

AUSTRALIA

		Key indicators		
		Australia	OECD	
<p style="text-align: center;">Australia: pension system in 2008</p> <p>Australia's retirement income system has three components: a means-tested Age Pension funded through general taxation revenue; the superannuation guarantee, a compulsory employer contribution to private superannuation savings; and voluntary superannuation contributions and other private savings, which are encouraged to support self-provision in retirement.</p>	Average earnings	AUD	60 400	48 600
		USD	50 400	40 600
	Public pension spending	% of GDP	3.3	7.0
	Life expectancy	at birth	81.5	78.9
		at age 65	84.8	83.1
Population over age 65	% of working-age population	22.1	23.6	

Qualifying conditions

The Age Pension¹ is payable from age 65 for men. Women's pensionable age — currently 63.5 — will increase gradually to become 65 by 2014. Pension age will then be increased by 6 months every two years from 2017 until it reaches 67 by 2023. The minimum age for withdrawing superannuation guarantee benefits is currently 55, but this will increase gradually to 60 by 2025.

Benefit calculation

Defined contribution

The superannuation guarantee² was introduced in 1992. It consists of a mandatory employer contribution to a private pension plan. The pension plans may be operated by the employer, industry associations, and financial service companies or even by individuals themselves. The mandatory contribution rate has been 9% of employee earnings since the 2002-03 tax year.

Employers need not contribute for workers earning less than AUD 450 a month (equivalent to AUD 5 400 a year), but they can choose to contribute for these workers (Note that this minimum has not been raised in the past). There is also a limit to the earnings covered by the superannuation guarantee: employers need not contribute for employees' pay above this threshold. For each quarter of the financial year 2006-07, this amount was AUD 35 240 and for each quarter of the year 2007-08, it is AUD 36 470. This limit is worth around 2½ times average wages and is indexed to a measure of average earnings.

The withdrawal stage of the superannuation guarantee complicates the calculations. Although there are some defined-benefit occupational plans, most employees are members of defined-contribution schemes. Members can take out the accumulated capital as a lump sum or some sort of income stream. Currently, most benefits are taken as a lump sum. For comparison with other countries (where defined-benefit plans predominate), the capital from the superannuation guarantee is assumed to be converted to a price-indexed annuity. The annuity calculation is based on mortality data for Australia.

Targeted

The Age Pension is designed to provide a safety net for those unable to save enough through their working life and to supplement the retirement savings of others. The income and assets tests (means test) are used to target payments to those in need.

The value of the Age Pension is adjusted biannually and is paid fortnightly. In September 2007, the maximum single rate of pension was AUD 538 a fortnight, increasing to AUD 547 in March 2008 and AUD 562 in September 2008. (All values have been rounded to the nearest dollar.) This gives an average for the tax year of an annual benefit of AUD 14 313.

The Age Pension's value is increased in line with price increases as measured by the Consumer Price Index (CPI). Where necessary, a further increase is made to ensure that it does not fall below 25% of pre-tax Male Total Average Weekly Earnings on the national definition (which is slightly different from the earnings measure used in OECD analysis).

The Age Pension starts to be reduced once annual income from other sources exceeds a threshold known as the 'free area'. This is adjusted annually in July. The amounts for 2008 were AUD 132 in the first half and AUD 138 in the second half of the year (again calculated fortnightly). An assets test also applies. Almost 44 % of all pensioners have their benefits reduced by the means test and are therefore on part-rate Age Pension. Within this group 82% are income tested and 18% are assets tested. Just over 56% of pensioners are on the maximum rate Age Pension.

Variant careers

Early retirement

Access to superannuation benefits (including superannuation guarantee benefits) is currently possible for retirement on or after age 55 (increasing to age 60). Individuals who are still working can also access their benefits from age 55, but only in the form of a non-commutable income stream. The Age Pension is not paid earlier than the qualifying age for men (age 65) and women (age 63.5, increasing to 65 by 2014).

Late retirement

It is possible to defer claiming superannuation after 65. Employers are required to make superannuation contributions under the superannuation guarantee arrangements for their eligible employees up to the age of 70.

It is also possible to defer claiming the Age Pension after 65. The pension bonus scheme pays a once-only, tax-free lump sum to eligible members who defer claiming the Age Pension and continue to work. The bonus is paid when the eligible member claims and receives the Age Pension. A person must register and work a minimum of 12 months from date of registration, and must complete at least 960 hours of gainful work each year. The bonus can be accrued for up to 5 years. The amount of bonus depends on the rate of the Age Pension a person qualifies for when they eventually claim and receive it. The bonus is 9.4 per cent of the basic age pension entitlement for the first year of deferral. For 2 years, the bonus is 4 times that amount, 9 times for 3 years, 16 times for 4 years and 25 times for 5 years. The maximum, 5-year bonus is equivalent to 2.35 times one year's maximum Age Pension entitlement.

Childcare

There is no specific protection for periods out of work in the superannuation guarantee. Voluntary contributions are possible for periods out of paid work.

The means-tested structure of the Age Pension provides some protection for people with periods out of the workforce, in that it provides a safety net and supplements the retirement incomes of those unable to save enough during their working life.

Unemployment

There is no specific protection in the superannuation guarantee for periods out of work. Voluntary contributions are possible for periods out of paid work.

There are no credits in the superannuation scheme for periods of unemployment.

The means-tested structure of the Age Pension provides some protection for people with periods out of the workforce, in that it provides a safety net and supplements the retirement incomes of those unable to save enough during their working life.

Personal income tax and social security contributions

Taxation of pensioners

Older Australians and other Australians who receive a government pension may be entitled to one of two personal tax concessions in addition to the standard reliefs.

A credit (the senior Australians tax offset) is available for those of pensionable age (see under qualifying conditions above) who also satisfy a residency test. This is AUD 2 230 for singles in 2007-08 with income up to an income threshold of AUD 25 867 and is withdrawn at a rate of 12.5% for income in excess of the threshold. The credit fully phases out for singles at an income of AUD 43 707 and above.

There is a credit for pensioners in receipt of certain pension income (the pensioner tax offset), which has different eligibility criteria from the senior Australians tax offset. It is not possible to claim both of these offsets and for 2007-08 the latter is more generous for those eligible for both. The effect of the credit is that all those receiving the full rate of the government pension will have no net income tax liability, and most of those who receive a part pension will have a reduced liability. The credit is non-refundable; it cannot create a negative tax liability.

Taxpayers eligible for the senior Australians tax offset benefit from a higher value of the low-income Medicare levy threshold (AUD 25 867). This means that pensioners receiving the full amount of the offset will pay no Medicare levy. The normal rate of the levy is 1.5% of income.

Taxpayers aged 55 years or more may also be eligible for the mature age worker tax offset. Only net income from working is eligible for the offset. Accordingly taxpayers with only superannuation, social security benefits, rental, interest, or dividend income are not eligible.

The offset phases in, at 5%, from the first dollar of assessable income earned, so that the full AUD 500 is available when earned income reaches AUD 10 000. The offset starts to phase out, at 5%, from AUD 53 000, so that no offset is available when net income from working exceeds AUD 63 000.

A private health insurance rebate is available to those taxpayers who have private health insurance. The normal rate of private health insurance rebate is 30 per cent. However, from 1 April 2005, for people aged from 65 to 69 years it is 35 per cent, and for people older than 70 years it is 40 per cent.

Taxation of private pensions

The superannuation guarantee has some tax extracted at two stages for those individuals who withdraw their superannuation when they are aged 60 or over: when contributions are made and when investment returns are earned. Individuals who withdraw their superannuation before age 60 may also pay tax on the benefit payment.

A 15% tax is levied on deductible employer contributions to the fund.

Investment earnings of the superannuation fund are taxed, again at 15%. (However, the effective tax rates are usually lower through imputation credits and the capital-gains-tax discount.) Investment earnings on assets supporting a pension are tax free.

Significant changes to the taxation of end benefits were introduced from 1 July 2007.

From 1 July 2007, superannuation benefits paid from a taxed source (that is, where tax has been paid on contributions and earnings) either as an income stream or as a lump sum are tax free for people aged 60 and over. Where benefits are paid from a taxed source to a person below the age of 60, those benefits are subject to taxation. Benefits paid from untaxed schemes (mainly affecting public servants) are also taxed, but at reduced rates when paid to those aged 60 or over.

Previously the reasonable benefit limit system determined the maximum amount of superannuation benefits that a person may receive on a concessional tax basis. Reasonable benefit limits were abolished from 1 July 2007. Instead, superannuation concessions are limited by caps on contributions to superannuation. Concessional contributions (which include all contributions made by an employer on an individual's behalf) that exceed an annual threshold (AUD 50 000 in 2007-08) are subject to an additional tax levied on the individual (at 31.5 per cent on the excess contributions). The individual may choose to pay this tax by withdrawing amounts from the fund.

Under the reforms, the pension assets test taper rate has also been halved from AUD 3 to AUD 1.50 per fortnight commencing 20 September 2007. This change decreases effective marginal tax rates and improves incentives to save.

Social security contributions paid by pensioners

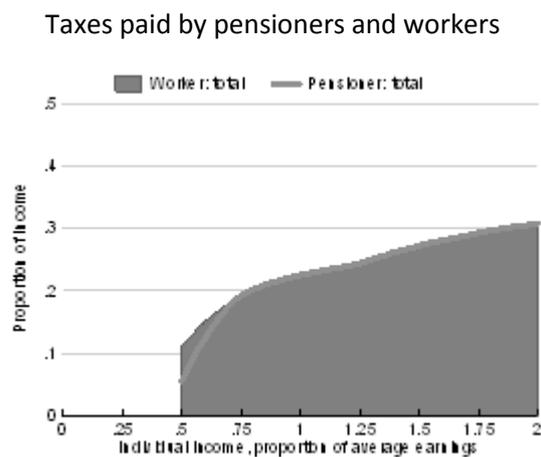
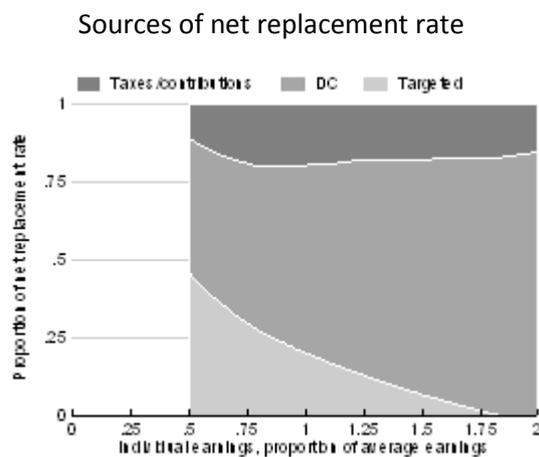
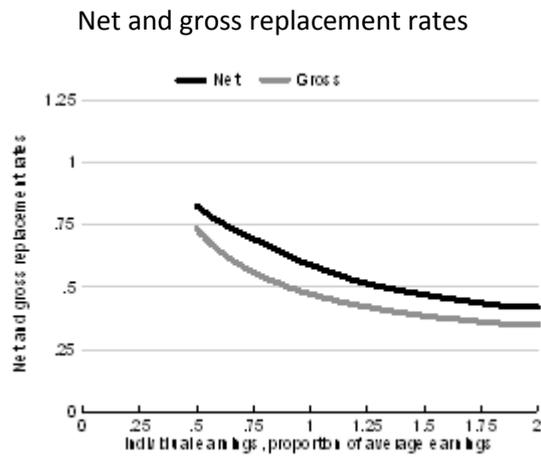
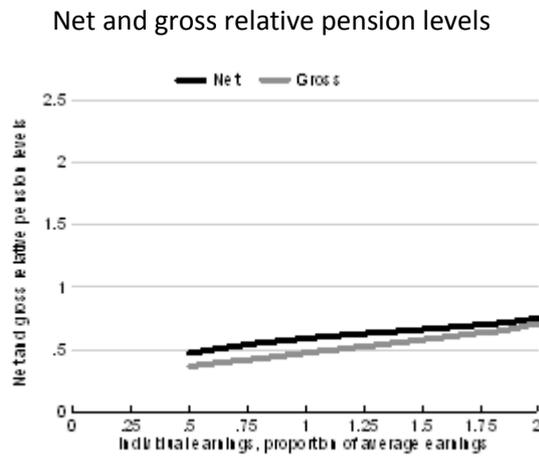
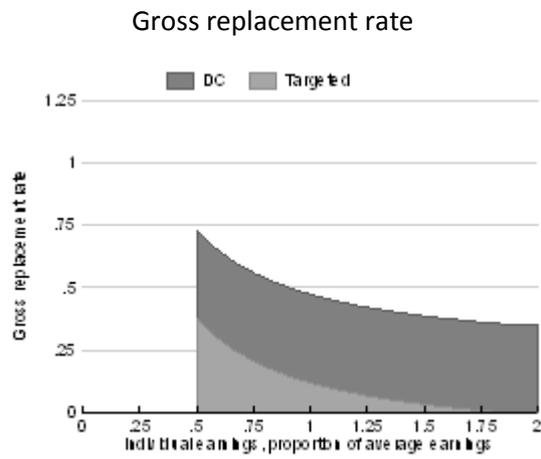
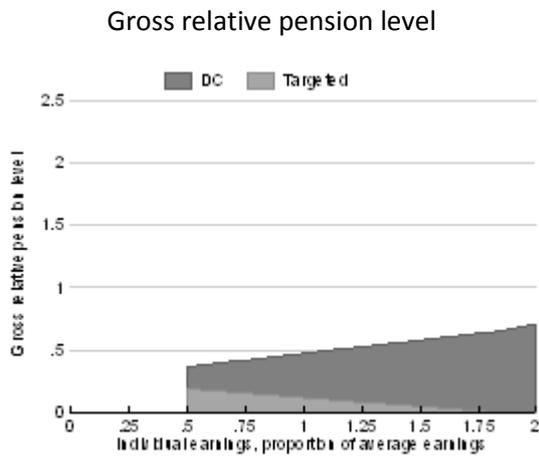
There are no social security contributions in Australia. The Age Pension and other benefits are financed from general revenues.

Notes

1. *Note by the Australian Government:* Australia's Age Pension cannot be compared directly to benefits for the aged provided by other OECD countries, which are primarily aimed at income replacement. Australia's Age Pension is mean-tested, non-contributory and is funded from general taxation revenue. In addition to cash payments provided by the Age Pension, Australian seniors can be eligible for a comprehensive system of concessions for health and pharmaceuticals and other living expenses.

2. *Note by the Australian Government:* The Australian system also includes (government-supported) superannuation. OECD calculations include superannuation but differ from those of the national government.

Pension modelling results: Australia



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	43.7 41.6	36.7 35.4	42.0 40.1	47.3 44.8	57.9 54.2	70.9 63.6
Net relative pension level (% net average earnings)	56.0 53.7	47.3 45.7	54.2 51.8	58.9 56.9	66.3 63.8	75.0 70.1
Gross replacement rate (% individual gross earnings)	52.6 50.1	73.3 70.8	56.0 53.5	47.3 44.8	38.6 36.1	35.4 31.8
Net replacement rate (% individual net earnings)	65.9 63.2	82.5 79.7	69.3 66.2	58.9 56.9	47.1 45.3	42.0 39.2
Gross pension wealth (multiple of average gross earnings)	9.0 10.0	13.1 14.7	9.7 10.7	8.0 8.7	6.3 6.8	5.7 5.8
Net pension wealth (multiple of average net earnings)	9.0 10.0	13.1 14.7	9.7 10.7	7.7 8.6	5.6 6.2	4.6 4.9