NATSEM
UNIVERSITY OF CANBERRA

Brotherhood of St Laurence
Working for an Australia free of poverty

Reform of the Australian Retirement Income System

Research Report

PREPARED BY

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PREPARED FOR

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ABOUT NATSEM

The National Centre for Social and Economic Modelling was established on 1 January 1993, and supports its activities through research grants, commissioned research and longer term contracts for model maintenance and development.

NATSEM aims to be a key contributor to social and economic policy debate and analysis by developing models of the highest quality, undertaking independent and impartial research, and supplying valued consultancy services.

Policy changes often have to be made without sufficient information about either the current environment or the consequences of change. NATSEM specialises in analysing data and producing models so that decision makers have the best possible quantitative information on which to base their decisions.

NATSEM has an international reputation as a centre of excellence for analysing microdata and constructing microsimulation models. Such data and models commence with the records of real (but unidentifiable) Australians. Analysis typically begins by looking at either the characteristics or the impact of a policy change on an individual household, building up to the bigger picture by looking at many individual cases through the use of large datasets.

It must be emphasised that NATSEM does not have views on policy. All opinions are the authors' own and are not necessarily shared by NATSEM.

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EXECUTIVE SUMMARY

With an ageing population the government needs to ensure that the available funds for those in retirement are targeted at the most needy. The analysis of equivalent disposable income in this report shows that, when compared with all Australians, almost two-thirds of those on the Age Pension are in the bottom income quartile and nine out of ten are in the bottom half of the income spectrum. When just Age Pensioners were analysed, six-in-ten were found to have income other than government benefits of less than $20 per week. Even more disturbing is that 83 per cent of renters have private incomes of less than $20 per week. However, there is another group of Age Pensioners, a much smaller group, who are in the highest income quartile (2.4%) and doing very well.

The wealth of those on the Age Pension compared favourably with the entire population. In fact almost 70 per cent are located in the middle two quartiles. However, the majority of the wealth is in the family home and not assessable under the assets test. The outcome of this is that the current asset test has little impact and is of no significance to those in the lower half of the wealth and income spectrums.

Single, non-homeowners were dominant in all of the low income, low wealth analyses.

The report has presented a range of options. Some are aimed at greater equity by increasing payments to the most in need, while others are aimed at encouraging people to save in a form that will provide income in retirement. Finally, other broader policy options are presented to address inequities in the system by reducing payments to those where the need is not as great.

These options include:

- a universal pensioner concession card;
- universal age pension;
- increasing the base rate for singles;
- increasing rental assistance;
- changing the thresholds and tapers for the Age Pension;
- assessing the home value (above a certain limit) as an asset;
- changing taxation arrangements; and
- broadening superannuation contributions

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GENERAL CAVEAT

NATSEM research findings are generally based on estimated characteristics of the population. Such estimates are usually derived from the application of microsimulation modelling techniques to microdata based on sample surveys.

These estimates may be different from the actual characteristics of the population because of sampling and nonsampling errors in the microdata and because of the assumptions underlying the modelling techniques.

The microdata do not contain any information that enables identification of the individuals or families to which they refer.

CONTENTS

1 INTRODUCTION

The Brotherhood of St Laurence (BSL) has commissioned National Centre for Social and Economic Modelling (NATSEM) to undertake a study of the inequities of the Australian retirement incomes system. This report will form the basis of the BSL's response to the Commonwealth Government's Consultation Paper on Australia's future tax system: retirement income (Tax Review 2008).

1.1 BACKGROUND

Like many industrialised countries, Australia is facing population ageing. The post World War II baby boom, combined with a subsequent fall in fertility rates and an increase in life expectancy as a result of improvements in health technology, has meant that Australia's population distribution is changing. In 2008, there were 2.8 million Australians aged 65 and over. This was approximately one–in-eight (13%) of the population. In 2028, the number is projected to almost double to 5.4 million aged 65 and over. This will be one-in-five (19%) of the Australian population. The growth rate of those aged 65 and over is projected to slow slightly in the mid-2030s but the 65+ population in 2048 will be 2.5 times the 2008 65+ population. At the same time the number of people of working age (20-64 years) is not growing as fast and the ratio of working age to elderly is estimated to decrease from 4.6 working age people for each 65+ person in 2008 to 3.0 in 2028 to 2.5 in 2048.

The government is concerned about how to ensure a reasonable standard of living for older Australians with an ageing population. Total government outlays on age and service pensions were $25.5 billion in 2006-07 (Harmer 2008). This represented 2.5 per cent of GDP. By 2046-47, despite increasing numbers of older people receiving private superannuation, these outlays are expected to increase substantially, rising to an estimated 4.4 per cent of GDP (Treasury, 2007). In addition to increasing pension outlays, the ageing population is putting increasing pressure on the Government for health care and aged care services. The 2007 Intergenerational Report projects that government spending as a proportion of GDP on aged care will increase from 0.8 per cent to 2.0 per cent and spending on health will almost double from 3.8 per cent to 7.3 per cent (Treasury, 2007).

1.2 THE TAX REVIEW

One part of the government's response to the ageing population has been to review the taxation and pension systems in Australia. While these reviews are ongoing, the guiding objectives for the Australian retirement income system have been stated:

- "it should be broad and adequate, in that it ***protects those unable to save against poverty*** in their old-age and provides the means by which individuals must or can save for their retirement;
- it should be acceptable to individuals, in that it considers the income needs of individuals both before and after retirement***, is equitable*** and ***does not inappropriately bias other saving decisions***;

- it should be robust, in that it appropriately deals with investment, inflation and longevity risk;
- it should be simple and approachable, in that it allows individuals to make decisions which are in their best interests; and
- it should be sustainable, in that it is ***financially sound into the future*** and detracts as little as possible from economic growth."

Tax Reform 2008 p.5, author's emphasis

1.3 Outline of this Report

This report will discuss how well the current retirement system meets these objectives and specifically address issues emphasised above – adequacy, equity, savings decisions, and sustainability. Discussion will focus on how it is that a substantial proportion of older Australians are living in poverty (around 23.9 per cent) according to analysis by the Social Policy Research Centre (Saunders et al. 2008) given that a main objective of the Age Pension is to provide support for a basic standard of living (Harmer 2008).

In the next section, the current retirement system is outlined and then the circumstances of groups of Age Pension recipients are compared. This comparison provides some observations in regard to how well the current retirement system meets its objectives. Section 3 then outlines some possible changes to the Australian retirement system that can be made to provide a more adequate, equitable and sustainable system.

1.4 Data and Methods

The tables and figures in this report are based on a confidentialised unit record file of the ABS 2005-06 Survey of Income and Housing (SIH). The SIH provides very detailed information about income and personal and household characteristics of persons aged 15 years and over resident in private dwellings throughout Australia. In 2005-06 it also contained information on homeownership, net wealth, asset ownership and the value of assets. The SIH excludes non–private dwellings (such as hospitals, institutions, nursing homes, hotels, and hostels), and dwellings in collection districts defined as very remote. For more details of the SIH, ABS provides a very comprehensive guide (2008).

The term 'Age Pensioner' in the tables using SIH data refer to a person who was aged 65 and over living in a private dwelling and at the time surveyed was receiving an income of greater than zero from either the Age Pension or Service Pension. In tables that deal exclusively with Age Pensioners, only those people who live in a household that consists of either one or two persons are considered to be in scope. Those excluded from the scope include pensioners living with dependent children and those living in an extended or a multiple family household. This is designed to ensure that the findings represent the majority of Age Pensioners and are not biased by a few non-typical situations.

The simulations in the latter part of the report were undertaken using NATSEM's static microsimulation model, STINMOD. This model has been kept up to date by the National Centre for Social and Economic Modelling since it was first developed in 1994. STINMOD is used by Australian Government departments for their analysis of the impact of policy reforms, specifically to calculate the simulated impact of major Australian federal government cash transfers, income tax and the Medicare levy. The model estimates the aggregate fiscal impact of a change in tax and / or transfer policy on revenue or government expenditure. It also estimates the distributional impacts of policy change for groups of people and individuals – that is, who wins, who loses and by how much (Tanton et al. 2008).

2 RETIREMENT IN AUSTRALIA

The Australian Government recognised the economic aspects of an ageing population in the late 1980s and developed a retirement income policy based on three pillars – a public pension scheme, compulsory private savings and voluntary private savings. The three pillars are very similar to those recommended by the World Bank for all countries (1994). Since the introduction of three pillar approach in 1992, there have been almost continual changes and fine-tuning of the pillars. Some of these reflect a change in government policy direction towards greater self-reliance in retirement, in other words the majority of income coming from superannuation rather than a publicly funded age pension.

As Knox (1994) has noted, while the Age Pension is specifically targeted at poverty alleviation for older Australians, the uses of superannuation can be much broader. At present, once the age of 55 years has been reached, superannuation funds can be used for purposes completely unrelated to maintaining retirement living standards, if a person wishes.

2.1 THE THREE PILLARS

2.1.1 Age Pension

The publicly funded age pension was introduced by the Australian Government in 1909 and has a primary objective to the alleviate poverty for older Australians (Knox 1994). The current means tested Age Pension is designed as a safety net to ensure an acceptable standard of living in retirement. The means-testing is designed to ensure that assistance is targeted to those most in need.[1] It consists of separate income and assets tests used to assess the personal resources available and calculate how much assistance is payable. The

[1] "Australia has an income support system that is designed to be a safety net for people unable to support themselves without calling on the resources of the community. The income and assets tests are used to target the system so that it remains sustainable and affordable for Australian taxpayers. The tests help ensure that the funds available for social security expenditure are directed to those in the community most in need." (FaHCSIA 2009)

fortnightly payment rate is calculated under both the income and assets tests. The test that results in the lower rate (or zero) is the amount paid. Each test has an 'free' threshold where income or assessable assets below this level do not impact on the 'full' or 'base' rate of pension payable and then 'tapers' where the amount received from government decreases with each dollar of private income or $1000 of asset value. As Table 1 shows, a single homeowner can have fortnightly private income of $138.00 or less and assessable assets of $171,750 or less to qualify for a full pension. At the other end of the spectrum, a non-homeowner couple could have a combined fortnightly private income of $2602.50 and assessable assets of $998,000 and still qualify for a part pension.

Table 1 Age Pension Income and Assets Tests, January 2009

	Income Test		Asset Test	
	Free threshold [a]	Part payment cut-off	Free threshold [b]	Part payment cut-off
	$ per fortnight	$ per fortnight	$	$
Homeowner – Single	138.00	1,558.25	171,750	550,500
Homeowner – A Couple	240.00	2,602.50	243,500	873,500
Non-homeowner – Single	138.00	1,558.25	296,250	675,000
Non-homeowner - A Couple	240.00	2,602.50	368,000	998,000

a Income over these amounts reduces the rate of pension payable by 40 cents in the dollar.

b Assets over these amounts reduce pension by $1.50 per fortnight for every $1,000 above the limit (single and couple combined).

Note: Only the most common circumstances are shown. There are a number of factors that can vary the test cut-offs and payment rate, for example dependent children, separation of a couple due to illness or one member of a couple eligible

Source: Centrelink, 2009

The current basic payment rates are $562.10 (single) and $469.50 (each member of a couple) per fortnight. In addition a pharmaceutical allowance of $6.00 per fortnight is paid to each eligible single person ($3.00 for a member of a couple). To ensure that the base rates remain 'adequate', the rates are indexed by setting the rate of single pension at 25 per cent of average earnings (the actual benchmark used is Male Total Average Weekly Earnings or MTAWE).[2]

According to the Pension Review background paper (Harmer 2008):

- 77 per cent of Australians over the age of 65 receive income support
- The average total time on income support of current Age Pensioners is 13.1 years.
- The single rate of pension is 60 per cent of the combined couple rate, lower than the average for major OECD countries (63%).

[2] It is worth noting that MTAWE benchmarking applies to Age Pension, Carer Payment, Disability Support Pension (and other pensions) but other payments (such as Newstart Allowance) are indexed by the Consumer Price Index (CPI).

- Over half of pensioners have less than $20 a week of private income, but five per cent have private incomes of over $400 a week.
- Over half have assessable assets (excluding the family home) under $30,000 and 30 per cent report having bank balances of less than $1,000, but five per cent have assessable assets over $250,000.
- 61 per cent of Age Pensioners are homeowners and 83 per cent of Age Pensioner couples are homeowners.

2.1.2 Compulsory Superannuation

Compulsory contributions to superannuation were introduced in 1992 under the Superannuation Guarantee (SG). Under the SG, employers contribute a percentage of earnings into the superannuation fund accounts of their employees. There are a very limited number of occasions when employers are not required to make contributions. These include employees earning less than $450 in a month, those aged under 18 years and working less than 30 hours per week, those aged 70 years and older, and some other special circumstances. The employer contribution percentage has progressively risen from three per cent (in 1992) to its current nine per cent (since 2002). Given the start date, progressive introduction and contribution time required, the SG will not reach maturity until 35 years after 2002, i.e. 2037.

The Select Committee on Superannuation in 2002 accepted that the desirable target for an adequate standard of living in retirement for a person on average earnings is a replacement rate of 70-80 per cent of pre-retirement expenditure which equates to 60-65 per cent of gross pre-retirement income (2002). When the SG was implemented in 1992, Treasury estimated that the mature SG would provide 40 per cent of a person's final income before retirement (Gallagher and Preston, 1993). Therefore, as even the mature SG would not fully support an adequate standard of retirement living, other forms of support would be required.

The Tax Review consultation paper notes, "While the SG provides comprehensive coverage of employees, for some groups it will have less of a role in providing a retirement income. These include individuals with broken work patterns (intermittent workers, carers and individuals with disabilities), those with income less than $450 per month and the self-employed" (2008 p.16). One interpretation of this Tax Review statement would be to say that SG will clearly disadvantage most women and everyone else who is not employed full-time for 35 years. Another interpretation is that SG only works for males employed full-time for almost all of their working life and even then other forms of savings or government are required to have an adequate standard of living.

2.1.3 Voluntary Superannuation

The voluntary savings pillar enables individuals to choose how much they save, and the investment vehicle in which they save, to achieve a higher retirement income. This pillar includes superannuation contributions above the SG and non-superannuation savings, such as deposits and real estate (which may or may not be used for retirement). Home

ownership is one element of this as owners do not need to pay rent and the home acts as a store of wealth that can be accessed in retirement (for example, through the use of reverse mortgages).

3 CURRENT ISSUES

The economic wellbeing a person enjoys in retirement is more than just a function of their retirement income. For this reason, to properly analyse the standard of living of retirees in Australia, we need to look more broadly than just personal income. The total income of the family, the assets of the household, whether they own their home or are renting and many other factors impact on the retirement standard of living. This is recognised in the current Age Pension system as the means tests are based on the family not just the individual applying for the pension. Homeownership is also considered by the government with different limits applying and rental assistance being paid to non-homeowners. In the next few paragraphs, these aspects are considered in more detail.

3.1 DISTRIBUTION OF INCOME

The ABS 2005-06 Survey of Income and Housing (SIH) provides very detailed information on the sources and levels of incomes received, characteristics of people in each household, the total income of families (income units)[3] and households, homeownership, net wealth, asset ownership and value of assets. Using a data file from the SIH, the distributions of the circumstances of individuals are presented in the tables below.

Comparisons on the basis of income could be done using total personal income, total household income, or many others. In this report, equivalent disposable income is used. Equivalent disposable income is the total household income from all sources less the income tax payable, adjusted for the number of people in the family (see the technical notes for an explanation of the equivalence adjustment). The income used gives the most accurate estimate of household resources as it accounts for the differing taxation levels and differing needs of different family types. For example, it would show that a single person on a particular income is better off than a couple with two children on the same income. It is worth noting that it is one of the least uneven distributions. For example, use of gross family income would show the people in the top quarter have incomes seven times those in the bottom quarter. But after tax and adjusting for the number of people in the family who have to share this income, the top 25 per cent is only 4.3 times those in the bottom 25 per cent.

Tables 2 and 3 attempt to compare Age Pensioners with the broader Australian population and identify the highest and lowest income people. To do this the report has divided all

[3] In this report, the terms families, income units and households are interchangeable as only households that consist of a single person or a couple have been considered. Multiple family households, group households, extended families and other types of families and households have been excluded from the analysis.

Australian adults into four equal groups – termed 'quartiles' - based on the equivalent disposable income of the household to which they are a member. The 25 per cent of Australians living on the lowest incomes are in Q1 (Bottom 25%) and the 25 per cent living in the highest incomes are in Q4 (Top 25%).

Table 2 Distribution of adults by equivalent disposable income quartile, Australia, 2006

		Equivalent Disposable Income Quartile				
		Q1 (Bottom 25%)	Q2	Q3	Q4 (Top 25%)	Total
Mean Income	$ p.a.	14,260	25,040	36,170	61,630	34,270
Age Pensioner [a]	Pop	1,341,500	574,100	129,300	51,200	2,096,100
Non Age Pensioner	Pop	2,651,800	3,420,000	3,864,700	3,943,100	13,879,500
All adults	Pop	3,993,300	3,994,100	3,994,000	3,994,300	15,975,700

c Age Pensioner includes those receiving a Service Pension.

Note: *Adults* is used colloquially to mean all persons except those aged under 15; and people aged 15–24 who are full–time students. A more complete definition is in ABS, 2008.

Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

The average annual equivalent disposable income according to SIH was $34,270. Table 2 shows that the highest income quarter of Australians has an average equivalent disposable income of $61,630 per annum. As mentioned above, this is more than four times the average income of those in the lowest income quartile ($14,260). Of the more than two million Age Pensioners, only 51,200 are in the highest income quartile.

Table 3 Proportional distribution of adults by equivalent disposable income quartile, Australia, 2006

		Equivalent Disposable Income Quartile				
		Q1 (Bottom 25%)	Q2	Q3	Q4 (Top 25%)	Total
Mean Income	$ p.a.	14,260	25,040	36,170	61,630	34,270
Age Pensioner [a]	%	64.0	27.4	6.2	2.4	100.0
Non Age Pensioner	%	19.1	24.6	27.8	28.4	100.0
All adults	%	25.0	25.0	25.0	25.0	100.0

a Age Pensioner includes those receiving a Service Pension.

Note: *Adults* is used colloquially to mean all persons except those aged under 15; and people aged 15–24 who are full–time students. A more complete definition is in ABS, 2008.

Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

A striking feature of Table 3 is that based on income, almost two-thirds (64%) of all those on the Age Pension[4] are in the bottom income quartile and 91 per cent are in the bottom half of the income spectrum. At the same time 2.4 per cent of Age Pensioners are in the highest income quartile. This clearly shows that when compared with the broader population, Age Pensioners are very strongly over-represented in the low income quartiles. This is not unexpected remembering an income test is used to target Age Pension payment

[4] Age Pension includes those on a Service Pension.

rates. However, it also shows that 8.6 per cent are receiving a pension when their need is no less than the majority of Australians as they are above the middle on the income scale.

Table 4 looks ONLY at Age Pensioners and shows the distribution of their weekly private or non-government income. The distributions are broken down by family type and homeownership. Non-government income has been calculated by subtracting the weekly cash government benefits received from the total income of each person. The table is based on personal data rather than equivalised household data.

Table 4 Distribution by non-government income of Age Pensioners by family type and homeownership, Australia, 2006

		Non-government income ($ per week)						
		Zero	$1 - $19	$20 - $59	$60 - $99	$100 - $199	$200 - $499	$500+
		%	%	%	%	%	%	%
Member of a Couple	Homeowner	16.1	38.6	15.0	6.9	10.1	10.3	2.9
	Non-homeowner	43.5	39.4	10.0	0.5	2.2	3.6	0.7
	All	18.5	38.7	14.6	6.4	9.4	9.7	2.7
Lone Person	Homeowner	16.9	39.9	14.4	7.2	10.3	9.6	1.6
	Non-homeowner	45.7	36.7	6.2	2.4	3.9	5.1	0.0
	All	24.2	39.1	12.3	6.0	8.7	8.5	1.2
All Age Pensioners	Homeowner	16.3	39.0	14.8	7.0	10.2	10.1	2.5
	Non-homeowner	44.9	37.8	7.6	1.7	3.3	4.5	0.3
	All	20.5	38.9	13.8	6.3	9.2	9.3	2.2

Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

Table 4 shows that six-in-ten (59.4%) Age Pensioners have private income of less than $20 per week. Even more disturbing is that 83 per cent of non-homeowners have private incomes of less than $20 per week. At the other end of the spectrum, 12.6 per cent of homeowner Age Pensioners have private incomes of $200 or more per week.

3.2 DISTRIBUTION OF WEALTH

3.2.1 Overall Wealth Distribution

As mentioned previously, economic wellbeing is not only based on income. The wealth of the household in which they live plays an important role in their standard of living. Table 5 shows the distribution of wealth in Australia. In this table people have been assigned a wealth quartile based on the net worth of the household in which they live.

Table 5 Proportional distribution of adults by wealth quartile, Australia, 2006

		Wealth Quartile				
		Q1 (Poorest 25%)	Q2	Q3	Q4 (Richest 25%)	Total
Minimum Household Net Worth	$	-76,200	155,800	388,500	719,100	-76,200
Mean Household Net Worth	$	56,700	276,600	529,200	1,638,400	625,300
Age Pensioner [a]	%	17.3	33.2	35.6	13.8	100.0
Non Age Pensioner	%	26.1	23.8	23.4	26.7	100.0
All adults	%	25.0	25.0	25.0	25.0	100.0

a Age Pensioner includes those receiving a Service Pension.

Note: *Net Worth* is net value of the household assets less liabilities. It includes the home (less mortgage), cash, shares, vehicles, contents of the house, business assets (net), etc. See technical notes for full definition.

Adults is also used colloquially to mean all persons except those aged under 15; and people aged 15–24 who are full–time students. A more complete definition is in ABS, 2008.

Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

According to the ABS SIH data, the average Australian household has a net worth of $625,300. However, the distribution of wealth in Australia is far more uneven than income. The richest quarter live in households with an estimated mean net worth of $1,638,400 which is almost 20 times the mean net worth of the poorest quarter ($56,700).

Table 5 gives a very different picture of Age Pensioners than the income picture presented in Table 2. In terms of wealth, Age Pensioners are under-represented in the poorest and richest quartiles but over–represented in middle quartiles Q2 and Q3 (33.2% and 35.6% respectively). There are also a significant proportion of people receiving the Age Pension while living in the wealthiest households in Australia (13.8%) where a minimum net worth of almost $719,100 is required and the average household in this group is worth more than $1.6 million.

With half (49.4%) of Age Pensioners living in a household in the top half of wealth spectrum, it appears the pension is not as well targeted in terms of net worth. The reason for this is that the net worth used in Table 5 includes the owner-occupied home which is not assessable under the Age Pension means test.

3.2.2 Non-home Wealth of Age Pensioners

By subtracting the equity in the owner-occupied home from the net worth of a household, we gain an estimate of non-home wealth – a very broad approximation for assessable assets under the means test.

Table 6 shows the distribution of Age Pensioners by the household non-home wealth of which they are a member. In overall terms only 9.3 per cent of these people have less than $20,000 in non-home assets. However, for lone person households, almost half (46%) have less than $20,000 and three-quarters (73%) had less than $50,000 in non-home assets. If we assume that the asset free threshold was around $250,000 for a single non-home owner in 2006 then the asset test would only have impacted on 1.5 per cent of single non-homeowner Age Pensioners and increasing the limit would be of little benefit to the vast majority.

Table 6 Distribution by non-home assets of Age Pensioners by family type and homeownership, Australia, 2006

		Non-home wealth ($)						
		Up to $20k	$20k - 50k	$50k - 100k	$100 - $250k	$250 - $500k	$500k - $1mil	Over $1mil
		%	%	%	%	%	%	%
Member of a Couple	Homeowner	2.0	11.1	30.7	36.0	14.2	5.0	1.0
	Non-homeowner	25.9	17.1	41.0	7.5	4.8	3.6	
	All	4.1	11.6	31.6	33.5	13.4	4.9	0.9
Lone Person	Homeowner	9.4	26.3	31.6	25.3	5.2	1.8	0.4
	Non-homeowner	46.2	27.0	17.0	8.4	1.5		
	All	18.6	26.4	27.9	21.1	4.3	1.4	0.3
All Age Pensioners	Homeowner	4.3	15.8	31.0	32.7	11.4	4.0	0.8
	Non-homeowner	38.4	23.2	26.2	8.1	2.8	1.4	
	All	9.3	16.9	30.3	29.1	10.2	3.6	0.7

Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

3.3 IMPACT OF FAMILY TYPE

Previous SPRC research has shown that single older people have the highest incidence of poverty of any demographic group, with 46.9 per cent of single older people living in poverty in 2005-06 (Saunders et al. 2008). This report supports this research as it found that of the overall adult population, two-thirds (67%) of Age Pensioners living alone are in the bottom quartile of all adults (Table 7). This compares with an overall share of 27.1 per cent for the single population.

Table 7 Proportional distribution of Adults by selected family types by equivalent disposable income quartile, Australia, 2006

		Equivalent Disposable Income Quartile				
		Q1 (Bottom 25%)	Q2	Q3	Q4 (Top 25%)	Total
Mean Disposable Income	$ p.a.	14,260	25,040	36,170	61,630	34,270
Age Pensioner – Couple	%	62.5	30.9	5.4	1.2	100.0
Age Pensioner – Lone person	%	67.3	22.3	6.7	3.8	100.0
Age Pensioners – All	%	64.0	27.4	6.2	2.4	100.0
Other – Couple	%	15.2	18.5	25.2	41.1	100.0
Other – Lone person	%	20.1	23.3	28.9	27.7	100.0
Other – All	%	19.1	24.6	27.8	28.4	100.0
All – Couple	%	27.0	21.6	20.3	31.2	100.0
All – Lone person	%	27.1	23.2	25.6	24.2	100.0
All Adults	%	25.0	25.0	25.0	25.0	100.0

Note: Age Pensioner includes those receiving a Service Pension.

Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

Table 8 presents the distribution of equivalent disposable income among the Age Pensioner population. In this table the quartiles refer ONLY to Age Pensioners. It is worth noting that with an overall equivalent disposable income of only $17,600 per annum, 90 per cent of Age Pensioners are clustered in the bottom two quartiles of the overall adult population (see previous Table 7 and previous discussion).

Table 8 Proportional distribution of Age Pensioners by family types and gender by equivalent disposable income quartile, Australia, 2006

		Equivalent Disposable Income Quartile				
		Q1 (Bottom 25%)	Q2	Q3	Q4 (Top 25%)	Total
Mean Disposable Income	$ p.a.	12,340	15,030	17,780	25,240	17,600
Member of a Couple	%	8.7	28.7	31.2	31.4	100.0
Lone Male	%	51.4	13.2	15.6	19.9	100.0
Lone Female	%	55.4	20.6	13.1	10.9	100.0
All Age Pensioners	%	25.0	25.0	25.0	25.0	100.0

Note: Age Pensioner includes those receiving a Service Pension.
Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

A comparison of the Age Pensioners who are a member of a couple with single Age Pensioners shows two very different distributions. More than half of single Age Pensioners (male or female) are in the lowest income quartile. In comparison 63 per cent of Age Pensioners who are a member of a couple are in the top half of the income distribution. The single female Age Pensioner is the most disadvantaged group with three quarters (76%) in the bottom half. Further analysis shows that almost one third (31.4%) of couple members are located in the top quartile while only one-in-ten single females are in this group.

It is implied in the OECD equivalence scale that a single person needs 67 per cent of the income of a couple[5] to have the same standard of living. At present, single age pensioners receive a payment of 60 per cent of the couple basic pension rate. This ratio is obviously lower than the OECD equivalence scale and lower than the average ratio of 63 per cent across all OECD countries (Harmer 2008). Previous NATSEM research has estimated that if the single pension rate were increased to 66 per cent of the couple rate, a level suggested by the advocacy group, *Seniors Australia*, it would reduce the poverty rates for lone older persons from 46.5 per cent to 36.5 per cent, a 10 percentage point reduction (Tanton 2008). This initiative is revisited later in the report.

3.4 IMPACT OF RENTING

The Tax Review consultation paper notes that 'Home ownership is a significant factor in retirement planning and can be used to counter investment, longevity and inflation risk.

[5] The OECD equivalence scale is to assign 1.0 to the first adult and 0.5 for each subsequent adult. Therefore a single person equates to 1.0 and a couple to 1.5. The inverse of this is a couple equals 1.0 and a single person is 0.666.

Instead of receiving investment income, a home owner receives the benefit of not having to pay rent during their retirement. Housing is therefore a form of voluntary retirement saving.' (2008 p.27). If we accept this statement, the owner-occupied home should be taken into consideration in assessing the need of a person for government assistance. Currently, this is not the case except in one part of the asset test where the 'free' area is increased by $124,500 for renters.

Homeownership is the most common tenure of most Age Pensioners. Overall, 1.3 million Age Pensioners are living in their own home and the other 14.5 per cent are renting. However, this varies considerably based on the family type. Almost 30 per cent of male single Age Pensioners are renting and almost a quarter of female pensioners are renting (Table 9). As shown previously, single pensioners are predominantly poor – they have very little private income and almost no assets. Giving this group an increased asset free threshold is of no significance to almost all renters.

Table 9 Proportional distribution of Age Pensioners by family types and homeownership, Australia, 2006

	Homeowner	Renter	Homeowner	Renter
	No.	No.	%	%
Member of a Couple	909,400	85,600	91.4	8.6
Lone Male	114,100	46,500	71.1	28.9
Lone Female	298,500	92,100	76.4	23.6
All Age Pensioners	1,322,000	224,100	85.5	14.5

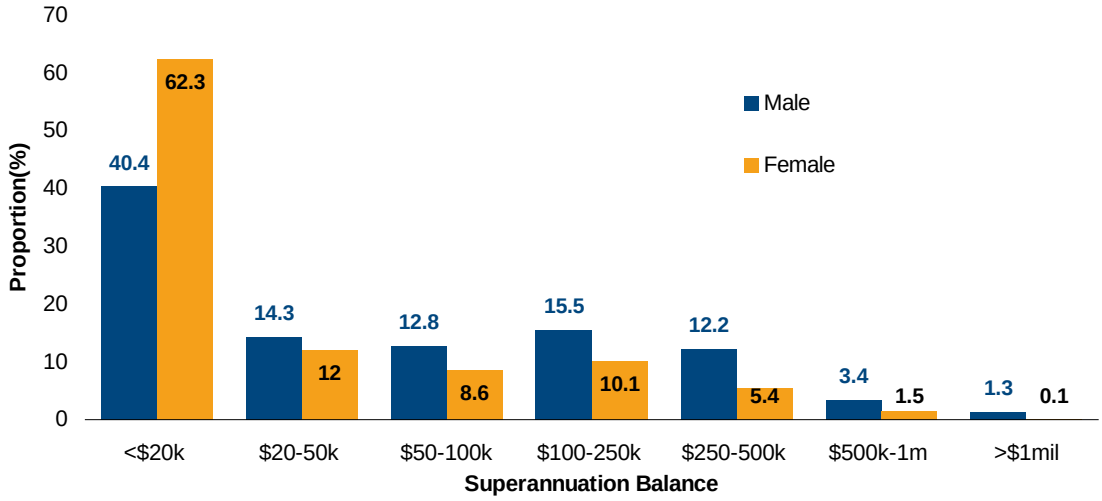
Note: Age Pensioner includes those receiving a Service Pension.
Homeowner indicates member of a household that owns or is buying the home.
Renter is a person who is not a homeowner

Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file.

3.5 IMPACT OF SUPERANNUATION

To get a feel for the impact of superannuation on retirement incomes, we need to look at those approaching retirement. Figure 1 shows the distribution of superannuation balances for those aged 55-64 in 2006 by gender.

Figure 1 Distribution by personal superannuation balance of those aged 55-64 years, Australia, 2006



Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file

The figure shows that 40 per cent of men and 62 per cent of women approaching retirement currently have less than $20,000 in superannuation. Without considerable accelerated superannuation savings over the next few years, superannuation will not make a significant impact on their standard of living in retirement. On the positive side, one-third of males do have over $100,000 in superannuation. This should make a difference. For women the picture is one of two stories. On one side, almost two-thirds (62.3%) of women currently have less than $20,000 and on the other, 17 per cent have more than $100,000. Superannuation balances across the income distribution are included in an appendix.

3.6 SUMMARY

The data above provides a clear picture of two very different groups of Age Pensioners. The first group – representing the vast majority (around 90 per cent) – have very little. They exist on the Age Pension with almost no private supplementary income; they have few assets outside of the family home (if they have that). The poorest among this group is the person who lives alone and is a non-homeowner. The second group of Age Pensioners representing around 10 per cent has private income of $200 per week to add to their government benefits and often lives in a household with a net worth of over $1 million. People in this group are typically members of a homeowner couple.

4 POSSIBLE OPTIONS

In this section options are provided to create a more equitable distribution of retirement incomes. Some of these options attempt to remove the strong incentive to qualify for at least some Age Pension, others attempt to increase the pension rate for those most in need and other options attempt to reduce the pension payments to those whose need is no greater than the general population.

4.1 UNIVERSAL PENSIONER CONCESSION CARD

While the benefits of the Age Pension are means tested, the same is not true of the pensioner concession card (PCC). As presented earlier, the payment rate of Age Pension decreases or tapers as a person's private means increases. This is not the case for the benefits of the PCC. If a person qualifies for the card, they qualify for all the benefits of the card.[6] For example, a single homeowner who would qualify for the Age Pension except their private fortnightly income is $1559 (75 cents over the threshold) will pay $30.70 per PBS prescription. Their neighbour in exactly the same circumstances but earning one dollar less ($1558 per fortnight) would qualify for a $0.10 per fortnight pension and the PCC. They would pay only $4.90 for the same prescription. In this case the person earning an extra dollar is $25 worse off than the other person. In addition the person with one dollar less income could qualify for concessional rates on public transport, car registration, housing rates, utilities, etc. These benefits including the medical and pharmaceutical were estimated to be worth $203 per week in 2003-04 (Harmer 2008 p.28).

The pension-concession card link and the lack of means testing on the PCC are significant drivers for many people to qualify for the Age Pension. There is considerable evidence of drawdown of assets and/or income reduction to become eligible for the Age Pension. Many financial planners and accountants provide advice on how to organise your finances to qualify for some Age Pension (for example, see the CPA Australia website). This is a poor outcome for both the government and the retiree. It increases government outlays on the Age Pension, health care and other areas and acts as a disincentive to continuing labour force participation. In addition, reducing employment, spending savings or moving savings into the family home (a non-assessable, non-income producing asset), all produce a lower total retirement income for the retiree.

One option is to apply a taper to the concessions received through the PCC. However, this would be impossible to administer without the extensive use of smart card technology.

Another option would be to limit the entitlement to a PCC to those receiving the full-rate of pension. This would ensure that the PCC was only issued to most in most need. The effect of this change would be to bring the PCC in line with the *automatic issue Health Care Card* which is issued to those receiving the full rate of Family Tax Benefit. As 781,000 or 40 per cent of Age Pensions in June 2007 were on part-rate pensions (Parliamentary Library 2008), this would have a significant negative impact on the economic circumstances of these current pensioners. However, they are also not those in most in need of assistance that is why they are receiving a part-pension.

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6 The benefits of the PCC include reduced costs on medicines under the Pharmaceutical Benefits Scheme (PBS) and, depending on your state and local government authorities, reductions in property and water rates, reductions in energy bills, reduced fares on public transport, reduction on car registrations and various other reductions.
The equivalised value of the benefits for Age Pension households was estimated at $203 per week in 2003-04 (Harmer 2008, p.28)

A more practical option would be to make the PCC universal for all Australians aged 65 years and over. This would remove the link between the age pension and the PCC and reduce the incentive to qualify for the Age Pension. While this would not immediately have an impact on pensioner numbers it would over time as the imperative to qualify have been removed.

Table 10 Numbers of people aged 65+ eligible for a Pensioner Concession Card (PCC) or a Commonwealth Seniors Health Card (CSHC) , Australia, 2007

	Population	Share of 65+ pop
	No.	%
Population aged 65 and over	2,765,111	
Pop receiving Age Pension	1,952,700	70.6
Pop receiving Service Pension	210,600	7.6
Pop receiving CSHC	318,300	11.5
		89.7

Source: ABS 3201.0 Australia's Population by Age and Sex; Harmer 2008.

Table 10 shows that 90 per cent of people aged 65 and over already qualify for concessions through either the Pensioner Concession Card or Commonwealth Seniors Health Card. Unlinking the pension and the concession card would result in an increase of ten percentage points if there was 100 per cent take-up rate. A realistic view might be a 95 per cent take-up rate and thus a five per cent increase in the cost of concessions. This relatively low cost could also be used as a sweetener or offset to a reduction in Age Pension benefits in other areas.

In the short term, the winners under this option are those that currently do not qualify for either a PCC or CSHC. They would have access to concessional health care and the other concessions. In the longer term, the incentive to qualify for an Age Pension has been removed and the sub-optimal allocation of retirement savings will be reduced. The removal of this link is timely as Treasury is projecting that the number of people qualifying for a part-time rate pension will increase from its current 40 per cent to around 65-70 per cent over the next 40 years. The unlinking could see a significant reduction in part-rate pension recipients.

The option will not impact on those on the full-rate of the pension, that is, in real need: they will continue to have a full rate pension and access to the PCC.

4.2 UNIVERSAL AGE PENSION

Another approach to the issue of drawdown of assets to qualify for the PCC is to introduce a universal Age Pension. While this would increase Government outlays by $10.1b p.a. (see Table 11), considerable savings would be made in the simplification of the system and it would remove the current disincentive to save for retirement.

Table 11 Estimated costs of a universal age and service pension policy option, Australia, 2008-09

	Current Policy	Universal Option	Change in Govt Outlay
	$bn	$bn	$bn
Age Pension	25.7	37.2	11.5
Service Pension	2.2	2.7	0.5
Tax Office Revenue			-1.8
Total			10.1

Note: The numbers may not add to the total. The total includes other changes in outlays that have been associated with changes to the Age and Service Pensions.
The figures are based on estimated payments made to all recipients of the age and service pension, not just to those 65 and over.

Source: STINMOD/08

A total of 1.5 million people would be winners under a universal age and service pension policy option. These people would be those with middle and high assessable incomes. Middle income people on a part rate pension would receive an increase to the full rate (805,200 people) under this option and those on high incomes would now qualify for a pension (711,100). Those on low incomes who already qualify for the full rate of pension would not be impacted by the policy.

4.3 INCREASE THE BASE RATE FOR SINGLES

The *Current Issues* Section of this report found that over half of male and female single Age Pensioners were in the lowest income quartile when compared with other Age Pensioners. Less than nine per cent of people who were a member of a couple were in this same quartile (Table 8). This clearly suggests that the current formula under which a single person receives an Age Pension rate that is 60 per cent of the couple rate is too low. There has been a call by some charity organisations to increase the single rate of the Age Pension to 66 per cent of the couple rate. SPRC use a methodology based costing a basket of goods and services to ascertain the budget required to maintain a 'modest but adequate' lifestyle in retirement. Using the Westpac/SPRC retirement income calculator suggests that singles require 69-72 per cent of a couple depending on location and gender.

Under current legislation the single aged pension is the rate set for a range of other government benefits. Obviously the cost to government of increasing all single pensions would be higher but there would be flow-on effects on poverty rates for those on these other pensions.

NATSEM has previously researched one of these options (Tanton et al. 2008) and found that an increase to 66 per cent would increase government outlays by about $1.3 billion and would benefit about 824,000 single age pensioners.[7] The NATSEM report also found that it would reduce the poverty rates for lone older persons from 46.5 per cent to 36.5 per cent, a 10 percentage point reduction.

[7] These numbers and costs are slightly different to those presented on the next page as they do not cover Service Pensioners and are for 2006-07.

Table 12 shows the costs in 2008-09 of the two options – the cost to government of increasing the rate for single Age Pensioners and for all single pensioners to 66 per cent of the couple rate and the cost of increasing the single rate to 70 per cent.

Table 12 Estimated costs of increasing the single pension rate under two options - 66 per cent and 70 per cent of the couple rate, Australia, 2008-09

	Current Policy	66% and 70% Options	Change in Govt Outlay
	$bn	$bn	$bn
66% option			
Age & Service Pensions only	27.9	29.3	1.4
All Pensions			2.6
70% option			
Age & Service Pensions only	27.9	30.3	2.4
All Pensions			4.4

Note: The single rate of pension was increased from $562.10 to $618.31 for the 66% option and to $655.78 for the 70% option. The couple rate remained at $469.50 per fortnight.

Source: STINMOD/08

4.3.1 Single Rate set at 66% Option

Under the 66% Option, 939,700 single pensioners would benefit from an increase in their Age or Service Pension. The average increase would be $27.87 per week. As almost half of these people are in the lowest income quartile and more than three-quarters of them are in the bottom three income quartiles, the increase is directly targeting those in most need.

An additional 19,500 Age Pensioners would also be winners as they would become eligible for payment. These single people are more likely to have higher incomes and to have become eligible as the cut-off limits have increased in line with the increase in base payment.

If the 66% Option was applied to all single pensioners, then 1.79 million people would benefit from an average increase of $28.80 per week.

4.3.2 Single Rate set at 70% Option

Under the 70% Option, 938,200 single pensioners would benefit from an increase in their Age or Service Pension. The average increase for these people would be $46.60 per week. As mentioned for the previous option, the vast majority of recipients are those with the most need. Almost half of single Age Pensioners are in the lowest income quartile.

Once again, an additional 27,500 Age Pensioners would also be winners as they would become eligible for payment.

If the 70% Option was applied to all single pensioners, then 1.8 million people would benefit from an average increase of $47.70 per week.

4.4 INCREASE RENTAL ASSISTANCE

The tax review consultation paper recognises that homeownership as a significant way of reducing expenditure in retirement (2008 p.27). At the present time, rental assistance is available for those renting privately. For singles, up to $110.20 per fortnight is available, provided the fortnightly rent is over $244.93. The couple rate is $103.80 per fortnight when rent is above $298.00.[8] It is worth noting here that the gap between maximum rate and real market rents is significant. Rents in most capital cities, where many older Australians need to be for medical reasons, would rarely be available for less than $400-500 per fortnight. The result is that a large proportion of the pension payments will be consumed in rental.

The option proposed is that the rate be increased by 50 per cent. Based on the numbers shown above, that is the new rates would be for a single, no children maximum rate of $166.08 and the couple rate would be $155.70. There would be no change to the minimum rent levels.

The total cost of this option to ALL those receiving rental assistance is $595 million in 2008-09. Over 540,000 families would benefit from this initiative. The average increase in payments would be $31.40 per week.

Under the 50% Rental Assistance Increase Option, 92,800 Age Pensioners would benefit from an increase in their rental assistance. An additional 44,000 Age Pensioners would also be winners as they would become eligible for payment. As mentioned for the previous option, rental recipients are those with the most need. Almost half of single Age Pensioners are in the lowest income quartile and most have no private income and negligible assets.

4.5 CHANGE THE THRESHOLDS AND TAPERS FOR THE AGE PENSION

The options proposed above are designed to increase the equity of the current system by increasing the payments to those most in need. This option aims to increase equity by better targeting of the limited funds available. This improved targeting would be achieved through adding a second higher taper rate for those with high private incomes. The use of a second taper is already used for government allowances and so this policy option is effectively just aligning the two approaches. The option costed here is an increase in the taper from 40 per cent to 60 per cent at twice the current threshold (i.e. $480 per fortnight for couples and $276 for singles.

This option would impact on a large proportion of Age and Service pensioners. Under this extra taper, some 78,000 (3.7%) would loss their pension entirely and 444,300 (21.1%) would have it reduced. The savings in outlays would be $0.6 billion (Table 13).

The total savings under this option if it were applied to all pensioners would be $1.2 billion in 2008-09. Some 5.8 per cent of pensioner families (637,000) would be losers under this option with an average reduction of $44.30 in their payments.

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[8] These are the standard rates for people with no children. Other rates apply in different circumstances.

One issue with this redistribution is that single people will be more severely impacted than couples. The new taper for a single person would begin at $276 per fortnight whereas it would not start until $480 for a couple. As the earlier private income distribution has shown, the distribution for both types are heavily skewed towards the low income end. To overcome this, the same thresholds could be used for both single and couples. This is a second option shown in Table 13.

Table 13 Estimated outcome of a second taper of 60 percent and equalising thresholds on pensions, Australia, 2008-09

	Current Policy	2nd Taper Option	Change in Govt Outlay
	$bn	$bn	$bn
Second Taper of 60% on pensions			
Age & Service Pensions only	27.9	27.3	-0.6
All Pensions			-1.2
Second Taper plus equal thresholds			
Age & Service Pensions only	27.9	27.5	-0.4
All Pensions			-0.7

Note: The single rate of pension was tapered at 60% from $276 and the couple rate from $480 per fortnight.
Source: STINMOD/08

This second option would produce a number of winners (209,300 Age and Service Pensioners) who would be low / middle income single people while at the same time making some savings ($400 million if only applied to Age pensioners).

4.6 Assess the Home Value (above a certain level) as an Asset

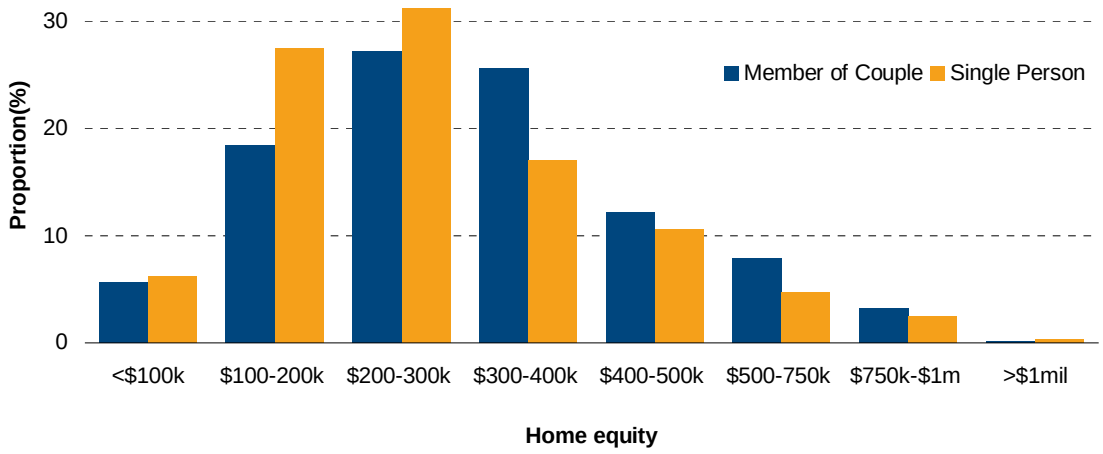
Homeowner is a very important savings vehicle for retirement. However, its non-inclusion as an assessable asset in the pension means test may be influencing the investment decisions of some older Australians. Under this policy option, a free threshold would be set for the family home as it is set for other assessable assets and income. One possibility would be to set this free threshold at $500,000. If home equity (home value less mortgage) is above this threshold, then the excess would become an assessable asset under the pension means test. As Figure 2 shows, 10.0 per cent of Age Pension homeowners (8.5 per cent of all Age Pensioners) would have some home equity counted as an asset under this option. Assuming home equity has not changed since 2006, this increase on assessable assets would impact on the pension payable to approximately 6.7 per cent of the homeowner Age Pensioners.

Similar calculations for thresholds of $750,000 and $1 million produce a payment impact on 2.3 per cent and 0.2 per cent of Age Pensioners respectively.

This policy change would be extremely unpopular and would have little impact on government outlays in the short term. A low threshold could also be perceived to impact more heavily in areas with high real estate values (for example, Sydney) than in areas of low real estate values. Despite this, a threshold would hopefully modify the current trend

of transferring funds into the home. This report recommends that a high threshold of at least $1,000,000 be introduced.

Figure 2 Distribution by home equity of Age Pension homeowners, Australia, 2006



Note: Age Pensioner includes those receiving a Service Pension.
Homeowner indicates member of a household that owns or is buying the home.
Source: Author's calculation based on ABS 2005-06 Survey of Income and Housing unit record file

4.7 Changing Superannuation Taxation Arrangements

This section reiterates and expands on an ACOSS submission to the Treasury in August 2006. ACOSS identified the major problems with the current superannuation system as being complexity, equity & (lack of) incentives to save, cost to public revenue, early retirement & (not) using your superannuation to support retirement living standards. The changes to superannuation in 2007 did reduce some complexity, especially in the drawdown stage, but it did not address the issue with an integrated approach.

Two options suggested by ACOSS which bear repeating are:

- A way to reduce complexity and increase equity is a policy option to tax all contributions from after-tax income regardless of their source. This would apply to employer contributions as well all other contributions.
- A method of discouraging people from retiring early, spending their superannuation and then relying on the government to fully support them with the full Age Pension is to cap the maximum amount that can be withdrawn in any year, taking account of life expectancy.

4.8 Government to Make Superannuation Contributions

The Superannuation Guarantee ensures that almost all employees have superannuation contributions being made for them. However, those working age people not in employment and those self employed do not have these contributions being made for

them. Some of the groups that have the highest risk of having low retirement savings – women, the unemployed, and those not able to participate fully in the labour force are those that no superannuation contributions are being made for. This policy option recommends that the government behave as other employers are obligated to do and make contributions of nine per cent to superannuation for all those of working age. The payment types covered by this policy would be allowances, disability support pension, wife pension, and carer payments. The major payments NOT included are Age Pension, family benefits and Rent Assistance.

Table 14 shows that the cost of the superannuation contributions would be $2.2 billion in 2008-09. If the government were only to make contributions for those receiving benefits of more than $450 per month, then this cost would be greatly reduced. Unfortunately, this option could not be costed or estimated in the time available.

Table 14 Estimated outcome of contributing superannuation for all working age government benefits, Australia, 2008-09

	Current Policy	Additional 9% super	Change in Govt Outlay
	$bn	$bn	$bn
Allowances	13.4	14.6	1.2
Disability Support Pension	9.4	10.2	0.8
Wife	0.3	0.4	0.0
Carer	1.6	1.8	0.1
TOTAL	24.7	27.0	2.2

Note: All numbers are rounded and may not total
Source: STINMOD/08

The clear winners from this policy option are those with intermittent labour force participation and those on government benefits for extended periods (for example those on DSP). For example, a single independent DSP recipient receiving the full rate for 30 years would accumulate a superannuation balance of $75,000.[9]

5 CONCLUSION

With an ageing population the government needs to ensure that the available funds for those in retirement are targeted at the most needy. The analysis of equivalent disposable income in this report shows that, when compared with all Australians, almost two-thirds of those on the Age Pension are in the bottom income quartile and nine out of ten are in the bottom half of the income spectrum. When just Age Pensioners were analysed, six-in-ten were found to have income other than government benefits of less than $20 per week. Even more disturbing is that 83 per cent of renters have private incomes of less than $20 per week. However, there is another group of Age Pensioners, a much smaller group, who are in the highest income quartile (2.4%) and doing very well.

[9] Assumes fortnightly rate of $476.50 and superannuation return of 5% in real terms.

The wealth of those on the Age Pension compared favourably with the entire population. In fact almost 70 per cent are located in the middle two quartiles. However, the majority of the wealth is in the family home and not assessable under the assets test. The outcome of this is that the current asset test has little impact and is of no significance to those in the lower half of the wealth and income spectrums.

Single, non-homeowners were dominant in all of the low income, low wealth analyses.

The report has presented a range of options. Some are aimed at greater equity by increasing payments to the most in need, while others are aimed at encouraging people to save in a form that will provide income in retirement. Finally, other broader policy options are presented to address inequities in the system by reducing payments to those where the need is not as great.

APPENDIX

Table A1 Personal superannuation balance of those aged 55-64 years across the income distribution, Australia, 2006

			Superannuation Balance						
	Annual Total Income	Pop. Estimate	<20k	20-50k	50-100k	100-250k	250-500k	500-1m	>1m
			%	%	%	%	%	%	%
Male	<20k	353,584	67.1	8.9	7.6	8.5	6.2	1.6	
	20-30k	229,805	34.2	19.5	13.5	15.8	14.2	2.3	0.5
	30-40k	154,425	40.1	17.7	16.3	16.5	6.3	3.1	
	40-50k	118,933	24.4	22.9	14.1	19.9	14.8	3.8	
	50-60k	95,412	20.4	19.1	25.8	19.7	13.7		1.3
	50-100k	78,829	18.3	6.7	8.9	29.3	23.7	7.7	5.5
	100-150k	43,724	10.3	8.5	17.1	21.9	25.0	11.8	5.4
	>150k	28,832	4.0		8.2	13.0	34.9	20.3	19.5
Female	<20k	679,665	80.7	6.6	3.6	5.3	2.6	1.0	0.1
	20-30k	168,076	42.2	19.8	14.3	15.0	7.8	0.9	
	30-40k	119,145	31.7	25.7	18.3	13.7	7.7	2.8	
	40-50k	62,410	17.5	21.0	19.8	22.9	15.2	3.5	
	50-60k	36,603	17.0	20.4	22.2	32.0	6.1	2.3	
	50-100k	14,468	18.8		18.8	25.4	22.5	14.4	
	100-150k	10,370	29.8	19.5		10.2	40.4		
	>150k	5,797	46.3		10.6	32.5			10.7
Persons	<20k	1,033,249	76.1	7.4	5.0	6.4	3.8	1.2	0.1
	20-30k	397,881	37.5	19.6	13.8	15.5	11.5	1.7	0.3
	30-40k	273,570	36.5	21.2	17.2	15.3	6.9	3.0	
	40-50k	181,342	22.0	22.3	16.1	20.9	15.0	3.7	
	50-60k	132,015	19.4	19.5	24.8	23.1	11.6	0.6	0.9
	50-100k	93,296	18.3	5.7	10.4	28.7	23.5	8.7	4.6
	100-150k	54,094	14.0	10.6	13.8	19.7	28.0	9.6	4.4
	>150k	34,628	11.1		8.6	16.2	29.1	16.9	18.0

TECHNICAL NOTES

EQUIVALENCE SCALE

An equivalence scale is an adjustment made to give a more accurate estimate of household resources as it accounts for the different needs of different household types. For example, is a single person with an income of $1,000 per week better off than a couple with two children on $2,000 per week? The application of an equivalence scale allows this to be answered.

For this report, the OECD equivalence scale was applied. It gives a value of 1.0 to the first adult, 0.5 to the second and subsequent adults, and 0.3 to each dependent child. Dependent children are defined as children aged 0–14 years. To give an example, a couple with two children will have an equivalence value of 2.1, a couple only household will have an equivalence value of 1.5, or 1.0 will be assigned to a single person household.

Answer to the question: A single person with an income of $1,000 per week is equivalent to a couple with two children on $2,100 per week based on the OECD equivalence scale. Therefore the single person is better off.

NET WORTH

The definition of net worth is a match to the ABS definition and is estimated on a household basis. It is defined as the difference in value between assets less liabilities. The assets are the value of accounts held with financial institutions, owner occupied dwelling, other property, trusts, shares, superannuation, debentures and bonds, own incorporated business (net), contents of dwelling, vehicles and other assets (loans to other people, collectibles, etc). Liabilities are the principal outstanding on loans for owner occupied dwelling, other property, investment loans, loans for vehicle purchases, loans other purposes, amount owing on credit cards, debt outstanding on study loan and other personal loans.

ASSESSABLE ASSETS

Financial assets have been used to show the household value of assets that either produce income or can be easily converted to cash. Essentially it removes the family home, vehicles, and the value of the contents of the home from net worth. This means the definition of 'financial assets' is the sum of the value of accounts held with financial institutions, the value of other property, trusts, shares, superannuation, debentures & bonds, and own incorporated business (net).

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