COMMITTEE FOR SUSTAINABLE RETIREMENT INCOMES

Retirement Incomes Adequacy and Sustainability Roundtables

Summary and Takeaways
6-7 April 2016

In partnership with the

ACADEMY OF THE SOCIAL SCIENCES IN AUSTRALIA

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Executive Summary

Introduction

On 6-7 April[1], the CSRI convened two policy roundtables in collaboration with ASSA. The overarching goal was to develop policies to improve the efficiency of the retirement income system and the use of superannuation balances and in so doing to relieve pressure on the Australian budget and improve living standards in retirement.

The Australian retirement income system has evolved over the past 40 years to be a reasonably sound and robust system. It features three pillars that complement each other: the aged pension; compulsory superannuation; and voluntary savings. Generally, the level of aged poverty is low and retired people are enjoying an increased level of financial security than previous generations as more and more people have mature superannuation balances.

There is however, plenty of room for improvement. CSRI is committed to improving the adequacy and sustainability of retirement incomes for all Australians.

To this end, the first roundtable dealt with retirement income adequacy including interrelationships with aged care and housing. The second examined the interaction of the four retirement income pillars to determine options for improving sustainability. This document provides an overview of the discussion and analysis presented at the roundtables.

The roundtables' outcomes will contribute to the development of a series of position papers that in turn will be subjected to debate and scrutiny at the CSRI Leadership Forum later in the year. The aim is to build a broad coalition of support for a holistic reform agenda for the Australian retirement income system.

Adequacy

There is wide agreement that the level of the base age pension is about right as a guaranteed minimum income relative to community standards for those who own their own homes. The age pension has grown the most of all the welfare payments.

Those renting privately, however, are not receiving adequate income support. More broadly, a much higher priority would be to increase income support for older people unable to find employment before reaching age pension age. One advantage of increasing rent assistance is that this would also assist the most needy amongst the unemployed and sole parent payment recipients.

Under current policy settings, only males in the highest income cohorts reach a comfortable standard of retirement income.

Mandated contribution rates of 12 percent would result in 70% replacement rate for medium income earners working 35 years.[2] For the majority of people on lower incomes and broken careers (particularly women), a higher replacement rate is possible because their incomes are low during their working lives highlighting the weakness of replacement rates as a measure.

Raising the contribution rate (beyond the legislated increase to 12%) for everyone would hinder the ability of low-income earners to meet other expenditure needs such as buying a home. Conversely, freezing the SG at the current 9.5% would adversely affect adequacy for low-income earners.

While retiring before age 60 is a major inhibitor of adequacy, increasing the age pension age and preservation age is not effective in increasing the participation rate given other labour market impediments. Any increases in the preservation age would need to be accompanied by increases in the qualifying age for tax free superannuation.

The low income superannuation contribution (LISC) is an important equity measure that ought to be increased rather than phased out.

[1] The roundtables were held before the Government announced a package of superannuation measures in the 2016 Budget.

[2] [Update to reflect Gallagher's analysis].

There is no one measure of adequacy, but rather multiple measures are needed for policy analysis. Relative measures are more suitable than absolute measures. ASFA standards assume that people own their home and therefore are not suitable for assessing adequacy for those who are likely to face housing stress.

The 'deprivation method' has been developed as a measure of adequacy to overcome many of the methodological difficulties associated with other measures. Income is only a means to an end and a proxy for well being. This highlights the need to look at wellbeing including in kind benefits and services.

Gender Gap

The gender superannuation gap is driven by the employment-based nature of the superannuation system reflecting gender disparities in employment pay, broken career patterns and the adequacy of support for those looking after small children. The evidence also highlights that the problem is not a cohort issue that will go away with greater maturity of the system.

46% of retired women are single highlighting the fact that reliance on a spouses' income may not be an adequate solution.

Moreover, the gender gap is not just an issue for single women. Evidence suggests that ownership of assets within households is associated with control of those assets. This argues for ongoing monitoring of adequacy both on an individual and household basis.

There is increasing recognition that the inequities in the workforce and in the sharing of caring responsibilities (resulting in broken work patterns) should not be transferred into retirement. Gender inequity needs to be considered in the design of superannuation system policies.

There was wide agreement to a zero tax on contributions at low-income levels that would offer some compensation for those (mostly women) who spend years out of paid work or undertaking part-time work. Other options include going further through rebates for carers and co-contributions.

While policy measures that improve targeting will help address the gender gap they may not go far enough. Other countries that have more equal outcomes in retirement among the genders achieve this through more flexible employment policies (parental leave) and a universal pension system that would feature a central, rather than safety net, role for the Age Pension.

Given the fiscal situation, care is needed to ensure that measures to address the gender gap are well targeted. The political appetite to address gender inequity is low given that measures to contain the fiscal cost are likely to elicit claims of retrospectivity.

Sustainability

Tension exists between the pursuit of adequacy and sustainability, with the latter arguably a greater problem. Structural deficit is $35b – half is aged spending.

Until now it was assumed that the next generation would be better off than previous generations, however that may no longer be the case - a real concern exists that future generations may not have enough to retire on.

Adequacy relies on high levels of home ownership but this is decreasing among younger people.

A holistic view of the interaction between age pension and super is needed. The pension system is moderately harsh while the superannuation system is concessional. Theoretically perfect "EET" is not so perfect when the age pension system works against it.[3]

Tax concessions are high and rising. Given that the purpose of superannuation is to supplement and substitute for the age pension, rather than wealth generation, concessions are also poorly targeted. We need to look at the underlying factors driving high super balances and excessive tax concessions before considering policy prescriptions.

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[3] The key advantage of an EET system is that the timing of the revenue accrues when it is most needed i.e. at retirement and when with the cost of population aging it is the greatest.

There is wide acceptance that at higher income levels the tax system tends to have more effect on the form of savings rather than the level of savings, further casting doubt on the need for generous tax concessions for high income earners. The tax penalty currently applying at lower incomes is inequitable particularly once the LISC is phased out. This also runs counter to adequacy objectives.

A focus on the cost of contribution concessions provides an incomplete picture of the cost of concessions as concessions are also very high in the earnings and benefits stage.

The right reform option depends on what priority is placed on equity and sustainability relative to income replacement. When considering the future of any tax concessions, there was more support for priority to be given to equity and sustainability than income replacement.

To improve adequacy, tax concessions should be targeted at low-income earners and people with interrupted work patterns (who tend to be women).

The pros and cons of introducing a progressive rate scale minus a rebate need to be properly weighed up.

The pros include:

- Would eliminate the current complexity associated with the current flat rate supplemented by the LISC and the Div 293.
- Would be more difficult to change compared with current arrangements that are tweaked on an annual basis.

The cons include:

- Contribution caps would still be required to prevent high concessions accruing to high-income earners.
- Implementation costs would be significant
- Various adjustment to the super tax arrangement serve to simulate the effects of a progressive rate tax minus a rebate. Therefore its hard to sell the introduction of a progressive rate with rebate as an equity measure.

To reflect the progressivity of the income tax scale, a strong case exists for removing the tax on contributions for low-income earners and to impose the 30% rate at $180,000 and above (rather than the $250,000 threshold announced in the 2016 budget). The outcome would be similar to applying a 20% discount on marginal tax rates across the board.

Some complementary action to address leakages in the system is also needed, most clearly by taxing earnings in the pensions phase and/or limiting offsets for dividend imputation to the level of earnings tax actually paid and/or by eliminating non-concessional contributions. Introduction of lifetime contribution caps would allow for tightening of concessions without unduly penalising people with broken career patterns, particularly women.

There were differing views about means test arrangements. Amongst those who support the means test, there was agreement that it should be based on the assumption that people should be drawing down their assets over their retirement years. The question was whether the new assets test is the most coherent way of doing so. The new test will introduce some anomalous incentives to maximise age pension entitlements without affecting the total assets being held.

For the longer-term, there was agreement that the means test should not be distinguishing between different assets, and that consideration should be given to means testing the family home. Transition arrangements might include a high threshold and/or only applying the test to future retirees with substantial experience under the new superannuation system. No support for merging the assets and income test.

Using minimum drawdown policy as a means of discouraging people from using super as a tax minimization strategy is a blunt instrument that has adverse consequences of countering adequacy and longevity risk management.

The impediments to the take up of a broader range of income stream products should be removed.

Housing

Older households have a considerable amount of wealth tied up in housing and have benefitted from concessional tax and transfer system treatment for housing. The policy options include:

- Means testing the family home as part of a more equal treatment of assets in the assets test.
- Taxing the family home, to some extent, to reduce its highly concessional tax treatment.
- Drawing on the family home to supplement retirement income
- Drawing on the family home to finance aged care costs

Older generations of retiree may well benefit from tapping into the equity of their home including through:

- Reverse mortgages
- Equity release schemes
- Measures to allow for right sizing

Younger households won't benefit from housing to the same extent as previous generations because of increasing super contributions, and lower housing affordability. They are seeing increasing housing debt at retirement leaving less superannuation to live on at retirement.

Therefore measures to require people to use the equity in their homes before drawing on the pension raise significant policy implications.

First, the government would need to take a lead, at least initially, to facilitate retirees unlocking the significant store of wealth tied up in housing.

Second, such options may be less accessible for future generations of retirees who are likely to accumulate less wealth in housing. Consideration should also be given to ensuring that such measures do not disadvantage people living in geographic areas that have not benefited from capital appreciation to the same extent as have the major capital cities.

Third, with increases in aged care costs, many expect to use the equity in their homes to provide for future aged care financing. Any consideration of including the family home in means testing would limit its availability for aged care financing.

In summary, given that the age pension is more targeted at lower income earners than housing tax expenditures, a reduction of housing tax expenditures should be contemplated before including housing in the means test. Policies to include the family home in the means test, or otherwise draw on housing to fund retirement, would limit its availability to finance aged care.

Aged Care

The Australian superannuation system, being of a defined contribution, variable benefit nature, leaves a number of risks with the retiree. These include investment cycle risk, inflation risk, longevity risk and "major life event" risk. The latter comprise principally, in most people's minds, as health and aged care risks.

The costs of aged care are increasing due to the ageing population. Increase in the costs to the Commonwealth of aged care will exceed the increase in the costs of the age pension over the next thirty years.

There are a number of broad options that could be used to assist individuals with the cost and complexity of health and aged care:

- Increase dedicated private savings
- Increase the Superannuation Guarantee
- Draw on housing equity through mechanisms such as equity release products, downsizing or income contingent loans
- Take out voluntary or compulsory insurance.

With the development of a more consumer driven and market based aged care system resulting from the government's aged care strategy, other means of making provision of aged care costs may be developed by the market. Options include annual premium based policies and annuity based products.

For those with sufficient means, products that use the pooling of longevity risk to help fund health and aged care will increase self-sufficiency and, by doing so, reduce fiscal pressures.

Such products face the same regulatory barrier that has faced efficient superannuation longevity products, that is that they are not contemplated, and therefore not accommodated, by current health insurance and aged care legislation. Similarly, they also require clarity on their tax and means test treatment.

How these would be treated for tax and social security purposes is a critical determinant influencing their attractiveness and hence viability.

1. Adequacy Conceptual Issues

Adequacy is defined as the ability of a payment to support a basic acceptable standard of living that is consistent with prevailing community standards.

Absolute measures – Absolute poverty line consistent with 'subsistence' level. Measures basic need based on level of adequate nutrition consumed by people considered poor. Rarely used in developed countries.

Minimum budget standards (eg ASFA modest and comfortable level of income) are relative poverty measure capturing prevailing attitudes to poverty through surveys.

There are methodological issues associated with assessments of poverty involving comparisons of incomes with a poverty line benchmark including:

- the choice of equivalence scale to recognize economies of scale in households;
- the choice of poverty benchmark
- the choice of indexation benchmark
- while the unit of measure is often income, many other factors affect living standards – wealth, physical health, and public services.

Poverty lines and minimum budget standards have come under criticism for being too narrowly focused on incomes, for embodying arbitrary assumptions about needs and how much is required to meet them and for not being grounded in living standards actually experienced.

Saunders and Wong (2016) argue that assessments of poverty should extend beyond comparisons of individual incomes with a poverty line defined in terms of a minimum absolute standard of consumption. The "deprivation" method gauges the less tangible effects of poverty by identifying where a lack of economic resources results in an unacceptable standard of living. The method seeks to identify those who are unable to afford items that are widely regarded as essential.[4] Deprivation is identified as existing when people did not have and could not afford an item that was regarded as essential by the majority. In doing so, it avoids the need to set a poverty line or equivalence scales.

Income replacement measures the extent to which individual's standard of living in working life will be maintained in retirement. Can be maintained with income of less than 100 percent of pre-retirement income because cost of living is lower in retirement.

A range of issues associated with measurement of replacement rates:

- Those on low incomes will see higher replacement rates because their lifetime incomes are so low. Those on higher incomes may have lower replacement rates, they also have access to voluntary savings vehicles beyond the retirement system.
- Targets – World Bank 1994 – target for middle income earners is 60 percent of gross average lifetime earnings. OECD net replacement rate for average earners across the OECD averages 63%.
- Most countries don't target replacement rates because of difficulties of doing so.

There are strong arguments in favour of assessing adequacy on the basis of relative, rather than absolute income.

- Amartya Sen's reference, in his Nobel Prize lecture, (1999: 360-61) that individuals who are relatively impoverished in a rich society are also potentially deprived "of the capability to take part in the life of the community "
- The importance of relative poverty finds support in the Australian policy context from (Harmer 2009; Xii – xiii) and Henry (2009). According to Treasury: "*In framing policies to alleviate disadvantage, a simple focus on the adequacy of income ... has been replaced by broader goals*

[4] It does this by conducting a survey in which people are asked which of a list of items they regard as essential for people in general. (The list obtained from focus groups and overseas studies.) Those surveyed are asked if they had each item and if not whether that was because they could not afford it.

that focus on lifetime income and the capacity of people to engage in work and other social activities." (Treasury 2009: Part 1, 19)

The intertemporal dimension of adequacy measures is also important. What might be viewed as adequate today might not be seen as adequate in 2020. If payment levels are adjusted for changes in the CPI but not for improvements in real community incomes, the implicit assumption is that adequacy is being evaluated in an absolute sense that takes no account of changes in general living standards

Rather than commit to one benchmark, a range of benchmarks is recommended for assessing the adequacy of the pension.

2. Adequacy in Australia

2.1. Poverty and Deprivation

Using the deprivation method, Saunders and Wong (2016) investigated the relative adequacy of income support for all categories of income support recipients between 2006 and 2010. The results showed that:

- The payment levels did not provide equally adequate incomes for different groups of payment recipients
- Among the various groups receiving government support, pensioners on average received lower levels of deprivation than those on sole parenthood, disability and unemployment benefits
- Within the age pensioner group the strongest case for a pension increase was for people living in rented accommodation not those living alone.

These results indicate that the group that received the greatest pension increase in 2009 (ie age pensioners living alone) was not the group in greatest need.

Despite low levels of deprivation, Australia has a high measured level of poverty among developed countries on the basis of OECD comparisons. According to Whiteford (2016), the reason has to do with the differences in the Australian three pillar system compared with other OECD countries.

- Australia has a relatively high basic pension that is available widely (tight income test but loose asset test). Relative to earnings, the Australian Age pension is the 12th highest effective minimum age benefit in the OECD. Australia is reported as having the second highest level of receipt at 78%.
- The flat rate of pension (not earnings related) is set just below the OECD poverty line, measured in relation to median earnings) resulting in a high proportion of pensioners falling below the poverty line. This compression of incomes could then be expected to make estimates of poverty among older Australians particularly sensitive to how close pension rates are to the poverty line.
- Superannuation is relatively immature. Current retirees have only had the benefit of it for latter part of their working lives so it does little to improve their retirement incomes.
- Incomes distribution analysis is not a good measure as there are people on very low incomes who are able to use their assets to maintain a higher standard of living than implied by income alone. Australian retirees enjoy moderately high standards of home ownership compared with other OECD economies.
- Rapid increases in median earnings results in increases in measured levels of poverty.

2.2. Superannuation Balances

Hypothetical modelling of superannuation accumulation over a working life and resulting retirement incomes for people who substantially work full time is provided by Gallagher (2016) to examine the extent to which default superannuation can improve retirement incomes over the public pensions.

The results show that average retirement incomes for:

- single females range from $25,900 to $38,600; and
- the male range is $29,300 to $54,500.

It is sometimes argued that retirement savings of women should not be looked at in isolation as most are married and couples share their resources in retirement. However, the fact that 46% of women over 65 are not married challenges this argument. Also the view that couples share resources is open to challenge.

The financial assets of unmarried women are considerably below married women: single women aged 65 - 74 have on average $50,000 less in financial savings than married women and $130,000 less than married men. This suggests that widows and divorcees have fewer resources to supplement their pensions.

2.3. Income Replacement and Comfortable Standard

According to Gallagher (2016), even with over 45 years of full-time work, replacement rates may not meet the 70% or 65% standards. Most cases in the analysis are below a replacement rate of 70%, particularly for males and couples. As mentioned above, women tend to have higher replacement rates because their lifetime earnings are lower. Therefore the variability of replacement rates and their declines as incomes grow larger mean that replacement rates may not be suitable for setting retirement adequacy standards.

Only male and couples in the highest income cohorts (at 2.5 AWOTE) exceed a wage indexed comfortable standard although the single male and couple at 1.5 AWOTE basically reach it.

Women with wages below $40,000 do not exceed 110% of the OECD poverty line.

Modelling impact of various policy levers on adequacy

Minimum drawdowns - of allocated pension or other savings are a major problem for adequacy and longevity risk management, particularly when combined with an asset test withdrawal of 7.8%. Minimum drawdowns (after an initial withdrawal) are likely to be preferred by many retirees because of precautionary saving and the inability to adjust to highly volatile rates of return. Precautionary saving also leads to a preference for commutable products.

Freezing the SG - would hurt adequacy for lower income women

The LISC - is primarily a tax equity measure. It does make significant improvements to benefits for lower income people, but the average payment is only $430 per year. For adequacy policy, a more generous and targeted co-contribution could be considered.

Statutory Age - Retiring at age 60 adversely affects adequacy, but for many will be unavoidable. Statutory age rises are ineffective in changing behaviour as the vast majority of retirement is involuntary. Current retirement behaviour shows that most of the workforce will retire in the five years before age pension age for unavoidable reasons such as disability, health, and involuntary retirement.[5] There is a distinct peak in retirements at age 60, and the tax free benefits age is a likely driver.[6] Raising age pension age has not been demonstrated to lift labour force participation of women. Caution needs to be exercised in proposing further lifts in age pension age.

The same arguments about disability, health, and involuntary retirement apply to proposals to lift preservation age. The current schedule lifts preservation from 55 to 60 between 2015 and 2025. It seems likely that the rising preservation age will not have much of a labour force impact in the next ten years. The effects of the current schedule should be evaluated before proposals to lift preservation age beyond 60 are legislated. Any lifting of preservation age beyond age 60 would need to be matched by a lift in tax free super age.

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[5] Preservation Age and Age Pension Age - Most of the workforce has retired before age pension age. The 2006 Census indicated that the labour force participation of 63 year olds was less than 50% and that of 64 year olds was less than 40%. Furthermore, labour force participation continues to drop after age pension age with participation rates being around 30% at 65, 25% at 66, 20% at 67 and 15% at 68. There are very few full-time workers beyond 70. These participation rate drops have nothing to do with life expectancy which is around 86 for men and 89 for women (see 2015 IGR page 5).

[6] Other reasons put forward by the National Inquiry into Employment Discrimination Against Older Australians and Australians with Disability' are cost of OH&S insurance for workers over 60.

3. Retirement Income Gender Gap

3.1 Causes of gender gap

According to the Australian Human Rights and Equal Opportunities Commission, the gender gap in retirement savings (as highlighted above) is the result of a combination of interrelated factors across the course of a woman's working life, including:

- lower workforce participation rate and disproportionate representation in part-time and insecure labour;
- occupational and industrial segregation;
- the gender pay gap;
- pregnancy related workplace discrimination; and
- unpaid caring work.

The gender gap in retirement incomes remains around 37% in recent decades reflecting both their lower hours of paid work and broken patterns of workforce participation (CSIRO Monash research).

The following discussion of gender analysis of retirement income policies is based on Austen (2016). Lack of progress in reducing the retirement income gender gap is attributed to a number of structural features in the current system that undermine the chances of women being able to generate the same superannuation savings as men. Superannuation ties retirement income to labour market earnings and thus works best for individuals who have higher earnings, uninterrupted involvement in paid work and or full time hours. Moreover, while patterns of workforce participation, earnings and hours of work are changing, the pace of change is so slow that, looking forward, if policy settings remain unchanged, there will be only marginal improvements in the gender gap in retirement incomes.

3.2 Policy Response

The traditional policy view has been that couples pool their assets so the super gender gap has not been a policy concern. In other policy domains, individual rather than household income and wealth are commonly used to assess wellbeing.

From an equity perspective, basing policy on household income is negative because it neglects the distribution of the ownership and control of resources within households and how this can expose some older individuals (more often women than men) to the risk of poor decision-making and inadequate resources. Austen (2016) highlights that the available evidence supports the view that wealth is unequally distributed within households and that ownership of assets determines how it is spent.

- The SIH data confirms that the gender wealth gap we see across single households (Austen et al 2013) also occurs within couple households.
- Productivity Commission survey for their Housing Decision-Making project show that 46% of married men aged 65+, as compared to only 20% of married women in the same age group, perceived that they controlled most of their household's financial decisions. The proportion of men reporting control of decision-making was higher (at 51.6%) in the group with superannuation as their key source of income, and lower in the group who relied on the Age Pension (40.4%).

This leaves women vulnerable to the decision of their partners in relation to retirement planning generally and specifically in relation to retirement benefits and annuities.

According to Stringer (2016) tension also exists between the need for forfeiture of death benefits for successful pooling of longevity risk and the need to pay death benefits to a surviving spouse. Annuities with reversionary benefits are more expensive than those without. Given the complexities associated with annuities, protections are needed to ensure that retirees understand the products and are in a position to make a choice in their best interest and that of their (potentially) surviving spouse. This suggests the need to consider the requirements for how super balances are used to provide greater protection for surviving spouses against poor decision making by the spouse who has ownership of super assets.

Therefore analysis of adequacy needs to include outcomes when assets are and are not pooled. It also needs to consider outcomes in 35 years time when the system matures, as well as outcomes in the intervening years while the system is yet to mature as women in the intervening period are particularly vulnerable to age poverty. Non-homeowners and divorcees – are particularly vulnerable to the risks of an inadequate retirement income. Specific measures to respond to their needs and circumstances are required. [7]

3.3 Policy Alternatives

Other countries that have more equal outcomes in retirement among the genders achieve this through more flexible employment policies (parental leave) and a universal pension system. A universalistic policy approach (which would feature a central, rather than safety net, role for the Age Pension) offers women greater protection against inadequate retirement income than a tightly targeted approach (Korpi, 1980) (Austen 2016).

Minimalist approaches would involve reform of the structural design of the system to offset the regressivity of super tax structure that disadvantages women:

- Reinstating the LISC would be a minimalist approach to help people on low incomes who are mainly women. However it does nothing to help women while they are out of the workforce.
- Reducing the threshold at which the Div 293 (total) 30% tax rate applies doesn't assist with gender bias unless the savings are redistributed to provide a rebate to those out of the workforce caring for others.

Other measures that ought to be considered:

- Reforms to recognize those that undertake caring roles on an unpaid basis in the community. Some mechanism is needed to compensate for periods when women are undertaking unpaid caring roles and not contributing to super. Possible measures include SG for carers and included in paid parental leave.
- Coverage issues – the self employed are not covered by super; need gender analysis of the SMSF sector; the $450 per month threshold should be addressed,
- Should the system better accommodate the sharing of super among spouses during accumulation. (eg halving the annual caps for individuals but allowing higher paid spouses to contribute to the super balances of a lower paid spouses within the latter's contribution cap).
- There's an argument for a higher contribution rate for women eg 15% however would this cause employers to further discriminate against women.
- Magic of compound interest – if women accrue super assets over their working life, its impossible to try to make up for it at the end of their working life. Providing support in early career may be more effective than waiting till later.

The budget situation and the growing costs associated with the aging of the population, particularly aged care, superannuation tax concessions, and age pension create a difficult political and economic environment in which to address the superannuation gender gap. Suggests the need to find budget savings and ensure that measures to improve gender equity don't create significant leakages to other high income groups. At the end of the day the priority given to gender equity vis a vis other equity measures is a political question.

[7] Since the roundtable, the government announced in the 2016 Budget the government announced a superannuation package including a measure to aimed at helping people who experience interrupted work patterns.

4. Interaction of the Age Pension and Super

There is broad agreement that the retirement income system should be considered in a holistic and integrated way. In examining the interaction between the tax and social security system in relation to retirement income, the current arrangements combine concessional tax treatment of super that encourages savings with moderately harsh age pension means testing that discourages savings. This is considered moderately harsh because while the threshold income and assets test are high (concessional), the high taper rates apply a punitive effective marginal tax rate (Stewart and Ingles 2016).

As a result of these conflicting policies, it is argued by Stewart and Ingles (2016) that Australia's tax settings for superannuation and age pension means test may distort both savings and investment behaviour, while the age pension means test also may distort work behaviour. An alternative viewpoint is that high effective marginal tax rates have marginal impact on workforce participation, partly but not only because of the effect of labour market constraints.

This doesn't affect the top 20% of population who won't need the pension or the bottom 1 or 2 quintiles who will be dependent on the pension. It affects the large middle group of taxpayers.

Steward and Ingles (2016) proposed that a principled tax treatment of savings could apply to savings both inside and outside of superannuation and thus make the tax system neutral across the various investment options open to savers. It also opens up the possibility of a tax/transfer system that is neutral, as between the pre-retirement and post-retirement phases. According to this logic, to the extent that the EET is theoretically preferred, the argument for EET is considerably diminished by the fact that it is offset by means testing of the age pension. A related view is that a tighter means test (higher taper) would improve the situation by reducing the range of income over which the means test applies.

With a neutral tax treatment, some regulatory requirements that restrict superannuation savings, such as contribution limits, preservation rules, and minimum drawdowns could be removed.

The authors compare the Australian system (means tested age pension supplemented by superannuation) with the New Zealand system (universal pension with minimal private retirement saving system). New Zealand has a relatively high universal basic pension which is taxed from the first dollar in the personal income tax, so that a net pension is paid. The NZ universal pension is taxed at a marginal tax rate of 10.5 per cent or 17.5 per cent. This compares to Australia's marginal tax rate of 50 per cent over the deemed income threshold.

New Zealand has significantly higher workforce participation rates among mature-aged workers aged between 55 and 69 than does Australia. Labour force participation among men aged 65 to 69 is 33 per cent in Australia but is 15 percentage points higher in NZ, at 47 per cent. Among women the corresponding figures are 20 per cent in Australia and 34 per cent in NZ, a difference of 14 percentage points. Labour force participation is higher in New Zealand, including at ages well below pension age. However, Australia's workforce participation compares well with other Anglo countries such as the UK, US and Canada.

> "Keeping all else equal, ageing would result in a five percentage fall in total participation rates by 2050. If instead Australia were to achieve the higher mature-age participation rates seen in New Zealand, the fall would be only two percentage points" (Chomik and Piggott 2012a, exec summary).

Mature age labour force participation rose sharply in NZ following a rise in the eligibility age for NZ super from 60 to 65. A contributing factor is that the state provided pension is not means tested (age is the only criteria) which means that one can keep earning and receive the full pension. What is more, there is no reliance on mandated private savings that can be relied upon from an earlier age, as is the case with superannuation in Australia" (Chomik and Piggott 2012a, p. 3-4). This is reflected in the much higher mature age participation.

Overall, the structural incentives in the pension means test to withdraw from the workforce in Australia are substantial. In this context, specific policies to raise mature-age participation have had little success. These include a pension bonus for those continuing to work (until 2009), which was replaced with eased income testing of earnings in the Work Bonus and the ability to combine work and superannuation drawdown through 'transition to retirement' pensions (which have become a favoured tax planning device).

5. Superannuation Tax Concessions

Tax concessions are high and rising. Given that the purpose of superannuation is to supplement and substitute for the age pension, rather than wealth generation, concessions are also poorly targeted. We need to look at the underlying factors driving high super balances and excessive tax concessions before considering policy prescriptions. The following is based on modeling by Gallagher (2016).

Total cost of tax concessions in 2013-14 - $15b for concessional contributions; $11b for earnings concessions. *(*This is based on a TTE benchmark. The figures would be reduced using an EET benchmark and other impacts might also be less severe.)

Lifetime Government Support - Projections of the combined support provided by super concessions and the age pension, demonstrates that men at the 90th income decile and over receive much higher income support than men on lower income deciles, and considerably more than women in the 90th income decile and above. This excludes non-concessional contributions that further exacerbate inequalities in lifetime support.

Gender Impact - While women comprise over 50% of the population, they only receive 35% of contribution tax concessions, 34% of earnings concessions and 35% of total concessions.

Earnings and Benefit concessions -

- At high incomes the earnings tax concessions exceed the contribution concession because contributions are capped while balances are not (as yet).
- Negative tax concessions impact the first decile because people without a personal income tax liability are comparatively penalized by a 15% contributions tax.
- High non-concessional contributions are motivated by earnings tax concessions and the use of SMSFs as part of family business structures. In 2014 there were 45615 members with total assets over $2m, 992 with assets over $10m and 6 with assets over $100m.
- Some of the tax strategies associated with very large accumulations in APRA funds and SMSFs are:
    - Consistently high levels of deducted contributions, but caps are working to limit balances;
    - Large non-concessional contributions (up to $540K each for 4 people),
    - Minimum drawdown of assets in account based pensions, and
    - withdrawal of assets prior to death (or recontribution).
- Tax strategies which are particularly effective in SMSFs include:
    - deferral of capital gains until retirement;
    - in specie contributions;
    - use of the real business property exemption to achieve tax deductions for dealing with oneself; and
    - limited recourse loans.

Modelling of Alternative Contribution Rate Structures

Gallagher (2016) also compares the current contribution tax arrangements (including the LISC and the Div 293 tax) with alternative tax structures and current lifetime support. The results are outlined below.

Marginal Tax Rate (MTR) minus 20%:

- The current arrangements (pre 2016 budget measures) go a long way towards replicating the impact of MTR minus 20. The main income cohort for which these approaches deviate is for people with no taxable income to offset their super contributions tax (who are on 15% tax rate on

their super contributions) and people on incomes of between $180,000 and $300,000 ($250,000 if the 2016 budget measure is implemented). (See Gallagher 2016, Table 5).
- These deviations could be addressed by reducing further the Div 293 tax threshold and introducing a targeted measure for people below the tax-free threshold.
- Introducing MTR – 20% would not savings (and may cost the budget). It would also be a difficult policy to sell as people on incomes over $300,000 would be the main beneficiary group.

Marginal Tax Rate (MTR) minus 15%:

- A similar pattern of impact is evident as for MTR-20%.
- This measure would save the budget $5.6b in a full year.
- 73% of the savings would come from people on $37,000 and $180,000 which, for adequacy reasons, may not be the place to seek revenue savings. (See Gallagher 2016, Table 7).

In summary, if tax concessions are to be used for retirement income, the following measures should be considered:

- Concentrate on restricting the earnings concessions and non-concessional contribution caps associated with large balances and use of super as a family business asset holding structure.
- Tax earnings in the pension phase (or alternatively have a franking rebate and tax on capital gains entering the retirement phase).
- Remove the family business and share portfolio concessions from SMSFs.
- Remove limited recourse borrowing from super funds.
- Consider re-introducing a maximum withdrawal from allocated pensions to limit pre-death withdrawals.

6. Age Pension Means Testing

Piggott and Kudrna (2016) explored the effects of changing the age pension means test for key macroeconomic and fiscal aggregates and for household welfare.

The simulation results indicate that tightening the income taper combined with lower income tax rates leads to:

- Increased average lifecycle labour supply due partly to reduced income taxes and partly to reduced pension payments (and associated disincentives to work and generate private income);
- Larger private asset accumulations for most of the lifecycle with steeper asset withdrawals at older ages;
- Less consumption smoothing (i.e., increased consumption during working lives but lower consumption in retirement relative to the current or reduced taper);
- Positive macroeconomic effects with higher labour supply, consumption and assets per capita, as well as reduced pension expenditures both in the short run and the long run;
- Welfare gains for young and future generations, benefiting from increased self-funding in retirement and reduced income taxes;
- Welfare losses for current recipients of part Age Pension who face large pension

Significant welfare gains arise from the fact that the savings in pension payments are used to provide tax cuts.

Also the income effect from lower pension payments offsets the substitution effect from higher EMTRs primarily because the tighter means test affects fewer people.

In contrast to the earlier papers from Ingles and Stewart, the authors here recommend tightening the means test and totally exempting labour income from the means test.

A shorter phase range allows for lower taxes on workers, providing additional work and saving incentives.

CEPAR also supports maintaining current separate income and assets tests instead of moving to a comprehensive test and applying each more consistently across asset classes.

7. Effective marginal tax rates

The effective marginal tax rates (EMTRs) takes into account the combined effect of means testing and taxation. EMTRs for those receiving an age pension and superannuation withdrawals are typically quite high – between 70 and 80%. However, most age pensioners would face a low EMTR on an extra half-day's work – most less than 20% and almost all less than 30%.

According to Keating (2016), econometric evidence indicates that these tax rates have very little impact on decisions to keep working or saving as most pensioners do not have the skills to keep working regardless of EMTRs.

70% of all retirements occur before the age of 65 and just under half of all Australians who retire between the ages of 45 and 70 did so involuntarily (Productivity Commission 2015:211).

Labour market factors and the availability of other sources of income have an important influence on decisions by the elderly to keep working (Keating 2016).

Mature aged participation rates for people with necessary skills/qualifications are rising, probably because of the cohort effects of increasing education levels. Improving skill levels through education and training, and retraining would have more impact on workforce participation, and would cost much less than action to reduce EMTRs (Keating 2016).

8. Housing as the fourth pillar

A strong case can be made for viewing housing as the fourth pillar of the retirement income system. The following discussion of the role of housing in retirement income policy is based primarily on Yates, Ong and Bradbury (2016).

Australian taxation and transfer policies clearly promote the accumulation of housing wealth over the life course, and this is particularly evident among elderly Australians.

Under current tax-transfer parameters, the family home is completely exempt from the means tests determining income support payment eligibility.

While recognising the political challenge it would raise, consideration should be given to whether housing assets, as a key determinant of living standards, should continue to be totally exempt from the assets test (Actuaries Institute 2016).

New aged care means testing arrangements were introduced commencing 1 July 2014, which counted part of the value of the family home (capped amount of $159,423.20 as at 20 March 2016), in the assets test for determining eligibility for government subsidised residential aged care funding.

This opens the prospect of the greater use of housing to support incomes in retirement given that the current treatment of housing assets in means tests advantages pensioners with a significant proportion of their wealth tied up in the family home over those with the same level of wealth that is not stored in the home.

Any policy reform that implicitly or explicitly encourages reliance on housing wealth to meet needs in old age will need to be considered in the context of a range of policy issues raised:

First, whether housing assets will remain an adequate base for supporting the retirement needs of the broader population in the future. Various studies agree that the favourable economic circumstances that prevailed during baby boomers' wealth accumulation years are unlikely to occur again during the wealth accumulation years of subsequent generations. There are already signs that access to housing wealth is declining due to decreasing home ownership rates and increasing debt through to retirement.

Second, it is critical to ensure that in endeavouring to mitigate existing broader vertical and horizontal equity concerns, reform proposals do not inadvertently give rise to new forms of inequities associated with a reliance on housing assets to support welfare.

Housing asset-based policies may also introduce new inequities into society.

- Older renters and owners unfortunate enough to live in areas where the capital values of their homes are weak are disadvantaged within a housing asset based welfare system.
- Single older women have relatively low levels of super and their assets are much more highly concentrated in the family home than other groups. Hence, they are more exposed to policies that place greater reliance on housing.

Third, any discussion of reliance on the family home for retirement needs is incomplete without considering the tax side of the tax-transfer equation. Assets test concessions are more targeted on lower-income individuals while tax expenditures offer higher subsidies to higher-income individuals (see Wood et al., 2010). Hence, the reduction of housing tax expenditures are arguably more equitable as a reform.

Fourth, using housing for aged care, as discussed above, limits its availability for funding retirement incomes.

9. Aged Care and health care

Yates (2016) highlights that the Australian superannuation system, being of a defined contribution, variable benefit nature, leaves a number of risks with the retiree. These include investment cycle risk, inflation risk, longevity risk and “major life event” risk. The latter comprise principally, in most people’s minds, as health and aged care risks. These risks are moderated by the age pension, superannuation, a universal healthcare system and an aged care system. There is however a significant gap between the outcomes of each of these systems and community expectations.

The current funding arrangements for aged care are supported by two pillars—a dominant taxpayer funded pay-as-you-go subsidy pillar and a user-pays pillar. Under these arrangements, taxpayers bear the full financial risk associated with the public subsidy, including rising unit costs and the effects of population ageing on overall care costs.[1]

While access to aged care is underwritten by government for people with insufficient means, it often involves significant waiting times and limited choice. However expectations are increasing for better quality aged care. There is growing awareness that negotiation power for better quality aged care is going to be increasingly means dependent. At the same time, the aged care system will move to a more consumer driven and market based regime (Yates 2016).

The costs of aged care are increasing due to the ageing population. Increase in the costs to the Commonwealth of aged care will exceed the increase in the costs of the age pension over the next thirty years. This will result in greater pressure for individuals to fund their own expenses, as the costs of provision of these services by government rise.

The Productivity Commission, in their 2011 Aged Care Inquiry considered a number of potential measures to broaden the funding base for aged care including:

- Increasing dedicated private savings (aged-care savings accounts, quarantined higher superannuation contributions)
- Drawing on housing equity (equity release products or income contingent loans)
- Insurance — voluntary or compulsory.

The formal advice to government form the peak advisory groups is that:

- Means testing should expand to include the family home across all forms of aged care.
- Funding should be allocated to individual approved care recipients rather than the provider and be agnostic regarding where care is delivered.
- Supply caps should be lifted.

Increase in the value of housing assets along with increase in aged care costs means housing assets will play increasing role in future financing of aged care. There is also recognition that the government would need to take a lead, at least initially, to facilitate retirees unlocking the significant store of wealth tied up in housing.

The Aged Care Roadmap (2016) has been developed by the Aged Care Sector Committee to outline what is required to realise a sustainable, consumer-led aged care market, where consumers have increased choice and control of what care and support they receive, as well as where, how and when they receive it. With the development of a more consumer driven and market based aged care system, other means of making provision of aged care costs may be developed by the market. Options include annual premium based policies and annuity based products. How these would be treated for tax and social security purposes is a critical determinant influencing their attractiveness and hence viability. Adverse tax or social security outcomes might render such products unattractive or unviable.

For those with means, products that use the pooling of longevity risk to help fund health and aged care will increase self-sufficiency and by doing so reduce fiscal pressures. Such products face the same regulatory barrier that has faced efficient superannuation longevity products, that is that they are not contemplated, and therefore not accommodated, by current health insurance and aged care legislation (Cox 2016). Similarly, they also require clarity on their tax and means test treatment.

The suggestion is sometimes made that the level of compulsory superannuation contributions should be increased to 15 per cent to finance individuals' future health and aged-care needs (ASFA 2016). A broader question is what is the role of the other retirement system pillars, government support and discretionary private savings, in ensuring adequate aged and health care provision in retirement.

Evidence by CoreData in a survey undertaken for ASFA (2016) indicates that there is a gap in the provision of advice in aged-care issues. Further that there is an increasing expectation that financial advisers should be able to provide advice about all aspects of retirement, including funding of health and aged care. This raises the need for the program of increasing adviser standards to incorporate aged-care advice. It also raised the question of how access to aged-care advice can be improved.

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Appendix A – Adequacy Roundtable Agenda

RETIREMENT INCOME ADEQUACY AND INTERACTIONS WITH AGED CARE AND HEALTH CARE

Wednesday 6 April 2016 – ANU North Oval, Canberra

Key Themes

The Committee for Sustainable Retirement Income (CSRI) is an independent, non-partisan and non-profit organisation committed to improving the adequacy and sustainability of retirement incomes for all Australians. It pursues its mission by acting as a catalyst for the development of evidence-based policy and engaging widely with stakeholder groups to reach common ground on policy positions.

This is one of three roundtables being convened by CSRI as part of its policy development and engagement activities the other two relating to Post Retirement – making income the goal; and Encouraging Self Sufficiency.

The purpose of the Retirement Income Adequacy Roundtable is to explore:

- Alternative formulations of the objectives of the retirement income system including aged pension and superannuation systems;
- Measures and long term projections of retirement income adequacy in Australia based on current and alternative policy settings;
- The adequacy of the age pension and related payments (including indexation arrangements);
- Adequacy of income maintenance drawing from accumulated superannuation savings and any age pension entitlement;
- Whether those with different employment histories and varying personal circumstances have access to adequate retirement incomes;
- Interaction of retirement income system with other elements of the welfare system including health, aged care, rental housing and public housing.

The Roundtables outcomes will contribute to the development of a series of position papers that in turn will be subjected to debate and scrutiny at the CSRI Leadership Forum later in the year. The aim is to build a broad coalition of support for a holistic reform agenda for the Australian retirement income system.

Time	Event	Speaker
10:00am	Registration	
10:15am	Welcome and Introductions	Michael Keating, Chair (CSRI)
	Introduction	Patricia Pascuzzo, Executive Director (CSRI)
10:30am	Session 1: Concepts and drivers of change	Andrew Podger (CSRI)
	Conceptual discussion of retirement income adequacy	Rafal Chomik (CEPAR)
	Drivers of change that will impact the future of adequacy	Peter McDonald (ANU)
	Discussants	David Knox, Hal Kendig (CEPAR)
11:30am	Session 2: Achieving adequacy for the majority	Mike Keating (CSRI)
	Modelling adequacy for the broad retiree population	Phil Gallagher (ISA)
	Gender aspects of retirement income policies	Siobhan Austin (Curtin University)
	Discussants	Catherine Wood (WIS), Andrew Podger (CSRI)
1:00pm	**LUNCH**	
1:45pm	Session 3: Age pension adequacy	Patricia Pascuzzo (CSRI)
	Adequacy of the retirement income system in assisting people unable to provide for themselves	Peter Whiteford (ANU)
	Discussant	Matthew Gray (ANU), Sean Innis (DSS)
2:45pm	**AFTERNOON TEA**	
3:00pm	Session 4: Housing, aged care and health care	Andrew Podger (CSRI)
	Housing as the fourth pillar and aged care	Judith Yates (Sydney University)
	Aged care and health care policies	Ian Yates (COTA)
	Discussants	Mike Woods, Ian Winter
4:00pm	Objectives of Superannuation	Patricia Pascuzzo (CSRI)
4:30pm	Wrap up	Patricia Pascuzzo (CSRI)
4:45pm	**CLOSE**	
6:30pm	**Dinner at A. Baker** (New Acton Pavilion, 16 Edinburgh Ave)	

Appendix B – Self Provision Roundtable Agenda

ENCOURAGING SELF PROVISION

Thursday 7 April 2016 – ANU North Oval, Canberra

Key Themes

The Committee for Sustainable Retirement Income (CSRI) is an independent, non-partisan and non-profit organisation committed to improving the adequacy and sustainability of retirement incomes for all Australians. It pursues its mission by acting as a catalyst for the development of evidence-based policy and engaging widely with stakeholder groups to reach common ground on policy positions.

This is one of three roundtables being convened by CSRI as part of its policy development and engagement activities the other two relating to Retirement Income Adequacy and Post Retirement – making income the goal.

The Encouraging Self Provision Roundtable will include consideration of:

- Improving the efficiency of the safety net including the relationships between savings, age pension eligibility and home ownership.
- Evaluation of alternative approaches to improving the effectiveness of superannuation tax arrangements in promoting secure and adequate lifetime incomes in retirement including the level and fairness of the tax concessions.
- Implications of the regulatory treatment of housing for aged care and the aged pension and options for accessing home equity
- Importance of encouraging continued workforce participation and saving for retirement, while recognising different capacities to do so and different preferences regarding the transition from work to retirement including consideration of evidence of behavioural responses to policy frameworks

The Roundtables outcomes will contribute to the development of a series of position papers that in turn will be subjected to debate and scrutiny at the CSRI Leadership Forum later in the year. The aim is to build a broad coalition of support for a holistic reform agenda for the Australian retirement income system.

Time	Event	Speaker
8:30am	Registration	
9:00am	Welcome and Introductions	Michael Keating (CSRI)
9:15am	Session 1: Encouraging self provision	Andrew Podger (CSRI)
	The Effects of Changing the Age Pension Means Test: A lifecycle model simulation	Rafal Chomik (CEPAR)
	Behavioural responses to policy frameworks	Michael Keating (CSRI)
	Discussants	Glenn Withers (ASSA), John Daley (Grattan Institute)
10:30am	Session 2: Alternative approaches to targeting government support	Mike Keating (CSRI)
	Modelling alternative superannuation tax structures	Phil Gallagher (ISA)
	Review of approaches to targeting RI support	David Ingles (ANU)
	Treatment of assets in the age pension means test	Rafal Chomik (CEPAR)
	Superannuation tax reform and other changes	Catherine Nance (PWC)
11:10am	**MORNING TEA**	
11:30am	Discussants:	Andrew Podger (CSRI)
	Tax arrangements	David Coogan (PWC) Jonathan Pincus (AU), Andrew Boal (WTW)
	Means test arrangements	Paul McBride (DSS), Peter Davidson (ACOSS),
1:00pm	**LUNCH**	
2:00pm	Session 3: Alternative regulatory treatment of housing assets	Patricia Pascuzzo
	The treatment of housing assets for aged care and aged pension	Rachel Ong (Curtin University)
	Projections of and options for accessing housing equity	Catherine Nance (PWC), Andrew Boal (WTW)
	Discussants	Mike Woods (ANU), Ian Yates (COTA)
3:00pm	Summary and takeaways	Andrew Podger, Patricia Pascuzzo
3:15pm	**CLOSE**	

Appendix C - Housing

This summary is based on Yates, Ong and Bradbury (2016) for the CSRI Sustainable Retirement Incomes Roundtable 2016.

Overview:

Owner occupied housing provides significant tax benefits and these benefits primarily accrue to higher income households.

High housing costs for retirees are concentrated among the small proportion with mortgages and renting in private market.

With the increasing cost and declining affordability of housing, there will be decreasing home ownership of retirees in the future. Increasing super contribution rates – will may make housing more difficult to afford. This highlights the intergenerational issues associated with super.

Mean testing should better accommodate downsizing/rightsizing and using the proceeds to finance retirement.

Cost of housing tax concessions are high

- For 2015-16, for example, Treasury estimated that the income tax advantages for owner-occupied housing based solely on its exemption from the CGT exceeded $50b (Treasury 2016: 8).
- This estimate does not include the benefits that arise because imputed rental income from owner-occupied housing is exempt from the income tax, because owner-occupied housing is exempt from both the income and assets tests for the Age Pension, or because it is exempt from land taxes.
- Kelly et al (2013: 8), in a Grattan Institute report, estimated these latter three exemptions amounted to a further $20b or so in 2013.

Housing concessions benefit high income earners

- tax expenditures associated with owner-occupied housing primarily benefit older and higher income households (Yates, 2010:56; Kelly et al, 2013: 17).
- The current structure of tax concessions provided to owner-occupied housing benefits home-owners, rather than those trying to access home ownership (eg, SERC, 2015: 143). On the basis of extremely conservative capital gains assumptions (of 3 per cent per year), Kelly et al (2013: 27) estimate income and land tax exemptions for owner-occupied housing provide benefits of $8,000 per household in the top income quintile compared with only $2,800 for those in the lowest income
- Just over one third of all income tax concessions go to households in the highest income quintile. These tax concessions are not as unequally distributed as those from superannuation where over half of the concessions go to households in the top income quintile (Grattan, 2015: 26)

Housing concessions benefit older households

- Currently home ownership amongst older households is relatively high. Households with a head aged 65 years or more, 84 per cent were owner-occupiers, with all but 8 per cent owning their dwelling without a mortgage. This compares with 67 per cent of Australia's 8.8m households who were owner-occupiers, of whom more than half had a mortgage on their dwelling.
- Incidence of non-mortgaged home ownership among older households is considerably higher than for the population as a whole, the overall proportion of older households with high housing costs is lower than for the population as a whole.

Housing stress for older households in private rental is high

- The most severe housing cost burdens are born by households in the private rental market. Older households are disproportionately affected. The proportion of older households in private rental with high housing cost burdens is double that of the population as a whole.
- Tenure and housing costs in relation to income have a significant impact on living standards for

older households. High housing costs can push households into after-housing poverty.

- Income is not a good indicator of living standards for older households where retirees hold substantial housing wealth as is the case in Australia. Yates and Bradbury (2010: 203) show that, on an after-housing measure, income poverty in Australia is reduced considerably for most households with the result that Australia's relative international performance improves markedly.

Importance of Super in household wealth is growing

- Importance of super in household wealth is likely to grow in importance relative to housing
- Any tightening of the concessions currently given to the family home in the assets test for the age pension may reinforce a redistribution of household wealth away from owner- occupied housing and towards superannuation.

Housing debt is increasing among over 55s

- Over the past 25 years or so, a rising share of over 55s have housing debt associated with increased gearing (and equity withdrawal).
- For those who have a mortgage, the average mortgage debt to income ratio has increased dramatically in the two decades from 1990. For older persons, for example, it has risen from 80 to 200 per cent (Wood et al, 2015).

It is questionable whether older households in the future will experience the same protection from high housing costs enjoyed by the current cohort because of their high rate of (generally debt free) homeownership and their relatively low reliance on the private rental market.

- Nationally, the growth in superannuation balances over the last two decades has been matched by an increase in household debt.
- Home owners that use home equity withdrawal (HEW) to meet spending needs earlier in their life cycle will eat into housing wealth.
- Indebtedness of older households is likely to dilute the capacity of the superannuation system to contribute to self-sufficiency in retirement
- Relatively high levels of mortgage debt are likely to be relatively minor compared with the problems faced by households who, while they may retire with no housing debt, also retire with no housing assets.
- From at least the mid-1980s there has been a discernible decline in home ownership rates among younger households.

Potential policy solutions/issues for older households

If the primary objective of retirement income policy is '*to provide adequate income for all Australians through all the years of retirement'* then the top policy priority must be to address the living standards of renters who retire with low income and low wealth.

A range of policy options is examined:

Low income, low wealth older renters

- *Increased supply of affordable social rental housing*
- *Increased supply of affordable private rental housing*
- *Increased rent assistance* - the question of what the likely impact is on rents in the private market if increases in CRA are not tied to an increase in the supply of affordable rental supply.
- *Use of superannuation funds to fund home purchase* - Such a solution may simply replace rental stress with mortgage stress and leave households with the same sense of insecurity that they experience in the private rental market.

Low-modest income, modest wealth older households

- *Downsizing* - A key issue with downsizing policy is the availability of suitable dwelling stock for older households. Potential social isolation. Transaction costs.
- *'In situ' equity release via reverse mortgages* - Small market; risks to borrowers; risks to lenders; Low levels of equity; Limit equity risk; Limited market; Demand constraints; Little justification for government intervention; pensioner loan scheme

- *'In situ' equity release via home reversion schemes*

Adequate income, adequate wealth older households

- *Inclusion of the family home in the assets test* - those who fail test can receive pension and payback when they have sold.
- *Wealth taxes*
- *Removing capital gains tax concession*
- *Land taxes*