

OLD-AGE INCOME SECURITY IN AUSTRALIA

What Does It Look Like?

Australia's social security retirement income system consists of a means-tested benefit, known as the age pension, and mandatory occupational savings schemes or pensions, known as the superannuation guarantee. Unlike most other high-income countries, Australia has never had an earnings-related social insurance pension system.

The Age Pension

The age pension, financed by general revenues, pays a flat amount to anyone who qualifies. Income and assets (excluding the home) are taken into consideration in determining eligibility. The eligibility age is 65 for men and is rising gradually from 60 to 65 for women. Previous workforce participation is not required. Many older persons spend down their assets to qualify.

The Superannuation Guarantee

Although Australia has long had a system of employer-provided occupational pensions, those pensions covered less than half the workforce as of the early 1980s. Beneficiaries tended to be higher earners, male, and/or public-sector workers.

Reform in 1986 led to expanded private pension coverage. Nevertheless, a number of problems remained, most particularly non-compliance by small employers. To correct these, the government in 1992 mandated employer-provided pensions—the superannuation guarantee—which since 2002 has required employers to contribute an amount equal to 9 percent of workers' earnings to superannuation individual accounts. Employees are not required to contribute but can make voluntary contributions for themselves and their spouses. To help low-income workers save, the government will match every A\$1 of personal superannuation contribution with a co-contribution of A\$1.50, up to a maximum government co-contribution of A\$1,500 per

annum for workers with income of less than A\$28,000 a year.¹ The superannuation plan may be a defined benefit or defined contribution plan—most are defined contribution.

The superannuation guarantee covers most full- and part-time wage and salary workers aged 18 to 70 with earnings of A\$450 or more in a calendar month. More than 90 percent of wage and salary workers were covered by the superannuation guarantee in 2002.²

Australian workers typically have not been able to choose an investment fund; however, as of July 1, 2005, most employees who participate in superannuation will have the option of selecting the fund to which their employers' compulsory contributions are made.

The superannuation guarantee is payable at age 55 to beneficiaries who are totally retired. This age will rise gradually to 60 between 2015 and 2025. Benefits may be taken in the form of an annuity or lump sum. Survivors' benefits are not mandated. Lump-sum benefits are fully inheritable, and the law provides that assets may be divided by agreement or court order upon divorce.

How Does It Pay?

The age pension is the major source of income for Australia's retirees. It is received by about three-fourths of retirees. As of March 2002, two-thirds of age pensioners received the maximum rate of pension and the rest received a partial rate.³ The age pension is adjusted twice a year to account for changes in the cost of living.

The superannuation guarantee was introduced in part to reduce government expenditures for old-age pensions. It operates somewhat like a clawback, whereby the benefits from one program are offset by the benefits of another. As workers' superannuation guarantee accounts grew, workers would have greater assets and thus no longer qualify for some of

or even any of the age pension. The guarantee may not, however, have as great an impact as might have been hoped for. Despite tax incentives to encourage annuities, most workers have opted for the lump sum. The lump-sum provision may serve as an incentive for workers to retire early and withdraw their accumulated funds, spend them, and subsequently qualify for the age pension. Observers have underscored the conflict between the superannuation system, which is designed to encourage saving for retirement, and the means-tested age pension, which discourages it.⁴

Women's discontinuous work histories and generally lower wages than men's mean that on average women will accumulate less in their superannuation accounts than men will. Rising labor force participation rates, however, should improve those balances. Even so, only under the most favorable assumptions is it likely that the superannuation guarantee will provide adequate retirement income to either men or women.⁵ The Australian Taxation Office stresses that the superannuation guarantee is a supplement to, not a replacement for, the age pension.⁶

Lessons for the United States?

Both the United States and Australia have retirement income systems that provide benefits to the aged, although Australia's means-tested age pension is very different from the earnings-related Social Security benefit in the United States. In the United States, low-income individuals may be eligible for means-tested Supplemental Security Income (SSI) benefits, although this program benefits a small fraction of the aged. Asset testing of Social Security benefits has surfaced on occasion in proposals to restore long-term solvency to the system, although that idea has generated little support.

Both countries are concerned about the rising costs of an aged population and ensuring that older persons have adequate retirement income. Australia has responded by mandating private pensions.

Mandated employer-provided occupational pensions have been proposed as a means of fostering retirement income security in the United States, especially among workers in small businesses. The Bush Administration has also proposed Social Security reform that would involve private accounts where benefits would replace some of the income from the traditional payroll-financed benefit. Australia may serve as a test case for mandated, largely defined contribution occupational pensions and their impact on employment, public pension expenditures, economic growth, the substitution of private for public retirement income benefits, and the ultimate well-being of the aged.

¹ The maximum co-contribution decreases by 5 cents for \$1 of income above A\$28,000 per annum up to A\$58,000 a year after which eligibility ceases. US\$1 equaled A\$1.27 on 2/14/05.

² Australian Taxation Office, "What Is the Superannuation Guarantee Scheme?" <http://www.ato.gov.au/content/downloads/2002SPR02.pdf> [2/16/05].

³ Australian Department of Family and Community Services, "Submission to Senate Select Committee Inquiry, Attachment A—Age Pension." http://www.facs.gov.au/internet/facsinternet.nsf/aboufacs/programs/seniors-age_pension.htm [2/7/05].

⁴ J. H. Schulz, *Older Women and Private Pensions in Australia* (Waltham, MA: National Center on Women & Aging, 2000).

⁵ S. M. Korczyk, *Women and Individual Social Security Accounts in Chile, Australia, and the United Kingdom* (Washington, DC: AARP, 2003).

⁶ Australian Taxation Office, "Superannuation— for Employees: What Is Superannuation?" <http://www.ato.gov.au/super/content.asp?doc=/content/19150.htm> [2/9/05].

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