Policy Institute Australia

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A couple in a $5 million home can get the full pension. Their renting neighbours with $1.5 million in super get none.

A new Policy Institute Australia report identifies $21 billion in savings and a path to a fairer, more sustainable social safety net

- Australia's social safety net is strong – but is starting to fray. Benefits growth is outpacing the economy, and flowing to Australia's most well-off households.
- A retired couple in a $5 million home can collect the full pension worth about $50,000 a year, and access up to $150,000 a year in additional support if one spouse moves into aged care. The couple next door — who rent, and have saved $1.5 million in super — receive no pension and roughly half the aged care support.
- "Home truths: The case for rebalancing toward better means testing" proposes an evolution in means testing grounded in the principles of equity and sustainability. The report proposes better targeted means testing across four programs – the Age Pension, Aged Care, the Child Care Subsidy and Parental Leave Pay.
- The proposed changes produce savings of $21 billion this year. Most Australians would either be unaffected by the changes, or better off. The policy design protects lower and middle income households, while restoring fairness at the top end.
- The savings of $21 billion is significant. It could fund $5,000 a year in extra support for the 4.4 million households in the bottom 40% of the income or wealth distribution, be returned to taxpayers through a 1.7 percentage point cut in the tax rate for all thresholds or reduce the fiscal deficit by 70%.

Australia has one of the best social safety nets in the world. For generations the deal has been simple: if you need a hand, the country helps.

A new report from Policy Institute Australia shows the rules underpinning our social safety net are allowing it to fray. Government benefits are growing faster than the economy, and a rising share now flows to Australia's most well-off households.

In-kind transfers including programs such as aged care, child care, health and education are now growing at more than six times the rate of cash transfers like JobSeeker. Unlike cash transfers, in-kind subsidies are poorly targeted: households in the bottom 20% of the income distribution can receive less in in-kind support than those at the top. The retired couple in a $5 million Sydney home — among the wealthiest 3 per cent of Australians – are playing by the rules. But the rules mean they are eligible for a full Age Pension worth $50,000 a year, and up to $150,000 in additional support if one of them moves into Aged Care. The couple next door who rent and hold $1.5 million in super are not eligible for the pension at all, and would get roughly half the Aged Care support.

Less than 1% of households have incomes high enough to exclude them from both the Child Care Subsidy and Parental Leave Pay. A family with two children and a combined income of $400,000 – in the top 4% of households – may qualify for up to $21,000 a year in Child Care Subsidy support and about $20,000 in Parental Leave Pay.

Most Australians unaffected or better off by our proposed approach

The report's proposals are designed with the principles of equity and sustainability front and centre.

- Low and middle income families would get a bigger childcare subsidy through a lift in the subsidy rate from 90% to 95%.
- A single retiree in a home worth up to around $1 million (or a couple in a home worth up to around $1.2 million) would still get the full pension, if that's where most of their wealth sits.
- Aged care support would increase for those at the lower and middle wealth households.
- Income tax cuts from the savings could offset a potential reduction in benefits for higher income households – including those who are well off.

What $21 billion could do

Better targeting the Age Pension, Aged Care, the Child Care Subsidy and Parental Leave Pay is estimated to generate $21 billion in savings this financial year. That money could:

- Fund an additional $5,000 each year in benefits to the 4.4 million households in the bottom 40% of households by income or wealth;
- Provide for meaningful increases in JobSeeker or Rent Assistance (current expenditure $16bn and $7bn respectively);
- Cut the tax rate for all income tax thresholds by 1.7 percentage points, reducing taxes by up $2,000 for Australians in the middle bracket and up to $8,000 in the top bracket; or
- Pay down about 70% of the fiscal deficit this financial year.

ReCS – A new approach to supporting retirement

To ensure retirees can maintain a good standard of living in retirement, the report proposes a voluntary scheme called the Retirement Contribution Scheme, or 'ReCS'.

Modelled on HECS, ReCS is an opt-in scheme that would enable retirees to draw an interest-free loan against their assets – shares, superannuation, investment properties or their home. Repayment is deferred until those assets are sold, such as when they downsize or move to a retirement village or from the estate. The report estimates about 1 in 20 retirees would be likely to take this up in its first year. For those who do, it offers a way to self-fund a comfortable retirement at less cost to the taxpayers – a fairer deal for everyone.

Quotes

Amy Auster, chief executive of Policy Institute Australia, said:

"For decades, Australia has led the world in supporting those who need it most. This is a track record to be proud of. But today more and more of that support is flowing to the most well off Australians – in large part because rules have not been updated. We think it's time to have that conversation."

"This isn't about attacking aspiration or achievement. It's about making sure that taxpayer dollars are used where they are really needed. With smarter targeting, we can do more for the people who really need support while creating more room to invest in Australia's future."

Ms Auster is available for radio and television interviews and can explain the findings in plain language for a general audience. Real-life examples and case studies are available on request.

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