# Australia: Productivity Commission proposes further major cutbacks to pensions

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The Productivity Commission, the Australian government's principal micro-economic advisory and review board, last week issued a report promoting the benefits for government savings of including retirees' homes in the age pension eligibility test and recommending measures to slash the number of those receiving the pension.

Currently 3.2 million retirees receive a full or part pension. Established in 1909, Australia's aged pension has from 1912 exempted the principal residence from its assets test. Well aware of the public outrage that the immediate abolition of the exemption would provoke, the Commission advised acting cautiously and proposed alternative measures to force retirees to draw on the equity "locked" away in their homes.

Entitled *Housing Decisions of Older Australians*, the 242-page research paper comes amid a growing chorus of demands from big business for drastic cuts in welfare spending. It follows the Henry Tax Review in 2010, the Productivity Commission's *An Ageing Australia: Preparing for the Future* in 2013 and the National Commission of Audit in 2014, which all called on the government to slash pension spending.

The Productivity Commission study claims that the current arrangements are "unfair," "inefficient" and benefit wealthy pensioners. It states that 80 percent of retirees own their own homes and were collectively receiving $44 billion annually from the age pension despite having $1 trillion in home equity.

The real concern, however, is not social inequality, but cutting government spending. If the family home were included in eligibility tests, the commission declared, the federal government could reduce its annual budget by $6 billion by pushing about 360,000 people off the pension.

Productivity Commissioner Karen Chester told the media that elderly Australians were "over-providing by holding onto the family home" and reluctant to downsize or move into retirement homes.

Chester told the *Australian Financial Review* that "one of the biggest impediments" to pension reform was the "attitude" of pensioners. "It's quite sad and perverse that among some very low-income Australians the precautionary savings motive is making them net savers in retirement," she said.

The Productivity Commission report complained that greater availability of in-home care for the elderly was turning residential aged-care into an "end of life service," with the typical admission age 83 years. It called for increases in co-payments for those using home services or in residential care.

The corporate media hailed the recommendations. An editorial in the *Australian* on December 2 declared that pensions should not "be ring-fenced from reform" and that the Turnbull government could not "afford to turn a blind eye to the cost of the age pension."

The commission's recommendations, the editorial declared, served "the national interest." The "national interest," of course, is the balance sheet and profits of the banking finance and retirement industries, which stand to make millions from the further pauperisation of the elderly if the proposals are adopted.

One of the key recommendations is for Australian governments—federal, state and local—to change existing laws to "encourage" retirees to take out reverse mortgages to either fund moves to smaller homes or make up for inadequate pension payments.

The finance industry and property developers that have driven up the median house price in Sydney to nearly $1 million now want access to the store of wealth "locked up" in family homes by pressuring retirees to sell or take out reverse mortgages.

Not surprisingly, the Property Council of Australia endorsed the Productivity Commission report and suggested that up to $200,000 of home sale proceeds be exempted for full pensioners aged 75 and over, on the condition that they move to a smaller premises within 12 months.

Combined Pensioner and Superannuants Association spokesperson Amelia Christie told the media that "the exemption of the family home from age and other pension means testing was not based on some irrational fear.

"Pensioners want that exemption because the family home is the only certainty they have in retirement," Christie said. "Older Australians want the certainty of having a roof over their head without being forced to sell it or hock it as part of a reverse mortgage to pay for groceries."

Christie also pointed out that while the current pension system assumed that people owned their own homes, over 25 percent of the 3.2 million receiving the age pension were in the private rental market and facing serious housing stress.

According to recent rental affordability figures, a single pensioner on a full rate pension and maximum rent assistance receives only $498.20 per week. The median rent in Greater Sydney for a one-bedroom apartment is $460, however, leaving the pensioner with just $38.20 per week to spend on electricity, food, transport and health costs.

The Productivity Commission did not recommend lifting rent assistance to provide a decent standard of living and ensure greater social equality, but politely suggested there would be "merit" in a review of current arrangements.

Australian Treasurer Scott Morrison, with an eye on next year's federal election, told the media that the Turnbull Liberal-National government would not include the family home in pension eligibility tests. This assurance is worthless.

The attack on the age pension began under the Hawke-Keating Labor governments of 1983–96. They introduced the compulsory superannuation system that was a massive boon for the finance industry, with the aim of forcing people to pay for their own retirement. Consecutive Labor and Liberal-National governments have continued this assault, systematically undermining the rights and living standards of pensioners.

In 2013, the Productivity Commission proposed that the pension age be lifted to 70 years in order to slash $150 billion from the welfare budget. While this is yet to be adopted, the current 65-year pension age is being lifted in six-monthly increments, starting in July 2017 until it reaches the age of 67 years from 1 July 2023.

Just before this year's budget, the government tightened the eligibility test, reducing the value of financial assets pensioners can hold while still receiving a part pension. The measure, which was backed by the Greens, is expected to cut the government's pension bill by $2.4 billion over the next four years.

The attack was justified on the basis that "millionaire pensioners" had to be driven off the pension. In fact, if the family home is not counted in the assets of the country's 3.2 million pensioners, only 8,400 have funds over $1 million.

The May budget cuts will begin in January 2017, after next year's federal election, and see an estimated 235,000 people have their part-pensions reduced and another 90,000 will have them eliminated entirely. Under the new testing arrangements a retired couple who own their own home and have other assets totalling $500,000 will have their annual combined pension cut by $1,892 to $25,173. Part-pensions would be completely eliminated for couples with retirement savings exceeding $823,000, down from the current limit of $1.15 million.

Over time, as inflation eats away at savings, the impact will deepen. According to one analysis, a million people will face cuts to their pensions within a decade, including half of all new retirees.

Two months before the Productivity Commission released its report, figures from Global AgeWatch Index revealed that one-third of Australians over the age of 60 are living below the poverty line.

The annual index, which ranks 96 countries according to pension incomes, poverty rates, welfare and GDP per capita of their over 60s, placed Australia 17th in the world, behind New Zealand and Canada.

The Productivity Commission report is yet another indication that even harsher assaults are being prepared against the right to an age pension and the already difficult living standards facing many older workers and their families.

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