

## **A Seniors Income Policy**

Australia's demographics require an approach to retirement income which puts aside funds to earn income that will be required over time. A levy is required to fund a Seniors Income Trust. The superannuation levy at 9% need not change. The levy will be introduced gradually rising to about 6.5%. In one scenario the initial levy is 0.5% and each year it rises by 1% until it reaches 6.5%.

This proposal allows pensions to rise to an average \$18,200 per annum in the sixth year, and to be maintained at that level indefinitely. Government support at the present level of \$27 billion will be required for many years, but budget outlays need not increase in real terms, independent of an increasing numbers of aged pensioners. The pension funding shortfall will come from the levy and earnings from invested residual levy funds.

The pension provided would be means tested against all other income, including superannuation. As more retirees and their partners achieve reasonable superannuation balances, the means test can be relaxed.

## **Complementary Policy**

The government needs to integrate long term immigration policy with forecast demographics to ensure that the "generation gap" does not deteriorate. An on-going review needs to integrate planning which takes into account the earnings potential of immigrants compared to their expected pension draw-down and demand for public services and infrastructure, as well as their need for imported goods at differential rates to the established community, and natural population replacement statistics. Immigration should place substantial priority on skilled younger persons and less on meeting short term skills shortages. Any reduction in real outlays over projected outlays should be directed to encouraging a higher birth rate. The under 40 age group should be targeted to not decline in number nor as a ratio to the under 65 group. To be clear, immigration and visa levels should be an outcome of generation gap planning.

## **Seniors Income Policy Detail**

### **Assumptions**

The assumptions made are conservative, so that more favourable outcomes will yield better results. GDP is assumed to grow at 1% in real terms. As immigration levels are within the governments control, it is assumed, for the basis of these calculations that immigration does not add to the over 65 population during the next ten years, and that in general the aged to working population demographic does not deteriorate compared to current projections, by virtue of immigration policy. These assumptions and projections lead to population stabilising at about 27 million in 50 years, at which time the over 65 population will reach 9 million. Australia's GDP is around \$1,000b. So each 1% approximates \$10b.

As superannuation benefits at retirement age rises, those on full aged pensions may be expected to decline as a percentage. Still, the proportion has been held constant, so this also is a conservative assumption.

The calculation assumes a real rate of return over inflation of 3.5%.

### **Summary**

A retirement income levy rising to 6.5% over six years will address the aged persons' income projected government outlays due to change in the ratio of aged persons to the general population. It will enable pensions to rise steadily to \$18,200 in six years time.

This proposal will enable increased real incomes for seniors, and a cap in real dollar annual government outlays. Immigration policy needs to be integrated with generation gap planning.

Years hence	1	2	3	4	5	6	7	8	9	10	20	30	50
Population, millions	21.2	21.6	21.8	22.1	22.3	22.5	22.8	23.0	23.2	23.5	25.3	26.7	27.4
Over 65	2.8	2.9	3.1	3.3	3.5	3.7	3.9	4.1	4.3	4.5	6.5	8.1	8.9
Pensioners	2.1	2.2	2.3	2.5	2.6	2.8	2.9	3.1	3.2	3.4	5.0	6.2	6.8
pa pension	14.6	15.3	16.0	16.7	17.5	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2
funds levied \$b	5.1	15.3	25.8	36.4	47.3	58.4	69.7	70.4	71.1	71.8	79.3	87.6	96.8
required total funds	30.1	33.6	37.3	41.3	45.6	50.6	53.5	56.2	59.1	61.9	91.0	113.4	123.0
total new funds required for pensions \$b	3.1	6.6	10.3	14.3	18.6	24	26	29	32	35	64	86	96
accumulated funds \$b	2.0	11.1	27.5	51.4	83	122	171	219	267	707	1102	1551	
available funds \$b	17.3	36.9	63.9	98.6	141	191	241	290	339	786	1189	1648	
govt. budget outlay	27.0	27.0	27.0	27.0	27.0	27	27	27	27	27	27	27	27
levy applied to pensions early years \$b	3.1	6.6	10.3	14.3	18.6	23.6	26.5	29.2	32.1	34.9	64.0	86.4	96.0
funds c/fwd from levy \$b	1.9	8.7	15.5	22.1	28.7	34.8	43.2	41.1	39.0	36.9	15.3	1.2	0.8
fund drawdown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
funds allocated outside budget	3.1	6.6	10.3	14.3	18.6	23.6	26.5	29.2	32.1	34.9	64.0	86.4	96.0
pa pension	14.6	15.3	16.0	16.7	17.5	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2

Note that for lower levy rates, say 6%, draw downs from the fund balance will occur in later years. The companion worksheet has not been checked for consistent handling of widely varying assumptions.