

Priority 1: Simplify the pension system

Australia has never been one to rest on its laurels.

While our retirement income system is recognised as being a good one, all experts acknowledge it is complicated and could be improved.

The last thing older people need is a system that is complicated and punitive. Yet, our byzantine means testing arrangements do just that.

Older Australians with limited retirement savings shouldn't be punished if they want to work. To fix this we need to exempt employment income from the pension means test.

This policy would provide tens, if not hundreds, of thousands of more local workers to meet labour shortages, giving us a stronger economy.

The system could be made simpler, by introducing a universal pension.

The first step in doing this is to investigate how a universal pension could work to demonstrate the costs and benefits of this critical reform.

Key Recommendations

1. Exempt employment income from the Age Pension means test to boost workforce participation and help meet the nation's critical labour shortages.
2. Investigate the costs and benefits of a universal pension in Australia.



RECOMMENDATION 1

Exempt employment income from the Age Pension means test to boost workforce participation and help meet the nation's critical labour shortages

Overview

- Allow pensioners with limited wealth to work without penalty by exempting employment income from the Age Pension income test.
- The exemption could be targeted by using the assets test to limit eligibility.
- The policy could be applied to the whole economy or targeted at sectors with critical labour shortages e.g. agriculture, health and aged care, mining etc.

Benefits

- Addresses critical workforce shortages by encouraging pensioners to remain in the workforce, re-join the workforce or work more hours.
- Increases income for low-wealth pensioners, especially women.
- Increases superannuation balances for low-wealth pensioners, especially women.
- Improves health and wellbeing through ongoing workforce engagement.
- Removes the need for regular reporting of employment income to Centrelink.

Why the policy is needed

- Worker shortages are acute in many areas of the economy – ABS statistics showed job vacancies of between 20-30% in many key industries in August 2021.ⁱ
- Current means testing policies are discouraging people from working – only 2.9% of Australian pensioners work compared with 24.8% in New Zealand.ⁱⁱ
- Deloitte Access Economics estimate a 5% increase in older worker participation will result in a \$47.9bn increase to GDP (\$60bn in 2022).ⁱⁱⁱ

Budget Implications

- Given there are fewer than 76,000 pensioners currently with any employment income any change to the income test will have limited impact on the Budget.
- Given the Age Pension is counted as taxable income, any additional income earned will boost tax revenue and boost spending in the economy (among those most likely to spend).
- By encouraging workforce participation, this will increase superannuation savings and the sustainability of the pension system.

RECOMMENDATION 2

Investigate the costs and benefits of a universal pension in Australia.

Overview

- Government should commission a suitable body, such as the Productivity Commission, to analyse the costs and benefits a universal pension.
- This should include an analysis of different options e.g. partial universal pension (as per Canada) or full universal pension (as per New Zealand).
- It should include detailed analysis and costings of the tax reform options required to ensure costs are adequately balanced (e.g. Canada has a pension recovery tax, New Zealand recoups the cost through a differently designed tax system).
- A detailed report should be presented to parliament for consideration.

Benefits (of a universal pension)

- Eliminates complicated means testing, including deeming and taper rates, which complicate retirement.
- Rewards people for working and saving more for retirement.
- Removes the incentive to overinvest in housing and the disincentive to downsize.
- Removes the need to engage with Centrelink, including constant reporting of investments and income.
- Dramatically reduces administrative costs associated with Centrelink.
- Provides retirees with a year-to-year safety net as protection against market fluctuations – this would result in confidence to spend.
- Would provide an opportunity to reform the tax system

Why the policy is needed

- Older Australians are frustrated with the complexity of pension rules, which makes retirement planning difficult, encourages perverse behaviour and resentment towards government.
- Means testing duplicates administration and bureaucracy within Centrelink that could be more efficiently dealt with through the ATO.
- Current means testing policies discourage people from working – only 2.9% of Australian pensioners work compared with 24.8% in New Zealand.

Budget implications

- Budget costs would be similar to previous Productivity Commission reports.