Employment White Paper Submission

30 November 2022

National Seniors AUSTRALIA

Foreword

Australia is facing a workforce crisis never seen before. Job vacancies are approaching half a million, dragging business and economic growth down and fuelling a cost-of-living crisis. The hardest hit sectors include health care and social assistance, mining, agriculture, hospitality, and tourism.

We must boost workforce participation because shortages are not going to be solved by immigration alone. We also need to boost tax revenue to pay for health, aged care, and other social services.

Unfortunately, those receiving Centrelink payments are punished if they work more than one day a week, creating the biggest sources of inequality in Australia. To fix this we must “let people work”.

We propose government adopt a simple, elegant policy to help all Australians on low incomes get out of poverty and boost their savings by increasing workforce participation.

We can do this by allowing aged pensioners, students, veterans, those on JobSeeker, carers, and disability pensions the right to work and simply pay tax.

Those eligible should receive a lower income test taper rate of 32.5c in the dollar on their Centrelink payment – if they work. This would act as tax withheld and no ongoing reporting of income required once they meet the eligibility conditions (e.g., limited income and assets).

This is not a universal basic income, nor is it a universal pension. Rather it is a universal right to work through an incentive for those who live in poverty or close to poverty.

Australia has universal health insurance, and now we need a universal right to work for those in need. As the Prime Minister and others often say, those in need “need a hand up, not a handout”.

We also recommend government adopt a targeted income test exemption for the care and agriculture sectors and a mature age traineeship scheme to boost workers in home care.

Boosting workforce participation among the mature aged alone will reap enormous economic benefits. As the Deloitte report "The Grey Army Advances", written by respected economist Chris Richardson found, if we increase the over 55 participation rate by 5% it would add $48b to Australia’s GDP. Given we have a tax to GDP ratio of around 23% this represents an additional $11b a year revenue for the Commonwealth.

If our participation rate (66.5%) was like New Zealand (71.7%), the rate of pension poverty would halve, tax receipts would be boosted by tens of billions annually and the 500,000 job vacancies would largely be filled.

As Minister Rishworth said, when announcing the latest changes to the Work Bonus, “it is a win for pensioners, for businesses, and for the government. It demonstrates a clear ability to listen.“

We are glad the government is continuing to listen. We hope our input to this White Paper provides practical evidence-based policies for the May 2023 Budget. These policies will help business prosper, help government balance the books and help those in need fight off poverty.

Ian Henschke
Chief Advocate

Contents

Introduction

National Seniors welcomes the opportunity to provide this submission to the Employment White Paper process.

National Seniors is the peak consumer organisation representing the interests of older Australians. Through our research and advocacy, we provide a voice for older Australians in ongoing policy debates on issues of relevance to older people, both now and in the future.

As our surveys of older Australians have shown, financial security is critical to health and wellbeing in later life. Employment, and the income and savings derived from ongoing employment, form the basis for achieving financial security in later life.

This report draws on National Seniors Australia's research reports, ongoing surveys of older Australians, our policy submissions, analysis of contemporary of research reports and publicly available data sources to help inform the Employment White Paper.

Our submission addresses issues directly related to the following scope and themes set out in the Employment White Paper Terms of Reference:

> *2.1 Building a sustainable care economy in the context of an ageing population and other drivers of demand for care services.*
>
> *5.1 Reducing barriers and disincentives to work, including the role of childcare, social security settings and employment services.*
>
> *5.3 Skills, education and training, upskilling and reskilling, including in transitioning sectors and regions.*

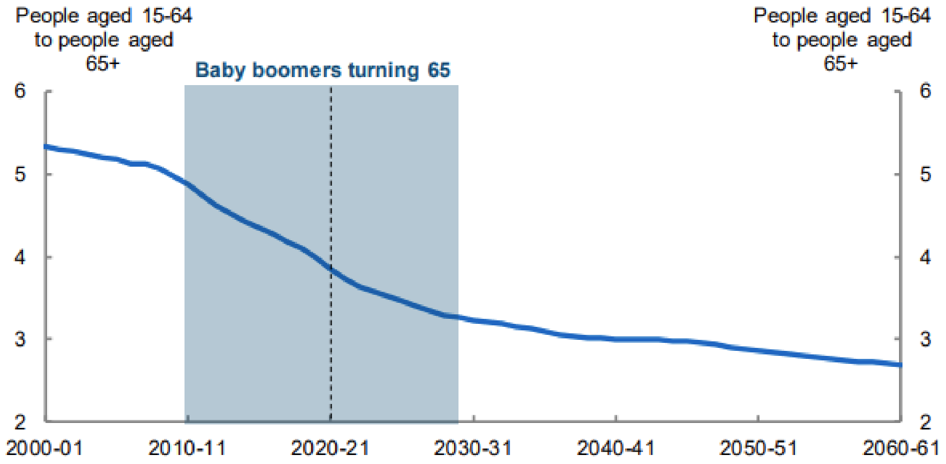
Boosting workforce participation

National Seniors has long supported greater mature age workforce participation.

We have argued for changes to age-limits for workers compensation schemes, for changes to redundancy rules that discriminate based on age[1], for increases to the income limits under pension means testing rules[2] and for mature age traineeships to encourage participation in the care sector[3].

[1] National Seniors Australia 2014. Submission to A New System for Better Employment and Social Outcomes: Interim Report of the Reference Group on Welfare Reform. August 2014.
[2] National Seniors Australia 2018. Federal Pre-Budget Submission 2018-19. December 2017.
[3] National Seniors Australia 2022. Federal Budget Submission. January 2022

Australia has an ageing population, where the proportion of older people to workers is declining and will continue to decline, necessitating actions to increase workforce participation (see Figure 1).



Note: Number of people of traditional working-age (15-64) for every person aged 65 and over.
Source: ABS National, state and territory population, September 2020, and Treasury.

Figure 1: Old age dependency ratio, Australia, 2000-01 – 2060-61[4]

Boosting mature age workforce participation will help fill labour force shortages.

It is also vital as a means of addressing income and wealth inequality and poverty for older Australians, especially as inflation and living costs rise.

Increasing mature age workforce participation rates will also have other economic benefits.

As a Deloitte Access Economics paper has shown, a five per cent increase in the workforce participation among people aged 55 and over could boost GDP by $48 billion.[5]

While National Seniors' focus is on boosting workforce participation among older Australians, workforce participation should be promoted throughout a person's life.

Given retirement income is tied directly to superannuation, and therefore labour force participation, government should be focused on supporting pensioners and younger people with limited savings to work more if they can.

This is the best way to address later life poverty by promoting greater financial self-sufficiency.

[4] Australian Government The Treasury. 2021 *Intergenerational Report: Australia over the next 40 years*. June 2021

[5] Deloitte Access Economics 2012. *Increasing participation among older workers: The grey army advances*. 25 July 2012.

Mobilising workers

National Seniors believes older Australians will be mobilised to fill shortages if the right incentives and supports are provided.

A recent National Seniors survey found 20 percent of pensioners are already considering returning to the workforce and the primary motivation for doing so is to earn additional income.[6]

While we support the trial of a $4,000 increase in the Work Bonus for pensioners and veterans to encourage greater workforce participation; stronger and more comprehensive actions must be taken.

National Seniors Australia is hopeful the white paper process results in policy changes that improve employment opportunities, not just for pensioners, but for all Australians, no matter their life stage.

In this regard, National Seniors believes it is in the interests of present and future generations to work together to create a tax and transfer system that is:

a) simpler and easier to understand,
b) rewards greater workforce participation,
c) fosters greater financial security,
d) helps businesses meet their workforce needs and
e) improves Australia's overall economic prosperity.

To support this, we discuss in this submission the strengths and weaknesses of a range of policy options to foster greater workforce participation among both pensioners, veterans and other payment recipients. These include:

- Reducing income test taper rates
- Work Bonus increase and extension
- Earned Income Tax Credits (EITC)
- Deferred pension incentives
- Mature age wage subsidies
- Universal pension

[6] Orthia L., Hosking D. and McCallum J. (2022) *"If people want to work they should be able to": Older Australians' Perspectives on Working After Retirement*. Canberra: National Seniors Australia.

Details of each of these are provided later in this submission.

Our preference is to introduce a simpler system that reduces the friction between government payments and work to smooth the transition between the two and to reduce the burden of interaction between payment recipients and government.

This could be achieved by reducing the income test taper rate to 32.5c dollar, for all payment recipients, to reduce the amount lost when working. Ideally, this would be treated as tax withheld, rather than as a reduction in payment and available to those with limited savings. Estimates of the cost and benefit of this policy for pensioners and veterans has been conducted by Deloitte and is presented in this document and in full as an attachment.

Alternatively, it could be offered as a taper rate reduction.

This will ensure a greater incentive to work or work more and fill labour shortages throughout their life.

A sustainable care economy

Lastly, National Seniors Australia welcomes the focus on building the workforce required to deliver a sustainable care economy within the white paper.

Older Australians have significant stake in the success or failure of this endeavour.

Over 1.2 million older Australians use or rely on aged care services with 200,000 of them living in residential aged care and almost 180,000 receiving a home care package.[7]

Ultimately, they and their loved ones will judge government on its ability to deliver the workforce to provide these services.

Unfortunately, as workforce studies have shown, Australia is facing a long-term crisis, exacerbated by the Covid-19 pandemic, that will undermine the provision of these vital services to older Australians unless action is taken to address labour and skills shortages.

While there is much evidence of this, we provide a summary of the workforce challenges facing the aged care sector in appendix of this submission.

We also discuss two key policy options which National Seniors believes should be deployed quickly to mobilise mature age workers to fill shortages in the health care and social assistance and agriculture sectors, where demand for older workers is high.

[7] Australian Government Australian Institute of Health and Welfare 'People using aged care' 29 April 2022

These include:

- Targeted opt-in income test exemption for pensioners and veterans
- Mature Age Home Care Traineeships

While our preference is for an economy wide change to income test taper rates for all government payment recipients to spur workforce participation, we believe that a targeted income test exemption for the care and agriculture sectors for pensioners and veterans would provide a cost-effective way to trial this change, which could be done over two years.

It could be combined with a taper rate reduction to 32.5c in the dollar for all payment recipients to promote workforce participation across the whole economy.

We firmly believe that a mature age Home Care Traineeship scheme will be effective in mobilising mature age workers to meet growing demand for home care services.

Details of each of these are provided later in this submission.

An opportunity not to waste

The intensity of the workforce crisis and spiralling living costs present government with an opportunity to try out different policies.

National Seniors believes the Federal Government should commit to redesign elements of Australia's tax and transfer system to radically improve employment outcomes for all.

Inherent in this view, is the belief that those with limited savings and income should not be punished if they need and want to work. Unfortunately, much of our existing rules are punitive and based on a negative "welfare" ideological frame that does not reward people attempting to transition into and out of the workforce.

We believe much can be gained from importing best practice policies from other jurisdictions where workforce participation is significantly higher (e.g., New Zealand, Sweden and Israel among others).

There should be a focus on innovations that simplify our tax and transfer system and make it easier to work and maintain adequate income and savings.

Workforce participation and financial security in later life

Participation in work is critical to life circumstances at any part of the life cycle

Australians are fortunate to have the security of a guaranteed pension regardless of their work history.

Like New Zealand, pension eligibility in Australia is residence-based and is not dependent on labour force participation as it is in other countries.

This provides a pension to all eligible residents and protects those disconnected from the labour market, through caring responsibilities or disadvantage.

Australians are fortunate to also have a compulsory superannuation scheme which promotes savings and bolsters income in retirement. (But a significant proportion have little or no super on reaching pension age.)

By increasing wealth and income in retirement, mandatory savings improves the health and wellbeing of retirees and increases the likelihood of individuals being able to fund their retirement partially, or fully. This reduces the cost to government of delivering the pension and other age-related payments.

This feature is an important distinction between New Zealand and Australia. Why? Because this closely ties work with retirement income outcomes; and ultimately has a major bearing on the financial security, health and wellbeing of people in later life.

This view is tacitly supported by the International Actuaries Association, which argues the fourth pillar of <u>any</u> retirement income system is participation in work[8]. As we would argue, this includes workforce participation at any part of the life cycle, including later life.

Anything we can do to foster greater workforce participation and bring about greater equality in earnings throughout a person's life is vital to reducing income poverty in later life.

The problem of income poverty in retirement

It is no surprise that National Seniors research consistently shows concern with the adequacy and sustainability of retirement income among older Australians[9].

[8] International Actuarial Association (IAA) 2019. *Interaction Between Pension and Housing*. Population Working Group, February 2019.

[9] McCallum, J., Hosking, D. and Rahn, A. 2019. *Feeling financially comfortable? What retirees say*. Brisbane: National Seniors Australia

Older Australians regularly tell National Seniors they are worried about the future adequacy and sustainability of the Age Pension. Many are concerned the Age Pension will not provide enough to meet their needs in retirement, especially their access to timely health care interventions. As hospital waiting times surge due to workforce shortages and Covid-19[10], older Australians worry about being able to afford health care as out-of-pocket health costs rise[11].

While those with limited work histories will always have the Age Pension to fall back on, it is well known the pension in Australia is relatively low by international standards[12]. This means these people have increased risk of poverty.

Workforce participation is key to addressing poverty and improving financial security because it is linked to home ownership.

Individuals with limited workforce attachment are less likely to own a home, which is highly problematic because of the positive link between home ownership and financial security.

National Seniors research has shown home ownership is strongly linked to feeling financially secure – more so than other savings[13]. This is supported by evidence from two separate RMIT reports[14], which confirm home ownership as the most important determiner of financial wellbeing in retirement.

It is also backed by the findings of the *Retirement Income Review - Final Report*, which found older people in the private rental market were worse off, with reduced incomes and heavier reliance on the Age Pension.[15]

It is also worth noting pension poverty is higher among women and highest among women who rent.

This points to a vicious circle for those with tenuous attachment to the labour force.

Poverty, which is a relative measure of income inequality readily reflects the impact of uneven labour force participation in later life.

[10] Cutler, H. and Braithwaite, J. 2022. "With surgery waitlists in crisis and a workforce close to collapse, why haven't we had more campaign promises about health?" in *The Conversation*. 13 May 2022.
[11] RACGP 2022. The concern of rising out-of-pocket health costs. Accessed online 25 November 2022
[12] Ong, R., Wood, G. A., & Cigdem, M. (2022). Housing wealth, mortgages and Australians' labour force participation in later life. *Urban Studies*, *59*(4), 810–833.
[13] National Seniors Australia 2022. Owning your home - key to retirement financial security. Accessed online 14 Nov 2022.
[14] ANZ 2018. Financial Wellbeing: Older Australians. November 2018
[15] Australian Government The Treasury 2020. Retirement Income Review – Final Report. 20 Nov2020

Unfortunately, income poverty among older Australians is high compared to other OECD countries (see Figure 2 below).

Almost one quarter of those aged over 65 in Australia were in poverty, compared with only 12.2 per cent in Canada, 10 per cent in New Zealand and 3 per cent in Denmark.

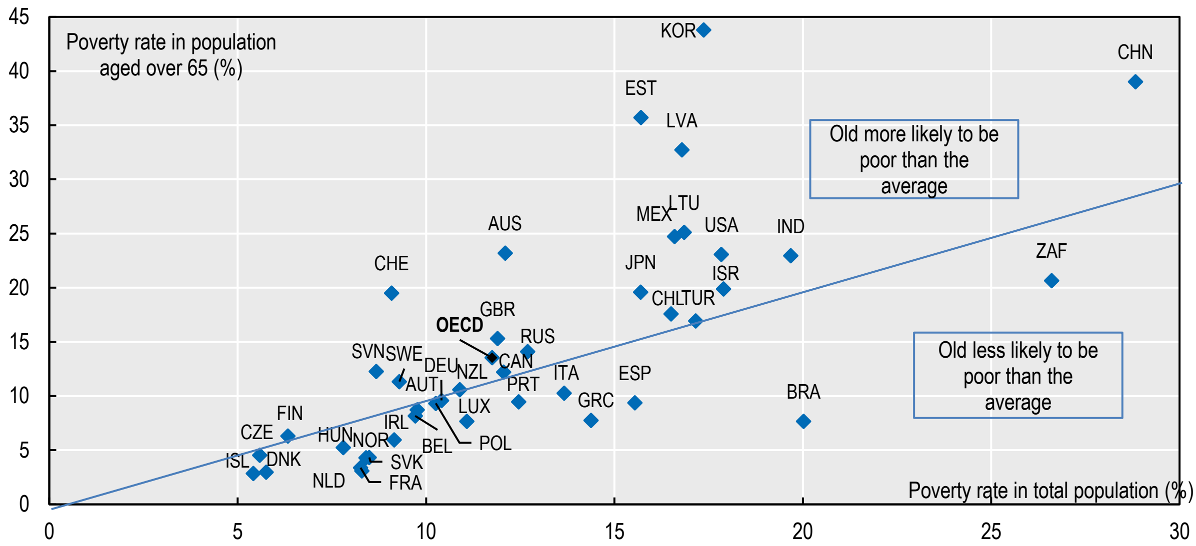


Figure 2: Income poverty rates by age: older vs. total population, 2016 or latest available year Source: OECD 2019[16]

	Poverty line (50% median income) in 2019 (per week)	Age Pension Nov 2022 (per week)	JobSeeker 60+ Nov 2022 (per week)	JobSeeker Nov 2022
Single	$489	$513.25	$359.30	$334.20
Couple	$734	$773.80	$608.70	$608.70

Figure 3: Poverty line (2019) versus Maximum Age Pension, JobSeeker 60+ and JobSeeker payments (Nov 2022) Source: ACOSS 2022, Services Australia 2022[17]

[16] OECD 2019. *Op cit*. Figure 7.2 Income poverty rates by age: older vs. total population, 2016 or latest available year.

[17] ACOSS 2022 Poverty in Australia 2020: A Snapshot Accessed online 14 Nov 2022; Services Australia 2022 'How much can you get' Accessed online 14 Nov 2022.

Retirement income replacement rates (the percentage of an individual's annual employment income that is replaced by retirement income when they retire) are also a problem in Australia.

Average income earners in Australia have an income replacement rate of 41.0 per cent compared to the OECD average of 58.6 per cent.

The direct link between workforce participation and later life poverty, strengthens the case for actions to promote greater workforce participation throughout the life cycle.

The role of superannuation in exacerbating income inequality

As an integral part of the Australian retirement income system, compulsory superannuation assists workers to save for their retirement, and on this basis alone, should be strengthened as one of the key pillars of the retirement income system.

Moves to increase the superannuation guarantee to 12 per cent are important given Australia's rate is lower than many other OECD countries. Australia's compulsory contribution rate of 10.5 per cent is much lower than the OECD average of 18.4 per cent.[18]

However, it is also important to acknowledge pension schemes relying on private savings, which are tied closely to earnings capacity. This can and does reinforce underlying inequality when labour force participation is uneven[19].

Increasing the rate of compulsory superannuation, without also addressing workforce participation and earnings capacity will likely entrench later life poverty because an older person's superannuation relies on ongoing attachment to the workforce.

While those maintaining attachment and higher wages are rewarded for their efforts, those with tenuous attachment are disadvantaged in later life.

This is not an attack on those achieving strong workforce participation and high earning capacity. It is simply an acknowledgement compulsory super benefits some more than others and policy settings make a tangible difference in amplifying or ameliorating these disparities.

[18] OECD 2019. *Op cit*. Table 8.1. Mandatory pension contribution rates for an average worker in 2018

[19] Spies-Butcher, B. 2011. 'The myth of the ageing 'crises'' in *The Conversation* 27 April 2011.

There are many reasons for this:

- Individuals with poor educational outcomes and career histories dominated by low-paid or part-time/casual work will not accumulate adequate superannuation over their lifetime.
- Self-employed/contractors, who are not covered by the Superannuation Guarantee, are at risk of having limited savings and income in retirement unless they have the capacity to make voluntary contributions to superannuation or save in other ways.
- People taking time out of the workforce to care for dependent relatives (including grandchildren) will have diminished superannuation or they may have to dip into their superannuation.
    - As the burden of care falls disproportionately to women, they are more likely to have lower superannuation contributions over a lifetime because they are more likely to be affected by broken work patterns due to their larger role in caring responsibilities (children, people with disability and the elderly) and higher incidence of low paid or part-time work.
    - Research from National Seniors shows older Australians provide significant amounts of unpaid grandparent care and balance this with their work responsibilities. Among those surveyed, 70% altered the days or shifts they worked, 55% reduced their working hours, and 18% had even changed their job because of their caring commitment. A third of survey respondents reported childcare commitment had changed the timing or expected timing of their retirement. For many other grandparents, providing regular childcare was not the most important factor but still important in shaping their decision to retire.[20]
- Those who are single or affected by relationship breakdowns will be less likely to have adequate savings to supplement the pension in later life.
- People living with a disability will likely have lower attachment to the workforce and lower income earning opportunities, undermining accumulation of savings and income in later life.

People with these life experiences will suffer from diminished superannuation and income in later life, curtailing their capacity to be more self-sufficient.

While recent estimates suggest as much as 43% of Australians will be self-funded by 2023 (compared with only 22% in 2000) approximately one-third of women and one-quarter of

[20] Hamilton, M, & Jenkins, B. (2015). *Grandparent childcare and labour market participation in Australia* (SPRC Report 14/2015). Melbourne: National Seniors Australia 2015.

men, across all ages, currently have no superannuation account and 25 per cent of women and 13 per cent of men will retire with no superannuation.[21]

If the primary objective or purpose of the retirement income system is to "generate income to support consumption in retirement", as it was defined in the recent Retirement Income Review consultation paper[22], then considerations of the role of work (both pre- and post-pension eligibility age) must be the critical focus of policy reforms.

For example, the current system does not adequately encourage low- and middle- income earners (who make up most of the population) to contribute more to their savings, but instead provides excessive incentives for a smaller number of high-income earners to maximize their wealth in retirement (see Figure 4 below) thus exacerbating income and wealth inequality.

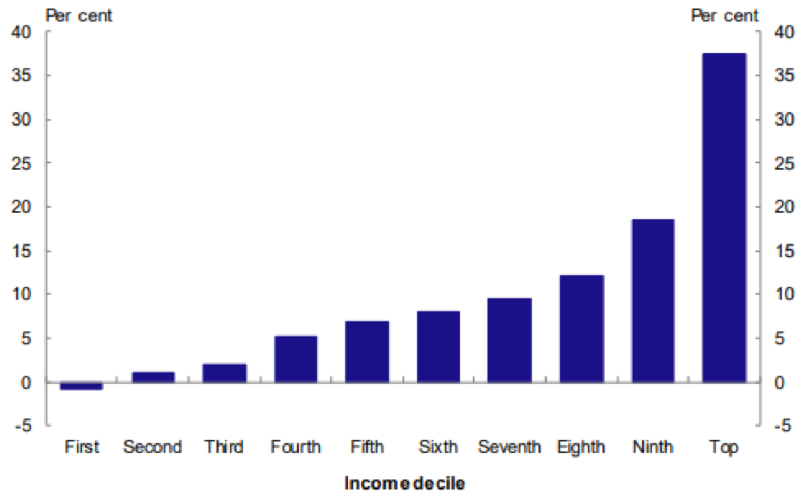


Figure 4: Share of total superannuation tax concessions by income decile. Treasury calculations based on 2011–12 data from the Australian Tax Office. Source: Murray 2014[23]

Efforts to amend structural inequalities emerging from compulsory superannuation, e.g., the provision of tax offsets for low-income employees, are important, however these are minimal compared with the tax concessions available to those on high incomes with the capacity to voluntarily contribute more to superannuation.

[21] Clare, R. 2019. *Better Retirement Outcomes: a snapshot of account balances in Australia*. Australian Superannuation Federation of Australia.
[22] Australian Government The Treasury 2020. *Retirement Income Review – Final Report*. 20 Nov2020
[23] Murray, D. 2014. *Financial System Inquiry – Final Report*. Chart 6, p. 138

While there are opportunities to reduce superannuation tax concessions for those with adequate wealth, it is important those with limited earnings and savings are encouraged and supported in the same degree to do better.

Despite Australia's pension safety net, more could be done to rebalance wealth and income by supporting and encouraging greater workforce participation to boost savings and income throughout the life cycle, including in later life.

The growing problem of mature age unemployment

Age related unemployment is a growing problem, which has severe repercussions for retirement incomes.

Latest ABS data shows participation in the workforce is much lower among the 55-64 age group compared with aged groups between 25 and 54. Some of this could likely be attributed to early exits from spouses, from those lucky enough to attain an early retirement, others have exited due to ill health, caring responsibilities or from age discrimination.
National Seniors regularly receives correspondence from older Australians who are unable to secure work in the 50s and early 60s. This is problematic because they are either drawing on their savings or living in poverty because JobSeeker payments are too low.[24]

Workforce participation tends to fall with age. Many who lose their jobs in their late 50s and early 60s do not work again, use up their savings (e.g., forced to use their superannuation to pay for day-to-day living costs, such as rent and food or pay off mortgages).

As one former unemployed person (now pensioner) told us, he lived off his savings until he reached a point of desperation, relying on his son for financial assistance. When both he and his wife were made redundant at 59 and 61, neither were able to gain employment before pension age.

They were forced to draw an income from their superannuation for two years and used their super to pay off some of their mortgage. According to this person, Newstart (now JobSeeker) was an impossible allowance to live on. Once on the pension they found the amount "very modest" and without the support of their son, they would not be able to maintain private health insurance.

The scale of this problem is growing as the pension age pushes to 67 in July 2023.

[24] ACOSS 2022 *Poverty in Australia 2020: A Snapshot* Accessed online 14 Nov 2022.

According to the latest DSS figures, more than 534,000 people over the age of 55 receive JobSeeker, which is almost 38.8 per cent of all JobSeeker recipients. Among those 65 and over, the number is now 363,000 or 26.9 per cent of all JobSeeker recipients.[25]

This is discouraging given JobSeeker payments are far below what is needed to support living costs.

Aside from those actively seeking work, there is also a proportion not-participating in the workforce who would like to be working.

According to the latest ABS Labour Force survey on retirement intentions conducted in 2018-19, 107,700 people aged 60 – 69 are not in the labour force, not retired and not currently employed, but want to work.[26]

These are people who could be encouraged to enter the workforce given the right incentives and conditions.

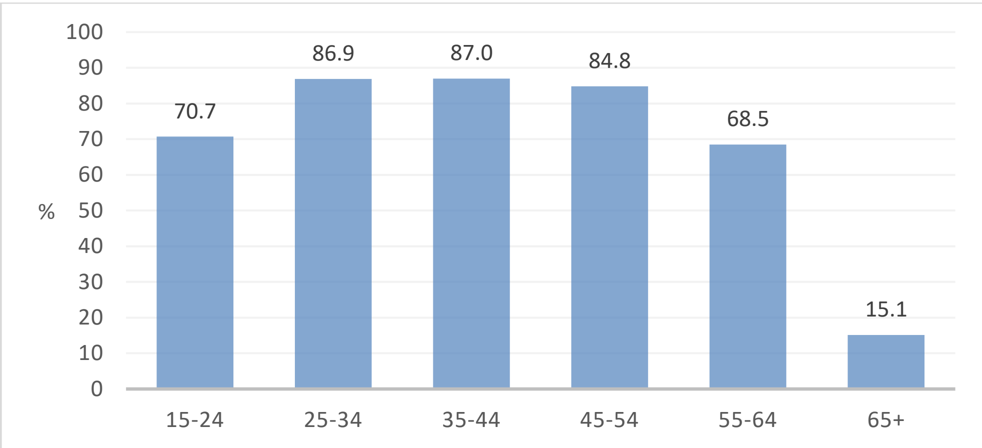


Figure 5: Workforce participation rate by age groups, Sep 2022 Source ABS 2022[27]

Greater efforts are needed to support mature age workers to stay in the workforce so they can continue to accumulate superannuation rather than draw it down and undermine their retirement income.

There is also evidence to suggest high effective tax rates undermine workforce participation among people of pension age[28].

[25] Australia Government data.gov.au 'DSS Demographics – June 2022'. *DSS Payment Demographic Data*
[26] ABS 2020. *Retirement and Retirement Intentions, Australia* 8 May 2020
[27] ABS 2022 *Labour Force, Australia, Detailed* - Table 01. Labour force status by age, social marital status and sex 27 October 2022
[28] Ingles, D. and Stewart, M. 2016. Reforming Australia's Superannuation Tax System and the Age Pension to Improve Work and Savings Incentives. in Asia and the Pacific Policy Studies. Vol 4, no. 3, pp. 417 -436.

This negatively impacts those low- and middle- income earners (including those with broken work histories) who might need to continue in the workforce to increase or sustain their savings.

As Ingles and Stewart 2016 note:

> *"Australia's tax settings for superannuation and our age pension means test are likely to substantially distort savings behaviour, while the age pension means test also distorts work behaviour."*[29]

With workforce participation among pensioners sitting at only three per cent, it would appear there is a structural disincentive to work.

Australia is in a good position to do more to alter pension means testing arrangements to induce greater workforce participation because our pension spending is low and falling.

Australia is one of ten OECD countries projected to spend less on pensions as a proportion of GDP by 2050[30]. According to OECD estimates, the cost of the pension in Australia is expected to fall from 4 per cent of GDP in 2015-16 to only 3.7 per cent of GDP in 2060.

Estimates from Rice Warner, show an even better outcome but with a similar trajectory. According to Rice Warner, Age Pension expenditure as a proportion of GDP is only 2.7% and is projected to fall to only 2.5% by 2038[31] and to 2.1% by the end of the century[32].

This is in stark contrast to what was projected in the first intergenerational report in 2002, which erroneously projected the cost of the Age Pension would blow out to 4.6% of GDP by 2042.

However, this shouldn't be changed in isolation. Altering the means testing arrangements for all payment recipients could help to smooth out the interplay between payments and work and reward people for working more if the policy settings are correct.

Why people work in later life

There are a range of reasons people work in later life. Many people choose to continue to work because they enjoy the challenge of ongoing participation in work activities. National Seniors speaks regularly with people who work regardless of the monetary gain involved.

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[29] Ingles and Stewart 2016 *Op cit*.
[30] OECD 2019 *Op cit*. Table 8.5
[31] Rice Warner 2018. *The Age Pension in the 21st Century* Paper prepared by Michael Rice for the Financial Services Forum 2018
[32] Rice Warner 2019. *Reviewing retirement*. 23 August 2019.

However, the most critical motivation is the need for additional income. National Seniors hears regularly from pensioners who continue to work because it is necessary to supplement their pension income. This is supported by our surveys, which shows income as being the primary motivation for returning to work, far above any other.[33]

While ill-health is one of the key drivers for early exit from the workforce, evidence from National Seniors surveys suggests people with a chronic health condition are actually more likely to continue working beyond retirement age and may be doing so for financial reasons.

According to this research older people with a chronic health condition may have to continue to work to meet the extra costs of their illness[34].

There is evidence from several studies showing the positive correlation between increased indebtedness and labour force participation[35]. As one of these found, high levels of outstanding mortgage debt (as well as low levels of private pension wealth) is correlated with a higher likelihood of ongoing labour force participation[36].

Research has also found those who work while receiving the pension are three times more likely to be divorced[37].

The importance of income highlights the need to ensure pension settings do not discourage workforce participation.

[33] Orthia *et. al*. 2022 *Op cit*.
[34] Schofield *et al* 2015. *Op cit*.
[35] Belkar, R., Cockerell, L and Edwards, R. 2007. *Labour Force Participation and Household Debt*. Research Discussion Paper: Reserve Bank of Australia; Ong, R., Wood, G. A., & Cigdem, M. (2022). Housing wealth, mortgages and Australians' labour force participation in later life. *Urban Studies*, *59*(4), 810–833.
[36] Ong *et al* 2021 *Ibid*.
[37] Clarke, C. 2020. 'More pensioners are taking up part-time work to avoid the threat of pension poverty' in *ABC News*. 22 January 2020.

Policy options

The following section discusses the strengths and weaknesses of several policy options to stimulate workforce participation.

Economy wide policies

We begin by outlining policies that could be applied to the whole economy to support increased workforce participation. Economy wide policies include:

- Income test taper rate reduction
- Work Bonus increase and extension
- Earned Income Tax Credits (EITC)
- Deferred pension incentives
- Mature age wage subsidies
- Universal pension

Our preference is to reduce income test taper rates to 32.5c in the dollar and to treat this as tax withheld. This would effectively provide an exemption of income from the income test and would remove the need to report earnings to Centrelink thus incentivising work.

National Seniors believes this would provide the greatest incentive to work or work more and could be applied consistently to all government payments.

Sector specific policies

This is followed by discussion of the costs and benefits of two specific policy options targeted at boosting workforce participation in the care and agriculture sectors. Sector specific policies include:

- Targeted opt-in income test exemption for pensioners and veterans
- Mature Age Home Care Traineeships

National Seniors believes these targeted policies should be applied to ramp workforce participation in the care (and agriculture) sectors (in the absence of the economy wide policy approach recommended above).

The targeted exemption could be combined with more modest sector wide policies in a hybrid approach, e.g., with a reduction in the taper rate to 32.5c in the dollar, to stimulate more broader workforce engagement among government payment recipients.

Economy wide policies

Income test taper rate reduction

One policy option open to government is to alter income test taper rates attached to government payments.

Currently, government applies a range of taper rates to different payments.

The Age and Veterans Pension and Disability Pension income test taper rate of 50c in the dollar means the Age Pension reduces by 50c for every dollar earned (not counting income free area of $190 single and $336 couple and the Work Bonus for Age and Veterans Pension).

The amount a person loses when engaging in paid employment varies on JobSeeker.

Single and not a principal carer	50 cents for each dollar from employment income between $150 and $256	60 cents for each dollar over $256
Single and a principal carer	40 cents for each dollar over $150	
Couple where partner gets a pension payment	50 cents for each dollar from (half of combined) employment income between $150 and $256	60 cents for each dollar over $256
Couple where partner doesn't get a pension payment	50 cents for each dollar from employment income between $150 and $256	60 cents for each dollar over $256
Couple where partner works	60 cents for each dollar of income a partner earns over $1,196 per fortnight	

Table 2: JobSeeker income test taper rates, Nov 2022

Students and Apprentices on Youth Allowance have different income test taper rates.

Your situation	Amount your payment reduces by if you earn between $452-$542 per fortnight	Amount your payment reduces by if you earn more than $542 per fortnight
Single, no children, younger than 18, and live at your parent's home	50 cents for each dollar over $452	$45.00 plus 60 cents for each dollar over $542

Single, no children, 18 or older and live at your parent's home	50 cents for each dollar over $452	$45.00 plus 60 cents for each dollar over $542
Single or in a couple, no children, and need to live away from your parent's home	50 cents for each dollar over $452	$45.00 plus 60 cents for each dollar over $542
Member of a couple with children	50 cents for each dollar over $452	$45.00 plus 60 cents for each dollar over $542
Single with children	50 cents for each dollar over $452	$45.00 plus 60 cents for each dollar over $542

Table 3: Youth Allowance (student or apprentice) income test taper rates, Nov 2022

Government could reduce the taper rate to reduce the amount of payment lost when working to incentivize participation.

A 32.5% taper rate could also be applied consistently across <u>all</u> payments, encouraging workforce participation across the lifecycle.

As the assets test would remain, this would only be available to payment recipients who come under the income test, restricting the benefit to those with limited savings.

Reducing to a single rate of 32.5 cents in the dollar would reduce administrative complexity and be simpler for recipients to understand, increasingly the likelihood of employment.

In administering this change, government could choose one of two options:

a) view the 32.5c taper as tax withheld

Payment recipients would opt-in to receive a 32.5c taper rate as tax withheld.

This would mean the total payment was treated as taxable income.

Payment recipient would not have to report their earnings to Centrelink making it simpler and more likely to take up.

It would be more complicated for government to set up because it would require an opt-in process to screen for eligibility.

Because the Age Pension is taxable income, it is important the taper rate is high enough to act as tax withheld. This is needed to avoid circumstances where an individual earns high income and attracts a higher tax rate.

A taper rate of 32.5c in the dollar is commensurate with the 32.5% tax rate (between $45,001 – $120,000) ensuring participants with higher incomes do not end up with a tax bill at the end of the year (if the taper rate is set too low).

Employers will not be required to withhold additional tax, reducing administrative burden.

National Seniors commissioned Deloitte to model changing the taper rate to 32.5c as tax withheld for Age Pension recipients to assess the costs and benefits to government.

According to the modelling from Deloitte our policy is “estimated to be [cost] neutral if 8.3% of pensioners take up the opportunity to go back to work (174,000) or work more (5,000).” This only accounts for increased government income from income tax receipts, no other tax benefits e.g., GST, payroll tax, superannuation etc. were included in the estimate.

Table 4 outlines the estimated costs and benefits by take up rate and full details of the Deloitte modelling is provided in Appendix 1.

Note: Further cost efficiencies could be achieved by removing access to the Seniors and Pensioners Tax Offset (SAPTO) for pensioners who opt in to receive a 32.5c taper rate as tax withheld. This change is not factored into the Deloitte cost estimate.

Take up rate of pensioners going back to work and working pensioners moving up an income band	Cost to the government ($ million)	Number of additional working Age Pensioners
0% take up rate	622.2	0
2% take up rate	472.6	41,697
5% take up rate	248.0	104,280
10% take up rate	-126.4	208,571

Table 4: Cost / benefit to government by take up rate of Age pension recipients going back to work or increasing hours of work – assumes 10% of people of pensionable age (who are currently working) opt in and receive a pension.

b) view the 32.5c as a payment reduction

Payment recipients would continue to report their income to Centrelink and simply receive a higher payment due to a less sever taper rate.

This would mean only the amount received would be treated as taxable income, reducing the amount of tax able to be collected.

It would be simpler for government to implement the change than to create an opt-in scheme with eligibility rules.

It would not reduce any of the complexity associated with ongoing reporting to Centrelink, which is a negative in the eyes of payment recipients.

While it is important means testing is adequate to reduce the cost of our welfare system to the taxpayer, a simpler, fairer system could be used to smooth the transition to work for those with limited attachment.

Our preference is to trial option a) for two years to assess the costs and benefits while there are critical workforce shortages.

Work Bonus increase and extension

Increasing the Work Bonus for pensioners and extending the Work Bonus to other payment recipients is one option open to government.

In 2019, the Work Bonus was increased from $6,000 to $7,800 and pensioners who were self-employed were included in the scheme. This increase was very small and was the equivalent of $35 per week – only about 1 hour of work.

It was no surprise the change did not result in any increase in participation in the following years. If anything, workforce participation among pensioners has continued to decline.

This has only recently been temporarily increased by $4,000 until December 2023. It means a pensioner or veteran of pension age can now earn up to $11,800 per annum without affecting their pension (which equates to $453.84 per fortnight, averaged over a year).

If someone in this situation was working in a job earning $30 per hour, they would be able to work 7.5 hours per week without affecting their pension.

However, it is important to note this does not include any additional affect from the income free area of $190 per fortnight or $4,940 per annum, which is applied to any income, including deemed income from savings.

If a single pensioner had no savings, they could earn up to $16,740. This would equate to $643.85 per fortnight.

If a single pensioner were working in a job earning $30 per hour, they would therefore be able to work 10 hours a week before their pension is affected.

Lifting the Work Bonus further could stimulate further participation as it would allow them to retain more pension, by providing a greater incentive to work more, remain in or rejoin the workforce.

As this is the system already in place, it would be administratively simple to increase the limit further.

It could also be relatively easy to extend the Work Bonus to other payments, e.g., Disability Support Pension, JobSeeker, Youth Allowance and Carers Payment. This, we believe, would be beneficial in supporting income and wealth generation throughout the life-cycle and so would have broader benefits.

However, because this does not remove the need for fortnightly reporting and would still only be a partial exemption, it would not simplify the system and would therefore not be as attractive as policy options that remove these barriers.

While National Seniors has supported the temporary $4,000 increase to the Work Bonus, we don't believe this goes far enough and would like the government to explore other stronger policy options, especially those that extend to payment recipients beyond pensioners and veterans.

This is supported by a recent paper from the South Australian Centre for Economic Studies (SACES), which argued while the time-limited increase to the Work Bonus threshold is welcomed, "there is a need for a broader examination of the possible public policy and other constraints on workforce participation by those 65 years and older."[38]

Earned Income Tax Credit (EITC)

Another policy option to induce Australians to stay in the workforce longer is the use of Earned Income Tax Credits (EITC).

An EITC provides an end-of-year tax break to increase overall income. Similar to the Seniors and Pensioner Tax Offset, an EITC phases in and out to ensure the financial benefit is distributed evenly to avoid disincentives or windfall gains.

A Mature Age Worker Tax Offset (MAWTO), operated in Australia between 1 July 2005 and 1 July 2014 offering a non-refundable tax credit of up to $500 per year.

[38] Gobbett, D., O'Neil, M. and Gill, P. 2022. *65 Years and Over Industry Sector*. The South Australian Centre for Economic Studies: University of Adelaide

However, a recent assessment of the scheme showed there was limited increase in workforce participation during its operation. According to Carter and Breunig 2018, labour market participation increased by around 0.5 percentage points at a cost of $4.3 billion over 10 years.[39]

They claim MAWTO recipients would likely have remained in the workforce irrespective of receiving the offset, pointing to a lack of behavioral change.

Evidence from the analysis, also suggests EITC recipients were often unaware of the program, or didn't take it into consideration when making marginal earnings decisions.

They concluded that targeted tax credits for older workers, such as MAWTO, could be an expensive and relatively ineffective way to increase participation.

However, there were questions as to whether the $500 offset may not have been large enough, relative to other stage-of-life factors (e.g., health status of individuals and the desire for more leisure time) to be effective as an inducement.

It is also important to note another scheme, the Pension Bonus Scheme, was also operating during this time. The Pension Bonus Scheme provided a once only, tax-free lump sum payment which was payable to a person who, on reaching pension age, voluntarily deferred retirement for at least one year. The presence of two, likely poorly promoted schemes to promote workforce retention, may have distorted scheme outcomes.

Deferred pension incentives

Another policy to encourage and prolong workforce participation among older people is the use of incentives tied to the Age Pension.

The Pension Bonus Scheme, operating from 1998, provided a once off tax-free lump sum payment when a person actively deferred retirement and receipt of the Age Pension.

Participants were required to register for the scheme and had to meet a work test of at least 960 hours during a 12-month period to receive the bonus at the end of the year.

Scheme participants could defer receiving the Age Pension for up to 5 years and received the payments as per Table 5, below.

[39] Carter, A. and Breunig, R.2018. *Do earned income tax credits for older workers* Crawford School of Public Policy: Australian National University, September 2018

A pension review in 2009 concluded the following about the Pension Bonus Scheme[40]:

> *Finding 18: The Review finds that the Pension Bonus Scheme is not a particularly effective means of increasing workforce participation by older Australians and that this goal would be better pursued through the design of the pension means test to ensure that there are appropriate incentives for employment. (Section 5.3.5)*

The review concluded it was “overly complex, inefficient and inflexible” and “alternative mechanisms should be developed”.

How many bonus periods you have	Maximum bonus you'll get if you're single	Maximum bonus you'll each get if you're partnered
1 year	$2,353.60	$1,778.70
2 years	$9,414.30	$7,115.00
3 years	$21,182.10	$16,008.70
4 years	$37,657.20	$28,459.90
5 years	$58,839.30	$44,468.60

Table 5: Pension Bonus Scheme payment amounts[41]

One of the problems of the scheme was it created a binary “either-or” choice for those approaching retirement where they had to be either working or retired which may not be suitable in promoting a smoother retirement transition.

It was also believed the scheme was largely benefitting those who would have stayed in employment regardless, giving them a “windfall gain” as opposed to encouraging those who would have exited to remain.

The Pension Bonus Scheme was replaced by the Work Bonus in 2009 but continued to accept applicants up until 2014.

Other countries have similar schemes to pay a pension recipient a higher pension payment if they delay receiving their pension.

[40] Harmer, J. *Pension Review Report* Department of Families, Housing, Community Services and Indigenous Affairs 27 February 2009

[41] Australian Government Services Australia 2022. ‘How much you can get’ Accessed online 20 Nov 2022

In Canada, there is the capacity to delay receiving the Old Age Security pension up to the age of 70.

The longer someone delays the higher their payment will be - pension payable increases by 0.6% for each month the pension is deferred.

This means those who continue in the workforce can be eventually rewarded with a higher payment.

This alternative could be explored to assess whether it is more suitable in promoting workforce participation in later life.

Mature-age wage subsidies

The use of wage subsidies to encourage employers to hire people who might otherwise find it difficult to attain employment is another policy option.

Australia currently offers a mature-age wage subsidy through the *Restart* program.

It offers $10,000 to employers who hire workers over the age of 50 who have been unemployed for more than 6 months.

However, there are questions about the effectiveness of these types of incentives.

For example, one report found only 26,600 employers entered 44,647 agreements under the Restart Wage Subsidy program since 2014[42].

A later report labelled the program an "utter failure" finding only half of the $520m budget allocation had been spent. Worse still were the outcomes for participants. According to this report, less than half of those supported to find a job continued to be employed after 6 months.[43]

Wage subsidies for mature age workers may be less than optimal as a tool to promote workforce participation. Recent research into the effectiveness of wage subsidies for older workers has found these are often ineffective having little effect on behavior at high cost.[44]

Given the Restart wage subsidy is paid to employers and not employees, it is unlikely this will be effective in inducing older people to work. It would be more effective if targeted at

[42] Anna Patty 2020. 'Jobs must be redesigned to suit older workers' in *The Sydney Morning Herald.* 5 January 2020.
[43] Karp, P. 2020. "'An utter failure': Coalition blasted over scheme for older job seekers with just half of pledged amount spent." *The Guardian* 14 Oct 2020
[44] Boockmann, B. 2015. "The effects of wage subsidies for older workers." *IZA World of Labor* 2015: 189

high demand sectors that need subsidies to offset the costs of training new staff. For example, it would be effective if it provided as a subsidy for businesses in high demand sectors, such as home care, requiring suitable mature age candidates (see below).

Universal Pension

Older Australians are frustrated with the complexity of pension rules, which makes retirement planning difficult, encourages perverse behaviour and resentment towards government. Means testing also duplicates administration and bureaucracy within Centrelink that could be more efficiently dealt with through the ATO.

Evidence from other countries suggests a universal pension may increase workforce participation as well as having other positive impacts.

For example, workforce participation in New Zealand is among the highest in the OECD. It has increased overall since 2000, largely because of rising participation rates among people aged 55 years or above (for both men and women).

This has been attributed to the rising pension qualification age from 60 to 65, but also the banning of compulsory retirement in 1999, better health among older people, technological change in manual labour jobs and increasing longevity[45].

However, when comparing Australia to New Zealand it is clear another factor which could explain high participation rates in New Zealand, is the differences inherent in a universal (NZ) vs means tested (Aust.) pension.

While not ruling out other factors, such as the lower levels of savings (outside the family), Ingles and Stewart (2016) view the “striking” differences in older age workforce participation between Australia and New Zealand, as “likely” to be influenced by the “universal” nature of the pension in New Zealand.

[45] Reserve Bank of New Zealand 2018. Bulletin. Vol 81, No. 2 April 2018.

New Zealand	Australia
• New Zealand has a basic pension system • Eligibility age is 65. • Everyone receives a pension if they meet the residency requirement of 10 years. • The pension (NZ Super) provides a maximum payment of $27,988.48 NZL per year (before tax) which equates to $24,201.46 NZL per year (after tax) for a single person living alone[46]. • New Zealand has an opt out/voluntary contributory scheme called KiwiSaver, where individual employees nominate to contribute either 3%, 4%, 6%, 8% or 10% into a private savings account locked until the age of 65. *Cost recovery* • Because there is no means test, the cost of delivering the pension is recouped solely through taxation. • NZ Super is taxable – If NZ Super is primary income it is taxed at 10.5% up to $14,000 and 17.5% between $14,000 and $48,000; If NZ Super is secondary income it is taxed at 17.5% if total income is less than $48,000, 30% when total income is between $48,001 and $70,000 and 33% if more than $70,000.[47] • There are no specific seniors tax concession applied. • A single person living alone would receive $24,072.83NZL per year net income and pay tax of $3,915.60.	• Australia has a targeted pension system. • Eligibility age is 66.5 moving to 67 by 2023. • Everyone is eligible if they meet the residence requirement of 10 years. • The pension provides a maximum payment for a single person of $24,356.80 AUS per year which is taxable when combined with other income sources[48]. • A pension and energy supplement worth a combined $2,332.20 AUD per year is also provided. • Australia has compulsory super of 10.5% (moving up to 12% by 1 July 2025) which is accessible from preservation age of 60. *Cost Recovery* • Means testing reduces the pension based on income and assets. • For a single person, the fortnightly pension is withdrawn at a rate of 50c in the dollar when income is greater than $4,940AUS and by $3.00 per $1,000 of assets above $280,000AUS for a homeowner. • In Australia, the $18,200AUS tax-free threshold, combined with the low-income tax offset of $445AUS and the senior Australian and pensioner tax offset (SAPTO) of $2,230AUS can mean a retiree pays limited tax.

Table 1: Main features of the New Zealand and Australian pension schemes

[46] Money Hub 2022. 'New Zealand Superannuation Rates 2022 and 2023'. Accessed online 14 Nov 2022
[47] NZ Government 2020. 'Tax rates for individuals'. Accessed online 14 Nov 2022.
[48] Australian Government Services Australia 2020. 'How much can you get'. Accessed online 14 Nov 2022.

There are multiple benefits of a universal pension:

- Simplifies the system by eliminating complicated means testing rules.
- Removes the need for regular reporting of investments and income to Centrelink.
- Reduces administrative costs associated with Centrelink.
- Rewards people for working and saving more for retirement.
- Removes the incentive to overinvest in housing and takes away the disincentive to downsize.
- Provides retirees with a year-to-year safety net as protection against market fluctuations – this would result in greater confidence to spend in times of market contractions.
- Provides an opportunity to reform tax system, e.g., overly generous tax concessions

National Seniors recognizes moving to a universal pension would be viewed by Treasury as a “radical” move, with potential budgetary costs, and have suggested this as a longer-term project. We would like the Federal Government to commission a suitable body, such as the Productivity Commission, to undertake detailed analysis and costings of the tax reform options required to ensure costs are adequately balanced.

This could include changes to tax settings such as the curbing of tax concessions or introduction of a pension recovery tax (as is used in Canada).

Sector specific policies

Targeted opt-in income test exemption for pensioners and veterans

While National Seniors’ preference is for an economy-wide 32.5c income test taper rate as tax withheld to encourage greater workforce participation, we believe this could be initially targeted at workers in select sectors facing critical workforce shortages.

Two sectors with high proportions of older workers, Health Care and Social Assistance Sector (aged, disability, health and child care) and agriculture, are facing severe workforce shortages.

There are dire projections about work shortages in the care sector[49]. Similarly, agriculture is facing significant workforce shortages which could impact on food availability and price[50] and export earnings.

Australia is facing a severe shortage and high demand for care workers as seen in Figure 6, 7 and 8 below.

The National Skills Commission has projected that the Health Care and Social Assistance sector will grow by 301,000 jobs by November 2026. [51]

It also projects jobs in the community and personal services occupation group will grow by 13.5%, second only to professionals, with aged care, disabled carers and registered nurses as occupations with the largest increases in employment.

There is also growing demand for disability workers as the number of NDIS participants continues to grow.[52]

Demand for child care services, which are critical to workforce participation, will also likely grow significantly over time.

While some of these jobs will be filled by migrant workers, the flow of labour post-COVID is slow to return and migrants may be unwilling or suitable to work in this sector.

Compounding this, Australia is facing an ageing population with low fertility and replacement rates combined with a “baby boomer” population bulge as more Australians live longer (on average).

Future projections expect a population with a higher proportion of dependent older people compared to younger workers.[53]

Furthermore, research shows the number of years a person can expect to live in good health is not keeping pace with increased life expectancy, with brain diseases such as dementia a major factor[54].

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[49] Australian Government National Skills Commission 2022. *Care Workforce Labour Market Study* 30 September 2022; CEDA 2022. *Duty of care: Aged care sector in crisis*. 28 June 2022

[50] National Farmers Federation 2022. *Unprecedented labour crisis across Australia’s food supply chain* 22 August 2022.

[51] Australian Government National Skills Commission 2022 Projecting employment to 2026 29 March 2022.

[52] Australian Government National Skills Commission 2022. *Care Workforce Labour Market Study* 30 September 2022

[53] Australian Government The Treasury. 2021 *Intergenerational Report: Australia over the next 40 years*. June 2021

[54] Douglass, H. 2020. ‘Healthy life expectancy across Australia on the rise as latest global disease estimates revealed’ 19 October 2020

If this trend continues there will be ever greater demand for care workers to support older Australians.

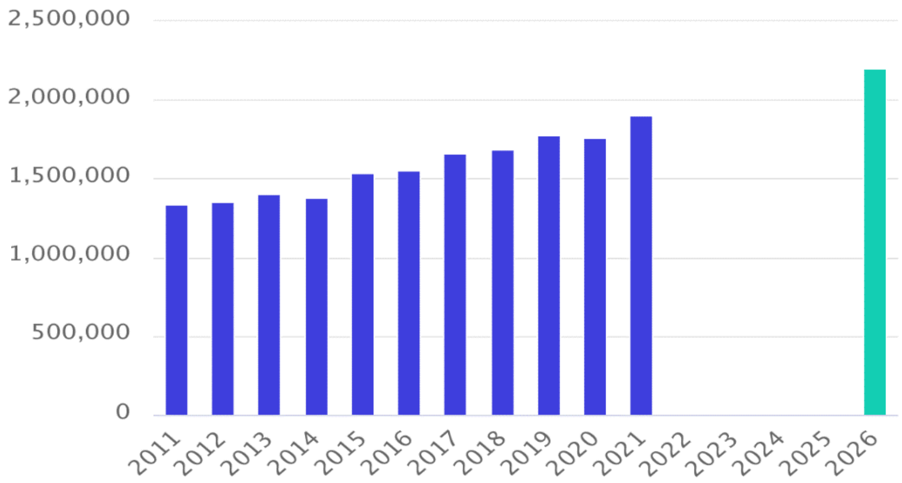

Figure x: Employment levels, past and projected, Health Care and Social Assistance[55]

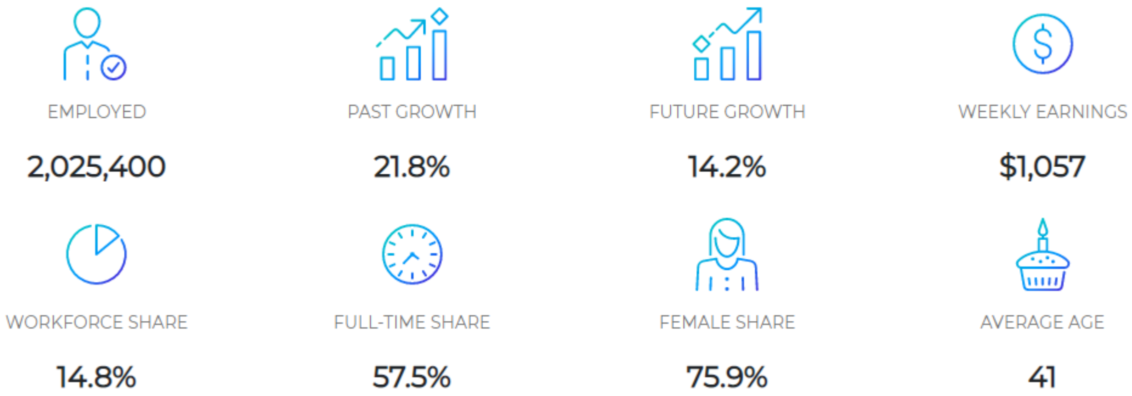

Figure 7: Snapshot of Health Care and Social Assistance Sector[56]

[55] Australian Government 2022. 'Health Care and Social Assistance' Accessed 1 Nov 2022
[56] Australian Government 2022. 'Health Care and Social Assistance' Accessed 1 Nov 2022

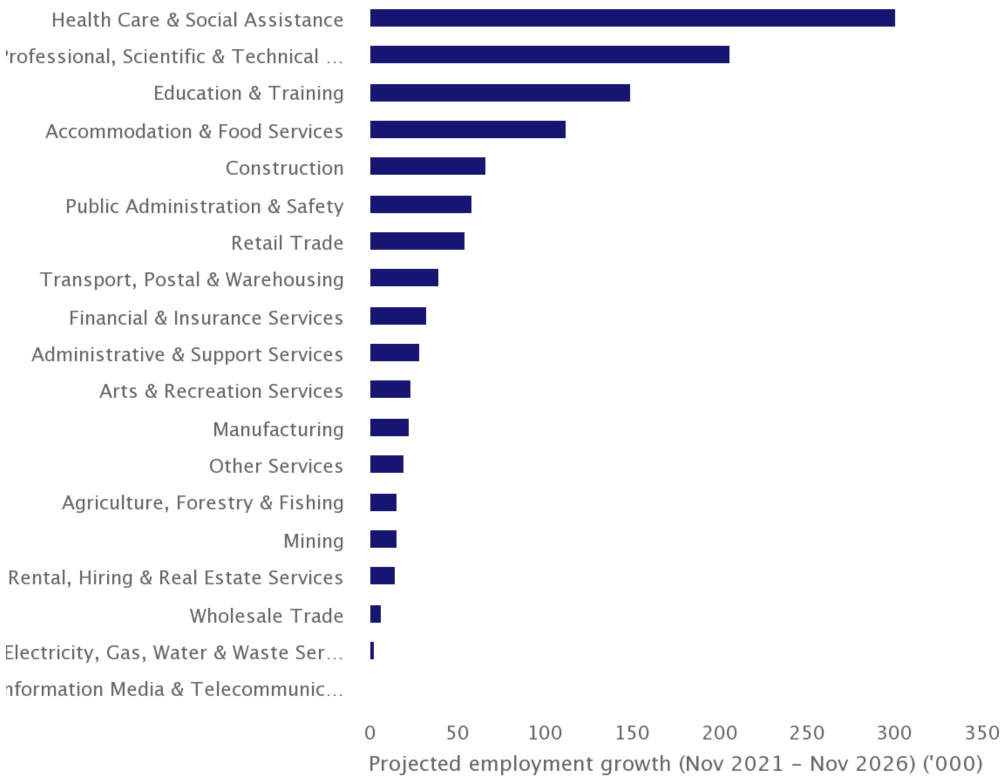

Figure 8: Projected employment growth by industry, November 2021 – November 2026[57]

As table 5 below shows, both the Health Care and Social Assistance and Agriculture sectors have strong demand for older workers.

Older workers are strongly represented in both sectors collectively making up 23.2 per cent of all full time and part-time workers aged 65 and over in 2021/22.

The number of people aged 65+ employed in the Health Care and Social Assistance sector has more than doubled in the ten-year period between 2011/12 and 2021/22 from 39,200 to 86,000 (full and part-time combined).

Prior to the pandemic, the largest increase in full and part time employment among 65+ aged group was in the Health Care and Social Assistance sector.

[57] Australian Government National Skills Commission 2022. 'Employment Projections' Accessed online 14 November 2022

While projected employment growth in the agriculture sector among 65 is low compared to other sectors, it is clearly attractive to older workers and could be more attractive to older workers, such as grey nomads, who could engage in itinerant harvesting work.

		2011/12		2018/19		2021/22	
		Employed Persons ('000)	As share of 65 years and over total employment (%)	Employed Persons ('000)	As share of 65 years and over total employment (%)	Employed Persons ('000)	As share of 65 years and over total employment (%)
Agriculture, Forestry and Fishing	Full-time	28.1	16.8	32.9	12.7	33.6	11.6
	Part-time	21.8	11.4	32.7	10.4	30.1	8.5
Health Care and Social Assistance	Full-time	14.8	8.8	28.0	10.8	33.6	11.6
	Part-time	24.4	12.8	49.2	15.7	52.4	14.8
Professional, Scientific and Technical Services	Full-time	13.2	7.9	21.7	8.4	24.8	8.5
	Part-time	16.9	8.9	32.0	10.2	40.3	11.4

***Table 5:** **Employed Persons Aged 65 Years and Over by Full-time and Part-time Status and Industry Sector Source: ABS Labour Force**[58]*

To encourage and reward ongoing participation in these critical sectors, National Seniors believes an opt-in exemption from the Age Pension income test should be trialed.

There are good reasons to hopeful that older Australians could help to fill vacancies if incentives were adequate. Evidence from the agricultural sector showed that during the pandemic, when labour from migration reduced dramatically, there was an increase in workers aged 65+ demonstrating the ability of older age cohort to respond quickly to job opportunities.[59]

[58] Gobbett, D., O'Neil, M. and Gill, P. 2022. 65 Years and Over Industry Sector. The South Australian Centre for Economic Studies: University of Adelaide

[59] Gobbett, D., O'Neil, M. and Gill, P. 2022. 65 Years and Over Industry Sector. The South Australian Centre for Economic Studies: University of Adelaide

This will send a clear message to promote retention of older workers, who might otherwise exit the workforce.

Pensioners employed in these sectors could opt in and receive an exemption from the income test for income from personal exertion.

Income from personal exertion would not be subject to the income test so they can work as much as they want without losing 50c in the dollar from their pension.

Other income (e.g., income from assets, either real or deemed) would continue to be subject to the income test for the purpose of pension eligibility and entitlement.

Participants would not be required to report earnings to Centrelink, significantly reducing administrative costs and the bureaucratic burden on working pensioners.

Centrelink would withhold tax from pension payments (at the 32.5c tax rate) to avoid any compliance burden on employers and avoid unexpected end-of-year tax bills for participants (a single pensioner would receive $666.30 per fortnight, which is 67.5% of the full pension rate.)

They would have their tax return adjusted to account for the LITO and SAPTO at the end of the financial year based on their net income (full pension and work income).

Pensioners who do not opt-in continue under the current income test taper rate and the Work Bonus limits and declare earnings as usual. If they get to a point where they are better off under an exemption, Centrelink could send a notice asking if they wanted to opt-in to the scheme.

Participants would be able to opt-out if circumstances changed and the exemption was no longer in their interest (e.g., they retired, quit, or lost their job unexpectedly).

Unlike incremental changes to the Work Bonus, a full exemption (the choice to work and pay tax) will be easier to communicate. This will result in a rapid and sustained take-up to meet the critical jobs and skills shortage.

Removing Centrelink reporting (which we are regularly told is a key reason pensioners choose not to work) could increase the likelihood they will work and work more.

By applying the rebate as a temporary two-year trial, government can assess the impacts and remove or adjust the rebate if conditions change, or results are sub-optimal.

National Seniors commissioned Deloitte to assess the costs and benefits for government if this change were applied to the Health Care and Social Assistance sector (which makes up roughly one-eighth of the total workforce).

Applying a rate of 32.5c in the dollar as tax withheld and targeted at the Health Care and Social Assistance sector only "**is estimated to be [cost] neutral if 8.3% of pensioners take up the opportunity to go back to work (21,000) or work more (600).**"

Take up rate of pensioners going back to work and working pensioners moving up an income band	Cost to the government ($ million)	Number of additional working Age Pensioners
0% take up rate	74.7	0
2% take up rate	56.7	5,004
5% take up rate	29.8	12,514
10% take up rate	-15.2	25,029

Table 4: Cost / benefit to government by take up rate of pensioners in Health and Social Assistance workforce only going back to work or modestly increasing their hours of work - assumes 10% of people of pensionable age (who are currently working) opt in and receive a pension.

Mature Age Home Care Traineeships

Targeted traineeship schemes are needed to encourage the retraining of older workers in areas with high demand.

National Seniors supports the introduction of a national Mature Age Home Care Traineeship Scheme to encourage greater participation of mature workers in the care sector.

This would be based on the successful pilot operating in South Australia which has identified and trained 23 home care workers over two years via a single home care provider called *My Care Solutions*.

The pilot used funds from the state government and traineeship subsidies to attract and train workers aged 50 and over to embark on a new career as an in-home carer.

The cost of the South Australian pilot was $10,000 per trainee for training, uniforms, police clearances, tech support and non-accredited training i.e., orientation.

This could be met by redirecting funds from the existing Restart program (see above).

The program also benefitted from funds available through the Boosting Apprenticeship Commencements (BAC) scheme. This offered a subsidy of 50% of the wages for apprentices or trainees employed from 5 October 2020 to 30 June 2022, up to a maximum of $7,000 per quarter.

The SA pilot has been successful because it targets mature workers with the appropriate empathy and commitment to work with older Australians.

According to CEO Mark McBriarty:

> "At My Care Solution, more than 85 per cent of our workforce is aged 45 or older. They are committed, reliable, eager to learn, and most importantly, they are compatible with our elderly clients."

The scheme should be rolled out nationally and could be extended to include disability carers.

This is supported by a recent Western Australian study focusing on developing sustainable career pathways for aged care workers, which claimed:

> "Federal and State governments could be more pro-active in supporting job seekers to enter the industry, and that more workplaces could enter into partnerships with training and education institutions as part of this process"[60]

They also argued people who have had experience providing informal caring for loved ones could be a useful pool from which to attract new workers.

With home care providers reporting they are not taking on new clients as a result of labour force shortages, it is critical a targeted traineeship scheme be made available as soon as possible.

[60] Burgess, J., Connell, J., Nankervis, A., Dhakal, S. and Fitzgerald, S. 2018. Developing sustainable career pathways for aged care workers BCEC Research Report No. 13/18, April 2018

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