

3 March 2022

Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Social Services Legislation Amendment (Workforce Incentive) Bill 2022

National Seniors Australia welcomes the opportunity to make a submission to the Senate Standing Committees on Community Affairs on the important issue of pensions and work.

As the peak consumer body representing older Australians, we have long held the view that the retirement income system is overly complicated, creating disincentives to work, save and spend.

We support the measures to:

- Suspend benefits and entitlements instead of cancelling them, and
- Extend qualification for pensioner concession cards for two years.

However, we do not believe the proposed measures will have much, if any, impact on workforce participation among older Australians.

The changes will not provide adequate incentive to re-join the workforce and will not contribute to older people staying in the workforce or working more hours.

The proposal to allow Age Pension recipients to retain the Pensioner Concession Card for two years when they re-join the workforce is predicated on the assumption that this is enough of an incentive to do so. It is arguable whether this is enough of an inducement.

National Seniors Australia believes the largest barrier to workforce participation among pensioners is the penalty inherent in the current income test coupled with onerous reporting requirements.

Currently, only three per cent of Age Pension recipients (76,000) report any income from employment¹.

Low-wealth pensioners, whose pension entitlement is determined by the income test, lose 50c in the dollar when they earn more than \$240 per week. This is roughly the equivalent to one day of work. We believe that pensioners in this situation do not see any point in working or working more, because they lose their pension and have to report fortnightly to Centrelink.

In New Zealand, there is a much simpler pension / work system. New Zealand has a universal pension and no means testing. Workforce participation in New Zealand of people aged 65 and over is 24.8%. In Australia, it is only 14.2%ⁱ.

National Seniors believes one of the main reasons for lower participation in Australia, is the penalty faced when working. In New Zealand, pensioners simply work and pay tax. In Australia, when pensioners work, they lose their pension, pay tax and report to Centrelink. We strongly believe these combined disincentives, have had a significant impact on workforce participation in Australia.

This situation has negative impacts for the Federal Budget and for the economy generally. As a Deloitte Access Economics report found in 2012, encouraging a five percent increase in workforce participation of people aged 55 and over would result in boost to GDP of \$48 billionⁱⁱⁱ.

Encouraging more pensioners to work will provide a boost to the economy and to tax revenue.

It will also likely encourage older people to work in the formal economy, boosting tax revenues. National Seniors is aware that some older Australians are operating in the black economy to avoid losing their pension, and in the process are not paying income tax. An exemption from the income test would likely reduce the incentive to be paid in cash, thus boosting tax revenue.

To be clear, we are not suggesting an increase to the Work Bonus limit. The Work Bonus is a scheme that operates within the pension income test arrangements to allow pensioners to earn an annual amount of employment income (\$7,800) without impacting the pension. Under this scheme a pensioner must report their income fortnightly to ensure they comply and stay within its limits.

Lifting the Work Bonus limit will not remove the need to constantly report income to Centrelink and therefore is not a simplification of the system.

While the Work Bonus scheme has been introduced to ensure employment income exemptions are targeted, it is too complicated to encourage greater workforce participation. Unfortunately, moves to increase the Work Bonus limit in 2018, did little to arrest the ongoing decline in workforce participation among pensioners.

An exemption for those with limited assets would be simpler. Those eligible would know they could work without penalty and without complicated fortnightly reporting to Centrelink.

An exemption to the income test for employment income would have another benefit over the policy changes within the current Bill. It would support older workers to stay in or work more hours (where the proposed changes would only encourage seniors to re-join the workforce).

It is more effective to have people retained in or work more than they currently are. This is because it is more difficult to re-enter the workforce after an absence, especially later in life.

While we support the changes proposed in the draft Bill, we strongly believe low-wealth pensioners should be given an exemption from the income test as a more effective means of encouraging workforce participation

and eliminating pension poverty (pension poverty is much higher in Australia than in countries such as New Zealand which do not have income test attached to pensions entitlements).

This would encourage a greater number of older people to stay in, re-join or work more hours.

National Seniors Australia would also support changes to the income test arrangements for other payments, such as JobSeeker, Carers Payment and the Disability Support Pension, because we believe this would encourage greater workforce participation among recipients.

Yours sincerely



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ⁱ <https://data.gov.au/data/dataset/dss-payment-demographic-data>

ⁱⁱ <https://data.oecd.org/emp/labour-force-participation-rate.htm#indicator-chart>

ⁱⁱⁱ <https://www2.deloitte.com/au/en/pages/economics/articles/increasing-participation-among-older-workers.html>