

Welfare Reform: Rising inequality in older age?

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Dr Ben Spies-Butcher, Macquarie University

Overview

- Placing older people in social policy, how has Australia responded to the challenge so far?
- Focusing on the success of the system
- The new priorities of retirement policies and the role of superannuation and savings
- Questioning the assumptions, fiscal strains and changing circumstances
- The Budget and welfare reform in an ageing perspective

The Welfare State of the Old?

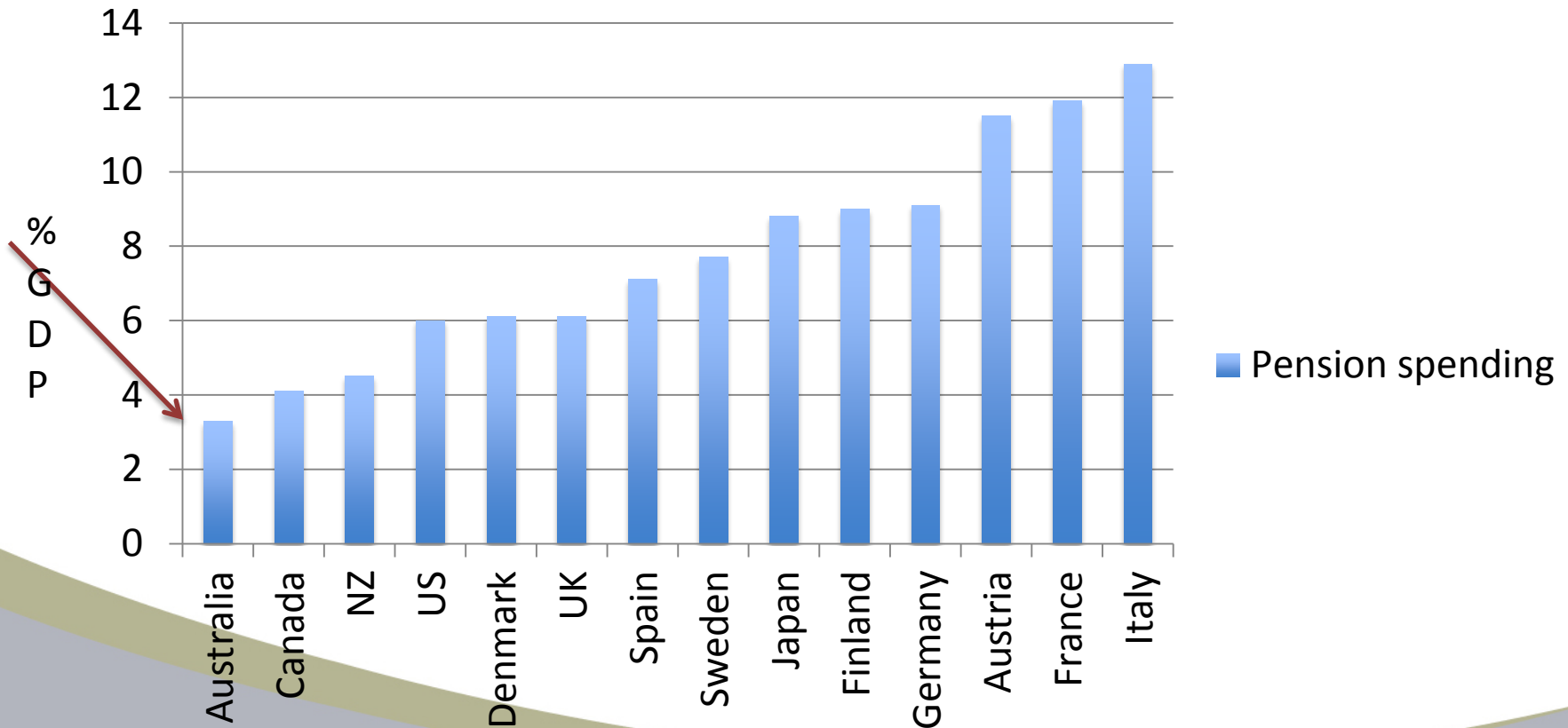
- Aged pensions often one of the first elements of social policy
- Pensions remain the largest component of social payments in most rich countries
- Health care – the other large component of social spending – is used more intensively by older people (and more recently aged care)
- This reflects concerns over aged poverty, but also raises questions of fiscal sustainability

Australian design

- Australia's approach to retirement income is widely praised internationally
- Its focus is poverty alleviation, with a flat-rate pension that is means-tested but generously so most older people access some pension
- This also means it is relatively cheap in the context of an ageing society

Australia: Stingy welfare?

Pension spending



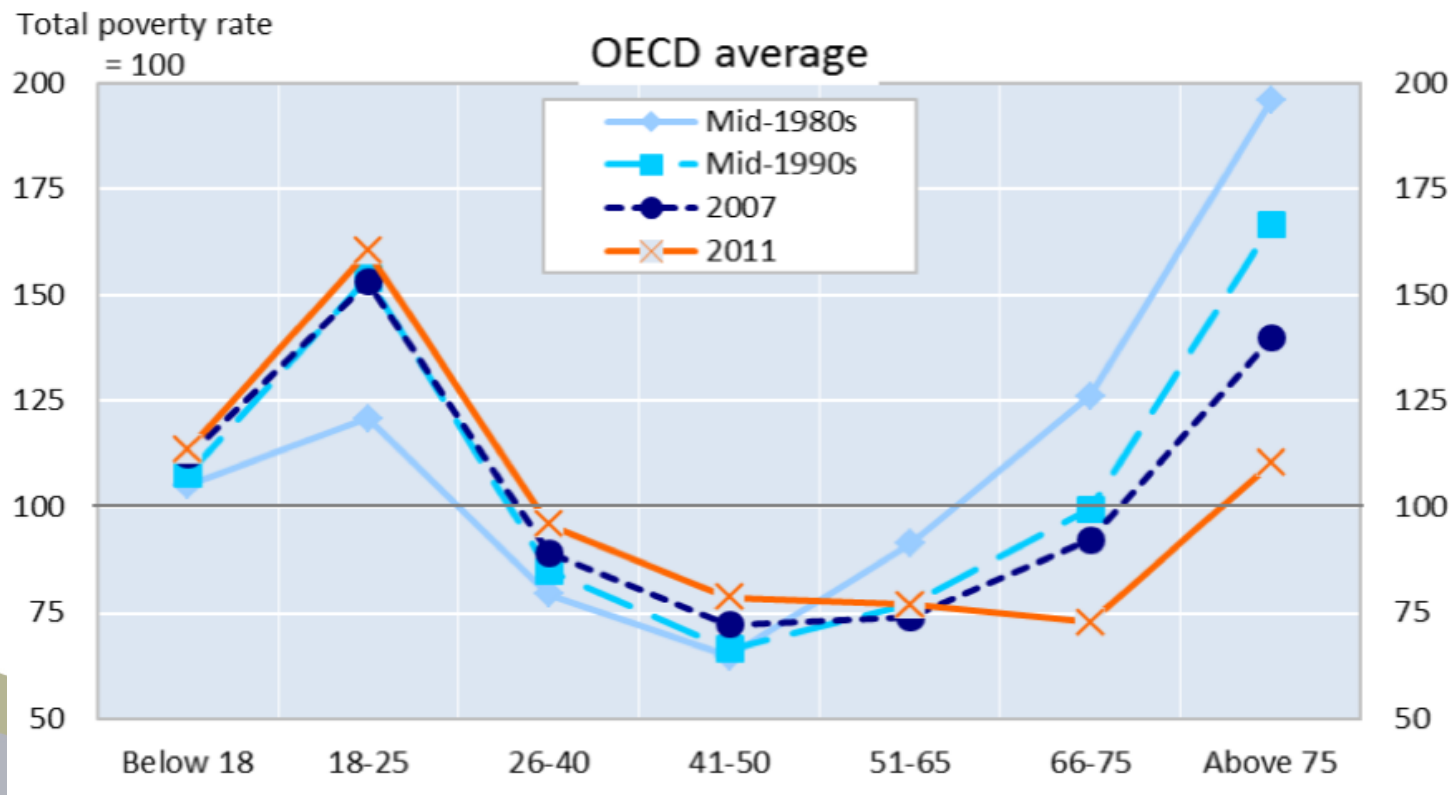
Equal but poor

- Older Australians have a very flat income distribution reflecting the flat rate aged pension
- Approx. 64% of those over 65 rely primarily on the aged pension
- For approx. 40% of those over 65 the pension makes up over 90% of their income (ABS 6523)
- Those payments have also been rising since the 1970s, reflecting a global trend to greater support for the old

Poverty: from old to young?

8 The risk of poverty has shifted from the elderly to the young

Poverty rate of the entire population in each year = 100, mid-1980s to 2011, OECD average



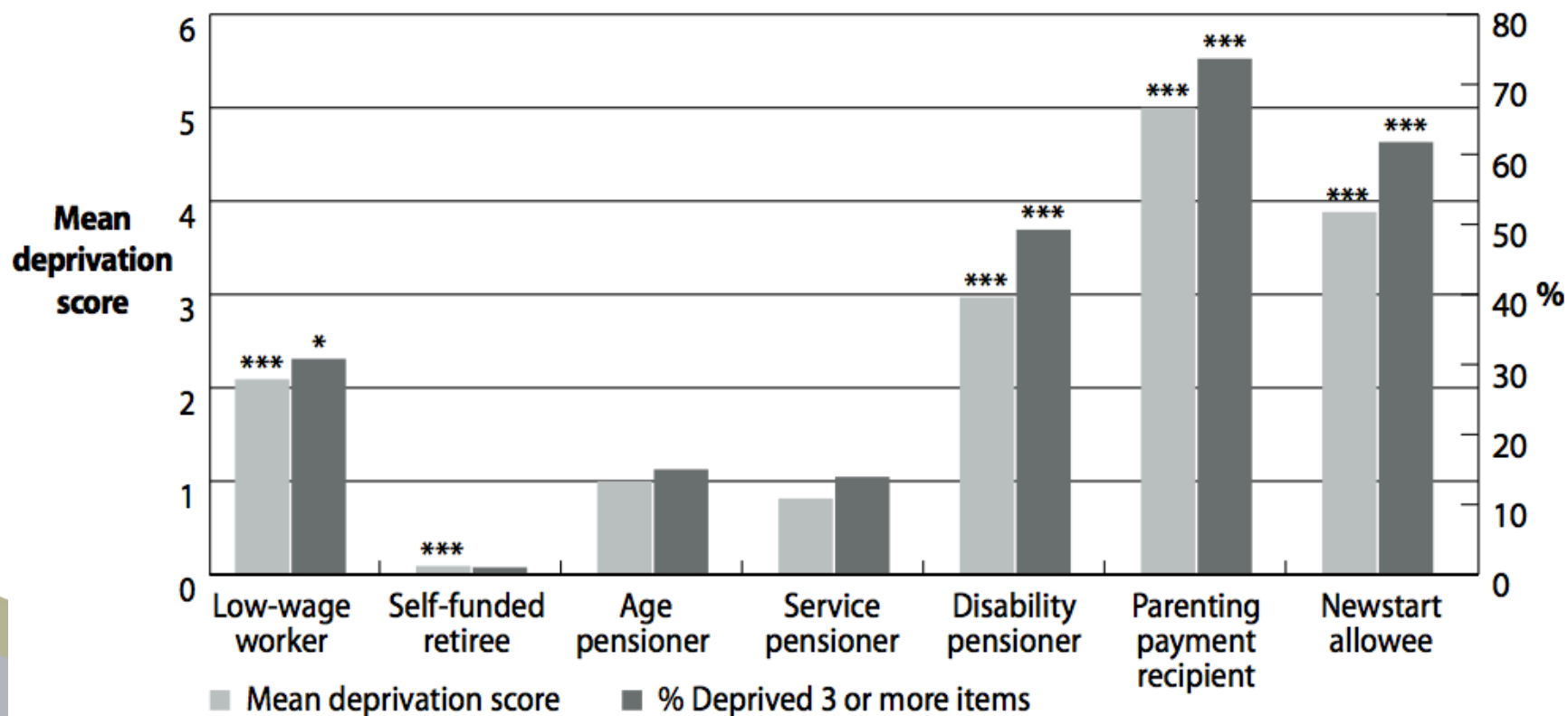
Source: OECD 2014, Income inequality update, June.

But is it adequate?

- Because so many Australian retirees have incomes close to the pension, poverty rates are very sensitive to how the poverty line is set
- This has led to wildly different estimates, from Australia having the highest rate of aged poverty in the OECD to one of the lowest
- A more useful measure might be *deprivation*, work being done at SPRC

Those at risk of deprivation

Figure 1: Deprivation by income source, 2006



Source: Saunders & Wong 2011, 'Pension adequacy and the pension

Changing tack

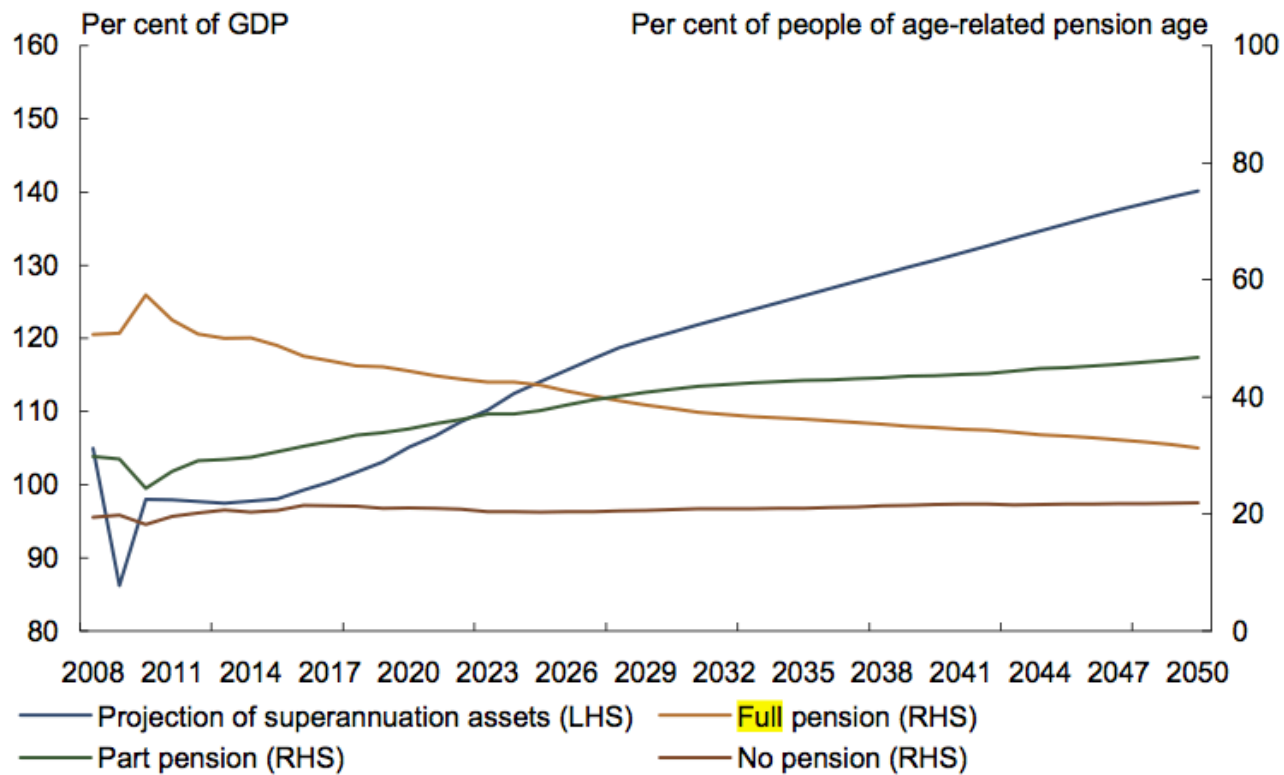
- Increasingly retirement incomes policy has changed its focus
- From 'Robin Hood' policies targeting the poor
- To 'Piggy Bank' policies to support workers to save themselves
- This aims to give retired workers more without governments spending more

Superannuation

- The primary mechanism to address these new priorities has been superannuation
- Super potentially increases the savings of most workers, raising their retirement income above the pension
- By providing workers with other income, the pension means-test reduces pension payments and social spending

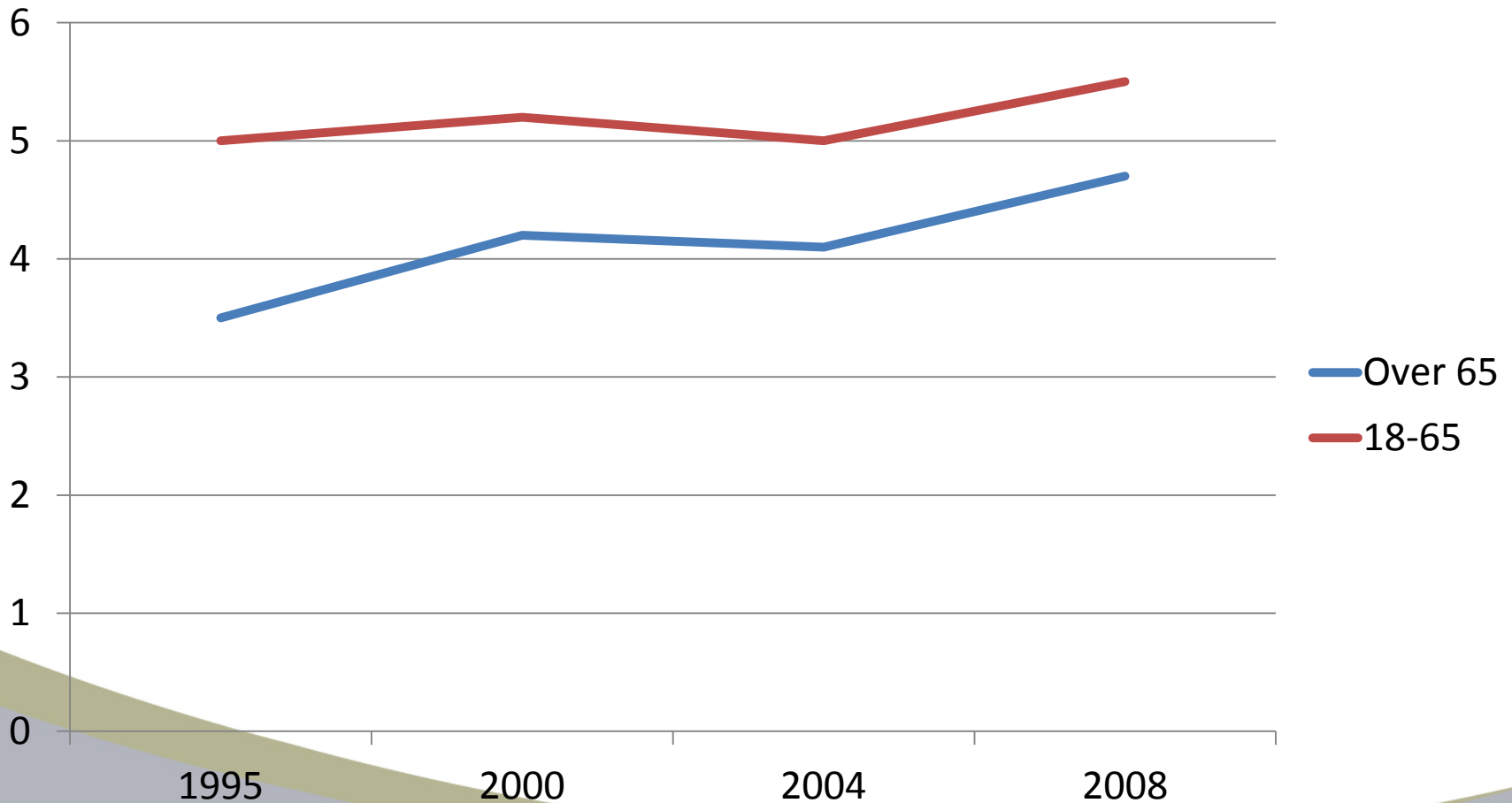
Changing Face of Retirees

Chart C.15: Projections of superannuation assets and age-related pension coverage and type



Source: Treasury projections.

Aged inequality is rising, but mainly due to retirees getting more



Questioning the assumptions

- This is a story relatively typical of policy makers in the area (at least until recently)
- The aged pension is seen to have successfully reduced poverty (esp. after Harmer)
- This creates new policy challenges
- Superannuation is the key to reducing fiscal liabilities and providing workers with a better retirement

Lifetime Savings

- Shift to a lifecycle understanding of social policy attempts to shift costs from public spending to private savings
- But two big problems:
 - We are moving to savings, just as that model is likely to become radically less fair
 - Its not just about spending, but taxation

Looking beyond spending

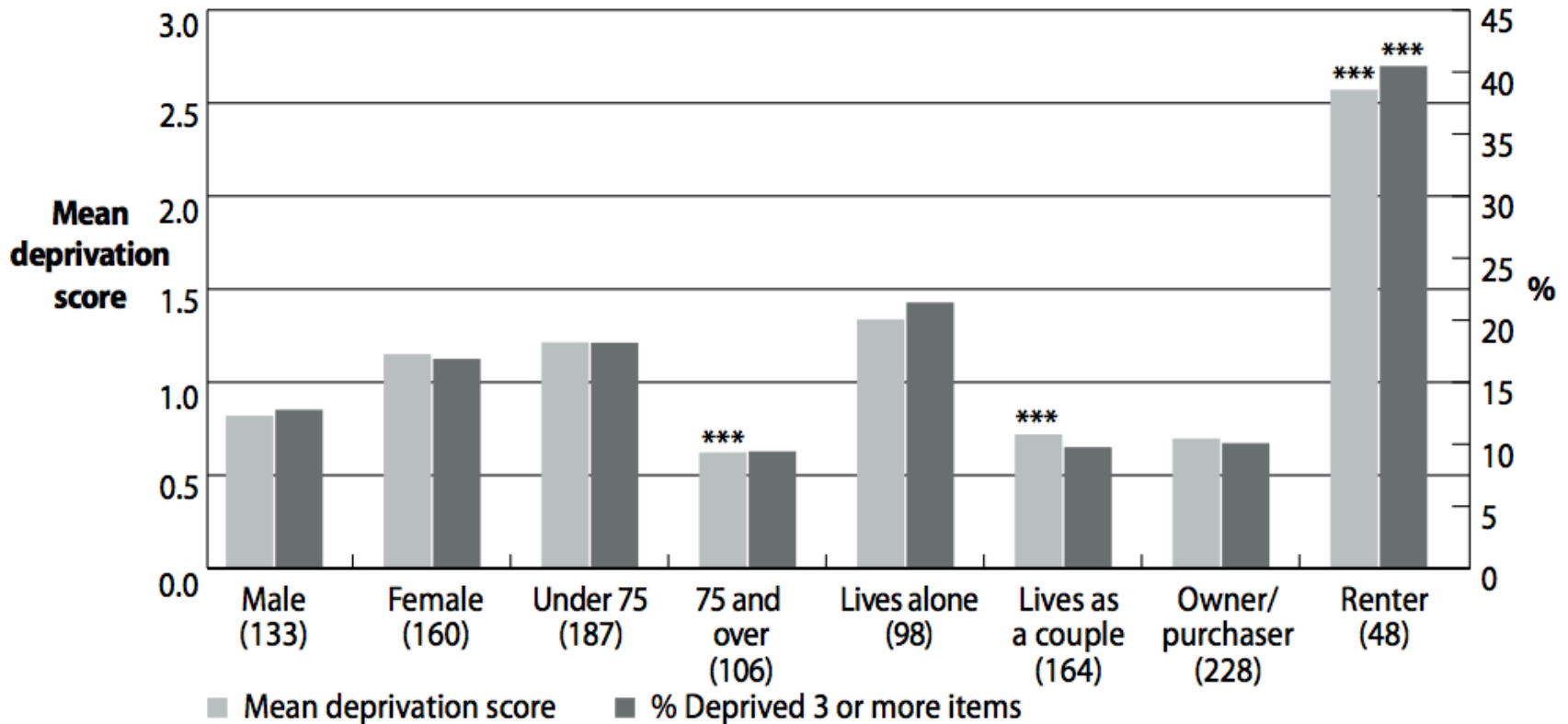
- Current retirees are the product of much older policy settings
- Their current savings (mostly in housing) are the result of policies in place much earlier
- The new savings model will take decades to mature, but we can track how it is going

We haven't (really) solved adequacy

- When we look more closely at the data, and speak to older people, we discover pockets of significant deprivation
- We also discover that the adequacy of the aged pension rests on a series of other supports

Renters left out

Figure 2: Deprivation by age pensioner category, 2006



Source: Saunders & Wong 2011, 'Pension adequacy and the pension review', *ELRR*, p.18

The two faces of renting

- About 40% of older renters are in public housing, about 60% in private rental
- Morris (2009) shows that public rental, while frugal, is generally adequate
- Deprivation is acute in private rental
- “Well, I’ve had a few things break down since I’ve been here that I can’t replace. I mean I haven’t got a microwave oven...and I don’t own a vacuum cleaner. And I haven’t got a heater.” Leah, 68, in Morris 2009, p.703.

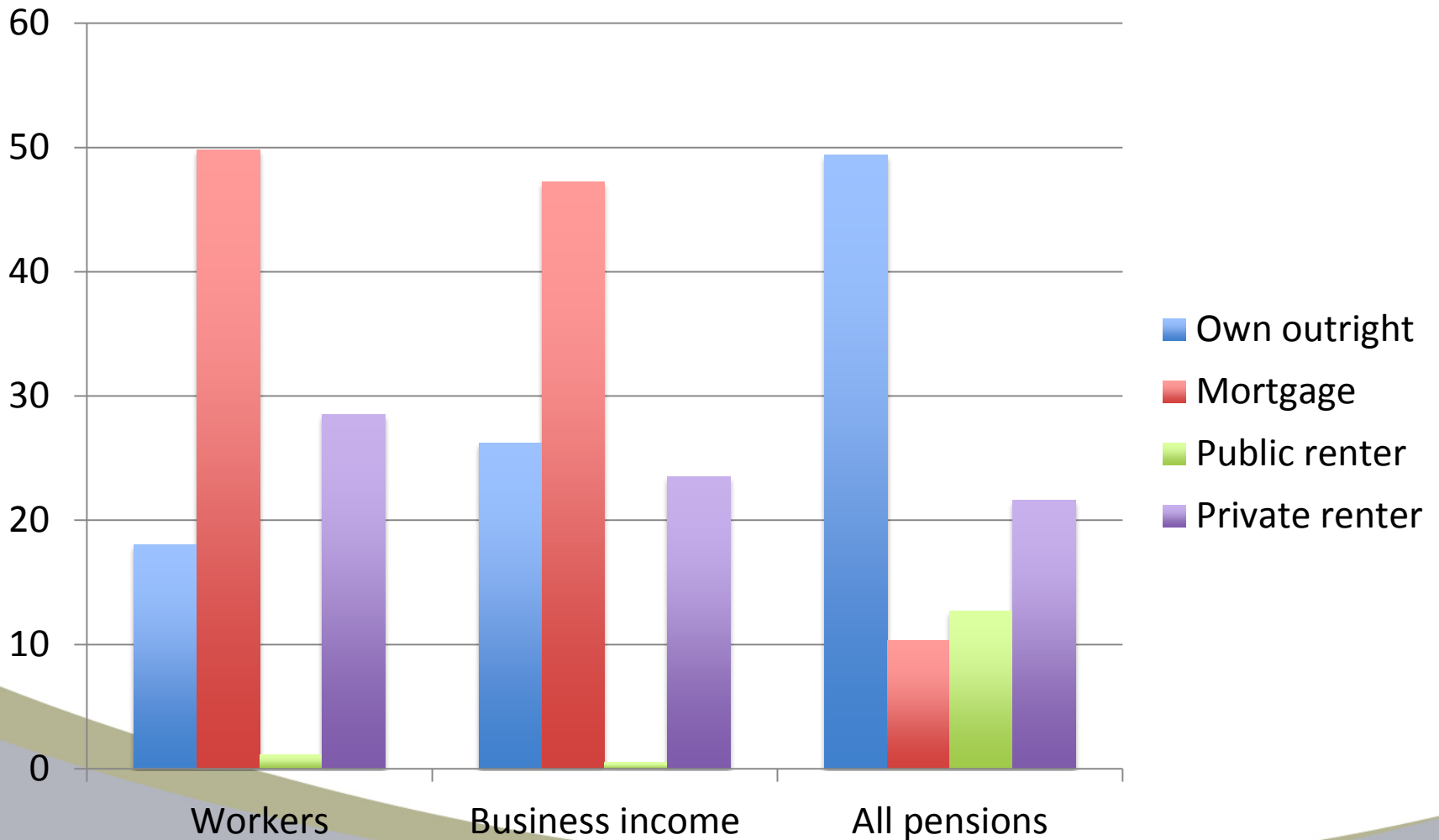
The pillars behind the pension

- The aged pension provides adequacy for most older people, but only the context of broader supports
- The most important of these is home ownership, but there are others I'll return to soon

Australia's housing story

- Overall home ownership rates in Australia are above average
- Uniquely home ownership obtained by low-income retired households in Australia
- Thus, home ownership is much more closely tied to age than income in Australia

Tenure type by main source of income

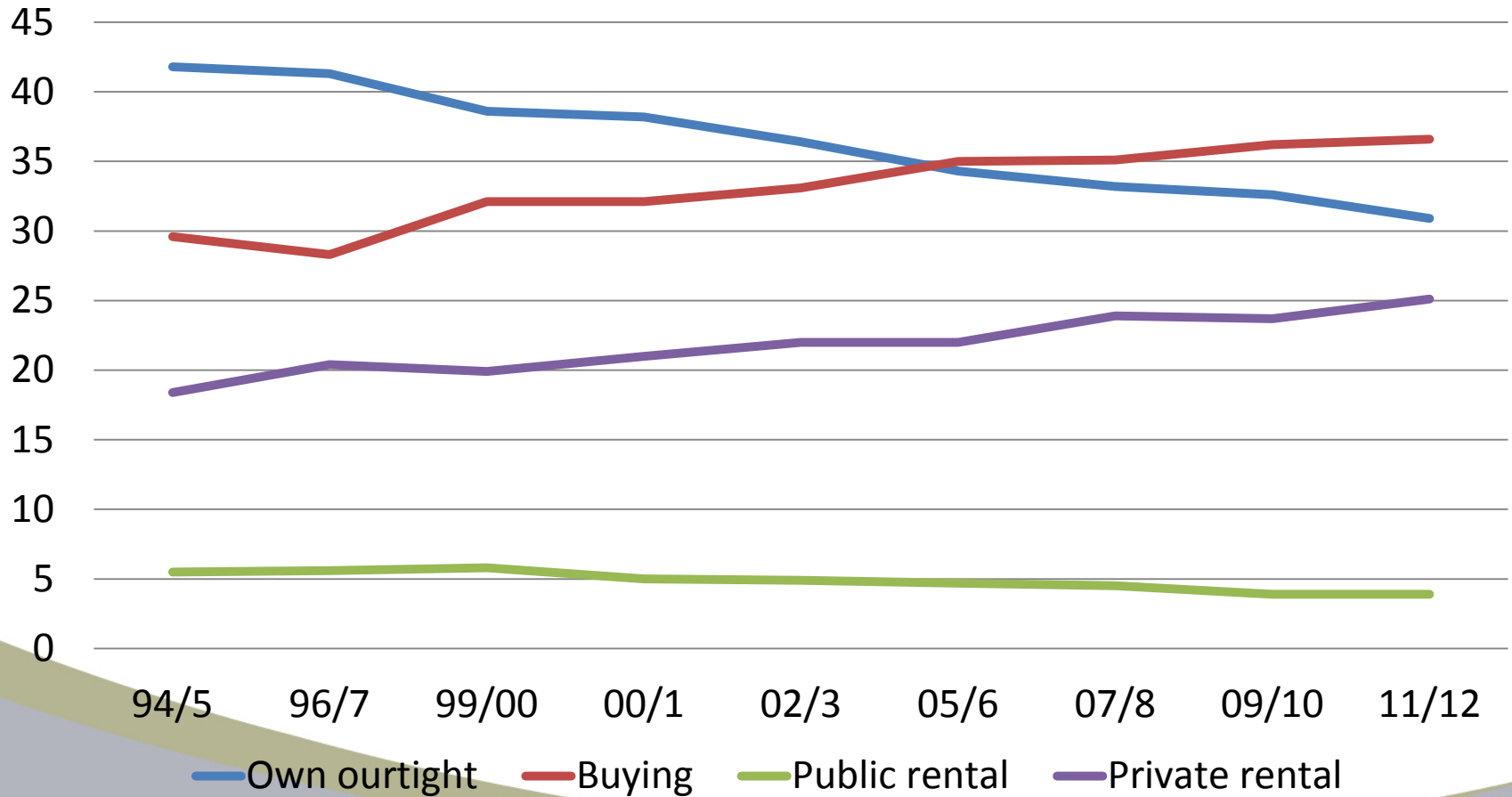


Two stories of savings

- Economic textbook: savings is a function of age. We save while working, gaining more wealth. Then we run down our savings in retirement, becoming less wealthy
- Piketty: As growth slows, inequality grows because old stocks of capital become relatively more important than new savings
- Q: Are the institutions that underpin high home ownership still in place?

A changing story?

Tenure Type All Households

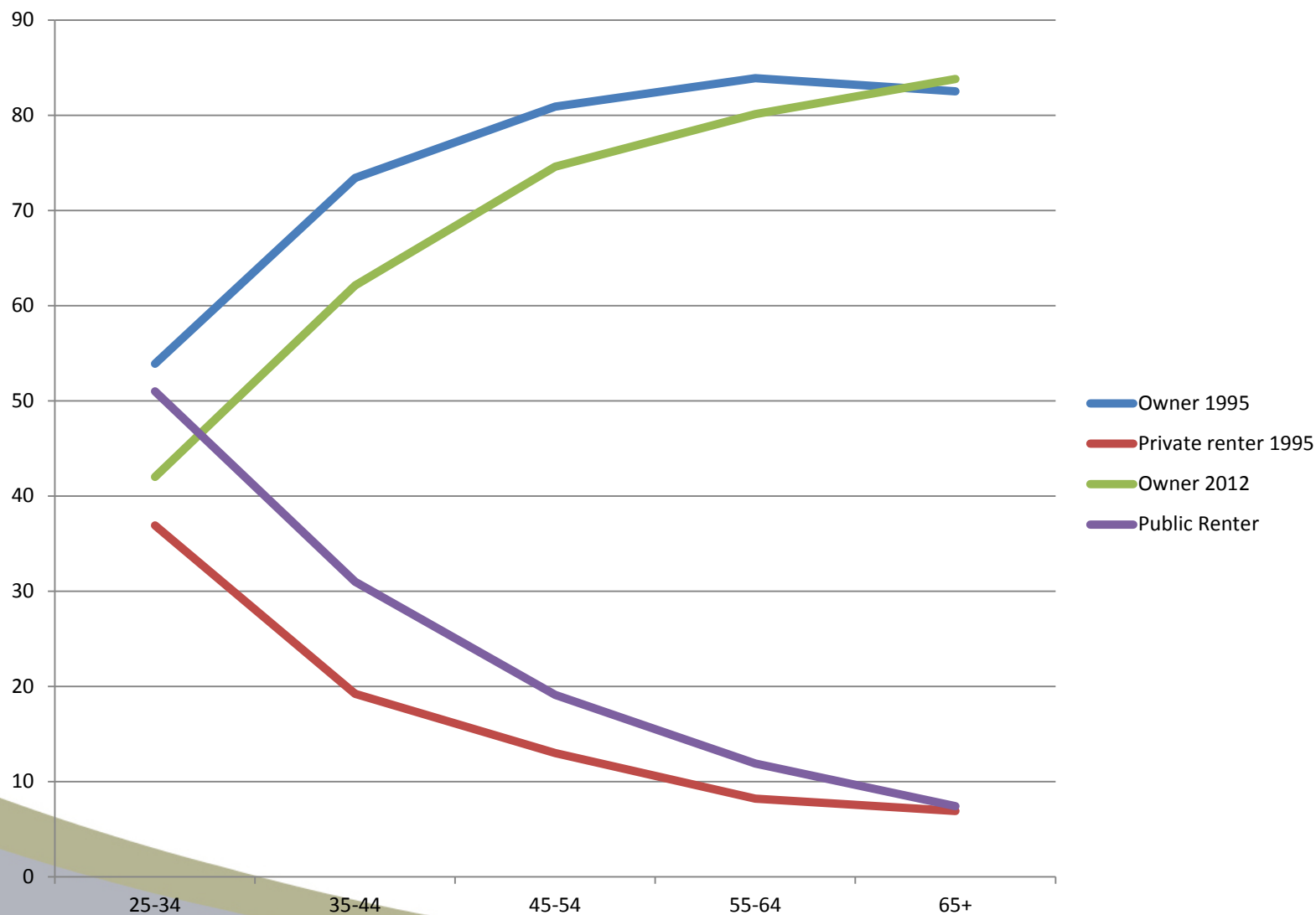


Little Change for Current Retirees

Housing tenure for individuals aged 65+ years, 2001 to 2012

Housing Tenure	1995 (%)	2011/12 (%)	Change (%)
Owner	77.5	76.3	-1.2
Mortgagee	5	7.5	+2.5
Private renter	6.9	7.4	+0.5
Public renter	7.4	4.7	-2.4

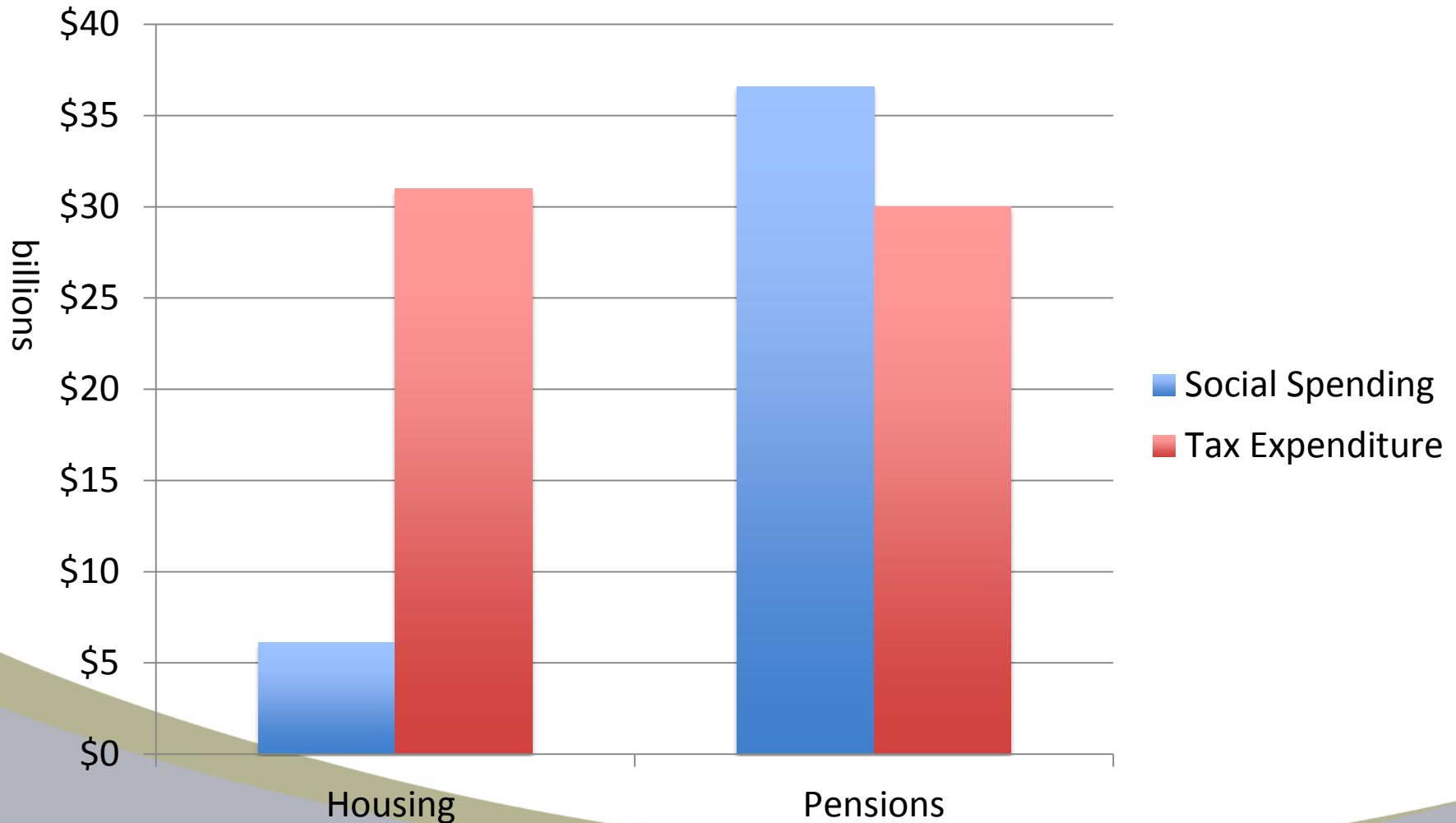
Is home ownership falling for younger people? Housing tenure by age, 1995 & 2012



How is private rental changing? Housing tenure by age, comparison with previous projections

Age group	Census 2001	2011/12 (%)	Projected 2026	Difference
25-34	51	42	51	-9
35-44	69	62	67	-5
45-54	78	74	68	+6
55-64	82	81	76	+3
65+	82	85	82	+3
Total	70	68	69	-1

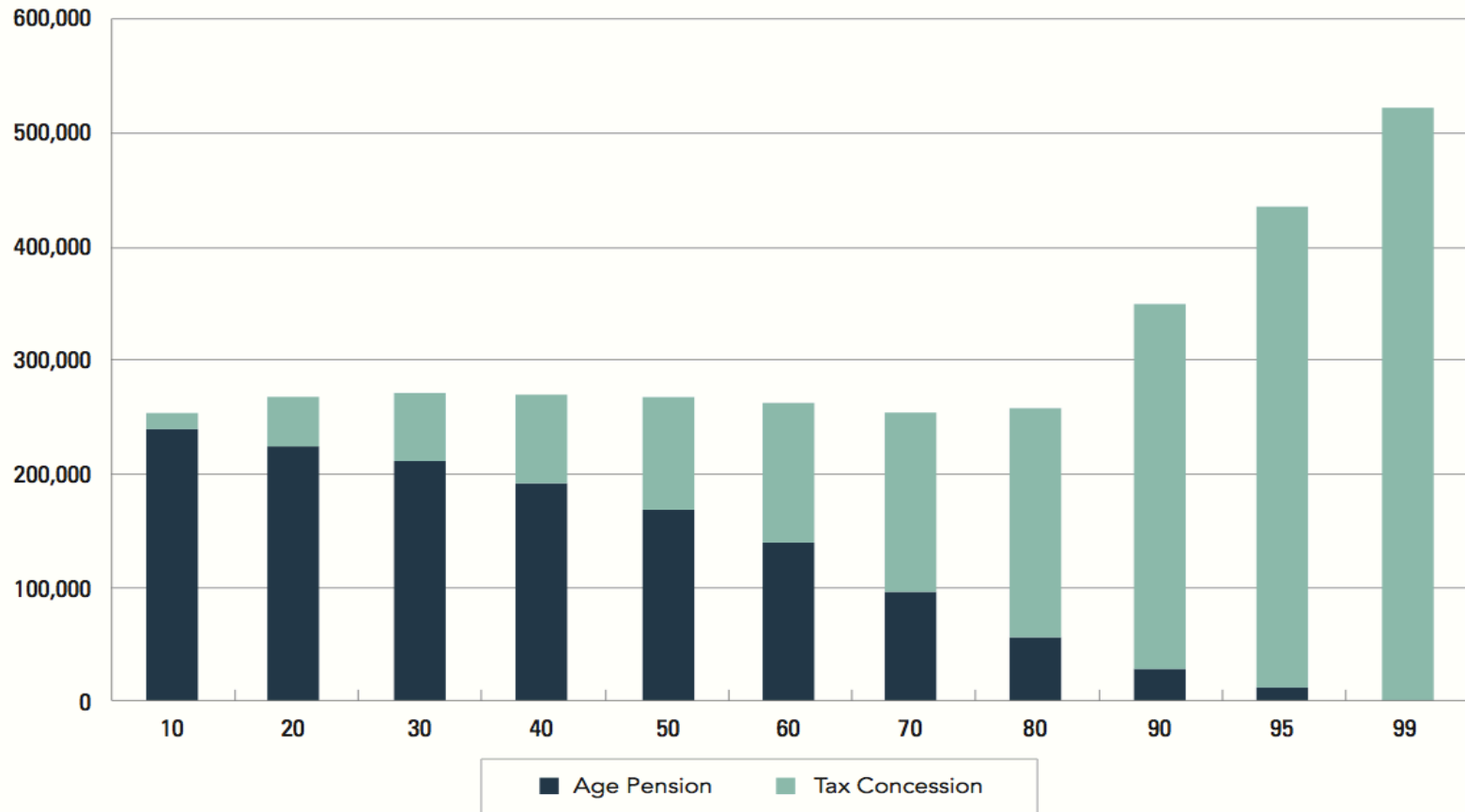
Total Federal Spending 2011/12



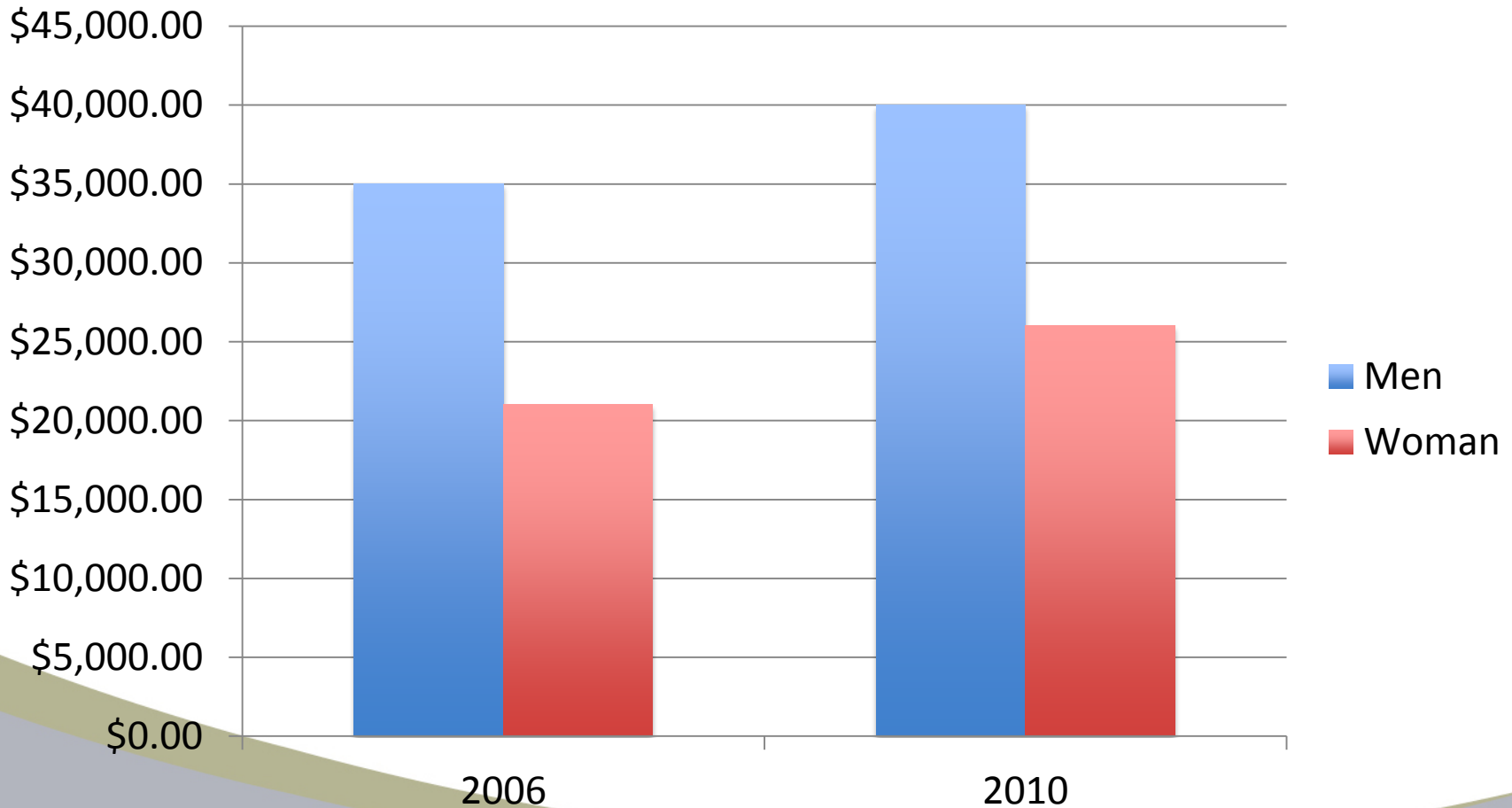
Source: Australian Treasury, Budget Papers & Tax Expenditure Statement; Productivity

Dual Welfare: how we support retirement

TOTAL GOVERNMENT SUPPORT- MALE



Gender effects on savings



Support for Savings is the Big Fiscal Challenge

- There are fiscal pressures facing Australia
- However, encouraging private provision is exacerbating these trends
- Super tax concessions are growing *faster* than pension spending
- Private health insurance rebates are growing *faster* than Medicare spending
- Housing concessions are crowding out new buyers, causing rent assistance to *increase*

Explaining the tensions

- Why is population ageing a challenge?
 - Increased consumption is not a problem
 - There are specific workforce issues, but little generalised problem of labour
 - Its public spending
- But shifting costs is challenging
 - Pensions: support for private pensions tends to favour the wealthy
 - Services: most are public goods that are more efficiently provided in public sector

Tightening the strings

- Instead of dealing with these pressures, the proposed budget measures target existing supports to the public pension
 - Free/cheap medical care and pharmaceuticals
 - Payments to states to support travel and other concessions
 - Less generous indexation
- Along with falling home ownership rates, this will substantially weaken the anti-poverty capacity of the retirement income system

Threats across the life course

- Changes to other aspects of the budget potentially reinforce inequalities over the life course (and thus in retirement savings)
- Changes to the dole may increase scarring effects on low-skilled and unlucky workers
- Changes to higher education may delay home purchase leading to more older renters

Wrong policies at the wrong time?

- It may be that the effectiveness of the pension was based on a unique set of circumstances
- We are experiencing the maturation of retirement policies established by the long boom
- But those policy settings have are changed:
 - Krugman, Stiglitz: labour market incomes are less equal and less secure; capital market deregulation
 - Piketty: Slow growth rates mean inheritance is becoming more important than savings from work

Danger ahead?

- Significant challenges from less regulated markets
- Big challenges emerging related to the distribution of care
- Support savings creates fiscal problems, it doesn't solve them
- Changes to pensions and retirement policies may be more regressive than they appear at first glance
- Taxation and savings policies may mean inheritance becomes much more significant in the future