DISCUSSION PAPERS

AUSTRALIAN GOVERNMENT POLICY ON RETIREMENT INCOMES

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### Australian Government Policy on Retirement Incomes

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Summary

Australia has evolved an unusual dual system of retirement incomes. There is a means-tested flat rate age pension and a system of occupational superannuation which receives considerable tax concessions.

Until 1978 both major political parties vied with one another to liberalise access to the pension. Since then there have been three occasions when governments tightened eligibility to the pension. Of these three attempts, the first by Treasurer John Howard, affected far more people and saved more money than the two economies introduced by the Hawke government - though these raised much more political furor.

There are four major problems with the current dual system. The first is the inefficiency of the tax concessions for superannuation in encouraging saving for retirement. Between a quarter and a third of the sums saved through occupational superannuation are paid out to those below 55 years of age. Second, while the growth of superannuation has been greatly assisted by favourable tax treatment, the resultant funds have, until recently, been subject to minimal control to safeguard the security of employees' funds.

Thirdly, there is a lack of integration between the age pension and occupational superannuation and evidence that people use superannuation payments to finance the early years of their
retirement and then switch over to the age pension. This type of behaviour is encouraged by the extremely high marginal tax rates facing those receiving the age pension. This is the fourth and one of the most serious problems of the present system. Many age pensioners face effective marginal tax rates in excess of 100%.

Broadly speaking, there are three options for the future - the status quo, the introduction of some universal earnings-related national superannuation scheme of a kind common in other OECD countries. Lastly there is the possibility of a better integration of the two existing governmental support schemes for retirement incomes. In the fourth section of the paper, the author indicates why he believes this last strategy represents the most rational, practical and least disruptive of the options confronting us.
Australian Government Policy on Retirement Incomes

by

F.H. Gruen

I. Introduction

Government Policy on Retirement Incomes has been the subject of a record number of inquiries and of policy changes in recent years. Since 1973 there have been no less than five official inquiries into retirement incomes and/or national superannuation schemes, whilst changes in eligibility conditions for the age pension and to the tax treatment of superannuation have been at least as numerous.

The purpose of this paper is to discuss and evaluate some of the alternative proposals for changing current governmental support for retirement incomes. Before embarking on this examination it is necessary to provide a brief description of existing policies and recent trends in government support for retirement.

*Paper given to Association of Superannuation Funds of Australia, Melbourne, 17 April 1985. This paper owes a great deal to taking part in the currently ongoing Finance of Old Age Seminar at ANU. The Seminar is sponsored by the Centre for Research on Federal Financial Relations and by the Social Welfare Policy Secretariat. I have also benefitted substantially from reading the first draft of "Income Provision in Old Age" by Jeffrey Carnichael and Kathleen Plouman. I am indebted to Owen Donald, Peter Forsyth, John McCallum, Andrew Podger for helpful comments on an earlier draft. Needless to say, none of the above are responsible for any remaining errors of fact or interpretation.
II. Government Support for Retirement Incomes - The present position and how we got there

(a) The Age Pension

Unlike most OECD countries, Australia has a flat rate age pension which is means-tested. Most OECD countries have universal pensions which are at least in part earnings-related. In addition, most have income or means-tested supplements for those with unacceptably low incomes. These differences in the type of pension make international comparison of relative meanness or generosity to the aged difficult. The average age pension in most OECD countries tends to be a larger percentage of average incomes than in Australia, yet Australia tends to treat its poorer aged

1 Department of Social Security Research Paper No. 24, p.65-68. Countries fitting the description given above include Austria, Canada, France, West Germany, Italy, Japan, Netherlands, Sweden, U.K., U.S.A. The only two exceptions listed in the above source are Denmark and New Zealand which do not have earnings-related pensions. New Zealand has a flat rate pension, whilst Denmark's pension is related to the number of years a pensioner has contributed.
more generously than many other countries.

Since the sixties the age pension has become somewhat more generous as a proportion of disposable (i.e. after tax) average weekly earnings. This improvement is predominantly the result of an increase in the age pension relative to disposable AWE between 1973/74 and 1973/76 of about 5 percentage points (or roughly from 25 to 30%). Both before and after that period there were minor fluctuations in the relative level of the age pension. As a result, the percentage of aged income units in poverty is estimated to have declined from 26% in 1973-74 to 8.3% in 1978-79; later estimates not being available at this stage.


3 Private communication, Department of Social Security, See also, the Parliament of the Commonwealth of Australia, Legislative Research Services, Discussion Papers, No. 3, 1984 - The 1984 Budget, A Comment on Tax, Social Security and Incentive Issues by Caroline Boyd, James Jordan and Michael Porter, Centre of Policy Studies, Monash University, Figure 6, p.29.

4 J.P. Cox Economic Growth and Income Support Policy in Australia, paper presented to 54 ANZSAS Congress, Canberra, May 1984, Table 3.1.
In addition to the improvement in both real and relative pension levels, aged pensioners have access to so called fringe benefits such as free or heavily subsidised dental services, pharmaceuticals, local government rates, telephone rentals and public transport etc. These have probably increased over the years and by 1981-82 added between 17 and 31% to the value of the age pension for the 'average' pensioner - though there would be a very wide range of values of fringe benefits for different pensioners. Also, some 80-90% of aged married couples own their own home, mostly outright. According to an estimate by Ian Manning this adds between 20 and 24 percent to their real incomes.

In addition, the age pension has been made available to an increasing proportion of the aged. After the age pension was originally introduced, before World War II, the percentage of the aged receiving the pension was around 30 odd percent and stayed at that level in the pre-World War II Census years. In 1940 and in 1950 around 40 percent of the population of pensionable age received the pension. By 1960 this had risen to 50% and by 1970 to 60 percent. The increasing proportion of the aged receiving

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pensions was the result of successive liberalisations of the means test.

During 1972 both Labor and non-Labor parties promised to abolish the means test over the next three years. The newly elected Whitlam Labor government removed the means test for all over 70 year olds during its term of office - increasing the percentage of the over-70's in receipt of an age or service pension from 73.6% in 1972 to 96.2% in 1976 (with further minor increases in succeeding years). If allowance is made for those remaining on widows' pensions, the percentage of over 70's in receipt of a pension was almost 100% until 1983.

The last measure designed to liberalise access to the age and service pensions was the abolition of the asset part of the means test in 1976. By that time some 82.5% of the whole population of age pension age received some kind of pension. The increase in the proportion of the aged relying on social security benefits was, of course, not only the result of the liberalisation of the means test. The deterioration of the economy obviously was an important factor. I have not attempted here to assign relative importance to these different causes - but I understand that liberalisation of the means test is

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7 As at 30 June 1983 some 85.7% of people of age pension age were receiving at least a part pension (DSS, Research Paper No. 24, p.50).
regarded as having had substantially more effect on this increase in the proportion on pension.

Given the more critical attitudes towards government expenditure since the mid-seventies, Federal governments of both political persuasions have gradually tightened the eligibility conditions for age and service pensions in a variety of ways. In the 1978-79 budget Treasurer John Howard froze the standard single rate of pension at $51.45 per week (or $42.90 each for a married couple) for those over-70's who could not pass the income test. As the indexed pension gradually rose over the years, this produced gradually increasing savings to Consolidated Revenue. By November 1980 (when the standard pension rate had risen to $65.90 per week, the individual married rate to $71.60 and the system was changed) the annual savings were running at $380 million and some 305,000 age pensioners were getting lower pensions in real terms.

The Hawke government's economies in this area affected fewer age pensioners, made smaller annual revenue savings but raised much more political furore. The Hawke government re-imposed an income test for the over-70's (more generous than the income test applying to the under-70's - though this over-70's test is not indexed and hence is approaching the other income test). This measure resulted in estimated annual savings to government revenue of around $170 million in the first full year and some
89,300 pensioners were adversely affected. Because of non-indexation of the over-70's income test and inflation, annual savings from this measure now are around $250 million.

Finally there is the asset test which reduces pensions for home-owning pensioners with assets (apart from their principal residence) in excess of $70,000 (single) and $100,000 (couple). This test, primarily designed to prevent avoidance of the income test, was the subject of a particularly fierce controversy - even though it adversely affected far fewer people (between 50 and 65,000) and is expected to save much less than either of the other two economy measures. (According to a variety of estimates between March 7th and March 10th, the gross annual savings will be between $100 and 140 million.)

(b) **Tax Concessions to Occupational Superannuation**

The Federal Treasury has estimated the overall value of the tax concessions to occupational superannuation at $2,610 million.

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51,500 pensioners lost their (limited) pension entitlement, some 37,800 had their pensions reduced and, paradoxically some 7,000 had their pensions increased. This is because the application of an income test led to some aged who had not previously bothered to attempt to pass the income test and obtain the indexed pension, being compelled to submit to the test and found to have non-pension incomes which entitled them to a larger pension.

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for 1984-85. The two concessions which make up the bulk of this amount are the tax-free treatment of employer contributions and the under-taxation of earnings of superannuation funds. The Treasury estimate can be challenged on conceptual grounds. Thus, according to Podger, over $1 billion of the $1.35 billion under taxation of superannuation fund earnings represents taxation of nominal - as opposed to real-income. Again, it can be argued that in theory benefits rather than contributions should be taxed. While the estimates of the value of these tax concessions are therefore subject to some legitimate argument, there can be little doubt that the tax concessions for occupational superannuation are substantial. Hence one needs to

9 1984-85 Budget Paper No. 1, p.313. This compares with an expected 1984-85 expenditure on age pensions and allowances of $5,748 million.

10 A.S. Podger "Retirement Income Policy: Options open to government", paper given in Finance of Old Age Seminar Series, 21 November 1984. Income from capital in many other forms (e.g. fixed interest securities) are taxed on the basis of the nominal gains - however distortory this may be. This is precisely why the lower taxation of some types of investments (e.g. superannuation, dwellings) has made the latter relatively favoured investments in more inflationary times.

11 As Podger has emphasised, there are two alternative approaches to tax "neutrality" - one involves all contributions but no benefits being taxed; the other involves benefits but no contributions being taxed. In a steady-state situation there should be little or no difference in these approaches; however when superannuation is growing rapidly (as it is at present in Australia) the first approach gives a very much larger estimate of the value of the tax concession. The first approach is the one used by Treasury to arrive at the $2.61 billion estimate. According to Podger, the second approach would cut the estimated value of the tax concession to about $1,100 million.
examine the efficacy of these concessions in achieving their avowed aim - i.e. to encourage more self provision of finance for one's old age and presumably less reliance on publicly provided income support in the form of age or service pensions. The evidence from the Australian Taxation Office suggests that the tax concessions for superannuation are often not used to provide for retirement. In each of the three years of 1980-81, 1981-82 and 1982-83 between 200,000 and 270,000 people received lump sums. But 65-70% of those receiving lump sums were aged less than 55 years and they accounted for between 25 and 35 percent of the amounts paid out in lump sums. There must be more effective ways of encouraging self-reliance for one's old age!

Two other objections which are often raised to the tax concessions for occupational superannuation are: (a) the possibility of double-dipping and (b) the regressive nature of

12 Two of my correspondents have queried whether the "avowed aim" of these tax concessions is to encourage more self provision of finance for one's old age and less reliance on public pensions. I have not been able to examine any governmental statements regarding the concessions when they were introduced - or amended. But it should not be too difficult to find statements from responsible Ministers that the aim is to encourage such provision. For instance, a joint Press Release by Messrs Howard (as Treasurer) and Street (as Minister for Industrial Relations) on 6.9.1979 contained the following statement: government "is ... concerned to ensure that superannuation arrangements are not used for purposes other than genuine retirement ... the Government is concerned that in encouraging self-help by individuals saving for their retirement, it does so in a cost-effective manner".

13 DSS Research Paper No. 24, op.cit., p.49 and private communication from the Department and the Tax Commission.
given the long term bona fide commitments which are made under
superannuation, more radical tax changes in this area were
probably neither practical nor desirable.

(b) The second criticism of the tax concessions for
superannuation concerns their regressive nature - i.e. the tax
concession is larger for those on higher marginal tax rates and
can greatly exceed taxpayers’ provisions of pensions to the less
affluent. Thus Aaron has pointed out that the value of tax
concessions under the pre-1983 law to a single male who set aside
enough current earnings to accumulate $100,000 exceeded the
16
value of the age pension. Again the Department of Social
Security Research Paper No. 24 shows that the value of the tax
concessions for higher income earners is well in excess of the
total value of an old age pension. "For example, (given current
pension indexation arrangements and average life expectancy of
males at age 65), a male employee retiring at age 65 without any
private source of retirement income could expect to receive a
maximum single rate age pension totaling $62,500 in real terms
over 14 years. This compares with the estimated 'Government
subsidy' of $124,500 to a lump sum recipient who on average

16
Henry Aaron, op.cit. p.360.
received twice AME during his working life.17

I think there can be no doubt about the regressive nature of these tax concessions. But government has frequently attempted to achieve certain aims by means of tax concessions - for instance to foster home ownership, to assist the Australian film industry or to encourage the bequest of works of art to Australian public collections. Whenever government uses such blanket tax concessions as an instrument to achieve its aims it will be regressive. Those on high taxable incomes will have a greater incentive to take advantage of such concessions. Given that redistribution is an important aim of government, it ought obviously to use such tax concessions cautiously and sparingly. Also, there may be a case for converting such tax concessions to tax rebates which are less regressive.

In addition superannuation benefits are available unevenly in the population. Higher income earners, those employed by public authorities, males and the longer-term employed members of the population are much more likely to enjoy the benefits of

17 DSS Research Paper No. 24, p.42. These comparisons assume the employer contributes 10% of the employee's wages to a superannuation fund; that contributions are made over 40 years, that tax is paid on the lump sum at post-1983 rates and that superannuation funds achieve a 2% real return. For a more detailed list of the assumptions see Appendix C op.cit.
coverage by superannuation.


We are now in a position to summarise the major problems with the present mixed system of government support for retirement incomes through the provision both of an age pension and financial support for occupational superannuation. There is firstly the inefficiency of the tax concession in encouraging saving for retirement. Given that at present between 25% and 35% of the lump sums paid out goes to those aged 55 years or less (and 65-70% of those receiving them are less than 55 years), this tax concession has encouraged tax minimisation almost as much as it has saving for one's retirement years.

Secondly, while the growth of superannuation has been greatly assisted by favourable tax treatment, the resultant superannuation provisions have, until recently, been subject to minimal control. As a result it has been possible to use occupational superannuation funds to safeguard managements from

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As shown in ABS Cat. No. 6304.0, August 1984, the proportion of employees in receipt of superannuation rises monotonically as weekly earnings rise - from 9.9% for males earning less than $160 per week to 75.3% for males earning over $440 per week. (The corresponding figures for women are 4.8% and 52.0% respectively). The equity issues surrounding superannuation - as seen by the ACTU - are discussed in a paper entitled "Superannuation: The Great Leap Forward" by Garry Heaven dated 20.3.85.
possible take overs by heavy investments in the firm's shares. Apart from giving management an illegitimate weapon against competition, pension security can be compromised. In recent years some progress in safeguarding the security of employees' benefits has been made. Funds which are "loaned back" from the superannuation fund to an employer must now earn a reasonable interest rate. In addition, early in March 1985 the Treasurer announced that in future, investment in an employer's business would be limited to 10 percent of a superannuation fund's assets (with a transition period of ten years until the 10% limit must be fully satisfied).

At present, there are few legal restrictions on the conditions under which employees are entitled to the savings accumulated in their name; instead the existence of occupational superannuation is often used to tie employees unduly to their firms. As one discussant put it at the ANU Finance of Old Age Seminar, lack of preservation of an employee's benefits gives firms a quasi-monopoly power regarding their longer term employees. This is not only questionable ethically but also can have substantial efficiency effects. The discouragement thus given to labour mobility could have very substantial long term economic costs for the community - since it prevents the recruitment of many to their most productive employment.

Hence there need to be major improvements in the vesting, preservation and portability of employees' superannuation entitlements and some control over the use of a firm's
superannuation fund to safeguard its management from competition. Recommendations on these matters were contained in the Report of the Commonwealth Taskforce on occupational superannuation which was made public in June 1983. The most controversial of their recommendations - that superannuation should fully vest after only 12 months for members aged 30 or more - seems to discourage firms unduly from reaping benefits from any training expenditure they incur on employees aged 30 or more.

The third problem with the current dual system is the lack of integration between that part of the system which is supposed to eliminate (or reduce) poverty - i.e., the age pension - and that part which aims to cushion the reduction in living standards in retirement (i.e., superannuation). I have referred at an earlier stage to the problem of double-dipping - which is probably not one of major proportions but does warrant some attention. It was pointed out above that the lump sum taxation provision and, to a lesser extent, the asset test, can be expected to reduce the problem of double-dipping. However, the problem of lack of integration goes further than double-dipping.

There is some evidence that people use superannuation payments to finance the early years of their retirement and then switch over to the age pension. Consider the following Australian Bureau of Statistics information on the main income
source of male retirees.

<table>
<thead>
<tr>
<th>Main Income Source</th>
<th>Retired 2 years or less At Retirement</th>
<th>1983</th>
<th>Retired 2-4 years At Retirement</th>
<th>1983</th>
<th>Retired 5-10 years At Retirement</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Column</td>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
<td>V</td>
<td>VI</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Pension</td>
<td>43</td>
<td>56</td>
<td>52</td>
<td>67</td>
<td>56</td>
<td>75</td>
</tr>
<tr>
<td>Superannuation</td>
<td>20</td>
<td>16</td>
<td>17</td>
<td>12</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Investments</td>
<td>15</td>
<td>17</td>
<td>14</td>
<td>15</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Dependency</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Savings/Sale of Assets</td>
<td>9</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: ABS Cat. 6238.0

The table shows two important trends to which we will refer again below.

(a) A comparison of columns I, III and V shows a decline in the proportion of male retirees relying on pensions as the main income source among those most recently retired - and the

Ian Manning first drew attention to these statistics which are extracted from one of the ABS' series on retired persons. Similar statistics are available from a 1980 survey.
converse increases in the proportion relying on superannuation or investments.

(b) A comparison of Columns I and II, III and IV, and V and VI respectively, shows that the longer retirees’ retirement lasts, the more they tend to drift back to relying on pensions as their main source of income.

There are three major reasons for this increase in the proportion relying on pensions as their retirement stretches out:

(i) Investment from superannuation lump sums — or alternatively pensions from superannuation funds — are often not inflation-proofed — hence those on retirement incomes financed by superannuation can become gradually poorer as inflation reduces the real value of their superannuation financed retirement incomes. (ii) Superannuation may encourage people to retire early, live on the proceeds of their superannuation payouts until they are eligible to receive the age pension. (iii) People gradually learn either to dispose of their superannuation assets so as to qualify for the pension or actually use up such assets so as to qualify. Such behaviour is encouraged by the extremely high effective marginal tax rates to which age pensioners are subject to.

This brings me to the last major problem with the present system of government support for retirement incomes: the extremely high effective marginal tax rates facing those
receiving the age pension. The income test by itself imposes an effective 50% marginal tax rate on old age pensioners. The interaction between the marginal tax rates of the personal income tax schedule and the income test on the old age pension leads to age pensioners facing even higher effective marginal tax rates—rates well above the 60% rate applied to taxable incomes in excess of $33,000. The actual effective marginal tax rates are likely to vary substantially from one aged person to another—depending on their particular circumstances, including the particular fringe benefits used by individual pensioners, and their housing situation. In many cases the effective marginal tax rate is likely to exceed 100%—i.e., the pensioner receives less net income after tax and means testing as his gross income increases. Needless to say such high rates provide a very potent incentive to shed large parts of one's non-pension income as rapidly as possible.

Apart from these purely economic incentives, there are some important social reasons why age pensioners should not be discouraged unduly from part-time work and earning some reasonable supplements to their pensions. The transition from full-time employment to retirement is a complicated process varying in length and nature for different individuals. Many would prefer a period of lighter or part-time work before undertaking a complete withdrawal from the labour force. Such gradual retirement is heavily penalised by the very high effective tax rates existing at present.
IV. Options for the Future

Broadly speaking there are three options for the future. There is firstly the status quo. Second, we could establish some sort of national superannuation scheme (as has been suggested frequently). Thirdly, we could aim for a better integration of existing occupational superannuation schemes with a means-tested flat rate pension.

The problems with the status quo were outlined above. Tax concessions for superannuation are only very partially effective in achieving their avowed aim of encouraging more self provision of finance for one's old age; instead they have become one of a number of tax-minimisation devices. This problem can be expected to be exacerbated by the increasing trade union pressure for (a) receiving the benefits of being covered by superannuation, and (b) achieving vesting within a very short period. Unless government takes some effective counter-action, superannuation schemes will become used increasingly as a form of tax minimisation. However, as Carmichael and Plowman point out "Union involvement in occupational superannuation has served to highlight shortcomings of existing arrangements; in particular the lack of vesting, preservation and portability". Further action on the Commonwealth Taskforce recommendations - even if only in a watered-down form with respect to vesting - is urgently required.
The other disadvantage of the status quo mentioned in the previous section was the very high effective marginal tax rate for age pensioners which encourages shedding large parts of one’s non-pension income as rapidly as possible.

(a) A National Superannuation Scheme?

The difficulties with the existing dual system have led many Australian observers to opt for a national superannuation system. According to Carmichael and Plowman at least four serious proposals of this kind have been made in the last twenty years in Australia. Normally such systems involve a universal old age pension, coupled with an earnings related supplement for higher income groups (and sometimes with a means-tested supplement for lower income groups). As pointed out earlier, this is the typical OECD method of governmental support for retirement incomes.

If we started with a clean slate, this might be the optimal solution. But we have a large and relatively growing number of retirees relying on occupational superannuation and investments to finance their retirement. How would this group’s arrangements be affected by the introduction of a national scheme?

The major problem with the adoption of a national superannuation scheme in Australia is simply its cost to Consolidated Revenue. The net cost of the abolition of the means test was estimated at $1,100 million in the May 1984 Report of the Panel of Review of the Asset Test. Since then the cost would
have risen to $1,500 million because of inflation and because of the more stringent criteria of eligibility for the age pension introduced by the Hawke government.

In addition, of course, there is the cost of providing the earnings-related supplement. Many OECD countries disguise the extra taxation required to finance social security expenditure by the introduction of some social security contribution or levy. The Hawke government has already used this type of device by introducing a Medicare levy. One doubts whether this can be tried again and again without provoking taxpayer resistance. One other way of raising the extra revenue for a national superannuation scheme would be to abolish—or at least very substantially curtail—existing tax concessions for superannuation.

While there may be some support for such drastic measures among some welfare groups, it does not appear to me to be a serious political option—irrespective of any intrinsic argument regarding the merits of such a policy. Personally, the disruption in people’s existing retirement plans, the likely deleterious effect on the level of savings from the introduction of an ‘unfunded’ national scheme, or, alternatively the disadvantages of instituting even more extensive subsidisation of income maintenance for one’s old age, seem conclusive arguments against superimposing a national scheme on the existing dual methods of government support for retirement incomes.
(b) Better Integration of the Two Existing Governmental Support Schemes

This basically leaves one with a continuation of present policy initiatives - namely an attempt to provide a better integration of superannuation and the pension. As pointed out above, one urgent reform of the tax concessions for superannuation is to make them available only to those aged 55 years or more so as to encourage genuine saving for one's retirement. The tax concessions for superannuation should be made available to those who happen to change employer or occupation only after they have reached a certain age - say 55 years - or if there are good health or invalidity reasons to believe that they will cease being active members of the work force. In other words, the tax concessions for occupational superannuation should be withdrawn from those "cashing in" their lump sums early for no valid health reasons. In these cases the tax concessions are used for tax minimisation and not for genuine savings for retirement.

Secondly there need to be substantial improvements in vesting, preservation and portability for members of superannuation funds. This has been discussed earlier. The third reform necessary is to reduce the very high effective marginal tax rates facing old age pensioners. The income test taper should be reduced from imposing a 50% marginal tax rate to 25% - or at most 33%. One way in which the cost of this reform could be reduced is if the income-free area associated with the pension were abolished. In other words, as one's non-pension income
increased, the pension would be gradually reduced (say $1 for every $4 of extra non-pension income received). The other major source of high effective marginal tax rates is the use of the pensioner health benefit card by a large number of organisations — including private business and State government instrumentalities (e.g. electricity commissions, state railways) to give pensioners concessionary service. These concessions make the pensioner card a high prized possession by pensioners. While access to fringe benefits remains limited by means of the pensioner card, these extremely high effective marginal tax rates and a major stimulus to avoidance will remain. At present 85% of all age pensioners or two-thirds of all aged receive a pensioner health benefit card.

As the Asset Panel of Review reported "While access to fringe benefits remains tightly limited a major stimulus for avoidance of the test will remain. Perhaps the simplest way to reduce avoidance is consequently to extend fringe benefit eligibility to all pensioners. This step alone would substantially reduce pension test avoidance, particularly avoidance which in fact is detrimental to a pensioner's financial position (e.g. holding money in cheque or non-interest

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20 As shown in Diagram 1 p.36/7 of the Report on the Income and Assets Test, May 1984, disproportionate numbers of pensioners report incomes just below the level at which they would lose their eligibility for the pensioner benefit card.
bearing accounts).

Apart from these reforms one could rely on normal carrot and stick techniques to prevent people from using up their superannuation benefits too quickly to qualify for the pension. The negative or stick part of the technique consists of introducing deprivation provisions for those who attempt to use up their investments or superannuation benefits "unduly rapidly" so as to qualify for the pension.

For the "carrot" part of the technique I suggest giving wide publicity to recent American research findings by Bernheim, Shleifer and Summers. They found, in a 1983 study, that the frequency of visits by children to their elderly parents was positively related to the parents' bequeathable wealth (such as real estate and financial assets) but not to such non-bequeathable wealth as social security and private pensions.

I have been informed by one of my correspondents, that another American study, this time by Sussman, Gates and Smith, showed that there is only a marginal improvement in actually

receiving inheritance money for those who provide help to ageing parents! As an ageing parent I am am not suggesting that this finding needs to be given any publicity!

Conclusion

My preferred option is not a particularly glamorous one which can be sold as the harbinger of a new deal for the aged. But given the long term commitments existing in this area, reform of existing institutions seems a much more plausible policy than promising a new dawn - especially in the light of longer term demographic trends which mean that today's young will have many more aged to support than my generation had to, when we were young!