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Universal welfare is uneconomic

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The Policy Institute Australia has put a welcome focus on the need to rethink what has become an unstoppable trend towards universal welfare entitlements and instead to take a harder look at means testing. Growth in middle-class welfare was a key complaint made of the Howard government but has become an article of faith under Anthony Albanese.

Means testing is not perfect and can create distortions. But universal coverage regardless of means adds unnecessary costs for government and denies resources to those who need help most.

The PIA report estimates the government could cut $21bn in welfare through better means testing in four key programs, including rejecting the Prime Minister's universal childcare subsidy in favour of an option that reduces wealthier households' benefits. The biggest savings would come through stricter application of the assets test in the Age Pension and aged care programs, with savings of about $16bn. Other programs in the PIA's sights include Parental Leave Pay and the Child Care Subsidy.

An ageing population means demands on aged care services will continue to grow. Finding a way for users to carry more of the cost will always be controversial but is necessary.

The PIA also suggests a new scheme to deal with the fact many older Australians are asset rich but cash poor. The report gives the example of a retired couple who live in a Sydney home worth $5m, making them among the wealthiest 3 per cent of all Australians, but could still qualify for a full Age Pension worth about $50,000 a year, and up to $150,000 a year in additional support if one spouse moves into aged care. Meanwhile, the couple next door who rent and hold $1.5m in super receive no pension and roughly half the aged care support.

It is not unreasonable to ask those with assets to use them for personal services. The PIA suggests a retirement contribution scheme where participants could draw an annual income of up to 150 per cent of the pension rate as a loan against their assets (such as shares, an investment property or a home). Like HECS, the loan would be interest-free and indexed to inflation. The loan would be repaid when assets eventually were sold. The report estimates about one in 20 retirees would be likely to take this up in its first year.

As PIA points out, the uncomfortable truth is that Australia's safety net is growing faster than the economy, with a rising share of taxpayer support flowing to Australia's most well-off households. There is no argument to allow government to plunder the resources of those who have spent a lifetime saving to make provisions for their retirement years. But neither can it be justified for taxpayers to foot the bill so assets can be protected for inheritance.

Schemes such as the retirement contribution scheme might be worth considering but the guiding principle must be to fix the budget, not open up funds for profligate spending in other areas.

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