

# Pensions for Longer Life

Linking Australia's pension age  
with life expectancy

David Knox

## About this paper

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Pensions for Longer Life: Linking Australia's pension age with life expectancy

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**CEDA's activities:** CEDA holds more than 250 events, seminars and chief executive roundtables each year, and publishes a range of research papers.

**CEDA's mission:** CEDA's research and forums identify and explore issues that influence the nation's long-term economic and social development.

**CEDA's reach:** CEDA draws its members, which number around 1000, from businesses, universities, governments and the not-for-profit sector. During 2006 CEDA's economic and business events attracted more than 21,000 people.

**CEDA's independence:** CEDA advocates policy in the national interest, rather than lobbying on behalf of special interest groups. It is staunchly non-partisan. CEDA's funding comes from membership, events, grants and sponsorship.

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# foreword



CEDA's focus on the implications of demographic change for economic growth goes back to the 1990s, when we produced a major study, *A Working Future?*, on the ageing population and workforce participation. In 2004 our Growth 51 report, *Australia's Ageing Population: Fiscal, Labour Market and Social Implications*, set out in more detail the financial and social ramifications of the challenge we face.

Dr Knox was formerly a leading actuarial academic. He has written this paper for CEDA with the support of his employer, Mercer. In it, he develops a policy response to one of the central challenges of population ageing: the rapidly-expanding gap between the current pension age and life expectancy.

In the context of an ageing population and increasing life expectancies for 65 year olds, Dr Knox makes the case that Australia should progressively raise its pension age. He calculates the change in the pension age as likely to result in a saving in the order of \$800 million per year – three to four per cent of the cost of the age pension. However, he argues that the case for change is more firmly founded on the incentive to later retirement and greater labour force participation at older ages that the reform would create.

As more Australians live longer and healthier lives, the way they work and prepare for retirement will also change. Public policy cannot stand still in the face of those changes. Against the reality of an ageing population, CEDA believes that it is vital that Australia embraces policy reforms that encourage people to participate in the workforce for longer - to meet individual needs as well as the demands of economic growth.

We thank Dr Knox for his contribution to the debate. His paper is supported not only by empirical evidence of demographic shifts but also by the real-life experience of many Australians that being 65 is no bar to useful and rewarding work.

A handwritten signature in black ink, appearing to read 'David Byers'.

David Byers  
Chief Executive Officer, CEDA

# summary

The pension age for Australian males – 65 – has not changed in a century. Now, as life expectancies increase and the workforce ages, it is time for Australia to abandon a fixed pension age in favour of a dynamic approach which links pension age and life expectancy.

The first step in such a change could be for Australia to gradually raise the pension age from 65 to 67 between 2015 and 2022. An early announcement of this change would minimise the impact on Australians already nearing retirement. Further, many Australians under the increased pension age would continue to receive disability support payments.

Other nations, including the United States, the United Kingdom, Germany and Denmark, are already moving their pension age to 67 or 68.

After announcing such changes, Australia should regularly review the pension age, adjusting it in line with changes in life expectancy. Age-based superannuation rules should also be reformed and then adjusted in line with these changes.

Together, these reforms would:

- change the community’s focus on the single age of 65;
- erode preconceptions about when workers are “too old” to work;
- continue the encouragement of increased labour force participation rates at older ages;
- save the federal government a possible \$800 million a year in pension payments;
- reduce the call on workers’ superannuation savings in retirement; and
- improve the long-term sustainability of the Australian retirement income system.

# Pensions FOR longer life

**DR DAVID KNOX** is a Worldwide Partner at Mercer, where he is national leader for the research practice area and is responsible for providing actuarial consultancy services, with a particular focus on



public sector actuarial work, and finance and risk consulting.

Prior to joining Mercer in January 2005, he was a director with PricewaterhouseCoopers Actuarial. His previous roles have included Deputy Dean of the Faculty of Economics and Commerce, Foundation Professor of Actuarial Studies and Director of the Centre of Actuarial Studies at the University of Melbourne. He has also held positions with Macquarie University. He was an independent board member of the Australian Prudential Regulation Authority from 1998 to 2003, and president of the Institute of Actuaries of Australia in 2000.

## **Background: The ageing of Australia**

The ageing of the population is a well-known global phenomenon. It is caused by declining fertility and mortality rates, which are occurring in the majority of countries. Although the rate of ageing varies between countries and is affected by a number of other factors including immigration and local customs, the effects of an ageing population are similar in many countries. These include:

- a growing proportion of the population who are expecting to reach retirement age during the next two decades;
- a reduction in the relative size of the younger population;
- a reduction in the growth or even a decline in the projected labour force;
- a reduction in the forecasts of economic growth;
- changes in consumption and production patterns to reflect the preferences and needs of an ageing population; and
- changes in the demands placed on government expenditure with a potential decline in education costs but significant increases in health, aged care and age pension costs.



PHOTO: ISTOCK

However, as the Productivity Commission (2005) noted in respect of Australia, “these potential impacts do not constitute a crisis, at least not yet.” They noted that population ageing is a slow process and early intervention would avoid the need for inefficient or inequitable interventions. The latest *Intergenerational Report* (2007) also confirms that an ageing population is projected to contribute to an increase in government spending over the next 40 years.

Both these reports suggest that the required reforms have not yet been completed. Workforce participation at older ages represents one such objective that will have significant social and economic benefits over the long term. This paper will present recommendations relating to the age pension, retirement and superannuation that will encourage such an outcome. But first it is useful to clarify the impact of our improving life expectancy.

They noted that population ageing is a slow process and early intervention would avoid the need for inefficient or inequitable interventions.

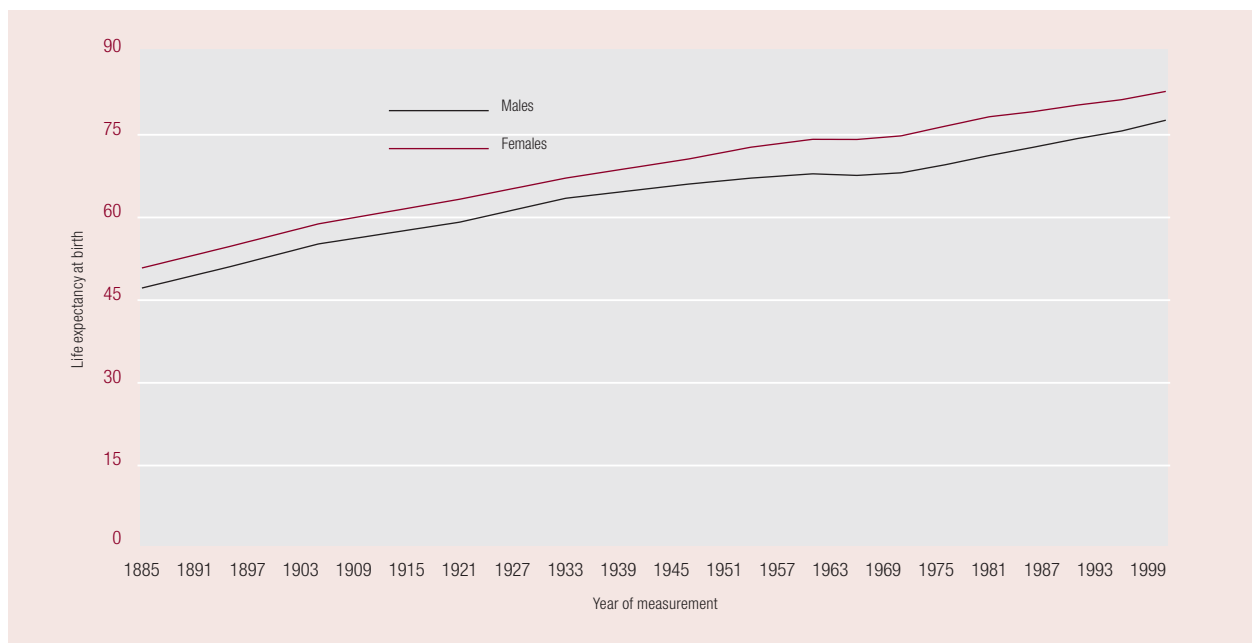
### Increasing life expectancy

Figure 1 shows the increasing life expectancy in Australia based on the published *Australian Life Tables* (Australian Government Actuary 2004). With the exception of a minor blip in the 1960s, the graph shows a fairly steady increase in life expectancy at birth from 48 to 78 for males and from 51 to 83 for females.

The reason for the increasing life expectancy in Australia has been a steady decline in the rates of mortality. However, the cause of the increase has changed over time, with reductions in mortality rates at younger ages more significant in the first half of the 20th century. Since the mid-1970s, reductions in mortality rates at older ages have become more important. Table 1 shows the percentage reduction in mortality rates at different ages for three different periods of the last century.

For the purposes of this paper, the most important result is the significant reduction in the mortality rates for 65-year-olds. Similar patterns apply at older ages, with the mortality for 85-year-old males declining by 34 per cent from 1975–77 to 2000–02, whereas it declined by only 19 per cent from 1901–10 to 1975–77. Naturally, these reductions in mortality rates have had a material effect on life expectancies for older Australians.

**FIGURE 1 LIFE EXPECTANCIES FOR AUSTRALIANS AT BIRTH, 1885–2001**



Source: Australian Life Tables 2000–02

... the most important result is the significant reduction in the mortality rates for 65-year-olds.

Figure 2 shows the life expectancies for 65-year-olds for the same period as Figure 1. The contrast is clear. Life expectancy for older Australian males was almost static from 1885 to the 1960s but has risen by more than 45 per cent since then. The story for females is a little different but, again, there has been a significant increase since the 1970s.

Figure 2 suggests there was no major increase in the life expectancies for older Australians during the first six or seven decades of the 20th century. However, since that time it is clear that life expectancies have improved for this age group and are expected to continue to do so. Such a finding has implications for both retirement ages and pension eligibility ages.

The major cause of this change has been the decline in the numbers of deaths caused by ischaemic heart disease in the 65–84 age group, which fell from 2,700 deaths per 100,000 males early in the 1970s to around 900 in 2000. A similar decline from 1500 per 100,000 to 500 occurred among females (AIHW 2006).

### Retirement and pension ages

The definition of retirement and pension ages can cause confusion. Indeed, as Turner (2004) notes, pension age is not the same as retirement age. For the purposes of this paper, pension age is the earliest age at which individuals can receive their full social security or age pension entitlement, having achieved the relevant age and satisfied any other conditions (e.g. residence, means tests, minimum time in the workforce).

On the other hand, retirement age can have a variety of meanings, including:

- the age at which the individual substantially stops working;
- the age at which a benefit is payable from an employer sponsored superannuation or pension plan;
- the age at which workers can receive “full” social security benefits; and
- an early retirement age in a social security program.

Within the Australian employment context, a defined retirement age generally does not exist due to age discrimination laws. Nevertheless, many employers have traditionally operated with a “normal” retirement age as part of their normal workplace practices. In the current environment, with an increasing skills shortage and the introduction of transition to retirement opportunities, the concept of a normal retirement age within Australia is becoming anachronistic.

Notwithstanding this position, confusion is common. For example, when the Treasurer was introducing some reforms in 2005 to encourage Australians to work later, he said,

**FIGURE 2 LIFE EXPECTANCIES FOR AUSTRALIANS AT AGE 65, 1885–2001**



Source: Australian Life Tables 2000–02

**TABLE 1 PERCENTAGE REDUCTIONS IN MORTALITY RATES FOR DIFFERENT PERIODS**

PERIOD	MALES			FEMALES		
	AGE 0	AGE 30	AGE 65	AGE 0	AGE 30	AGE 65
1901–10 to 1946–48	66.4%	64.2%	8.7%	68.3%	68.2%	28.9%
1946–48 to 1975–77	53.1%	31.1%	13.0%	47.0%	62.4%	30.0%
1975–77 to 2000–02	62.3%	7.0%	53.7%	60.6%	27.4%	47.2%

Source: Calculated from Australian Government Actuary, 2004, Australian Life Tables 2000–02

*“There’s an awful lot of men in particular that don’t stay in the workforce until retirement age, which in Australia is 65.*

*“So before you start talking about increasing retirement ages, let’s just focus on encouraging people, giving them the choice to stay until the existing retirement age.”*

The eligibility age for the (old) age pension in Australia has remained at 65 for males since its introduction in 1909. The pension age for females was decreased to 60 in 1910, but is now being increased gradually to 65.

In view of the relatively stable life expectancy for older Australians in the first six or seven decades of the 20th century, an unchanged pension age seems reasonable. However, in the context of an ageing population and increasing life expectancies for 65-year-olds, it is now appropriate to review the pension age. Before we consider this option, let us review trends around the world.

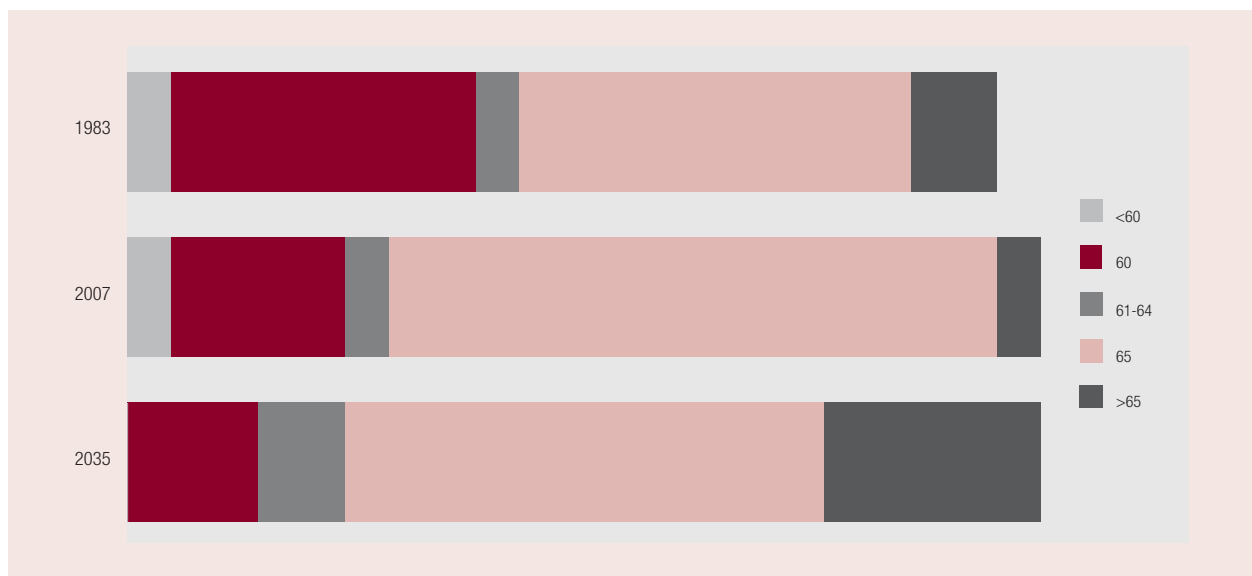
### Trends in pension ages around the world

Declining mortality rates and the related increase in life expectancy is a common pattern around the world. The consequences of ageing are significant as they affect many aspects of our society, including economic output, employer/employee relationships, savings and investments, changing consumer demands and attitudes, and the financial position of governments, both in terms of revenue and demands for their services. This growing pressure is, of course, accentuated in many countries by declining fertility rates and the post-war baby boomer generation approaching retirement.

As a result, many governments have considered or undertaken significant pension reforms during recent years. These have included increased pension ages, changes in the pension benefit calculations and smaller real pension increases. The measures to increase the retirement age and/or pension age have been carried out for a number of reasons, including:



**FIGURE 3 PENSION ELIGIBILITY AGES FOR MALES IN 21 ADVANCED ECONOMIES**



Source: Turner (2005), Social Security Pensionable Age in OECD Countries: 1949–2035

The consequences of ageing are significant as they affect many aspects of our society, including economic output, employer/employee relationships, savings and investments, changing consumer demands and attitudes, and the financial position of governments, both in terms of revenue and demands for their services.

- the desire to maintain economic growth with the associated need to encourage later retirement, thereby increasing labour force participation rates at older ages;
- the desire to encourage individuals to increase their level of savings for retirement, given their expected longer period in retirement; and
- the need to reduce the cost pressure on the public pension (or social security) systems as the proportion of the population above pension age inexorably rises.

The majority of OECD countries have a standard pension age of 65 for men (OECD 2007). Traditionally, most OECD countries have permitted women to receive

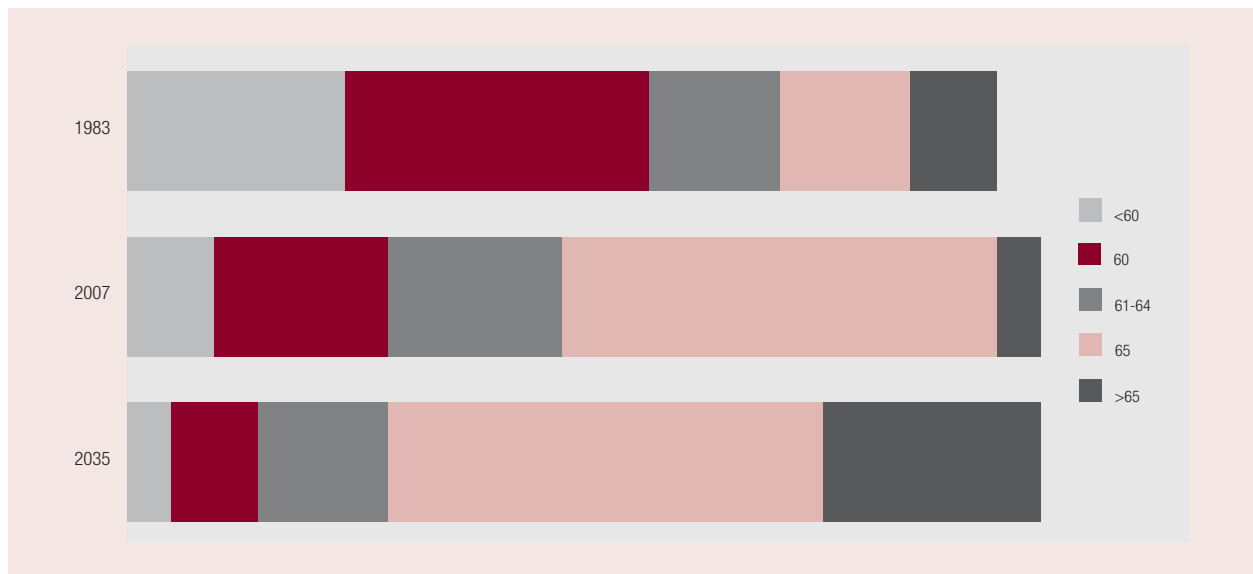
social security benefits at a younger age than men, although many are now increasing this age to match the male retirement age. Indeed, European countries are required to do so by a 2004 European Union Directive.

However, increases in the pension age are now going beyond the equalisation issue. Some current changes that have already been announced include:

- a gradual increase in the US of its normal retirement age for social security from 65 to 66 between 2002 and 2009 and then another increase from 66 to 67 between 2020 and 2027;
- an announcement by the UK in a 2006 White Paper discussing their new pensions system that they will gradually increase their state pension age from 65 in 2024 to 68 in 2046;
- a gradual increase in Germany’s pension age from 65 in 2012 to 66 in 2024 and then to 67 in 2029;
- an increase in Denmark of the age threshold for the public old-age pension from 65 in 2024 to 67 in 2027. Furthermore, from 2025 the eligibility age will be directly linked to changes in life expectancy at age 60;
- an increase in Japan in the age for access to the earnings-related component of its pension from 60 to 65 by 2025 for males and by 2030 for females; and
- implementation of increases in pension age that affect both men and women in the Czech Republic, Greece, Hungary, Italy and Korea (OECD 2007).

As the OECD notes, “increasing pension eligibility ages will improve financial sustainability and retirement incentives.” That is, the current systems will become more affordable and are likely to change personal behaviour.

**FIGURE 4 PENSION ELIGIBILITY AGES FOR FEMALES FOR 21 ADVANCED ECONOMIES**



Source: Turner (2005), Social Security Pensionable Age in OECD Countries: 1949–2035

With the US, UK, Germany and Denmark increasing their pension age to 67 or 68 and Iceland and Norway already using a standard pension age of 67, it is suggested that the standard pension age in the developed world is gradually moving above 65.

However, it must be recognised that an increase in the pension age does not come without the potential for some social cost. After all, there are some individuals who are forced to retire early through no fault of their own, and any such reform in an “advanced” society needs to recognise such a cost and ensure that appropriate safety nets are in place.

Although more than two dozen countries have raised their pension age in recent years, it is interesting to note that over the years 1949–1993, 14 of the 23 OECD countries actually lowered the pensionable age for at least one gender (Turner 2005). Clearly the pressures during these decades, of issues such as youth unemployment, were quite different from those of an ageing population and increasing longevity.

Figures 3 and 4 summarise the spread of pension eligibility ages for 1983, 2007 and 2035 (based on current announcements) for 21 advanced economies. The recent trends are clear. By 2035 there will be relatively few countries with a pension eligibility age under age 65 and an increasing number who have moved beyond 65.

An important issue to consider as countries increase their pension age is the rate of increment. Evidence suggests that any increase should be gradual and that the annual change is always less than a one-year increment. A common rate of increment is 0.5 year per annum, with the rate ranging from two months per annum upwards. It is also noted that there is almost always a delay from the

announcement or the passing of legislation to the date of effect and this delay can be years or even decades.

Notwithstanding recent increases in pension ages, Turner (2005) correctly notes that

*“[a] striking feature of retirement income policy is that, once a pensionable age is determined, it tends to remain unchanged for several years.”*

This is unfortunate, for as life expectancy continues to increase, regular adjustments to the pension age should be considered. That is, it should be possible to change the pension eligibility age on a regular basis and it should not be fixed.

### Recommendations for the Australian pension age

As mentioned earlier, the Australian male pension age of 65 has remained unchanged for almost a century while the female pension age of 60 remained unchanged from 1910 until a proposal for change was announced in the 1993–94 Commonwealth budget. The change was an increase in the female pension age of six months every two years commencing on 1 July 1995, when it was increased to 60.5. These changes mean that by 1 January 2014 both the male and female pension age will be 65.

It is therefore unreasonable to suggest any change to the Australian pension age prior to 2014. However, in light of the significant increase in life expectancy for older Australians that we have witnessed in the last three or four decades, there is a strong argument to raise the Australian pension age beyond 65. After all, the life expectancy of a 65-year-old in 2014 is likely to be approximately 50 per cent longer than it was in 1971 – that means an extra seven or eight years for both men and women.

It is therefore recommended that the government announce its intention to gradually raise the pension age from 65 to 67 commencing in 2015 with an approach similar to that used to raise the female pension age. Table 2 shows the pension age and date of pension eligibility for different dates of birth.

It is also recommended that the pension age be regularly reviewed in line with increases in life expectancy from the pension age. A reasonable way to proceed is that the pension age should increase (or decrease) by approximately 50 per cent of any increase (or decrease) in life expectancy from the pension age after 2022. An alternative approach would be to base the adjustment on changes in the healthy life expectancy. However, the use of the 50 per cent adjustment probably represents a practical proxy to the concept of a healthy life expectancy.

For example, if the life expectancy of an Australian 67-year-old increased by one year between 2022 and 2030, which is not unreasonable given recent experience, then the pension age should increase to 67.5 for both males and females.

A reasonable way to proceed is that the pension age should increase (or decrease) by approximately 50 per cent of any increase (or decrease) in life expectancy from the pension age after 2022.

### Effects of a higher pension age

A movement in the pension age would represent an important psychological change within the Australian community. Age 65 would no longer be “the age”. For males it would represent the first change in more than a century and we would be explicitly recognising our ageing population and, at the same time, encouraging Australians to work a little bit longer.

There is also likely to be savings to the Commonwealth budget, if current experience continues. Based on the latest statistics available for June 2004 (Department of FACSIA 2006), we note that 14.5 per cent of males and 11.3 per cent of females aged 50–59 receive some form of income support through disability income support or the New Start (unemployment) allowance. By ages 65–69, when both males and females are eligible for the age pension, the percentage of the population receiving income support increases to 65.9 per cent for males and 72.4 per cent for females.

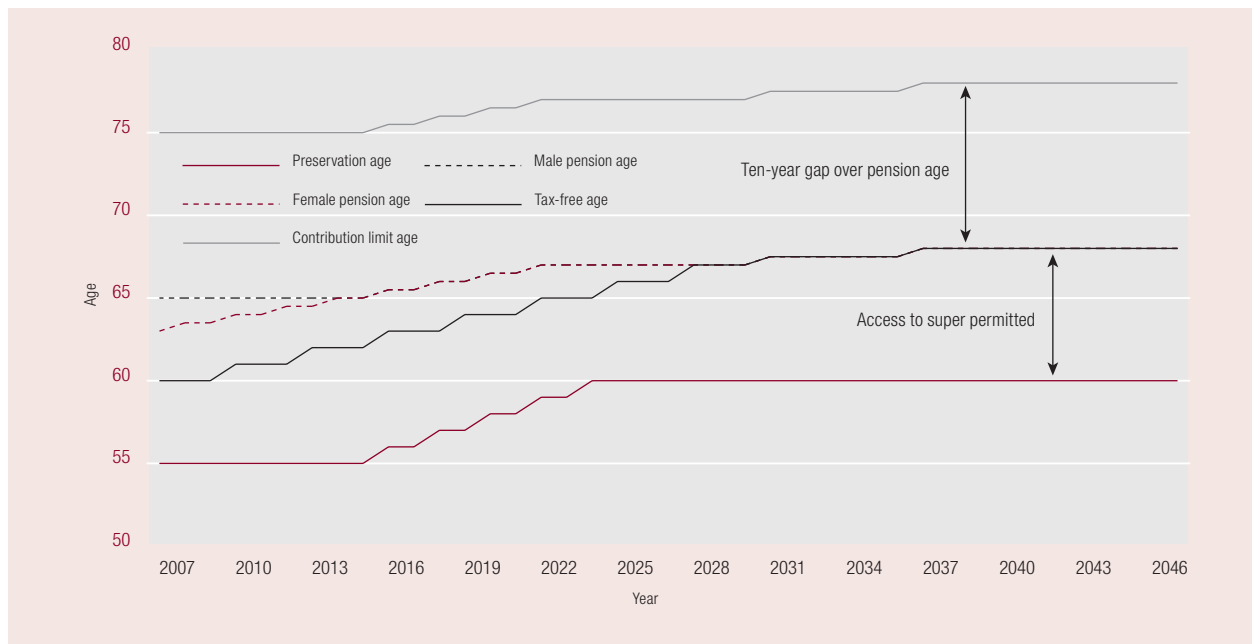
**TABLE 2 RECOMMENDED CHANGES TO THE AUSTRALIAN PENSION AGE**

DATE OF BIRTH	MALES		FEMALES	
	PENSION AGE	DATE OF ELIGIBILITY	PENSION AGE	DATE OF ELIGIBILITY
1-Jan-44	65	1/01/2009	63	1/01/2007
1-Jul-44	65	1/07/2009	63.5	1/01/2008
1-Jan-45	65	1/01/2010	63.5	1/07/2008
1-Jul-45	65	1/07/2010	63.5	1/01/2009
1-Jan-46	65	1/01/2011	64	1/01/2010
1-Jul-46	65	1/07/2011	64	1/07/2010
1-Jan-47	65	1/01/2012	64	1/01/2011
1-Jul-47	65	1/07/2012	64.5	1/01/2012
1-Jan-48	65	1/01/2013	64.5	1/07/2012
1-Jul-48	65	1/07/2013	64.5	1/01/2013
1-Jan-49	65	1/01/2014	65	1/01/2014
1-Jul-49	65	1/07/2014	65	1/07/2014
1-Jan-50	65	1/01/2015	65	1/01/2015
1-Jul-50	65.5	1/01/2016	65.5	1/01/2016
1-Jan-51	65.5	1/07/2016	65.5	1/07/2016
1-Jul-51	65.5	1/01/2017	65.5	1/01/2017
1-Jan-52	66	1/01/2018	66	1/01/2018
1-Jul-52	66	1/07/2018	66	1/07/2018
1-Jan-53	66	1/01/2019	66	1/01/2019
1-Jul-53	66.5	1/01/2020	66.5	1/01/2020
1-Jan-54	66.5	1/07/2020	66.5	1/07/2020
1-Jul-54	66.5	1/01/2021	66.5	1/01/2021
1-Jan-55	67	1/01/2022	67	1/01/2022

The interesting finding is in the 60–64 age group, remembering that the female eligibility age for the age pension in June 2004 was 62.5 (exactly the midpoint of the age group). The statistics show that 37.7 per cent of females received income support compared to 24.4 per cent of males, most of whom were receiving disability income support. As the female pension age continues to increase, it is likely that the proportion of females aged 60–64 receiving income support will continue to decline and will probably fall below the male percentage when the transition is complete.

This experience suggests that, if the pension age increases to 67, about 40 per cent of those aged 65 and 66 will no longer be eligible to receive income support from the Commonwealth. Of course, some 65- and 66-

**FIGURE 5 ILLUSTRATIVE INCREASES IN THE PENSION AGE AND THE RELEVANT SUPER AGES**



year-olds would receive disability income support. This change in the pension age is likely to result in a saving in the order of \$800 million p.a. (or 3–4 per cent of the age pension cost), assuming that 40 per cent of the 320,000 individuals aged 65 or 66 would no longer receive any income support (i.e. a part or full pension).

However, while this saving is important and would continue to ensure that Australia’s income support system is sustainable into the future, the more important outcome is the removal of age 65 as the fixed retirement age and the introduction of a more dynamic approach in defining the eligibility for the age pension.

### Superannuation

While the previous section concentrated on the pension age in Australia, there remains (potentially) an even more important legislative factor affecting the retirement of Australians – that is, the rules affecting superannuation.

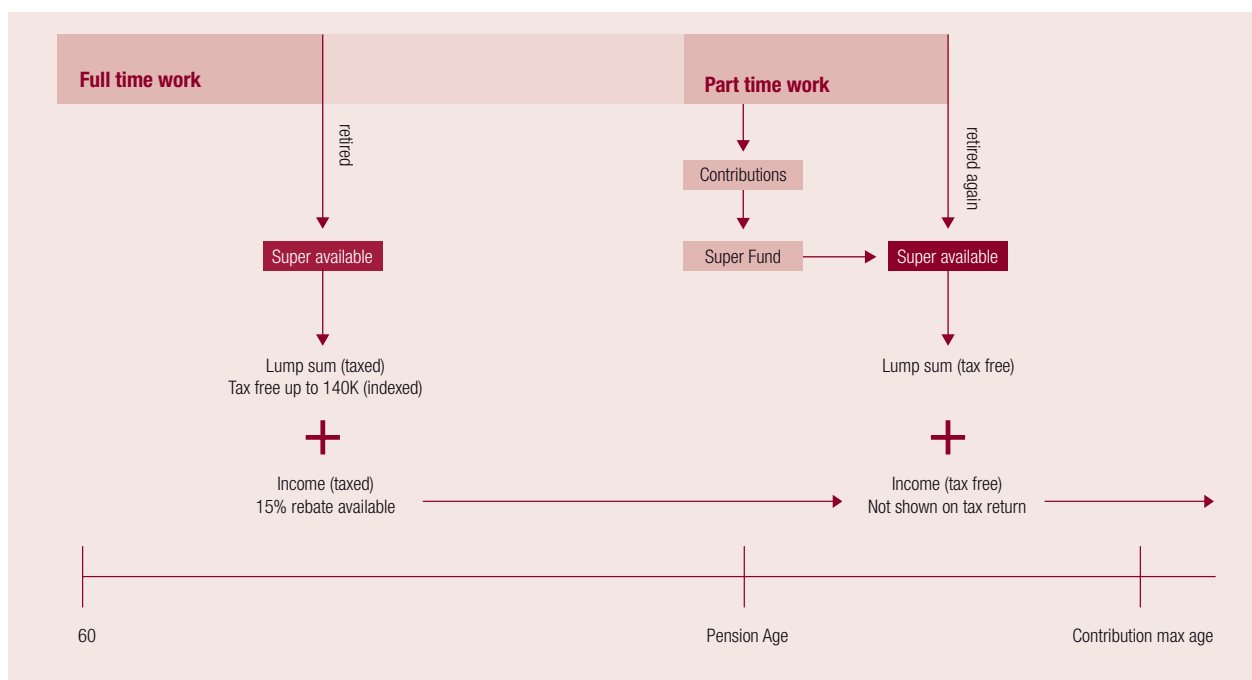
The compulsory nature of employer-financed superannuation in Australia through the Superannuation Guarantee (SG) for most employees and the strong encouragement provided by the Commonwealth government to defer retirement to age 60 through the significant superannuation taxation reforms introduced from 1 July 2007, mean that the provisions relating to superannuation will affect the retirement decisions of many Australians.

However, the current superannuation rules do *not* provide a clear indication of the government’s intention about the retirement age. For example:

The recent superannuation taxation reforms and the introduction of the transition to retirement provisions (which apply from preservation age), are clear incentives for many Australians to work a little longer.

- the preservation age (i.e. the age at which you can access your superannuation) is increasing from age 55 in 2015 to age 60 in 2024;
- retirement benefits paid from a taxed superannuation fund are tax-free from 1 July 2007, providing the member is aged 60 or over; and
- no work test is required for fund members to contribute to superannuation before age 65;
- similarly, the ability of members to contribute up to \$450,000 of non-concessional contributions in a single year (i.e. the equivalent of the limit for three years) is only available up to age 65;
- the SG requirements for employer contributions only apply to employees under age 70;
- spouse contributions are only permitted if the member’s spouse is under age 70;

**FIGURE 6 A PRESENTATION OF THE RELATED SUPERANNUATION LINKS NEAR RETIREMENT**



- the government’s co-contributions are only available for employees aged 70 or less at the end of the relevant financial year; and
- as the government has announced in its recent *Better Super* booklet, superannuation contributions can be made up to age 75, subject to the work test.

So, what does the superannuation legislation suggest for the retirement age? Clearly there is no single age and there is no clear message from this current raft of rules and regulations. Notwithstanding this diversity and ambiguity, the government does want to encourage later retirement and an increase in the labour force participation rate at older ages. The recent superannuation taxation reforms and the introduction of the transition to retirement provisions (which apply from preservation age), are clear incentives for many Australians to work a little longer.

However, the message can be clearer

First, the federal government could enable all contributions by an employer, employee or self-employed person to be made at any age provided that the person is no more than ten years older than the pension age. At the moment, this would be age 75 for males, which is consistent with the current contribution rules. However, should the pension age increase (as recommended earlier), this age should also increase. The SG should also be payable up to this age. After all, why is an employer not required to pay SG to a 73-year-old employee? Similarly, spouse contributions and co-contributions would be payable to this age.

Second, the federal government could gradually increase the tax-free age for superannuation benefits towards the pension age. Such a move would introduce consistency between the pension age and the “government-encouraged” retirement age. This would encourage Australians to work a little longer but would not mandate it. An increase of the tax-free age does not mean that retirees will be unable to access part of their superannuation before this age on a tax-free basis. After all, under the new arrangements introduced from 1 July 2007, retirees between the preservation age and age 60 are able to receive a lump sum benefit of up to \$140,000 (indexed) with no tax payable on the benefit. A similar arrangement could continue in the future if the tax-free age were increased.

... the federal government could gradually increase the tax-free age for superannuation benefits towards the pension age. Such a move would introduce consistency between the pension age.

Third, the preservation age should remain at age 60, thereby enabling Australians to access their superannuation or enter into a transition to retirement arrangement from this age. Although maintenance of this age may appear inconsistent with the above recommendations, it is important to note that there are many workers, particularly those with manual backgrounds, who may be unable to work beyond age 60, or who can no longer work full-time.

Figure 5 shows how all these ages could move in unison and thereby present a holistic approach to pension and retirement ages, while also permitting those beyond age 60, but under the pension age, to access their superannuation. The graph shows the recommended increase in the pension age as well as the effect of a hypothetical 0.5 increase in the pension age in both 2031 and 2037 due to increasing life expectancy.

... there is a need to change our community's understanding and focus on this single age.

Figure 6 indicates an example of how the recommended holistic structure would work for a person who retired shortly after preservation age, accessed part of their superannuation, and then re-entered the workforce on a part-time basis.

Finally, it needs to be recognised that by encouraging Australians to work longer and thereby deferring receipt of their superannuation benefits, there are three distinct financial advantages which will improve the adequacy of their retirement income. These are:

- the deferral of receiving the benefit, which means that the accumulated superannuation funds will receive investment earnings for additional years;
- additional contributions will be paid by the employer, and possibly by the employee and self-employed (especially as some other household costs tend to reduce at an older age); and
- the individual's actual life expectancy is decreasing each year so that the funds available (which are increasing) are required to provide income for fewer years.

The Transition to Retirement provisions which permit individuals to draw down on their superannuation after preservation age while continuing to work provide individuals with considerable flexibility in terms of their work–retirement balance after preservation age.

## Concluding remarks

The pension eligibility age and age of retirement are becoming critical issues for many countries as life expectancy continues to increase and the baby boomer generation approaches retirement. While the projected costs for the Australian age pension are moderate when compared to many developed countries, they still represent a considerable fiscal cost at a time when the Commonwealth budget will be under pressure from other age-related costs.

The recommendation in this paper to increase the pension age is not primarily prompted by the desire to reduce government expenditure. Rather, there is a need to change our community's understanding and focus on this single age. After all, the male pension age will not have changed in more than a century while the life expectancy of a 65-year-old has increased by more than 45 per cent in the last four decades. The pension age should not be fixed for the next century. Instead, it should have an in-built mechanism of change that reflects changes in life expectancy as well as broader community expectations.

The ages relating to superannuation contributions and benefits are more problematic, but change is also needed here. The current arrangements, notwithstanding the major reforms introduced on 1 July 2007, are difficult to understand and do not present a clear picture for older workers. This paper has recommended that, over time, these ages should be changed so that there is greater uniformity in respect of the maximum age for contributions and a gradual increase in the tax-free age for superannuation benefits. Such a change will provide a clear incentive to encourage greater labour force participation at older ages, which, as shown in the latest *Intergenerational Report*, will have a positive effect on real GDP per person. On the other hand, it is also recommended that the preservation age should not be increased beyond age 60, thereby recognising that some Australians are unable to work beyond this age. As is the case now, some tax-free superannuation benefits would continue to be available after preservation age.

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