

COTA National Policy Forum

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Overview

- Financial security and longevity: the issues
- Public policy, financial security and longevity: not so much 'what's the plan' but 'where's the plan?'
- Issues which public policy needs to grapple with
- Opportunities to better manage longevity risk, build fairness into our retirement income system

Financial security and longevity: the issues

- How do we pay for 'extra' years of life?
- What does a 'decent' standard of living look like?
- Financial insecurity: interaction with concepts of poverty and deprivation
- Our current retirement income system should better manage longevity risk

Financial security and longevity: the current plan

Public policy & longevity: where's the plan?

Plan appears to be: manage budgetary pressures

- increase to pension eligibility age
- changing indexation of pension
- removing LISC (short termism)

But some policy settings not consistent with this plan

- removing tax on high income superannuants (>\$100K)
- not touching taxation of superannuation otherwise
- what about other areas of revenue-raising?

Stop to consider: what are we planning for?

- A vibrant, active, productive society for all ages
- A society where older Australians are free to work and to engage in other pursuits without discrimination
- A different life course: think creatively
- Financial opportunities: emerging markets, investment opportunities presented by longevity

Superannuation, longevity and vulnerable groups

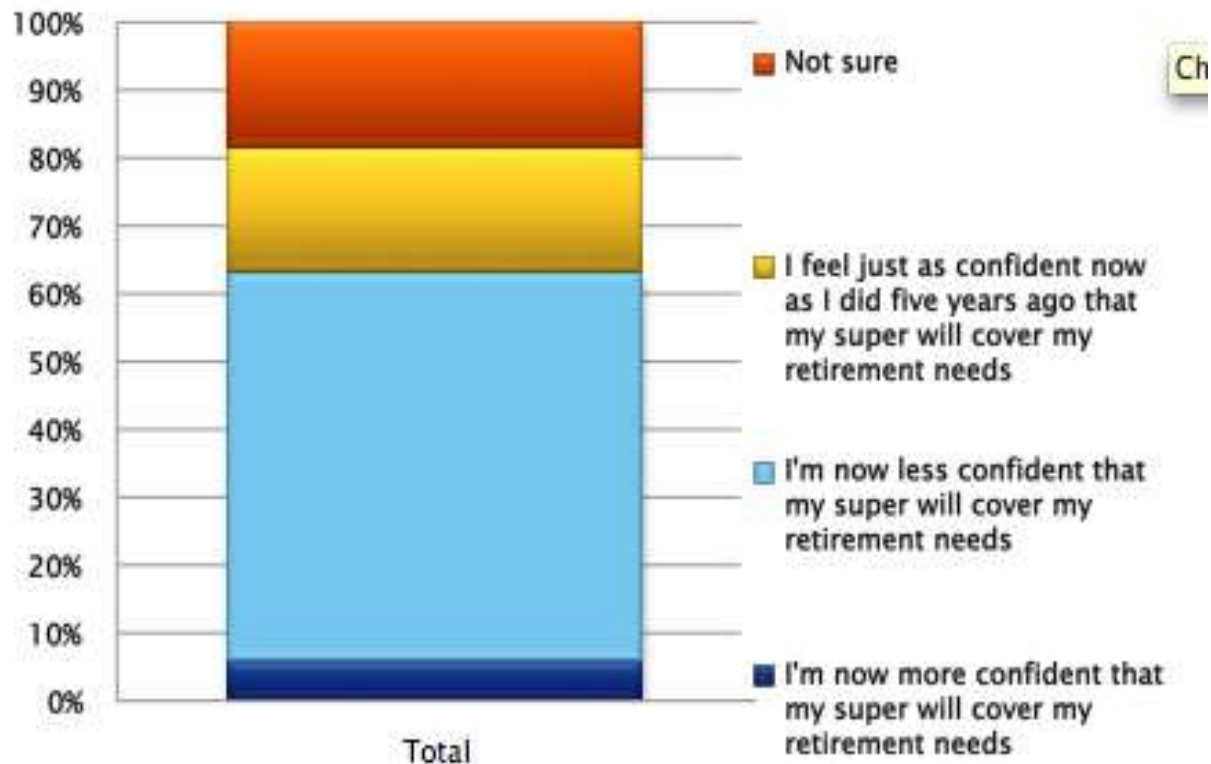
- **Person A:** male, age 35, average super balance, works full time on average wage until age 70
Estimated super balance \$875,000
- **Person B:** female, age 35, average super balance, works full time on average wage for two years, goes out of workforce to have children for three years, returns to part time work (0.5 average wage) until age 70
Estimated super balance \$515,000

Complicating issues for vulnerable groups

- Not on average wage or higher?
- Don't/can't work until 70?
- Engaged in work which is patchy?
- Inhibitors to work prevent you working at all?
- Renting
- Debt
- Taxation of superannuation

Growing unease about superannuation adequacy

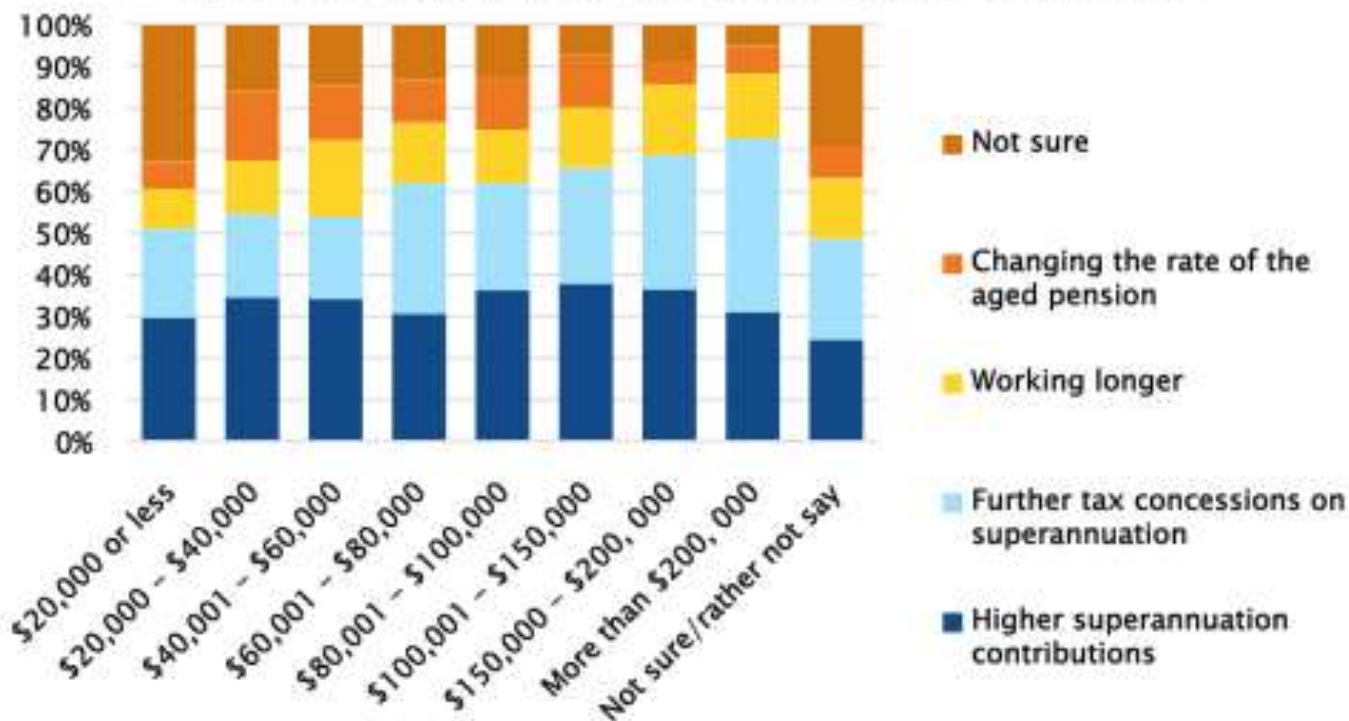
Compared with five years ago, how confident are you that your superannuation will cover your retirement needs?



Source: Per Capita Tax Survey 2014

Confronting political realities

When thinking about retirement income to provide for longer life expectancies, do you think this income should be funded by:



Source: Per Capita Tax Survey 2014

Flaws in the age pension

Age Pension helping some people who don't need it, not sufficiently helping people who need it most

- currently is the main way we manage longevity risk
- is the most targeted pension system in the OECD
- but flaws in its design mean it is operating inefficiently:
- Harmer: 15% of people in top net wealth quintile receive age pension
- NATSEM: 13.8% of all people receiving age pension in households where average net worth > \$1.6 million (2009)

Financial security and fairness across longer lives

Managing longevity risk

- supporting the development of the private annuities market
- compulsory annuities or income streams – don't follow the UK!

Turning assets into income

- supporting the reverse mortgage market

Staged retirement

- supporting a best practice program
- flexible workplaces

Financial security & fairness across longer lives (c'd)

Make the pension more targeted

- take the family home into account in the pension means test, where the family home is worth > 1.5 times the average house price
- **or** have this amount accrue as a debt for each year of pension payments, payable out of the estate
- increase the rate of the age pension for people fully reliant on the pension

Tax superannuation progressively

- start with taxing contributions progressively

Concluding comments

- Longevity is the 'demographic climate change of our time'
- Specific issues prevent people in vulnerable groups from being financially secure across longer lives
- Opportunities to assist citizens to better manage longevity risk and to make retirement income system fairer at the same time

Questions and Comments

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