

2 September 2022

Ian Henschke
Chief Advocate
National Seniors Australia
Level 18, 215 Adelaide Street
Brisbane, QLD, 4000

Dear Ian

Let Pensioners Work Age Pension Modelling

National Seniors Australia Ltd (“NSA” or “you”) has engaged Deloitte Touche Tohmatsu (“Deloitte”, “us” or “we”) to provide assistance with modelling the impact of changes to the Age Pension for working pensioners as a part of your proposed policy, ‘Let Pensioners Work’.

Background and purpose

NSA is making a submission to the Jobs and Skills Summit. As part of this submission, NSA is including modelling for proposed policy changes to the Age Pension Income Test for working pensioners which are designed to increase pensioners participation in the workforce.

Currently, when a single pensioner earns an income over \$190 per fortnight, their Age Pension payment is reduced by 50 cents for every dollar over \$190. Similarly, a couple’s Age Pension amount will reduce by 50 cents for every dollar they earn over \$336 per fortnight. Under the Work Bonus scheme, a single pensioner or individual within a pensioner couple can also earn up to \$300 per fortnight before affecting their pension payment.

To increase pensioner participation in the workforce, NSA has proposed changing the Age Pension (and Service Pension¹) Income Test and has asked Deloitte to model the cost and revenue impacts to government.

NSA has proposed an opt-in to exempt income from personal exertion from the Income Test with the Age Pension (and Service Pension) being subject to 32.5% withholding tax during the year and included in full when assessing the pensioner for income tax at the end of the financial year.

Our modelling as presented in this letter seeks to show the cost impact to government as a result of both an increase in Age Pension entitlements and the increased income tax revenue that will flow from these proposed changes. Our model also estimates the cost to government if the opt-in exemption was applied only to the Health Care and Social Assistance sector (workers employed in health care, aged care, disability care and childcare).

¹ This modelling does not include the estimated 80,000 DVA Service Pension recipients in the calculations.

Reliance's and limitations

We provide this letter on the following reliance's and limitations:

- In carrying out this analysis, we have been provided with Department of Social Services (DSS) Age Pension data by NSA. We have relied on the accuracy and completeness of this information in performing our analysis.
- The spreadsheets were provided on the basis for estimating the potential impact of the change in government policy and estimating government expenditure on Age Pension entitlements.
- Age Pensioners are assessed against the Income Test and the Assets Test. The NSA proposal is to change only the Income Test so our modelling assumes that the Assets Test remains unchanged and that those pensioners receiving a partial or no Age Pension because of the operation of the Assets Test will be unaffected.
- We have also assumed that self-funded retirees will be unaffected by the proposed changes.

Data

Our modelling is based on DSS data provided to us by NSA. This data contained the number of Income Tested Age Pensioners subdivided by earned income and assets as at 31 December 2021. These groupings were further split by:

- Single and Homeowner pensioners
- Single and Non-homeowner pensioners
- Partnered and Homeowner pensioners
- Partnered and Non-homeowner pensioners

Additionally, we have utilised DSS data and ABS population data as at 30 June 2021 to estimate the number of employed people who are outside the pension system.

The data is therefore at a point in time and does not consider future increases in the number of people of pension age.

Methodology

We have determined the cost to government by considering the change in Age Pension entitlements and income tax obligations under the NSA proposal for various levels of increase in pensioner participation in the workforce. Our methodology is as follows:

1. Use the same data subdivisions as provided by DSS – i.e., subdivisions by assets and income earned for singles and couples, homeowners and non-homeowners.
2. For each cohort, determine the Age Pension entitlement and income tax obligation for an individual under the current Income Test.
3. Multiply these results by the number of individuals reported by DSS for that cell.
4. The difference between the Age Pensions paid and income tax received is the cost to government under the current rules.
5. For each cohort, determine the Age Pension entitlement and income tax obligation for an individual under the NSA proposed Income Test.
6. Multiply these results by the number of individuals reported by DSS for that cell.
7. The difference between the Age Pensions entitlement and income tax obligation is the cost to government of the NSA's proposed rules.

8. Subtract the cost to government under the proposed rules (Step 7) from the cost to government under the current rules (Step 4) to obtain the cost to government of implementing the proposed rules.
9. Sum across all cells to determine the aggregate cost to government of implementing the proposed rules. A negative result indicates a benefit to government; a positive result an increased cost burden.

Our modelling only considers Income Tax on extra earnings and does not consider the impacts on other taxation revenue that might flow from increased earnings by pensioners nor any GDP impacts resulting from additional workforce participation. The separate Deloitte report, *Increasing Participation Among Older Workers*², provides analysis of the potential GDP increase that would flow from this additional participation.

Assumptions

To account for the increased workforce and earnings due to reducing the penalty of retirees earning an income, we have assumed this can be achieved in two ways:

1. Assume X% of non-working retirees will begin to work. There is no data to indicate how much these retirees will work so the new workers are assumed to work in the same proportions as the current working retirees split by income and assets, except for those earning greater than \$2,000 per fortnight. We have deemed that new workers are unlikely to move from earning nothing to earning an income of greater than \$2,000 per fortnight and have thus not allocated any new workers to this cohort.
2. We expect that the changes will also encourage those currently working to increase the hours they work. To account for this, we have assumed an X% of current workers in each DSS income band moves up an income band. The DSS data income and asset bands with the corresponding assumed income and assets (mid-point of range) are detailed in Table 1 below.

Table 1. Assumed income bands

Income band (per fortnight)	Assumed annual income (\$)
>\$0 - <\$100	1,300
\$100 - <\$143	3,159
\$143 - <\$250	5,109
\$250 - <\$500	9,750
\$500 - <\$750	16,250
\$750 - <\$1,000	22,750
\$1,000 - <\$1,250	29,250
\$1,250 - <\$1,500	35,750
\$1,500 - <\$1,750	42,250
\$1,750 - <\$2,000	48,750
\$2,000+	60,000

There is a further group that affects the costing of this proposal. This is the group of working people of pensionable age who do not currently engage with the pension system – undoubtedly because their assets and/or incomes clearly render them ineligible for the Age Pension. Under the NSA proposal, we assume that a proportion of people between 67 and 75 will opt into the pension system where their assets do not render them ineligible. There is no data to determine the size of this group although they are undoubtedly a minority and probably a relatively small minority (given that they currently do not

² <https://www2.deloitte.com/au/en/pages/economics/articles/increasing-participation-among-older-workers.html>

require access to the Age Pension). We have therefore assumed that X% of this group opt into the proposed Age Pension design. We have further assumed that their earnings profile is the same as for those in the DSS statistics. This assumption will likely understate their earnings, and therefore the tax payable.

We have ignored any potential job substitution – i.e. pensioners who join the workforce displacing others already in the workforce. This is reasonable in the current environment where there is a significant shortage of workers.

We have assumed that pensioners in the DSS data cells will hold assets equal to the midpoint of the DSS range and will earn incomes equal to the midpoint of the DSS range.

Other assumptions include:

- We have assumed the income earned by a partnered Age Pensioner is equal to their spouse's income.
- All Age Pensioners assessed only earn an income from employment and do not earn an income from other means.

Scenarios

In modelling the potential impact of the NSA proposal, we have split the analysis into two parts:

1. Scenario 1: Assess the underlying cost of implementation. We have modelled the change in government revenues and expenditures from the NSA proposal with no change in the work behaviour of pensioners. The increase in net outgoings is the inherent risk cost to the government of the proposal.
2. Scenario 2: Assess the potential costs/benefits that would accrue from non-working pensioners returning to work and from working pensioners increasing their work.

For Scenario 1, the most significant potential cost impact comes from those of pensionable age who are currently working and not drawing a pension simply opting in to receive an Age Pension without any change to their work behaviour. There are unfortunately no statistics that allow us to estimate how many people in this group would be able to benefit from the change, but the majority will undoubtedly not be able to make use of the change because they have sufficient financial wherewithal (assets and incomes) to sustain their lifestyles without any recourse to the pension system. We have therefore considered take up rates of 0%, 5%, 10% and 20% from this group. We would consider 20% very much an upper bound and 'worst case scenario' and have factored in a 10% uptake for the Scenario 2 analysis.

For Scenario 2, there are once again no statistics from which to predict behaviour. We have therefore modelled take up rates of 2%, 5% and 10% for:

- Pensioners going back to work who are not currently working.
- Pensioners who are currently working moving up the income bands.

To simplify both the modelling and the explanation of the results, we have applied the relevant percentage to both groups.

Results

Scenario 1: Cost to Government from no change in workforce participation

Table 2 shows the increase in net government outlays from the implementation of the proposal without any change in working behaviour. It includes the additional pension outlays accruing to workers receiving a pension and those currently excluded from receiving a pension. Estimates are

provided at opt in rates of 0%, 5%, 10% and 20% for those of pensionable age currently working but not participating in the pension system.

These costs range from \$210 million to \$1 billion and should be considered in the context of current costs to the government in relation to the Age Pension of \$54.2 billion³ per year.

The inherent cost of \$622 million from a 10% opt in rate is carried to the analysis in Scenario 2. This 10% rate should not, however, be taken to be an estimate by us of what the opt-in rate might be.

Table 2. Scenario 1 Cost to government if there is no change in workforce participation

Opt-in rate of employed of pensionable age that will opt into the proposed Age Pension	Cost to the government	Number of employed people of pensionable age opting in
	(\$ million)	
0% opt-in rate	209.5	0
5% opt-in rate	415.8	12,225
10% opt-in rate	622.2	24,450
20% opt-in rate	1,035.0	48,899

NOTE: The \$210 million cost to government from the 0% take up is due to the removal of the Income Test increasing pensions to those in the system and is included in each of the following rows.

Scenario 2: Cost / benefit to government accruing from increased workforce participation

Table 3 shows the net government outlays at increased work participation rates of 0%, 2%, 5% and 10% and the additional working Age Pensioners that these rates imply. In this scenario we assume that 10% of pensionable age workers outside the pension system opt into the pension system. Potential costs range from \$622 million (at a 0% increase in participation) to -\$126.4 million (at a 10% increase in participation). The cost to government is estimated to be neutral if 8.3% of pensioners take up the opportunity to go back to work (174,000) and work more (5,000).

Table 3. Cost to government by take up rate of pensioners going back to work or increasing their hours of work

Take up rate of pensioners going back to work and working pensioners moving up an income band	Cost to the government	Number of additional working Age Pensioners
	(\$ million)	
0% take up rate	622.2	0
2% take up rate	472.6	41,697
5% take up rate	248.0	104,280
10% take up rate	-126.4	208,571

Appendix A and Appendix B show a breakdown of the results for Age Pension entitlement versus Income Tax split by each of the cohorts we have assessed for Scenarios 1 and 2, respectively.

Health Care and Social Assistance workforce

At your request, we have also considered the fiscal impacts should the government seek to limit its risks by confining a trial to the Health Care and Social Assistance sector which comprised 12% of employment as at the end of June 2021⁴.

³ Australian Government, Budget strategy and outlook: budget paper no. 1: 2022–23, pp. 144, https://parlinfo.aph.gov.au/parlInfo/download/library/budget/2022_01/upload_binary/bp1_2022-23.pdf;fileType=application%2Fpdf#search=%22budget%202022%20-%202023%22

⁴ <https://www.abs.gov.au/statistics/industry/industry-overview/australian-industry/2020-21>

Table 4 shows the estimated cost to government of applying the policy exclusively to the Health Care and Social Assistance sector at increased work participation rates of 0%, 2%, 5% and 10% based on the assumption that 10% of health care workers of pensionable age, but not currently participating in the pension system, opt-in (as per Table 3).

According to our modelling, potential costs range from \$75 million (at a 0% increase in participation) to -\$15 million (at a 10% increase in participation). The cost to government is estimated to be neutral if 8.3% of pensioners take up the opportunity to go back to work (21,000) and work more (600).

Table 4. Cost to government by take up rate of pensioners that go back to work in Health and Social Assistance workforce – assuming 10% of workers outside the pension system opt into it

Take up rate of pensioners going back to work and working pensioners moving up an income band	Cost to the government	Number of additional working Age Pensioners
	(\$ million)	
0% take up rate	74.7	0
2% take up rate	56.7	5,004
5% take up rate	29.8	12,514
10% take up rate	-15.2	25,029

Conclusion

Our modelling shows that while there are fiscal risks for the government in implementing the NSA proposal, these risks over a potential two-year trial are modest and the potential increase in employment would be material.

The results for the whole economy show that with 10% of Age Pensioners taking up or increasing their work, the economy would benefit from an additional 209,000 workers and the government would, in fact, receive a small boost to fiscal aggregates. A benefit to the economy at no cost to the government.

If the initiative is confined to the Health Care and Social Assistance sector, there would still be a boost to the workforce of 25,000 at no cost to the government.

Yours sincerely



Steve Freeborn
Partner
Deloitte Touche Tohmatsu



Alun Stevens
Director
Deloitte Touche Tohmatsu

Appendix A

Table 5 outlines the breakdown of the cost to government and the change in the number of working Age Pensioners, due to working Age Pensioners receiving a full exemption from the Income Test for personal exertion income.

Table 6 to Table 12 applies a behavioural change allowing for a percentage of employed retirees that will opt into the proposed Age Pension.

Table 5. Cost to government - 0% of employed retiree's that opt into the proposed Age Pension

Age pension cohorts	Current arrangements		Proposed		Cost to the government
	Age Pension	Income Tax	Age Pension	Income Tax	
	\$ millions				
Single, Non-homeowner	12,456.2	35.9	12,562.4	62.6	79.4
Single, Homeowner	15,026.8	45.6	15,119.4	80.3	57.9
Couple, Non-homeowner	3,604.7	25.5	3,628.7	33.3	16.2
Couple, Homeowner	16,838.4	105.3	16,926.9	137.8	56.0
Total	47,926.1	212.2	48,237.4	314.0	209.5

Table 6. Number of working Age Pensioners - 0% of employed retirees that opt into the proposed Age Pension

Number of working Age Pensioners	Current Arrangements	Proposed	Difference
Single, Non-homeowner	12,394	12,394	0
Single, Homeowner	15,682	15,682	0
Couple, Non-homeowner	7,027	7,027	0
Couple, Homeowner	30,033	30,033	0
Total	65,136	65,136	0

Table 7. Cost to government - 5% of employed retiree's that opt into the proposed Age Pension

Age pension cohorts	Current arrangements		Proposed		Cost to the government
	Age Pension	Income Tax	Age Pension	Income Tax	
	\$ millions				
Single, Non-homeowner	12,456.2	35.9	12,622.0	74.3	127.3
Single, Homeowner	15,026.8	45.6	15,193.5	95.4	116.9
Couple, Non-homeowner	3,604.7	25.5	3,654.1	39.5	35.4
Couple, Homeowner	16,838.4	105.3	17,033.0	163.7	136.3
Total	47,926.1	212.2	48,502.7	372.9	415.8

Table 8. Number of working Age Pensioners - 5% of employed retiree's that opt into the proposed Age Pension

Number of working Age Pensioners	Current Arrangements	Proposed	Difference
Single, Non-homeowner	12,394	14,720	2,326
Single, Homeowner	15,682	18,625	2,943
Couple, Non-homeowner	7,027	8,346	1,319
Couple, Homeowner	30,033	35,670	5,637
Total	65,136	77,361	12,225

Table 9. Cost to government - 10% of employed retiree's that opt into the proposed Age Pension

Age pension cohorts	Current arrangements		Proposed		Cost to the government
	Age Pension	Income Tax	Age Pension	Income Tax	
	\$ millions				
Single, Non-homeowner	12,456.2	35.9	12,681.6	86.1	175.2
Single, Homeowner	15,026.8	45.6	15,267.6	110.4	175.9
Couple, Non-homeowner	3,604.7	25.5	3,679.6	45.8	54.6
Couple, Homeowner	16,838.4	105.3	17,139.2	189.5	216.5
Total	47,926.1	212.2	48,768.0	431.9	622.2

Table 10. Number of working Age Pensioners - 10% of employed retirees that opt into the proposed Age Pension

Number of working Age Pensioners	Current Arrangements	Proposed	Difference
Single, Non-homeowner	12,394	17,046	4,652
Single, Homeowner	15,682	21,568	5,886
Couple, Non-homeowner	7,027	9,665	2,638
Couple, Homeowner	30,033	41,306	11,273
Total	65,136	89,586	24,450

Table 11. Cost to government - 20% of employed retiree's that opt into the proposed Age Pension

Age pension cohorts	Current arrangements		Proposed		Cost to the government
	Age Pension	Income Tax	Age Pension	Income Tax	
	\$ millions				
Single, Non-homeowner	12,456.2	35.9	12,800.8	109.6	270.9
Single, Homeowner	15,026.8	45.6	15,415.8	140.6	294.0
Couple, Non-homeowner	3,604.7	25.5	3,730.5	58.3	92.9
Couple, Homeowner	16,838.4	105.3	17,351.5	241.3	377.1
Total	47,926.1	212.2	49,298.6	549.7	1,035.0

Table 12. Number of working Age Pensioners - 20% of employed retiree's that opt into the proposed Age Pension

Number of working Age Pensioners	Current Arrangements	Proposed	Difference
Single, Non-homeowner	12,394	21,698	9,304
Single, Homeowner	15,682	27,455	11,773
Couple, Non-homeowner	7,027	12,302	5,275
Couple, Homeowner	30,033	52,579	22,546
Total	65,136	114,035	48,899

Appendix B

Table 13 to Table 18 extends from Table 9 with the additional allowance of two behavioural changes. These two additional behavioural changes accounts for a percentage of pensioners going back to work and working pensioners who move up an income band.

Table 13. Cost to government - 10% of employed retiree's that opt into the proposed Age Pension, 2% of pensioners going back to work and 2% of working pensioners who move up an income band

Age pension cohorts	Current arrangements		Proposed		Cost to the government
	Age Pension	Income Tax	Age Pension	Income Tax	
	\$ millions				
Single, Non-homeowner	12,456.2	35.9	12,681.6	125.6	135.7
Single, Homeowner	15,026.8	45.6	15,267.6	160.4	126.0
Couple, Non-homeowner	3,604.7	25.5	3,679.6	56.6	43.8
Couple, Homeowner	16,838.4	105.3	17,139.2	239.0	167.1
Total	47,926.1	212.2	48,768.0	581.5	472.6

Table 14. Number of working Age Pensioners - 10% of employed retiree's that opt into the proposed AP, 2% of pensioners going back to work and 2% of working pensioners who move up an income band

Number of working Age Pensioners	Current Arrangements	Proposed	Difference
Single, Non-homeowner	12,394	21,938	9,544
Single, Homeowner	15,682	27,183	11,501
Couple, Non-homeowner	7,027	10,634	3,607
Couple, Homeowner	30,033	47,078	17,045
Total	65,136	106,833	41,697

Table 15. Cost to government - 10% of employed retiree's that opt into the proposed Age Pension, 5% of pensioners going back to work and 5% of working pensioners who move up an income band

Age pension cohorts	Current arrangements		Proposed		Cost to the government
	Age Pension	Income Tax	Age Pension	Income Tax	
	\$ millions				
Single, Non-homeowner	12,456.2	35.9	12,681.6	184.8	76.5
Single, Homeowner	15,026.8	45.6	15,267.6	235.3	51.1
Couple, Non-homeowner	3,604.7	25.5	3,679.6	72.9	27.5
Couple, Homeowner	16,838.4	105.3	17,139.2	313.2	92.9
Total	47,926.1	212.2	48,768.0	806.1	248.0

Table 16. Number of working Age Pensioners - 10% of employed retiree's that opt into the proposed Age Pension, 5% of pensioners going back to work and 5% of working pensioners who move up an income band

Number of working Age Pensioners	Current Arrangements	Proposed	Difference
Single, Non-homeowner	12,394	36,248	23,854
Single, Homeowner	15,682	44,451	28,769
Couple, Non-homeowner	7,027	16,053	9,026
Couple, Homeowner	30,033	72,664	42,631
Total	65,136	169,416	104,280

Table 17. Cost to government - 10% of employed retiree's that opt into the proposed AP, 10% of pensioners going back to work and 10% of working pensioners who move up an income band

Age pension cohorts	Current arrangements		Proposed		Cost to the government
	Age Pension	Income Tax	Age Pension	Income Tax	
	\$ millions				
Single, Non-homeowner	12,456.2	35.9	12,681.6	283.6	-22.3
Single, Homeowner	15,026.8	45.6	15,267.6	360.1	-73.7
Couple, Non-homeowner	3,604.7	25.5	3,679.6	100.0	0.4
Couple, Homeowner	16,838.4	105.3	17,139.2	436.8	-30.8
Total	47,926.1	212.2	48,768.0	1,180.5	-126.4

Table 18. Number of working Age Pensioners - 10% of employed retiree's that opt into the proposed AP, 10% of pensioners going back to work and 10% of working pensioners who move up an income band

Number of working Age Pensioners	Current Arrangements	Proposed	Difference
Single, Non-homeowner	12,394	60,106	47,712
Single, Homeowner	15,682	73,214	57,532
Couple, Non-homeowner	7,027	25,088	18,061
Couple, Homeowner	30,033	115,299	85,266
Total	65,136	273,707	208,571