THE WELFARE PERSPECTIVE

Reform must be comprehensive.

It is a great story for Australia that we are living longer and health outcomes are fantastic. We *can* afford a wonderful future for everybody, including the babies being born today. But we have to make it work. It is important for us to acknowledge that over the recent past we've had very strong economic growth, but we have had a falloff in our revenue picture. It is often debated whether we are a big taxing country, but certainly in terms of the balance over the budget we've had a big falloff in revenue and we have some areas of significant growth in expenditure.

I want to touch on where the real pressure points are. I think it's very important for us to be as factual as we can about exactly where Australia is at in terms of our expenditure. We are not anywhere near that of the high-spending side of the OECD. We're on the lower side in terms of our transfer or cash payments. The OECD average is about 13% of GDP, and we're tracking at about 8.6% of GDP.

When we talk about 'the welfare budget,' the public most typically think about a person who is unemployed. But the reality is that in terms of those key payments, like the payment for a person if they're unemployed or have a disability, those working age payments have been declining in terms of the number of people relying on those payments proportionate to the population. So this is not the area of growth in terms of our welfare expenditure.

The area of big pressure for us is in the areas of the age pension, health, and schools. Those are the areas of real growth and that is certainly why we at ACOSS, together with many others, have been having a serious look at what we need to do to make sure that the expenditure we've got going into these important areas is well targeted and that we're getting the most out of the investment.

This is one of the reasons we carefully looked at the reforms that were needed in the age pension. We agree that the age pension is not a universal payment. It is a safety net payment. To that extent, it is appropriate for it to be income- and assets-tested. We certainly didn't support the proposal by the federal government to reduce the value of the base rate of the age pension, reducing it from index wages down to CPI. We felt that was the wrong way for us to look at where we should be appropriately targeting the age pension. Our view, which we have advocated for a number of years, was that what we should be doing in the short term is restoring the assets test back to essentially where it was at the 2007 period.

In our view the much bigger, structural changes that we need to be looking at are in the overall retirement income system and particularly superannuation. The previous article talks about David Murray's important piece of work on the financial services inquiry. I think Mr Murray made a very important intervention where he said it is time for us to settle the core purpose of our retirement income system.

It *is* time for us to be very clear about what we try to achieve out of it. I think all of us, want to get to a point where we can have some stability and some certainty. The Murray inquiry acknowledged that it had become a multipurpose system, that we really had become unclear about what we should be trying to do in any kind

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These remarks were originally delivered at a CIS event in Sydney in July 2015.

of structural reform that we might need to do at this point in time.

Our direct expenditure on the age pension is in the order of $40 billion. The value of the concessionary arrangements on superannuation is tracking around about the same kind of value. It is significant and growing. In our view, of the $40-odd billion in the concessionary arrangements and associated with superannuation, the bulk of those are going to minimise the tax liability of people on higher incomes and more wealthy people — many of whom will not be needing to rely on the age pension into the future.

That's what we're not getting—a better targeting of those concessionary arrangements to try and assist more and more people on low and modest incomes to be securing the kind of superannuation balances that you will need to ideally be independent, or at least only partially reliant on the age pension into the future.

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Whilst we certainly supported the particular reform over the assets test on the age pension, one of the big structural problems we've got right now is that we don't have any appropriate way to set what is an adequate level of a pension. We have some big changing factors going on. The previous article highlighted the changing picture in terms of homeownership and the extent to which you have debt at the point of your post-working-age life.

We know that increasingly as populations come through at the moment, unless we do something on housing affordability, we are going to have fewer and fewer people who will be fully owning their home so that the age pension level is adequate for them because they don't have major housing costs which will be coming out of that. I certainly welcome the contribution from the Centre for Independent Studies in flagging up rent assistance, which is a welfare payment that you can have access to in certain circumstances to help you to cover your rental cost — but it's a big cost.

So how do we factor in housing costs in changes to resetting the level of the age pension over time? Do we just wait for the politics of the day? We got some politics going on in 2009 when we were successful in achieving that one-off increase in the base rate of the pension, about $30. We've come through the risk of potentially moving indexation away from wages down to CPI on the age pension. But in ACOSS's view this is a very important benchmark for us to provide some certainty over the decades to come about the way — what is the right formula, the approach, for us to be resetting the level of pensions and other welfare payments to make sure they are adequate and responsive to the changing pressures of costs in a person's life. Because the costs are real.

We've recommended that we should be putting in place a stable four- or five-yearly analysis about the question of adequacy and advice to government, to say, this is what we need to do on these really critical payments like the age pension to reset its level. We don't know what it will say — whether it goes up or down depends on where we are at any point in time. But we have some kind of stable evidence-based approach to the setting of the level of this key payment.

We also think this kind of stable review would be very useful for us in ongoing analysis of the retirement income system overall, because we'd have a level of an age pension. We currently have different views from different parts of the sectors about what is an adequate retirement income. What should you be trying to get behind you in terms of superannuation savings in order for you to have an adequate standard of living in your post-working-age life? But the goal posts are not agreed in public policy and that's a big problem for us. What are we trying to achieve out of this?

Regarding the assets test, certainly in our view we think that it is important for these next questions to be dealt with in the context of a more wide-ranging retirement income review. I think many of us acknowledge that if you change one part of the system in a major way it will have flow-through effects into other parts of the system and so I think it's healthy for us to be running our models, trying to predict what behaviour might be. This is very difficult work to do, so at this point from ACOSS's point of view we should settle what would be done with the assets test and invest our time now in scoping out a proper overarching review of the retirement income system — and see where we might get to on some of these difficult questions.

In terms of superannuation reform, I know this is an area of policy that flares up debates. As I said at the beginning, our view is that we are not distributing our concessionary arrangements in an equitable way and we do think there is need for some major structural reform there. We think the work the Henry tax panel did in looking at how you would recalibrate the benefits of concessionary arrangements is an important place to start. We certainly think we need to be re-looking at this transition phase, the phase in which — if you are in a position to do so — you're putting more contributions into your super fund; and you are also able to take the tax benefit of drawing down through the transition phase.

So we do have people who are in a position to seriously minimise their tax bill at a time when they're not actually contributing to accumulating more savings. I think this throws up for us the debate that the Productivity Commission has helped us to progress somewhat, in terms of the merits of lifting the preservation age. ACOSS, in our last federal Budget submission, also flagged that this is something that should be considered.

However, we are very conscious that there are many worlds — and we've all got our own story about when we get to that time of life, when we are looking at where did we get to and how do we make this work best for us. But there are essentially two significantly different experiences. We also have a group of people for whom retirement is not a choice: either you become unwell, you secure a disability, or you experience the ravages of mature age worker discrimination and you've hit a certain age where nobody appears to be interested in helping you to retrain, and you go onto the unemployment payment and you are one of the people who are facing a long future living on an unemployment payment — which is now just $37 a day — for a long time before you get to the point of being able to access the higher rate of the age pension.

This is a big challenge for us in Australia. There have been many policy thinkers putting efforts on the table trying to get programs in place to lift up participation rates of older workers. Yet there seems to be something deeply cultural for Australia about why it becomes so hard at a certain age, and I think the debate will be forced on us. It's coming in terms of the availability of workers in proportion to the overall population, but I think we need to make this a very specific debate that pushes us hard to understand why — with our often common comparator, New Zealand — we're so far behind on that front. I do think that if we are to move toward lifting the preservation age, we need to make sure we have a very carefully structured early access system in place to make sure that we are protecting people, alleviating people from poverty, who are in that category where they are not able — for one reason or another — to continue to participate in paid work.

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Obviously, when it comes to those questions of adequacy, we also have some big changes going on in the way in which we are delivering key services. We are having a hot debate in Australia about whether we should be moving away from universal health care to user pays. We are debating things like infrastructure investment, where on the one hand some want government to seriously invest so that as much as possible you are not being hit with a fee every time you move around the place, or we will be going further down a user pays path. These are some of the other parts of the environment in which we will live in the future, which will absolutely bear on the question of whether or not as an older person you are able to live with dignity, fully participating and ideally enjoying your health for a very long time.