Context

Having a reliable source or sources of income in retirement is essential for older people. Financial security in later years is closely linked to more positive wellbeing.[1]Economic security is essential for wellbeing in older age. Reliable retirement income is the means to provide economic security in later years. While not explicitly stated, the retirement income system is intended to enable people in retirement to have incomes above the poverty line. The Retirement Incomes Review[2] outlined three pillars to Australia's retirement income system, the age pension; compulsory superannuation and voluntary savings. We have built on these original pillars to include all forms of government support (not just the age pension) and to include both voluntary and compulsory superannuation within the same pillar:

1. **Government Supports** including:
    a. the age pension,
    b. other income supports such as carers payment, disability support pension, JobSeeker, and commonwealth rent assistance; and
    c. tax concessions provided on funds placed in and generated within superannuation, and
    d. the commonwealth seniors' healthcare card (including discounts funded by the state government).
2. **Superannuation** - made up of both the compulsory superannuation guarantee and voluntary contributions, during either the accumulation and/or the draw down/retirement phases,
3. **Voluntary savings** - made up of cash and assets in non-superannuation financial products including the family home.

Australia has a strong social security payments system and a well-developed superannuation system.

Compulsory superannuation was introduced in 1992 to support growth of personal retirement savings allowing older people to have an independent income stream in retirement and reducing reliance on income support payments. The system currently delivers inequitable outcomes particularly for women. On average, women retire with much lower superannuation balances than men. This is largely due to an "accumulated result of the economic disadvantages faced by women in their working life"[3] including earning lower salaries, part time work and career breaks to undertake caring duties for children and/or ageing relatives. .

As at December 2022:

- 2,576,580 people receive the age pension, 55% are women.
- 310,610 age pensioners also receive the Commonwealth Rent Assistance.
- A further 122,140 people of age pension age receive either the carers payment or disability support pension.
- 473,065 people receive a Commonwealth Seniors Health Card (but no other form of income support).

As at June 2021:

- There are 2.6 million superannuation accounts held by people over 65 years old, but only 1.4 million have a pension account.

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- A further 1.5 million accounts are held by people aged 60-64 (noting a person can access their superannuation from age 60) with 250,000 of these a pension account.
- The average benefit in a retirement pension account across all APRA-regulated sectors was over $330,000, with the average member 65+ account balance of $235,000.

Most people's retirement income includes a mix of superannuation income and an income support payment. Government's support provides a dual function of both a social safety net for those entering retirement without superannuation and private savings to support themselves. People may structure their finances based on lifespan assumptions and may later become eligible for the pension when their assets are reduced- this is a form of longevity risk protection.

A comprehensive review of the Retirement Incomes System, across the pillars was conducted in 2020. Neither the Morrison Government nor the current Government have responded to the review.

Older Persons' Experience

Many older Australians live close to the poverty line[4] , despite our social security safety net, superannuation system and any private savings from their working phase of life working phase of life. One factor is that Australia's retirement income system assumes high rates of home ownership when the rate of the age pension was set. The future number of pensioners owning their home is predicted to decrease given current home ownership trends amongst younger population groups.

A growing number of Australians are carrying mortgage debt into retirement and paying off higher levels of debt relative to house values and income. Repayment risk can prompt older mortgagors to draw down on their superannuation wealth. Increasing numbers of older people retire (either voluntarily or involuntarily) from full time work while their mortgage balances are unpaid. This has consequences for the wellbeing of older people and impacts on retirement incomes policy and housing assistance programs.

Many people find themselves without the income stream needed for a dignified retirement and instead are solely reliant on social security payments.

Housing stress, debt and poverty is a particular risk for single older women, who have longer life expectancies than men, but lower superannuation balances. The impact of lifelong gender pay disparity and episodic work due to caring responsibilities is worsened by increasing rates of older age divorce which disproportionality impacts older women's financial status Older women are now the fastest growing cohort of people at risk of homelessness.

Age pension recipients are not encouraged to work and experience a financial penalty when they do. Policy settings need to consider all three pillars of retirement income given the effects that changes in one pillar can have on another both for the individual and the flow on to key costs in later life such as health, housing, and aged care.

Action Required

Older people should receive income that achieves a dignified life in retirement. This should include their superannuation and private savings, along with adequate government supports.

Government supports should enable recipients to live above the recognised poverty line. Government support policies should prioritise achieving equity amongst citizens and be fair and affordable to the national budget.

For this to occur:

1. Government should legislate an objective of superannuation and measure all future changes to the superannuation system against it. The Government proposes the objective should be "to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.". It should consider the three pillars of income, so that superannuation is properly considered for its role within the retirement income system.
2. There should be an integrated policy approach to retirement income covering pensions, superannuation, taxation, concessions, and support for workforce participation. This framework should take account of costs in later life including health, housing, and aged care.
3. Government should commit to a specific independently calculated poverty line indicator and ensure that Income Support is funded to a level that remains above that poverty line.
4. Older people who choose to work after being eligible for the age pension, should be able to earn wages up to the tax free threshold before their pension is reduced. The age pension should be tax exempt so pensioners who work are not unfairly penalised.
5. Superannuation should not be drawn down for purchases before retirement (except in exceptional circumstances such terminal medical condition, permanent or temporary incapacity, severe financial hardship) or used as a reduced tax environment designed to transfer the bulk of its balance as inheritance.
6. Government should implement the recommended change to the Age Pension Taper Rate to a reduction of $2.25 per fortnight from the Retirement Income Review. Currently, if a person has asset values above the limits set by Services Australia each year, their pension is reduced by $3 per fortnight for every $1000 over the asset limit.
7. Pre-retirement income support payments (e.g., the Jobseeker payment) should not inappropriately impact people in their retirement planning phase. Liquid Asset Waiting Periods for JobSeekers over 50 years should be abolished.
8. Both Government and the Superannuation sector should facilitate affordable, easy to understand, quality and independent information to help people plan for and make informed decisions about their retirement income needs at all ages including, but not limited to:
   - The Superannuation funds could provide "wakeup" packs for those aged 45 years and older to help them think about their retirement income and consider whether their private savings are better included within superannuation to provide for their future ; and
   - free financial literacy programs for any age, funded by Government.

Related policies

Superannuation
Government supports

[1] Commonwealth of Australia, Retirement Income Review - Final Report. 2020 Retirement Income Review - Final Report | Treasury.gov.au
[2] ibid
[3] Ibid p.42

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[4] Australia does not have an official Government recognised poverty line. Leading options include the "Henderson Poverty Line" (produced by the Melbourne Institute), 60 percent of median household income after tax income (used by European Union), or 50 percent of the median household after-tax income (used by the OECD). By this latter measure, Australia has a rate of poverty for people over 66 years, that is higher than all but six countries in the OECD.