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Introduction

COTA Over 50s welcomes the Australian government's Pension Review. This submission focuses on the need for a comprehensive retirement incomes policy, considered within the broader framework of the income support needs of older Australians, including those of seniors who are still in the workforce or receive Carer payments or a Disability Pension.

Statement of COTA Over 50s' position

Our Goal: A decent standard of living for all older people

COTA Over 50s plan for the Australian Government

1. Establish a "Cost of Living in Retirement" benchmark that is kept up-to-date with the real cost of living a healthy life as an active member of the community.
2. Guarantee that, for each person, the combination of income from private sources (savings, superannuation, etc) and government sources (pension, supplements, etc) ensures a decent standard of living.
3. Until the new "Cost of Living in Retirement" is implemented, set the age pension at 35% of Total Male Average Weekly Earnings. Implementing two-thirds parity between the single and couple rate, the single rate would be \$375.30 per week (June 2008) and the couple \$562.95 per week.

The setting of the age pension needs to be considered **as part of a comprehensive retirement incomes framework**. Establishing the proper levels of pension and a fair regime of associated entitlements can only be done by applying a holistic view of the income needs and financial capacities of those seniors who have left the workforce while also taking into account the distinctive situations of different groups – for example, couples and singles, homeowners and renters, city dwellers and rural inhabitants.

While COTA Over 50s asserts that a single pension should be 2/3 the couple rate, and set at 35% of MTAWWE pending the formal establishment of a Cost of Living in Retirement (COLR) benchmark, we do not specify any consequential adjustments to (income / assets) taper rates that might apply in determining individuals' age pension entitlements. **What matters for COTA Over 50s is the principle that the focus of any enhancements must be on those who are most disadvantaged, not those who are relatively less so.**

COTA Over 50s concerns itself with issues that bear upon the wellbeing and inclusion of senior Australians, whether they are in the workforce or in retirement and whatever the status of their health and abilities or the nature of their lifestyles. We also promote solutions to seniors issues that are consistent with the development of a just society for people of all ages. This submission's focus on retirement incomes policy does not imply a disregard for other policy areas of significance to older Australians. However, we contend that conceptually there is a need to consider the Age Pension within a comprehensive retirement Incomes framework, whilst considering other income support payments within the broader sweep of working age issues that are not relevant to those who have retired from the labour market.

It is vital that the Review attends comprehensively to the income support needs of those with disabilities, or with carer responsibilities, and COTA Over 50s does not seek to privilege retirement incomes policy over these other important policy arenas. This submission is primarily concerned with an issue that is central to the concerns of all older Australians, namely, how will they finance their lives once they are no longer in the workforce. Once Australians have entered retirement, they remain citizens with responsibilities, rights, capabilities and dispositions that both warrant and invite their ongoing active participation in Australian society. We look forward to making a further contribution to discussion about other income support payments provided for other mature age people.

COTA Over 50s' perspective on the Pension Review

COTA Over 50s welcomes the Review as a significant first step in restructuring Australia's framework of support for older Australians. The Background Paper distributed by the Review Panel provided much useful information about the status quo and provided tables and statistics to illuminate it, but tended to concentrate on existing approaches to, and assumptions about, pensions. COTA Over 50s urges the Review Panel to be courageous in its thinking, and to deliberately transcend customary perspectives on these matters.

Clearly the broader (Henry) Tax Review must have regard for the overall structure and operations of the tax and transfer system of which pensions are a part. The inter-relationship between the age pension, superannuation and the tax system is a complex one, and this submission seeks to render it less so by concentrating on fundamental principles. Because the transactional details are best left to those with the relevant expertise, this submission tends to use indicative rather than definitive figures (dollars or percentages) to the issues being addressed. However, it strives to make clear the important principles or considerations that must apply in relation to those issues.

This submission, as has been made clear, focuses primarily on the need to establish an effective **retirement incomes policy framework** and on consideration of the age pension within that framework. There are other policies that impact upon Australian seniors' capacity to age well – for example, those that address health, aged care, disability, employment, environmental and other issues. It is important that aspects of matters affecting seniors and most appropriately dealt with in these other arenas are not bundled inappropriately into retirement incomes policy. There must, of course, be an overall coherence in the way these various policy arenas reinforce each other to serve seniors' interests and needs.

Income support during retirement is a distinctive aspect of social security policy by virtue of its close interaction with the superannuation system. Employment and workplace relations policy is also bound up with superannuation. But the nature of those relationships is different, and entails different policy perspectives. Broadly speaking, care must be taken to prevent one area of policy becoming the tail that wags a different policy dog.

For example, it is important to bear in mind – for income support policy purposes - the very relevant differences between the situation of senior Australians who are not in the work force, and their fellow citizens who are in (or potentially available to) the work force but may be temporarily unemployed. Income support (and associated incentives) for those of working age who are in the labour market needs to be part of labour market and employment policy. It is a policy arena in its own right whose considerations are largely distinct from those applying to retirement income policy for seniors. It is both reasonable and necessary to apply different policies to different life situations

or categories of citizens and their needs. This must be done in a way that protects principles of fairness and equity across the generations and various categories of recipients involved.

A comment on concessions

Of relevance to optimising the fairness and adequacy of income support structures is the issue of concessions. Existing concessional arrangements are complex and almost impossible to navigate properly, with the difficulties compounded by various arrangements that apply in different jurisdictions. Whatever arrangements ultimately emerge, a fundamental principle must be that concession levels are structured so as to maintain their real value over time. They must also be targeted to those most in need of financial support.

To accommodate the diversity of various groups of people who might be entitled to concessions, arrangements should be so structured that the benefit flowing to those groups across the various concessions maintains some level of 'parity of benefit' overall. This might entail the capacity to trade one type of concession off against another, or where appropriate and justifiable, to 'cash out' concessions in certain circumstances.

While there is potentially a vital role for the Commonwealth in having responsibility for concessions that are connected with markets over which the Commonwealth has influence, a more broadly effective approach might be achieved using the mechanisms of COAG. A COAG Working Party on concessions could conceivably map, harmonise and modify the concession landscape, and establish agreed processes through which the Commonwealth, States and Territories could fund and deliver concessions equitably. The COAG group could establish a framework for the setting of concession levels possibly based on a percentage of costs incurred up to a certain level.

A comment on lump sums or integrated regular payments

There is a generally held view among pensioners that payment of pensions on a fortnightly basis is a satisfactory schedule. COTA Over 50s supports the notion that pensioners could elect to receive payments on a weekly basis if that is their preference, as electronic funds transfers make such options administratively feasible.

COTA Over 50s does not see any overall merit in using 'lump sum' mechanisms within the pension payment schedule. Pensioners are very adept at managing household budgets. A reliable, regular payment of a known level of income is the most convenient and effective mechanism for the vast majority of pensioners.

The older Australians whom (among others) the Review addresses

Older Australians are as diverse - in their identities, cultures, languages, situations, aspirations and lifestyles - as any other cohort of Australians. This diversity is significantly shaped by their whole life course as well as by current circumstances. Many of the influences on older people's capacity to manage rising cost of living pressures and to achieve active healthy ageing have been or are outside their individual capacity to influence. The Review must bear these facts in mind throughout its deliberations. COTA Over 50s can confirm certain common features of older Australians that are fundamental considerations for the Review Panel in preparing its advice to government. It is very clear that older Australians:

- wish to age well - which means to the maximum possible extent conducting their lives as self-directing, self-reliant individuals, with the levels of physical and mental health that minimise dependence and maximise the opportunity to act in the world
- wish to age in place – which means to the maximum possible extent living in the homes and neighbourhoods to which they are connected, and where their memories, habits, familial bonds, friendships and spheres of influence can persist.
- wish to remain valued members of society – which means to the maximum possible extent enjoying the opportunity, encouragement, acknowledgement and resources that enable them to participate in the world around them and to contribute to the harmony and prosperity of their country as Australian citizens.

Of the several significant characteristics that bear upon older Australians capacity to age well, possibly the most significant (health notwithstanding) is whether or not that person or couple is a homeowner or is in rental accommodation. Secure accommodation is a foundation stone of wellbeing. Current trends are showing a considerable shift in the number of older Australians who will be requiring rental accommodation in the years beyond 2020. As well, there is a disturbing trend in the number of Australians entering retirement with mortgages still to pay off. A recent COTA survey also highlighted the level of anxiety being felt by home owners about their capacity to maintain and continue to live in their home. COTA Over 50s urges the Review to have particular regard for these matters.

The establishment of adequate and fair income support arrangements based on the considerations outlined above will not only minimise the quantity and cost of interventions needed to respond to health, accommodation and other welfare-related crises among older Australians, but will maximise the benefits – economic, social, cultural – that flow from older Australians' being able to apply their talents, time and experience to the flourishing of Australian society. An Australia that ages well is clearly in our national interest – and its importance is only going to intensify.

The principles for a retirement income support framework for older Australians

COTA Over 50s supports the notion of Australia pursuing a ‘three pillar’ retirement income scheme based on age pensions (and other government supplementary payments), superannuation and other private savings/income. COTA Over 50s acknowledges that superannuation and other policy initiatives over the last two decades have been aimed at providing incentives for people to save for their own retirement and reducing the numbers of people reliant solely on the age pension.

However, the vast majority of current retirees have had few opportunities for superannuation or other savings during their earlier lives and rely on the age pension as their sole or principal source of income. It is worth noting here that the age pension, according to Centrelink, is there so that ‘if you have reached retirement age, age pension ensures you have adequate income in your retirement’.

The Review must strike the right balance across the pensions, superannuation and tax systems in order to deliver fairness and ensure that the needs of the most disadvantaged seniors are met. Incentives for seniors to save and - if they so wish - to work, are sensible, but these must operate in ways that are not detrimental to the capacity of the system to deliver adequacy for those who rely solely on the pension and other government supplements.

COTA Over 50s considers the following three core principles essential to a comprehensive retirement income support system for older Australians:

- Adequacy – which means setting pension levels and parameters using a credible, reasonable and transparent mechanism that determines the overall income required for a person to live modestly when judged against contemporary Australian standards of living. (The notion of ‘adequacy’ is explored further below.)
- Fairness – which means an income support system that is adaptable to the circumstances of different groups of seniors, with particular regard for the needs of those who are most disadvantaged and least able to provide for themselves by way of achieving what is determined to be an adequate standard of living.
- Sustainability – which means structuring the funding base of the system with regard for its impact on the Australian economy, and the need for the income support system to remain viable and effective at least until such time as the benefits of Australia’s revised superannuation regime have begun to substantially fund older Australians’ retirement years.

What is meant by ‘adequacy’ ?

This submission does not rehearse the debates around cost of living issues for older Australians. These have been well articulated through, for example, the Senate committee inquiry report titled *A decent quality of life* and the Review’s Background Paper recognises that fact. (A copy of COTA Over 50s submission to that inquiry is attached to this submission.) Moreover the Treasurer (Hon Wayne Swan MP), among others, has unequivocally acknowledged the seriousness of the difficulty of living on a pension, and the significant cost-of-living pressures borne by older Australians.

COTA Over 50s is confident that Treasury officials and others advising the Review are well placed to provide the Review Panel with the necessary econometric and other data required to assess cost-of-living issues, and the dollar implications of any income support system that the Review might propose. These advisers will also be alert to the important nuances and differentiations that must be taken into account when indices such as the CPI and other averaging means of assessing cost-of-living are used in the context of distinctive cohorts of consumers such as pensioners and other Australians on low and fixed incomes.

Some relevant reference points for ‘adequacy’

COTA Over 50s does not have the resources or expertise to provide independent advice on the econometrics of ‘adequacy’. However, there are several reasonable and credible sources from which conclusions about ‘adequacy’ may be derived.

It is worth noting here that the ‘guaranteed floor’ of the age pension as 25% of male total average weekly earnings (MTAWE) was, in the 1980s, the subject of serious consideration with a view to setting 35% of MTAWE as the pension level. COTA Over 50s believes that this may well have occurred by now if superannuation had not come to be the focus of policy in the intervening years.

The Social Policy Research Centre of the University of NSW has reported comprehensively to previous Australian governments on indicative budget standards for older Australians. According to the Centre, budget standards can be used:

- to inform judgments about the adequacy of income levels
- to benchmark the adequacy of government income support payments and the relativities between recipients in different circumstances

- to contribute to discussions of the adequacy of pension levels, as well as helping to set standards for those who have access to superannuation and other income either as a supplement to ,or replacement of, the age pension.¹

COTA Over 50s considers the work conducted by the SPRC on a 'modest but adequate' income could be a useful starting point for working towards a current Cost of Living in Retirement (COLTR) benchmark and the setting of relevant age pension levels with reference to that benchmark.

The Westpac-ASFA report provides regular assessments of how much money is needed in retirement to fund a *modest lifestyle*, and a *comfortable lifestyle*. The research reports provide very clear and detailed budgets defining two states of retirement. One is a *modest* lifestyle that enables fairly basic living. It does not provide for eating out, travel, private health insurance, running a motor vehicle or entertaining at home. The other state of retirement is a *comfortable* lifestyle that enables a healthy retiree to be involved in a broad range of activities, purchase some household goods, own and run a good car, and to partake of some national and occasionally, international travel. In all these estimates, it is assumed that the retired individual or couple owns their own home.

The latest Westpac-ASFA report (June Quarter 2008) identifies, for a single older person \$19,399 and for a couple \$27,151, as the annual income required to sustain a *modest* standard of living. Clearly the *modest* budget allows for very little other than the basics. The question arises as to whether 'ageing well' can be achieved when limited transport, healthcare, and social activities are available. A *comfortable* lifestyle (\$37,452 for a single; \$50,086 for a couple) adds significantly to one's capacity to 'age well'. It enables people to fully participate in their community, including social and sporting clubs, learning and volunteering and a number of other personally fulfilling activities.

COTA Over 50s has proposed that, as an interim position, the single pension be set at 35% of MTAW – that is, a \$375.30 per week standard for single persons, and \$562.95 per week standard for a couple based on the 'two thirds parity' for singles and couples. This equates to \$19,500 per annum, which happens to match closely with the figures on cost of living a modest lifestyle determined by the Westpac-ASFA research (\$19,400).

COTA Over 50s expects the Pension Review to commission a thorough assessment of the income requirements considered adequate for a modest lifestyle. From this, a transparent, defensible benchmark for a decent standard of living should be established, along with mechanisms to ensure that the benchmark remains current. The age pension can then be set accordingly. Any income support system built upon benchmark settings must be sophisticated enough to respond fairly and justly to the circumstances of various groups it serves.

¹ Saunders, Patulny and Lee *Updating and Extending Indicative Budget Standards for Older Australians* SPRC 2004, p1

How should the restructuring of the age pension be approached?

COTA Over 50s has concluded that the basis for any restructuring of the income support system, and the application of a fair and sustainable allocation of pensions, must be a benchmark – transparently and robustly arrived at – that declares the minimum level of annual income (the Cost of Living in Retirement - COLR) necessary for the maintenance of a modest standard of living in a contemporary Australian context.

The Review should take the opportunity to explore sophisticated mechanisms of benchmark-setting that take into account not just what emerges from a costed basket of goods and services or a percentage of an average wage-earner's income. Such a sophisticated mechanism would also try and factor in the level of investment in older Australians' wellbeing that will deliver advantageous returns across a suite of arenas in subsequent years. Consider the following, for example:

- Wellbeing policies that mitigate expensive health and other interventions are consistent with principles of prevention and early intervention that are informing social policy development across areas as diverse as early childhood, family policy, education, mental health, addressing 'lifestyle' diseases and so on.
- An adequate living income will facilitate older Australians' ongoing engagement with the broader economic sphere both as consumers and as producers, especially when that engagement is considered in 'triple bottom line' terms. Older Australians who have the wherewithal to participate in economically-related social activity - even at the level of local, voluntary and community initiatives - are serving Australia's broader economic, social and environmental interests.
- Perhaps one of the greatest assets held by older Australians is the social capital that they represent. If it is sustained by a living income in retirement that provides for an adequate if modest lifestyle, such social capital has a much greater likelihood of being released into, and realised by, the community. Older Australians who are deprived by dint of circumstance of an outlet for their social capital are like a blocked wellspring unable to help their surroundings flourish.

The task therefore is a combined one of:

- determining the Cost of Living in Retirement at a modest level commensurate with Australian living standards
- taking into account that an adequate investment in older Australians ability to 'age well' will deliver substantial future benefits and cost-savings to health and support systems
- to arrive at a 'living income' deemed sufficient to provide for Australians to age well.

Recommendations

COTA Over 50s recommends:

1. That the Pension Review propose an approach to a retirement income policy framework that:
 - operates on the principles of adequacy, fairness and sustainability
 - establishes a transparent, robust mechanism for the determination of the real cost-of-living for older Australians living modestly according to prevailing community standards
 - arrives at a dollar figure for a Cost of Living in Retirement income that is the officially recognised minimum income needed to age well as an active member of society in modest circumstances - and indexed accordingly
 - guarantees that older Australians will receive at least the 'living income' in the form of a combination of income derived from pension, superannuation and other savings.

Such a policy framework must incorporate mechanisms that accommodate the distinct situations of various groups (e.g. single/couple, renter/home-owner, etc). It must also ensure that older Australians whose sole income is the age pension should nevertheless have an income that meets benchmark conditions.

Additional, targeted support should be available as the domestic, residential and health circumstances of pensioners change as they age, but these should be determined and delivered through the relevant policy area (families, health and ageing etc.), not through the main retirement income support arrangements. The priority for any increases in any of these additional supports must go to the most disadvantaged.

2. That pending the establishment of a Cost of Living in Retirement benchmark and associated age pension level, the (single) age pension be set at 35% of MTAW, with the couple rate set according to a 'two-thirds parity' mechanism between single and couple pensions.

COTA Over 50s believes that the provision of an adequate level of income support in retirement is a necessary requirement of justice for all Australians as citizens and taxpayers. Moreover, the longer term benefits of a meaningful pension provision that enables people to age well are very substantial. Governments can reasonably expect solid future budget savings to flow from a well-designed income support system that serves to preserve the health, tap the social capital, facilitate the productivity and enhance the self-reliance of Australians as they age.

Conclusion

COTA Over 50s goal for pensions is unequivocal: ***A decent standard of living for all older people***

COTA Over 50s proposal for government action is clear:

1. Establish a “Cost of Living in Retirement” benchmark that is kept up-to-date with the real cost of living a healthy life as an active member of the community.
2. Guarantee that, for each person, the combination of income from private sources (savings, superannuation, etc) and government sources (pension, supplements, etc) ensures a decent standard of living.
3. Until the new “Cost of Living in Retirement” is implemented, set the age pension at 35% of Total Male Average Weekly Earnings. Implementing two-thirds parity between the single and couple rate, the single rate would be \$375.30 per week (June 2008) and the couple \$562.95 per week.

COTA Over 50s expectations of the Pension Review are high. Thoroughgoing reform is needed in order to produce an adequate, fair and sustainable retirement income support system. Such a system would no longer be plagued by anomalies and inconsistencies between retirement income arrangements and other income support arrangements for carers and people with disabilities.

The cornerstone of a retirement incomes policy must be the determination of a Cost of Living in Retirement benchmark for seniors to age well with a modest lifestyle by current Australian standards of living. The government must guarantee that, for each Australian, their income from all sources must at least meet that benchmark. The age pension must be set at a level, and in a manner, that will enable those with no other sources of income, to receive a supplement that enables them to at least achieve the benchmark.

Dr Geoffrey Bird

Executive Director

What is COTA Over 50s?

COTA Over 50s is a national peak policy and advocacy organisation for seniors. Its members are the Councils on the Ageing in NSW, Victoria, Tasmania, Western Australia, South Australia, ACT, Queensland and the Northern Territory. These organisations represent many hundreds of thousands of individuals and groups across the country. COTA Over 50s also collaborates with many other organisations addressing issues that impact upon older Australians. COTA Over 50s bases its national policy and advocacy work on the views, interests and needs of older Australians as both citizens and consumers. Its prime objective is to promote, improve and protect the circumstances and wellbeing of older people, in particular the vulnerable and disadvantaged. In developing its policies, COTA Over 50s has a sustained regard for future generations of Australians.