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Retirement Income Review Secretariat  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [retirementincomereview@treasury.gov.au](mailto:retirementincomereview@treasury.gov.au)

Dear Secretariat

## **Retirement Income Review**

Australian Unity welcomes the opportunity to contribute to the review into the retirement income system (the Review).

Our submission focuses on the Review's principles of adequacy, equity, sustainability and cohesion and provides some suggestions about how some of the system's current deficiencies may be addressed.

### **About Australian Unity**

Established in 1840, Australian Unity is Australia's first member-owned wellbeing company, and in 2019, delivered health, wealth and living services to more than one million customers. These services include independent and assisted living, health and general insurance, dental and healthcare and a diverse wealth and capital markets operation spanning advice, trustee services, asset management, investment bonds, property and development and banking.

In the last financial year, Australian Unity had:

- **20** retirement communities
- **2,469** independent living retirement units
- **786** aged care beds
- **54,000** home care clients
- **3.8 million** hours of home and disability care provided to clients
- **\$20.7 billion** of assets and funds under management and advice

Australian Unity provides a range of financial products and services that support Australians planning for, or who are in, their retirement and manages different types of products and services for a diverse cohort of customers and investors across all stages of life. This experience brings an understanding of the issues and dialogue relevant to the terms of reference of the Review and those covered in the Review's consultation paper.

In addition, our two decades of work with Deakin University on the Australian Unity Wellbeing Index and our recent commissioning of the report into health and ageing by PricewaterhouseCoopers (PwC) continues to highlight the need and opportunity to re-purpose our current retirement system to make it a fairer, better and more equitable system for more Australians.

Please find following this letter our response to the consultation paper.

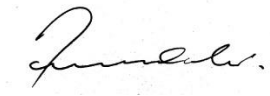


### Summary of recommendations

1. Establish a clear and guiding objective for the retirement income system and what it aspires to be.
2. Retirement income policy and strategy to consider and incorporate health prevention initiatives.
3. Urgent reform to address and reduce the significant inequality across the retirement income system.
4. Significantly increase rent assistance for aged pensioners to address old age poverty and housing affordability constraints.

We thank you again for this opportunity and would be happy to discuss any aspect of our submission or our ongoing activities more broadly. This can be arranged by Australian Unity's contact officer, Penny Bold, Senior Communications Manager on 0400 567 937 or [pbold@australianunity.com.au](mailto:pbold@australianunity.com.au).

Yours faithfully,



**David Bryant**  
Chief Executive Officer  
Wealth and Capital Markets  
Australian Unity

## Guiding intent of our retirement income system

Australia's retirement income system dates back to 1909 when the first iteration of the Aged Pension scheme was introduced. At that time, the scheme's purpose was to ensure there was a safety net for the poor and 'genuinely needy'. Since then, there have been extensive changes to the scheme, including more than a dozen substantial reforms in relation to rates, eligibility criteria and allowances.

The compulsory employer contribution scheme introduced in 1991 by then-Prime Minister Paul Keating advocated a system that could help "preserve the dignity and independence each have enjoyed in their pre-retirement years" leading to Australia being "more equal, more egalitarian" and ultimately, "more cohesive and happier (sic)."

Since 1991, components of the retirement income system have been the subject of various reviews. However, the scope of these reviews meant they have excluded valuable community reflection and debate about what the purpose and objective of our retirement income system should be and what it should aspire to be. Seldom has policy discussion about the retirement income system included its role in contributing to a more egalitarian, cohesive or happy Australia.

### Recommendation 1

#### **Establish a clear and guiding objective for the retirement income system and what it aspires to be.**

This objective should help to resurrect the political path to support all Australians with the retirement resources that afford them independence, dignity and the capacity for aspiration even as they age.

The notion that superannuation exists to provide income in retirement to substitute or supplement the age pension needs to be challenged. In its place is a need for apolitical policy thinking into how a meaningful and sustainable lift in superannuation balances can be enabled, including the role of compulsory employer contributions in supporting those who are falling behind.

## Australia's ageing challenge

Australia is facing its fastest rate of ageing in history. While our community has a strong sense of the challenges facing the economy and policy makers with this trend, household income growth is stagnating and anxiety is growing about the sustainability of the social safety net—with specific concerns about the quality, accessibility and affordability of healthcare and aged care.

It is a future for which our society is currently poorly prepared.

While our ageing population is also something to be celebrated and testament to vast advancements in our society, particularly in health and medicine, there is an increasing realisation that Australia's internationally-envied health and ageing system could buckle under the growing demand for services as the proportion of frail older people increases.

Without effective and considered policy that includes the interrelation and impacts of trends, we are at risk of demand far outweighing supply with the price of necessary health and ageing services becoming prohibitive—even to those with superannuation and voluntary savings. As noted by the Royal Commission into Aged Care Quality and Safety in their interim findings, "...the aged care sector is not, and is unlikely to ever be, a fully efficient market." This becomes a disincentive for many to prioritise this aspect of retirement as there are expectations that the inability to access private services will be met by the public system. The future availability and reliance on the Aged Pension (the current social safety net) is equally uncertain.

Government intervention is required to encourage efficiencies and meet gaps where they may exist in the sector. Though additional funding towards increasing supply is a necessary solution, so too are preventative measures that can reduce demand. In addition to living longer, we aspire to remain fit and healthy, to stay working longer and to be actively engaged with communities. However, Australia's health and ageing sectors are designed and structured to treat and manage illness, rather than setting up individuals with advice, resources and services to stay healthy, independent and active. A focus on prevention and maximising health has a minimum two-fold benefit—to keep people working and saving to fund their retirement, and to reduce future demand on publicly funded health and aged care services.

We note that almost one million older Australians take five or more medications a day, according to a study of PBS data published in the Medical Journal of Australia in July 2019. The authors in this study note that using medicines concurrently places older people at risk of adverse drug reactions, nutritional deficiencies, falls, frailty, impaired cognition and frequent hospitalisation.

Many chronic conditions, such as heart disease, type 2 diabetes, depression and obesity are preventable. Yet only two per cent of our healthcare budget is spent on prevention, and two out of three of those prevention dollars go to the childhood immunisation program.

### **Recommendation 2**

**Retirement income policy and strategy to consider and incorporate health prevention initiatives.**

#### **One system, many outcomes**

Australian Unity notes and supports the Review’s proposal to consider the principles of adequacy, equity, sustainability and cohesion, and how these principles practically play out the current retirement income system.

On face value, Australia’s retirement income system is considered one of the best in the world, ranking third out of 37 retirement systems in Mercer’s 2019 Global Pension Index. However, extensive reviews, investigations and commissions over the decades indicate the system has not yet struck the ‘right balance’ for the Australian community.

Research commissioned by Australian Unity in 2017 with 1,100 pre-retirees and retirees<sup>1</sup> highlighted a sharp divide between those with significant levels of superannuation and other savings, compared to those with low superannuation balances, a mortgage and often very little else.

Australians with higher incomes, lower debt, higher levels of education and more money in superannuation exhibited greater levels of confidence about their current and future financial situation and were taking considered and proactive steps to prepare for retirement. Conversely, those with lower incomes, higher debt, lower levels of education and low non-superannuation assets were less confident about their financial future and faced greater pressures on household finances from debt repayments, cost of living, health and leisure.

### **Recommendation 3**

**Urgent reform to address and reduce the significant inequality across the retirement income system.**

This includes taking action to stop ‘well-off’ individuals from receiving government support to supplement and increase already high retirement income levels; redirecting certain tax concessions from high balances to help grow lower superannuation balances (e.g. until a person reaches a superannuation balance of circa \$100,000, no tax should be payable); and extra support via an increase in superannuation tax concessions for low income earners, including addressing the retirement income imbalance among women.

#### **Poverty, housing and older Australians**

The findings of the 2015 Global Age Watch Pension Index report gave Australian pensioners the lowest ranking for income security because of high old age poverty rates and a pension income coverage below the regional average. This was in line with the Organisation for Economic Co-operation and Development report *Pensions at a Glance 2015*, with Australia ranked second lowest on social equity, with 36 per cent of pensioners living below the poverty line.

Stemming from old age poverty is a growing homelessness problem for older Australians which is predicted to continue to increase as our population ages and rates of home ownership among older people decline.

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<sup>1</sup> [Retirement Planning Research](#), commissioned by Australian Unity in May 2017

A joint report by the Australian Council of Social Service and the University of New South Wales, *Poverty in Australia 2018* highlighted that the older people most at risk of poverty are those renting their own homes. Census data also shows that over the past decade, the number of older homeless people increased by 49% with the largest changes measured in people aged 65-74 and 55-64. And while older women do not account for the majority of homeless people, they represent a rapidly growing demographic in the homeless population—increasing by 31% from 2011. Factors such as domestic violence, relationship breakdown, financial difficulty and limited superannuation can put older women at risk of homelessness.

#### **Recommendation 4**

**Significantly increase rent assistance for aged pensioners to address old age poverty and housing affordability constraints.**

#### **Indigenous Australians and the retirement income system**

Australian Unity has a dedicated business unit designing and providing services and programs tailored for Aboriginal and Torres Strait Islander customers. Services include aged, health and disability care, and financial literacy, assistance and products. Alarming, nine in 10 Indigenous people have no financial security, while one in two are highly or severely financially stressed (compared with 1 in 10 across the broader Australian community).<sup>2</sup>

We work closely with various non-profit organisations to provide Indigenous Australians with employment and financial literacy support, and through these activities have found superannuation and the concept of retirement and what happens after working life to be one where low understanding exists. Though our support generally involves financial advice for education and employment stages of life (e.g. saving, budgeting, loans and borrowing), these have long-term impacts on an individual's future. While we have not undertaken any further analysis into retirement income for this cohort, it is important that the Review consider Indigenous Australia, especially as an existing financial high-risk group.

#### **Toward a more cohesive and happy Australia**

Australian Unity, in partnership with the Australian Centre on Quality of Life at Deakin University, regularly measures how satisfied Australians are with their own lives and with life in Australia. The *Australian Unity Wellbeing Index* (Wellbeing Index) investigates satisfaction with economic, environmental and social conditions in Australia, and gives insights into individual wellbeing. Since its launch in April 2001, the Wellbeing Index has become the leading and most comprehensive measure of wellbeing in Australia.

One of the guiding frameworks for the interpretation of data from the index is the theory of 'subjective wellbeing homeostasis'. This proposes that each person has a 'set-point' for personal wellbeing that is internally maintained and defended. This set-point is genetically determined and, on average, causes personal wellbeing to be held at 75 points on a 0-100 scale. The normal level of individual set-point variation is between about 70-90 percentage points. The provision of personal resources such as money or relationships cannot normally increase the set-point on a long-term basis due to the genetic ceiling. However they can strengthen defences against negative experience.

For Australians suffering homeostatic 'defeat' (or poor wellbeing), the provision of additional resources can help them to regain control of their wellbeing. In this case the provision of resources will cause personal wellbeing to rise until the set-point is achieved. The research behind the Wellbeing Index proposes that low levels of personal resources, including low income or absence of a partner, weaken homeostasis. If personal challenges such as stress or pain exceed resources, homeostasis is defeated, and subjective wellbeing decreases below its normal range.

While this longitudinal 20 year study shows that wellbeing is made up of many parts and that the Review will need to examine more than just the financial aspect of retirement adequacy (as many projections and reports have attempted)—those with low personal resources are at highest risk of poor wellbeing. Even a

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<sup>2</sup> Weier, M., Dolan, K., Powell, A., Muir, K., Young, A. (2019) *Money Stories Financial Resilience among Aboriginal and Torres Strait Islander Australians 2019*. Centre for Social Impact (CSI) – UNSW Sydney, for National Australia Bank.

modest increase to the Aged Pension for those that need it most can make a tangible difference to a person's wellbeing, which in turn supports the creation of a more equitable, cohesive and happy society.

Similarly, tax concessions for payments to life insurance bonds for health and aged care, and even education, would present benefits to individuals (and families) which include having funds to meet future expenses, an incentive to contribute to these vehicles over time reducing reliance on government-funded services in the long run.

However, debate about how our current and future retirement income system will be funded continues to plague progress. As Australia grapples with the financial and social challenges associated with an ageing population, finding new or additional concessions is becoming increasingly difficult—and emerging as the most appropriate and sustainable solution is the redirection of concessions to those who need it the most (and who would get the most benefit). As politically unpalatable as this concept has been and continues to be, the detrimental impacts of poor system design on the future compels proper consideration of this issue.