Inquiry into the Social Services and Other Legislation Amendment (Workforce Incentive) Bill 2022 [Provisions]

13 October 2022

National Seniors
AUSTRALIA

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Executive Summary

National Seniors Australia welcomes the opportunity to make a submission to the Inquiry into Social Services and Other Legislation Amendment (Workforce Incentive) Bill 2022 [Provisions].

Australia is facing an unprecedented workforce shortage, brought on by a variety of factors including the Covid-19 pandemic. There are almost half a million job vacancies at the time of writing and those vacancies are growing in the Health Care and Social Assistance sector.

Many in the community feel the impacts of these shortages which affect day-today business operations, resulting in higher costs and long delays in obtaining goods and services.

For those reliant on workers to deliver essential services, such as health care, aged care, disability care, and childcare workforce shortages are more critical, and potentially life threatening.

Encouraging older Australians to remain in employment, work more hours, or re-enter the workforce is good public policy that will not just improve the economy, but improve lives.

National Seniors Australia has received overwhelming support for changing pension rules to encourage older Australians to fill labour force shortages.

This can only be achieved by removing the disincentives in the current income test.

In this regard, National Seniors Australia welcomes the proposal to temporarily increase the Work Bonus limit by $4,000.

The proposed change is positive because it increases the amount a pensioner can earn before their pension is reduced. It is also positive because it is provided up front, enabling pensioners to earn intensively over a short period. This will be beneficial for businesses requiring surge workforces, such as those needed in the busy pre and post-Christmas period and to supply harvesting jobs in rural areas.

However, the policy is suboptimal in other regards because it perpetuates deficiencies in the existing pension rules.

The first is the size of the income exemption. Feedback received from businesses and pensioners is the $4,000 limit will be too small to make a material difference to workforce availability. This is particularly the case for those engaged in or wanting to work consistent hours.

The second is it does not remove the complexity of the current system. Income limits and reporting rules are difficult to comprehend. Retirees are naturally risk averse when it comes to their pension and are rightly concerned about employment income affecting their pension entitlement. Pensioners also find the constant reporting to Centrelink onerous and disheartening. This means many pensioners will remain discouraged from participating in the workforce or will choose to work for cash to avoid negative financial impacts.

The third issue is the policy does not give adequate time to promote the scheme, which could undermine the response, leading to limited uptake. To be effective, government will need to ensure this change is clearly communicated to pensioners and businesses. Even with this, we are concerned the ongoing complexity will discourage most from working.

Further to this is the issue of surety. Businesses facing critical labour shortages will be unable to ramp up services because the timeframe, starting in December 2022 and finishing in June 2023 is extremely limited. This is especially true for the provision of care services (e.g. home care) where providers are closing their books to new clients due to shortages of staff. We also have disability and residential aged care providers critically short of staff.

While National Seniors Australia supports any actions to increase workforce participation to meet critical labour force shortages, our preference is to enact more fundamental changes to ensure mobilisation is successful and ongoing.

Given the significant workforce shortages (job vacancies reached 470,900 in August 2022), our preference is for a 2-year trial of an economy wide opt in exemption from the income test for pensioners. This is the simplest solution and would send pensioners and their employers a clearer message, leading to higher mobilisation.

To support our proposal, National Seniors Australia commissioned respected accountancy firm Deloitte to conduct detailed cost benefit modelling. The modelling revealed 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)."***

Failing this, we believe the $4,000 limit should be increased to $6,000 biannually and be available over a two-year trial. As part of this trial, pensioners employed within the Health Care and Social Assistance sector should be offered an opt-in income test exemption from the income test. With job vacancies in this sector increasing to 74,300 in August 2022, this will provide the sector with workers and prove an exemption is cost effective.

According to Deloitte's modelling, an opt in exemption targeted at the Health Care and Social Assistance sector ***"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)"***.

Importantly, this change could be revenue positive if enough older workers were induced to work more in the sector beyond pension age. Further details to support this are provided throughout this submission.

We urge the committee to note the conclusion in the report provided by Deloitte:

> ***"While there are fiscal risks for the government in implementing the NSA proposal, these risks over a potential two-year trial are modest and the potential increase in employment would be material.***
>
> ***The results for the whole economy show that with 10% of Age Pensioners taking up or increasing their work, the economy would benefit from an additional 209,000 workers and the government would, in fact, receive a small boost to fiscal aggregates. A benefit to the economy at no cost to the government.***
>
> ***If the initiative is confined to the Health Care and Social Assistance sector, there would still be a boost to the workforce of 25,000 at no cost to the government. "***

National Seniors Australia's own research has found 20% of pensioners are considering returning to paid work from retirement, with the primary reason for returning being monetary.[1]

Given all the above and the dire workforce shortages, the question for government and this committee, is what is the cost to the economy **not** implementing our proposed policy?

Further details to support these assertions are provided throughout this submission.

[1] https://nationalseniors.com.au/research/social-connectedness-communities/older-australians-perspectives-on-working-after-retirement

Rationale for a stronger response

The following section details the limitations of the policy, and the ways government could strengthen it, which include:

- creating an opt-in exemption scheme to allow pensioners to work as much as they need without impacting their pension entitlement

or

- extending the workforce incentive to a two-year trial
- increasing the extra Work Bonus limit to $6,000 bi-annually instead of one off $4,000
- including an opt-in exemption from the income test for pensioners working in the Health Care and Social Assistance sector.

Timeframe undermines mobilisation of pensioners in ongoing employment

- The timeframe for the extension of the Work Bonus is too short to be effective in the mobilisation of older workers.
- Those engaged in ongoing employment will be disappointed the additional Work Bonus limit ends on 30 June 2023.
- This could be especially problematic in sectors requiring continuity of service delivery.
- For example, National Seniors Australia is aware of complaints from care providers struggling to find workers to meet client needs.
- These businesses, which employ a high proportion of older mainly female workers, won’t be able to take on additional clients because they cannot guarantee their workers who are pensioners will be available to fill shifts after the scheme ends on 30 June 2023.
- With some care providers already closing their books to new clients, there is a need to give longer surety by extending the scheme’s operation into a longer-term trial
- As a minimum, the Work Bonus extension should be available for at least two years to give surety and assess impact.

Mobilisation will not occur unless pensioners know about the change

- Mobilisation will depend heavily on whether pensioners know about the new policy and its benefits.
- Pensioners who currently work, will likely be aware of the policy change and would be most likely to respond by working more hours.
- More effort will be required to communicate the policy to pensioners who are not currently working to affect mobilisation.
- This will be especially important in mobilising pensioners to work in high-demand periods, such as pre-Christmas.
- To increase take up it would be useful to communicate the policy:
    - directly to pensioners via Centrelink
    - to businesses
    - to pensioners via social media and mainstream media channels
    - to pensioners via stakeholder organisations.

Work Bonus increase is too small for pensioners in ongoing employment

- While the $4,000 increase to the Work Bonus could be attractive to pensioners engaging in short periods of intensive work, for example taking up a stint of work over the pre and post-Christmas period or in harvesting jobs, it may be less effective in mobilising pensioners to work more because the additional amount offered is relatively small when averaged out over the timeframe of the policy.
- Over the 7-month period under which the $4,000 will be available, a pensioner would be able to earn only around an additional $135 per week without affecting their pension. This equates to only 4.5 hours per week at $30 an hour. Not even a full day's work.
- If the $4,000 were available over a longer timeframe, as we recommend, a pensioner would be able to consistently earn around an additional $77 per week (averaged over 12 months) without affecting their pension.
- National Seniors Australia has consistently maintained the most important effect of changing income test rules is the impact on behaviour when a person reaches pension age.

- People will be more inclined to stay in the workforce longer or extend their transition to retirement if there is a financial incentive. But it needs to be simple to understand and not involve onerous Centrelink reporting.
- In this regard, it is critical the policy provides an adequate level income test exemption over the course of the year.
- Employers will be able to communicate these benefits to employees when they approach pension age to maintain ongoing workforce attachment.

Labour force shortages in the Health Care and Social Assistance sector are severe and require special attention

- A targeted full exemption of employment income from the income test is vital to deal with the growing labour force crisis in Health Care and Social Assistance sector.
- Job vacancies in the Health Care and Social Assistance sector continue to rise rapidly. In August 2022, the number vacancies increased to 74,300[2].

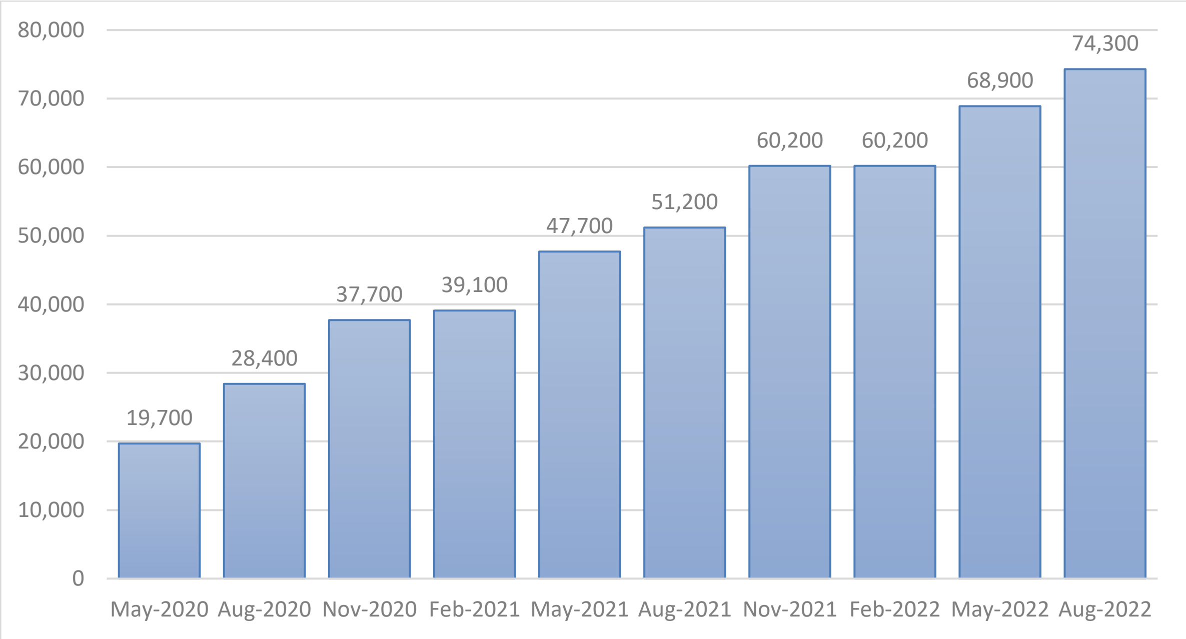
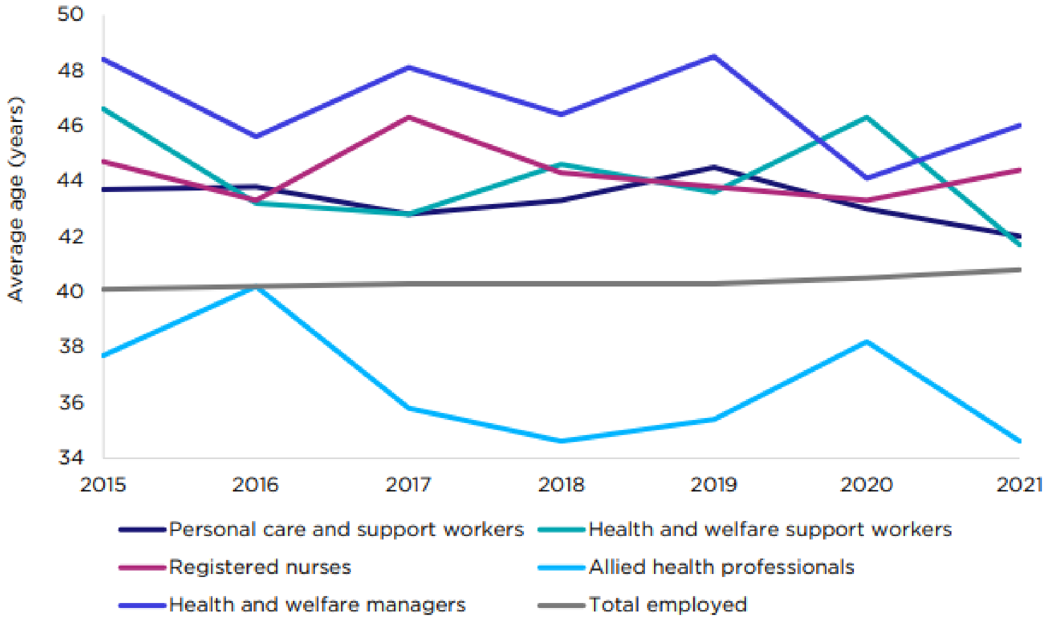


Figure 1: Job Vacancies, Health Care and Social Assistance sector, Australia, May 2020 – Aug 2022[3]

- The Health Care and Social Assistance sector has an older workforce (predominantly female) who would benefit from an exemption as this encourages more to stay in the workforce for longer.

[2] https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/latest-release
[3] https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/latest-release#key-statistics

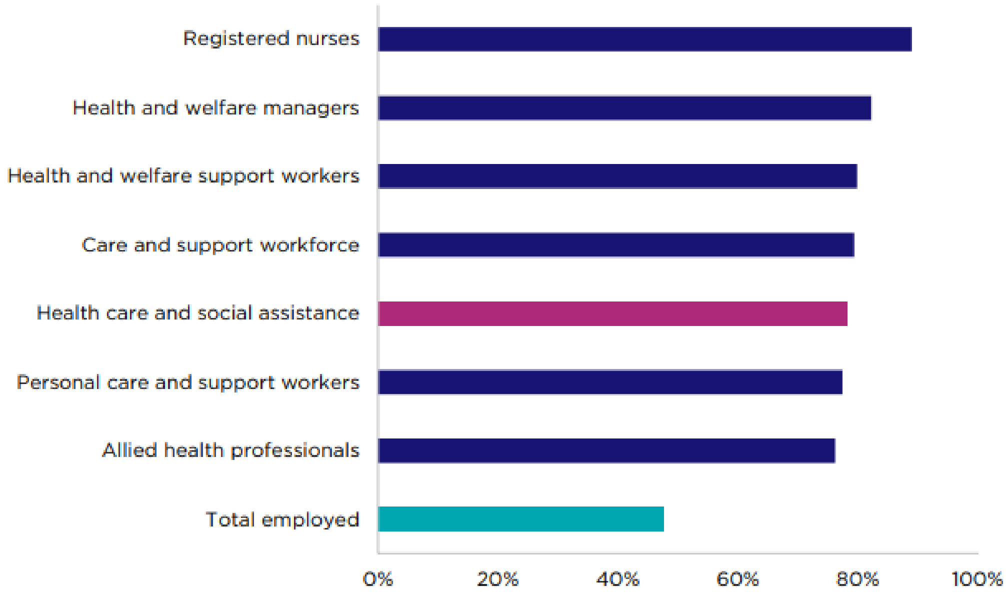
- According to the National Skills Commission around 102,000 care and support workers were aged 55 years and older as of February 2021, with many likely to retire over the next decade.
- A significantly higher proportion of care workers are women. Most have lower levels of savings and superannuation due to the low paid nature of this work and other factors such as time out of the workforce due to unpaid caring.



Source: ABS Participation, Job Search and Mobility, 2015 to 2021 in TableBuilder.

Figure 2: Average age of the care and support workforce, by occupation group, in-scope industries, February 2015 to February 2021[4]

[4] https://www.nationalskillscommission.gov.au/sites/default/files/2022-10/Care%20Workforce%20Labour%20Market%20Study.pdf

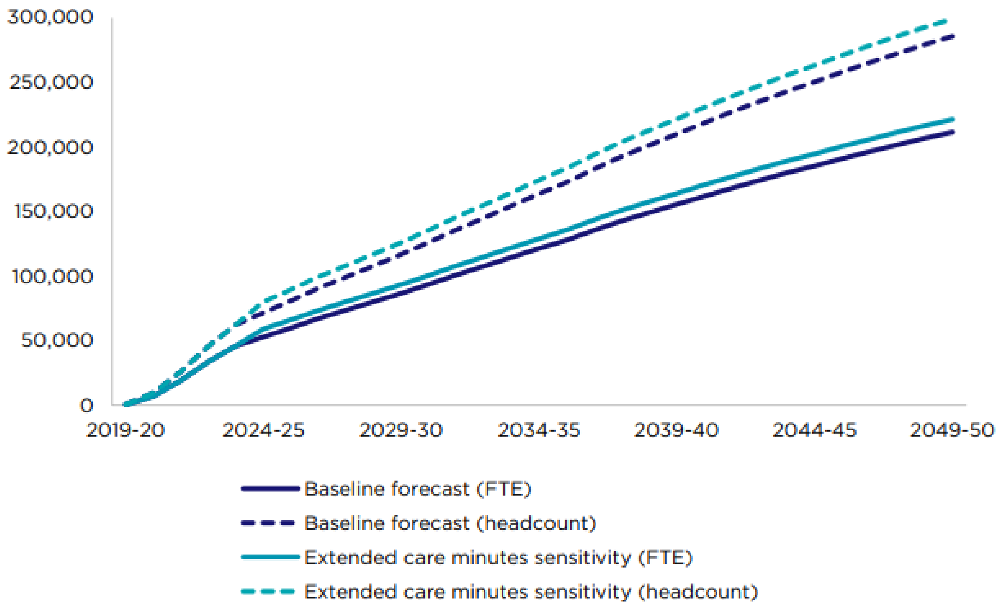


Source: ABS Participation, Job Search and Mobility, 2021 in TableBuilder.

Figure 3: Proportion of women in the care and support workforce, (in-scope industries as per National Skills Commission report), February 2021

- It is estimated half the current aged care workforce will reach retirement age in the next 15 years. With 240,445 direct care workers, this means 8,015 will retire every year.[5]
- There will be a significant shortfall in care workers unless urgent action is taken to attract and retain them.
    - Recently released analysis from the National Skills Commission (undertaken before Omicron), estimated there would be a shortfall of 100,000 care workers by 2027-28 and 211,00 (FTE) by 2049-50[6].

[5] https://mccrindle.com.au/insights/blogarchive/demand-vs-supply-australias-aged-care-puzzle/
[6] https://www.nationalskillscommission.gov.au/reports/care-workforce-labour-market-study



Source: Deloitte Access Economics, 2021.

Figure 4: Projected workforce gap (FTE and headcount), care and support workforce, baseline forecast and extended care minutes sensitivity, 2019-20 and 2049-50[7]

- Similar analysis by CEDA in 2021, predicted a shortfall of more than 110,000 direct-care workers within the decade and a shortfall of 400,000 by 2050. These are needed to reach the minimum three-star standard. However, this estimate doesn't consider their latest revised workforce shortage, and so will likely be higher. CEDA has also found 65,000 people are leaving the aged care sector each year.[8,9]
- **In June 2022, CEDA revised its estimates and predicted a shortfall of between 30,000 and 35,000 aged care workers per year (double the original 2021 estimate).[10]**

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[7] https://www.nationalskillscommission.gov.au/sites/default/files/2022-10/Care%20Workforce%20Labour%20Market%20Study.pdf
[8] https://www.ceda.com.au/Admin/getmedia/29cf7e90-afe9-4c92-bf4b-7abc385078f8/Aged-Care-Workforce-2021-FINAL.pdf
[9] https://www.ceda.com.au/ResearchAndPolicies/Research/Economy/Duty-of-Care-Aged-Care-in-Crisis
[10] https://www.ceda.com.au/ResearchAndPolicies/Research/Economy/Duty-of-Care-Aged-Care-in-Crisis

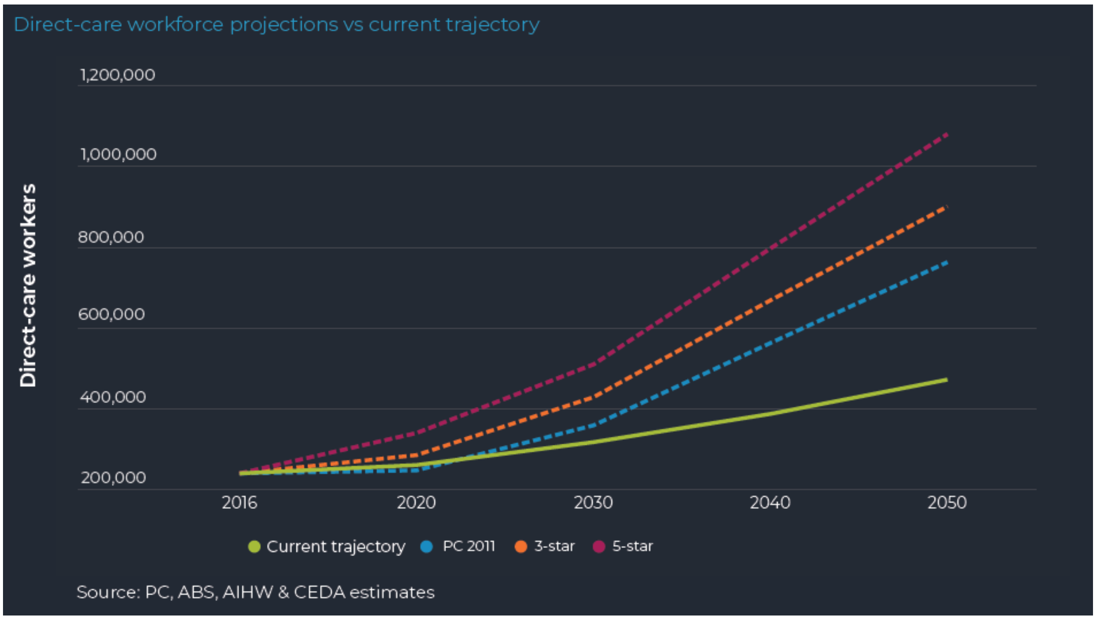

Figure 5: Direct care workforce projections versus current trajectory[11]

[11] https://www.ceda.com.au/Admin/getmedia/29cf7e90-afe9-4c92-bf4b-7abc385078f8/Aged-Care-Workforce-2021-FINAL.pdf

Opt-in exemption scheme

How an opt-in exemption scheme works

- Pensioners would be offered an opt-in recorded by Centrelink.
- Participants would lose access to the Pension Work Bonus while they opt-in.
- Any 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.
- The exemption would apply only to income from personal exertion; other income (e.g., income from assets, either real or deemed) would continue to be subject to the income test for the purpose of calculating pension eligibility and entitlement.
- Participants would **not** be required to report earnings to Centrelink, significantly reducing Centrelink's costs and the bureaucratic burden on working pensioners.
- Centrelink would tax (and adjust) pension payments (e.g., assume 32.5c tax rate) to avoid any compliance burden on employers and end-of-year tax bill for participants.
- Because pensioners have already paid their tax via Centrelink, they would have their tax return adjusted to account for the LITO and SAPTO.
- Pensioners who work limited hours can choose to work under the current income test taper rate of 50c in the dollar and the Work Bonus. They would declare earnings as usual. However, if they increase their earnings and end up financially better off under an exemption, they could receive a notice asking if they wanted to opt-in to the new exemption scheme.
- Participants would be able to opt-out if circumstances changed and the exemption was no longer in their interest (e.g., if they retired, quit, or lost their job unexpectedly).
- The opt-in exemption could be targeted at the Health and Social Assistance sector to provide proof of concept with little or no risk.
- Once proven to be effective, the scheme could be widened to assist other areas facing skills shortages. Note: in NZ 25% of people aged 65 and over work, currently only 15% of Australians aged 65 and over work.

Benefits of an opt-in exemption

- **Easy to communicate.**
    - Unlike incremental changes to the Work Bonus, (which require complex and confusing calculations), offering pensioners a full exemption / the choice to work and pay tax, is easy to communicate, requires no calculator, and so would result in a more rapid take-up to meet critical workforce shortages.

- **Rewards people who work.**
  - Participants will see a significant increase in their income from working compared with existing rules. A worker with limited savings will be far better off financially from opting in and working more compared to the current Work Bonus rules.
- **More effective in inducing behaviour change.**
  - Removing Centrelink reporting (which we are told is a reason pensioners choose not to work), increases the likelihood pensioners will work and work more and remain working full or part time on reaching pension age.
  - An opt-in removes worry around under or over reporting income. This fear of losing part or all the pension stops people working. (Cf. Robodebt)
- **Reduces government administrative costs**
  - An opt-in will reduce Centrelink administration, reducing costs. The Work Bonus imposes heavier reporting and is far more expensive to administer.
- **Can be time-limited**
  - Applying the opt in as a temporary pandemic measure, government can assess and remove it if conditions change, or results are sub-optimal.
- **Supports employment in key human services sectors**
  - As noted earlier, the Health Care and Social Assistance sectors are experiencing significant difficulties attracting and retaining workers.
  - All evidence suggests these shortages will continue or may worsen in the future.
  - Targeting a more generous exemption, will reward those who continue to work, giving employers a tool to attract and retain quality staff. 250,000 Australians reach pension age each year and more than 30,000 of them work in the health and social care sector.
- **It is targeted**
  - The policy would only be available to low-wealth pensioners, due to the operation of the assets test.
  - Because pension entitlements are determined by both the income and the assets test, with the test giving the lowest pension entitlement used to calculate the pension, only those with limited savings who are subject to the income test will be eligible for the exemption.
- To be clear – **<u>this is not a universal pension</u>** – the assets tests will remain and continue to restrict access to the pension and continue to reduce government costs.

- **Budget implications would be limited or positive**
  - As a full exemption is open ended, there may be budgetary costs from extending a full pension to those who might otherwise have lost some or all, of their pension entitlement due to the income test
  - If, as we predict, the policy mobilises greater workforce participation, these costs would be offset, and outweighed by gains in tax receipts.
  - To estimate these costs, National Seniors Australia commissioned respected consulting firm Deloitte to assess the costs and benefits of an opt-in exemption.
  - According to Deloitte, the 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)."*** Beyond this, the policy is **revenue positive**.
  - Furthermore, the policy **"*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)*"** is targeted at the Health Care and Social Assistance sector.

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 1: Cost / benefit to government by take up rate of pensioners 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.

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 2: 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.

Appendix 1: Case Study – My Care Solution (SA) / Heather

With 175 Caregivers - My Care Solution is a fast-growing employer in Home Care in Adelaide and regional South Australia. It has a deliberate strategy of mature age employment – more than 65% of its workers are over 60. The age profile fits perfectly with client needs. The workers also enjoy the experience. The 'farewell career' for many is an opportunity to make a difference in work that is meaningful and personally rewarding.

Many of My Care Solution's employees are on either JobSeeker or the Aged Pension. They are predominately female, keen to work, but baulk at additional hours due to both the increase in Centrelink reporting and the loss of 50c in the dollar for earnings above the Work Bonus threshold. They also pay tax so can lose up to 82.5 cents in the dollar for additional work.

This results in "underemployment", where highly skilled/valued employees are not fully utilized i.e., max of 10 hours per week instead of 16-20 hours per week or more - resulting in many employers shying away from this demographic due to a perceived poor return on their training investment.

There is a chronic skills shortage of social care in Australia – not just in home care. My Care Solution needs to double its workforce over the next three years to meet demand from the release of an additional 80,000 Home Care Packages. It is also expanding into disability care.

Heather

Heather is 68 and works casually as a registered Nurse with My Care Solution. She would be happy to work additional hours and My Care Solution would welcome her increased availability. However, she finds the additional Centrelink reporting requirements a burden – like many in her demographic – Heather prefers face-to-face interactions and will take a book to read, line up and wait at her local Centrelink (Norwood SA) to ensure she is compliant with her reporting requirements.

Heather would appreciate the opportunity to work more to earn more income and contribute more towards her superannuation. She would also appreciate any moves to streamline Centrelink reporting. She would be willing to increase her availability for more shifts if she knew she was not going to be financially penalised. The extra work would also help her make additional contributions to her relatively low superannuation balance.

Appendix 2: Case Study – Halina

Sixty-nine-year-old Halina works four days a week at FoodWorks in rural Victoria.

Her job provides purpose, structure and keeps her mind and body active. According to Halina, it plays a pivotal role in slowing the ageing process. It also provides a much-needed wage to support Halina's pension – her sole source of income.

FoodWorks, her employer, benefits too. Being mature-aged, Halina gives certainty, reliability, and flexibility, evidenced by her record of being available, even on short notice.

However, under the current Age Pension income test rules, Halina's availability to work more is limited.

Disincentive to work

Under the Age Pension income test, pensioners can only earn up to $12,740 per year (or $245 per week) ($7800 Work Bonus plus $190 per fortnight from non-exertion income) without losing their pension. This includes any real or deemed income from assets. Under the Work Bonus scheme pensioners have some flexibility to work more hours, however they must always be mindful not to breach the annual limit. The more hours pensioners work, the quicker they reach their limit, and their pension reduces.

In the lead up to Christmas, Halina worked up to 27 hours a week – hours she didn't expect or necessarily want. But because of her strong work ethic and knowing she was needed, Halina was unable to say no – despite the impact her additional income would have on her pension payments.

Halina has around three months before her Work Bonus limit is reached and her pension reduced.

Like Halina, many pensioners are reluctant to work or work more hours because the Age Pension income test punishes those who want to work more by taking 50 cents in the dollar from their pension for every dollar earned over $490 per fortnight (or $12,740 per annum).

The Age Pension income is taxable, so many pensioners question why they should work more and be penalized for doing so.

Unless the current system changes, Halina will likely reduce her three to four days a week at FoodWorks to only one day a week, to save her pension payments.

Halina will lose much needed income and her employer, who is dealing with severe worker shortages, will lose another valued employee.

Appendix 3: Case Study – Dawn and Murray

70-year-old Murray and 71-year-old Dawn are husband and wife seasonal harvest workers who travel six months of the year from NSW to harvest tomatoes and olives. At times, they work between 60 - 72 hours per week (12-hour shifts at a time, mostly midnight to midday). As Dawn recounts, "there are a lot of 'baby boomers' who do this kind of work – a few 75-year-olds and a 79-year-old too".

Murray and Dawn's employer values mature workers because of their work ethic, commitment, life experience and availability. For Dawn and Murray, the work keeps them mentally and physically active, fit, and healthy. Additionally, they meet people from all over the world. The friends they've made are a significant bonus of harvest work.

Once they've finished a stint, Murray and Dawn take a couple of weeks to travel home in their caravan, staying in and supporting small towns along the way, purchasing food and various products from the local butcher, bakery, and op-shop.

Disincentive to work

Under the Age Pension income test, pensioners can only earn up to $12,740 per year (or $245 per week) without losing their pension. This includes any real or deemed income from assets. Under the Work Bonus scheme pensioners have some flexibility to work more hours, however they must always be mindful not to breach the annual limit. The more hours pensioners work, the quicker they reach their limit, and their pension reduces.

Between retiring after working full-time for 48 years and moving interstate to start harvest work, Murray and Dawn lived in their caravan and off their superannuation. They were too young to receive the age pension and didn't realize they were eligible for Newstart. With the help of the income they receive through harvest work, they are building a new home.

For the six months of the year, they don't do harvest work, Murray and Dawn receive the full pension and then pay what they need to back. Each time they return from a harvest stint, they are required go through the humiliating and time-consuming process of reapplying for the age pension through Centrelink. It can take up to a month until they receive their first payment.

Murray and Dawn wonder why they can't receive the full pension as well as income and simply pay the appropriate tax.

Unless the current system changes, Murray and Dawn will likely limit their harvesting work and the agriculture industry that is already suffering a worker shortage will lose two willing and highly capable employees.

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