Australian Government

Department of Family and Community Services

OCCASIONAL PAPER NUMBER 11

Inquiries into retirement and superannuation

Australian Government Department of Family and Community Services submissions to the Senate Select Committee on Superannuation

facs making a difference

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The Committee's terms of reference are to inquire into:

> ... the adequacy of the tax arrangements for superannuation and related policy to address the retirement income and aged and health care needs of Australians.

Executive summary

The terms of reference for this inquiry cover a wide range of policy settings that impact on standards of living in retirement. This submission argues that it is critical to take a broad view of the economic and social policy environment in considering the retirement income needs of Australians.

The adequacy of retirement incomes is determined by the capacity of people to earn income and to save, and by the length of time they spend in the workforce and in retirement.

Policy considerations in respect of retirement incomes need therefore to take into account broader social and economic trends and pressures rather than to focus on superannuation and Age Pension approaches in isolation.

Many of the Australian Government's social policies in recent years have been directed towards early intervention and preventative approaches to address social problems emerging, and towards building economic and social participation.

Against these broader social and economic issues, Australia has a retirement income system that is expressly directed at facilitating adequate retirement income outcomes. It consists of three components or pillars:

- compulsory employer superannuation contributions through the Superannuation Guarantee (SG)
- voluntary superannuation and other private savings
- social security payments (Age Pension in the case of those over Age Pension age) funded from general revenue and targeted to those in need through the income and assets tests (the means test).

There is also potential for this to be supplemented by earnings, for those people who can and wish to work, perhaps on a part-time or casual basis after 'retirement age'.

Australia's public pension system is different to that in most other countries—social assistance is available to those unable to accumulate enough for retirement and those whose savings may not last.

Notwithstanding substantial and increasing superannuation coverage, the majority of older Australians still rely on the Age Pension as a major source of income, and this is expected to continue, although the proportion of pensioners receiving a reduced rate of pension is expected to increase.

Population ageing will lead to increases in the proportion of the budget spent on the Age Pension, up from the current 2.9 per cent of GDP to 4.6 per cent by 2042. Even with the projected increase in Age Pension spending as a proportion of GDP, Australia's retirement income system is expected to remain one of the most affordable systems in the world. In recent years, the Australian Government has extended to non-pensioners some of the concessions previously available only to those in receipt of the Age Pension to further assist self-funded retirees.

The means test plays a critical role in maintaining the affordability and sustainability of the Age Pension system. Without the means test, current age and service pension outlays would increase by between $6 billion and $7 billion a year. It will be important to maintain the integrity of the means test, in order to strike a balance between targeting and providing incentives for self-provision.

The capacity of people to fund their retirement will depend on workforce patterns and income support dependence during their working life. The retirement income system will need to provide adequate incomes for people who are living longer and increasingly spending more years out of the workforce than in it, or spending longer periods in part-time or casual employment. Increasing numbers of people are prematurely retired from the workforce, whether voluntarily or involuntarily. More than 50 per cent of people coming on to Age Pension do so from another income support payment.

Women who face broken periods of work, or years out of work because of caring responsibilities, are at particular risk of having lower living standards in retirement.

Structural ageing will mean a greater proportion of older people at a time when the workforce participation of this group is declining.

Changing workforce patterns and societal changes such as the incidence of family breakdown, and community fragmentation will impact on people's capacity to save for retirement, on formal and informal support arrangements for the retired and on living standards in retirement.

The Australian Government is actively promoting a wide range of policies aimed at meeting these challenges including in the areas of welfare reform and support for families, communities and youth. Building workforce participation for mature age people is a priority.

The time people spend in retirement will also determine the adequacy of retirement incomes. Longer periods in retirement will see some people starting retirement as self-funded retirees, and coming on to Age Pension later in life.

In conclusion, the adequacy of retirement incomes for many Australians will be improved by encouraging workforce participation. Consideration of the adequacy of retirement incomes needs to be taken in the broader context of the economic and social environment, and other policy developments.

1 Retirement incomes

1.1 Factors affecting retirement income

The adequacy of retirement incomes is determined by the capacity of people to earn income and to save, and by the length of time they spend in the workforce and in retirement. Accordingly, issues relevant to the retirement income debate are:

- Patterns of working, which show a marked decline in workforce attachment for Australians of mature age, and interrupted periods of work for other Australians, especially women as they rear children. Interruptions and declines in workforce attachment reduce a person's capacity to earn income and save for retirement.
- Family breakdown, which can diminish wealth and result in more parents relying on income support (particularly Parenting Payment) as they bring up children, which reduces capacity to save for retirement.
- Rates of household savings wealth accumulation, including rates of superannuation contributions.
- Changing community attitudes to 'retirement' which has seen increasing numbers of people commencing retirement in their mid-50s (which increases the period of retirement their savings must fund).
- More flexible working arrangements, including part-time and casual work, which on one hand can reduce people's capacity to earn and accumulate superannuation savings but which, at the same time, offer scope for people to continue working beyond traditional retirement age, and hence greater scope for a smoother transition from full-time work to 'retirement', and greater adequacy of income in their later years.

Policy considerations in respect of retirement incomes need therefore to take into account these broader social and economic trends and pressures rather than to focus on superannuation and Age Pension approaches in isolation.

Much of the Australian Government's social policies in recent years have been directed towards early intervention and preventative approaches to address social problems emerging and to help build economic and social participation. These policies are targeted at strengthening such issues as family relationships, support for families in helping them balance work and family responsibilities, and welfare and labour market reform.

1.2 Retirement income arrangements

Against these broader social and economic issues, Australia has a retirement income system that is expressly directed at facilitating adequate retirement income outcomes. It consists of three components or pillars:

- compulsory employer superannuation contributions through the SG
- voluntary superannuation and other private savings

- social security payments (Age Pension in the case of those over Age Pension age) funded from general revenue and targeted to those in need through the income and assets tests (the means test).

Retirement income can also be supplemented by earnings, for those people who can and wish to work, perhaps on a part-time or casual basis, after ‘retirement age’.

The purpose of superannuation is to provide retirement savings for people that will give them an overall retirement income that is better than Age Pension safety net alone will provide.

Traditionally, focus on social security is on the Age Pension as the foundation of the retirement income system and it provides a safety net that underpins the other ‘pillars’ of the retirement income system. More detail about the social security system is at Attachment A. Information about compulsory superannuation, voluntary superannuation and other private savings is at Attachment B. Information about concessions and supplementary payments that are an important part of the publicly provided safety net are at Attachment C. Voluntary earned income in retirement, enables people who can, and want to, to supplement their retirement income with earnings from some level of workforce attachment (perhaps part-time or casual).

Australia’s public pension system is different to that in most other countries—social assistance is available to everybody not able to accumulate enough for retirement and those whose savings may not last.

The *Intergenerational Report 2002–03* notes that Australia is well placed in relation to Age Pension spending because Age Pension is means tested and targets poverty alleviation.[1] The Organisation for Economic Cooperation and Development (OECD) and the World Bank recognise the advantage of Australia’s multi-pillar system, including its comprehensive coverage, long-term sustainability and cost effectiveness. It provides a mix of earnings replacement and flat rate payments, at relatively low cost, and provides a targeted safety net for those in need.

The combination of compulsory superannuation savings through the SG and Age Pension are estimated by Treasury’s Retirement Income Modelling Unit (RIM) to provide a replacement rate of 67 per cent for a single male retiring on earnings of 100 per cent of Adult Weekly Ordinary Time Earnings after 30 years of contributions and 73 per cent after 40 years of contributions.

1.3 Income support arrangements

Income support paid to people of mature age and over (age 45 and over) comprises around 3.9 per cent of GDP. Of this, Age and Service Pension expenditure represent 2.9 per cent of GDP in 2001–02. Notwithstanding the ageing of the population, the *Intergenerational Report 2002–03* projects Age and Service Pension outlays as increasing to 4.6 per cent of GDP by 2040.[2] When compared to other OECD countries this increase is only moderate. This is due in large part to the targeted nature of the payments, and assumes that the basic principles of the system (including means test parameters) remain the same.

By 2050, with fully mature superannuation arrangements, it is expected some 75 per cent of people aged 65 or over will receive an Age Pension, Service Pension, or Income Support Supplement.[3] At March 2002 around 82 per cent of people aged 65 or over received Age Pension, Service Pension, or Income Support Supplement.[4]

Table 1: Projected changing patterns of Age Pension

<table>
<tr><th></th><th>2001</th><th>PERCENTAGE OF POPULATION</th><th>2050</th><th>PERCENTAGE OF POPULATION</th></tr>
<tr><td>People over Age Pension age</td><td>2.6 million</td><td>12.3 per cent (of total population)</td><td>6.6 million</td><td>25 per cent (of total population)</td></tr>
<tr><td>DVA[(a)] pensioners</td><td>341 000</td><td>13 per cent (of Age Pension age population)</td><td rowspan="2">4.9 million</td><td rowspan="2">75 per cent (of Age Pension age population)</td></tr>
<tr><td>Age pensioners</td><td>1.79 million</td><td>69 per cent (of Age Pension age population)</td></tr>
<tr><td>Full-rate age pensioners</td><td>1.14 million</td><td>67 per cent (of age pensioners)</td><td>1.7 million</td><td>33.3 per cent (of age pensioners)</td></tr>
<tr><td>Part-rate age pensioners</td><td>650 000</td><td>33 per cent (of age pensioners)</td><td>3.2 million</td><td>66.6 per cent (of age pensioners)</td></tr>
</table>

(a) Department of Veteran Affairs (DVA).

Source: Labour Force, June 2002, ABS Cat. No. 6203.0.

A reduced rate of pension is paid when a person's assets or income are too high for them to be paid a full pension but not so high as to disqualify them from pension. Currently, a single person may have assessable income up to $3016 ($5304 in the case of a couple, combined) a year before the rate of pension they can get is affected. Income over this amount reduces their pension rate for 40 cents for each dollar of income. A single person can have assessable income of around $30 810 a year ($51 454 in the case of a couple, combined) before pension cuts out.

The proportion of pensioners receiving a reduced rate of Age Pension is expected to increase. This reflects the maturing superannuation system, which will result in higher average superannuation savings and hence (through the operation of the means test) lower Age Pension payments. The general effect (as a result of superannuation and means test policy settings which encourage greater provision for retirement) is that people will have increases in overall retirement income, even if they receive lower pensions. However, it is important to note that notwithstanding substantial and increasing superannuation coverage, the majority of older Australians will still rely on Age Pension for a significant part of their income.

People who receive Age or Service Pensions may, depending on their circumstances, also be eligible for supplementary assistance from a range of concessions and allowances that include:

- pharmaceutical allowance
- rent assistance (for those who rent privately)

- subsidised rent (through state and territory governments) for those in public housing
- telephone allowance
- remote area allowance.

Table 2: Maximum rates of pension and supplementary assistance

	SINGLE $ A FORTNIGHT	COUPLE (COMBINED) $ A FORTNIGHT
Maximum rate Age Pension	421.80	704.20
Maximum Rent Assistance	90.60[1]	85.40[a]
Pharmaceutical Allowance	5.80	5.80
Telephone Allowance	2.77 ($18 a quarter)	2.77 ($18 a quarter)
	520.97	798.17

(a) Maximum Rent Assistance is payable if rent more than $201.20 a fortnight for a single person and $244.87 a fortnight for a couple.

Source: Centrelink information.

Pensioners and some allowees are granted a Pensioner Concession Card (PCC) that entitles them to Pharmaceutical Benefits Scheme (PBS) pharmaceutical items at subsidised prices and free prescriptions after 52 PBS listed prescriptions in a calendar year. In addition, PCC holders are entitled to a range of state/territory based concessions including transport concessions and discounts on utility bills (electricity, water and sewerage), council rates, and vehicle registration. Some other agencies and businesses also provide concession to PCC holders.

This extra assistance by way of allowances and concessions forms part of the safety net and is important in improving the adequacy of retirement incomes for those in need.

Assistance is also provided via the Commonwealth Seniors Health Card (CSHC) for people of Age Pension age who do not qualify for Age Pension because of the level of their income or assets. CSHC holders receive the same concessions on PBS pharmaceutical items as pensioners, and telephone allowance. To provide further support and reward for those who saved for their own retirement, the income limits for CSHC eligibility were substantially increased in the 2001–02 Federal Budget. These changes made the CSHC available to people over Age Pension age who do not qualify for Age Pension and who have income under $50 000 a year for a single person and $80 000 for a couple combined.

As well as supporting and rewarding self-provision, availability of the CSHC to self-funded retirees is an important way of smoothing the transition between the reduced rate pensioner group, and the fully self-funded retiree group. Previously, someone who moved from a reduced rate pension to being fully self-funded experienced the complete loss of concessions, (and a corresponding reduction in living standards in retirement). At December 2001, 272 000 older Australians held a CSHC.

The 2001–02 Budget also announced that the Australian Government intends to negotiate with states and territories to extend some pensioner concessions to CSHC holders. Further information about concessions is at Attachment C.

Table 3 shows that 92.2 per cent of the population aged 65 years and over is either in receipt of the Age Pension, a Service Pension, other income support payment or holds a CSHC.

Table 3: Proportion of population aged 65 and over by type of assistance, December 2001

TYPE OF ASSISTANCE	NUMBER	PERCENTAGE OF POPULATION
Full-rate Age Pension	1 204 860	45.2
Part-rate Age Pension	598 022	22.5
DVA[(a)] Pension	353 540	13.3
Other income support payment	25 787	1.0
Commonwealth Seniors Health Card	271 554	10.2
No FaCS or DVA[1] assistance	208 539	7.8
TOTAL	2 662 302	100

(a) Department of Veteran Affairs (DVA).

Source:
- Australian Bureau of Statistics, Population by Age and Sex, Australian States and Territories, Catalogue No 3201.0, Australian Bureau of Statistics, Population Projections, Australia, Cat No 3222.0 Note: ABS data can be found in the ABS database under the time series spreadsheets, and based on series II.
- Department of Veterans' Affairs (DVA) Pensioner Summary, December 2001, Table 07, Income Support Beneficiaries by State, Benefit Entitlement and Age Group. Note: DVA data is available at www.dva.gov.au/media/publicat/2002/statistics/index.htm.
- Centrelink, Super Cross populations 2002, Quarter 1 (8/3/02).

Pensioners and self-funded retirees of Age Pension age also benefit from generous taxation concessions that help to increase their disposable retirement incomes. Under changes announced in the 2001–02 Federal Budget, special tax offsets mean that single people in this age group can have income up to $20 000 a year without paying income tax or the Medicare levy. The tax offsets phase 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 tax offsets phase out between $32 612 and $58 244, if incomes are evenly divided.

2 Capacities to fund retirement

A number of emerging trends and challenges could affect people's living standards in retirement by reducing their capacity to accumulate retirement savings, or by reducing the other forms of support available to them.

2.1 Workforce patterns and income support dependence

A person's capacity to accumulate retirement savings hinges on the period over which they have earned income and the level of their income (which determines superannuation contributions and how much they can save each year).

Lack of workforce participation or early withdrawal from economic participation affects both individuals and government. The social and economic costs associated with people prematurely withdrawing from the workforce are significant. In 2001, 52 per cent of people aged 55–64 were out of the workforce for a variety of reasons including health problems, outmoded job skills and poor education, and early retirement. More than 50 per cent of people coming on to Age Pension do so from another income support payment, highlighting this lower workforce participation.

Treasury RIM modelling shows that maintaining workforce participation leads to better retirement incomes. For example, the combination of compulsory superannuation savings through the SG and Age Pension are estimated to provide a replacement rate of 63 per cent for a single male retiring on earnings of 100 per cent of Adult Weekly Ordinary Time Earnings after 25 years of contributions,[5] 67 per cent after 30 years of contributions, and 73 per cent after 40 years of contributions.

The level of long-term dependence on income support is an important issue. It is important that mature workers maintain contact with the labour market for as long as possible for better outcomes both pre- and post-retirement.

However, there is concern about the growing number of people of all ages who are dependent on income support for substantial periods. A significant component of the workforce age population is relying on income support for long periods. This reduces both the period of their potential contribution to superannuation and the period that the contributions could compound to provide higher superannuation benefits at retirement. In May 2002, 294 960 people had been receiving one of the main labour market income support payments for three years or more. 168 131 people had been receiving one of the main labour market income support payments for five years or more. In addition, there were 112 807 single parents who had been receiving parenting payment for five years or more.

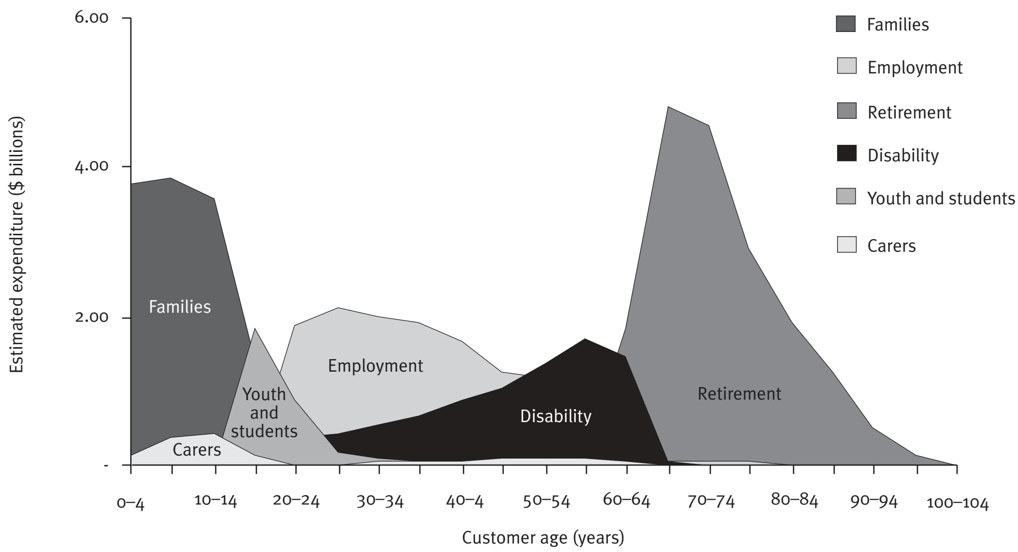
Around 30 per cent of people aged 55–64 are receiving income support payments at a cost of around $6 billion a year. This suggests that these people will not contribute to, and may draw upon, superannuation for up to 10 years in the years immediately leading to Age Pension age.

There is particular concern that some people are seeing Disability Support Pension (DSP) as an early retirement option. Over 650 000 people currently receive DSP. This number has been growing at an average annual rate of around

4 per cent per year over the last four years. In the 1990s Australia had the highest rate of growth in disability related payments of all OECD countries. Almost half of all people granted DSP are aged 50 and over. While for many of these people, their capacity and circumstances mean that DSP is the appropriate payment for them, some people may view DSP as an early retirement option.

Figures 1 and 2 below illustrate the magnitude of income support dependency in Australia, especially for people of mature age. Figure 1 shows that combined payments to the mature aged (those over 45) and older are expected to amount to $24.7 billion in 2002–03, about 65 per cent of income support payments and around 14.5 per cent of estimated total government expenditure in that year. This includes $17.6 billion on Age Pension, $4.6 billion on Disability Support Pension, $1.9 billion on Newstart Allowance and $0.6 billion on Parenting Payment.

Figure 1: Estimated total social security expenditure per age group 2002–03

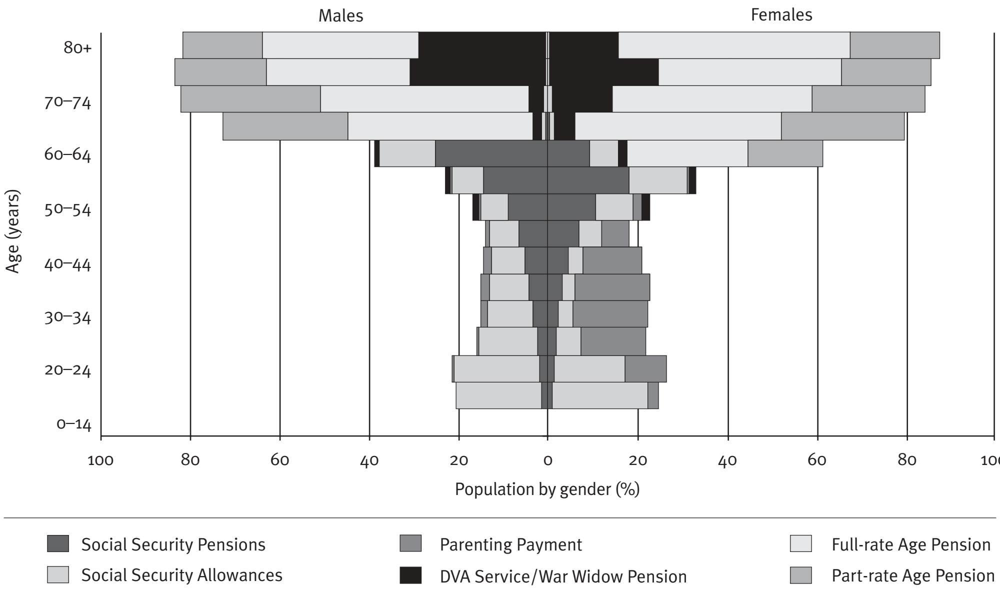


Notes: This figure attributes income support payments to the age of the beneficiary. In respect of family assistance, this is based on the age of the child in respect of whom assistance is paid. In respect of assistance for carers, the figure refers to the age of the person being cared for. For other assistance the customer age relates to the age of the person directly receiving the payment. Parenting Payment is included under employment related payments.

Source: FaCS, 2002.

Figure 2 summarises the proportion of the population of different age groups that receive a full- or part-rate income support payment from FaCS, or a similar payment.

Figure 2: Income support recipients as a percentage of the male and female populations by age by sex, June 2001



Comment: The mix of pension and allowance receipt steadily moves from allowance to pension receipt between 15 and 49 years.

Notes: Workforce age income support payments are divided into pensions, allowances and Parenting Payment. Retirement age income support payments are divided into Veterans' payments, full-rate Age Pension and part-rate Age Pension.

Source: Seniors and Means Test Branch, FaCS.

While the data underlying Figure 2 is not new, it presents a simple, high level view that at all workforce ages the proportion of the population receiving income support never falls below 16 per cent. This rises steadily to 28 per cent of the total population aged 55–59 and to 82 per cent of the population aged 65 and over.

In view of the high rate of dependence of many people on income support in their working life, many of these people can be expected to rely on Age Pension after reaching Age Pension age.

People who enter income support before Age Pension age and remain there until Age Pension age are likely to be least financially prepared for retirement. The number of people aged 55–64 will increase by almost half in the current decade. If the trend to greater reliance on income support is not halted, a significant number of these people will have reduced capacity to earn, and to accumulate retirement and other savings.

A much better option is for those people who have the capacity for employment to remain in the workforce for longer, and employed, with continuing earnings that generate retirement savings, with no need to draw down on their superannuation. This is an important principle that underlies moves to encourage those people with the capacity to work to do so (for example proposed changes to assist those DSP customers with the capacity to work to return to the workforce at a level appropriate to their capacity).

While retirement savings are generally increasing through increasing superannuation coverage, other factors will affect the capacity of people to save for their retirement. These include:

- For women, the fact that many have had interrupted workforce participation because of child bearing and caring responsibilities, or have been working part-time, and therefore less opportunity to accumulate superannuation or other savings. On the other hand, women's workforce participation has been increasing.
- Demographic compression—the inter-generational phenomenon that occurs when a number of key demographic events (such as age at child birth, age at which the last child leaves home, length of working life, ageing of parents and elder care) are compressed into a shorter space of the lifecycle. This will impact on the ability of people to provide for their own education, housing, retirement income, health care and old age, while at the same time caring for others.
- Family breakdown—division of assets including superannuation is intended to help improve equity for, and the retirement incomes of, affected women, but may reduce the savings of former partners.
- Periods of time spent in higher education can delay entry to the workforce, thus impacting on contributions to superannuation. On the other hand, higher education may lead to greater remuneration and therefore greater contributions to superannuation.

There is also a range of factors that could impact on the capacity for families and communities to provide formal and informal support for the retired, for example:

- family breakdown could also mean reduced support networks and greater isolation for older people
- community dysfunction or breakdown could affect the formal and informal support available to older people
- regional issues (communities of predominantly older people may have less access to formal and informal support).

In addressing these challenges, a combination of early intervention, preventative and remedial measures will be required to assist people to build and maintain their capacity for economic and social participation throughout their working life, to ensure better outcomes in terms of pre-retirement and retirement incomes.

The Australian Government is actively promoting a wide range of policies aimed at meeting these challenges. Examples include:

- The *Australians Working Together* package announced in the 2001–02 Federal Budget provides new funding for employment and community services to expand and improve the assistance available to Australians looking for work, including mature age people. *Australians Working Together* measures are outlined at Attachment E.
- Proposed DSP changes to boost economic participation for those who have the capacity to work.

- The *Stronger Families and Communities Strategy*, aimed at supporting and strengthening communities, through developing capacity for self-help, countering some of the effects of pressures on and within communities, and facilitating partnerships between business, community groups and governments.
- A range of early intervention services in the areas of family relationships, early childhood and youth, to prevent social problems and boost capacity.

The Australian Government has also announced its intention to boost workforce participation for mature age people through initiatives such as a *Mature Age Strategy* to assist and encourage economic and social participation.

However, addressing these challenges is not something the Australian Government can do alone. It requires partnerships with business and with state and territory governments to make a real difference in these areas.

2.2 Rates of saving for retirement

Irrespective of working patterns, the rates at which people contribute to superannuation and other saving will impact on the superannuation and other assets they accumulate over their working life. This submission does not seek to comment on the appropriateness of the current minimum 9 per cent accumulation rate for superannuation. It does note that consideration of the issue needs to take into account the opportunity cost that a higher rate may impose on people during their working life in terms of other saving or expenditure forgone (for example investment in the education of children or other asset accumulation such as home purchase) particularly for people earning more modest incomes. However for those who have the capacity to, and who want to, make additional retirement savings, the voluntary superannuation and savings pillar provides them with the opportunity to do so.

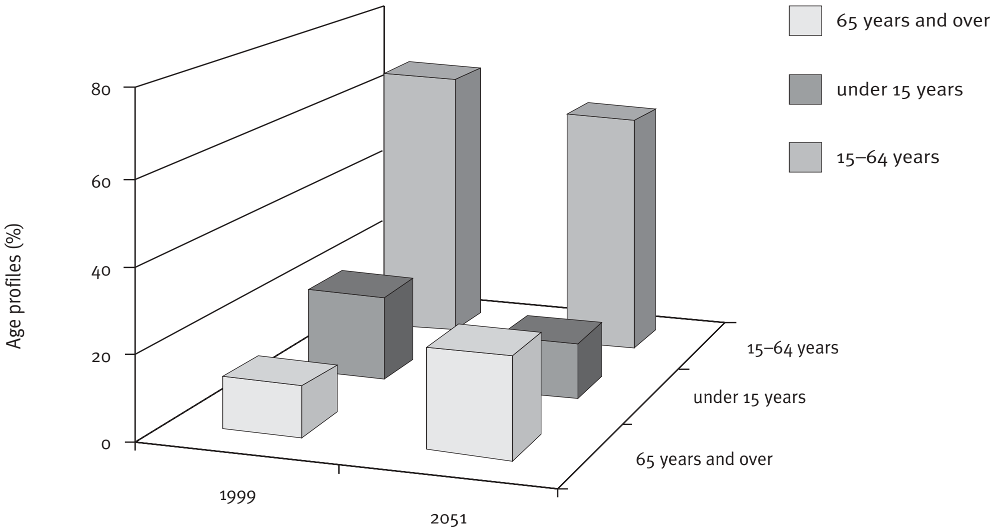
2.3 Structural ageing

Until recently, policy concern has focused on numerical ageing, that is the absolute increase in the number of older people, primarily caused by falling mortality. The significance of structural ageing has recently emerged. Structural ageing is the increase in the proportion of older people in the population, primarily caused by falling fertility.

The distinction between structural ageing and numerical ageing is very important for social and micro-economic policy. Numerical ageing will drive up the demand for and cost of income support, health care costs and so on. Structural ageing can constrain a government's ability to meet the increased demand, as it means a decline in the proportion of the population of workforce age when compared with increased numbers of dependent older people.

Demographic changes mean the balance of people of retirement age, of workforce age and of younger ages, is shifting. Structural ageing will see the proportion of people aged 65 and over rising from 12 per cent in 1999 to 26 per cent by 2051 (2.3 million in 1999, 6.6 million in 2051). The proportion of people aged 15–64 will fall from 67 per cent to 59 per cent (12.7 million in 1999, 15.1 million in 2051). The proportion of people aged 14 and under will fall from 21 per cent to 14 per cent.[6]

Figure 3: Projected age profiles for the years 1999 and 2051



Source: *ABS population projections, 1999–2101*.

The age dependency ratio (the proportion of people aged 65 and over to people aged 15–64) is currently about five people of workforce age for every person aged 65 and over. The dependency ratio is expected to increase by 2050 to only about 2.5 people of workforce age for every person aged 65 and over.

2.4 Time in retirement

The length of time a person spends in retirement (and therefore the length of time retirement incomes must cover) is increasing.

This is due in part to changing life expectancy. Age Pension was first introduced at a time when life expectancy (at birth) for men was 55 and for women was 59. Life expectancies at birth have increased to 75.5 for men and 81.5 for women.[7] Current life expectancy of men at 55 is 79, and of women is 83.5—this is likely to increase over time. Many people can expect to spend as long in retirement as they do working.

An important implication of increasing life expectancy is that there will be increases in the number of people who do not need to rely on Age Pension at age 65, but who access Age Pension at a later point because their retirement savings have diminished over time. The length of time a person's savings last will depend on the amount of retirement savings, investment choices and consumption in retirement.

Increasing life expectancy, if coupled with reduced workforce participation, has implications for the level of retirement income people can expect. A lower accumulation of retirement savings would be required to stretch over a longer period. So increasing workforce participation is important. It may also be possible for people to maintain some level of workforce participation beyond Age Pension age where they are able to do so. Higher workforce participation of older Australians would make an important contribution to living standards and the retirement income system. Higher participation appears achievable—

research indicates many older Australians who have left the workforce (whether because of mandatory retirement or because of other reasons) have very positive attitudes to re-entering the workforce on a full-time or part-time basis.[8]

Currently, workforce attachment declines markedly as people age. Table 4 shows the proportion of mature age people working full-time and part-time by age group.

Table 4: Employment/population ratios by age, May 2002

AGE	PERCENTAGE OF TOTAL POPULATION EMPLOYED	PERCENTAGE OF EMPLOYED PERSONS, EMPLOYED FULL-TIME	PERCENTAGE OF EMPLOYED PERSONS, EMPLOYED PART-TIME
45–54	76.8	76.6	23.4
55–59	59.4	72.8	27.2
60–64	35.7	66.5	33.5
65 and over	6.5	47.7	52.3

Source: ABS Cat. No. 6203.0, May 2002, Table 16, p. 27 and Table 18, p. 28.

The tapered means test ensures that people who have income apart from their pension are always better off, and so people who are able to maintain some level of workforce participation would be able to supplement their superannuation and Age Pension with earnings.

2.5 Age Pension safety net and the means test

As noted earlier, Age Pension is a safety net that underpins compulsory and voluntary superannuation and other private savings. It is targeted to those in need. Currently, a single person may have assessable income up to $3016 ($5304 in the case of a couple, combined) a year before the rate of pension they can get is affected. Income over this amount reduces their pension rate by 40 cents for each dollar of income. A single person can have assessable income of around $30 810 a year ($51 454 in the case of a couple, combined) before pension cuts out.

Around 82 per cent of the population of Age Pension age get Age Pension or a similar payment. Sixty-seven per cent of age pensioners are paid the maximum rate of pension (their income and assets are below the free areas) while 33 per cent receive a reduced rate because of their income or assets.

Also, as noted earlier, these proportions are expected to change over time as people's superannuation and other savings grow, and they have larger amount of income or assets taken into account under the income and assets tests. By 2050, with a fully mature SG, it is expected that no more than 75 per cent of people aged 65 or over will receive Age Pension, Service Pension, or Income Support Supplement. It is expected that around two thirds of pensioners will receive a reduced pension, while around one third will receive a full pension.

In fact, modelling shows that for most people, very high rates of savings are required before they would be excluded from Age Pension entirely. Those with significant levels of savings may still come to rely to some extent on Age Pension in the future. The Treasury RIM has modelled the example of three couples retiring today with a lump sum of $1 000 000 at different ages (where both partners are aged 55, 60 and 65 years). Depending on investment choices, many people who reach Age Pension age without qualifying for Age Pension could be expected to receive some Age Pension at some later point in their lives. Those who retire at age 55 or age 60 could also qualify for Newstart Allowance or Disability Support Pension, depending on investment choices, and their eligibility for those payments.

The income and assets tests work together to target assistance to those in need, and to ensure that the Age Pension system remains affordable for Australian taxpayers. The means test also helps to reinforce the message that people are expected, where possible, to use their own resources before calling on the community for support. More information on the means test is at Attachment D.

In taking into account calls to amend the means test arrangements, it should be reinforced that the integrity of the means test contributes substantially to the affordability of the pension system. By way of illustration, in 2002–03, it is estimated that in the absence of the means test, current Age Pension and Service Pension outlays alone would be $6 billion to $7 billion higher than now—a figure that will significantly increase in future decades.

As noted, the means test is designed to strike a balance between targeting and providing incentives for self-provision. It is important for older Australians that the means test achieves the maximum level of simplicity that is consistent with the achievement of other key policy objectives, such as:

- equity in the application of the means test to customers with resources of similar value but which are held in different types of investments
- restricting means test avoidance.

However, growing market complexity in asset holdings, particularly among older Australians inevitably translates into complexity in the application of the means test. Similarly, the complexity of some investment structures (for example private trusts) leads to some complexity in means test rules to ensure that people with assets in complex structures are treated equitably with people who have assets in other forms of investment (for example listed shares).

Some proponents of a much simpler system (for example a universal pension system) argue that its simplicity would involve significant savings in administration. However, it is important to recognise that the administrative cost of delivering the targeted Age Pension is only a small proportion (1.2 per cent) of Age Pension outlays.[9]

As compulsory superannuation arrangements mature and lump sums become larger, issues around dissipation of retirement savings could become more significant. For example, concerns about ‘double dipping’ could increase. This can occur when people receive significant government assistance in the form of tax concessions for superannuation savings, and then access these savings as a lump sum. They then also receive additional government assistance through the Age Pension, because their superannuation lump sums are not adequately used to generate retirement income.

The gap between the preservation age and Age Pension age increases the potential for concern about double dipping. Because of the gap between the preservation age and Age Pension age, it is possible for people to access their superannuation savings and to use some of them before Age Pension age and then qualify for Age Pension.

While there is so far little evidence to suggest that people who currently receive superannuation lump sums large enough to affect social security payments use them for purposes other than income producing investment, better research in this area is needed. Bearing in mind the potential for dissipation of retirement saving to develop, measures that have been introduced that might help to address this area include:

- the progressive increase in the superannuation preservation age from 55 to 60 years between 2015 and 2025
- taxation and social security incentives for the take-up of income streams (particularly those where the customer has relinquished access to capital in return for a stable income stream payable for life or life expectancy)
- information campaigns promoting the message that people are better off maximising total income rather than Age Pension income.

Issues about possible adjustments to means test policy settings need to be assessed against a range of considerations. Some industry groups have sought to extend the range of income streams that are exempt from the assets test through an exemption for growth, or 'market linked', pensions. The Australian Government has announced that this issue is under examination. This examination will take into account both revenue and social security impacts. Unlike the types of income streams currently exempted from the assets test, returns on growth pensions are not guaranteed and depend on how the underlying investments perform.

2.6 Information to encourage people to save and prepare for retirement

It is important to provide people with information to help them save for retirement, including to help them make decisions about how much they wish to save for retirement (for example through making voluntary superannuation contributions).

It is also important to provide people with information that assists them to make the most effective use of their savings *in retirement*, and to make the investment choices that are best for them.

The FaCS portfolio provides free information through a number of means, including:

- a series of information publications for retirees and pre-retirees—FaCS works with industry bodies, other agencies and community groups in producing these publications
- the National Information Centre on Retirement Investments Inc (NICRI)—an independent body funded by the Australian Government to provide the public with free information on these issues
- the Financial Information Service (FIS) provided by specialist Centrelink officers.

3 Conclusion

The Age Pension is, and will continue to be, a key pillar of Australia's retirement income system. Notwithstanding the substantial growth of superannuation coverage over recent decades, the bulk of people of Age Pension age are expected to rely on Age Pension for at least some of their retirement income.

The income and assets testing of Age Pension are critical factors in maintaining the affordability of the pension. Assuming continuation of current means test arrangements, the system will remain affordable, even though the proportion of the population of Age Pension age will double between now and 2042.

The adequacy of retirement incomes for many Australians will be improved by encouraging workforce participation, especially those of mature age. Currently around one half of people moving onto Age Pension were previously dependent on income support. Substantial periods out of the workforce significantly reduce a person's capacity to save for their retirement.

Voluntary superannuation and other savings, as well as support for workforce participation for longer periods, give people options to further boost their retirement incomes.

Attachment A: Age Pension

Introduction

Age Pension was introduced in 1909. It is a means tested safety net payment for older people who are unable to fully provide for themselves in retirement.

Age Pension is funded from general taxation revenue and there is no explicit tax or contribution required. It is a flat rate payment. In other words, the same basic rate of pension is the starting point for calculation of a person's Age Pension payment, regardless of previous earnings. Neither receipt of, nor rate of payment of, Age Pension is linked to previous workforce participation. In this way, Age Pension is potentially available to the entire Australian community of Age Pension age (subject to residence qualifications), including those with marginal connections to the workforce, or no previous employment history.

Age Pension is thus the fundamental building block of Australia's retirement income system, in that it provides the foundation that the compulsory and voluntary superannuation pillars, and voluntary earned income build on. Age Pension provides a critical 'safety net', assisting those who have not been able to accumulate sufficient superannuation and other savings.

At 30 March 2002 there were 1.8 million age pensioners. General information about age pensioner numbers and characteristics is at Attachment A1.

Age Pension can be paid to people of Age Pension age and over (65 for men, and currently 62 for women[10]). Generally a person must be an Australian resident, and residing in Australia, to be granted Age Pension. However, in certain circumstances, a pension may be granted to a former Australian resident who lives in a country with which Australia has a social security agreement (refer Attachment A2 for more information).

The Department of Veterans' Affairs (DVA) provides a similar payment (Service Pension) to veterans. It is available to people aged five years below Age Pension age. At March 2002 there were 268 989 service pensioners.

The current rate of Age Pension is $421.80 a fortnight for a single person, and $352.10 a fortnight for each of a couple.

Notwithstanding the progress made in expanding superannuation coverage, the Age Pension is a major provider of retirement income for the majority of Australians. At March 2002 around 82 per cent of people aged 65 or over received Age Pension, Service Pension, or an Income Support Supplement, with 66.5 per cent of age pensioners receiving the maximum rate of pension (they have private income and assets below the means test free areas)and 33.5 per cent of age pensioners receiving a part-rate pension because of their income or assets. Of age pensioners granted in the last 12 months, 51.8 per cent received a full-rate pension and 48.2 per cent received a part-rate pension.

It is noted that there is a trend towards increases in the average assessable assets and income of pensioners. Attachment A1 provides some information on this. To some extent this trend can be attributed to increases in superannuation accumulations.

The three 'pillars' of the retirement income system interact. Through the operation of the means test, the rate of Age Pension a person can get can be affected by the amount of superannuation and other savings the person has accumulated. That is, higher levels of superannuation and savings can lead to a lower rate of Age Pension.

Pension indexation

The rate of Age Pension is adjusted every March and September in line with movements in the Consumer Price Index. Payment rates are also indexed in line with wages growth; the maximum single rate of pension is maintained at (at least) 25 per cent of Male Total Average Weekly Earnings, with flow-ons to the partnered rate. Pensioners are therefore protected against price increases, and also share in improvements in community living standards, as measured by wages.

Attachment A1: Trends in income support for older Australians

Age Pension is the single largest income support payment. Age Pension expenditure is expected to grow from almost $17 billion in 2001–02 to almost $21 billion in 2005–06. Around 2.1 million people of Age Pension age (82 per cent of this population) are in receipt of Age Pension or a similar payment.

Importantly, many Australians who are approaching Age Pension age are reliant on income support payments. Expenditure in 2000–01 on income support payments to people age 55–64 was around $6 billion.

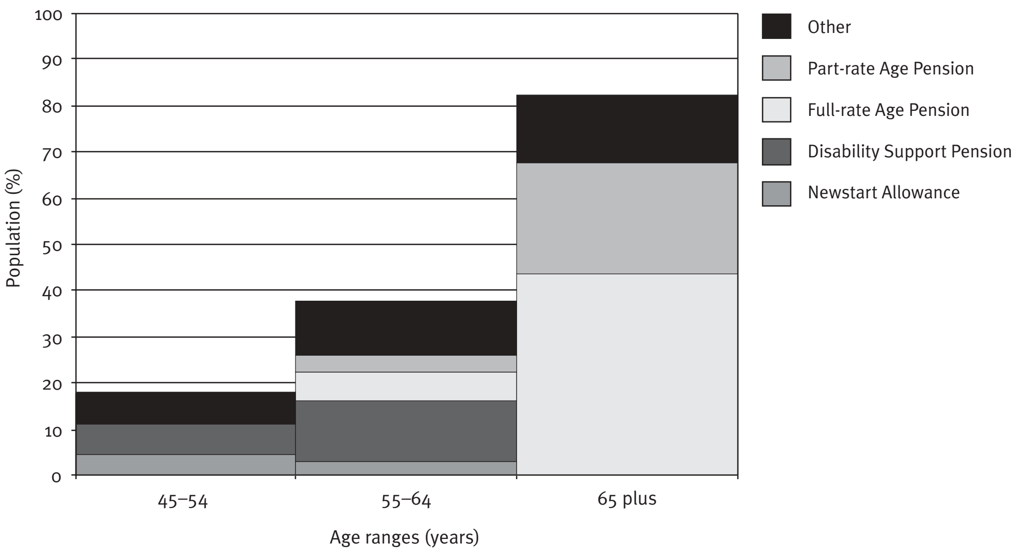
Distribution of income support customers

The figure and table below show the distribution of income support, by age and payment type.

The information shows the increasing reliance on income support as age increases, and the transference from working age income support payments to Age Pension.

Some 701 811 Australians aged between 55 and 64 years (38.2 per cent of the population) are in receipt of an income support payment. The largest single payment is Disability Support Pension, which is paid to around 255 000 of these people (or about 14 per cent of those aged 55–64). A further 100 000 people aged between 55 and 64 receive either Newstart or Newstart Mature Age Allowance.

Figure 4: Distribution of income support customers



Source: Centrelink and DVA customer data.

Table 5: Income support recipients aged 55–64 as percentage of population aged 55–64

	CENTRELINK ISR(a)	DVA(b) ISR(a)	TOTAL ISR(a) AGED 55–64	ISR(a) AS PERCENTAGE OF POPULATION AGED 55–64
Age Pension	154 642	26	154 668	8.42
Service Pension		24 429	24 429	1.33
Income Support Supplement		1768	1768	0.10
Austudy	617		617	0.03
Bereavement Allowance	24		24	0.00
Carer Payment	20 688		20 688	1.13
Disability Support Pension	254 646		254 646	13.86
Newstart Mature Age Allowance	39 610		39 610	2.16
Newstart Allowance	59 106		59 106	3.22
Parenting Payment Single	3778		3778	0.21
Parenting Payment Partnered	2145		2145	0.12
Partner Allowance	67 664		67 664	3.68
Sickness Allowance	1466		1466	0.08
Special Benefit	508		508	0.03
Widow Allowance	26 900		26 900	1.46
Wife Pension	38 966	70	39 036	2.12
Widow Class B	4758		4758	0.26
Total	**675 518**	**26 293**	**701 811**	**38.19**

(a) Income Support Recipients (ISR).
(b) Department of Veteran Affairs (DVA).
Source: Centrelink and DVA customer data.

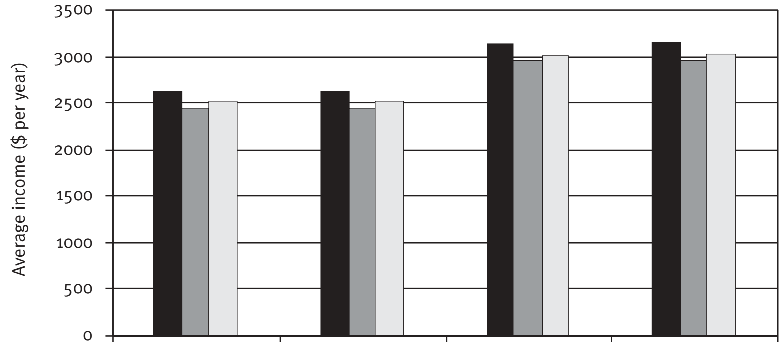
Age Pension statistics

- At 30 March 2002, there were 1 806 722 age pensioners—39.2 per cent were male and 60.8 per cent were female. In addition 328 661 people over Age Pension age received a similar means tested income support payment from DVA.
- 82 per cent of people aged 65 or over receive Age Pension, Service Pension, or Income Support Supplement.
- At March 2002, 67 per cent of age pensioners received the maximum rate of pension while 33 per cent received a reduced pension because their income or assets exceeded the free area.
- At March 2002, amongst age pensioners who have been in receipt of Age Pension for less than one year, 51.8 per cent received a full-rate and 48.2 per cent received a reduced pension.

Average assessed income and assets of age pensioners

The following figures show how the average value of assessed non-pension income and assets of age pensioners have increased in recent times.

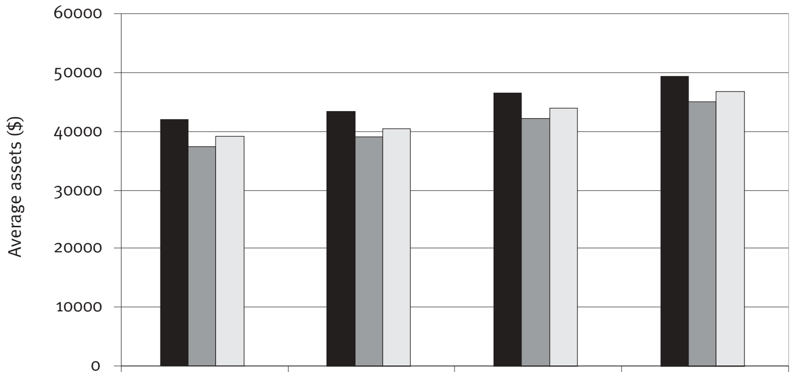
Figure 5: Average assessed income per customer a year, 1999–2002



	1999	2000	2001	2002
Average income–Males	2637	2623	3130	3152
Average income–Females	2445	2448	2951	2963
Average income–Total	2516	2514	3019	3037

Note: Figures shown for 2002 are as at March.
Source: Centrelink and DVA customer data.

Figure 6: Average assessed assets per customer, 1999–2002



	1999	2000	2001	2002
Average assets–Males	41 798	43 357	46 441	49 286
Average assets–Females	37 256	38 940	42 279	45 176
Average assets–Total	38 928	40 607	43 870	46 783

Note: Figures shown for 2002 are as at March.
Source: Centrelink and DVA customer data.

- At March 2002 average assessed annual income from all sources was $3037. This has risen from $2516 in March 1999.
- At March 2002 average value of assessed assets was $46 783. This has risen from $38 928 in March 1999.

All information in Attachment A1 is based on Centrelink and DVA customer data.

Attachment A2: International social security agreements and payment of pension overseas

Usually Age Pension is not granted to people who are not residing in Australia. However, Age Pension can be granted:

- to people who are overseas receiving another payment and who become qualified for Age Pension
- under the terms of Australia's social security agreements.

As at June 2002, Australia had social security agreements with 11 countries: Austria, Canada, Cyprus, Denmark, Ireland, Italy, Malta, the Netherlands, New Zealand, Portugal and Spain. Australia's social security agreement with the United Kingdom was terminated from 1 March 2001. A new agreement with New Zealand will begin to operate from 1 July 2002 and will allow the granting of Australian benefits to people residing in New Zealand and vice versa. Agreements with Germany and the USA have been signed and are expected to commence later this year. In its 2002–03 Federal Budget, the Australian Government announced that Australia will give priority to finalising new social security agreements with Croatia, Norway, Slovenia and Switzerland, under the same principles as Australia's existing agreements.

Australia's international social security agreements:

- Give easier access to Australian pensions upon arrival in Australia for people who have had periods of social security coverage in an agreement country. For example, a 65-year-old man who arrives in Australia would normally have to wait at least 10 years before being residentially qualified for Age Pension. However, if the man had 10 years of social security (social insurance) coverage in the Netherlands he could use that period to qualify for immediate access to Australian Age Pension to supplement his pension from the Netherlands.
- Play an important role in helping Australian residents to access their compulsory contributions to the social security systems of other countries, in the form of a foreign pension. This occurs because most countries have restrictions, such as minimum contributory periods, which must be fulfilled in order to receive a pension. For example, Italy requires 15 years of contributions for Age Pension, and the USA requires about 10 years. Under an agreement, people can combine certain periods of residence in Australia with their periods of contributions in the other country to qualify for a pension. This not only greatly benefits Australia's migrant population, but also benefits the increasing number of Australian-born people who are spending part of their working lives overseas.

Australia pays around 25 000 Age Pensions under agreements. The total value is around $86 million a year.[11]

More than 84 000 customers receive payments from agreement countries for a total annual value of more than $382 million.[12]

Once granted, Age Pension is payable for any period of overseas absence. This policy acknowledges that travel is an integral part of modern living. This is particularly true in ethnically diverse societies such as Australia, where almost a quarter of the population is overseas-born. Around 44 000 age pensioners are overseas on a long-term basis.[13]

Pensioners who travel overseas but maintain Australian residence are paid ancillary payments such as Pharmaceutical Allowance, Rent Assistance and Telephone Allowance for the first 26 weeks absence. Introduced on 20 September 2000, this change helps pensioners to meet their ongoing financial obligations in Australia while they travel overseas.

The rate of Age Pension for the first 26 weeks absence is the same as the basic means-tested rate the pensioner would receive if still in Australia, unless the pension is paid under an agreement. After that time, the basic pension rate may be paid at a proportional rate, based on working life residence in Australia. Working life residence is the period of legal permanent residence in Australia between the ages of 16 years and Age Pension age. People do not have to have been employed to accrue working life residence in Australia. Maximum pension entitlement is gained after 25 years of working life residence. For example, a pensioner with 15 years' working life residence could expect to receive 15/25ths of the basic, means-tested rate after being absent from Australia for more than 26 weeks. Under this rule around 20 000 customers overseas have their rate reduced.[14]

Age pensioners who lived overseas and are entitled to any overseas payment comparable to Australian social security payments may be required to claim the overseas payment. **This policy plays an important role in maximising the total disposable income of pensioners who have split their working lives between Australia and other countries.** It also ensures that Australia is only responsible for a fair share of retirement costs. Australia pays around $260 million annually to age pensioners staying overseas on a long-term basis.[15] At the same time other countries pay more than $1.2 billion annually to Australian age pensioners, $900 million to pensioners residing in Australia and $300 million to Australian pensioners residing overseas.[16]

Attachment B: Superannuation (compulsory and voluntary) and other private savings

Compulsory superannuation

Pre-existing award-based and voluntary superannuation arrangements that provided partial coverage were expanded in 1992 by the introduction of the compulsory system of employer superannuation contributions (SG). Superannuation contributions are assisted by taxation concessions.

The SG requires employers to make superannuation contributions to complying superannuation funds on behalf of the majority of employees. There are exemptions for people in certain categories—for example, for people who earn less than $450 a month, part-time employees under 18, and employees aged 79 and over. The self-employed are not required to make SG contributions on their own behalf.

The SG contribution rate commenced at 3 per cent in 1992 and rose to the fully phased in rate of 9 per cent on 1 July 2002. SG contributions are compulsorily preserved until age 55. The preservation age will rise gradually from age 55 to 60 between 2015 and 2025.

In 2000, 97 per cent of employees with leave entitlements and 72 per cent of casual employees had some superannuation coverage.[17] Superannuation fund assets have risen from about $40 billion in 1985 to more than $500 billion in 2001.[18]

Taxation on superannuation is concessional when compared with alternative investment vehicles. The concessions encourage savings and contribute significantly to final superannuation benefits. Treasury has estimated the value of the tax concessions to be around $10.3 billion in 2002–03.[19] This is in addition to the $18 billion spent on age/service pensions in 2001–02.

Voluntary superannuation and other private savings

Voluntary superannuation contributions made by some people (including self-employed people) also receive tax concessions. These concessions encourage people to increase their superannuation accumulations above those compulsorily required by the SG, with consequent increases in retirement income.

People will make decisions about the extent of their voluntary superannuation contribution, taking into account a range of factors relating to their circumstances and preferences, as well as the requirement that voluntary contributions be preserved until retirement. People with greater amounts available for discretionary investment may find voluntary contributions particularly attractive. Some people will look at the retirement income benefits of voluntary contributions in the context that these contributions can cause reductions in disposable income during working life, possibly at a time when education, family and housing related needs are pressing. Other people may choose to invest in forms of saving that do not have the access restrictions placed on superannuation.

From 1 July 2002, the Australian Government will make a superannuation co-contribution of up to $1000 a year where low-income earners make voluntary contributions to superannuation. This co-contribution will provide an additional incentive for low-income earners (who make lower compulsory superannuation contributions) to increase their voluntary contributions to superannuation, and so will increase their retirement income.

Another tax-preferred channel for voluntary savings in Australia is owner occupied housing. In March 2002, 71 per cent of age pensioners owned their own home. There are a number of other important voluntary savings vehicles, including property investments, share investments and investments held with financial institutions. Some people save for retirement through other means—for example small business owners may use their investment in their business to finance their retirement.

Attachment C: Concessions for pensioners and self-funded retirees

The Australian Government provides a range of benefits to individuals in addition to income support payments. Changes in recent years have broadened the availability of assistance to people not eligible for Age Pension.

Pensioners may access, in addition to their pension payment:

- rent assistance, if they are renting privately
- a pensioner concession card (PCC) which provides concessional access to listed Pharmaceutical Benefits Scheme (PBS) items and to concessions provided by state and territory governments
- pharmaceutical allowance
- telephone allowance.

People of Age Pension age and over who do not qualify for Age Pension may access a Commonwealth Seniors Health Card (CSHC), subject to eligibility criteria, including a higher income test than applies to the pension (income limits were increased significantly in the 2001–02 Budget).

A key benefit of Australian Government concession cards (the PCC and CSHC) is that they provide low-income earners and certain self-funded retirees with access to cheaper prescription medicines under the PBS.

Concession cardholders currently pay only $3.60 for medicines listed on the PBS, excluding any premium for higher cost alternatives. After spending $187.20 (52 scripts) on prescription medicines in a calendar year, cardholders are entitled to free PBS prescription medicines for the rest of that calendar year.

Rent Assistance

Rent Assistance is a supplementary benefit paid to age pensioners who pay private rent. Private rent includes caravan park site fees, mooring fees and some retirement village fees. People paying rent to a state or territory government housing authority for the rental of government housing or residing in Australian Government-funded aged care are not eligible for Rent Assistance.

Before rent assistance becomes payable, a minimum amount of rent (rent threshold) must be paid. Rent Assistance is then paid at 75 cents for every dollar of rent paid above the rent threshold, up to a maximum rate.

Table 6: Rent thresholds and maximum payment rates (without dependent children), 20 March 2002

	SINGLE ($ A FORTNIGHT)	PARTNERED COUPLE COMBINED ($ A FORTNIGHT)
Rent threshold before Rent Assistance is paid	80.40	131.00
Minimum rent to get maximum payment	201.20	244.87
Maximum Rent Assistance	90.60	85.40

Source: Centrelink information.

Pensioner Concession Card

The PCC is issued to persons receiving a pension including Age Pension, Disability Support Pension, Parenting Payment (Single), Mature Age Allowance, Mature Age Partner Allowance and Bereavement Allowance. The PCC is also issued to people over 60 who have been getting the Newstart Allowance, Sickness Allowance, Widow Allowance, Partner Allowance, Parenting Payment (Partnered) or a Special Benefit continuously for the previous nine months.

Commonwealth Seniors Health Card

The CSHC is targeted at self-funded retirees of Age Pension age (currently 62 years for women, and 65 years for men) who meet certain eligibility criteria, that is:

- the person is not receiving another income support payment from Centrelink or DVA
- the person meets an income test of under $50 000 a year (single person) or $80 000 a year (couple, combined income)
- they are an Australian resident.

The Australian Government announced in 2001 that it would negotiate with state and territory governments to extend some or all of the concessions currently available to pensioners to holders of the CSHC.

As a result of ongoing negotiations, the Australian Government recently offered the states and territories around $65 million per annum in total to assist with the cost of extending core pensioner concessions to CSHC holders. When negotiations are finalised, eligible CSHC holders will be able to receive concessions on essential services, including council, water and sewerage rates, electricity and motor vehicle registration.

Rail concessions

PCC holders are entitled to at least one free rail journey within their state/territory of residence (except for Tasmania/Northern Territory) on rail services provided by state/territory governments.

The Australian Government funds Great Southern Rail (GSR) to provide concessions to PCC holders and CSHC holders on GSR services that were formerly Commonwealth owned. These services are the Indian Pacific, the Ghan, and the Overland. These concessions can range between $25 and $500 per journey.

Hearing concessions

Certain PCC holders will also be able to receive hearing services. This includes free hearing assessment and hearing rehabilitation, supply and fitting of hearing aids, and other hearing aid concessions.

Pharmaceutical Allowance

Pharmaceutical Allowance is paid to help PCC holders and some allowees with the cost of certain prescriptions listed under the PBS. Pharmaceutical Allowance forms part of the rate payable to all pensioners, sickness allowance recipients, certain allowance recipients with temporary incapacity exemption from activity testing requirements, and long-term allowees, who are over 60 years, and have been receiving income support for at least nine months.

The current rate of Pharmaceutical Allowance is $5.80 per fortnight for a single person or $2.90 per fortnight for each member of an eligible couple.

State and territory concessions

The Australian Government has in place arrangements with the state and territory governments to ensure that all pensioners receive certain 'core' concessions (council and water and sewerage charges, electricity, motor vehicle registration and public transport). This is done through an annual Specific Purpose Payment to all state and territory governments that ensures that all holders of the Pensioner Concession Card receive these concessions without discrimination.

The agreement does not specify the level of concession that must be offered, as state and territory governments determine these matters.

The benefits obtained from concessions differ significantly between states and territories—the annual average value of motor vehicle registration concessions in Tasmania is $33; in ACT it can be over $200.

The value of a concession card to any individual is determined by their circumstances. For example, they may not be eligible for rates concessions if they do not own their home; they would be ineligible for vehicle registration concessions if they do not own a car, which may in turn impact on their accessing of public transport concessions.

In addition a wide variety of secondary concessions are available to PCC holders including dog registration, dental concessions, various education allowances or concessions, ambulance services, certain eye care programs and spectacles. The value of these will vary between state and local jurisdictions. In addition companies such as Telstra and Australia Post may offer concessions or rebates to cardholders.

FaCS estimates that the overall annual value of concessions through the card is between $300 and $1000 a year (depending on state of residence and the person's circumstances).

Telephone Allowance

Telephone Allowance (TAL) is a quarterly payment to assist with the rental of a domestic telephone or mobile phone line. To be eligible for TAL, a person must have a phone connection in their name or their partner's name, and be receiving either an eligible pension or allowance payment through Centrelink or DVA, or the Commonwealth Seniors Health Card.

The amount of TAL payable is dependent upon the person's circumstances. Both an eligible single person and an eligible couple receive the full amount of TAL ($18.00 per quarter), as the costs to rent a telephone line are the same for one person or a couple. Where only one member of the couple is receiving an eligible benefit, the allowance is paid at the half-married rate of $9.00 per quarter.

State Government Seniors Cards

These cards are issued by each state to their residents who are (generally) aged over 60 and no longer working full-time. Eligibility varies slightly from state to state, and the benefits available are generally offered by the private sector, and may include travel, dining and entertainment, and financial products. Some state governments also target a limited range of concessions at holders of State Government Seniors Cards. The Australian Government has no influence over these concessions.

Attachment D: Pension income test and assets test arrangements

General information

Income and assets tests (collectively referred to as the ‘means test’) work together to target pension payments to those most in need of assistance, and to ensure that the pension system remains affordable for Australian taxpayers. The means test also helps to reinforce the message that people are expected, where possible, to use their own resources before calling on the community for support.

The rate of pension payable to an individual is calculated under both the income test and the assets test. Payment is made under the test that provides the lower rate of pension.

People can have substantial income and assets before there is any effect on their pension. These ‘free areas’ are indexed each July in line with cost of living increases.

Income and assets above these ‘free areas’ reduce pension payments. Reduction rates are set to strike a balance between targeting the pension to those most in need and ensuring that people are better off from self-provision. The following tables set out the income test and assets test free areas and reduction rates as at 1 July 2002.

Table 7: Income test

FAMILY SITUATION	MAXIMUM PENSION IS PAYABLE UNDER INCOME TEST IF ASSESSED INCOME DOES NOT EXCEED	NO PENSION IS PAYABLE UNDER INCOME TEST IF ASSESSED INCOME REACHES
Single pensioner	$116 per fortnight	$1185 per fortnight
Pensioner couple (combined)	$204 per fortnight	$1979 per fortnight

Note: The rate of pension is reduced by 40 cents for every dollar of income over the free area threshold amounts.

Source: Centrelink information.

Table 8: Assets test

FAMILY SITUATION	MAXIMUM PENSION IS PAYABLE UNDER ASSETS TEST IF ASSESSABLE ASSETS DO NOT EXCEED	NO PENSION IS PAYABLE UNDER ASSETS TEST IF ASSESSABLE ASSETS REACH
Single homeowner	$145 250	$288 000
Single non-homeowner	$249 750	$392 500
Partnered homeowner (combined)	$206 500	$443 500
Partnered non-homeowner (combined)	$311 000	$548 000

Note: The rate of pension is reduced by $3 per fortnight for every $1000 of assessable assets above the free area amounts.

Source: Centrelink information.

The maximum amounts of income and assets that people can have and still receive a pension payment have increased substantially in recent years, as a result of indexation arrangements and also the July 2000 one-off liberalisation of the income test and assets test as part of *A New Tax System* arrangements. The July 2000 liberalisation reduced the maximum rate at which pension is withdrawn under the income test from 50 cents per dollar of assessed income to 40 cents per dollar. This meant that from July 2000 there was a substantial increase in the amount of income people could earn and still be paid some pension (for a single person, this amount increased by around $6000 a year).

As noted earlier, 33.5 per cent of age pensioners receive a reduced pension because of their income or assets. Of age pensioners granted in the last 12 months, 51.8 per cent received a full-rate pension and 48.2 per cent received a part-rate pension. This suggests that people recently moving on to the Age Pension have, on average, higher levels of income and/or assets than the total group of people currently on Age Pension, some of whom have been receiving the pension for many years.

More information on means test policy principles

While the income and assets tests target payments to those most in need, these tests must also provide incentives for self-provision. The means test should encourage pre-retirement accumulation of private savings (including through superannuation), because higher pre-retirement accumulations should translate into increases in retirement incomes. The means test should also encourage people to maximise their total post-retirement income (comprising private income and income support) rather than maximise their Age Pension payments in isolation.

A number of means test policy settings support the achievement of these outcomes.

Firstly, the means test free areas and withdrawal rates ensure that people are better off from self-provision, even if the additional assets or income causes some reduction in pension.

Secondly, the assets test is an important measure in encouraging customers to maximise their total income. This is because the assets test reduces the income support paid to customers with substantial assets that produce little or no income. Hence the assets test encourages better utilisation of assets. More broadly, the assets test reflects the principle that customers with non-home assets of high value should not be able to draw on the limited public funds available for social security expenditures.

Thirdly, the income test deeming rules further encourage customers to use their savings to produce market-related levels of income. Under these rules, savings placed in financial investments such as bank accounts, term deposits, and shares are deemed to earn market-related rates of income, irrespective of the actual income from the investments. Before the deeming rules were introduced, many pensioners elected to place their savings in no income or low-income investments, in order to maximise their pension. While increasing incentives for self-provision, the deeming rules also considerably simplified the income test.

Fourthly, the means test also contains ‘deprivation’ rules that act as a disincentive for customers to gift, or giveaway, assets that they could use for self-provision. Under these rules, amounts gifted in excess of $10 000 per year (or $30 000 over five years) are taken into account under the income test and the assets test.

Information on means test treatment of superannuation

Accumulation phase superannuation (superannuation that has not been drawn on and is not being used to generate an income stream) is exempt from the income test and the assets test until a person is of Age Pension age. It is then assessed under both the income and assets tests. This reflects the principle that superannuation should be used to provide income in retirement.

Superannuation can generally be drawn on retirement after age 55, and this means that most people have made decisions about how to draw on their superannuation before they reach Age Pension age. These decisions determine the extent to which their accumulated superannuation affects their income support entitlements (both before Age Pension age and from Age Pension age).

Superannuation may be taken in lump sum form or via an income stream. The social security means test implications follow:

- The extent to which superannuation taken as a lump sum results in assessable income or assets depends on the way in which the lump sum is used. For example, if the proceeds are invested in assets such as shares and managed investments, then these are assessed under the means test, and pension reductions can result. To the extent that the proceeds are used for expenditure on the home (an exempt asset) or on lifestyle spending (such as travel) there can be no impact on pension entitlements.
- Where superannuation is used to purchase an income stream, the income stream is assessable under the means test. (The form of the means test rules that apply depends upon the characteristics of the income stream.)

The Australian Government has encouraged greater take-up of income streams by providing an assets test concession where the customer has given up access to capital in return for an income stream payable for life (or for life expectancy).

Information on means test treatment of income streams

Income streams are investment products designed to provide payments to a person on a regular basis over either lifetime or a set term. The payments comprise both income and a return of the capital used to purchase the product.

Income streams are classified into three main categories and are means tested on the basis of their characteristics. The three main categories are:

- Asset-test exempt income streams that ensure a steady draw down of income and capital over the person’s lifetime or whole retirement period, and allow no further access to the capital used to purchase the income stream. Under the income test, the actual income is assessed, with a deduction allowed for a return of capital.

- Asset-tested income streams with a term of more than five years that allow access to capital. These income streams have the same income test treatment as those in the assets test exempt category. All allocated products fall into this category.
- Asset-tested income streams that allow access to capital but are for a short-term only (five years or less). Under the income test these income streams are treated as financial investments and are assessed under the deeming rules.

More information on assessable income for the income test

The intention of the social security definition of income is to capture a broad range of incoming amounts. 'Income' is defined in the legislation as meaning 'an income amount earned, derived or received by the person for the person's own use or benefit'. The reason for such a broad definition is that social security income support payments are intended as a mean to assist those in need, which is measured by assessing the resources available to the person for their own support. Consequently, very few types of income are excluded. There are also special rules for assessing income from some sources, for example financial investments.

Some of the most common types of assessable income include:

- deemed income from financial investments (refer below for more information)
- gross income from wages and salaries (including fringe benefits)
- net income from rental property and businesses (including farms)
- family trust distributions and dividends from private company shares
- income from income stream products such as annuities and allocated products (refer section on means test treatment of income streams).

Deeming rules are used to assess a pensioner's income from financial investments. Under these rules, as at 1 July 2002, a deeming rate of 2.5 per cent applies for the first:

- $34 400 of total financial assets held by a single pensioner
- $57 400 of total combined financial assets held by a couple where at least one member is a pensioner.

A deeming rate of 4.0 per cent applies to amounts above these thresholds.

The actual income from financial investments is not assessed. If a person's financial assets earn higher income than the deemed rates, the extra income earned above the deeming rate is not counted as income.

Financial investments include bank, building society and credit union accounts, term deposits, loans and debentures, managed investments, listed shares and assets tested income streams (short-term). Financial investments also include 'accumulation phase' superannuation investments held by social security customers over Age Pension age.

These deeming rules were introduced in 1996 after an independent review of the income and assets tests. Consultations with pensioners and pensioner organisations had indicated major concerns about the complexity of the previous income test rules for financial investments, and about the frequent changes they caused to pension payments. The deeming rules are a simple and fair way of assessing income from financial investments, because they treat all types of financial investments in the same way. They also increase incentives for self-provision.

The deeming thresholds (the maximum amount of financial investments that is assessed at the lower deeming rate) are also indexed to increases in the Consumer Price Index in July each year.

More information on assessable assets for the assets test

Some of the most common types of assessable assets are:

- bank, building society or credit union accounts, term deposits, bonds, debentures, shares, property trusts, and managed investments
- income stream products that do not meet all the characteristics for assets test exemption (refer section on means test treatment of income streams)
- household contents and personal effects
- motor vehicles, boats and caravans (not used as homes)
- the value of real estate (such as a holiday home or a bush block)
- the refundable amount of an accommodation bond paid on entry to an aged care home
- the value of businesses and farms, including goodwill
- superannuation investments from which an income stream has not been drawn (investments such as approved deposit funds) held by social security customers over Age Pension age.

The principal home is exempt from the assets test.

Gifted assets over a $10 000 limit in any year (or over $30 000 over five years) are assessed as an asset for five years from the date of the disposal.

Pensioners who are assessed under the assets test, and who are in severe financial hardship, may be eligible for extra payment under special hardship provisions if they:

- own an asset that they cannot sell or reasonably be expected to sell
- cannot borrow against the asset or reasonably be expected to borrow against it.

Attachment E: *Australians Working Together* package

Australians Working Together (AWT) provides incentives, assistance and support for people, including mature aged, to participate in the economic and social life of their communities. The package provides improved personalised assessment and service, more opportunities for training and work experience, better incentives and reasonable requirements for people to find work, increase their earnings or contribute to their communities. *A Fair Go for Mature Age People* provides help for people receiving Newstart, Mature Age, Partner and Widow Allowances. However, many mature age people are receiving other payments such as Parenting Payment, Disability Support Pension or Carer Payment. The *Australians Working Together* package has measures designed to help people on these payments, as well as measures that will provide extra help for people disadvantaged in the labour market, to find jobs or to participate.

A fair go for mature age people

- From September 2002, people receiving Mature Age, Partner or Widow Allowance will be invited to attend an interview with a Centrelink Personal Adviser to discuss their future plans. Personal Advisers will help people who wish to participate to identify their goals and obstacles to achieving them. They will be able to undertake a wide range of activities and be referred to other services, such as language, literacy and numeracy training, the Personal Support Programme, rehabilitation, disability employment services, financial or other counselling, community work or employment assistance, should it be required.
- From July 2003, access to Mature Age and Partner Allowance will be closed. Most people who would have claimed those payments will be able to get Newstart Allowance instead. Newstart Allowance is paid at the same rate as Mature Age and Partner Allowances, but provides better access to payments and services to help customers engage with the workforce and the community. Newstart Allowance has an activity test requirement as a condition of payment whereas Mature Age and Partner Allowances have no activity test requirement.
- From July 2003, there will be flexible activity test requirements for Newstart allowees aged 50 or more. A Personal Adviser will help the customer to develop a Participation Agreement that takes into account their individual circumstances, including their job readiness and any activities they may already be doing (such as caring responsibilities, voluntary work). Participation requirements are designed to help people improve their work prospects. The Participation Plan recognises the barriers to a person entering the workforce and provides a plan for overcoming these barriers.
- People claiming Widow Allowance from 1 July 2003 will be required to attend an annual interview with a Personal Advisor to discuss participation options. Although attendance at the interview is compulsory, participation planning will be purely voluntary. People who choose to participate will be able to undertake a range of activities such as disability employment services, education, training, voluntary work or job search training.

- In 1999 the Australian Government instigated an inquiry into 'the social, economic and industrial issues specific to workers over 45 years seeking employment, or establishing a business, following unemployment'. The findings of this committee were released in a detailed report, *Age counts: An inquiry into issues specific to mature age workers*, which was tabled in Parliament in August 2000. The Australian Government has responded in part to this report through aspects of the *Australians Working Together* package, including Transition to Work program, Working Credit and the Prime Minister's Community and Business Partnership. The *Acknowledging Older Australians* package also exempted superannuation assets from the social security income and assets tests from age 55 until Age Pension age. The change provided mature age people with superannuation assets access to more income support, consistent with the recommendation of the Nelson Report.

Help to participate

- The Working Credit will encourage workforce-age people on income support to take up full-time, substantial part-time or irregular casual work by allowing them to keep more of their income support payment while working. The Working Credit can help in meeting the costs of taking up work. It is likely to make a difference for people offered casual work or those who have been out of work for a while. The Working Credit will be implemented from 28 April 2003.
- The Literacy and Numeracy Training Supplement will financially assist people who want to improve their skills as part of their plan to go back to work. People receiving income support attending approved literacy and numeracy training will be eligible for a fortnightly supplement of $20.80 to help meet incidental costs such as travel to courses.

Helping people find jobs

- There will be extra Job Search Training places.
- Intensive Assistance providers will assess whether jobseekers would benefit from referral to complementary programs before Intensive Assistance.
- There will be extra Literacy and Numeracy Training places.
- There will be more Work for the Dole places and opportunities for community work.
- Training Credits of up to $800 for each eligible person will be used to gain work-related skills by mature age and Indigenous jobseekers who participate in Job Search Training and Intensive Assistance. The Training Credits will complement and build on the services already provided to mature age and Indigenous jobseekers by their Job Search Training and Intensive Assistance providers.
- A new Transition to Work program brings together a range of individual and flexible transitional assistance for people who have been away from the workforce for a long time, and for those who have never had paid jobs. This

builds on the Jobs, Education and Training (JET) and the Return to Work programs that have been helping people—particularly women and mature age people—return to paid work after long absences.

- Mutual obligation requirements will be standardised for jobseekers aged under 40 years.

Community and business engagement

- The Prime Minister's Community Business Partnership will encourage companies and businesses to identify and generate opportunities for people with disabilities, mature age people, Indigenous Australians and parents returning to work. Nationally, the Prime Minister, with members of the Community Business Partnership, will provide leadership in encouraging employers to identify work experience and paid jobs for people who may have been left behind. A communication campaign will complement this by highlighting the valuable contribution that all people can make if given the opportunity.
- The Prime Minister's Community Business Partnership will work with corporations, the Business Council of Australia, the Australian Chamber of Commerce and Industry and other business organisations. Locally, community business networks involving small and medium enterprises will be encouraged to build awareness and opportunities. Funding for the partnership has been continued for three years in the 2002–03 Budget.

Providing information

Financial Information Service Seminar Program

The Financial Information Service Seminar Program targets financial information at pre-retirees, retirees, people becoming redundant or retrenched and rural communities. It also provides information for intermediaries, such as financial, welfare, community and industry groups.

The aim of the Financial Information Service Seminar Program is to provide accessible and effective information to the community and individuals that encourages and assists people to maintain or improve their standard of living be planning effectively for their retirement and maximising their overall retirement income.

National Information Centre for Retirement Investments (NICRI)

NICRI provides quality technical information to the public on retirement investment and planning and assists the Financial Information Service in information provision. This information is provided through a telephone information service, seminars, information leaflets and a website.

Publications

- A *Guide to Issues for Older Workers* and a *Guide to Elder Care Issues in the Workplace*. These publications promote a better understanding of the work/life issues that affect older Australians and assist organisations to better understand and meet the changing needs of mature age workers.

- Papers issued in developing the *National Strategy for an Ageing Australia: Healthy Ageing* (October 1999): *Independence and self-provision* (November 1999); *Employment for mature age workers* (November 1999); *World class care* (April 2000); *Attitude, lifestyle and community support* (September 2000); *Healthy ageing* (October 1999).
- Seniors financial and other information products issued by FaCS, including *Investing money – your choices*, *Understanding retirement income streams* (issued jointly with the Australian Retirement Income Streams Association), *Home and residence choices for older people*, *Australian retiree – your choices* and *Moving house – Your choices*.

Supporting research

Funding support has been provided by the Australian Government for:

- practical research into mature age employment issues through the Job East Area Consultative Committee and for the Australian Employers Convention, through the Regional Assistance Programme
- research on the barriers facing mature age workers in obtaining and benefiting from training
- research to investigate and report on the barriers that mature age people looking for work encounter in their search for employment and what best practices are being used to assist mature age people to find employment
- research associated with the development of the *National Strategy for an Ageing Australia*, including a major research report on *Population Ageing and the Economy*.

Endnotes

1 *Intergenerational Report 2002–03* (*2002–03 Budget Paper No.5),* p. 45.

2 *Intergenerational Report 2002–03* p. 45.

3 *The National Strategy for an Ageing Australia, Independence and Self Provision Discussion Paper,* November 1999, p. 13.

4 Centrelink and Department of Veterans' Affairs customer data.

5 Based on full-time employment.

6 *ABS population projections, 1999–2101.*

7 *Australian life expectancy tables, 1995–1997.*

8 FaCS, *Workforce circumstances and retirement attitudes of older Australians – Non-customer survey, Research Report No. 2,* August 2000, p. 25.

9 *FaCS Annual Report 2000–01.*

10 The age at which women qualify for Age Pension is gradually increasing. By 1 July 2013 it will be 65 years, the same as for men.

11 25 359 age pensioners for a total annual value of $86 401 112. Source: Australia's Agreement Pension Population as at 3 June 2002, provided by Centrelink International Services, Hobart.

12 84 279 customers receive payments from agreement countries for a total annual value of $382.35 million. Source: Agreement Statistics as at 3 June 2002, provided by Australia's agreement partners.

13 44 392 age pensioners overseas for a period longer than 12 months. Source: Australia's Overseas Pension Population as at 1 July 2002, provided by Centrelink International Services, Hobart.

14 Centrelink Pensions 2002 Quarter 2 (16 June 2002). Source: SuperCROSS.

15 Total annual Age Pension payment to customers overseas $258 453 028. Source: Australia's Overseas Pension Population as at 1 July 2002, provided by Centrelink International Services, Hobart.

16 Annually agreement countries pay $903 801 459 to age pensioners residing in Australia and $302 926 089 to Australian pensioners residing overseas. Source: Centrelink Foreign Pension Recipients at December 2001, provided by Centrelink International Services, Hobart.

17 ABS 6360.0 *Superannuation: Coverage and Financial Characteristics.*

18 *APRA Superannuation Trends September 2001.*

19 *Budget Strategy and Outlook 2002–2003.*

Part II: Department of Family and Community Services submission to the Senate Select Committee on Superannuation inquiry into planning for retirement (April 2003)

The committee has advised that:

> … the inquiry will focus on mechanisms to assist people to plan for, and make the transition from work to retirement, with particular reference to exploring the opportunities available for older people to plan for their retirement. In conducting the inquiry the Committee will examine in particular:
>
> - the effects of ageing on workers' productivity
> - the continuing relevance of the concept of a fixed retirement age
> - the potential to encourage progressive transitions from work to retirement, including through possible new benefit access and contribution arrangements, and part-time work
> - any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people
> - ways to assist older workers plan for their retirement
> - the short- and long-term effect on the Budget of any proposals for change
> - any issues for the Federal or State workplace relations systems.

Executive summary

The terms of reference address some critical issues facing Australia—the need to assist mature age Australians make the transition from work to retirement and to help them plan for retirement. This submission addresses issues of most direct relevance to the portfolio namely, transitions from work to retirement and ways to assist older workers plan for their retirement.

The Department of Family and Community Services' (FaCS) July 2002 submission to the Committee's *Inquiry into superannuation and living standards in retirement* argued that the adequacy of retirement incomes is determined by the capacity of people to earn income and to save, and by the length of time they spend in the workforce and in retirement. The submission argued that boosting mature age workforce participation and providing flexible approaches through which mature age people can contribute to the workforce will be important drivers towards lifting standards of living for people currently and through retirement.

FaCS argued in its December 2002 submission to the House of Representatives Standing Committee on Ageing that promoting higher labour market participation and reducing premature retirement will help counteract the reduction in the growth of the population of working age and so help address the effects of demographic change. The demographic change in prospect is the structural ageing of our population—a population where there are relatively more older people (as people live longer) and fewer younger people (due to fertility falling) in the workforce.

There is no official retirement age. Retirement decisions are affected by such factors as personal preferences and labour market outcomes, which may be influenced by the preservation age (the age at which people may access their superannuation) and/or the age at which Age Pension can be claimed. The preservation age is currently age 55 (gradually rising to age 60) and men may claim Age Pension at 65. Currently women may claim Age Pension at 62, but that age is gradually rising to 65.

Among people of mature age, workforce participation rates are low—for example, only half of men aged 60–64 are in the workforce. For many individuals, withdrawal from the labour force was not voluntary and came prematurely, mostly due to ill health, disability, caring responsibilities or involuntary job loss and many of those who sought another job were unsuccessful. 'Early retirement' followed. Men and women experience different labour market outcomes and causes of early labour force withdrawal. Labour force participation rates among mature age women are much lower than rates among mature age men. Premature withdrawal from the labour market reduces the capacity to build retirement savings. Any uncertainty around future employment may further complicate a person's task in planning for their retirement.

These factors underscore the need to promote higher labour market participation. However, there have been some encouraging trends that suggest employment outcomes may be improving. Part-time employment among older Australians has been rising and full-time employment rates remain stable. Part-time employment may offer opportunities for people to supplement retirement income where they are willing and able to do so.

Existing policies aim to encourage older Australians to continue working. The *Australians Working Together* package provides incentives, assistance and support for people, including mature aged, to participate in the economic and social life of their communities. The Pension Bonus Scheme encourages people of Age Pension age to continue working.

The provision of information on planning, saving and preparing for retirement can promote participation, independence and self-reliance and to help people plan as they enter a new phase of their lives. Retirement planning information has a particular role in encouraging voluntary saving for retirement. It is also important to provide people with information that assists them to make the most effective use of their savings *through retirement*, and to make the investment choices that are best for them.

A FaCS survey of mature age people found that 70 per cent of those who had 'retired' at a time of their choosing had undertaken pre-retirement planning.

The FaCS portfolio provides free information through a number of means to promote participation, independence and self-reliance for those planning, saving and preparing for retirement that complements information available from the private sector. FaCS portfolio information is provided through:

- the Financial Information Service (FIS) provided by specialist Centrelink officers
- a series of information publications for retirees and pre-retirees
- the National Information Centre on Retirement Investments Inc (NICRI).

This information is to assist people irrespective of whether or not they are Centrelink customers (that is, receiving income support payment). Apart from delivering information through a range of community groups and other organisations, Centrelink's FIS conducts a community education program directed at changing community attitudes and approaches to retirement planning in the broader community.

In summary, substantial steps towards helping people plan for retirement can be taken through promoting higher labour force participation and assisting people plan for retirement. Strategies to promote transitional retirement (to enable people to combine some workforce participation with other activities) and attitudinal change towards mature age work participation would also assist in achieving those objectives. The Australian Government has announced that it is examining approaches to boost participation among all workforce groups, including mature age people, through its Demographic Taskforce.

1 Retirement incomes

1.1 Demographic factors

In its July 2002 submission to the Committee's *Inquiry into superannuation and living standards in retirement*, FaCS noted that workforce participation and saving during working life determine retirement incomes. However, the submission noted that:

- over 50 per cent of people coming to Age Pension were previously receiving another income support payment
- participation rates for older men and women are low
- 82 per cent of people of Age Pension age receive an income support payment
- two-thirds of age pensioners are paid the maximum rate because their assessable assets and income are below the relevant free areas.

FaCS' December 2002 submission to the House of Representatives Standing Committee on Ageing *Inquiry into long-term strategies to address the ageing of the Australian population over the next 40 years*, argued that while Australia is well placed to manage an ageing population, there are significant challenges ahead:

- In line with many other developed countries, Australia's population is ageing. The combined effect of falling fertility rates and an ageing population will increase the number of retired people relative to the number of working-age people.
- The proportion of the population aged 65 and over is forecast to increase from its current 12 per cent to 22 per cent in 2031 and 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.
- This 'structural ageing' is expected to reduce the rate of economic growth, due to lower workforce and population growth, unless participation rates increase. Workforce participation among mature age Australians is relatively low.

While economic forces may be expected to increase the demand for older workers in the face of workforce growth decline, this outcome cannot be taken for granted. Policy settings need to promote higher labour market participation and reduce premature retirement to counteract the reduction in the growth of the population of working age, which can include smoothing the transition from workforce participation to retirement.

People who enter income support before Age Pension age and remain there until Age Pension age are likely to be least financially prepared for retirement. The number of people aged 55–64 will increase by almost half in the current decade. If the trend to greater reliance on income support is not halted, a significant number of these people will have reduced capacity to earn, and to accumulate retirement and other savings. For many people their capacity to save for retirement is reduced by a working life that is cut short.

1.2 Factors determining retirement

Australia does not have an official retirement age, and proposed age discrimination legislation would prohibit dismissal on the basis of age unless specified exemptions apply. To support older Australians who wish to continue in employment, the Australian Government has taken action to remove barriers to workforce participation. For example, the compulsory retirement age of 65 was removed for federal public servants in 2000. That said, there are various age criteria that are relevant for people in planning their work and retirement decisions. These are:

- The preservation age, that restricts the ability of people to access their superannuation benefits until they have reached age 55 and retired from the workforce. The preservation age will gradually rise to age 60 by 2024.
- The age at which people may claim the Age Pension, which is age 65 for men and currently age 62 for women, rising to 65 by 2014.
- The age until which people can contribute to superannuation, which is 75 years.

The Australian Government has announced that it is examining approaches to boost workforce participation for all workforce age groups, including mature age workers, through the Demographic Taskforce. Further, existing policies aim to encourage older Australians to continue working to the extent they are willing and able to do so.

As part of the *Australians Working Together* (AWT) package, the non-activity tested payments of Partner Allowance and Mature Age Allowance will close from 20 September 2003. The majority of customers who receive these payments are of working age, and the closure of these payments to new claimants sends an important message to the community about the importance of maintaining an attachment to the labour market.

Under AWT, allowees aged between 50 and Age Pension age have been given access to Centrelink Personal Advisers. Centrelink Personal Advisers help mature age people plan to maintain their connection to the workforce for as long as possible or move into the workforce for the first time. They do this by helping people develop individually tailored participation plans that focus on moving towards paid work, to the extent possible, addressing barriers to workforce participation, and by guiding and motivating people to improve their workforce participation. Part of this process may be referral to services, such as formal retirement planning or Centrelink's Financial Information Service, discussed later in this submission.

The Pension Bonus Scheme encourages people of Age Pension age to defer claiming the Age Pension while continuing to work. If they choose to continue working they can accrue a tax-free lump sum at the time they claim and receive the Age Pension.[1] Take-up of the Pension Bonus will depend on the number of people reaching Age Pension age who are still working. Currently, few people of Age Pension age are working. For example, of those older persons aged 65–69:

- 5.7 per cent of women are employed part-time and 2.6 per cent employed full-time
- 7 per cent of men are employed part-time and 11.9 per cent employed full-time.[2]

The number of people registered on the pension bonus scheme, 48 740 at 31 December 2002, is around one quarter of those of Age Pension age who are working, which is a relatively high take up. Low rates of labour force participation among people of Age Pension age reflect the fact that most people reaching Age Pension age have withdrawn from the labour market.

1.3 Trends in retirement incomes

As noted in the earlier FaCS submission to the committee, Australia has a retirement income system that consists of three components or pillars:

- compulsory employer superannuation contributions through the Superannuation Guarantee (SG)
- voluntary superannuation and other private savings
- social security payments (Age Pension for those of Age Pension age) funded from general revenue and targeted to those in need through the income and assets tests (the means test), supported by a range of additional concessions and benefits.

The retirement income system will evolve substantially in coming decades. By 2050, with a fully mature SG, it is expected that no more than 75 per cent of people aged 65 or over will receive Age/Veterans' Service Pension or Income Support Supplement compared with 82 per cent today.

In future decades, people will be reaching Age Pension age with greater means than the current generation of age pensioners. By 2050, it is expected that around two-thirds of pensioners will receive a reduced pension because their income or assets exceed the free areas, compared with around one-third of all age pensioners today.

For most people currently receiving an Age Pension, assessable asset holdings are modest. The main asset held by most age pensioners is their home, which is exempt from the social security assets test.[3] National Centre for Social and Economic Modelling (NATSEM) data suggests that overall 53 per cent of the total wealth of those aged 50–64 is held in the home.[4]

- Among the two-thirds of age pensioners receiving a full-rate of pension, assessable assets (excluding exempt assets) average around $30 500, with people recently claiming Age Pension holding slightly more assets, averaging at $32 500.
- Among the one-third of age pensioners receiving a part-rate—either because their income or assessable assets are over the 'free' areas—assessable assets average around $86 600, with people recently claiming Age Pension holding an average of $110 800.

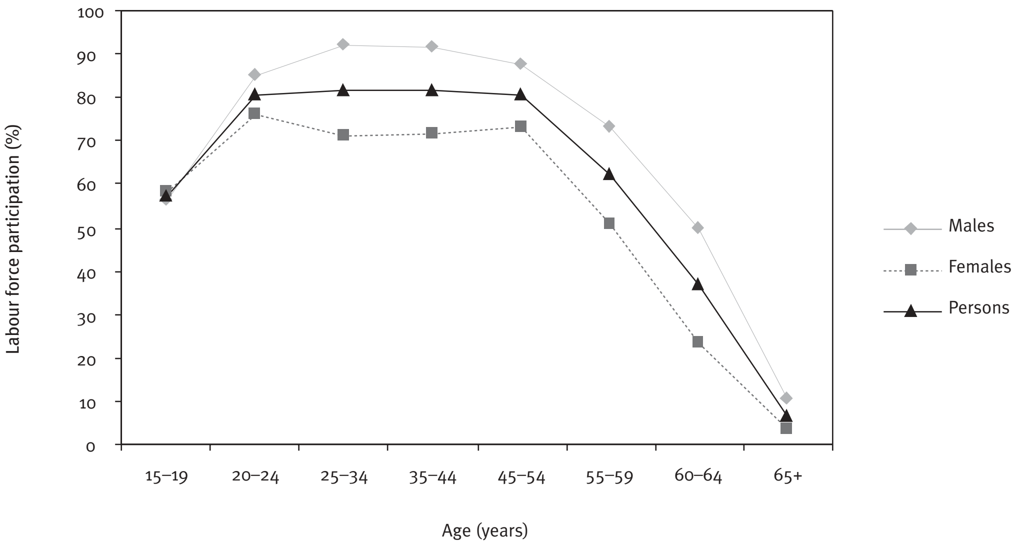
More detailed data is at Attachment A.

1.4 Most early retirement is not voluntary

For most people, retirement, or withdrawal from the labour force, comes earlier than expected and this reduces their capacity to prepare for retirement.

Australian Bureau of Statistics (ABS) labour force data shows that labour market participation drops markedly among people older than the age group 45–54 (Figure 1 below).[5] The overall participation rate falls from 80.5 per cent for those aged 45–54 to 62.5 per cent for those aged 55–59, with the 60–64 age group having the lowest participation rate within the working age population (36.7 per cent). The pattern for males and females is similar, although the decline in the participation rate for mature age people is sharper for men than women. While female participation has risen over time across most age groups, female participation rates remain below male participation. Male participation rates, particularly among the mature age groups, have fallen markedly from rates observed in the 1960s. Participation rates measure the percentage of the population employed or looking for work.

Figure 1: Labour force participation rates, 2002



Source: Australian Bureau of Statistics, Labour Force, Australia, June 2002, Cat No 6203.0.

In 2000, the Wallis Consulting Group undertook a survey *Workforce Circumstances and Retirement Attitudes of Older Australians* on behalf of FaCS. The survey 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. For those who last left a main job within the past nine years, reasons for job departure and subsequent labour market experience were explored. To examine the labour market experiences of mature age people approaching Age Pension age, the survey results for people aged 55–64 years are considered in this submission. The survey indicated that, within this age group, as shown in Table 1:

- 20 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 (27 per cent) than women (13 per cent).
- 50 per cent had last left a main job in the past nine years.

- 28 per cent had last left a main job 10 years or more ago. More women (42 per cent) fell into this group than men (16 per cent). This group was not asked why they had last left a main job because the passage of time may have affected the reliability of the answers.

Table 1: Persons aged 55–64, job history status, 2000

JOB HISTORY STATUS	MEN	WOMEN	PERSONS
		PROPORTION	
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 10 or more years ago	15.5	41.5	28.2
Have not had job	0.2	2.8	1.5

Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

Those who had last left a main job in the last nine years were asked why they had left. The results are summarised in Table 2, which shows:

- 28 per cent left because of ill-health/disability, to reduce stress or to care for an elderly or sick relative.
- 23 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 per cent), markedly less so for women (13 per cent).
- 21 per cent of men and women left because of other job related reasons, such as the impact of company restructure, sale of business, desire to move to another job.
- 16 per cent of men and women left to retire or live off their investments and/or income support.
- 13 per cent left for personal reasons, such as a decision to take a break, family reasons, or a move to a new location. This factor was more significant for women (21 per cent) than for men (8 per cent).

Table 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	MEN	WOMEN	PERSONS
		PROPORTION	
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: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

In summary, while 20 per cent of people surveyed continued in a job, most who last left a main job in the last 9 years lost their job or left because of such reasons as disability or ill health. Leaving a job need not impede planning for retirement if the person can find a new position. However, many do not find new work. Those who had last left a main job within the last nine years and were currently not in the labour force were asked if they had wanted to continue working or had tried to find new work. The results are summarised in Table 3, which shows:

- 51 per cent of those who lost a job involuntarily claimed to have sought a new job. A higher percentage of men (52 per cent) did so than women (48 per cent).
- One-third of people who left a job because of other job related reasons, such as the impact of company restructure, sale of business or desire to move to another job, sought a new job. A higher percentage of men (48 per cent) did so than women (24 per cent).
- 22 per cent of women who left a job for personal reasons sought a new job.
- 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).

Table 3: Persons aged 55–64 not in the labour force who left a job in the nine years prior to survey by selected reason for leaving last main job and sex—proportion who looked for work since leaving labour force, 2000

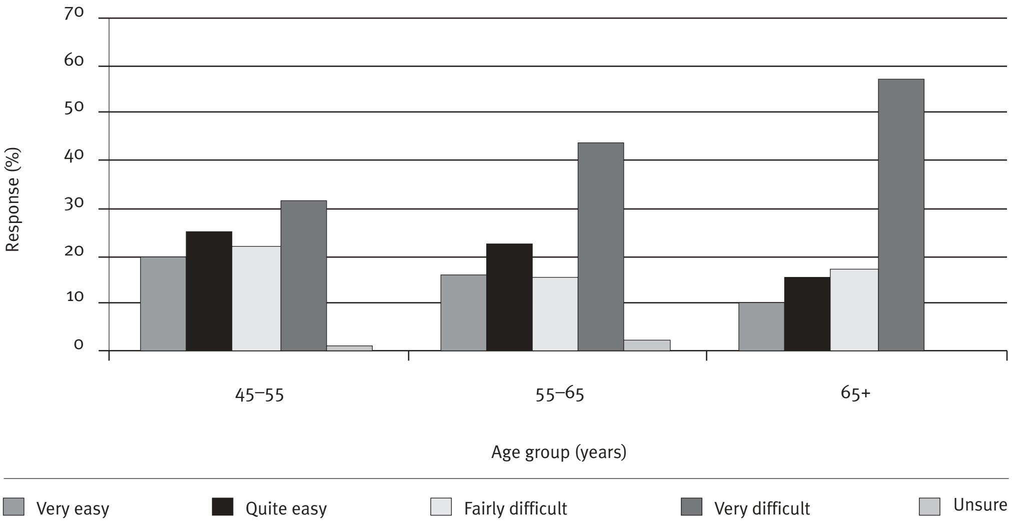
	MEN	WOMEN	PERSONS
REASON FOR LAST LEAVING A MAIN JOB	PER CENT WHO LOOKED FOR WORK		
All reasons	29.3	21.3	25.6
Involuntary job-related reason	52.1	47.9	50.9
Other job-related reason[(a)]	47.9	23.8[(a)]	33.5[(a)]
Other personal reason	44.5[(b)]	21.8	27.9
Disability/ill health/caring/stress	17.2	16.9	17.1
Retirement/live off investments/income support	10.4[(a)]	10.9[(a)]	10.6[(a)]

(a) A small number of cases were excluded from analysis due to missing data on relevant variables.
(b) Sampling variability too high for most practical purposes.
Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

People were asked about the difficulties they faced in finding work. As shown in Figure 2:

- 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-gain employment. That is, over half the population within the 45–55 age group found it difficult to regain employment.
- Over 40 per cent of people aged 55–65 found it very difficult to regain employment and around 15 per cent found it fairly difficult. That is, almost 60 per cent of the age group found it difficult to regain employment.

Figure 2: Difficulty of re-entering workforce rises with age



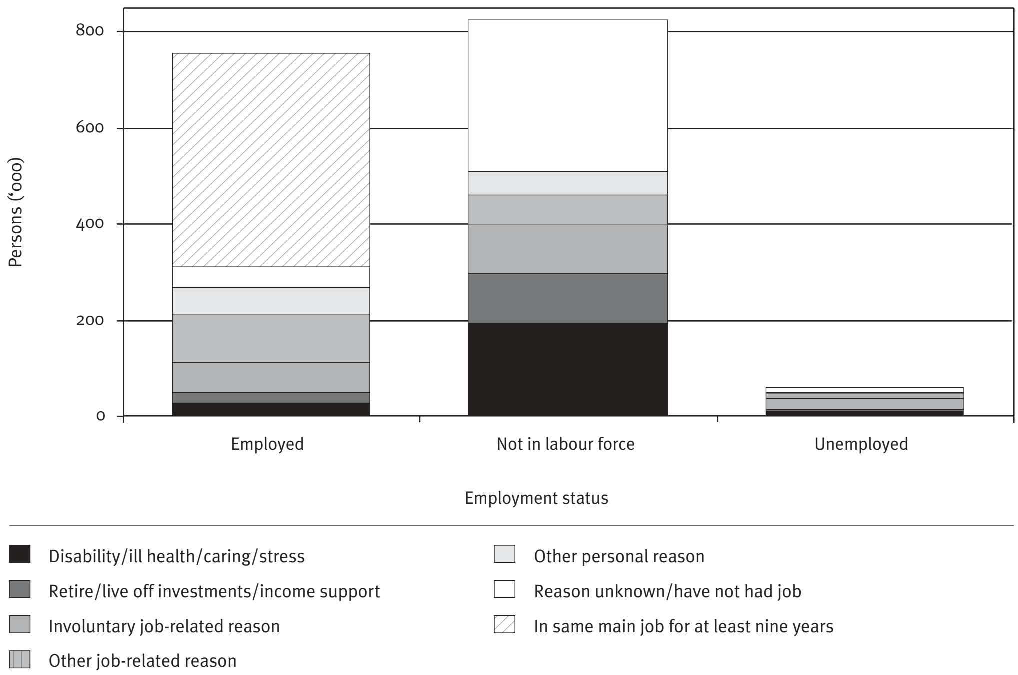
Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

Reflecting these factors, half the 55–64 age group is currently not in the labour force, as shown in Figure 3. Figure 3 (and Figures 3a and 3b in Attachment B) show labour market outcomes for the age group and for males and females respectively. Employment includes full-time, part-time and casual work. Key findings are:

- 53 per cent of men in the age group were employed, 6 per cent are looking for work and 40 per cent were not in the labour force. Fewer women were working (39 per cent), 3 per cent are looking for work and 59 per cent were not in the labour force.
- 58 per cent of employed men and 60 per cent of employed women were in the same main job over the prior nine years.
- 36 per cent of men and about 28 per cent of women who had last left or lost a main job within the past nine years were currently employed.
- 46 per cent of women and 21 per cent of men currently not in the labour force had last left a main job 10 or more years prior to the survey.
- For men and women last leaving a main job for disability, illness, to reduce stress or to care for an elderly or sick relative—the largest single cause of job departure—only about 9 per cent of men and 14 per cent of women were currently employed.
- For those who had lost a job involuntarily—most of whom wanted to secure new work—only 25 per cent of women and 37 per cent of men regained employment.
- Among men who left a job to retire or to live off their investments, 26 per cent were currently employed in some capacity, with 7 per cent for females in this category.

The above reinforces the need to boost workforce participation for mature age people as a critical pathway to improving retirement incomes. The results suggest many mature age people may face uncertainty in planning for retirement. Women face particular labour market challenges and lower participation outcomes. The results also suggest some 'early retirees' re-enter the labour force.

Figure 3: Labour force status and transitions of people aged 55–64



Note: The bars show numbers in each labour market category. Slices show labour history: reasons for last leaving main job within nine years; if last left main job over nine years ago (reason unknown); or never had/left main job.

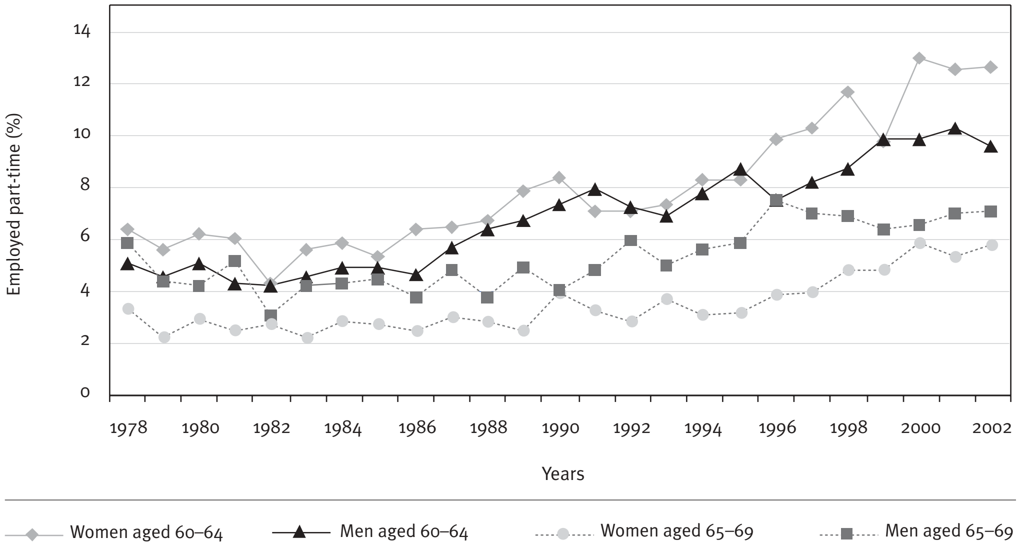
Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

Notwithstanding the relatively low workforce participation rates for mature age people, ABS labour force data indicates that there are some encouraging trends emerging.[6] 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 have been increases in part-time employment for both men and women aged 60–69, but particularly younger women in this age group (see Figure 4)
- there has been a slight increase in full-time employment for the younger women in that age group (see Figure 5).

While part-time employment may not give a mature age person as much capacity to prepare for retirement as a full-time job, it may offer more scope for people to supplement post-retirement by engaging in transitional employment where they are willing and able to do so.

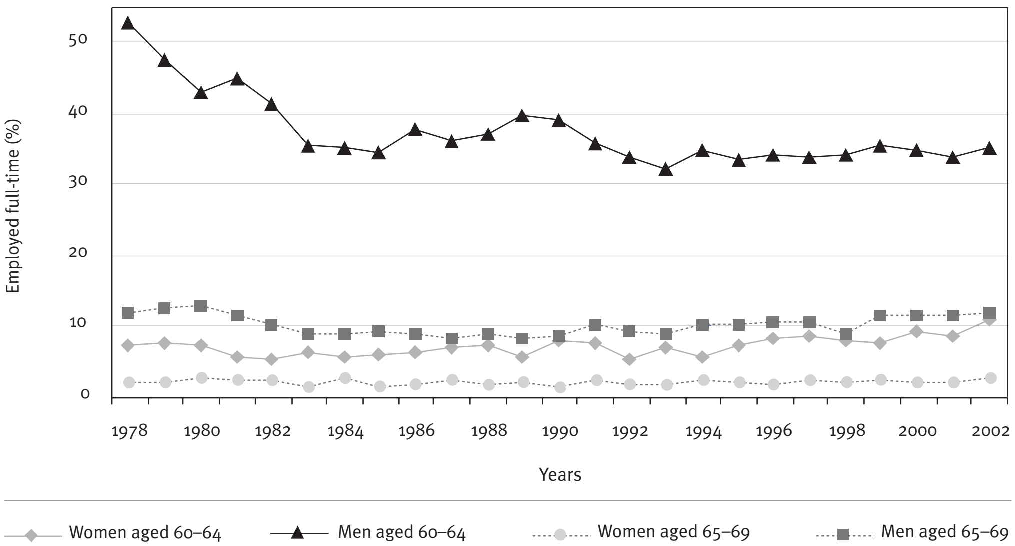
Figure 4: Proportion of older persons employed part-time by sex and selected age group, Australia 1978–2002



Note: Uses August data points only.

Source: Australian Bureau of Statistics, Selected Summary Tables, Australia, August 2002 data cube, Catalogue No 6291.0.40.001

Figure 5: Proportion of older persons employed full-time by sex and selected age group, Australia 1978–2002



Note: Uses August data points only.

Source: Australian Bureau of Statistics, Selected Summary Tables, Australia, August 2002 data cube, Catalogue No 6291.0.40.001.

2 Planning for retirement

2.1 Retirement planning information

Retirement planning information can help people to make informed choices about the quantum of savings necessary to support a desired standard of living in retirement over and above the SG, and the appropriate vehicles in which to invest their savings. This information can also help people plan how they can make a smooth transition from full-time employment to retirement.

It is also important to provide people with information that assists them to make the most effective use of their savings *through retirement*, and to make the investment choices that are appropriate to their needs and expectations.

Further, the approach to retirement also poses people with choices to make regarding housing and activities outside work including the scope to undertake volunteering, caring and social and community participatory activities.

As regards assistance on financial matters, there is a range of retirement information and specialist financial information available from the private sector and government to assist people.

Private sector information is available from a range of sources, including:

- financial planners
- accountants and solicitors
- banks, credit unions and building societies
- stockbrokers
- superannuation funds.

The Australian Government works in partnership with the private sector to assist in providing retirement planning information.

The FaCS survey on the *Workforce circumstances and retirement attitudes of older Australians*, mentioned earlier in this submission, asked people aged 45–69 who had ceased work/retired at a time they had chosen had taken any steps to plan their retirement income prior to ceasing work/retiring. It found that:

- 70 per cent had taken some 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)
- 30 per cent had not done so.

However, these results apply to only a relatively small group—the survey did not address this question to people who had not retired at a time of their choosing, which, as noted earlier, comprises the bulk of mature age people. Further information is at Attachment C.

The demand for retirement planning information can be expected to increase because of such factors as:

- the growth in the pre-retirement population
- the growth in average retirement saving, particularly because of the maturing of the superannuation system
- increases in the variety of retail products available to customers.

2.2 FaCS portfolio retirement planning information

The FaCS portfolio provides free information through a number of means to promote participation, independence and self-reliance for those planning, saving and preparing for retirement by assisting them to make the best use of savings and investments to maximise their income and maintain their standard of living.

FaCS works with industry bodies, other Government agencies including Treasury and the Australian Securities and Investments Commission (ASIC), financial associations and community groups in producing and delivering this information.

FaCS portfolio information is provided through:

- the Financial Information Service (FIS) provided by specialist Centrelink officers
- a series of information publications for retirees and pre-retirees
- the National Information Centre on Retirement Investments Inc (NICRI).

Where possible, information is also delivered through the internet.

Information on how people can access this information is at Attachment D.

Financial Information Service

The FIS program, delivered by specialised Financial Information Service Officers in Centrelink, aims to ensure that clients, potential clients and others planning their retirement have sufficient information to make effective use of their private resources for self-support, informed decisions about retirement issues and adequate financial preparation for a retirement that allows participation in their community. FIS officers provide investment information, not investment advice. FIS officers provide face to face and phone interviews to individuals (who may or may not be current Centrelink customers) and seminars that are open to the public.

FIS officers can provide information on a wide range of issues including:

- the advantages and disadvantages of different investment options and strategies
- superannuation and annuities
- banking and financial services
- the income and assets tests
- accommodation issues, such as buying and selling a home

- taxation and how it affects investments
- social security payments.

FIS seminars are run across Australia and target financial information at pre-retirees, retirees, people becoming redundant or retrenched and rural communities. They also provide information for intermediaries, such as financial, welfare, community and industry groups. Seminars are held on particular topics. In 2002, seminar topics included 'Managed investments', 'Income streams for effective retirement income' and 'Superannuation investments—the basics'. Seminars are free and advertised in local media. FIS seminars are directed at changing community attitudes and approaches to retirement planning, and assisting and encouraging pre-retirees to commence planning for retirement.

Seminars aim to complement those run by the financial industry and help people to assess the options available to them.

There are approximately 120 FIS Officers throughout Australia. Between 1 July 2002 and 20 March 2003, FIS Officers had conducted 142 027 calls and 53 082 interviews. Over the same period, 1442 FIS seminars were held, attended by 52 820 people.

Portfolio retirement planning publications

FaCS portfolio publications for retirees and pre-retirees are directed at helping people plan for their retirement. These are publications from FaCS and from Centrelink. The products in FaCS' Retirement Planning Information Program are:

- *Investing money: your choices*, which provides information on the basics of financial planning and on different types of financial products, including on the taxation and social security treatment of these 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 and the effect on access to payments. Information is also provided on how older people can get the care they need, whether in their own home or in residential care.
- *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. This is 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 payment.
- *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 then Australian Retirement Income Streams Association Limited (ARISA).

Centrelink publications include:

- *Age pension news for seniors*, a quarterly magazine distributed to all people paid an Age Pension, a Veterans' Affairs Service Pension or holding a Commonwealth Seniors Health Card. 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.

The departmental publications are distributed through Centrelink, NICRI, financial planners, solicitors, accountants and through community groups. They are also available on the FaCS and Centrelink internet sites. From July 2002 to the end of February 2003, over 230 000 copies of the departmental publications were distributed.

FaCS publications are revised on an ongoing basis. New editions of *Investing money: your choices*, *Home and residence: choices for older people* and *Australian retiree: your choices* were published in October 2002.

National Information Centre for Retirement Investments (NICRI)

NICRI is an independent body funded by the Australian Government to provide the public with free information on planning and saving for retirement, investment options and effective use of financial resources in retirement. NICRI does not represent government or the financial industry. NICRI provides financial information, not financial advice.

NICRI information is targeted towards helping retirees and pre-retirees:

- understand the generic nature of investment products (such as term deposits) and how they work
- consider their financial requirements for retirement
- maximise their overall retirement income
- understand investment basics, such as the need to balance the risks of investments with the returns
- approach their own retirement planning with more confidence.

NICRI delivers its services to the public through a toll-free telephone inquiry service and an extensive range of information leaflets. NICRI publishes media articles and makes presentations in external seminars.

NICRI complements the work of FIS. FIS uses NICRI information (such as NICRI pamphlets) to help customers understand investments and approaches to investments. NICRI also provides a training and information service to FIS officers, and a telephone information service on technical issues concerning investment and savings products.

Between July 2002 and February 2003, NICRI:

- addressed 35 seminars (32 FIS seminars, three other)
- distributed 99 656 information leaflets on types of investment, financial planning and preparation for retirement

- responded to 3050 telephone enquiries from the general public
- provided a web site at www.nicri.org.au, which was accessed 10 970 times.

Information was provided over this period on a range of retirement planning issues, including:

- investment products such as superannuation and rollover investments and income stream investments
- other investment options such as managed investments
- general financial planning issues.

2.3 Effectiveness of retirement planning information

The FaCS portfolio information strategies recognise that retirement information can play a critical ‘early intervention’ role in influencing retirement planning and in helping to prevent adverse outcomes down the track. The portfolio’s strategies engage various stakeholders in the market place to maximise their impact on people planning for retirement. That drives much of the joint work noted above, including provision of material to financial advisers and planners to assist them to better advise their clients.

3 Conclusion

As a result of the introduction of compulsory superannuation through the SG, most people will have a better retirement income than from Age Pension alone. However, to achieve optimal retirement income outcomes, individuals have a role in planning and saving for their own retirement. Workforce participation for longer periods across working life gives people more options to add to retirement incomes. However, many people face premature departure from the workforce, which reduces their capacity to save for retirement.

The Australian Government is examining strategies to promote higher labour market participation, including for mature age workers. Possible future directions could include:

- Promoting transitional retirement: to enable people to combine some workforce participation with other responsibilities and interests. Phased or transitional retirement allows for a gradual transition from full-time work to no paid work, providing flexibility to accommodate other responsibilities or interests, for example, caring responsibilities and volunteering.
- Attitudinal change: promoting greater awareness among employers and the broader community of the knowledge and skills of older workers, as well as assessing and reviewing policies that either support early withdrawal from the labour market or prevent phased retirement.

The provision of information on planning, saving and preparing for retirement can assist people to maximise their retirement income, and make the lifestyle choices that are best for them so that they have a satisfying retirement. Overall, approaches to planning for retirement need to recognise the impact of a range of factors on individuals' circumstances.

Attachment A: Assessed income and assets of age pensioners

Table 4: Selected statistics for age pensioners, December 2002

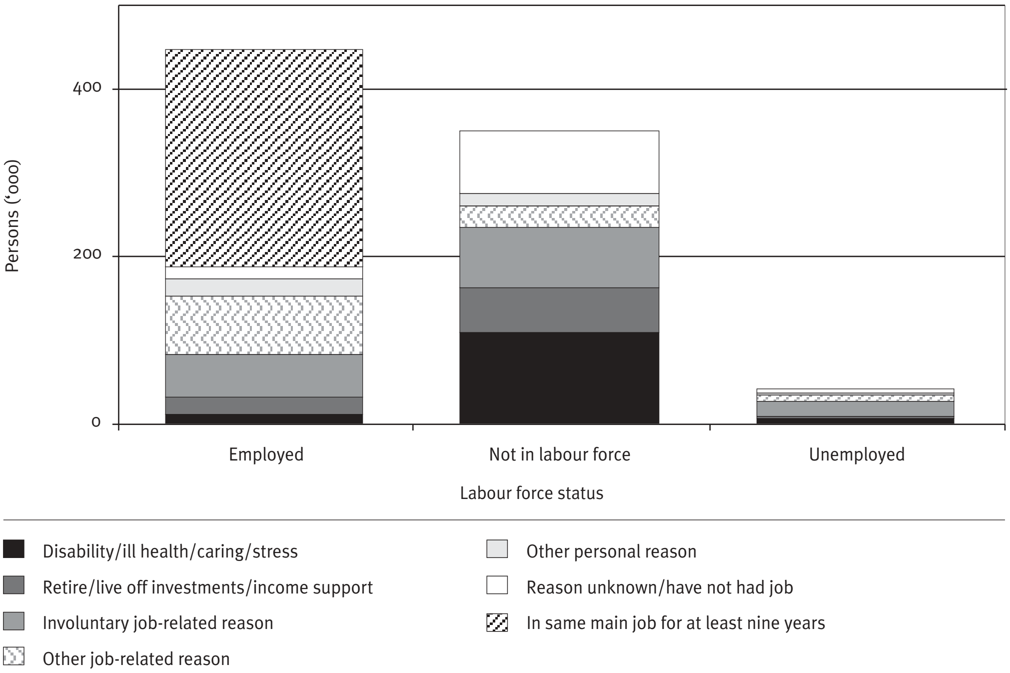
	ALL AGE PENSIONERS	RECENT CLAIMANTS[a]
Population number	1 829 274	129 384
Full-rate pensioners		
Percentage on full-rate	67.6	56.0
Average assessed income	$740	$661
Average assessed assets	$30 492	$32 463
Part-rate pensioners		
Percentage on part-rate	32.4	44.0
Average assessed income	$7839	$9529
Average assessed assets	$86 643	$110 856

(a) People in receipt of Age Pension for less than one year.

Source: Centrelink, Superstar data cube, December 2002.

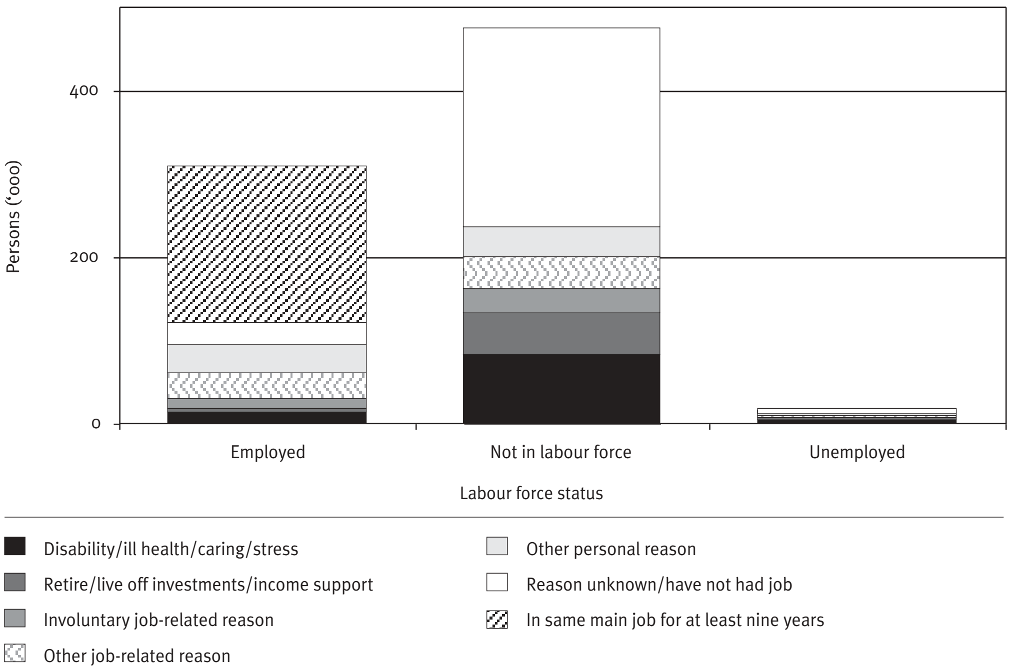
Attachment B: Labour force status and transitions of people aged 55–64 by sex, Australia, 2000

Figure 6: Labour force status and transitions of people aged 55–64 by sex, Australia, 2000—Men



Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.[26]

Figure 7: Labour force status and transitions of people aged 55–64 by sex, Australia, 2000—Women



Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

Attachment C: Retirement planning undertaken by mature aged people who had planned to retire when they did

Table 5: Proportion of mature age workers who had taken/had not taken active steps prior to retirement to ensure they had adequate retirement income

	PER CENT
Proportion of those who had not taken any steps at all (but had still planned to retire when they did)	29.3
Proportion of those who had actively taken steps	70.7

Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

Table 6: Steps taken to plan for retirement

	PER CENT
Consulted financial adviser/accountant/bank manager	23.7
Read books/newspapers/magazines/drew up a plan or budget	14.4
Started saving	7.5
Set up superannuation fund	34.9
Contacted superannuation fund	29.6
Started investing in shares/trusts/bonds/property	31.1
Other	7.9
Don’t know	2.6

Note: Age ranged from 45 to 69. Note that those who were working at the time of the survey and could have been planning for their retirement were not asked the question.

Source: FaCS, Workforce Circumstances and Retirement Attitudes of Older Australians Survey 2000, unpublished data.

Attachment D: How to access FaCS portfolio retirement planning information

Financial Information Service

Information about FIS can be obtained by calling Centrelink on **13 2300**.

Information about FIS seminars or workshops being held in the near future can be obtained by calling Centrelink on **13 6357**.

The National Information Centre on Retirement Investments

NICRI can be contacted by:

FREECALL™ **1800 020 110** between 9am and 5pm (AEST) Monday to Friday

the NICRI website at ‹http://www.nicri.org.au› (all of NICRI's leaflets can be obtained from the website)

e-mail nicri@nicri.org.au

fax on 02 6285 3787

mail to PO Box 893, Woden ACT 2606

Telephone Interpreter Service on **13 1450**.

Seniors information booklets

These FaCS publications are available free from Centrelink offices or by calling Centrelink on **13 2300**.

The publications are also available on the Internet at www.facs.gov.au/seniorsinfo

Endnotes

1 To qualify, people must work for at least 960 hours each year—an average of 20 hours a week over 48 weeks each year.

2 ABS Labour Force data. Selected Summary Tables, Australia, Monthly (Catalogue No. 6291.0.40.001). See Figures 4 and 5.

3 Other assets exempt from the assets test include complying income streams. (56 900 age pensioners hold a complying income stream).

4 NATSEM *Income and Wealth Report 2002*.

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

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