



# **The implications of ageing for economics and politics**

**IBR Post Retirement Conference  
John Daley, CEO  
10 October 2017**

# The implications of ageing

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## Conventional wisdom

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The global population is ageing

Governments won't be able to afford to sustain future pension and health care costs

People don't have enough for their retirement

Governments should encourage people more to save more, and spend down more in retirement

## Reality

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Australia ageing slower than most

Current retirement settings are unsustainably generous

Current retirement incomes are adequate, and becoming more so

Governments need to wind back transfers to older households and increase taxes on investments

Age-based politics is emerging

# The implications of ageing

## The global population is ageing

- Migration has flattened Australia's demographic bulge
- Older age workforce participation is rising

## Current retirement settings are unsustainably generous

- Government deficits have funded increased transfers to older households
- Older households got an unrepeatable windfall from the asset price boom
- Inheritances will make intra-generational inequality worse

## Current retirement incomes are adequate, becoming more so

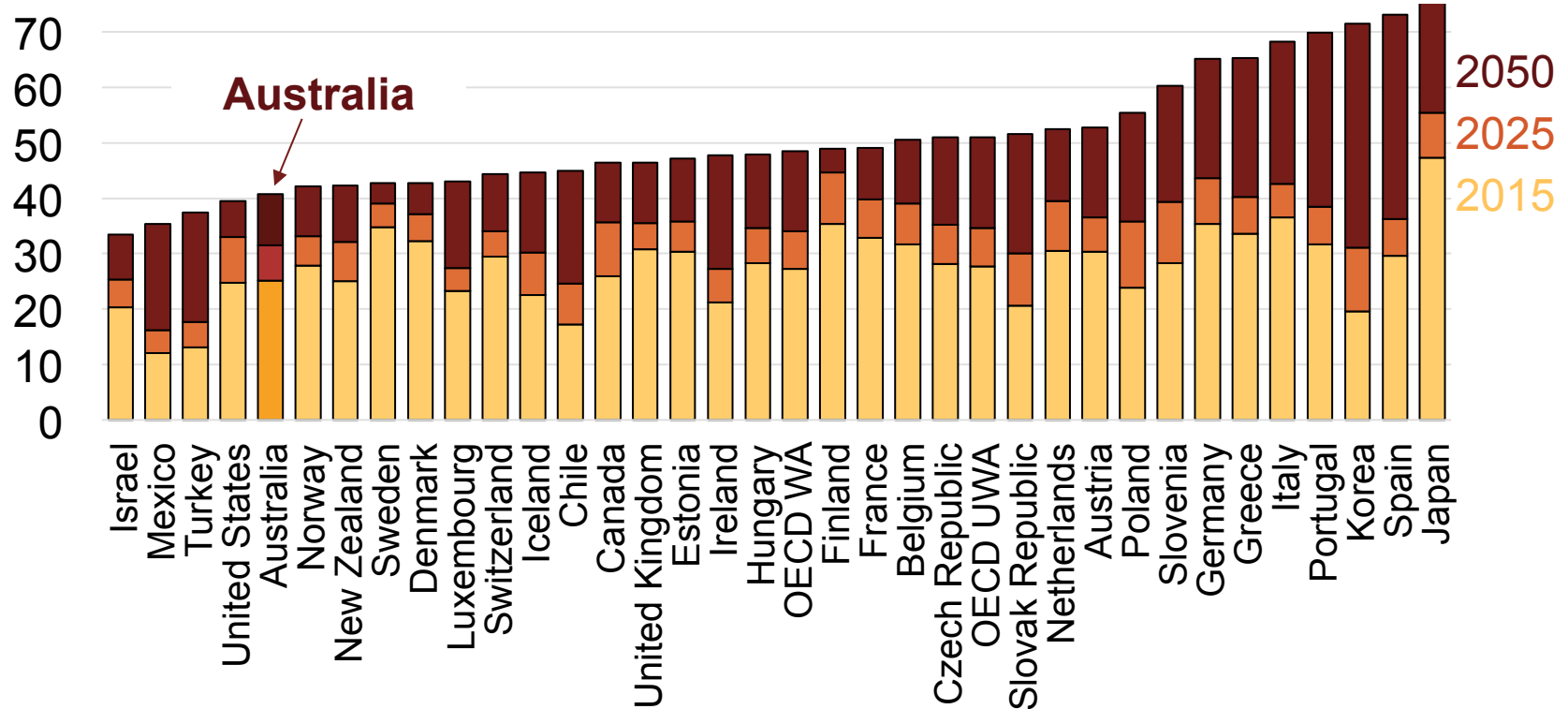
## Governments should reduce transfers and increase investment taxes

- Governments need to tighten Age pension assets tests (particularly owner occupied housing), and increase access age for Age Pension and super
- Taxes on investments are too low, leading to increasing wealth inequality

## Age-based politics is emerging

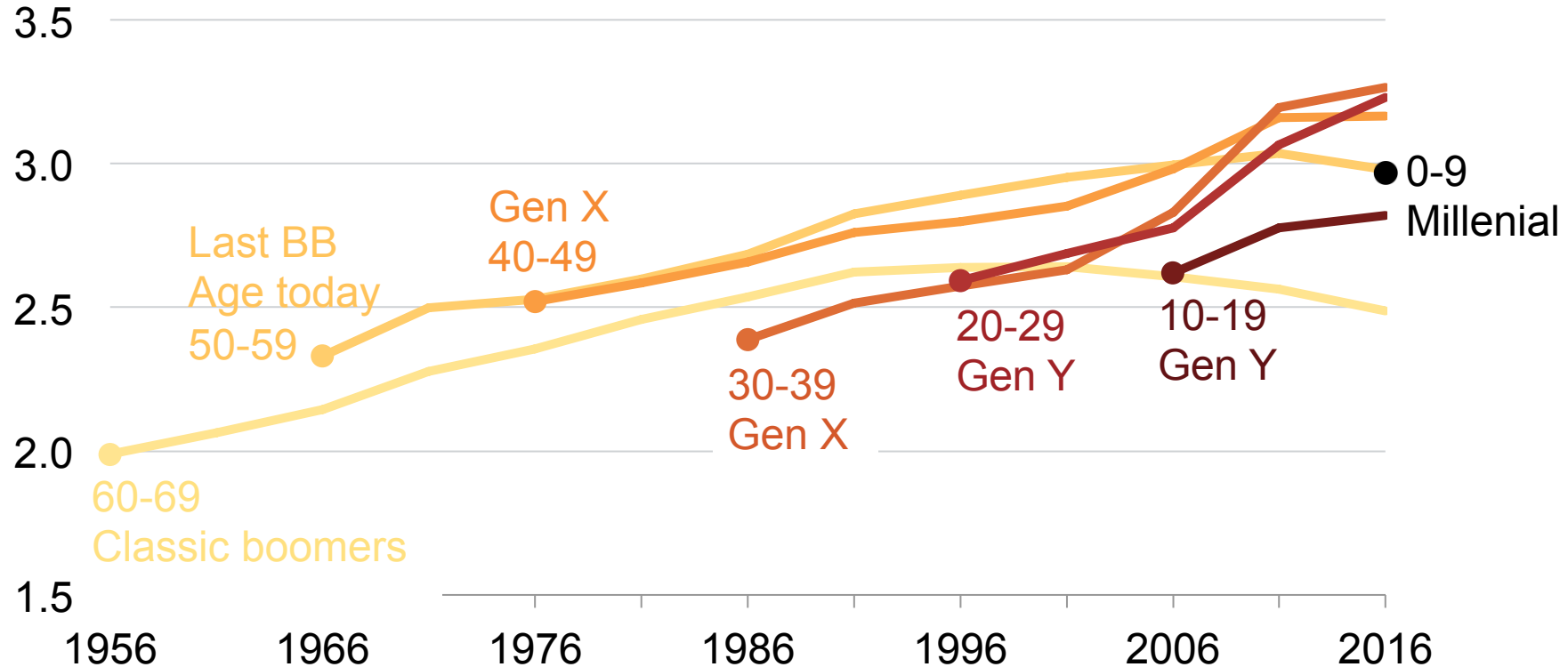
# Ageing will be much less of an issue in Australia than elsewhere

## Old age dependency ratios



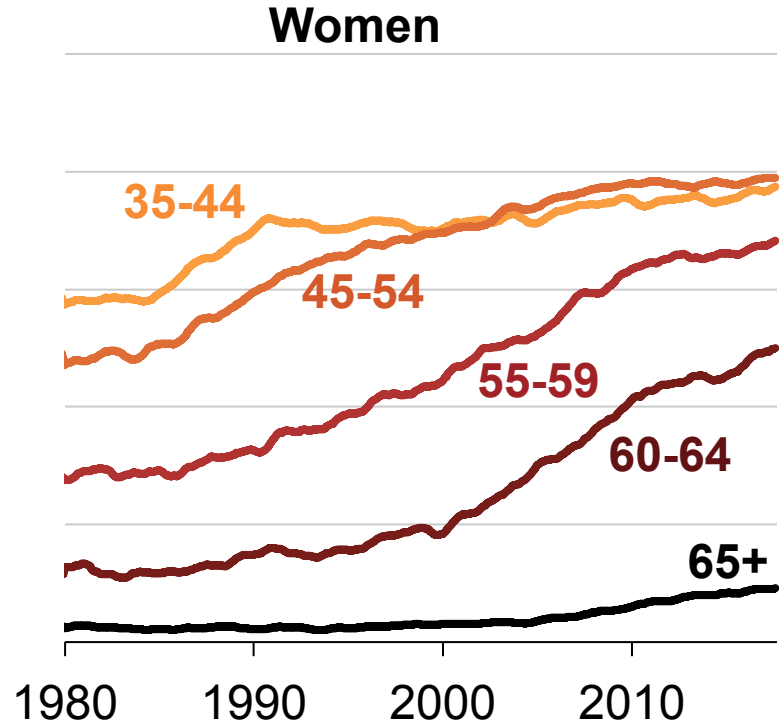
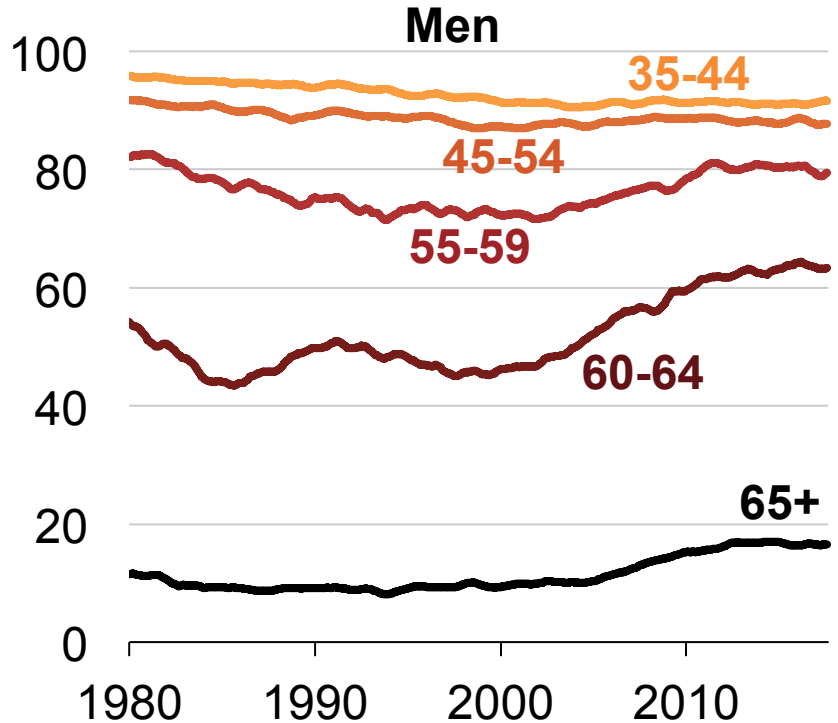
# Australia's population was significantly reshaped by the late 2000 migration wave

## Australian population by age, millions



# More Australians are working longer – particularly women

Labour force participation rates  
per cent of age cohort, 12 mth trail average)



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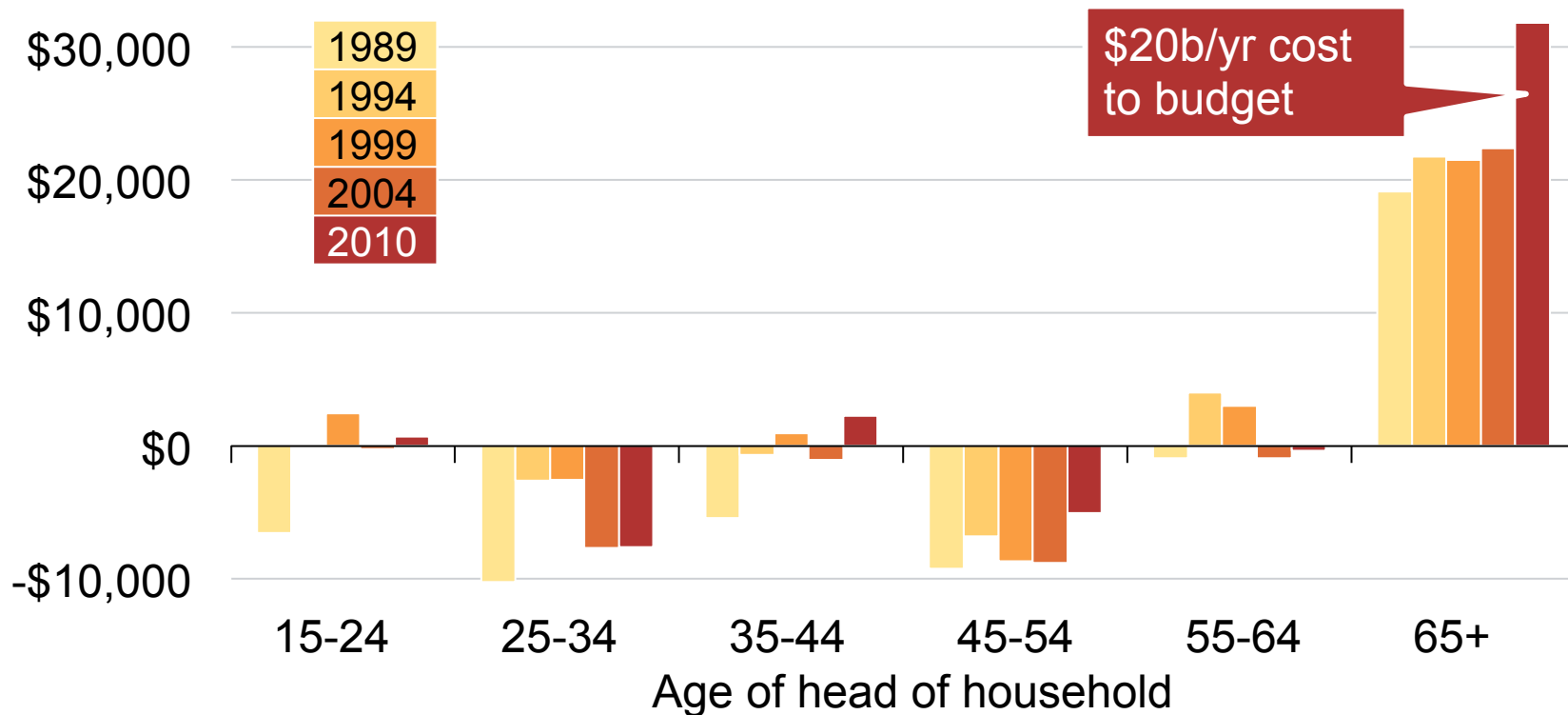
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# Government deficits have funded increasing transfers to older households

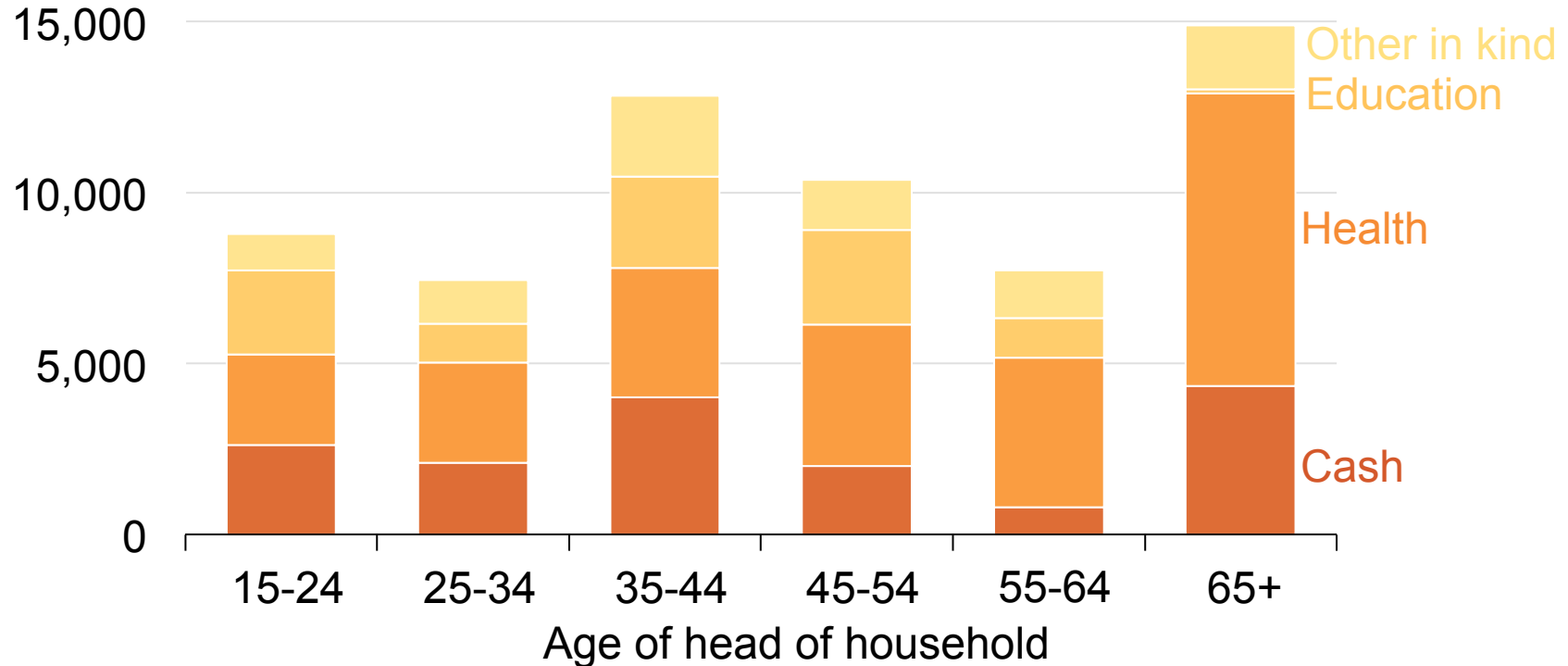
Average net benefits per household (government payments, less tax)  
2010\$





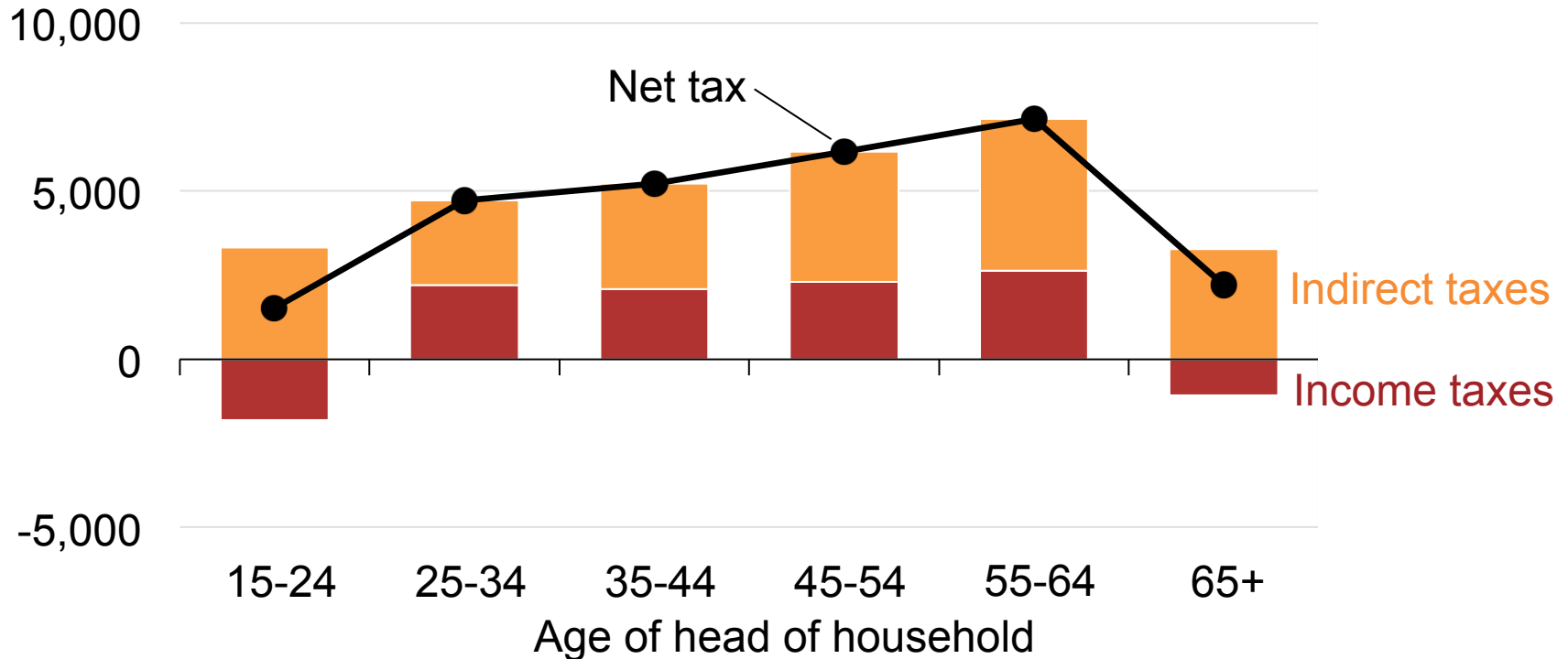
# Health spending and cash benefits for over 65s increased significantly

Change in government benefits per household, 1989 to 2010, \$2010



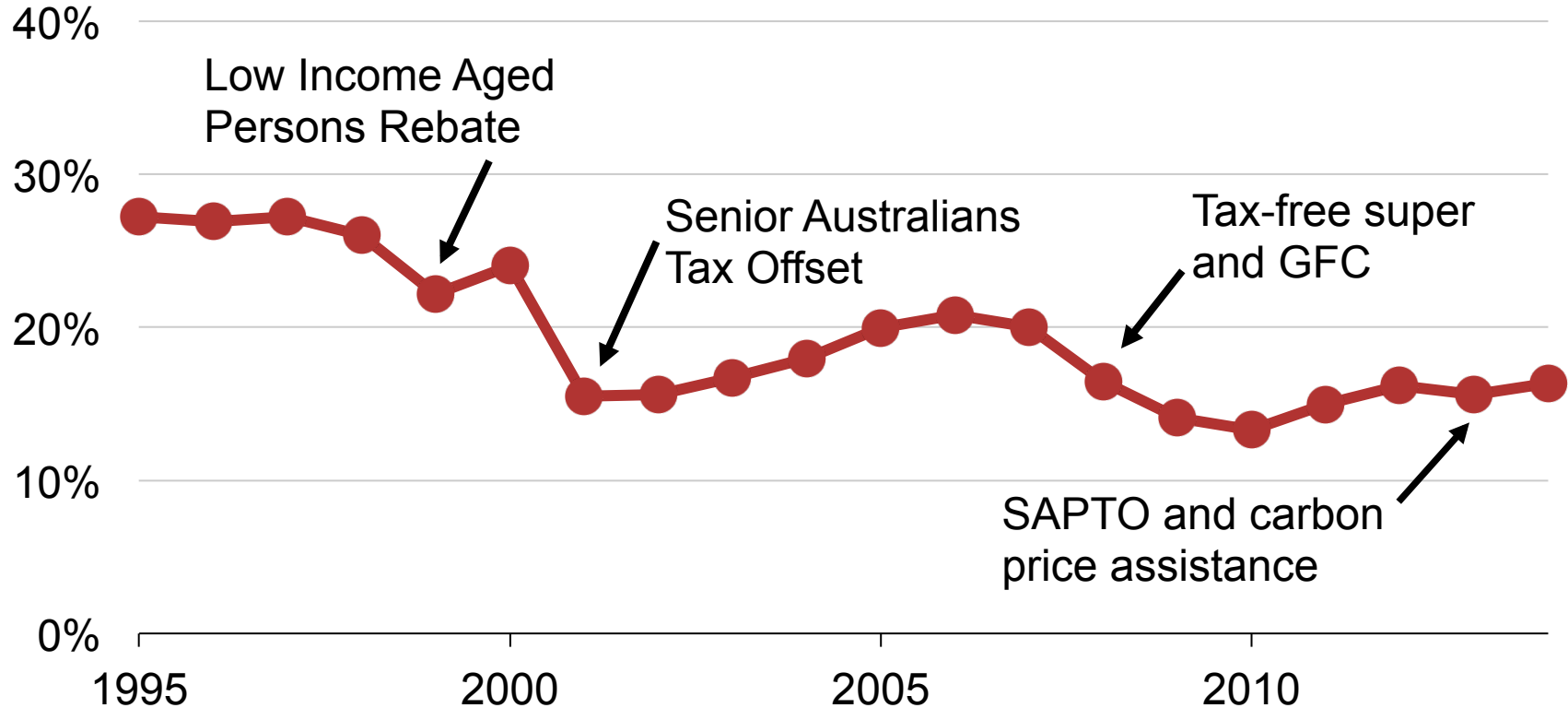
# Because of super tax concessions, older h'holds pay less income tax than 20 years ago

Change in taxes per household, 1989 to 2010, 2010\$



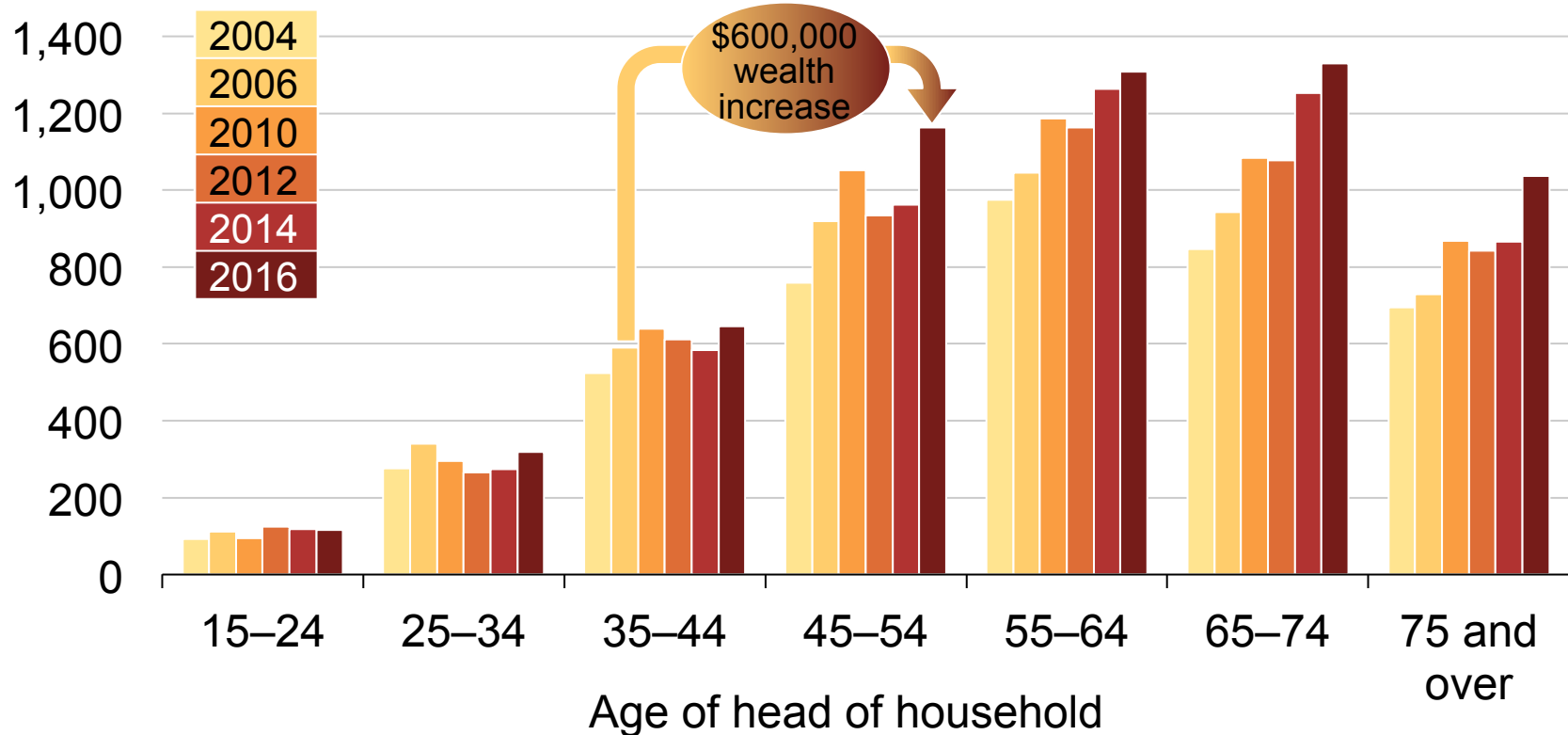
# The number of seniors paying tax has almost halved in two decades

## Proportion of seniors paying personal income tax



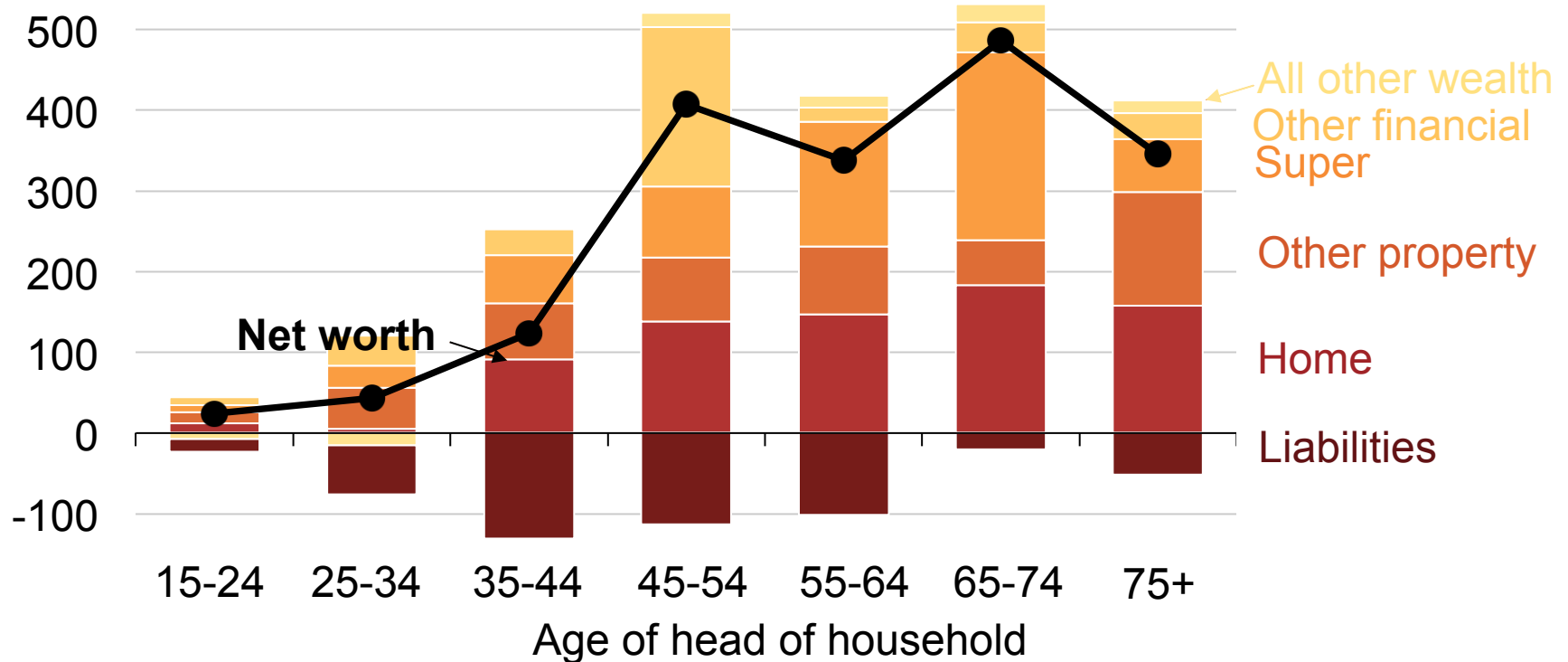
# Older households gained from one-off asset appreciation

Mean wealth by age of head of household, \$2015-16, thousands



# Older households got wealthier primarily because of residential property

Change in mean wealth per household, 2004 to 2016, \$2015-16, thousands

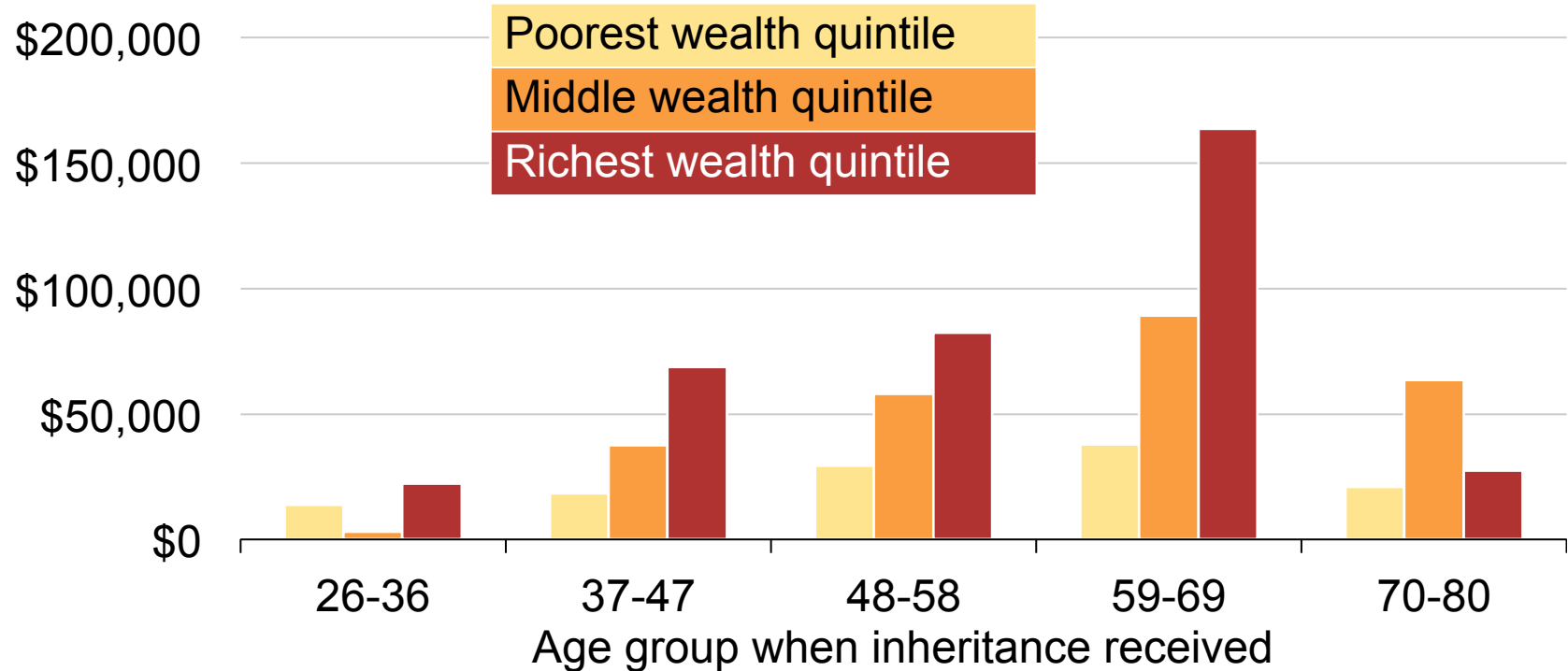


Notes: In 2016, 'Other financial' for 45-54-year-olds and 'Other property' for 75+ year olds may be driven by small number of outliers.  
'Other financial' includes value of own unincorporated business (net of liabilities).

Source: Grattan Institute, *Wealth of Generations*

# Inheritances increase inequality because they mainly benefit the rich and old

Average inheritances if one received, 2002-2012, nominal



Note: Wealth quintiles based on relative wealth in 2002 and therefore do not include the effect of inheritances received after this time.  
Some respondents may not include housing assets in estimates of inheritance.

Source: Grattan Institute, *Wealth of Generations*

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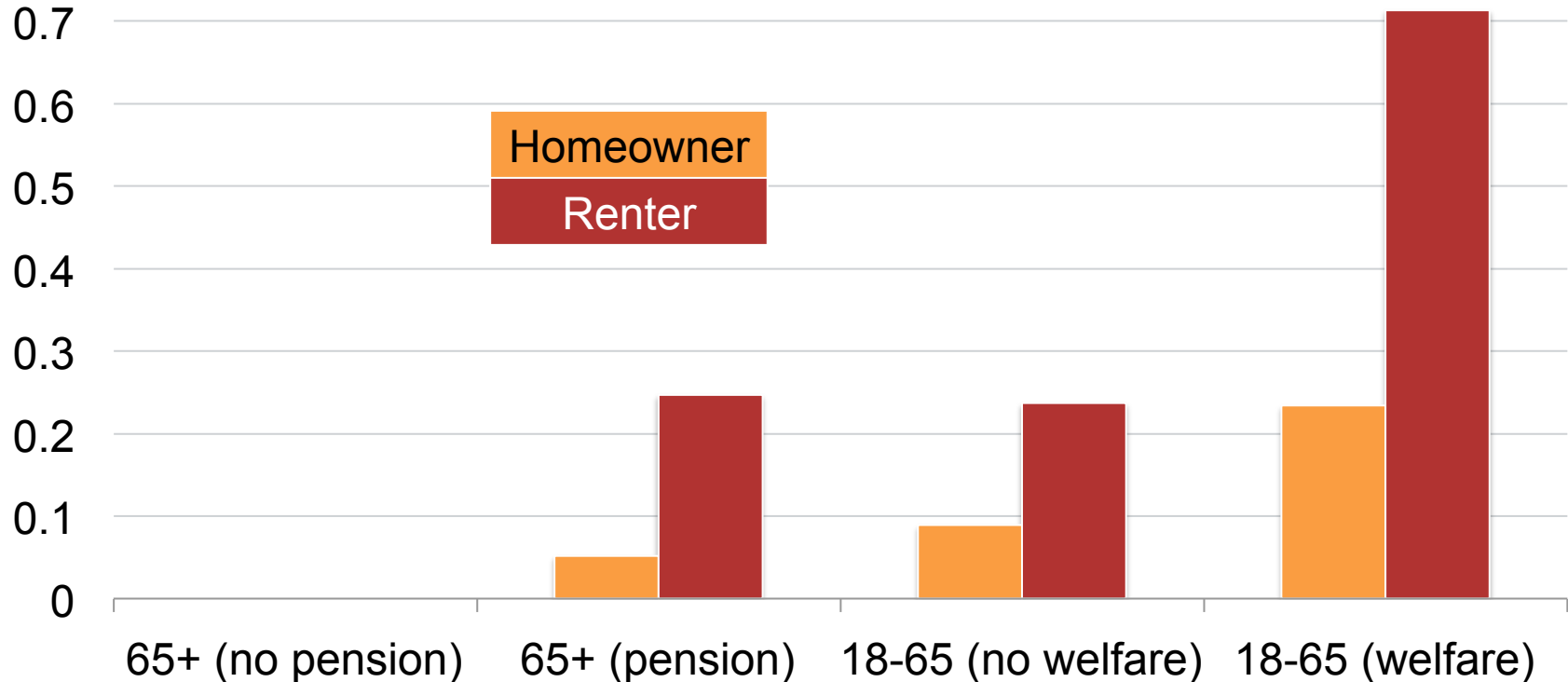
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### **Age-based politics is emerging**

# Renting pensioners are under some stress – but less than most

## Average number of financial stresses per household



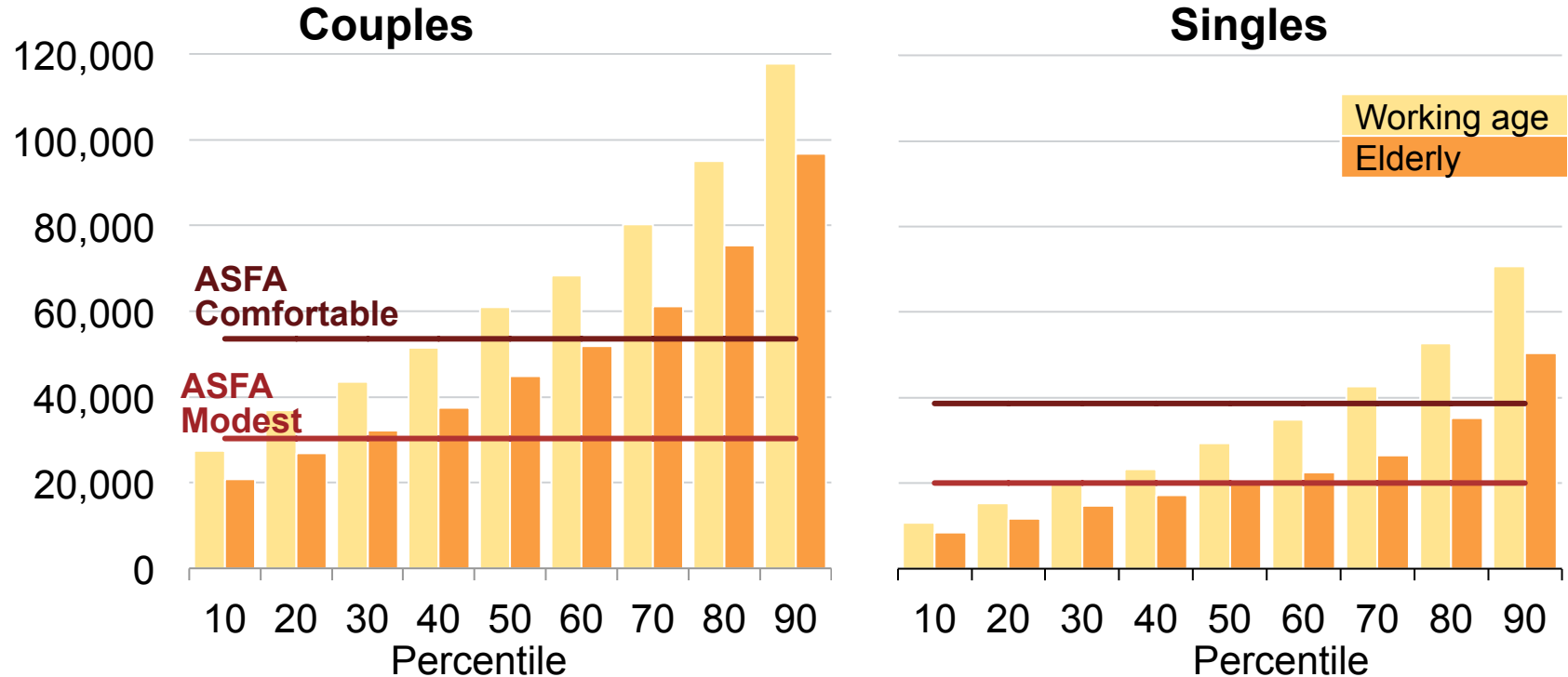
Notes: Financial stress defined as money shortage leading to 1) skipped meals; 2) did not heat their home; 3) failed to pay gas, electricity or telephone bills on time; or 4) failed to pay registration insurance on time.

Source: ABS, HES (2009-10); Grattan analysis



# ASFA “comfortable” standard is more than most people spend – even pre-retirement

Household expenditure (ex housing), \$2015/yr



Notes: Based on equivalised elderly households aged (60-79); equivalised single working age households aged (25-59). Expenditure inflated forward to 2015 levels using change in final household consumption expenditure between June 2009 and March 2015..

Source: Household Expenditure Survey 2009-10; ASFA (2015); Grattan analysis.

# Most Australians are conservative in spending their retirement savings

## Studies of Australian retiree drawdown behaviour

**Few people spend their savings before retiring**

**Bray (2013)** – only 15% of those 55-64 with super savings exhausted them before pension age, and many of those had small balances

**Cho and Sane (2009)** – no statistically significant evidence of people 61-64 drawing down to qualify for the Age Pension

**Most retirees don't spend down even after they reach pension age**

**CSIRO (2016)** – most super fund balances grow until mid 70s and then decline slowly

**CEPAR (2015)** – median pensioner who died left residual wealth equal to 90% of the assets recorded 8 years before

**Hulley et al. (2013)** – less wealthy pensioners spend down 5% of non-housing wealth / year, more wealthy **accumulate** 3% / year

# Why don't people spend their savings?

## Uncertainty

- Fear of unexpected **spending** (particularly health)
- Uncertain about **returns** to savings (and government policy changes)
- Uncertain about **life expectancy**, and how long savings will be needed

CIPRS can help here but not elsewhere

## Investment constraints

- Hard to draw down on illiquid assets (particularly homes)

## Want to leave bequest

## Reduced needs

- People have more leisure time to do things for themselves (e.g. food preparation)

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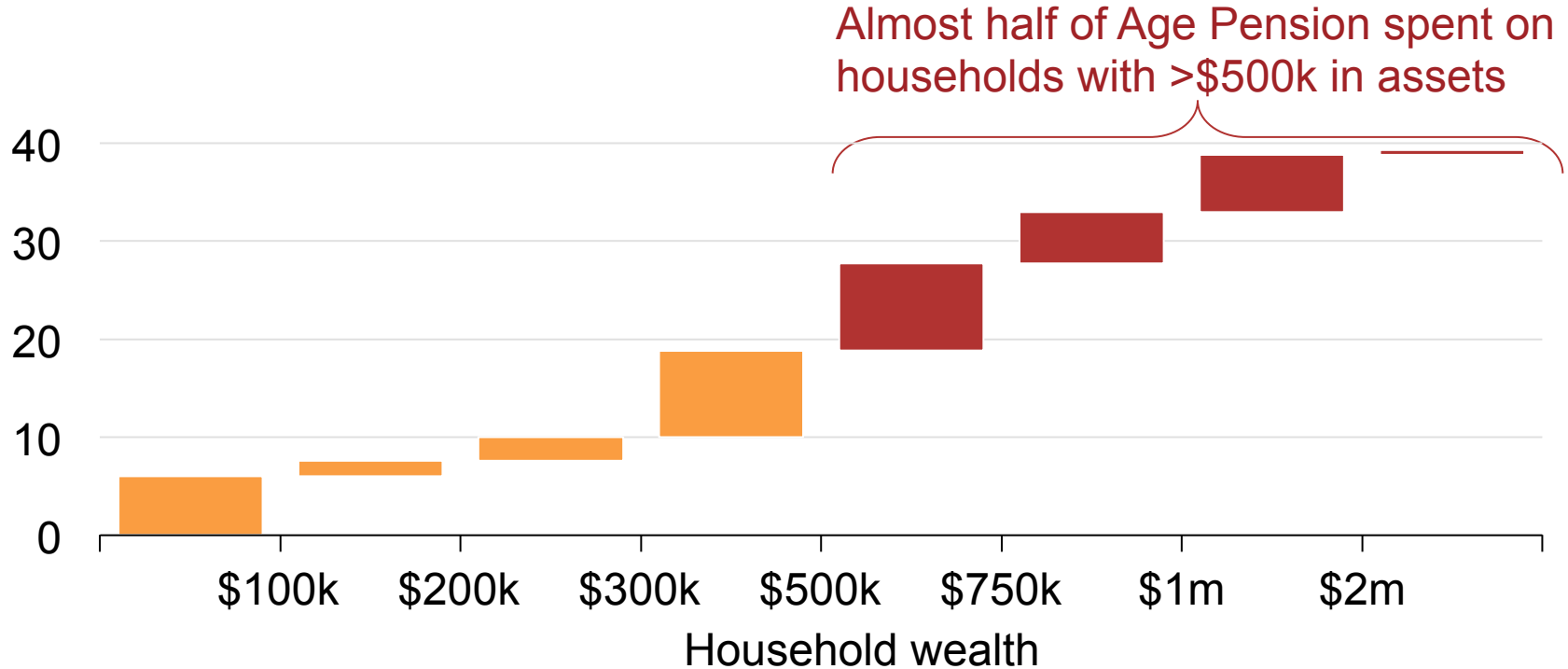
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# Many get a pension even though they have assets many younger taxpayers won't

## Age pension expenditures, 2014\$ billion

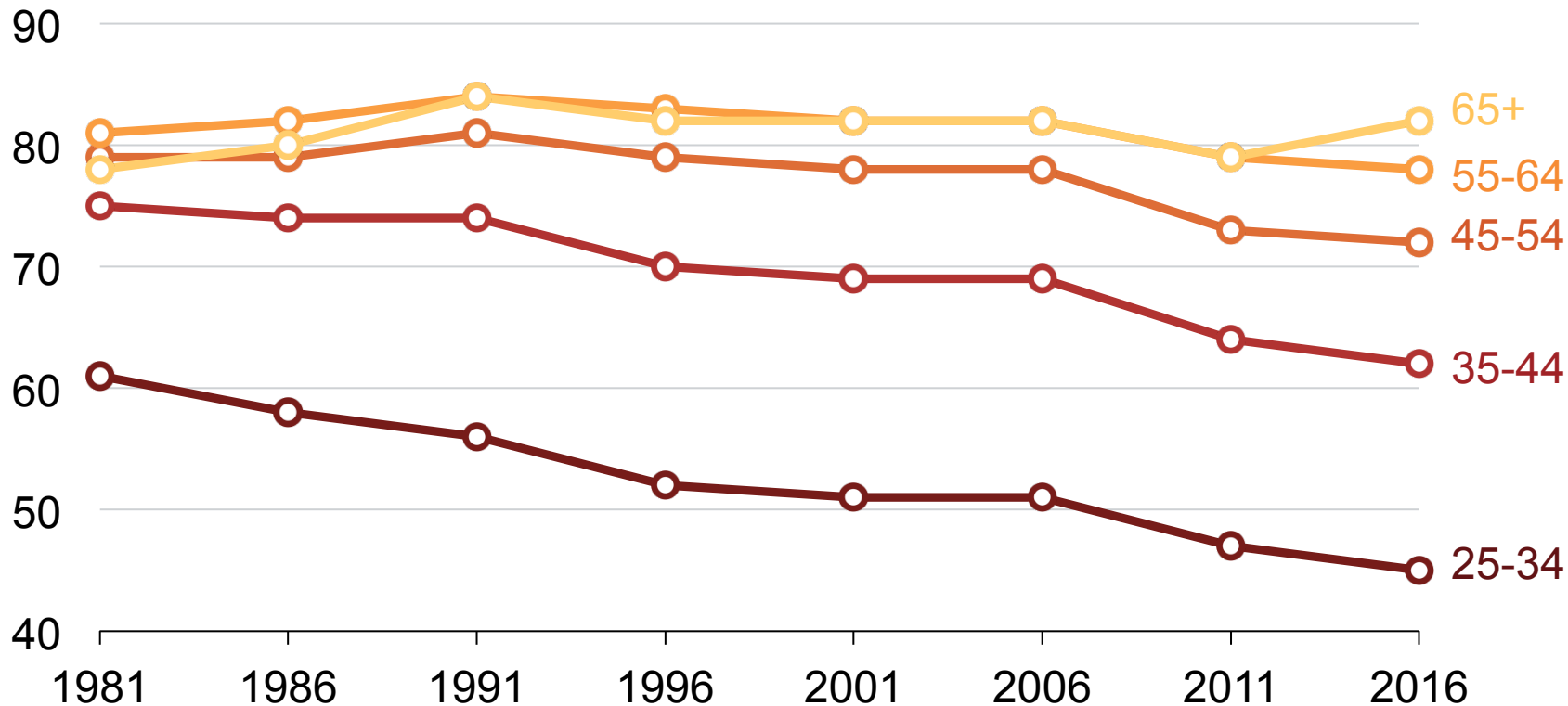


Notes: Annual Age Pension payments reported in survey are grossed up to by 10 per cent to reflect aggregate Age Pension payments for the 2013-14 financial year. Excludes impact of Age Pension asset test changes that took effect from 1 January 2017.

Source: Grattan analysis of ABS Survey of Income and Housing 2013-14; 2013-14 Commonwealth DSS Portfolio Budget Statement.

# Home ownership rates continue to fall for all but the oldest Australians

Home ownership rate, per cent



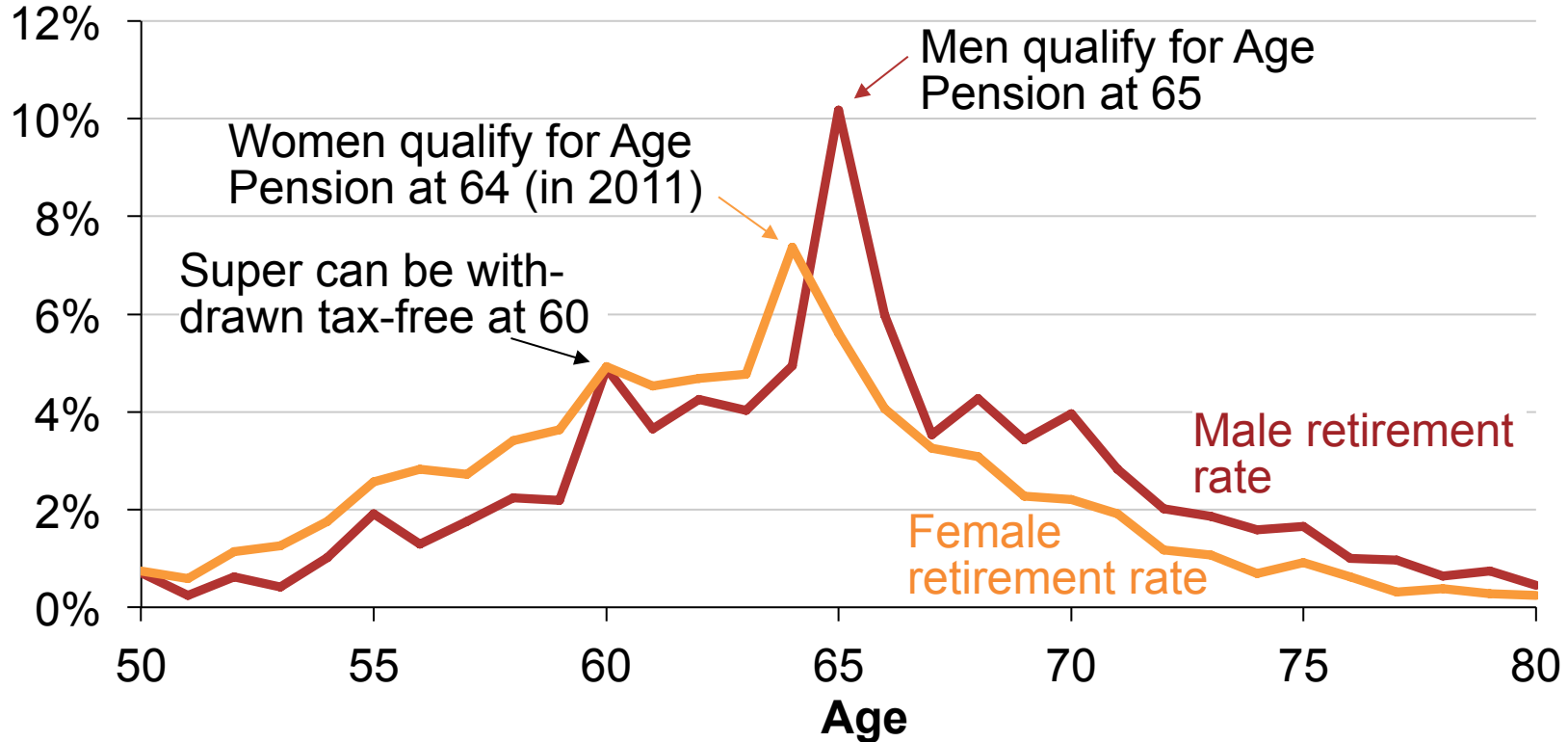
Notes: Share of occupied private dwellings. Excludes 'Tenure type not stated'.  
Source: Census data; Yates 2015; Colebatch 2017

# Including owner occupied housing in the assets test is wildly popular – amongst policy thinkers

ACOSS	Effectively include first \$340,500 value of home	Henry Review	Include family home above a relatively high (unspecified) threshold
The Australia Institute	Include family home above a threshold (unspecified) Expand Pension Loans Scheme to become equivalent rent assistance	Productivity Commission	Include family home above a threshold similar to NCoA suggestion
Grattan Institute	Fully include the family home, and expand Pension Loans Scheme	National Commission of Audit	Include family home above a threshold of \$500,000 for singles and \$750,000 for couples
Centre for Independent Studies	Fully include the family home, and develop reverse mortgage market with government-guarantee	Rice Warner	Include value of family home over \$1.5m, and immediately withdraw all pension above this threshold
Business Council of Australia	Include value of family home (noncommittal about threshold)	Ingles and Stewart	Include some of the value of the family home, but be cautious given gender equity issues

# Access ages have a big influence on retirement decisions

## Retirement rates by age, 2011



Notes: Retirement rate calculated as the percentage change in the labour force participation rate.

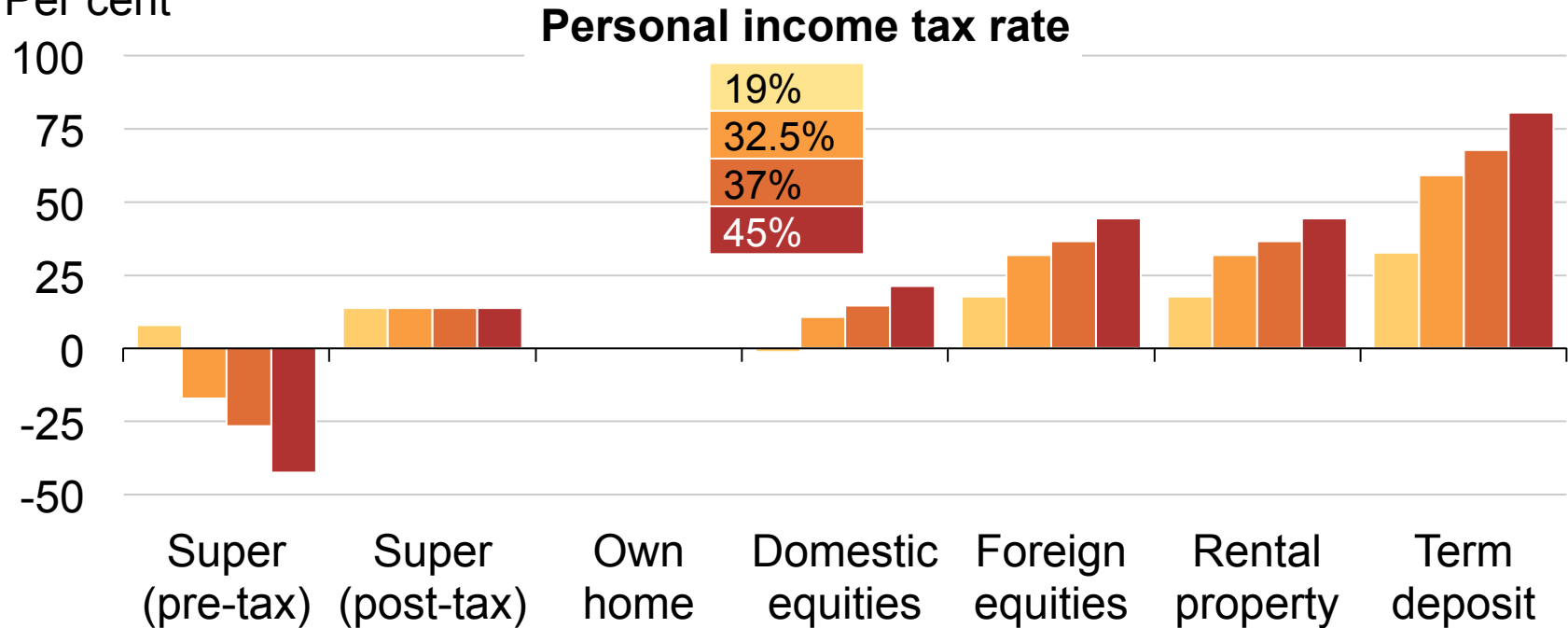
Source: Grattan analysis of ABS Census 2011.



# Tax rates on savings are still pretty low

Real effective tax rate on long-term savings, relative to TEE benchmark

Per cent



Notes: Assumes super earnings taxed at 8% in the fund, reflecting CGT concession and dividend imputation. Assumes 6% nominal return; 2.5% inflation; all investments held for 25 years; CGT only crystallised at end of 25 years; for property and equities, 50% of return attributable to capital gain; dividends on domestic equities are fully franked. Ignores impacts of means test tapers for welfare payments.

Source: *Super tax targeting*, p.18

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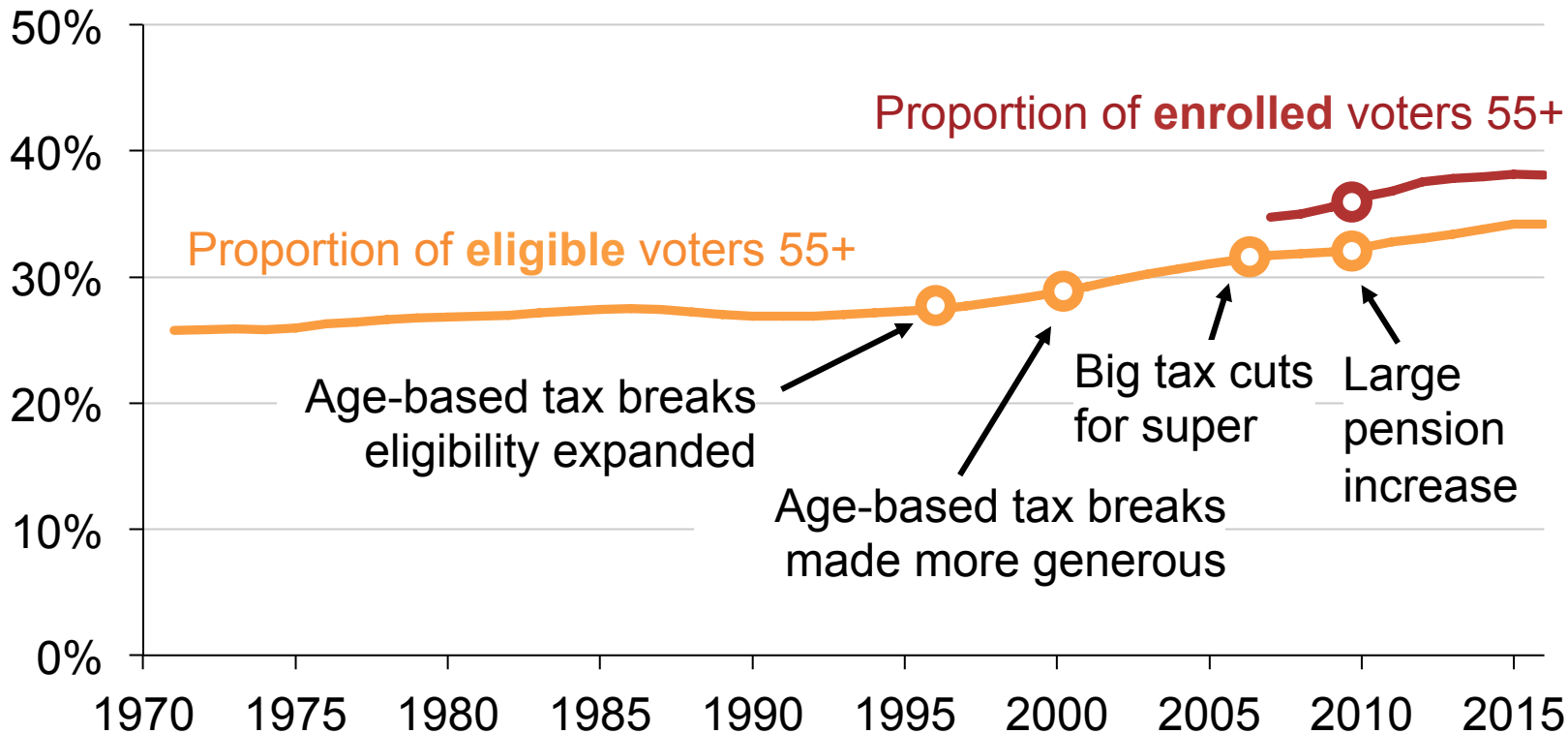
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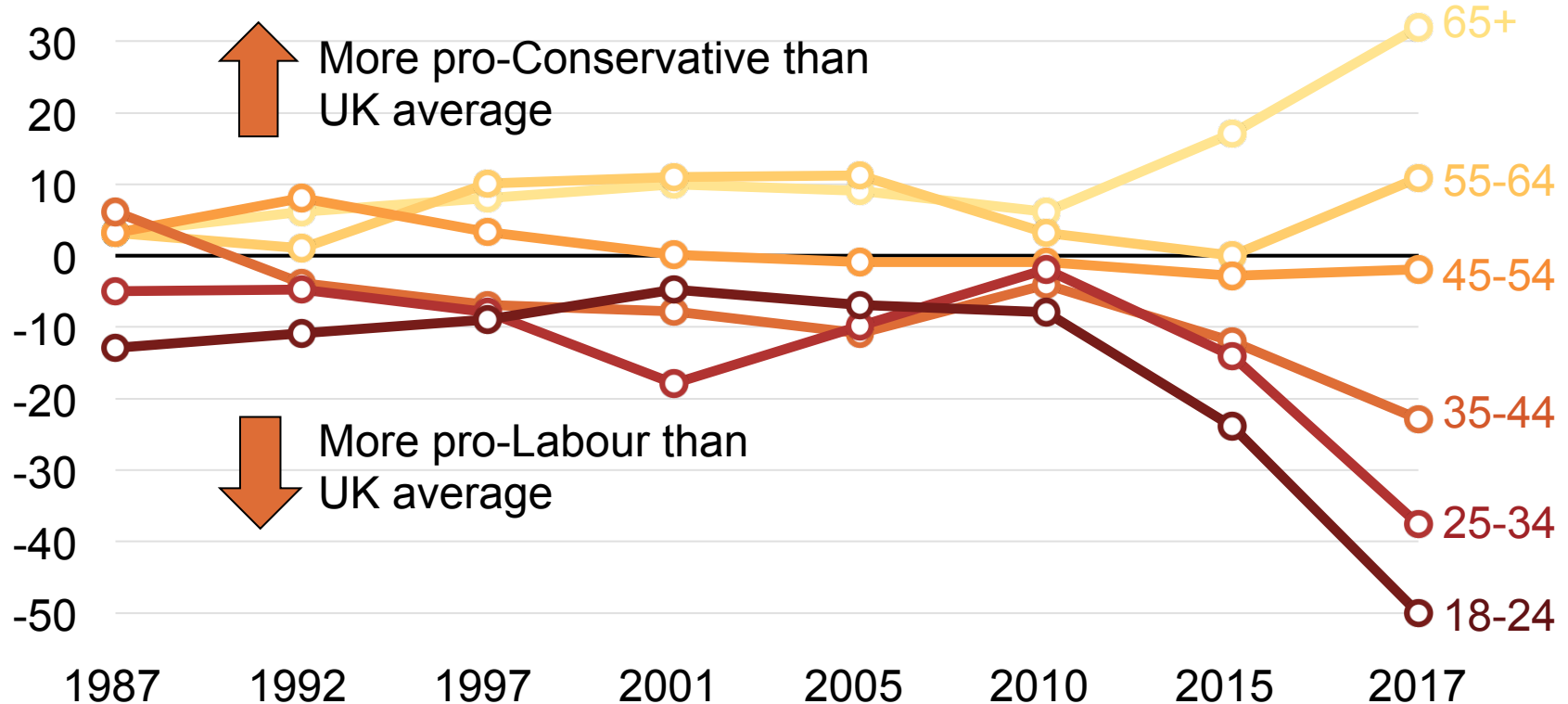
# People over 55 are a large and growing voter bloc

## Proportion of electorate



# Age based politics has emerged in Britain

## Aged-based vote relative to party's average vote



For more ...

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