RETIREMENT INCOME REVIEW

SUBMISSION

CAMPBELL SIMPSON

Consultation Question Responses

There are only responses to selected questions.

6. The exemption of the family home from the age pension asset test creates a range of equity issues and negative social consequences.

As an example, a couple with a $1.6m house and $380,000 receives a full age pension and other benefits from all 3 tiers of Government. If this couple downsizes to a $1m house they lose the entire age pension and all other benefits.

If the excess $600,000 is invested safely in a term deposit, at 1.5% (weblink for this term deposit rate below) they get $9,000 income for the year. The age pension loss alone is $36,600 per year. The couple would need an income return of 6.1% to receive the same income as the age pension.

https://www.commbank.com.au/banking/term-deposits.html?pid=114164&sc_psk=98431&sc_crkey=372968010617&c

Of course they now have $600,000 less in the housing market. Per the link below, house prices have increased at 2.5% over the past decade. So the couple has lost $15,000 in increase in the value of their home over the year.

https://www.rba.gov.au/publications/bulletin/2015/sep/3.html

In reverse, a couple upsizing from this $1m house and $980,000 in savings to a $1.6m house and $380,000 in savings can get $36,600 more age pension, an estimated $15,000 more per year in house price growth, and potentially only lose $9,000 in interest income.

This distortion results in many people living in locations with higher house prices such as Sydney and Melbourne not leaving their family home.

It penalises people who downsize, or make a sea change or tree change.

The biggest losers from this distortion though are people who live in locations with lower house prices. People generally try and stay in their family home, or at least in the same area as their family home.

The effect on people living in locations with lower house price value is this is matched with lower house price growth. This flows through to the gap between the asset value of this part of the 3rd pillar grows year on year between those in higher house price locations and those in lower house price locations.

The weblink below shows average house prices across capital cities. Regional centres and smaller townships generically have lower average house prices than capital cities.

https://www.livingin-australia.com/australian-house-prices/

Non home owners are also disadvantaged by the exclusion of the family home. They are compensated by being able to have approximately $210,000 more in assets before the start to receive less than the maximum age pension. They are allowed to have approximately $210,000 in assets before they lose their age pension entitlement completely.

Given the median price of residential dwellings of $660,800 (refer weblink below), and the lowest average dwelling value in any capital city being double this $210,000 compensation, this is clearly inadequate.

https://www.abs.gov.au/ausstats/abs@.nsf/mf/6416.0

This means non homeowners are penalised more than most larger regional centres when it comes to the impact on assets on the amount of age pension people receive.

7. Demograhics, labour market and home ownership

Demographics is a key part of the inequity of the retirement income system. This is because:

- Having the age pension cut in at age 67 for all disadvantages those with shorter life expectancies, such as aboriginals, people living in regional and remote locations and men.
- The additional assets that can be held before the age pension begins to reduce, and also before it gets cut off, is significantly less than the average cost of the average home.
    - As the values of homes differ significantly from capital cities to small remote townships, the exemption of the family home provides a disproportionate value to some over others.

Life Expectancy

The link below shows differing life expectancies between male and female and across the states and territories. These show a difference, from birth, of 75.5 years for males in the Northern Territory to 85.3 years for females in Victoria and the ACT.

https://www.abs.gov.au/ausstats/abs@.nsf/mf/3302.0.55.001

That's close to 10 years difference in life expectancy.

The concept of the age pension is that we all contribute equally to fund it. The current age pension recipients are having the age pension paid from the taxes of today's workers.

But the people benefitting from it are significantly skewed. As per the ABS life tables in the link above, some demographics benefit from this taxpayer funded benefit by up to 10 years more than others.

If the statistics were broken down in each state and territory the NT averages would show those living outside of Darwin having a lower life expectancy again, while in Victoria people in Melbourne would have a higher life expectancy than those in regional centres and higher again by those in more remote locations.

So the difference in life expectancies from between a male living in Katherine or Alice Springs to a female living in Melbourne would be well above 10 years.

As different perspective is the Australian Government's National Cities Performance Framework, link below. This includes life expectancies across Australia's largest 21 cities/regions. Broadly it reflects that the nigger the city the longer the life expectancy.

https://www.infrastructure.gov.au/cities/national-cities-performance-framework/

The life expectancy differences between men and women is exaggerated as generally a couple applies for the age pension at the same time, when the younger reaches age pension age, or if they retire past this age then when the last retires.

The table below, from the ABS and for marriages in 2005-06, the age difference had the male 2.6 years older.

https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features20March%202009

That means that when the female reaches age 67, the male is just over 69.5.

Per the ABS table below, that means the male at that time has a life expectancy of just over 16 years, while the female has a life expectancy of 20.7 years.

https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3302.0.55.0012016-2018?OpenDocument

That's around a 4.5 years difference in life expectancy, so on average females benefit from the age pension by 4.5 more years than males.

One response to all this would be to have different ages when people are entitled to the age pension.

- This could have differences based on gender
- It could also have differences based on which state or territory someone lived in, and/or whether someone was living in a capital city, regional centre or more remote location.

Another approach could be to seek to address the different life expectancies based on gender and location.

My belief is part of the difference in life expectancies based on location is differing health services. If Australia were to get a new machine that assisted with cancer treatment, that would likely be in Sydney or Melbourne.

So people in these cities have a simple drive across town, either themselves a family member or taxi.

Someone living elsewhere has a much greater transport cost to get to this treatment. They are also away from their support network of family and friends; or if family come with them the family have accommodation costs that aren't incurred by people living in the capital city where the treatment is available.

The Retirement Income System could assist by having an annual supplement for people living outside capital cities. Alternatively there could be a benefit for people that have to travel for health reasons. The benefit could assist with transport costs for the person being treated, or for accommodation costs for a nominated support person such as a spouse.

Age Pension Assets

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So non homeowners are disadvantaged as the amount of extra assets they can have before the age pension cuts out is significantly less than the asset test exempt house values this $210,000 is seeking to replace.

Homeowners with a home of lower value are also disadvantaged as the amount they can borrow against the family home to fund their retirement, including via a reverse mortgage is less.
The main beneficiaries of the exemption are the children of retirees. That's because these assets generically don't get accessed, so children of retirees in capital cities receive a larger inheritance than those in regional and remote centres, and non homeowners. The retirement income system props up this inequity.

A simple solution would be to increase the age pension asset test for homeowners by the national average value of a home, match this by including the value of the family home in the assets test, and the non homeowner test can be removed as all will be treated equally.

Noting the Government has ruled out including the value of the family home in the assets test as part of this Review, there are alternatives that can be considered.

These include:

- Increasing the non homeowner asset thresholds so it becomes the homeowner thresholds plus the average value of a home across Australia.

- Use a system such as the Tax Act zone rebate system to have an age pension supplement for people living in zones with lower house prices; and/or
- Use the pension loan scheme to provide concessions for people with lower value homes.

14. Does the retirement income system deliver fair outcomes?

The question ends with (eg women, renters, etc).

Renters are clearly disadvantaged as the different assets tests for homeowners and non-homeowners is far less than the value of the average home.

The discussions around adequacy based on gender generally have 2 topic areas.

- Women live longer than males, so require a larger amount of assets at retirement to support their retirement years. I find this problematic, as it implies there's a disadvantage in living longer, or that somehow if a white woman living in a capital city has a disadvantage compared to an aboriginal man living in a regional or remote location. I appreciate the topic is more complex than this.

- Women get paid less than males so have less savings at retirement.

This second topic is worth discussing.

Firstly, the difference in earnings is the result of a variety of factors that are well documented. These include:

- Lower wages for the same work
- Industries with higher levels of female workers getting paid less than male dominated (this is worth a national discussion to see if its an issue or not, but is outside the scope of this Review)
- Time out of the workforce after childbirth, working reduced hours to pick up kids after school, etc

One view is that the 9.5% SG rate means that lower super is directly linked to lower wages. The issue needs to therefore be addressed at the wages level rather than the superannuation level.

Looking at the causes though, lower wages for the same work also applies at a geographical level as well as a gender level. At the geographical level the same person doing exactly the same work and the same hours of work gets paid differently depending on where they live. People living in smaller and more remote locations get paid less.

This pay gap is more significant than the gender pay gap. My understanding is that in many locations the geographical pay gap is actually larger than the gender pay gap. The geographical pay gap effects both members of a couple, so the effect is doubled for any couple.

The link below is from the ATO showing incomes per postcode.

https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/?page=10

If the Retirement Income Review considers equity based income equity, it must consider geographical equity as well as gender equity.

In relation to time out of the workforce to raise children is considered by the Review, should other causes of time out of the workforce be considered.

People can be out of the workforce due to:

- Health issues
- Bankruptcy of an employer
- Some older Australians were out of the workforce for lengthy periods due to job losses in the 1990's 'recession we had to have', or their business collapsed under the high interest rates at the time
- Others such as car industry workers have seen their profession closed

If the Review considers measures to compensate for time out of the workforce to raise children, it should also consider measures for other causes of time out of the workforce.

22. Does the retirement income system provide incentives to save?

All 3 tiers of Government provide benefits to people on a part or full age pension. This varies from council rate assistance to car registration concessions and public transport at the State/Territory level to the age pension at the Federal level.

Governments introduce policies for seniors that often just benefit pensioners.

At some stage these incentives will end up resulting in people being better off by retiring 3 or 4 years before age pension age and running down savings including by going on holidays, so that by age 67 they are a little under the age pension assets test and receive all these benefits. That is, compared to working until age 67, and building up too many assets to get a part pension.

The couple retiring earlier have 3 or 4 more years in retirement, and the Government handouts can mean they end up with a similar annual income.

The franking credit policy at the last election, with pensioner guarantees, changed my own mind to contemplating the earlier retirement path. The set of incentives across all 3 tiers of Government has been built up by both sides of politics of course.

The point is that as more and more assistance is given only to pensioners, at some stage there will become a tipping point where large numbers of older workers decide to retire earlier and receive all these benefits.

This could be alleviated by having some of the benefits extended to self funded retirees with up to say $300,000 more assets than the age pension cut off. This would provide a tapering effect so getting a token part pension becomes less significant, and therefore the incentive to save becomes increased.

The Review should consider the overall impact of benefits across the 3 levels of Government, and also note benefits to pensioners from the private sector. Modelling should be done to see if these are combining to discourage people from saving.

I note this is a personal submission. I am an accredited superannuation specialist. My employer has asked that any submission I write, including to reviews such as this, are not published unless they have approved it.