

s22

From: s22
Sent: Thursday, 17 May 2018 4:50 PM
To: s22
Cc:
Subject: FW: The Age Pension in the 21st Century - Paper prepared by Michael Rice [SEC=UNCLASSIFIED]
Attachments: The Age Pension in the 21st century (Michael Rice) 170518.pdf

Hi s22

We have received a copy of Rice Warner's report on the Age Pension that will be released next Monday. A key conclusion is to "enhance part time work incentives in retirement". We plan to provide an email to the office tomorrow outlining key conclusions and Treasury positions/Government actions. Given your work on the ageing package, I thought you might be well placed to assist with the part of our email that covers this conclusion.

While no work is required right now, I'll be in touch tomorrow once we know exactly how we will structure this email to the office.

Thanks,

s22

Retirement Income Policy Division

The Treasury, Langton Crescent, Parkes ACT 2600

p s22

s22 [@treasury.gov.au](mailto:s22@treasury.gov.au)

From: s22
Sent: 8 4:25 PM
To: RG TAD Retirement Income Modelling Unit; FG RIPD Retirement Benefits Unit; s22
Cc: RG TAD SES
Subject: FW: The Age Pension in the 21st Century - Paper prepared by Michael Rice [SEC=UNCLASSIFIED]

Hi everyone

Please see attached Rice Warner's report on the age pension which is embargoed until Monday. They will send a copy of the report to s22 next week but think it is worthwhile us providing the MRFS with key points on the report on Monday before they do. We were contemplating doing this in an email, but s22 let me know if you think more is required from your perspective.

On a quick skim key conclusions relate to including: family home in the means test at fixed value of average earnings and changing asset test threshold, increasing rental assistance, **enhancing part work incentives in retirement** and a target for age pension/aged care costs as %GDP.

s22 – I'll give you a call to discuss how this analysis compares with MARIA output cause I think that would be good to flag (at a high level) with the MRFS office.

Thanks

s22

Manager | Retirement Income Modelling Unit

Tax Analysis Division | The Treasury

Phone: s22

Email: s22@[treasury.gov.au](mailto:s22@treasury.gov.au)

s22

s22

From: s22
Sent: Friday, 18 May 2018 1:53 PM
To: Jeremenko, Robert; Kennedy, Darren
Cc: s22; Beckett, Ian; Dowdell, Michelle
Subject: FW: The Age Pension in the 21st Century - Paper prepared by Michael Rice [SEC=UNCLASSIFIED]
Attachments: The Age Pension in the 21st century (Michael Rice) 170518.pdf

Hi Robert and Darren,

Rice Warner is releasing a report on the Age Pension next Monday. Attached is an embargoed copy. The report makes a few policy recommendations but mainly discusses Age Pension reforms undertaken over the past twenty years and their impact. The policy recommendations include (page 3 of the report):

1. Set a national objective for the Age Pension
2. Include the family home in the means test at a fixed value of average earnings
3. Increase rental assistance
4. Enhance incentives for part time work in retirement
5. Set a target for combined Age Pension and Aged Care costs as a percentage of GDP

TAD is drafting an email to the office that outlines the key recommendations and sensitives of the report. They may also state how the report's projections compare to their MARIA model's projections. They have asked if we have anything we want to contribute anything to this email. As the policy recommendations are not overly new or controversial, we do not believe it is necessary to respond to them in the email by including either the Treasury position or Government position/action(s).

Darren – I'll come talk to you to confirm that you're happy with this approach.

Cheers,

s22

From: s22
Sent: Thursday, 17 May 2018 4:25 PM
To: RG TAD Retirement Income Modelling Unit; FG RIPD Retirement Benefits Unit; s22
Cc: RG TAD SES
Subject: FW: The Age Pension in the 21st Century - Paper prepared by Michael Rice [SEC=UNCLASSIFIED]

Hi everyone

Please see attached Rice Warner's report on the age pension which is embargoed until Monday. They will send a copy of the report to s22 next week but think it is worthwhile us providing the MRFS with key points on the report on Monday before they do. We were contemplating doing this in an email, but s22 let me know if you think more is required from your perspective.

On a quick skim key conclusions relate to including: family home in the means test at fixed value of average earnings and changing asset test threshold, increasing rental assistance, enhancing part work incentives in retirement and a target for age pension/aged care costs as %GDP.

s22 – I'll give you a call to discuss how this analysis compares with MARIA output cause I think that would be good to flag (at a high level) with the MRFS office.

Thanks

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s22

s22

From: s22
Sent: Friday, 18 May 2018 7:09 PM
To: s22
Cc: s22 MRFS.DLO; RG TAD SES; Jeremenko, Robert; Kennedy, Darren; s22
Subject: Rice Warner Age Pension report [DLM=For-Official-Use-Only]
Attachments: The Age Pension in the 21st century (Michael Rice) 170518.pdf

Hi s22

As discussed, please find attached *The Age Pension in the 21st Century*, an embargoed report by Rice Warner due to be released on Monday 21 May. Rice Warner have advised that the AFR also have an advanced copy of the report and are likely to write an article on Monday. We have also provided DSS a copy of the report for their own briefing purposes. A summary of key aspects of the report are provided below.

- The report outlines the evolution of the Age Pension over the past 20 years, making the case that the benefit has evolved from a safety net to a supplementary benefit to superannuation income.
- 20-year projections of superannuation assets, Age Pension coverage and Age Pension expenditure suggest that the Age Pension will continue to serve a dual purpose as supplementary benefit to superannuation income and a safety net for those who have not saved enough for retirement.
- Rice Warner forecast a fall in the proportion of the eligible population receiving the Age Pension from around 69 per cent in 2017 to around 57 per cent in 2038.
 - This reflects a significant fall in the proportion of the eligible population receiving the full rate of Age Pension partially offset by an increase in the proportion receiving a part-rate Age Pension.
 - The decreasing reliance on the Age Pension is driven by rising superannuation assets in a maturing super system; changes to the age pension age; more targeted means testing and later retirement ages.
- In line with lower Age Pension coverage, Rice Warner forecast a **moderate fall in projected Age Pension expenditure as a percent of GDP**, from around 2.7 per cent of GDP in 2017 to around 2.5 per cent of GDP in 2038.
- Rice Warner projections are consistent with Treasury's medium term Age Pension expenditure profile and longer-term projections from MARIA – Treasury's new model of the retirement incomes and assets (further info at MS18-000208). Though Treasury's projections have not been publicly released.
 - Projected declines in Age Pension expenditure in Rice Warner's report do diverge slightly from the most recent IGR (2015) which had expenditures relatively stable at just under 3 per cent. The divergence is not unexpected as it reflects updated data, modelling and policy changes.
- The report proposes a number of policy recommendations:
 - To address current distortion between homeowners and renters, include more valuable homes in the Means Test;
 - Significantly increase rental assistance for age pensioners.
 - Enhance incentives for part time work in retirement (beyond the current Pension Work Bonus).
 - Combine the fiscal target for the Age Pension and Aged Care cost, with the government responsible for disbursing these funds equitably.
 - Have a national objective for the Age Pension.
- Given the recent FOI request regarding the 2015-16 changes to the Pension Assets Test, it is worth pointing out that the Rice Warner report does include a section on the 2015-16 Budget changes to asset test thresholds and taper rates and the reversal of the 2014-15 indexation measure. Graph 4 on page 27 shows

the impact of these changes on the proportion of the population receiving the age pension and Graph 5 on page 28 shows the impact of these changes on the average lifetime Age Pension by income and wealth decile.

If you need anything further, please let me know.

Kind regards

s22
[Redacted]

me Modelling Unit

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s22

From: s22
Sent: Monday, 21 May 2018 12:04 PM
To: s22 s22
Subject: FW: Rice Warner's Age Pension Report QTB [SEC=UNCLASSIFIED]
Attachments: The Age Pension in the 21st century (Michael Rice) 170518.pdf

Thanks so much for your help creating this QTB!! 😊

From: s22
Sent: Monday, 21 May 2018 12:02 PM
To: s22
Cc: QTB; MRFS.DLO; Tsr DLOs; Jeremenko, Robert; Kennedy, Darren s22 s22
s22
Subject: FW: Rice Warner's Age Pension Report QTB [SEC=UNCLASSIFIED]

Hi s22

[Here](#) is a QTB on Rice Warner's Age Pension report that was released today. The report is also attached.

QTB No	QTB Title	Folder/Topic	Responsible Minister	MO Adviser Responsible (If known)	Treasury Contact & Extension	Reason for update	Date (of most recent Update)
QB18-0000228	The Age Pension in the 21 st Century – Rice Warner report	FG – RIPD - Superannuation	MRFS	s22	s22	release of report	21/05/18

Regards,

s22
Retirement Income Policy Division

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The Age Pension in the 21st Century – Rice Warner report

Top Lines

- Rice Warner released a paper titled “The Age Pension in the 21st Century” on Monday 21 May 2018, which is a useful contribution to future debate about the Age Pension.
- The paper suggests counting more valuable homes in the pension means test.
 - Government policy is to not include a person’s principal home in the assets test. Many Australians have worked long and hard to own their home, and the Government recognises this effort.
- The paper acknowledges the changes the Government has made that have improved the sustainability of the Age Pension into the future.
 - The report forecasts a moderate fall in projected Age Pension expenditure as a percent of GDP, from around 2.7 per cent of GDP in 2017 to around 2.5 per cent of GDP in 2038. This is slightly lower than the most recent IGR (2015) which had expenditures relatively stable at just under 3 per cent under the policy settings at the time.
 - The report forecasts a fall in the proportion of the eligible population receiving the Age Pension from around 69 per cent in 2017 to around 57 per cent in 2038.
 - The decreasing reliance on the Age Pension is in part driven by rising superannuation assets in a maturing super system.
- In the recent Budget, the Government announced the “*More Choices for a Longer Life*” package. The package includes measures to support Australians to be prepared to live a healthy, independent, connected and safe life.

Government Action

- The Age Pension assets test taper rate increased from \$1.5 to \$3 per fortnight for every \$1,000 of assets above the free areas from 1 January 2017. This was part of a package, announced in the 2015-16 Budget, to improve targeting of the Age Pension to

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QTB Number:	QB18 - 000228	QTB Category:	
Contact Officer:	§22 (policy initiatives) §22 (projections and tax concessions)	Date and time:	21/05/2018 12:52 PM
Contact Number:	§22	Next update:	
Office Responsible	Minister for Revenue and Financial Services	Office Adviser Name and Date Cleared	

those most in need and improve the sustainability of Age Pension expenditure over the long term (providing savings of \$2.4 billion over the Forward Estimates).

- On 18 May 2018, Treasury released Rice Warner estimates of the number of pensioners affected by the 2015-16 Budget Age Pension assets test changes under Freedom of Information.
- In the 2016–17 Budget, the Government announced a package of reforms designed to improve the sustainability, flexibility and integrity of the superannuation system.
- In the 2018-19 Budget, the Government announced the *“More Choices for a Longer Life”* package. It includes:
 - Increasing the Pension Work Bonus to allow age pensioners to earn an extra \$50 a fortnight without reducing their pension. For the first time the bonus will also be extended to the self-employed, who can now earn up to \$7,800 a year without reducing their pension.
 - Expanding the Pension Loans Scheme to give all Age Pension-aged Australians the option to boost their standard of living. Full rate pensioners will be able to boost their income by up to \$11,799 (singles) or \$17,787 (couples) per year.
 - The Skills Checkpoint for Older Workers will provide advice on relevant skills and training to help workers build their careers or transition to jobs in new industries. For Australians updating their skills, the Government will contribute up to \$2,000 through the Skills and Training Incentive.
 - Expanding access to the Restart wage subsidy for Australians aged 50 and over, providing up to \$10,000 to employers to support workers as they start a new career.
 - \$1.6 billion to support 14,000 additional high-level home care packages by 2021-22. This adds to the 6,000 places the Government has provided since the 2017-18 Budget.

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QTB Number:	QB18 - 000228	QTB Category:	
Contact Officer:	§22 (policy initiatives) §22 (projections and tax concessions)	Date and time:	21/05/2018 12:52 PM
Contact Number:	§22	Next update:	
Office Responsible	Minister for Revenue and Financial Services	Office Adviser Name and Date Cleared	

ALP Rebuttal

N/A

Background/Detailed Information

- The report is discussed in an [article](#) by Ben Potter in the Australian Financial Review on Monday 21 May.
 - The article refers to Australians in the top two income deciles receiving a large share of superannuation tax concessions. The Government's 2016-17 Budget reform of concessional superannuation contributions better targets tax concessions to ensure the superannuation system is fair and sustainable.
- Rice Warner projects the cost of the Age Pension as a percentage of GDP will moderately fall between 2017 and 2038.
 - A maturing superannuation system will mean that future retirees will have higher amounts of superannuation to support themselves in retirement, and should require less support from the taxpayer.
 - The report also recognises that these estimates reflect the impact of the recent tightening of means testing and later retirement ages.
- The paper suggest four future policy initiatives: counting more valuable homes in the pension means test, increasing Rent Assistance for pensioners, enhancing incentives for part time work in retirement and setting a target for combined Age Pension and Aged Care costs as a percentage of GDP.
- The welfare budget accounts for a significant proportion of the Commonwealth Budget—such a significant part of the budget needs to be carefully managed.
 - Any proposals to increase income support, including Rent Assistance, need to be carefully considered. The Government needs to balance a range of competing priorities when determining the direction of policy.

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QTB Number:	QB18 - 000228	QTB Category:	
Contact Officer:	s22 (policy initiatives) s22 (projections and tax concessions)	Date and time:	21/05/2018 12:52 PM
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- The Government is committed to maintaining a strong safety net for all Australians who need help and cannot support themselves.

Principal home exemption

- The principal home was exempted from the assets test when it was introduced in 1985, in recognition of the unique importance placed on the family home in Australian society—there is broad political and community support for this exemption.
- Pensioners have greater financial security if they live in their own home. The exemption of the home also assists people to remain in their own home as they age, where they choose to do so. This provides benefits such as proximity to services, family and friends, and allowing them to maintain their links to their local community.
- If the home were to be included in the assets test, there would also be differing impacts on social security payments across geographical areas, given property values vary widely according to location. For example, residents in some locations (e.g. Sydney and Melbourne) would be impacted more than others.
- It would also require social security recipients to provide information about the value of their home and so impose higher compliance costs and increased administration costs for Centrelink.
- The assets test has a higher free area for non-home owners to ensure fairer treatment for those who have chosen not to, or are not in a position to, purchase their own home and therefore do not benefit from the principal home exemption.

Age Pension rates

Per fortnight	Single	Couple each	Couple combined
<i>Maximum basic rate</i>	\$826.20	\$622.80	\$1,245.60
<i>Maximum Pension Supplement</i>	\$67.30	\$50.70	\$101.40
<i>Energy Supplement</i>	\$14.10	\$10.60	\$21.20
<i>Total</i>	\$907.60	\$684.10	\$1,368.20

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QTB Number:	QB18 - 000228	QTB Category:	
Contact Officer:	s22 (policy initiatives) s22 (projections and tax concessions)	Date and time:	21/05/2018 12:52 PM
Contact Number:	s22	Next update:	
Office Responsible	Minister for Revenue and Financial Services	Office Adviser Name and Date Cleared	

s22

From: s22
Sent: Monday, 21 May 2018 1:26 PM
To: s22
Subject: MRFS - The Age Pension in the 21st Century - RIPD - QB18-000228.docx
[SEC=UNCLASSIFIED]
Attachments: MRFS - The Age Pension in the 21st Century - RIPD - QB18-000228.docx

What went up.

s22

From: s22
Sent: Wednesday, 23 May 2018 10:42 AM
To: FG Retirement Income Policy Division
Subject: Rice Warner Age Pension report [SEC=UNCLASSIFIED]
Attachments: The Age Pension in the 21st century (Michael Rice) 170518.pdf

Good morning,

Rice Warner released a report on the Age Pension on Monday 21 May, which is a useful contribution to future debate about the Age Pension. The report is attached. It is discussed in an AFR [article](#) released on Monday 21 May.

Here is a summary of the report:

- The report outlines the evolution of the Age Pension over the past 20 years, making the case that the benefit has evolved from a safety net to a supplementary benefit to superannuation income.
- The report proposes a number of policy recommendations:
 - To address current distortion between homeowners and renters, **include more valuable homes in the Means Test**;
 - Significantly *increase rental assistance* for age pensioners.
 - *Enhance incentives* for part time work in retirement (beyond the current Pension Work Bonus).
 - Combine the *fiscal target* for the Age Pension and Aged Care cost, with the government responsible for disbursing these funds equitably.
 - Have a *national objective* for the Age Pension.
- 20-year projections of superannuation assets, Age Pension coverage and Age Pension expenditure suggest that the Age Pension will continue to serve a dual purpose as supplementary benefit to superannuation income and a safety net for those who have not saved enough for retirement.
- Rice Warner forecast a **fall in the proportion of the eligible population** receiving the Age Pension from around 69 per cent in 2017 to around 57 per cent in 2038.
 - This reflects a significant fall in the proportion of the eligible population receiving the full rate of Age Pension partially offset by an increase in the proportion receiving a part-rate Age Pension.
 - The decreasing reliance on the Age Pension is largely driven by rising superannuation assets in a maturing super system; changes to the age pension age; more targeted means testing and later retirement ages.
- In line with lower Age Pension coverage, Rice Warner forecast a **moderate fall in projected Age Pension expenditure as a percent of GDP**, from around 2.7 per cent of GDP in 2017 to around 2.5 per cent of GDP in 2038.
 - These projections are consistent with projections from TAD's new MARIA model.
 - This represents an improvement in expenditure from the 2015 IGR, which had expenditures relatively stable at just under 3 per cent.

Regards,

s22

s22

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