

AGE PENSION

Top lines

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- Australian Government expenditure on the Age and Service pensions is projected to remain broadly stable, moderating from 2.9 per cent of GDP in 2014-15 to 2.7 per cent of GDP in 2054-55 due to the reforms made in the 2014-15 Budget which include increasing the eligibility age of the Age Pension and changes to indexation and the deeming thresholds.
- Without these structural reforms, expenditure on Age and Service Pensions are projected to increase from 2.9 per cent of GDP in 2014-15 to 3.6 per cent of GDP by 2054-55 (\$165 billion in today's dollars).
- The difference in Age Pension expenditure between the '**proposed policy**' and '**currently legislated**' scenarios will be 0.9 per cent of GDP in 2054-55. This difference in expenditure is driven by the following measures:
 - Indexation of pension to the Consumer Price Index; and
 - Increasing the eligibility age to 70.

Key facts

- As outlined in the 2014-15 MYEFO, once the Budget returns to a surplus of 1 per cent of GDP, there will be more capacity to revisit the level of Government support to groups such as Age Pensioners. The Budget is projected to reach a 1 per cent surplus in 2028-29.
- For modelling purposes, the projections for assistance to the aged assume that indexation of pensions switches from the Consumer Price Index to Average Weekly Earnings in 2028-29.
- *If asked: Linking pension indexation to Average Weekly Earnings reflects long-term trends in the growth of the Age Pension.*
 - *The IGR model assumes that once a 1% surplus is reached, pension payments grow by growth in AWE which is a function of productivity and CPI projections.*

Policy measures

Budget 2014-15

The Government must ensure the pension system remains sustainable in the long term, including:

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- from 1 September 2017, the Government will link pension increases to inflation (ensuring the value of the pension is maintained in real terms);

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MYEFO 2014-15

The MYEFO flagged that 'once the Budget returns to a surplus of 1 per cent of GDP, there will be more capacity to revisit the level of government support provided to groups such as age pensioners, while having regard to other factors such as the ageing population and a maturing superannuation system.' (p.32)