


Australia

Australia: Pension system in 2012

Australia's retirement income system has three components: a means-tested Age Pension funded through general taxation revenue; the superannuation guarantee, a compulsory employer contribution to private superannuation savings; and voluntary superannuation contributions and other private savings. Superannuation savings are encouraged through taxation concessions.

Key indicators

| | | Australia | OECD |
|------------------------------|-----------------------------|-----------|--------|
| Average worker earnings (AW) | AUD | 73 500 | 41 100 |
| | USD | 76 400 | 42 700 |
| Public pension spending | % of GDP | 3.5 | 7.8 |
| Life expectancy | At birth | 82.4 | 79.9 |
| | At age 65 | 20.8 | 19.1 |
| Population over age 65 | % of working-age population | 23.1 | 25.5 |

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Qualifying conditions

The Age Pension is payable from age 65 for men. Women's pensionable age – currently 64.5 – will increase gradually to become 65 by 2014. Pension age will then be increased by six months every two years from 2017 until it reaches 67 by 2023. The minimum age for withdrawing superannuation benefits is currently 55, but this will increase gradually to 60 by 2025.

Benefit calculation

Defined contribution

The superannuation guarantee was introduced in 1992. It consists of a mandatory employer contribution to a private pension plan. The pension plans may be operated by employers, industry associations and financial service companies or even by individuals themselves. The mandatory contribution rate has been 9% of employee earnings since the 2002-03 tax year. Starting in 2013-14, the superannuation guarantee has started to gradually increase to 12% by 2019-20. (Prior to the recent federal election, the government – when in opposition – announced that it will keep the rate unchanged at 9.25% until June 2016 and then gradually increase the rate to 12% by 2021-22.) The Australian system also includes taxation concessions to encourage additional private retirement savings.

Employers need not contribute for workers earning less than AUD 450 a month (equivalent to AUD 5 400 a year), but they can choose to contribute for these workers (note that this minimum has not been increased in the past). There is also a limit to the earnings covered by the superannuation guarantee: employers need not contribute for employees' pay above this threshold. For each quarter of the financial year 2012-13 this amount was AUD 45 750. This limit is worth almost 2½ times average wages and is indexed to a measure of average earnings.

The withdrawal stage of the superannuation guarantee complicates the calculations. Although there are some defined-benefit occupational plans, most employees are members of defined-contribution schemes. Members can withdraw the accumulated capital as a lump

sum or as an income stream. Currently, most benefits are taken as a lump sum, at least in part. For comparison with other countries (where defined-benefit plans predominate), the capital from the superannuation guarantee is assumed to be converted to a price-indexed annuity. The annuity calculation is based on mortality data for Australia.

Targeted

The Age Pension is designed to provide a safety net for those unable to save enough through their working life and to supplement the retirement savings of others. An income test and an assets test (means tests) are used to target age pension payments.

Australia's Age Pension cannot be compared directly to benefits for the aged provided by other OECD countries, which are primarily aimed at income replacement. Australia's Age Pension is a flat rate payment and redistributive in nature. It aims to provide age pensioners with an income adequate to ensure a basic living standard. In addition to cash payments provided by the Age Pension, Australian seniors can be eligible for a comprehensive system of concessions and assistance for health, rent assistance, pharmaceuticals and other living expenses. The Australian Government supports private retirement incomes through its superannuation arrangements, subsidised by taxation concessions.

The Australian Government delivered pension reform in September 2009 which improved the adequacy and sustainability of the pension system.

A key feature of the pension reforms was improved indexation arrangements. A new cost of living indicator, the Pensioner and Beneficiary Living Cost Index (PBLCI), was introduced to better reflect price changes facing pensioners. The wages benchmark linking the pension to community living standards was increased from 25% to around 27.7% for single pensioners, or 41.8% for pensioner couples combined.

To improve incentives for Age Pensioners to undertake paid employment, the Work Bonus, an income tested concession on employment income, was introduced.

Measures to promote sustainability included tighter means testing and a future increase in pension age from 65 to age 67 by 2023.

The value of the Age Pension is adjusted biannually and is paid fortnightly. In September 2012 the maximum single rate of pension and pension supplement was AUD 772 a fortnight, increasing to AUD 808 in March 2013 (all values have been rounded to the nearest dollar). This gives a maximum annual benefit of AUD 21 018.

The Age Pension's value is increased in line with the greater movement of price increases as measured by the Consumer Price Index (CPI) and the PBLCI. Where necessary, a further increase is made to ensure that the combined couple rate does not fall below 41.8% of pre-tax Male Total Average Weekly Earnings on the national definition (which is slightly different from the earnings measure used in OECD analysis).

The Age Pension starts to be reduced once annual income from other sources exceeds a threshold known as the "free area". This is adjusted annually in July. The amounts for 2010-12 were AUD 150 in the first half and AUD 152 in the second half of the year (again calculated fortnightly). An assets test also applies. Almost 41% of all pensioners have their benefits reduced by the means test and are therefore on part-rate Age Pension. Within this group 69% have their pension reduced as a result of the income test and 31% as a result of the assets test. About 59% of pensioners are on the maximum rate Age Pension.

Variant careers

Early retirement

Access to superannuation benefits (including superannuation guarantee benefits) is currently possible for retirement on or after preservation age, currently age 55 (increasing to age 60). Individuals who are still working can also access their benefits from preservation age, but only in the form of a non-commutable income stream. The Age Pension is not paid earlier than the qualifying age, which is 65 for men and 64 for women, increasing to 65 by 2014. General qualifying age will rise to 67 by 2023.

Late retirement

It is possible to defer claiming superannuation after 65. Employers are required to make superannuation contributions under the superannuation guarantee arrangements for their eligible employees.

The Work Bonus is an income test concession that allows age pensioners to earn up to AUD 250 a fortnight without it being assessed as income under the income test. Pensioners who earn less than AUD 250 in a fortnight can accrue the unused amount of fortnightly concession up to AUD 6 500 to offset future employment income. The combination of the Work Bonus and the pension income free area, allows a single pensioner with no other income to earn up to around AUD 10 450 each year without it affecting their pension.

Childcare

There is no specific protection for periods out of work in the superannuation guarantee system. Voluntary contributions are possible for periods out of paid work.

The means-tested structure of the Age Pension provides some protection for people with periods out of the workforce, in that it provides a safety net and supplements the retirement incomes of those unable to save enough during their working life.

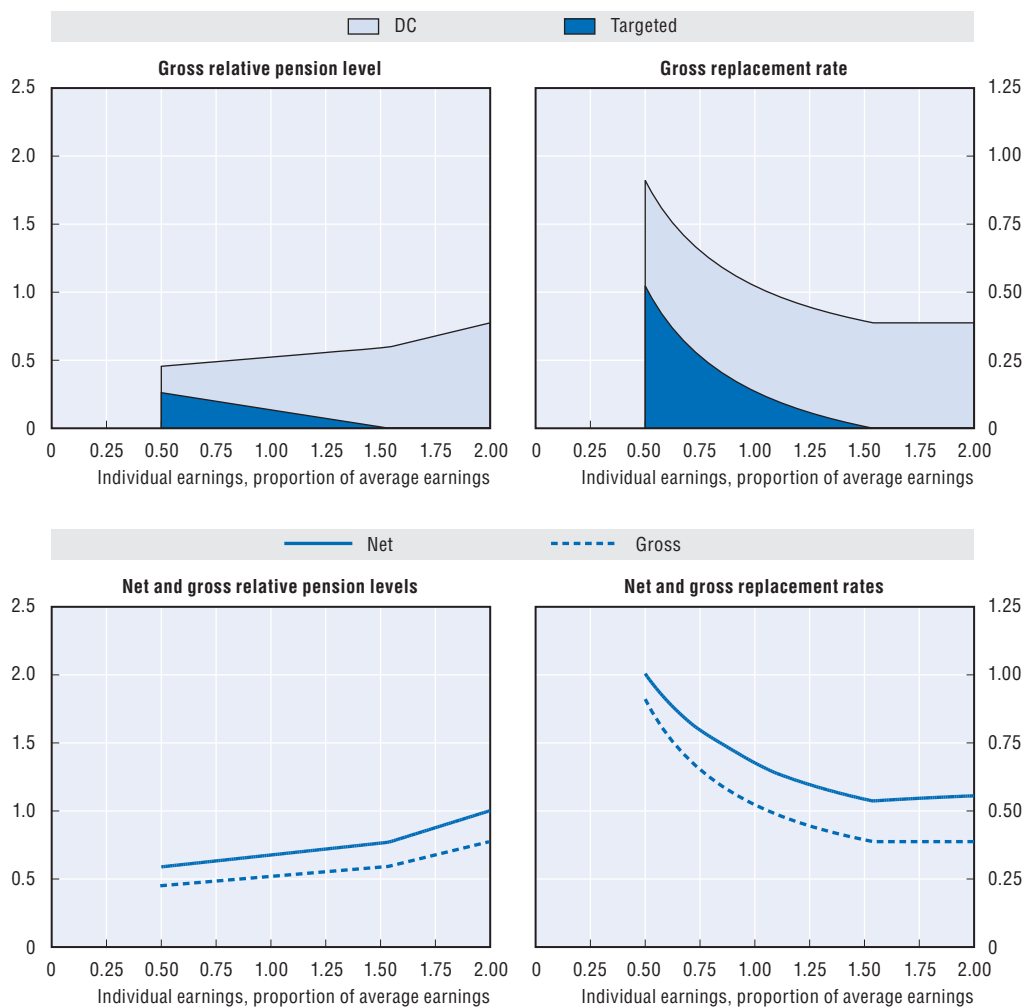
Unemployment

There is no specific protection in the superannuation guarantee system for periods out of work. Voluntary contributions are possible for periods out of paid work.


There are no credits in the superannuation scheme for periods of unemployment.

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Pension modelling results: Australia



| Men Women (where different) | Median earner | Individual earnings, multiple of average | | | | |
|---|---------------|--|------|------|------|-------|
| | | 0.5 | 0.75 | 1 | 1.5 | 2 |
| Gross relative pension level | 50.0 | 45.5 | 48.9 | 52.3 | 59.0 | 77.5 |
| (% average gross earnings) | 46.3 | 43.3 | 45.6 | 47.8 | 52.3 | 68.6 |
| Net relative pension level | 64.7 | 58.9 | 63.3 | 67.7 | 76.4 | 100.3 |
| (% net average earnings) | 59.9 | 56.1 | 59.0 | 61.9 | 67.7 | 88.7 |
| Gross replacement rate | 60.2 | 91.1 | 65.2 | 52.3 | 39.4 | 38.7 |
| (% individual gross earnings) | 55.8 | 86.6 | 60.8 | 47.8 | 34.9 | 34.3 |
| Net replacement rate | 75.6 | 100.5 | 79.7 | 67.7 | 54.3 | 55.6 |
| (% individual net earnings) | 70.0 | 95.6 | 74.3 | 61.9 | 48.2 | 49.2 |
| Gross pension wealth | 10.9 | 17.3 | 11.9 | 9.3 | 6.6 | 6.5 |
| (multiple of individual gross earnings) | 11.6 | 19.0 | 12.8 | 9.7 | 6.6 | 6.5 |
| Net pension wealth | 10.9 | 17.3 | 11.9 | 9.3 | 6.6 | 6.5 |
| (multiple of individual gross earnings) | 11.6 | 19.0 | 12.8 | 9.7 | 6.6 | 6.5 |

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