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HOUSE OF REPRESENTATIVES

GRIEVANCE DEBATE

Retirement Income Policy

SPEECH

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Questioner
Speaker Pyne, Chris, MP

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Mr PYNE (Sturt) (4.52 pm)—A comprehensive retirement income policy that helps guarantee financial security for our older Australians is an essential feature of the social contract that operates in Australia. A nation's commitment to looking after its elderly is a reflection of the strength of its society. Since coming into office in 1996 the coalition government has introduced a variety of initiatives to give older Australians a better deal than they experienced under Labor. At the moment our superannuation reforms are a work in progress. We cannot afford to sit still. The global economy is continually evolving and Australia's demographics are constantly changing. Australia's retirement income system consists of three components: the age pension, the compulsory superannuation guarantee and individual private savings.

Credible estimates put our total national bill for age pension payments at \$17 billion per year, or about three per cent of gross domestic product. Unless current trends change, the demand for the age pension will continue to increase over the next decade. The primary reason for this projected increase is our ageing population. Currently, approximately 12 per cent of Australians are aged over 65. Advances in health services and medical treatment mean that by 2010 this figure could double to nearly 25 per cent. Unless initiatives are introduced to promote lower reliance on the age pension, the taxation system will be faced with an exponentially increasing burden that is likely to prove unsustainable over the longer term. It is essential for the long-term viability of our retirement income system that we promote shifting the responsibility for providing retirement income from the public sector to the individual. The social and economic benefits of encouraging individuals to save for retirement are twofold: it will ensure more public funds will be available for other public services and it will improve the financial situation for individuals and give them increased consumer choice during retirement.

A report published last month by the Australian Chamber of Commerce and Industry effectively endorses the coalition's reforms to date and suggests that the most important features of a retirement income system include a reduction in the importance of the age pension, greater reliance on institutional savings arrangements such as voluntary superannuation contributions, additional emphasis given to private investments and individual savings, encouragement of greater home ownership, introduction of measures to encourage ongoing employment past the historical retirement age and graduated retirement, and funding for the provision of a world standard health care system.

The coalition government has created the economic conditions that encourage individuals to save and invest, including home ownership. The coalition government has been a great friend of all Australians with a home mortgage. Since the coalition came to government interest rates have reached historical lows. This has been welcome news to many Australians with mortgages, including my wife and I, who well remember the high interest rate policies of the Keating-Beazley government and the 'recession we had to have'. The government's \$7,000 kick-start for first home owners is another important initiative that encourages home ownership.

Australia also enjoys the highest level of direct share ownership in the world. Since 1996 when the coalition came to office the number of Australians who own shares has doubled. In 1997, 20 per cent of adult Australians owned shares directly. In 1998 it was 31 per cent and, according to the Australian Stock Exchange, 40 per cent of adult Australians now own shares directly. That is the highest level in the world, with the United Kingdom at 39 per cent, the United States at 32 per cent and New Zealand at 31 per cent.

The coalition government is also committed to policies that promote graduated retirement and the introduction of measures to encourage ongoing employment past the historical retirement age. As we continue to move towards a service based economy there is a greater scope for people who have reached retirement age to continue working on a full-time or part-time consultancy basis. There are several social and economic benefits of having older Australians continuing to participate in the labour force. Firstly, it will significantly help improve the skill level of the labour force, which can increase the productivity of business. Secondly, it will assist greater interaction between older and younger Australians as valuable skills and workplace experiences are passed on from one generation to the next. Thirdly, it will help reduce the demand for age pension payments and increase national savings. There is a very real challenge for the government to implement the economic conditions that

will encourage an increase in national savings. But a sound economy in itself does not guarantee higher national savings. For instance, two national economies of comparative strength over the last decade have dramatically different national savings ratios: Japan enjoys one of the highest in the world while the United States has one of the lowest.

The coalition government has canvassed many of these specific issues in an issues paper entitled *Employment for mature age workers*. The paper is part of a series recently published under the heading of 'A National Strategy for an Ageing Australia'. There are some legitimate concerns that there are a number of disincentives which act to discourage individuals from continuing to work past retirement age. It is important that additional earnings should not unfairly limit or restrict entitlement to government benefits, but should offset these progressively.

There are several other schools of thought regularly raised by interest groups with regard to retirement income reform. One commonly advocated position is that individuals who are able to save for retirement should be rewarded. The argument follows that those who did not prepare for retirement should not be as well off as those who did. In the interests of equity and fairness there is a need to strike a delicate balance in this area. The Association of Superannuation Funds of Australia advocate raising the compulsory superannuation contributions from the projected ceiling of nine per cent of salaries in 2002 to between 12 and 15 per cent. I have some concerns about this proposal. How much is 'enough' for superannuants ultimately depends on each individual. Some individuals may choose to enjoy greater consumption—and therefore expenditure—during their working life, while others may prefer to save hard for their retirement when they may want to enjoy greater consumption. I believe that once the contribution rate is sufficient to reduce the budgetary cost of the age pension the normal market oriented solution would be to let individuals decide for themselves how much they want to save and for what purpose. I also support the principle that individuals have the right to choose the superannuation fund to which they contribute. Giving consumers the ability to exercise market discretion will foster competition and encourage greater individual returns. It is also important that income streams be encouraged and lump sum payments discouraged.

The Australian Chamber of Commerce and Industry and other interested parties have also called for changes to the taxation treatment of superannuation. The Chamber of Commerce and Industry believe that the current approach to taxation of superannuation needs to be reviewed. The Chamber of Commerce and Industry contend that if retirement incomes are to be maximised taxation should occur only upon receipt. I am not fully convinced of the merits of this suggestion, although it is possibly something that the government should further explore. The provision of an adequate retirement income system is an essential feature of the social contract that operates between individuals, business and government. It is an important challenge for us all as legislators to ensure that the retirement income system continues to evolve so that it remains sustainable as the ageing of our population continues. It is the responsibility of this government to implement public policy that encourages private savings and preparation for retirement.