



Workshop

Surviving the Economic Crisis: The Challenge for Older Australians

Monday 24 August 2009, 08:30 – 13:00

Venue: ANU University House

Convenor: Professor Sue Richardson

Aim: to consider how the rapid downturn in the global economy is going to affect older Australians now and in the years to come.

Purpose: to bring together a range of experts from various fields (including government, academia, and consumer and industry groups) to discuss the current economic crisis and its impact on older Australians. The discussions are about the cross-fertilisation of ideas and setting up space to get people thinking creatively about how to deal with the issues and the challenges for older Australians. Success is achieved where participants walk away having learned something new.

The Australian Association of Gerontology (AAG) will also use the information and key messages gleaned from the Workshop to stimulate an open forum discussion at the November 2009 AAG National Conference.

Acknowledgement: The AAG and the ARC/NHMRC Research Network in Ageing Well recognise that the Workshop participants gave up their time to be present at the Workshop to engage in a broad discussion of the impact of the economic crisis on older Australians in an effort to advance the AAG's understanding of the issues. The AAG and the ARC/NHMRC Research Network in Ageing Well are both gratefully appreciative of this support.

Session 1: How will the economic crisis impact on older Australians in the workforce?

Although Australia has remained fairly resilient in the face of the global financial crisis (GFC) when compared to other countries, there has still been a considerable impact as unemployment and underemployment has risen and will continue to rise. There has been a softening of the labour market that could last two to three years and there have been particular sectors and particular groups of people that have been hit quite hard; for example, the finance and insurance sectors, and full-time male jobs, especially in manufacturing. While those aged 25 and under have been hardest hit, those aged 45 to 64 are more likely to be on income support for a longer period if they do lose their job. There is also a lot of hidden unemployment and underemployment in that age group as some end up retiring early, going onto disability payments, or working fewer hours than they would otherwise like.

Before the crisis, the Australian Government had attempted to address retirement planning issues with superannuation tax breaks, and so forth. Then along came the GFC which has impacted on wealth, retirement and one's position in the labour market. So the identification of what has happened here is looking at the ongoing changes that have been happening for the last three to four years, and then the GFC impact. So there are 2 distinctions – first, how do older people respond? Older people are not a homogenous group; the GFC will affect different groups of older people in different ways. Those with wealth will still be okay, whereas those without who have been hit but don't have time to wait for a recovery will suffer. Second there are difficulties overcoming the disadvantages of ageing, such as getting the necessary training to ensure that older people remain competitive in the labour market, as well as increased problems with health that have an impact on employability. These problems will be exacerbated for older workers as competition for jobs intensifies.

Furthermore, the GFC is going to have a long run effect as households take a life cycle view and plan for the future. Various asset classes have taken a massive hit and may not recover quickly. Thus, people planning to retire may contemplate delaying retirement in the short term at least. Also, the stock market is volatile and investors may steer clear of the market due to its volatility. Older people, in particular, may be scared off from investing additional funds into their superannuation. This is most important for people over the age of 50.

It is also important to look backwards so as not to repeat the mistakes of history. It appears for the moment that compared to other recessions employers are holding off from retrenching staff where they can. Yet, while employers are more likely to cut down on staff hours this time around, this is still impacting on households' income and spending. Indeed, economists need to take the time to consider a household economic model, as individuals don't make decisions in a vacuum; people make decisions about their working lives in relation to the household. The household should be the primary focus of analysis rather than the individual when undertaking economic modelling on workforce issues.

Another lesson from the last recession is that we didn't invest in older workers. Although Australia has one of the world's highest rates of adults enrolled in formal education courses, many older workers have plateau-ed in their working lives and do lack the right sort of skills that industry needs. There is some interest in older workers but it depends on the job and the industry. Older workers whose skills have become obsolete will struggle in the current market, and will be forced into low skill jobs out of necessity. We need to better understand the returns on investment in the human capital and training of older people, to establish whether it warrants a major expansion.

Many people ditched their retirement plans in haste due to the GFC. But unless we go into the micro statistics we won't really know the details and how this will play out in both the short term, as well as the medium to longer term. For example, for younger people in Tasmania, unemployment has been less of a problem compared to other states because demographically it is an ageing state and older people are still leaving the labour market despite the GFC and there are fewer people taking their places. Baby boomers may delay retirement, but they will still retire in the future, even if they just delay it by a couple of years. So this may just bunch up the effect, and, in turn, impact on younger people entering the workforce. It is high time that sociologists and economists work together to look at why and how this is happening.

Previous policy settings in recessionary times sought to deliberately take older people out of the market to make way for younger people to come through as a way of alleviating high unemployment, especially youth unemployment. Although at the time it was felt to be the right thing to do, we now know that we wasted the future of a whole older cohort. Many people got out of the labour market with very little superannuation or else went straight onto the full pension; and this also affected the younger generations' view of work and retirement.

It is important to consider the heterogeneity of older workers. Not everyone will be affected by the GFC in the same way. Those in blue collar industries, such as cleaners and truck drivers, have the earliest preferred retirement ages but the longest working lives. Thus, they are not working later into their lives because they want to, but because they have to. In turn, as the work that they do is often physically demanding, this can have a profound impact on their health. The recent proposed rise in the pension age may exacerbate these problems, albeit for a minority.

Wages tend to increase with age which reflects an increase in skills learned on the job over the life course, but the wage-age relationship varies by initial skills. Labourers have their skills go up rapidly and then drop off as they get older, while educated people's wages continue to rise over the course of their working lives.

Caring for an ageing population will also impact on the labour market and families in general. We tend to deal with childcare as the big issue for women, but caring for older family members is massive for men and women and there is little knowledge in the community of services or access to services. We need to educate people more on aged care issues. Migrant workers also have responsibilities as carers outside of Australia that need to be considered. We need to introduce employment standards to deal with this in much the same way as we do with working families caring for children. A small improvement in workplace flexibility to accommodate people's needs can slow the departure of workers from the labour market.

Age discrimination can displace people from the labour market. What we hear qualitatively is that you can be extremely skilled but if assumptions are made that you are less productive because you are older then you are just cut off; for example, access to promotions and training is denied. Poor quality work environments, limited opportunities, and underemployment are hidden by discrimination. While studies suggest that about a quarter to a third of people say they have been treated unfairly because of age, this figure is probably understating the issue as many people don't even recognise age discrimination as discrimination. It is considered acceptable. It's either internalised or accepted as part of the way things are. Higher unemployment as a result of the GFC (i.e., a labour market more favourable to employers) increases the scope for the exercise of age discrimination—there are more younger people to choose from.

Session 2 – How will the economic crisis affect self-funded retirees and those on pensions and part-pensions?

We need to understand the nature of the GFC. It's still unclear how long it will last, will it dip again, et cetera. This is a beast that we don't fully understand and there are different impacts. But income and assets have come down, and people have lost capital and income. Yet, some people may not have had to realise their losses, while others lost money on the way down as they sold into a bear market. But the reality is that many people are becoming part-pensioners for the first time as the value of and income from their assets (including superannuation) has fallen substantially. So now there is a loss of faith in superannuation with people looking at investing in other asset classes. How risk is dealt with and who carries it needs to be considered, particularly for self-funded retirees.

The effect of the government's stimulus packages, particularly in the long term, also needs consideration, as government debt has flow-on effects through the economy for years to come. This may impact on social services, taxation, housing, and other monetary policies.

We need to think beyond labour market decisions of older people; we need to look at the efficiency of capital structure, the financial system, and retirees. In terms of the changes that we've made in the last few years, how have we let older people down? One of the ways is that we've moved towards defined contribution superannuation schemes which place all the risk of variability in the value of and returns to assets on the individual. We've taken a model of buyer choice and assumed that it works well in the superannuation market where there are great moral hazards and the choices are complex and very hard to understand for many people.

There is huge scope for financial innovation. We have the ability to secure our jobs and credentials via innovative insurance instruments. Insuring your house is possible, but insuring your suburb and the value of houses is a more complex contract. Inflation indexed bonds, government bonds, are attractive risk sharing assets. The big financial innovations get introduced at the government level and then get added to by the market. Insurance markets for suburbs would be one way of insuring the risks for individuals. The superannuation system itself has also been stuck in a low productivity equilibrium in which the tax breaks are very unfair. We are told that we can't use superannuation for housing or skills training because it's locked up. We should be moving towards a higher equilibrium that is more flexible in how it can be accessed and used. While there should be buyer choice, it only solves a small part of the problem. Eighty percent don't want the choice as they don't understand the markets and the costs/benefits of the available choices. How do people get a reputation for good work in the financial sector? We need to create a market that rewards taking investment positions that carefully consider risk while still regularly outperforming the market. Government needs to set up a fund that will be professionally and intelligently managed with low fees and low risk.

There is also the issue of longevity risk. At the moment, the government picks up longevity risks through the pension. So there is space around superannuation and longevity risk that gives us something to think about. Money for aged care and money for health are long term issues for an ageing population and how we set up a system that tackles this sensibly over the longer term is something that needs work.

Regarding the Singapore system where you don't have large up front tax concessions for contributions to superannuation, but you can access equity, this could be done, but it would be a radical shift and will ultimately be directed by the public. The starting point regarding tax concessions around superannuation – do you conceive of this as a lifetime income smoothing machine and then tax to allow for this?, but then this has skewed benefits to high income earners. However, this is not

necessarily easy as those on low incomes have access to other benefits that high income earners don't have. Policy needs to consider current disadvantages and longer term solutions.

The Harmer Review showed that those on single age pensions and those on disability pensions are doing it toughest. The GFC will not affect these older Australians directly, as they do not have jobs or substantial income from assets. The risk to them comes from possible future cut backs in support from the government as it deals with reduced income and greater debt arising from the GFC. While they have benefited from the stimulus package in the short term, there are still cohorts who will continue to experience hardship. Moreover, the sustainability of the pension has been affected and so the focus needs to be on keeping older people in the workforce working longer, even if it is only part-time. Employment is an important resource for people, particularly for people who don't have other income. Once you qualify for the pension, then you can keep working beyond pension age and receive a part pension, provided that your assets don't push you over the threshold. The GFC affects how people get into and out of employment. The less advantaged people in the labour market are removed from the labour force more easily and find it harder to get back in. They may be forced back in out of financial necessity and yet their poor skills currency and/or poor health may make them virtually unemployable. More needs to be understood in this space.

On the disability front we have one of the lowest rates of employment in the OECD, which is quite shocking. And a lot of their earnings are cyclical, not stable. So there is something about our settings in relation to income support that is not assisting older people with disabilities in Australia to attain work. The UK and New Zealand have made significant improvements compared to us, and there is a lot that we don't know about that.

Self-funded retirees are those most affected by the GFC, among those who are not employed. It's true that the GFC is only a temporary phenomenon and in the long term won't make a large difference, but for self-funded retirees their funds have been reduced for retirement, lower interest rates mean returns have come down, and so they have to reassess immediately and this will mean a lower standard of living and consumption. For some, the fall in private income will be partially offset by increased eligibility to move to or increase their age pension income. The other difficulty is re-entering the labour force. Even though it will only be for a few years that the markets are down, it will impact on those retired in their prime retirement years. And it is difficult to say how long this will last. Incentives for getting back into the workforce are also not there due to tax concessions and means testing. Furthermore, we need to keep in mind that as people get older, their health and cognition begins to fail them. Self-funded retirees will deal with money differently at different stages of their lives and the constant changes in asset income streams (and rules) makes it worse, so the GFC has forced fluctuations in relation to the ways in which people are managing money.

Those living in residential care are also likely to be affected. Construction is going down as it becomes harder and more costly for providers to borrow and governments can't afford to make up the difference. Furthermore, the cost of residential care has gone up, which is not a problem having people pay for what they want, but whether the pension is enough to cover residential care and the cost of living is a question. Also, while families often cover hidden costs of older relatives living in residential care, this might change under the GFC if unemployment rises and family income is reduced.

The GFC may also mean that people may be forced to choose between going back to work and caring for a loved one, and where a carer has been out of the labour market for a lengthy period of time, they may struggle to find employment.

Session 3 – What do we need to know, and what do we need to do?

Better health is always desirable, and in the present case has the advantage of enabling people to stay in work. There is a class disparity amongst those entering retirement; white collar workers retire earlier than blue collar workers. The gap between when they want to retire and will actually retire is also class biased with blue collar workers wanting to retire earlier but actually working longer. There are few baby boomers who are even talking to their employer about retiring. Organisations need to start talking to people about these issues. It only tends to be brought up at performance reviews. Discussions about retirement plans and strategies need to be institutionalised and mandated so that they can be managed. Most organisations don't see that they need to put in place age management policies to keep people in the workforce longer. We have to look at how the situations have changed, how retirement intentions have changed, and how to manage this. There is a need for discussion between employers and employees about healthy ageing issues and age.

Many people approaching retirement have not given adequate consideration to their financial needs. So the question is how do you engage with people to make sure that they come up with the right retirement plans for their future? What's the return on investment for re-skilling? How does all this impact on health costs? Will Australians be prepared to pay higher taxes to cover this? How do we best support people who can't work full-time anymore and can't survive financially on part-pay? This needs to be thought out more strategically and the GFC has triggered awareness of these and the need for more immediate action. We need to consider what has been learned from the last recession and to continue to use the levers that we've got to respond in the short term to the shock of the GFC.

The main factor influencing why people think they will retire is overwhelmingly financial, but the real reason people retire is for their health or because they have been retrenched; that is, they are being forced out of the labour market rather than retiring at a time that they choose. So if we made workplaces more accommodating, we might keep people in the workforce for longer. At the moment, however, employers are very reluctant to take on an employee who has a health problem, and the rate of poor health goes up sharply after the age of 45 meaning that older workers can be risky for employers. Strong health shocks also reduce the number of working hours of an individual. It reduces men's working hours by an average of nine hours a week and women's by six hours a week. What you see then is a gradual withdrawal from the labour market. So what happens to mature workers at the latter stages? We have to understand what is happening there so that government and business can shape the responses.

We hear about imputed discrimination but how much is internalised? This needs a cross-disciplinary approach to look at why and how people make choices and where the barriers are. We want to encourage control and choice for the worker. We want to unpack what it is that creates disincentives to mature age work.

The GFC provided a big shock to the system and it was something that people didn't expect. So the question is how can our retirement plans be structured to guard against these hits? And there needs to be flexibility somehow. There are people who either come back into the workforce or delay retirement, but the labour market needs to be more flexible to accommodate that and the superannuation laws aren't conducive to encouraging people back.

Research that goes to the issue of the political economy and people's experience of the system and appetite to change the system would assist policy makers respond to the GFC. The reviews on the tax system and the superannuation system that are currently underway are about taking a step back and looking at the things that are not working, along with what the public wants, and how we get there. But how do you get people less risk averse to change when it is change that is necessary?

What are the communication strategies required to get the community to give the political space to allow the changes to take place?

It would be interesting to look at people's wants and desires over different decades and how this impacts on plans, including financial plans. It would also be good to see more policy debate around the sensible way to structure how people consume their assets in retirement age up to life expectancy. A better community understanding of the cost of residential aged care is an important goal.

One of the chief issues is around making it possible for people to work as long as they wish to. Two issues currently under-researched are employer attitudes (what innovative ways can we come up with to change employer attitudes to older workers?) and training (does training work for unskilled employees who are older and looking for work?).

We need to look at vulnerable older workers. The GFC is going to put most pressure on those who have little leverage in the market. If we knew more about employment practices then that would go a long way to making age friendly work places. Don't think that employers are necessarily going to be engaged with the idea of an age friendly workplace. And work isn't always a good thing for everyone. So how do we create a case for older workers that employers find viable and believable?

We also need to look at various financial products and give them ratings based on what people want regarding risk and reward. The GFC is also about what people are going to invest in, like care and accommodation. Chains right now don't want to invest. So what's the impact of that?

The Household, Income, and Labour Dynamics in Australia (HILDA) Survey has shown the analytical and policy power of a well-constructed longitudinal survey of the population. But it cannot provide the basis for a rich study of the transitions from paid work to retirement or of variations in retired life, for two reasons. One is that the sample size for the older population is not large enough for detailed analysis. The other is that the broad scope of the HILDA agenda does not provide room for many important questions about the lives of older people to be asked. A specific longitudinal survey that is focussed on people over age 45 is urgently needed if Australia is to manage population ageing with imagination and skill.

Summary

The Workshop discussion focused on the GFC and those disadvantaged groups who will suffer most from this crisis. In particular, the discussion focussed on the impact of the GFC on older people financially and what this means for the Australian economy more broadly. Some people lost out financially in life changing ways, and many have had to rethink their retirement plans. So what are the ways of protecting people against catastrophic losses, and how do we design a system that protects against this happening again? And we need to think of the changing composition of the household in all this, as households are an important part of our systems for managing risk. We also need to think about the 30 something year olds as they are not an endless resource. We need to think about getting the architecture right for when they are older. We need a system that's going to work in the longer term, too. Should we be investing in the skills of older workers? Partly this is about equity, but it is also about output and increasing human capital. And how do we get younger people skilled up and productive faster so that they have more time in the labour market? Moreover, there are unemployed men who have been squeezed out of the labour market that need to be encouraged and supported to return to work.

We also need to look at the heterogeneity of older people in our research. We need to think about a flexible workforce and what constitutes meaningful work for individuals. We need to know this to gauge the success of policy. There is also the underlying issue of who is going to carry the risk. Can we develop a political economy? Can we come up with a new direction? Risks need to be mitigated over the lifespan. Research needs to be undertaken around these issues as so much of this is guess work as to what might happen and future scenarios. There are some strong interactions between health, work and wealth but they are under-researched. Australia will go through changes around this and the relationships need to be better understood. Policy changes also need to be monitored to determine impact. All of this will require critical attention and rigorous investigation if Australia is to capitalise on older workers as a resource for the future.

Research Focus

- Taking a cross-disciplinary sociological/economics perspective, what are the retirement intentions of individuals (particularly within the context of household economic modelling), and what will this mean in the short, medium, and longer term for Australia's economy? What stops people from realizing their intentions—e.g., forces them out of the labour force before they want to retire?
- How can risk be adequately managed for self-funded retirees, and who should carry the risk?
- How can people's financial plans around retirement be better protected from future market crashes and recessions?
- How do we make people more accommodating of changes to the tax system that may help to alleviate inequity and protect people from market shocks?
- How can less advantaged people, including older people with disabilities, be made more attractive to potential employers and encouraged back into the labour market?
- What skills and training pays off for older workers and their employability?
- What are the barriers that exist for older people re-entering the labour market, and how can these be overcome?
- How can we improve employer attitudes to hiring older workers?
- How do we encourage people to more actively plan and manage their retirement, and to discuss these plans with their employers so that businesses can plan around this?
- What are the health costs associated with encouraging and enabling people to work longer, and will this necessarily prove to be a tax burden?
- How do we get people to better plan for residential care and how they consume their assets during their retirement years?
- What are the longer term issues around health, work and longevity, and how do they impact on people's retirement decisions?

List of Attendance:

Prof Philip Bohle - University of Sydney
Prof Laurie Buys - Australian Association of Gerontology
Dr Tony Coles - Australian Association of Gerontology
A/Prof David Cullen - Department of Health and Ageing
Dr Nicholas Gruen - Lateral Economics
A/Prof Natalie Jackson - University of Tasmania
Prof Hal Kendig - ARC/NHMRC Research Network in Ageing Well; University of Sydney
Mr Peter Matwijiw - National Seniors Australia
Prof Kostas Mavromaras - National Institute of Labour Studies, Flinders University
Dr Alison Morehead - Department of Education, Employment and Workplace Relations
Mr Greg Mundy - Aged and Community Services Australia
Mr David Parker - The Treasury
Prof Sue Richardson - National Institute of Labour Studies, Flinders University
Prof Linda Rosenman - Victoria University
Ms Priya SaratChandran - Australian Human Rights Commission
Ms Barbara Squires - The Benevolent Society
Prof Philip Taylor - Swinburne University
Mr Kevin Vassarotti - Australian Association of Gerontology
Ms Serena Wilson - Department of Families, Housing, Community Services and Indigenous Affairs
Prof Alan Woodland - University of New South Wales
Mr Ian Yates - COTA National and COTA Seniors Voice (Council on the Ageing)

Apologies:

Prof Peter Saunders (provided written comments), University of New South Wales