worker should not be penalised by having a severely reduced income through an 'either/or' approach to retirement.

Some workers will prefer to retire early while others prefer to work full-time past the age of retirement. Those who wish to retire gradually should be allowed to do so. Gradual retirement may involve a reduction in the hours or days worked. However, encouraging workers to stay longer in employment will reduce the impact of inadequate retirement incomes on public expenditure.

An important component of removing the compulsory retirement age is to educate both parties as to benefits of having a choice. Phased retirement programs can be useful to retain skilled older employees who would otherwise have retired, especially in sectors where there is a shortage of entry-level job applicants. Other benefits include reducing labour costs as well as the ability to arrange the training of replacement employees by older workers. They also allow employers to plan attrition and, to a certain extent, maintain employee morale when a company restructures its operations.

From the employee's perspective gradual retirement can also be positive. It helps such employees to ease into retirement while maintaining a higher income than they would have received if they relied on their pension and/or superannuation alone.

Active ageing implies a high level of flexibility as to how individuals and families choose to spend their time during their life in work, learning, leisure and care giving. Policy measures in line with such an approach endeavour to promote a more flexible mix of over the course of life through the removal of constraints and through active support. Examples of this approach would include the promotion of lifelong learning and the removal of incentives to early retirement. As noted in a recent study:

“Gradual retirement, often called phased, partial or part-time retirement, ...by reducing work hours according to graduated and agreed schedules, constitutes a way of avoiding the pension shock, ...it is also a way of

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achieving greater flexibility and individualisation of working life by distributing work and free time more evenly over the latter part of the occupational cycle, and a potential means of redistributing the available work supply. It further 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 retain people with valuable corporate knowledge and precious technical skills. Finally, actuarially, it 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.”<sup>2</sup>.

There are and should remain provisions in the awards system for firms and individuals to negotiate outcomes on retirement which are advantageous to both parties. It is important that all avenues be explored in order to make participation in such schemes widespread and where scope is available to extend such programs, the opportunity to do so must be taken.

Attached as **Appendix 2** is the lead article from the May 2003 *ACCI Review* which discusses Mature Aged Employment. In the article we set out a five-tiered strategy to address the issues and opportunities arising out of the ageing of the Australian workforce. The five tiers point to the need for whole-of-government approach to:

- 1) population
- 2) fiscal impact
- 3) participation and labour market assistance
- 4) retirement incomes
- 5) market impact.

It is important that Senators take the time to read the arguments outlined in this appendix.

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<sup>2</sup> Delsen, Lei and Geneviève, Reday-Mulvey (eds.). 1996. Gradual Retirement in the OECD Countries - Macro and Micro Issues and Policies. Aldershot, Dartmouth as cited in Richard Levinsky, *Age, Retirement and Work: Evidence from recent measures in selected countries*, The Year 2000 International Research Conference on Social Security Helsinki, 25-27 September 2000 “Social security in the global village” p4.

**(d) Any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people**

Knowledge for older workers will generally be accumulated not as part of a major retraining exercise but through gradual on-the-job training. While the idea of accessing superannuation funds to encourage training, with the possibility of remaining in the labour force longer, appears compelling, this thinking is, to some degree, short term in nature.

Superannuation must be used as a savings pool to fund current investment. It is only if higher investment can take place in the present that the capital assets to support a higher dependency ratio can be put in place. It is essential that these funds are not frittered away in less productive uses that are not specifically aimed at the improvement of Australia's future economic performance. Allowing individuals to access their superannuation for any reason is virtually certain to weaken the ability of the superannuation system to channel funds into productive investment. This is an approach that must be rejected.

Superannuation has the stated goal of providing income through the retirement years and as such should be preserved until retirement age. The only exception to receive superannuation payments before retirement is on the grounds of severe financial hardship. Under the Superannuation Industry (Supervision) Act, the preserved component of a member's superannuation benefits cannot be paid out in cash until the member reaches 65, retires from the labour force after age 55 or meets certain other conditions.

Many studies have shown that Australians are ill prepared for retirement and that introducing schemes to make older workers more attractive to employers is generally recommended. However, the reasons for older workers not to engage in training may not be purely a function of their financial situation. Other issues would need to be examined in order to understand to what extent financial considerations are a disincentive for older workers to not take up training opportunities.

Some of the impediments to retraining older workers include employer barriers where the perception may be that older workers should make way for younger workers or that older workers do not possess the capacity to benefit from training. Employee barriers to training include a belief that older workers are unable to adjust rapidly enough to new technologies and fear of competition from younger workers. Systemic barriers include the fact that many

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training places for older workers are for entry-level positions making them unattractive<sup>3</sup> - even irrelevant.

Superannuation cannot and should not be considered as social security. Centrelink and Job Network services, which help mature aged workers back into the workforce, are already involved in training initiatives. While it is the case that they do provide training and should continue to do so, the need for older workers to deplete their retirement income is not in the interests of that person's long-term future nor of the economy overall.

### **(e) Ways to assist older workers plan for their retirement**

Planning for retirement is an issue that does not enter the conscious consideration of most people until they are well into their 30s and often into their 40s. The period is too remote for active consideration at a relatively early age. Yet once individuals reach their 40s, they are prime candidates for information and assistance.

At the very start of the process to assist older workers is to ensure that individuals understand that the need for prudent financial planning by themselves is an absolute necessity. Governments cannot be seen as providing more than a minimal level of support for older Australians. One of the important roles for government is, therefore, to ensure that the community understands that the Age Pension and Superannuation Guarantee go only part of the way towards providing an adequate income in retirement, and that it will be essential for individuals to make other arrangements to secure their own futures.

It is therefore essential as a minimum that the Government does not mislead those intent on making provision for their retirement with statements that suggest that the Superannuation Guarantee will be sufficient. It may be sufficient in a small number of cases where an individual has an unbroken working career over forty years, but in most circumstances that will not be the case. Moreover, the assumptions that are often made are based on the presumption that there will be a growing labour force and capital stock that will allow an increased level of purchase by retirees relative to the working population and its direct dependents. This is an unwarranted assumption and becomes more questionable the farther into the future one looks.

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<sup>3</sup> NSW Board of Vocational Education and Training (BVET). The vocational education and training needs of mature age workers "Older Workers Education and Training", Barriers to Education and Training of Mature Age Workers, September 2002, p8.

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It will also be an important aspect of retirement planning that workers are advised of opportunities to develop new skills to augment those they currently have. One's knowledge base and skill set become less relevant the longer it has been since having last studied. Part of the essential flexibility will be in encouraging older workers to re-train, often at ages that were once considered at the upper reaches of one's normal working life.

This will also require institutional adjustment that ensures that more of older aged workers have access to training facilities that are geared to the kinds of work that they will be capable of performing. It may well be, for example, that the average age of the teaching profession might rise where those who have spent their working lives in industry return to the classroom to pass on their own knowledge to a younger generation.

The need to simplify the rules and regulations surrounding retirement incomes is also essential. Most of those who will retire will have never learned the financial skills required to make an assessment of how to save during one's working life for their future retirement. Simplified rules harnessed to a financial services sector which can provide comprehensible advice to savers is also essential. And given that market failure in this area will lead to an exceedingly large cost to individuals who will have no hope of recovery, it will be important that transparency and simplicity become the hallmarks of any system that is developed.

**(f) The short and long term effect on the budget of any proposals for change**

An important aspect in understanding the budgetary consequences of saving for retirement is that if one takes the economy as a whole, it is the production of output at the time that is distributed amongst the population that is relevant. The loaf of bread one consumes in retirement will have been baked on the day it is eaten, even if the funds that are used to pay for it were saved many years before. It is the contemporary ability of the economy to produce that will be the cornerstone of consumption and not the amount of money that might have been put away in earlier years. The money incomes available to retirees, relative to the incomes available to the working population, will only determine the distribution of current production, not the level of production itself.

The budget process must be seen in this context. The Budget is in very large measure a device for the redistribution of income. It provides differential tax rates for different income levels and sources. It allocates expenditure between different possible arrays of public goods. It subsidises various activities. And it provides

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income supplements for different segments of the population. In essence, it restructures the shape and flow of output so that it emerges differently from the shape and flow that would occur were the government not to intervene in the market process.

But however much a government may wish to assist one group of individuals, in this case retirees, it can only do so at the expense of another group, in this case, the working income-earning population. There are thus clear limits on the ability of governments to provide transfers of this kind, and with the proportion of the population engaged in productive work diminishing, it will become more difficult to tax those who are working to provide income assistance to those who are not. The ability of government to transfer will be limited by the resistance of the working population to absorb higher levels of taxation.

Proposals for change must therefore recognise that the most direct solution to maintaining living standards in the future as the population demographic shifts is to encourage capital investment over the intervening years. The time available is shortening but a viable solution is still achievable within the current timeframe. It will require tax policy to encourage saving and interest rate policies that will encourage growth. It is only through more rapid growth over the next decade, with the growth concentrated in private sector investment, that the problems that are destined to occur can be minimised.

**(g) Any issues for the federal or state workplace relations systems**

Increasingly compulsory retirement ages are being removed and age discrimination laws will prevent firms from asking employees to retire. Yet it will be important that Federal and State workplace relations systems recognise that there is a need to ensure that the individuals employed by firms are capable of undertaking the tasks that they have been engaged to undertake.

We already have compulsory retirement ages for various forms of work – High Court judges, members of the Australian Industrial Relations Commission, company directors and surgeons, for example. An assessment has been made of the average skill requirement and work requirements and the likelihood that age will lessen the ability of such persons to perform the tasks they had previously undertaken.

Anomalies in the system exist. An employer before a member of the Australian Industrial Relations Commission involved in an unfair dismissal case, for example, who is chastised by the

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commissioner for a policy of compulsory retirement that led to dismissal or constructive dismissal is entitled to ask why they as a private sector employer are prevented from a compulsory retirement policy but the employer of the commissioner (the Commonwealth) is allowed to apply that very policy to require that same commission member to compulsorily retire.

These considerations also apply more broadly in the workplace depending on the nature of the work, the working environment and culture and the capacities of individual employers and employees.

What is necessary in the consideration of compulsory retirement laws or policies is for the legislatures to ensure that other regulatory structures and frameworks are sufficiently flexible to enable a law or practice introducing no compulsory retirement to operate fairly and smoothly from both the business and the employee perspective. Similar considerations equally apply if employer attitudes towards the employment of mature aged employees are to alter over time.

Attention should be given to the following policy issue: removing inflexibilities or restrictions in industrial awards which could inhibit arrangements on wages and employment conditions that suit the circumstances of mature aged workers and those that could or do employ them. This includes hours of work, rostering, forms of employment and leave arrangements; undue inflexibility in the unfair dismissal laws relating to performance related dismissal – including technical or procedural requirements or expectations from industrial tribunals that currently lead many employers to retain non performing or under performing employees on the books until retirement age, in preference to dismissal or a formal process or warnings and counselling; difficulties encountered in the operation workers compensation law and systems concerning rehabilitation and return to work, leading employers to create light duties work that is not part of the necessary or regular employment structures of the workplace and which detract from its efficiency or productivity.

### **Proposed Commonwealth Age Discrimination Legislation**

ACCI has presented a substantive submission to the Commonwealth Attorney-General on the Information Paper released in January 2003 on the proposed Commonwealth age discrimination laws. That submission followed a period of consultation with the Commonwealth through a steering committee convened by the Attorney General in 2002.

Employers are familiar with the provision of State age discrimination laws and processes. However a Commonwealth law creates a new level of policy consideration, given the potential for

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duplicate or inconsistent regulation of the workplace on the same subject, and the fact that whilst State age discrimination laws do not override industrial instruments made under Commonwealth law (such as awards and agreements) a Commonwealth age discrimination law could. These factors mean that policy makers should not assume that just because State age discrimination laws exist, then a Commonwealth law can exist in the same form and have the same impact. The proposed Commonwealth law has a different legal impact.

The ACCI submission points to a range of policy matters that arise in the proposed Bill. The foreshadowed exclusion and qualifications in the proposed law go some way to making the proposed law workable; but consideration to further amendment is necessary. By way of summary, the ACCI position expressed on the Information Paper is as follows:

- ACCI supports the principle of equal opportunity and non-discriminatory workplace policies and practices. Support for these principles does not however mean support for regulatory intervention or additional regulatory intervention. Regulation should only be introduced where there is a demonstrated need and where alternatives to regulation have failed.
- ACCI strongly supports sensible measures to promote mature aged employment and youth employment in the labour market but expresses its concern at the proposed age discrimination law on the basis of its potential counter-productive application in the workplace.
- There is no demonstrated need for a national age discrimination law that regulates employment and workplace relationships.
- 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 States and territories and in federal workplace relations legislation which are more than sufficient to provide regulatory controls and redress in particular cases.
- If there is to be a national age discrimination law, this should be in substitution for existing State and territory laws, not in addition. Employers should not be exposed to an additional layer of regulation on an already regulated topic, creating

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multiple and differential rights and obligations, confusion and complexity.

- If there is to be a national age discrimination law, it should be targeted to deal within specific conduct that warrants regulation. It should not automatically be modelled on sex discrimination laws where a broad prohibition exists and it is then for employers to argue for exemptions or make out defences. Rather it should regulate specific discriminatory conduct, and no more.
- If there is to be a national age discrimination law, it should not include indirect discrimination in the context of the employment relationship. The concept of indirect age discrimination in an employment context creates unintended consequences that are not adequately addressed by the statutory scheme as proposed to date.
- If there is to be a national age discrimination law based on the sex discrimination model, it should provide for appropriate multiple exemptions that go some way to balancing employer and employee interests.
- If there is to be a national age discrimination law it should not subject established performance and productivity standards, work practices and benchmarks used by employers to complaint or investigation under the guise of age discrimination laws.
- There should be an absolute and unqualified exemption for age based wage rates in awards and agreements, and conduct related to age based wage rates (such as advertising for employment at such rates). Age based youth wages are an integral and desirable feature of the Australian labour market that serve the public interest and the well being of young people and their employers, and must not be undermined in any way by proposed age discrimination laws. The Commonwealth government's election policy commitment to the retention of age based youth wages must be expressly provided for in the statutory scheme.
- There should be an exemption for age related education and training programmes.
- There should be an exemption for conduct which is intended to be beneficial for a particular age category.
- There should be an exemption where the inherent requirements of the job justify age related conduct.

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- There should be an exemption where there are genuine occupational qualifications required that result in conduct that could have the effect of discriminating on the basis of age.
- There should be an exemption where conduct is required for occupational health and safety purposes, or to comply with other acts or laws.
- There should be an exemption where the conduct is undertaken pursuant to provisions in industrial awards (federal or state), certified industrial agreements, Australian Workplace Agreements or State industrial agreements.
- There should be an exemption from industrial matters within the jurisdiction of the Australian Industrial Relations Commission.
- The law should not extend to the engagement of unpaid workers or volunteers.
- There should be a catch all regulation making power for the making of further exemptions.
- It is inappropriate and unworkable to add to the proposed discrimination law a further law relating to harassment on the ground of age.
- In respect of employment, the proposed law should not confer upon the Human Rights and Equal Opportunity Commission (HREOC) jurisdiction over complaints that could be dealt with by the Australian Industrial Relations Commission (AIRC) or an appropriate Court.
- Complainants should not be able to forum-shop between HREOC and the AIRC when deciding to lodge complaints or a dispute notification.
- The consultative process undertaken in developing the Information Paper has been beneficial and substantial, and should be continued in developing legislation and during the parliamentary process.

**Appendix 1**

**ACCI POLICY ON  
RETIREMENT INCOMES**

**PRINCIPLES OF RETIREMENT INCOMES AND  
SAVINGS POLICY**

Developing a new approach to retirement incomes and savings is one of the most important policy issues facing Australia, in common with most other developed countries.

The considerations involved in determining an appropriate retirement incomes and savings policy are extremely complex and interwoven. It is essential that retirement incomes and savings policies are thoughtfully developed, comprehensive and designed to achieve strategic, long-term objectives. Many policy changes made to date have unfortunately been piecemeal and ad hoc. This approach to Australia's retirement incomes and savings system has been unsatisfactory.

Successive governments have already recognised that significant change is needed if the retirement incomes system is to be able to meet future needs, be fair, sustainable, and compatible with our social goals. It is unfortunate that this recognition has not been translated into determined and significant policy reform.

The changing economic, social and demographic environment provides an imperative for reform of current policies. In summary the key features of that environment are as follows.

- ◆ Major population and labour force change. The ageing of the population means that the proportion of retirees will continue to increase substantially and the demand for pensions, health care and aged care will also increase. In 1976 Australia had 1.3 million people over the age of 65 years - nine per cent of the population. By 2016 it will be 16 per cent or 3.6 million people. In addition labour force participants are spending less time in the workforce, and are less likely to be full-time employees - resulting in more pressures on the existing system. The tax base will come under greater pressure as Australia's age dependency ratio (the ratio of those of working age compared to those not of working age) declines.

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- ◆ Consequently, the sustainability of the current system of superannuation, tax funded pensions and subsidised aged care is in question. This is particularly significant, given that 83 per cent of Australians over 65 currently rely, to some degree at least, on the pension or an equivalent government payment.
- ◆ The level of household savings in Australia has been dropping steadily for 20 years and shows no sign of recovery. Compared with many overseas nations, our level of household savings is low. This is reducing the level of domestic capital available for investment, forcing increased borrowing from overseas, and having an adverse impact on our international competitiveness. New initiatives are necessary to help restore domestic savings to an acceptable level.
- ◆ Taxation treatment of superannuation in Australia is complex and heavy-handed. The system is difficult to administer and savings are taxed at all three levels: contribution, accumulation and withdrawal. Present taxation arrangements do not do enough to encourage people to invest in superannuation.
- ◆ The Superannuation Guarantee legislation, which requires Australian employers to accept partial responsibility for retirement incomes, has had an adverse effect on voluntary schemes. Employers should be encouraged to contribute their fair share towards Australia's superannuation needs and it should also be remembered that, at present and historically, employers have voluntarily contributed to superannuation on behalf of their employees. However this must be balanced by appropriate contributions from both government and employees themselves. A system which places onerous obligations on employers will produce negative economic effects in areas such as employment.
- ◆ Ad hoc changes continue to be made to the superannuation system by governments of varying political persuasions. The complexity of the system is discouraging increased voluntary contributions to superannuation; as such it has a detrimental effect on efforts to increase the level of household savings.
- ◆ Many other countries are experiencing an ageing of the population and similar problems. Retirement incomes and savings reforms are being considered or have been taking place throughout OECD countries. Australia must accept that, unless it engages in a process of reform, it runs the risk of being saddled with an out-of-date retirement incomes and

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savings system in the next century. This will hamper Australia's future social and economic wellbeing.

### POLICY OBJECTIVES

The major policy objective must be to bring about fundamental change in Australia's system of retirement incomes and savings. Change must be directed towards the goal of providing all Australians with the fairest and most sustainable system of retirement incomes and savings, consistent with the constraints of prudent economic management.

The guiding principles that will lead to the achievement of these objectives are:

- ◆ consistent and comprehensive policies: long-term objectives and strategies should be developed and adhered to. Short-sighted and opportunistic policy changes must be avoided
- ◆ any policy must have two fundamental aims. The first is restraint in the level of public expenditure on retirement incomes in recognition that the ageing of the population places significant strains on the social security purse. The second is raising the level of national savings
- ◆ employers must not be forced to accept an inordinate amount of the cost of retirement incomes; to do so would cost jobs and reduce investment, which would put pressure on resources in other parts of the social security budget and on the economy. Placing onerous obligations on employers must therefore be rejected as being counter-productive to the fundamental aims of the policy
- ◆ all initiatives for change must be directed towards developing policies which are sustainable in the long term. Consistent with this approach, individuals must be encouraged to save for their own retirement with confidence in the stability of the system. Haphazard change represents a disincentive for individuals who may wish to contribute more for their own retirement needs
- ◆ taxation of retirement income savings should be simple to understand and consistent. The system must encourage and reward saving. Retirement savings must not be treated as a current revenue device for government via excessive taxation burdens. This does not assist in creating a greater pool of

savings for Australia's long-term needs; it simply shifts the burden of savings back towards the public sector.

## THE POLICY FRAMEWORK

Australia's system of retirement savings is based on a multi-pillared approach that includes government funded pensions, compulsory superannuation and voluntary savings. This three pillar approach is an appropriate way of achieving retirement incomes and savings policy objectives. It should be retained, whilst reforming aspects that discourage saving and/or are inconsistent with fundamental policy objectives.

A policy framework, driven by the guiding principles explained above, is set out below.

1. Access to tax funded pensions should ensure that funds drawn from tax revenue are directed towards those most in need. In other words, legislators should ensure that taxation revenue being directed into retirement incomes is spent as effectively as possible and encourages people to prepare and save for their own retirement.

The question is not whether public moneys should be spent, but rather how to spend them most effectively. Means testing is a necessary part of such a system and should be conducted in such a way as to ensure that individuals are not discouraged from saving for self-funded retirement. Public moneys should aim to fulfil social obligations to those in need, who do not have the resources to provide for themselves in retirement.

A system of means testing should not result in those who did not save for their own retirement getting the same amount as those who did. Saving for retirement must be rewarded. However, at a certain level of wealth it is appropriate for access to public funds to be restricted, consistent with the intention of directing public moneys towards those most in need.

The demographic scenario described above means that it is essential that individuals are encouraged to fund their own retirement to the greatest extent possible. The more individuals are encouraged to save for their own retirement, the better off they and the economy will be.

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2. If compulsory employer contributions are to continue, they must be supplemented by compulsory employee contributions.

Governments have periodically recognised the necessity of introducing compulsory employee contributions. Lamentably, short-term political considerations have been allowed to thwart significant economic and social policy objectives. Compulsory employee contributions are clearly necessary to extend and provide balance in the sources of superannuation contributions.

3. Further means of encouraging ongoing employment or gradual retirement past the retirement age should be introduced.

The tax system should not discourage individuals from working after the pensionable age is reached. A special tax schedule for persons over the pensionable age should be established to provide an incentive for individuals to remain in the workforce. This tax schedule should take into account a 'minimum retirement income' so that income earned is in addition to official retirement income rather than in place of it. However such an approach must apply to an individual's retirement savings rather than government funded benefits. Moneys earned after retirement should not eliminate entitlement to government funded benefits where such an entitlement existed; entitlements must be offset progressively.

The 'Pension Bonus Scheme' that has operated since July 1998 is an example of a way to reward individuals who choose to partly fund their retirement through continuing to work. However the Bonus Scheme must be modified and made more attractive if it is to provide sufficient incentive for individuals to stay in the workforce. The Swiss system is another example of how an individual can earn a 'partial pension' and have this supplemented by income earned though part-time work. Such a system assists in reducing the financial burden government faces.

4. Regulations should discourage tax funded early retirement.

Consistent with the principles outlined in the preceding point, disincentives for workers to remain in the labour force after a certain age must be eliminated. This will only occur if tax-funded early retirement is made less attractive.

The issue of discouragement has been partly addressed in recent legislation which has changed the preservation law to ensure that future superannuation contributions are preserved until retirement and to raise the retirement age at which benefits can be taken. In

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addition to this, the simplest means of discouraging tax-funded early retirement is to establish a system that discounts eligible government benefits for the years before the official eligibility age to an extent that early retirement based on social security payments is unattractive. If such a system were implemented together with the changes in preservation rules and an increase in the retirement age rules, early retirement should become less attractive.

### 5. Choice of funds.

Choice is an important element of a sound retirement incomes system. ACCI supports the principle of fund choice in superannuation subject to the establishment of satisfactory mechanisms to ease the administrative burden on employers and provided the legislation to implement choice has appropriate safeguards to protect employers from litigation arising out of the transition to a choice regime.

Any choice of funds policy should possess the following characteristics:

- ◆ it must minimise the compliance burden for business in implementing choice arrangements
- ◆ it must give employers an opportunity to choose the most appropriate arrangements, including:
  - i. choice of five or fewer funds with arrangements properly drafted to protect employers against liability and to minimise the employer role and responsibilities
  - ii. unlimited employee choice, with no employer role except to pay to a fund as specified by the employee
  - iii. determining choice of fund arrangements through a statutory or common law workplace agreement
- ◆ the special problems raised by Defined Benefit Schemes require that they be exempted from the choice legislation
- ◆ there should be a statutory protection against employer liability
- ◆ notional earnings bases must be retained in awards, and superannuation removed
- ◆ employers and employees must be adequately informed and educated on the new rules

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6. In principle, the system should encourage income streams as opposed to lump sum payments.

Income streams must be encouraged in order to assist national savings and avoid the undesirable social consequences that can be caused by unwise financial choices being made on receipt of a lump sum for retirement. It is much easier to design a comprehensive tax and social security system when individuals only have access to an income stream form of payment.

7. There should be minimal exemptions from coverage of compulsory superannuation.

A significant lift in the coverage of compulsory and voluntary superannuation contributions could be achieved by ensuring that the self-employed and those who work casually or part-time are brought within the compulsory pillar when they earn above a certain income band, and that individuals who do not work but who have the capacity to invest (eg spouses not in work) are encouraged to invest in superannuation.

In principle, no group of people, no matter what their source of income, should be exempted from the superannuation system. The self-employed and those relying on business and investment income should be included in the compulsory pillar where possible.

8. The management and administration of superannuation and retirement savings funds must be transparent, efficient and cost effective. Competition will assist in the achievement of these objectives.

For the greatest benefits to be obtained from a retirement incomes policy it is necessary that retirement incomes funds be operated in the most cost effective way possible. In particular the administration and management of these funds must be efficient, must avoid excessive charges on contributors' funds and must enable the tracking of lost members, using technology to reduce imposts on employers. It is important that the governance and administration of funds be conducted in a manner that allows for transparency and member scrutiny. Review and evaluation arrangements must be improved. By the same token, excessive regulation of funds should be avoided. The introduction of competition is the most efficient way of achieving these objectives and maximising the efficiency and accountability of schemes.

The management and administration of funds will also be improved by requiring more frequent period payments of superannuation

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contributions by employers. Legislation currently requires that compulsory employer contributions only be paid once a year, which has led to a range of difficulties for employers and employees. Making payments more frequent, eg by requiring a periodic payment to be made every quarter, may provide greater security for employees whilst removing some of the administrative difficulties faced by employers.

9. The taxation of retirement savings must be aimed at encouraging private contributions - not maximising current taxation revenue.

If Australia is to achieve the retirement incomes and savings policy objectives outlined above, a strategic, long-term approach must be taken to the taxation of retirement income. Taxation measures applied as part of a retirement incomes policy must adopt the following aims:

- ◆ maximising retirement savings
- ◆ encouraging private contributions for all members of the community
- ◆ setting taxation at levels which do not inhibit a fund's capacity to grow
- ◆ minimising the compliance costs for business.

## Appendix 2

### **Mature Age Employment Changing Culture**

reprinted from the *ACCI Review*

May 2003

**There has been increasing public debate over declining birth rates and the ageing of the Australian population. The issue affects all, including business. What is perhaps not recognised is the need to develop a comprehensive strategy across governments and industry to address issues relating to the mature-aged is now – not in 2020!**

There is definitely a culture that has developed in Australia that disadvantages many mature age workers. Employers need to counteract this unhelpful culture. However, as in many cases, black letter law solutions can have unintended consequences.

Generally, people regarded by governments as ‘mature-aged’ are those 45 years and above. It is evident that treating this large group of people with one solution is unrealistic. Therefore although this paper refers to this group collectively, it is imperative that the overall group is segmented and different strategies are adopted to meet different elements of the group.

Some facts outlined in a range of material produced by government and industry include:

- As at June 2000, the median age of the Australian population was 35.2 years. An increase by 5.8 years in the last 20 years.
- Mature aged employment is growing. Three quarters of people between 45 and 54 are employed.
- Average age of retirement is around 60 years.
- Labour force participation declines sharply with age from 78.3 per cent for people aged 50 to 54 falling to over 36 per cent for people aged 60 to 64.
- Mature aged Australians are less likely to hold a post-compulsory qualification and less likely to undertake formal education and job related training.
- If mature aged people become unemployed then they will be unemployed for significantly longer than young people.

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- Nearly 30 per cent of 50 to 64 year olds are welfare dependent.
- Some industries or occupations already show older workforces. For example, the average ages of farm operators is 53, miners is 48 and manufacturing worker is 39.
- As at 2001, nearly one third of all workers in all occupations were 45 or over.
- Life expectancy at the average effective retirement age is now 18 to 20 years, about 5 or 6 years longer than it was 30 years ago.
- One in 4 new entrants to the labour market comes from overseas, either through migration or temporary work visas. The number of skilled migrants has tripled to more than 60,000 a year in the past decade. It should be recognised that Federal Governments will continue to set limits on levels of migration and it is not expected that this will meet the demand for labour.
- Since June 1980 there has been a very slow growth in the number of children (aged 0 to 14 years). In fact, there has been a 10,500 decrease in the number of children aged 0 to 4 years since 1980.
- The workforce entrants for the next twelve years are already in school and there is only a slight increase in their number which is insufficient to meet projected labour demand.

Although these issues do occur in other western countries, Australia does not necessarily compare favourably with them.

### **The Proposed Approach**

Given the current situation, ACCI advocates a comprehensive whole of government approach in consultation with industry to address the issues and opportunities arising out of the ageing of the Australian workforce. It is evident that this must have the capacity to meet short, medium and long-term objectives. The matrix will also require the ability to address the needs of those post-65 years of age, the group currently between 45 and 64 and younger people who will face these issues in later life.

ACCI proposes a five-tiered strategy as outlined below. Under each identified issue some discrete areas of activity are identified for further collaborative work. It is proposed that governments and industry undertake a joint approach with a view to an agreed national framework being adopted in early 2004.

## **1. Population**

Australia's economic prospects and social fabric are dependent upon the level and composition of the resident population.

The age profile and the education/training standards of Australia's population will underpin our economic competitiveness, while the cultural mix and spatial distribution of the populace will have a powerful influence on our society.

Successive Australian Governments traditionally have not pursued explicit, extensive or transparent population policies. Rather, 'population policy' in Australia has been conducted implicitly through various mixes of immigration, education and training, regional development and infrastructure policies.

The development of an integrated and transparent population policy is a critical component of addressing issues around ageing Australia. This needs to bring together a range of policy responses such as immigration, education and training, health, regional development, infrastructure and transport. In particular, key issues which need substantial research and debate include:

- is there an optimum population levels nationally and within Australia?
- levels of immigration required and appropriate categories of entry
- possible incentives for individuals which directly lead to an increase in domestic population growth over time
- potential impact of developed policy programs and services on metropolitan, regional and remote areas.

## **2. Fiscal Impact**

A major issue is how the Commonwealth will successfully manage budgetary pressures that will inevitably arise as costs increase – principally within key social areas such as health, aged care and welfare.

Key platforms of ACCI's employment policy involve a range of simultaneous objectives including strong rates of economic growth, continuation of wider micro economic reform and stimulating productivity growth while containing the cost of labour. Any work in this area must take account of these requirements.

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As part of last year's Commonwealth Budget, the Treasurer released Australia's first Intergenerational Report. The Report provides a basis for considering the Commonwealth's fiscal outlook over the long term, and identifying emerging issues associated with an ageing population.

The Report lists seven key priorities which would ensure fiscal sustainability. They are:

- achieving budget balance over the economic cycle. Continuing the Government's current medium-term fiscal strategy will ensure Commonwealth Government debt remains low as pressures due to an ageing population begin to build significantly around 2020
- maintaining an efficient and effective medical health system, complemented by widespread participation in private health insurance
- containing growth in the Pharmaceutical Benefits Scheme (PBS). Rapid PBS growth over the past decade means it could be one of the most significant areas of future spending pressure on the Commonwealth
- developing an affordable and effective residential aged care system that can accommodate the expected high growth in the number of very old people (people aged 85 or over)
- preserving a well-targeted social safety net that encourages working-age people to find jobs and remain employed
- encouraging mature age participation in the labour force
- maintaining a retirement incomes policy that encourages private saving for retirement, and reduces future demand for the Age Pension.

Over the past three decades Commonwealth health spending has more than doubled, to 4.0 per cent of GDP in 2001-02. In recent years, spending on PBS has been the fastest growing component, also more than doubling in the decade to 2000-01 as a percentage of GDP.

Although population growth and ageing affect health spending, these factors account for only around one-third of the recent growth. Much of the growth has come from the demand for new technology and treatments. Australians now expect to access more

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expensive diagnostic procedures and new (and more expensive) medications listed on the PBS. Unless addressed, these trends are likely to continue to drive health spending over the next four decades, pushing up Commonwealth health spending to 8.1 per cent of GDP in 2041-42. In all areas of health, spending is projected to increase, with PBS spending projected to rise from around 0.6 per cent of GDP in 2001-02 to 3.4 per cent by 2041-42, more than a five fold increase in its share of the economy.

As the number of very old people increases, spending on aged care is also projected to increase from 0.7 per cent of GDP in 2001-02 to 1.8 per cent of GDP in 2041-42. Aged care is the most demographically sensitive area of government spending and the number of very old people is expected to increase significantly.

Key issues which need substantial research and debate include:

- options for long-term taxation reform in line with changing revenue patterns
- development of sophisticated modelling methodology to support accurate forecasting
- incentives for family care of older Australians
- an examination of demand, cost and public funding of residential aged care
- capacity of existing medical programs and services to respond to increasing and changing demand.

### **3. Participation and Labour Market Assistance**

A key concern of industry has been the ageing of the workforce, the overall decline of youth entering the labour market over time, and the impact these issues may have on the future supply of skills. Increasingly employers must have dual strategies to attract the most suitable young employees and retain older workers with enhanced skills.

**Industry Employment by Median Age and Older Age Groups**

<b>Industry</b>	<b>Median</b>	<b>45+</b>	<b>55+</b>
	Years	%	%
Agriculture, Forestry and Fishing	43.5	49.0	26.6
Mining	39.6	35.9	8.1
Manufacturing	38.4	35.3	12.0
Electricity, Gas and Water Supply	40.5	37.9	9.5
Construction	36.2	29.3	10.3
Wholesale Trade	37.9	33.9	12.8
Retail Trade	29.2	23.7	8.7
Accommodation, Cafes and Restaurants	30.3	23.2	8.4
Transport and Storage	40.0	38.6	14.9
Communication Services	37.5	28.8	8.3
Finance and Insurance	34.7	25.8	7.4
Property and Business Services	37.5	34.5	13.7
Government Administration and Defence	40.2	39.4	10.6
Education	43.0	47.3	14.0
Health and Community Services	41.3	42.9	14.1
Cultural and Recreational Services	33.5	26.9	10.0
Personal and Other Services	37.3	33.2	12.0
<b>Total</b>	<b>37.4</b>	<b>33.9</b>	<b>12.0</b>

Note: small estimates are subject to high sampling variability.

Source: ABS, Labour Force (Super Tables) February 2003

Accordingly the table above shows all industries have significant numbers of mature aged workers already in the workplace with continued increases in workers over 55 years of age.

The Australian National Training Authority (ANTA) is establishing new industry advisory arrangements which will focus on the development of a comprehensive information and planning process to identify current and future skill needs for industry. It is recognised that the array of data sources available from the range of government departments and other agencies needs to be brought together to inform future vocational education and training direction and product and service development. This new mechanism will be particularly important in assisting in addressing potential demand for labour and identification of skills required. Obviously, the outcomes of this work will only be a guide.

The need to develop a more responsive education and training system to enhance the skills of older workers is a priority for industry. Currently there is no clear strategy to target existing mature aged workers to enhance their skills and productivity. There is additional urgency in developing this approach given the impact of new and emerging technologies on all workplaces, the lack of post-compulsory qualifications held by mature aged Australians,

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and the need for some mature aged people to update their skills as they move employment.

To assist in addressing this problem, ACCI advocates for the establishment of a learning bonus. There is general support by employers for establishing some form of financial assistance for existing employees to undertake training in the formal training system. Therefore, a learning bonus scheme is proposed which provides an allocation to an employer for employees who complete a formal qualification at AQF 3 or above. This would not be limited to New Apprenticeships. The bonus would simply be a financial incentive for employers to encourage their workforce to undertake formal rather than, or in addition to, informal training. The measurable outcomes of the scheme would be the formal recognition of skills of the Australian workforce and encouragement of up-skilling workers.

It is envisaged that a limit would be placed on the total number of workers for which an employer could receive the bonus in any given year. At this stage a limit of 250 participants has been proposed. The bonus would only be made available to employers by providing proof of qualification by the respective Registered Training Organisation (RTO) to the New Apprenticeship Centre (NAC). The payment would be the same amount as the relevant commencement payment for entry-level training.

The bonus would be paid to the employer but could be used for any purpose. In some cases the employer may use the payment as a reimbursement for undertaking skills assessments for their workforce, or wish to pass on the bonus to the employee to assist them in meeting costs, or as an incentive for them to undertake training out-of-hours. It is recognised that some workers may require less formal training than others to complete a qualification. It is recognised that the costs associated with this would be different for each worker, however, it is important that one level of bonus is introduced.

It is also important that the State/Territories examine the impact of the proposed bonus on the training activity undertaken by their RTOs and potential use of public training monies. However, it is not envisaged that all training undertaken by companies in receipt of the bonus will attract public funds. It is imperative that the Commonwealth evaluates the impact of the bonus in increasing formal training and employer numbers participating in the national training system. The benefits of introducing a learning bonus in skilling the Australian workforce would be to make formal learning options attractive to employers and employees alike.

It is also important for State and Territory governments to examine the potential of allocating a specific element of their vocational education and training budgets to addressing mature aged existing workers. There also needs to be considerable work undertaken on improving the incentive for providers to offer recognition of prior learning which lessens the requirement for experienced individuals to undertake the same extent of 'off the job' training.

#### **4. Workplace Relations Impediments**

There are also a number of workplace relations issues which may place impediments on mature aged people staying on in the workplace.

In January 2003, the Federal Government released an Information Paper outlining the proposed Commonwealth age discrimination legislation. Although Australian employers have become familiar with State and Territory age discrimination laws over a number of years, a national law raises new issues about how Commonwealth and State laws on the same subject interact, and whether an age discrimination law helps or hinders employment of the mature aged.

The Commonwealth advances this proposal as consistent with its broader policy objectives of valuing the skills and work of mature aged workers, of trying to increase the retention of workers in the labour force beyond current retirement ages, and in addressing economic and social consequences of an ageing population. These are sound objectives.

Age discrimination laws already exist in most Australian jurisdictions. In an employment context the federal *Workplace Relations Act 1996* also has specific anti age discrimination objectives and provisions. The new Commonwealth proposal is not advanced as a substitute for State anti-age discrimination laws or federal workplace relations laws. It would be an additional law.

Discrimination law must be careful to avoid unintended consequences, as well as duplication in regulation. Whilst we all understand that age discrimination means treating people differently solely on the basis of age, the government's plan is not a proposal to preclude discrimination against a specified age cohort. It is a proposal to prohibit age discrimination *per se*. In addition, it must take into account the ability to perform the requirements of a job and allow for employers to have the flexibility in the type of duties they may employ an older person to undertake while avoiding a risk of complaint or litigation.

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In addition, other regulatory or legislative requirements may also provide undue restrictions or potential risks for employers. These include inflexibilities around existing industrial relations arrangements, particularly awards that restrict part-time work or limit flexibilities around times older employees may wish to work.

Each of these regulatory requirements impact negatively on employer willingness to engage or continue employing older workers.

There is a lack of understanding by employers of recent improvements made to the Job Network to increase the extent and efficiencies of services to mature-aged job seekers. Commencing in July 2003, a single provider will work with each mature-aged job seeker with providers having an ability to link with State and Territory government labour market programs targeting the mature-aged. This is a good example of governments creatively linking their programs and services to address the needs of a client group.

The key issues to be addressed in this area include:

- better cross government workforce and skills projections
- consolidation of work undertaken to analyse workplace barriers to on-going employment of older Australians
- improved assistance available through post-compulsory education options, particularly vocational education and training
- better promotion of available active welfare and job seeker support programs and services
- development of support information for employers
- introduction of incentives to undertake further skills development
- extent of small business opportunities for older Australians
- introduction of new support services for older workers
- reform of regulations and legislation which inhibits employment.

### **Retirement Income**

Early retirement has become more widespread in OECD countries in recent decades, in part because the practice was encouraged by government policies. However, in light of the challenges arising from ageing populations, many OECD countries have recently changed their policies with respect to early retirement, and are now aiming to increase labour participation of older workers. Analysis by the OECD includes the effects of recent reforms and also takes into account the effects of taxes on pension benefits.

A main finding is that ordinary public old-age pension systems now do not generally give strong incentives to retire before the statutory age. However, it is clear that regardless of the nominated retirement age, many people are retiring prior to this.

Early withdrawal from the labour market often remains an option, through special early retirement schemes, unemployment related transfer schemes, disability pensions and occupational pensions. While some of these schemes have also been tightened recently, they still provide important fiscal incentives to retire before the statutory retirement age.

Further reforms are needed to eliminate the distortions that encourage workers to withdraw early from the labour market.

The ageing of the population means that the proportion of retirees will continue to increase substantially and the demand for pensions, health care and aged care will also increase. In 1976 Australia had 1.3 million people over the age of 65 years – 9 per cent of the population. By 2016 it will be 16 per cent or 3.6 million people. In addition labour force participants are spending less time in the workforce, and are less likely to be full-time employees – resulting in more pressures on the existing system. The tax base will come under greater pressure as Australia's age dependency ratio (the ratio of those of working age compared to those not of working age) declines.

Consequently, the sustainability of the current system of superannuation, tax funded pensions and subsidised aged care is in question. This is particularly significant, given that 83 per cent of Australians over 65 currently rely, to some degree at least, on the pension or an equivalent government payment.

The level of household savings in Australia has been dropping steadily for 20 years and shows no sign of recovery. Compared with many overseas nations, our level of household savings is low. This is reducing the level of domestic capital available for investment,

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forcing increased borrowing from overseas, and having an adverse impact on our international competitiveness. New initiatives are necessary to help restore domestic savings to an acceptable level.

Key platforms in the reform of retirement savings policy should include:

- access to tax funded pensions should ensure that funds drawn from tax revenue are directed towards those most in need. In other words, legislators should ensure that taxation revenue being directed into retirement incomes is spent as effectively as possible and encourages people to prepare and save for their own retirement
- if compulsory employer contributions are to continue, they must be supplemented by compulsory employee contributions
- regulations should discourage tax funded early retirement
- in principle, the system should encourage income streams as opposed to lump sum payments
- there should be minimal exemptions from coverage of compulsory superannuation
- the taxation of retirement savings must be aimed at encouraging private contributions – not maximising current taxation revenue.

Issues which require a coordinated policy development include:

- all aspects of superannuation
- continued reform of the welfare system to provide incentives for work longer
- the treatment of assets by welfare and tax regimes
- development of a savings strategy
- financial incentives to maintain employment for longer.

### **5. Market Impact**

There also exists tremendous potential for business in meeting the changing demographics of Australia. Business has another reason for a concerted effort into increasing mature aged participation other than necessary supply of skilled labour and reduction in

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welfare or pension dependency. The importance of older people as consumers is of vital importance to business.

The over 55s account for 21% of Australia's population, but head up households that own 39% of the nation's household wealth, and account for 25% of all disposable income.

The coming decade will see further rapid growth in the importance of the older population to manufacturers and retailers.

A key issue which will greatly impact on Australian business is their ability to seize new commercial opportunities (both at home or overseas) resulting from the ageing of populations. This is a very important incentive for business and industry to be actively involved.

Matters which should be considered include:

- export opportunities for products/services targeting ageing markets
- changing spending patterns
- product, service and distribution redesign
- differential impact across industry sectors
- re-alignment of marketing and sales effort.

The development of a comprehensive approach which takes account of the five key nominated areas outlined above, is the major challenge for Australian industry and governments through this decade. It is important that public debate is generated whilst acknowledging that the fundamental changes are already occurring and must be addressed as soon as possible. An important landmark in addressing these issues will be a forum conducted later this year with the Federal Government, organisations representing older Australians and other interested organisations.

Employers will need a range of information and support products and services to be developed to assist them in meeting this challenge. But there are also considerable opportunities for older Australians to contribute towards their own economic prosperity and individual businesses benefiting from a changing world.

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ACCI, governments and other important stakeholders must combine their efforts, existing issues and research, to produce a clear, 'whole of Australia' strategy for 2004.