



Intergenerational fairness

Presentation to CEDA Council on Economic Policy

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Intergenerational fairness

Government budgets are unsustainable: spending on older households is a substantial cause of the problem

- Australian government budgets have been unsustainable for 7 years
- The dominant pressures on Australian government budgets are increased spending on older households
- Governments are spending more on older households, to pay for increased health services, Age Pensions and aged care
- The increase spending reflects policy choices, not ageing

The wealth of older households is increasing much faster, although some are doing it tough

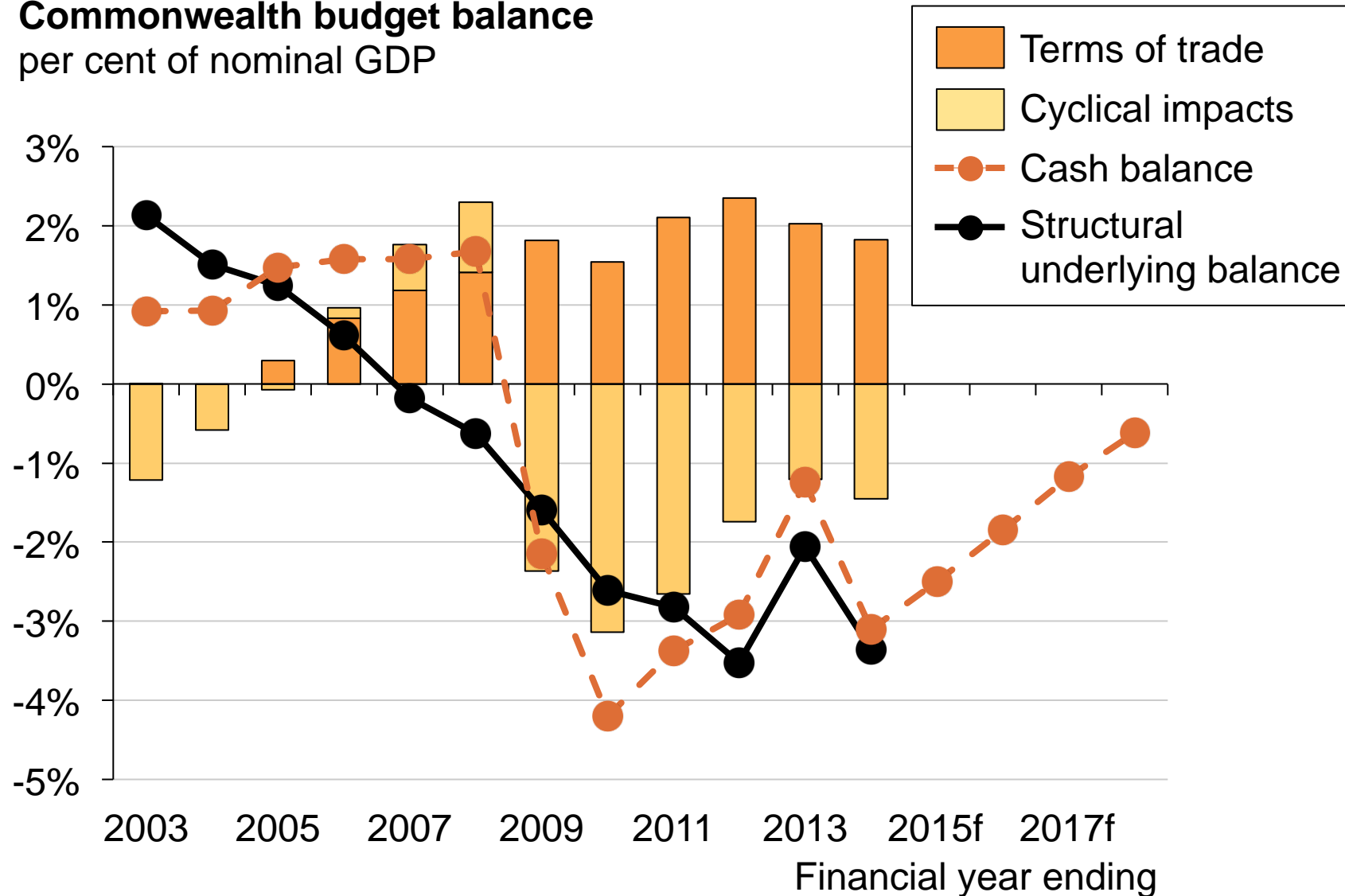
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- Younger households are missing out, even though they are *are* saving much more
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Responsible budget repair will disproportionately affect older households with more assets

- Better targeting of age pensions, superannuation, and asset taxation dominate the options for budget repair that are both large and socially responsible
- Reforms would also create incentives for more older workers to work for longer

The Commonwealth's structural deficits was masked by mining boom and GFC

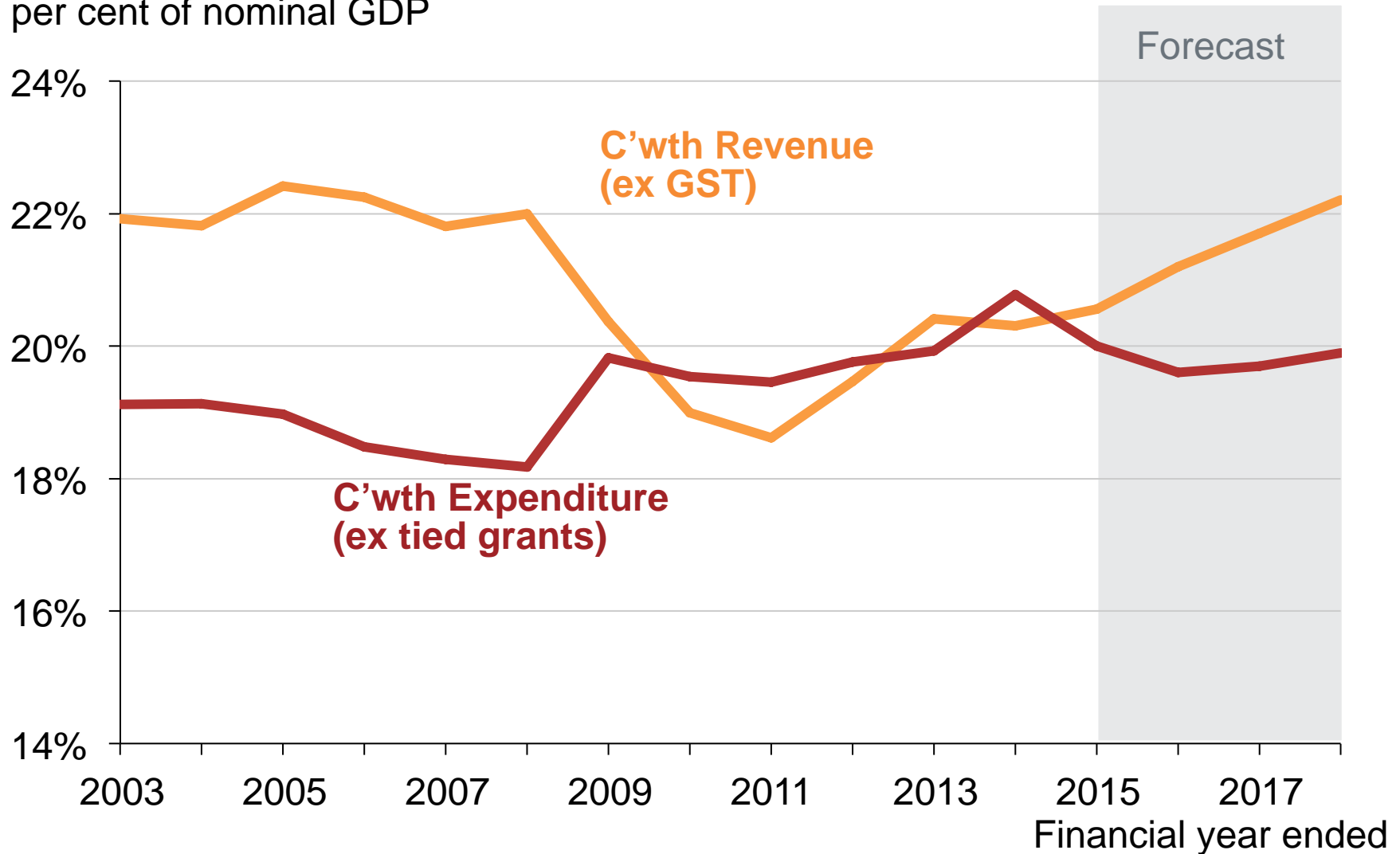
Commonwealth budget balance
per cent of nominal GDP



Note: Cash balance is equal to receipts minus payments, minus Future Fund income, (under 0.25 per cent of GDP)
Source: *Budget Pressures 2014*

Both revenue and expenditure are worse than longer-run levels

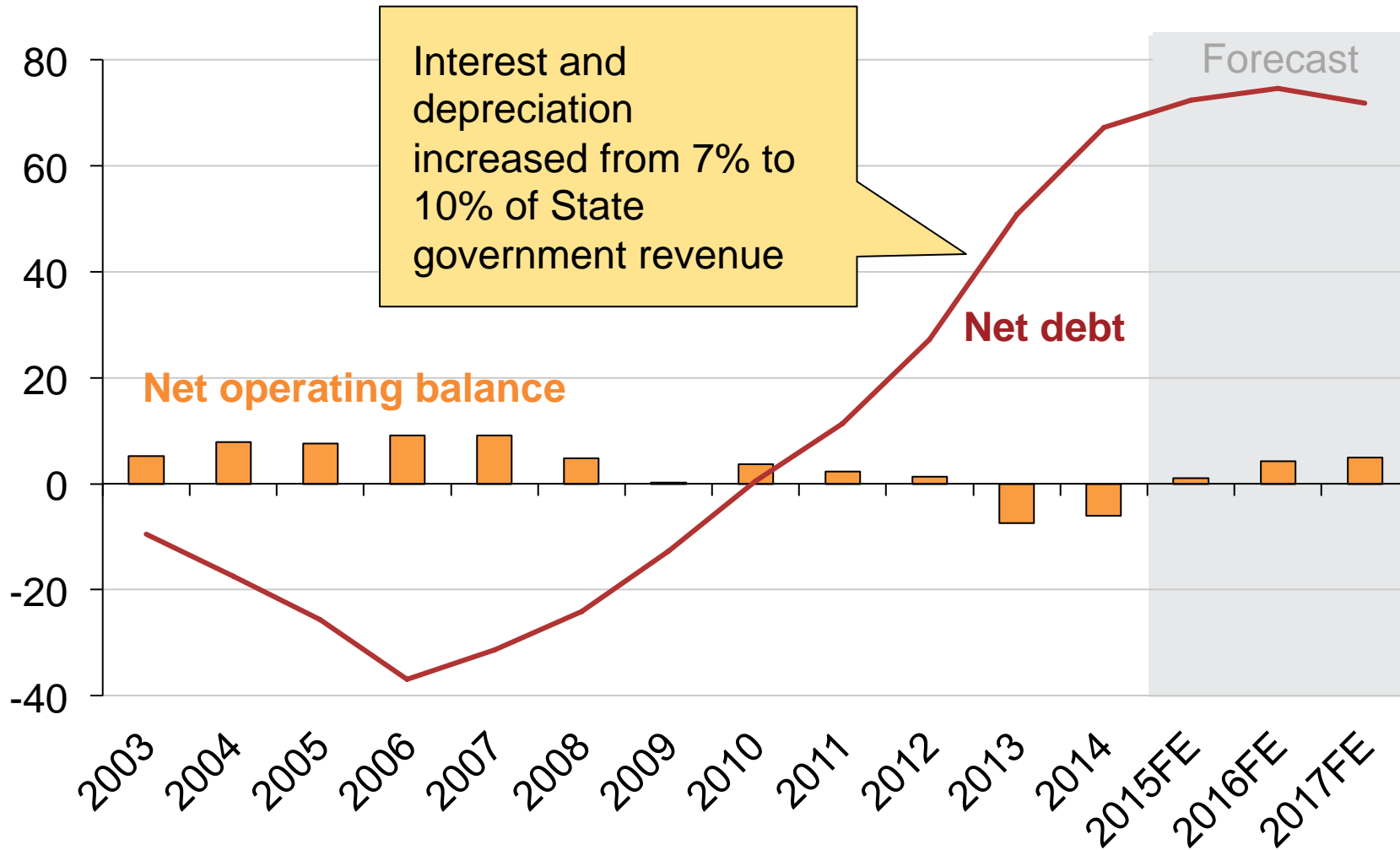
Commonwealth own purpose expenditures and revenues per cent of nominal GDP



Source: *Budget Pressures 2014*

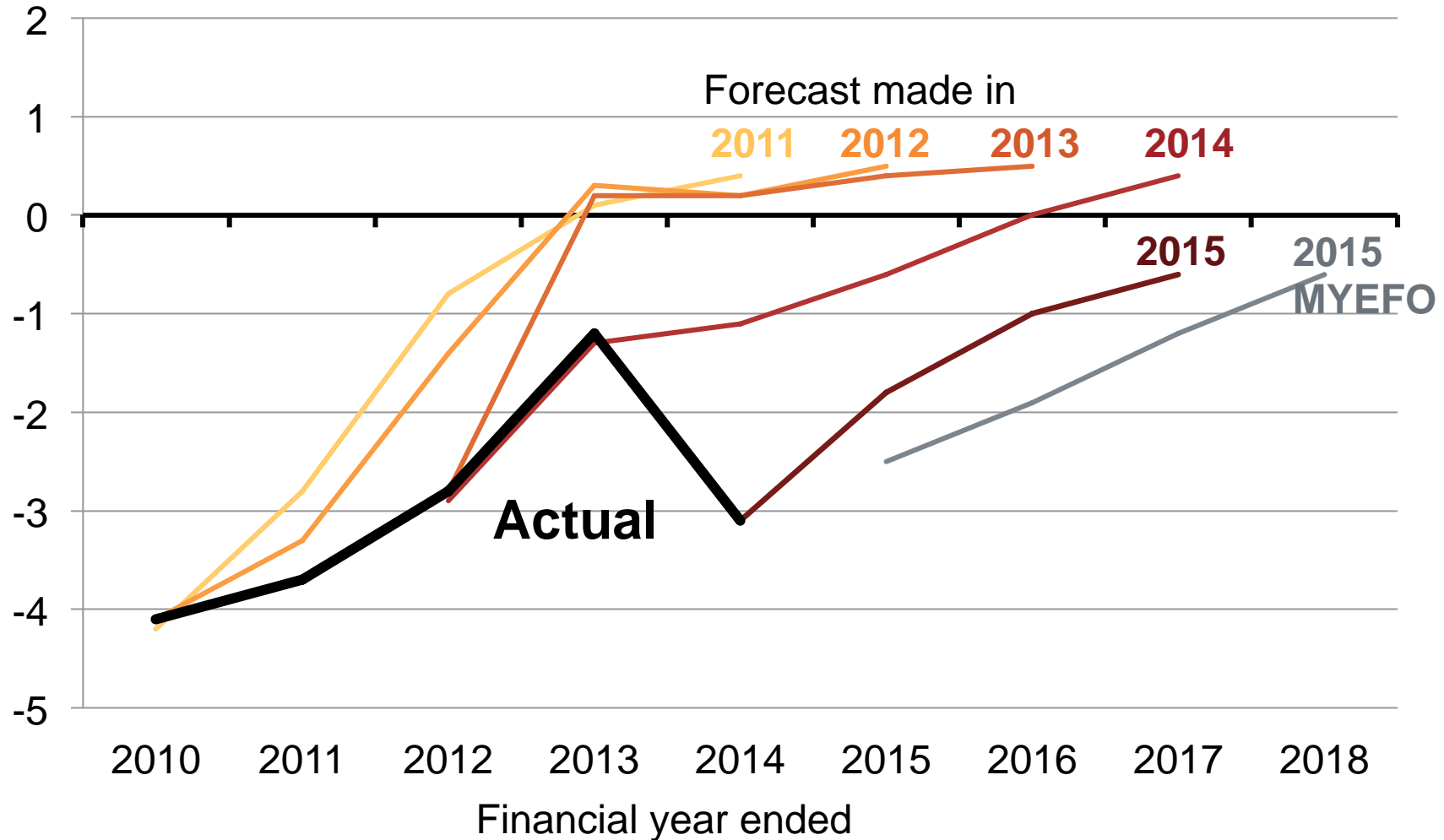
Capex has driven increase in State debt

State net debt and operating balance
\$2013 bn



Forecasts of a budget surplus show the triumph of experience over hope

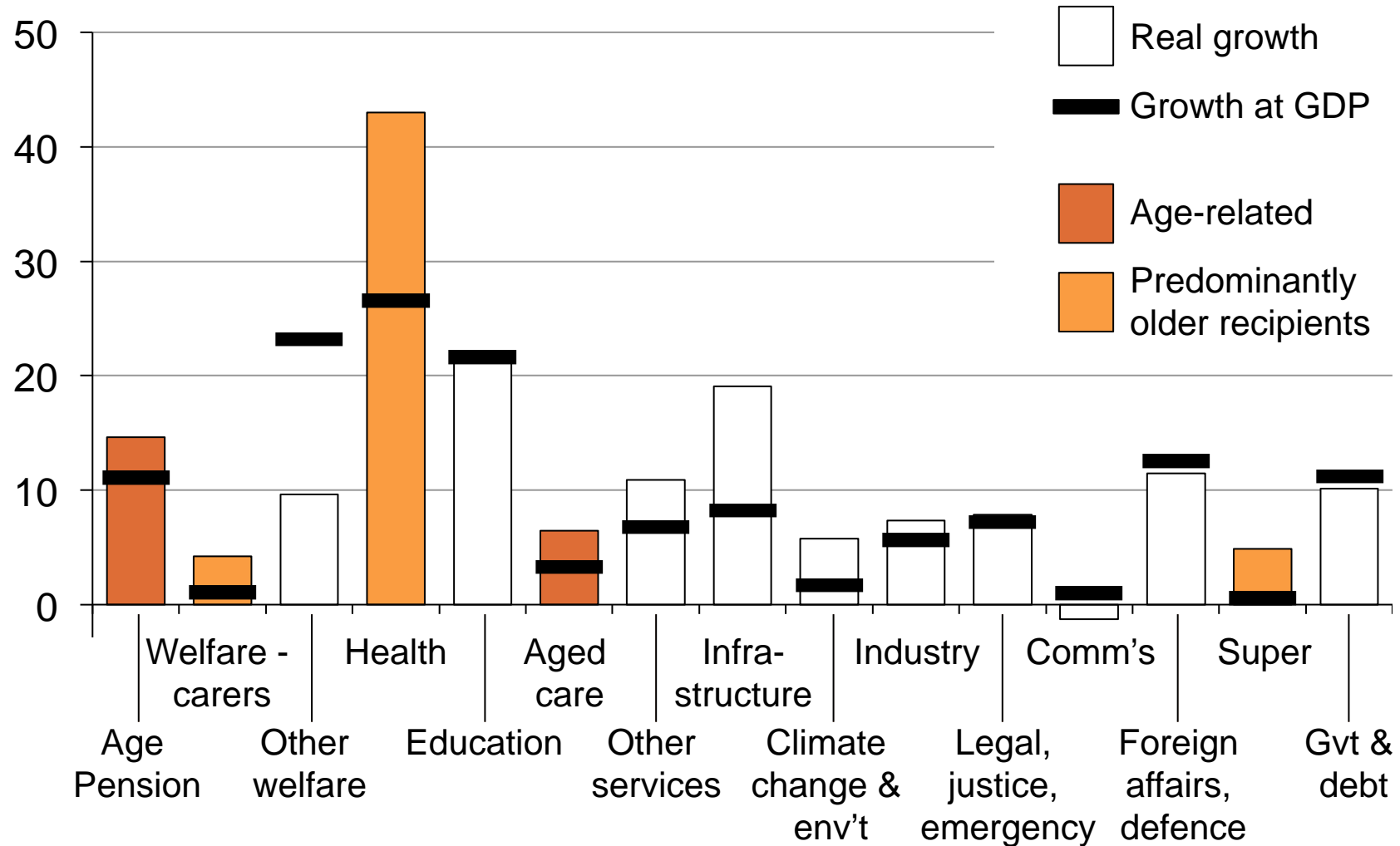
Actual and forecast Commonwealth underlying cash balance per cent of GDP



Increasing spending on older Australians is the dominant pressure on budgets

Real change in government recurrent expenditure, 2003 to 2014

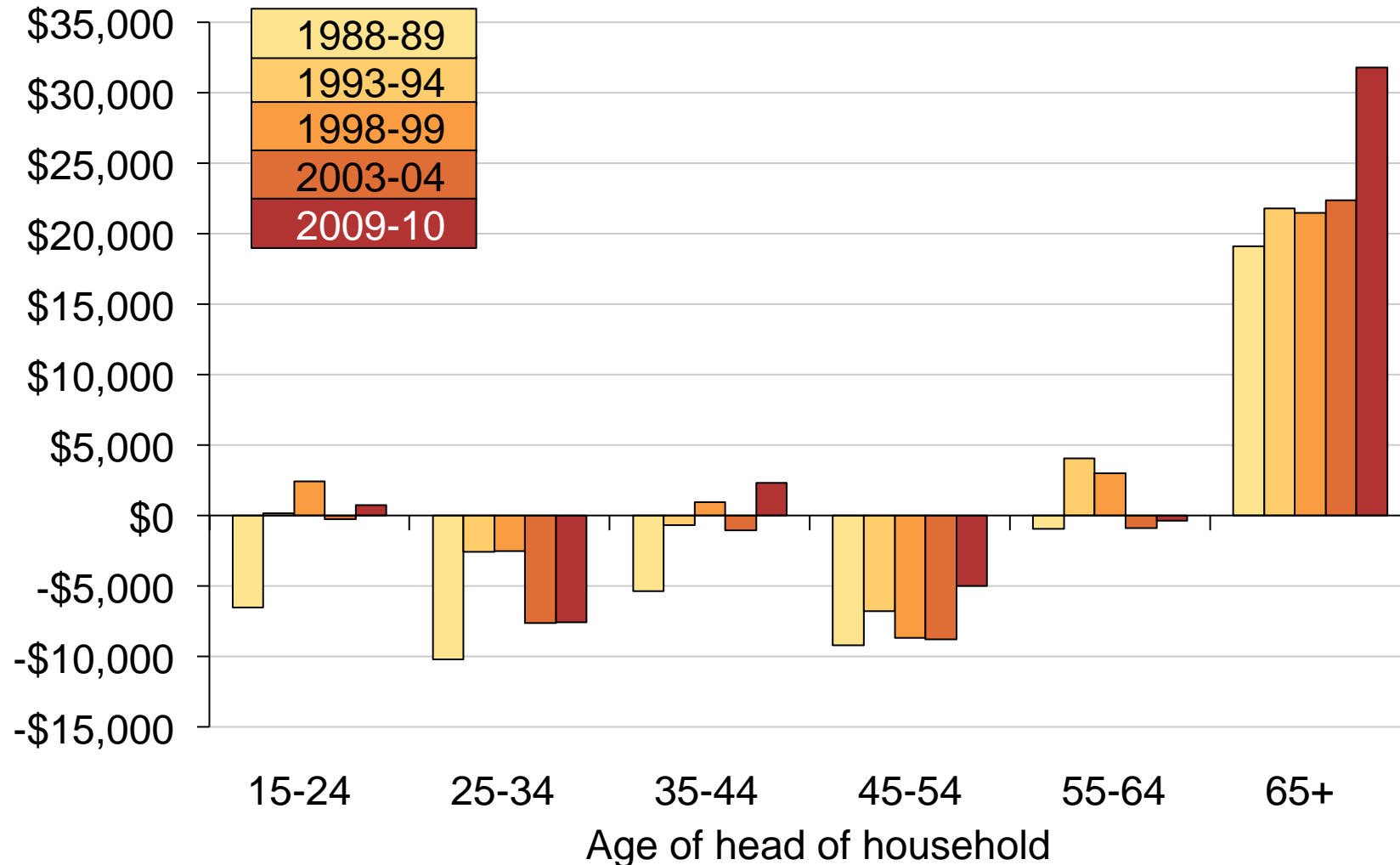
\$2013 bn



Note: Based on analysis of Commonwealth, NSW, Vic, Qld and WA data. Categories that changed by less than \$1 billion not shown.
Source: Grattan Institute, *Budget Pressures 2014*

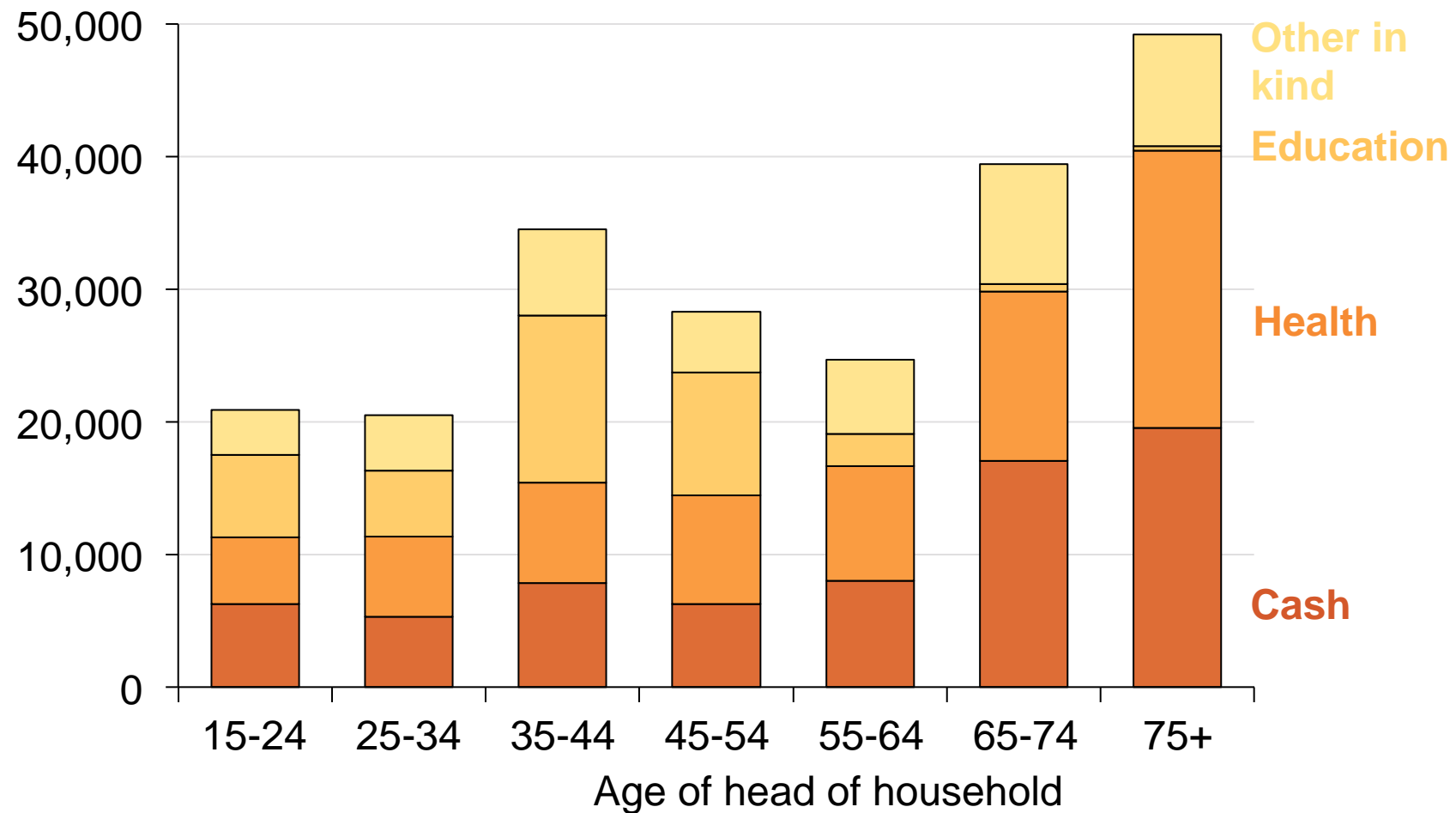
The net cost of older households to government has jumped in the last 6 years

Average net benefits per household (government payments, less tax)
2010\$



Governments spend more on older households, due to Health and Age Pension

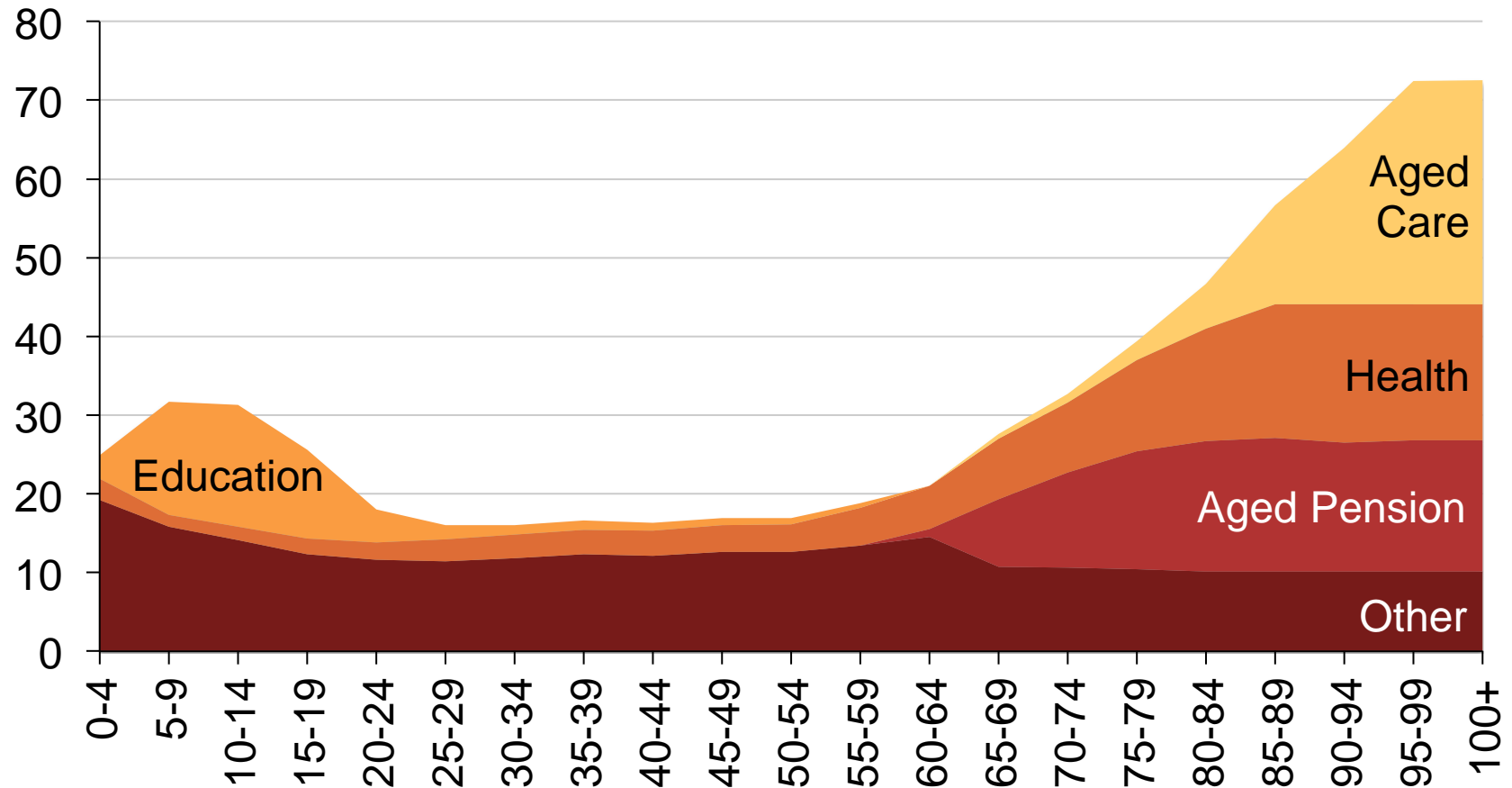
Government expenditure per household
\$ per person, 2009-10



Note: Other in kind includes child care assistance, other social security and welfare benefits, housing benefits and electricity concessions.
Source: *The Wealth of Generations*

Government spending *per person* escalates rapidly from pension age

Government spending per person
\$ thousands per person, 2011-12



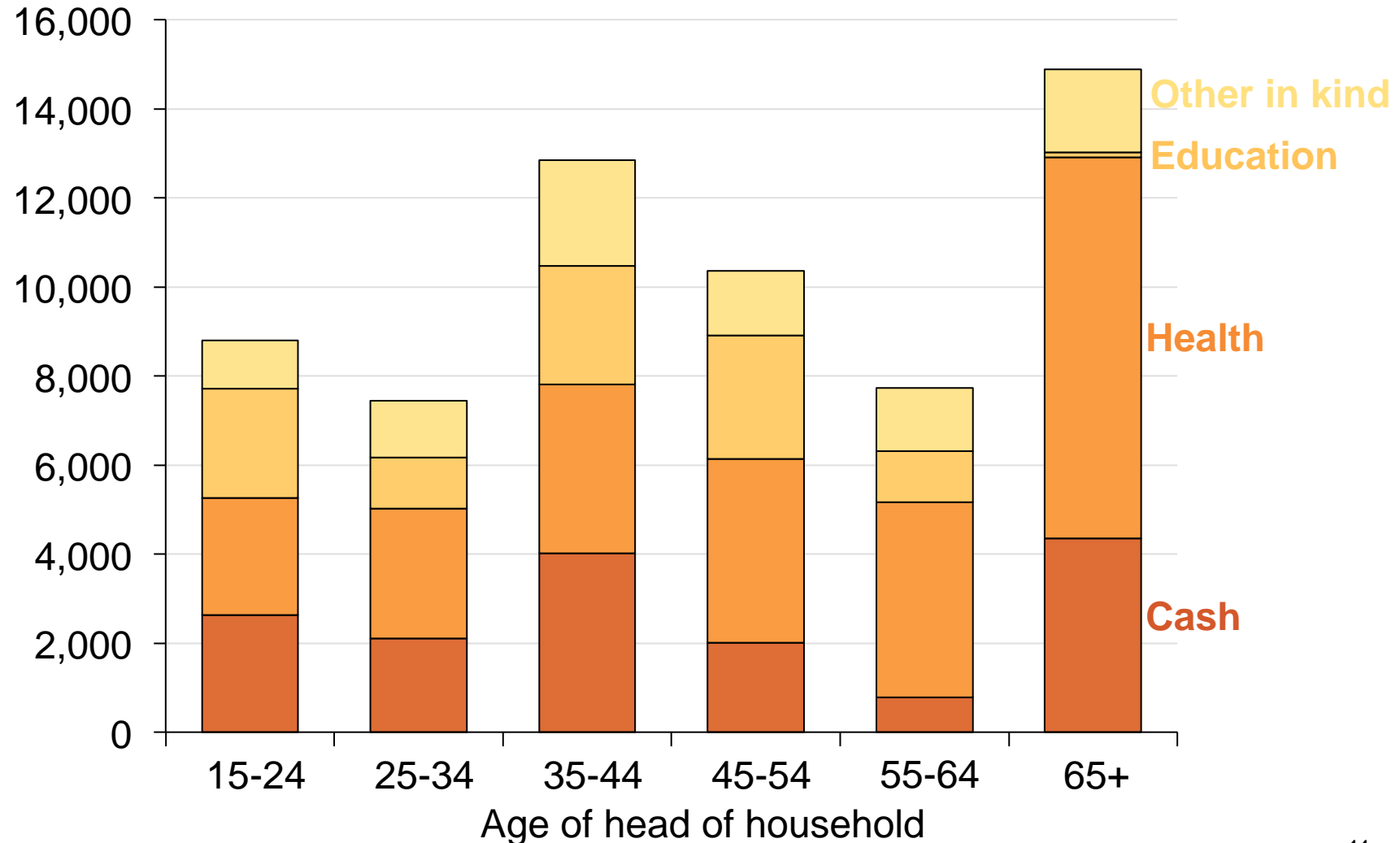
Note: 'Other' includes the Disability Support Pension, Parenting Payment, Family Tax Benefit, Disability Support Services (both Australian Government and state and territory), Other social security and welfare payments, Defence and other expenditures and other state and territory expenditures not classified elsewhere

Source: Productivity Commission (2013)

Health spending and cash benefits for over 65s have increased significantly

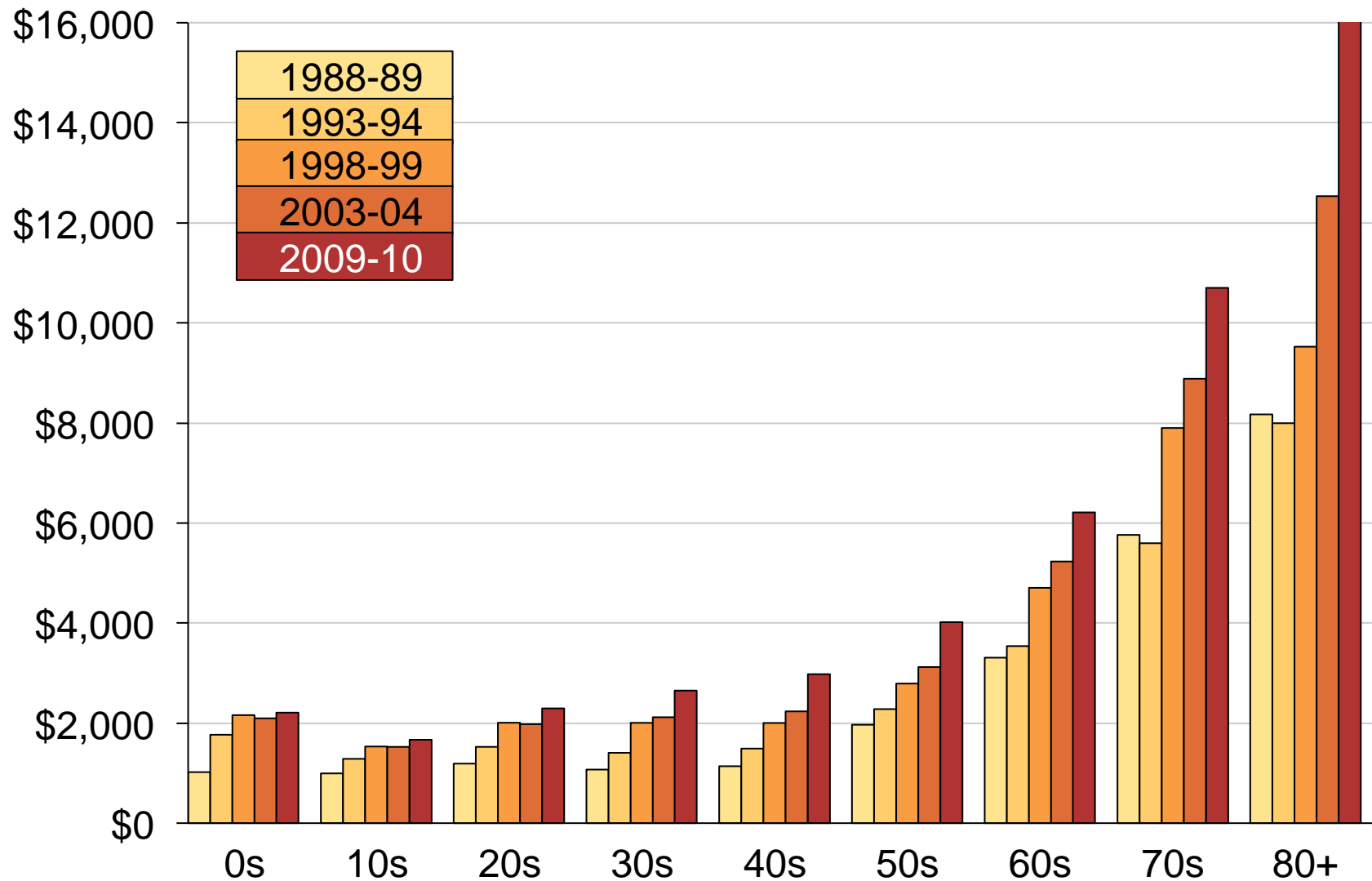
Change in government benefits per household, 1988-89 to 2009-10

\$2010



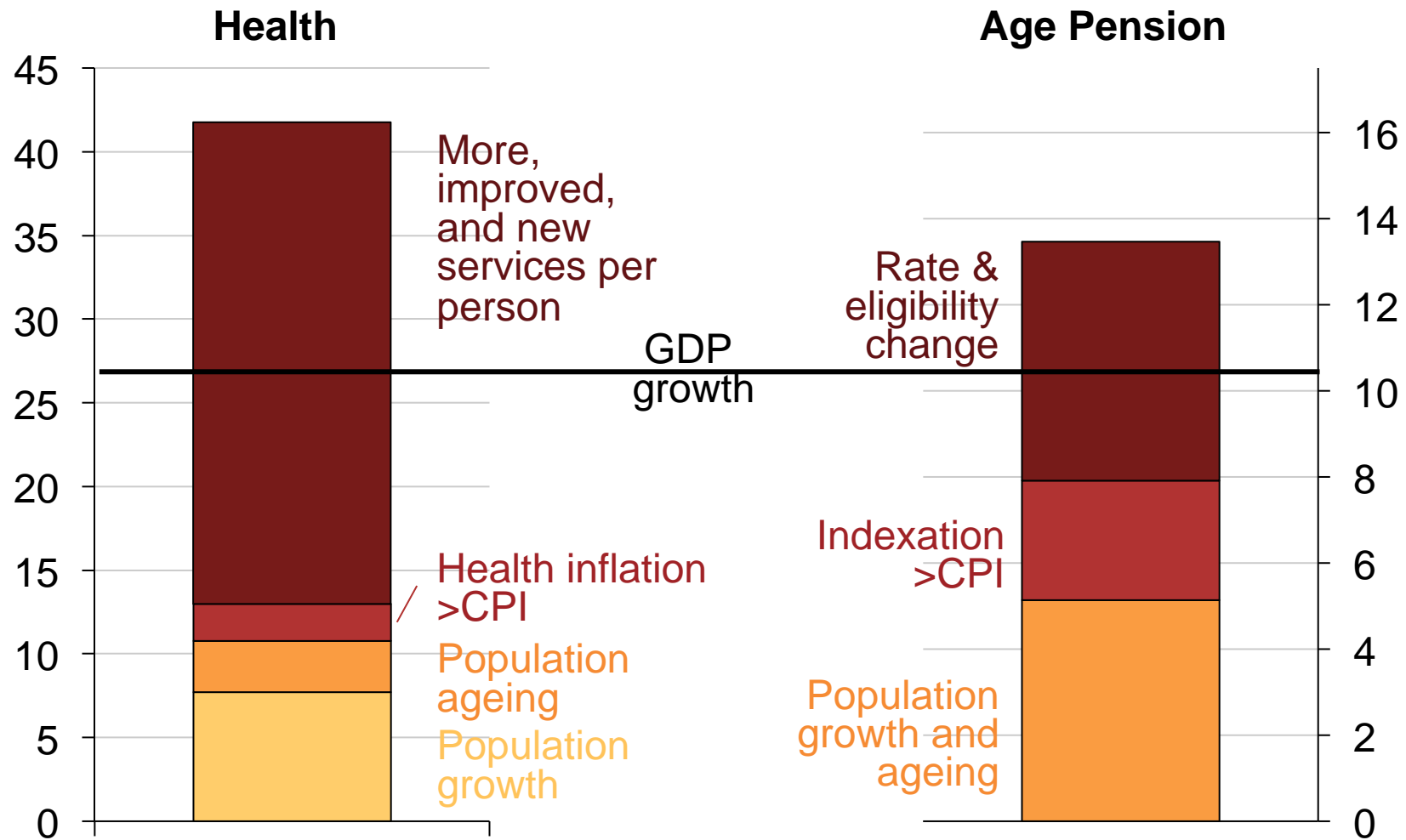
Government health spending increased the most for the over 70s

Government health spending per person, \$2010



Policy choices, not population ageing, drove health and pension spending increases

Real increase in expenditure 2003-2013
(\$2012 billion)

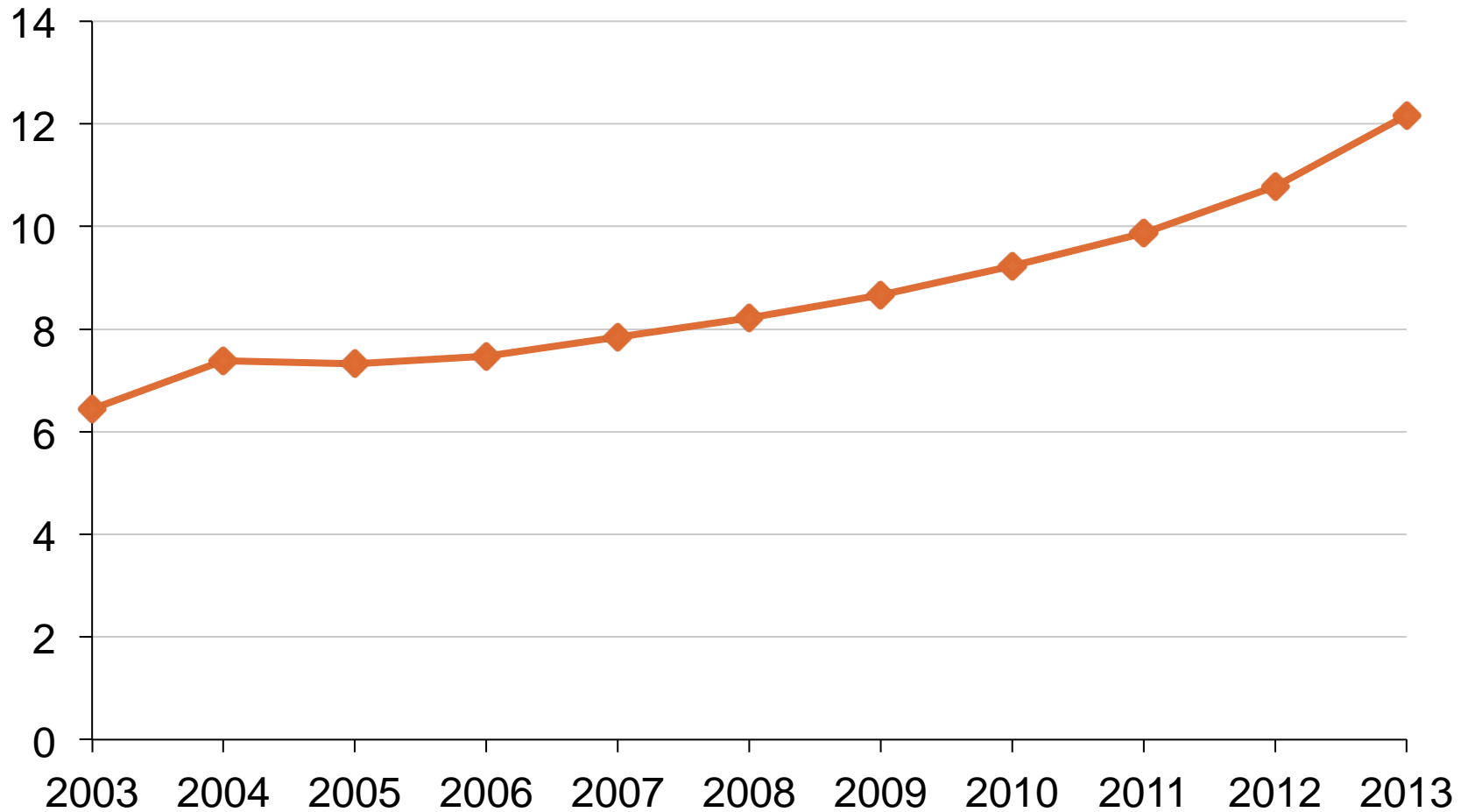


Source: Grattan Institute, *Budget Pressures 2014*

Commonwealth government spending on aged care almost doubled in the last 10 years

Commonwealth Government aged care expenditure

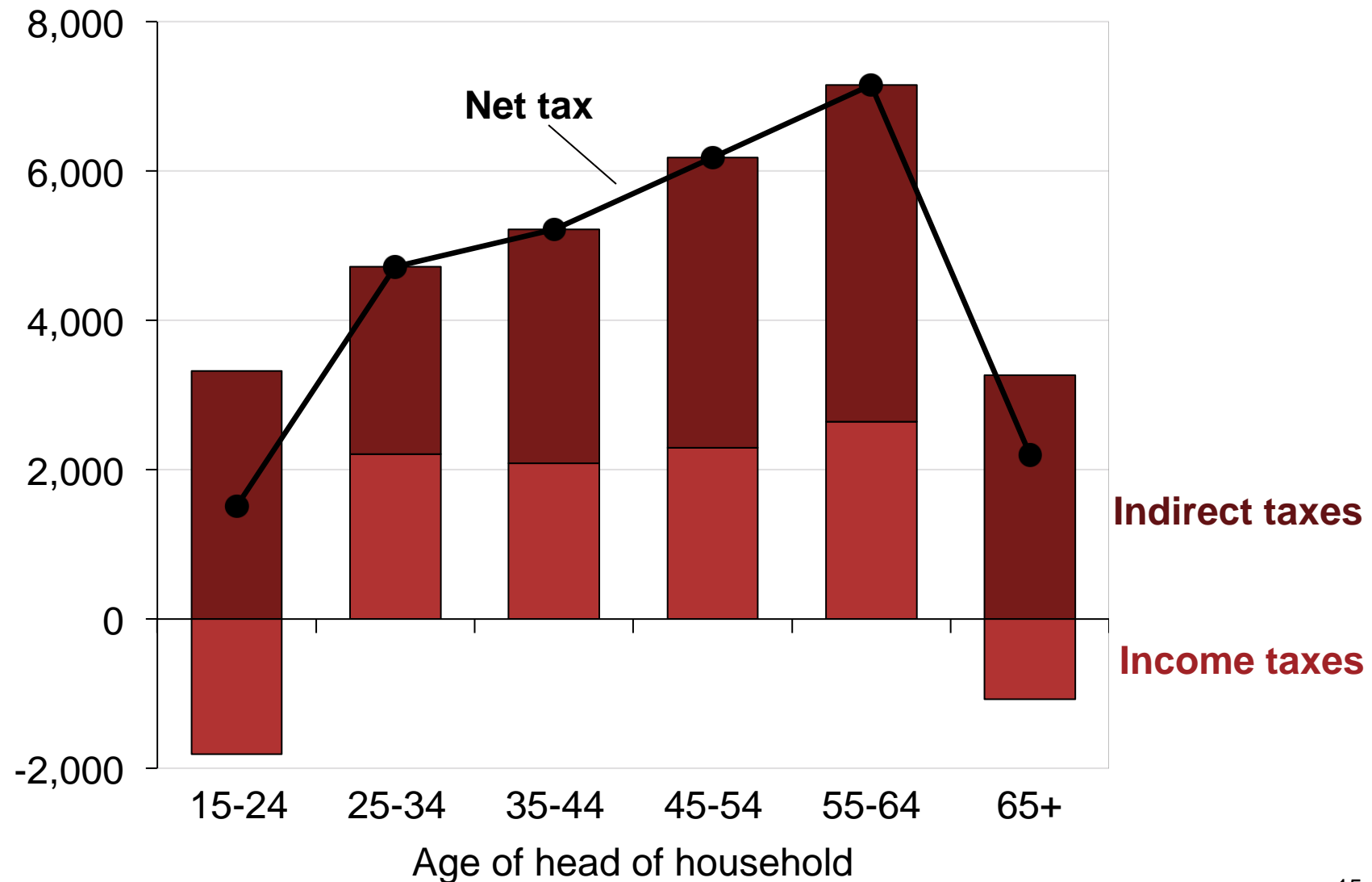
2013\$b



Note: Financial year ending 30 June, assumed CPI rate of 2.5%.
Source: PBO (unpublished)

Because of super tax concessions, older h'holds pay *less* income tax than 20 years ago

Change in taxes per household, 1988-89 to 2009-10, 2010\$



Intergenerational fairness

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The wealth of older households is increasing much faster, although some are doing it tough

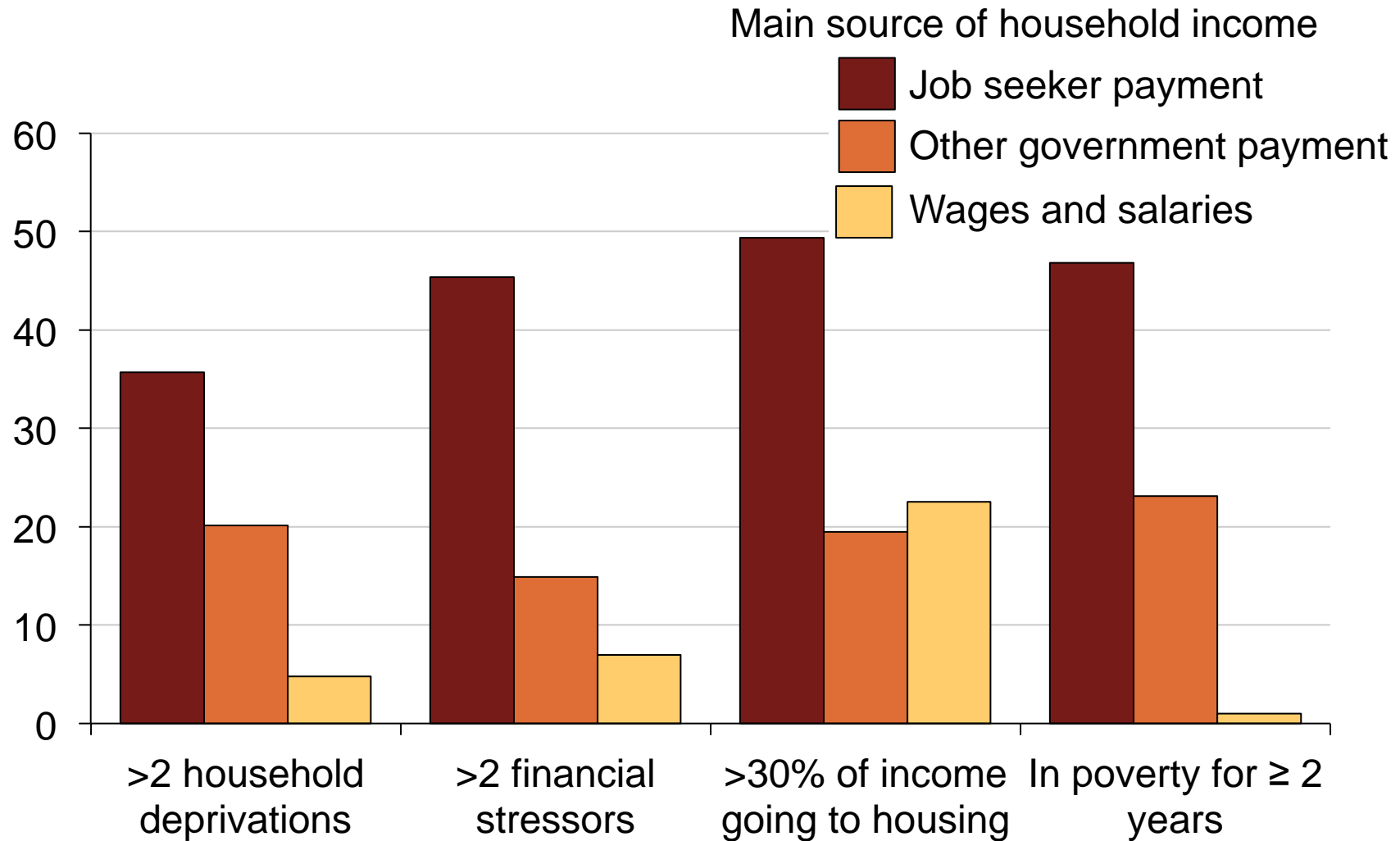
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Responsible budget repair will disproportionately affect older households with more assets

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- Reforms would also create incentives for more older workers to work for longer

Some households on the Age Pension are struggling

Percent of households under stress



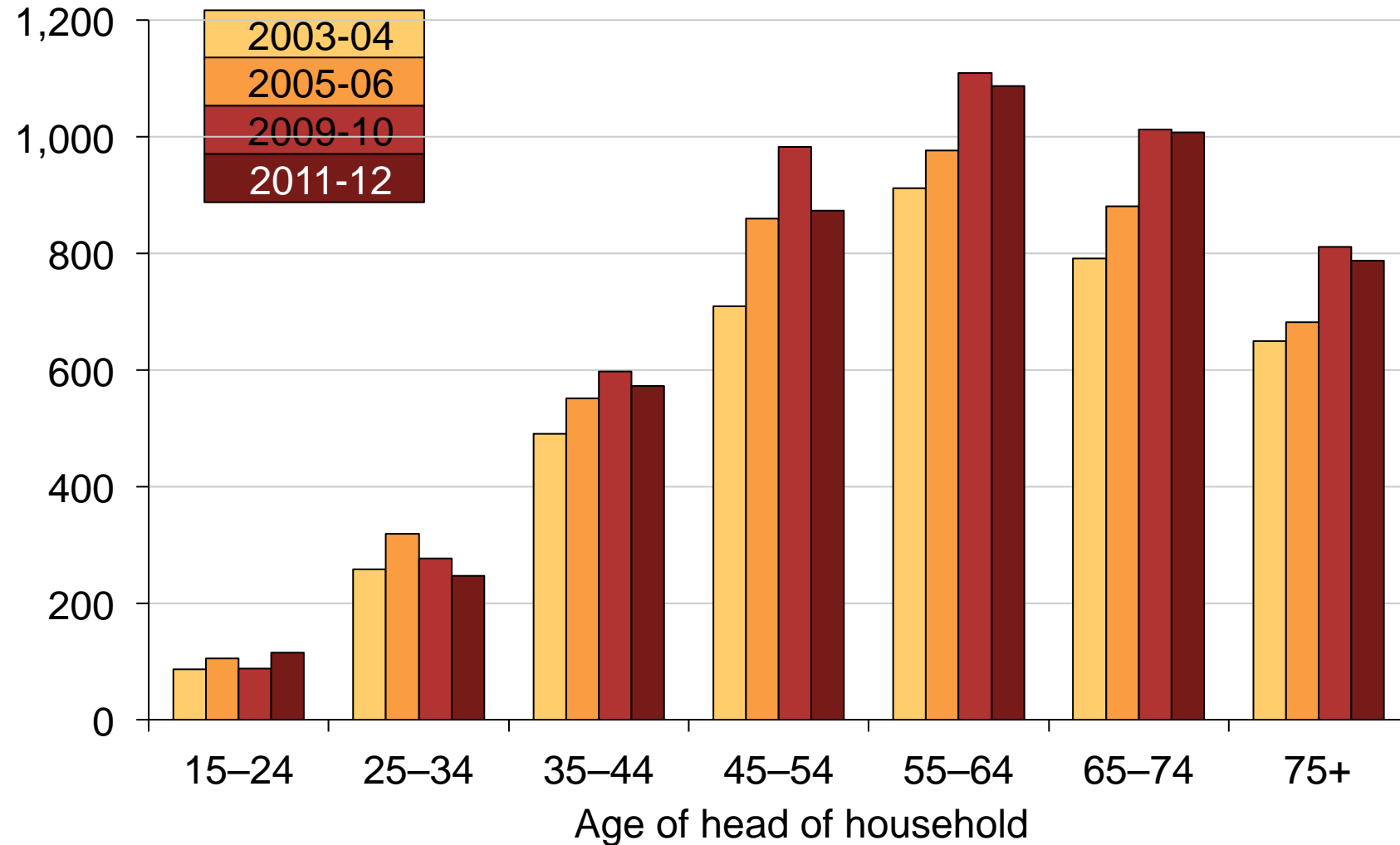
Notes: 'Job seeker payment' includes Newstart and jobseeker Youth Allowance. 'Other govt payment' is dominated by age and disability pensions.

Source: Grattan analysis of Phillips and Nepal (2012).

Young households are accumulating less wealth ...

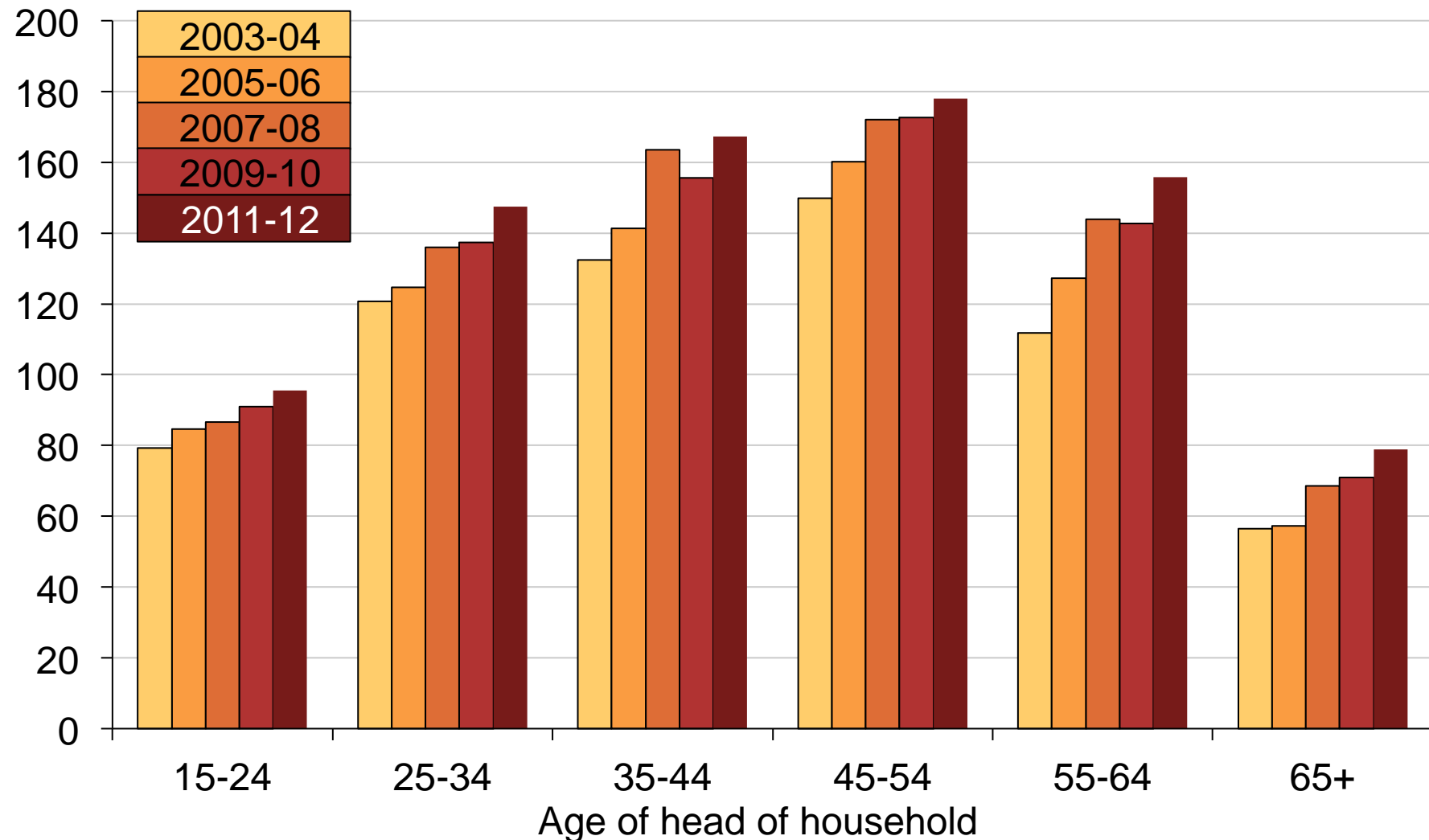
Mean wealth by age of head of household

\$ thousands (\$2011-12)



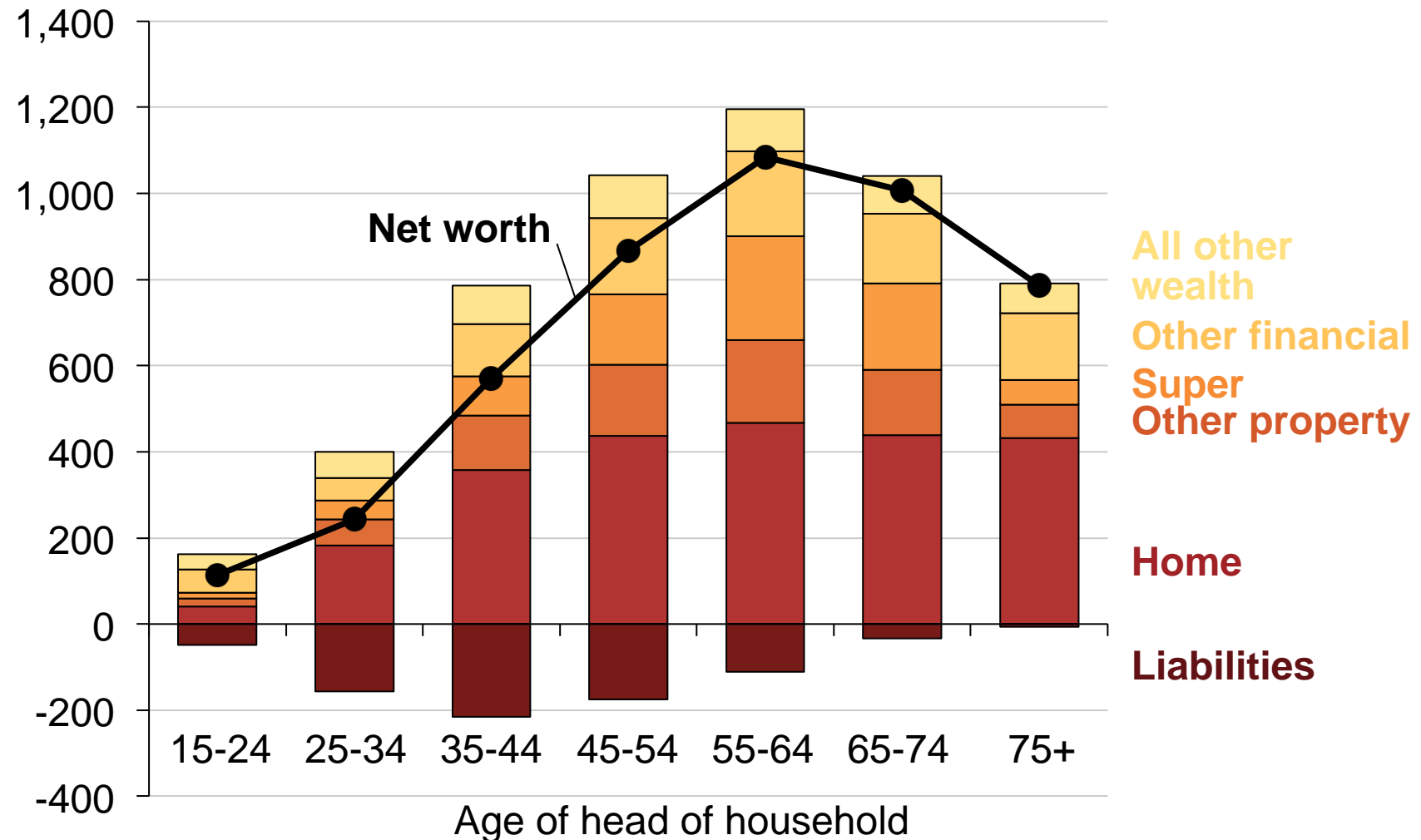
... even though household incomes have increased for all age groups

Household wage, business and welfare income before tax, 2012\$ 000s



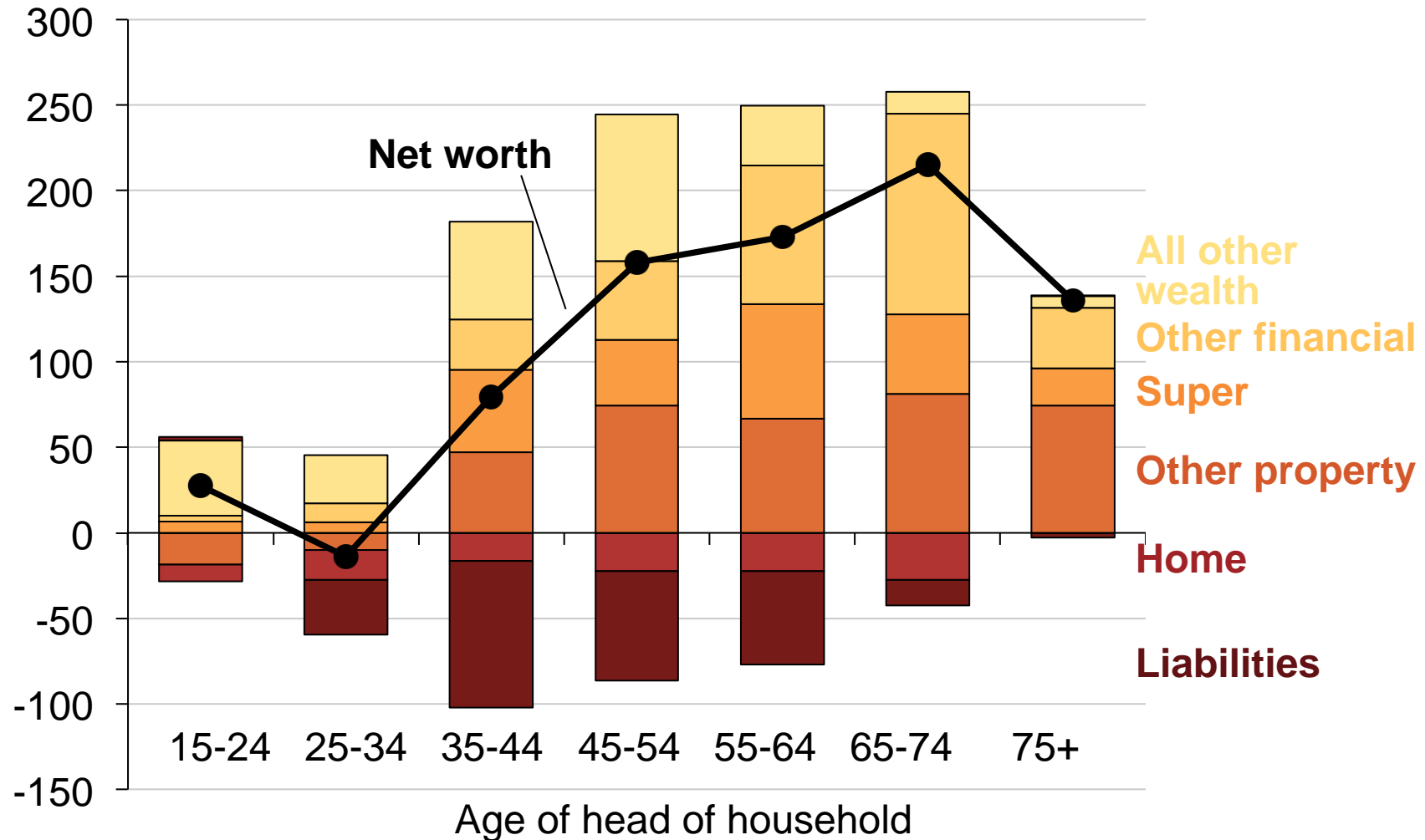
Over half of household wealth is in property

Mean wealth by age of head of household
\$ thousands (\$2011-12)



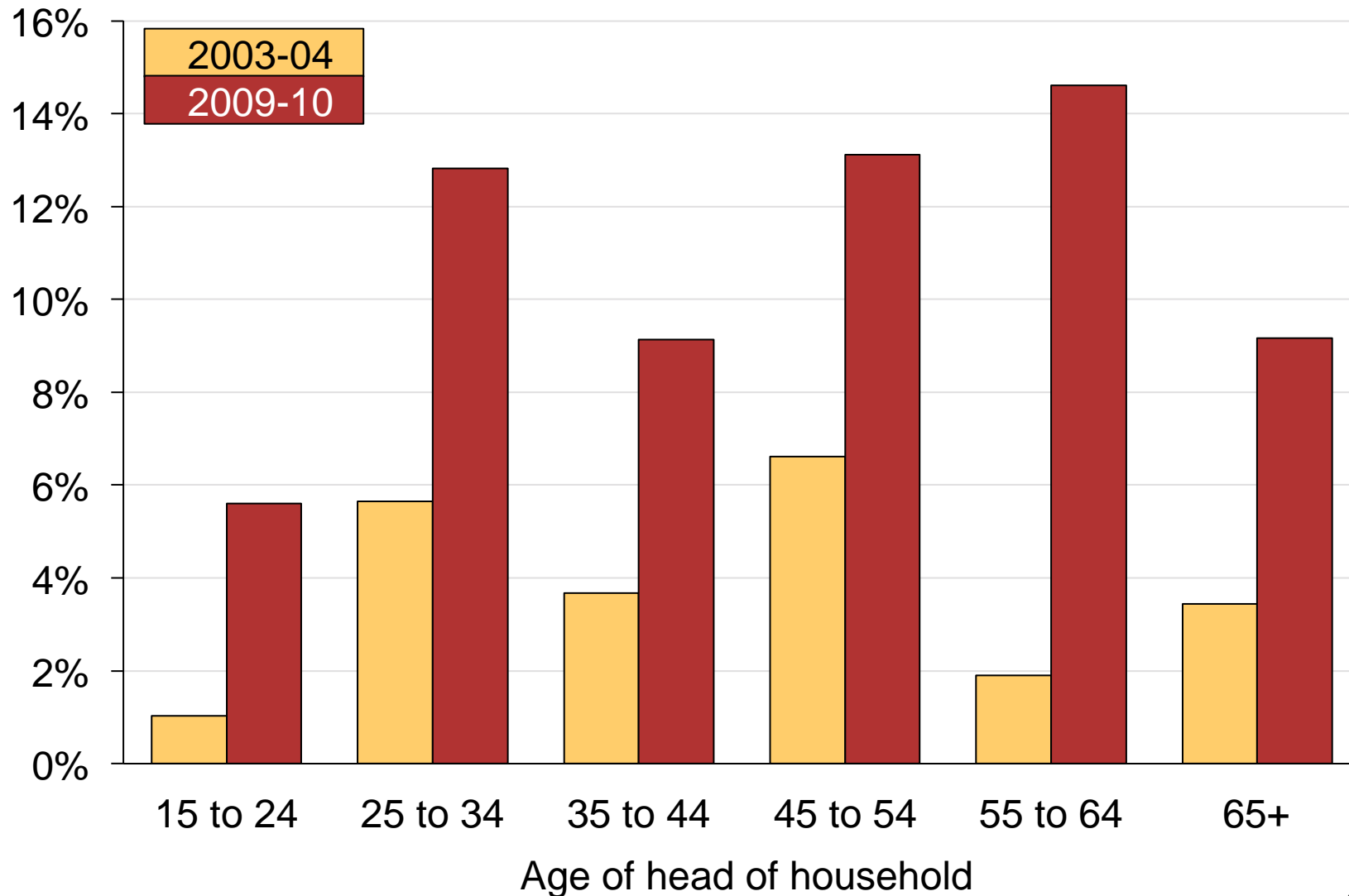
Increased wealth for older workers is due to more investment in property and savings

Change in mean wealth per household, 2003-04 to 2011-12
\$ thousands (\$2011-12)



Falling wealth for younger households was *not* a result of lower savings

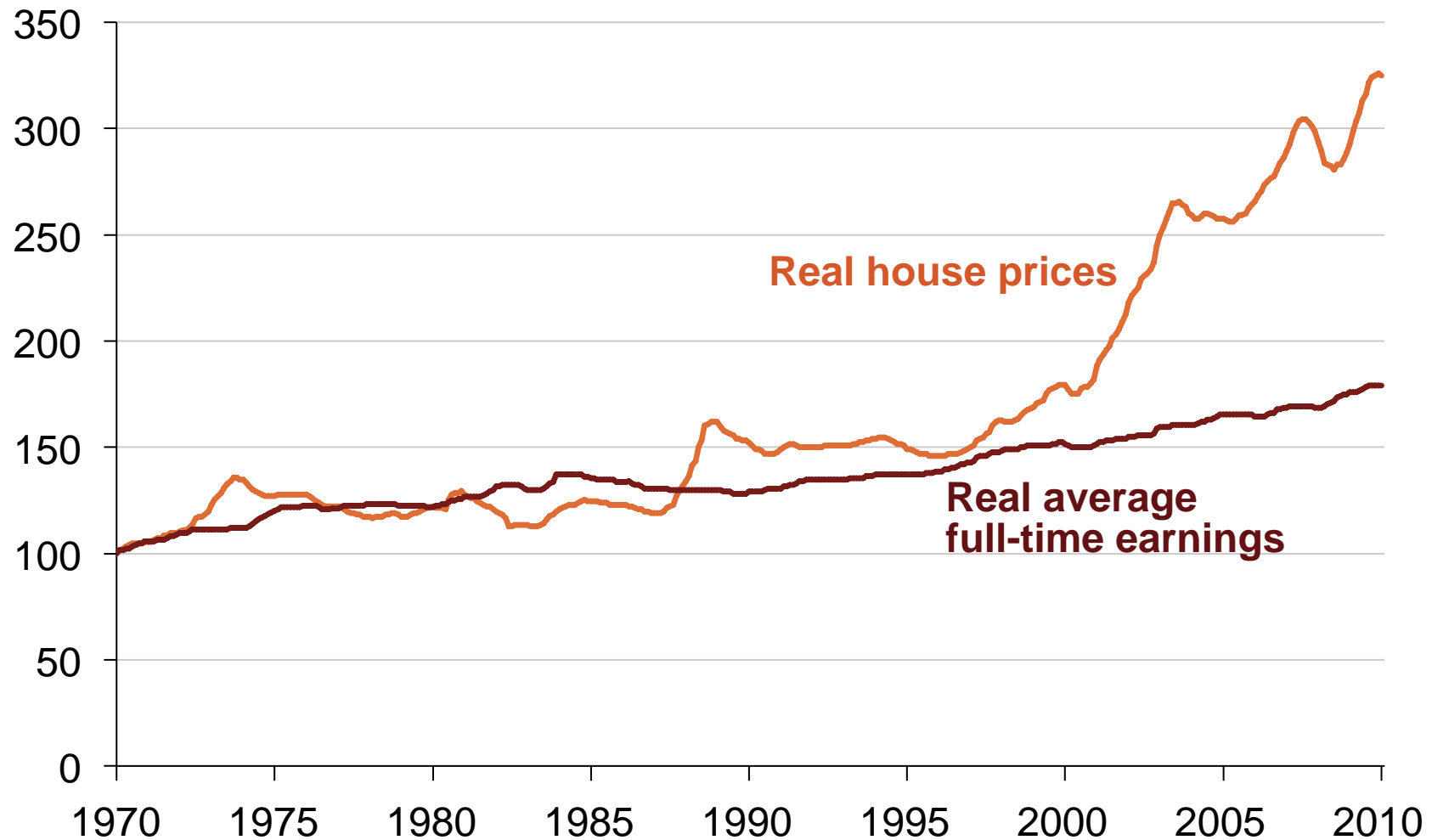
Savings as a proportion of disposable income, per cent



Younger cohorts missed out on the windfall of buying a house before 1997

House prices and full-time weekly earnings

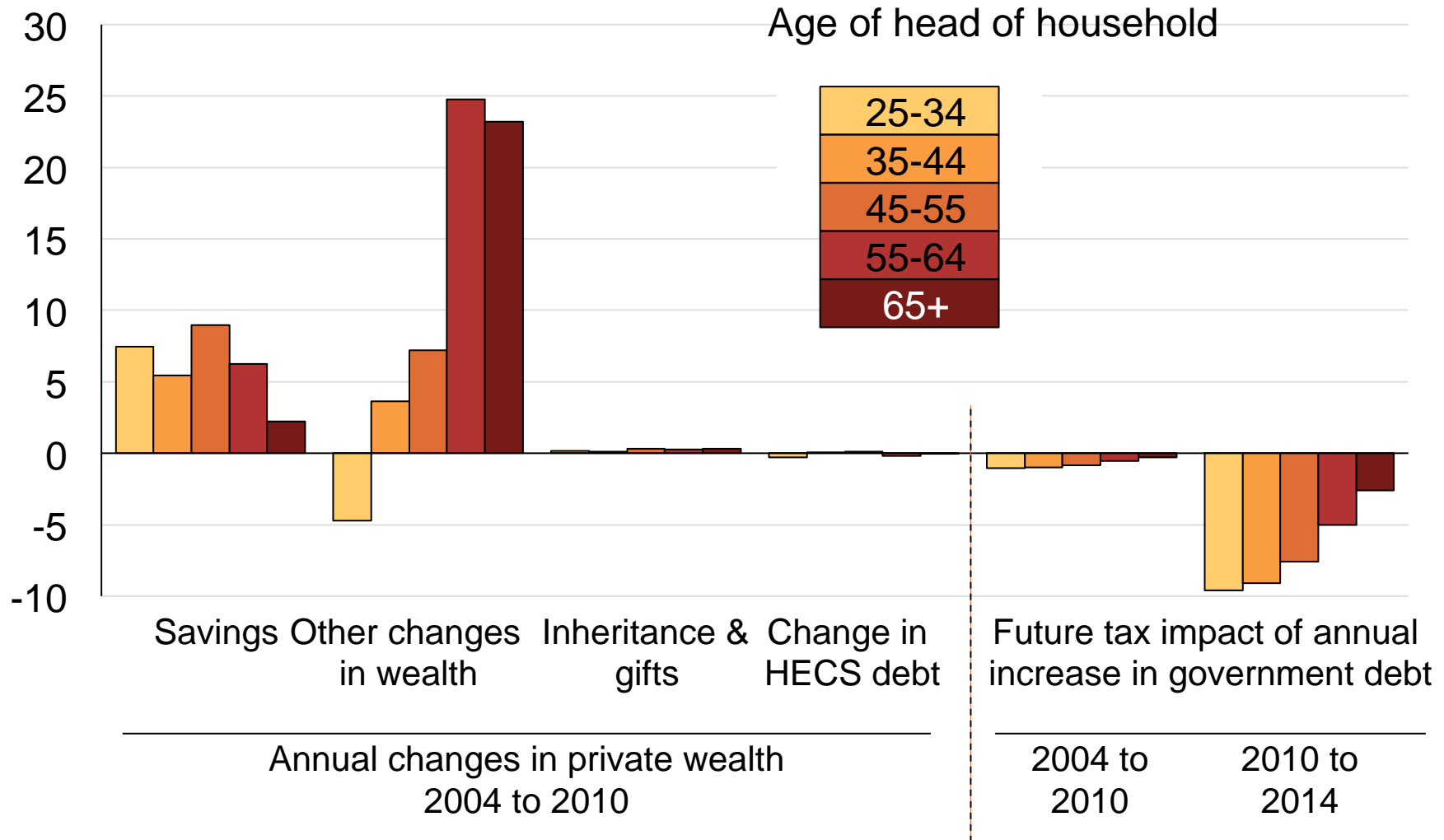
Index: 1970 = 100



Changes in household wealth are primarily driven by asset values and deficits

Annual changes in household wealth

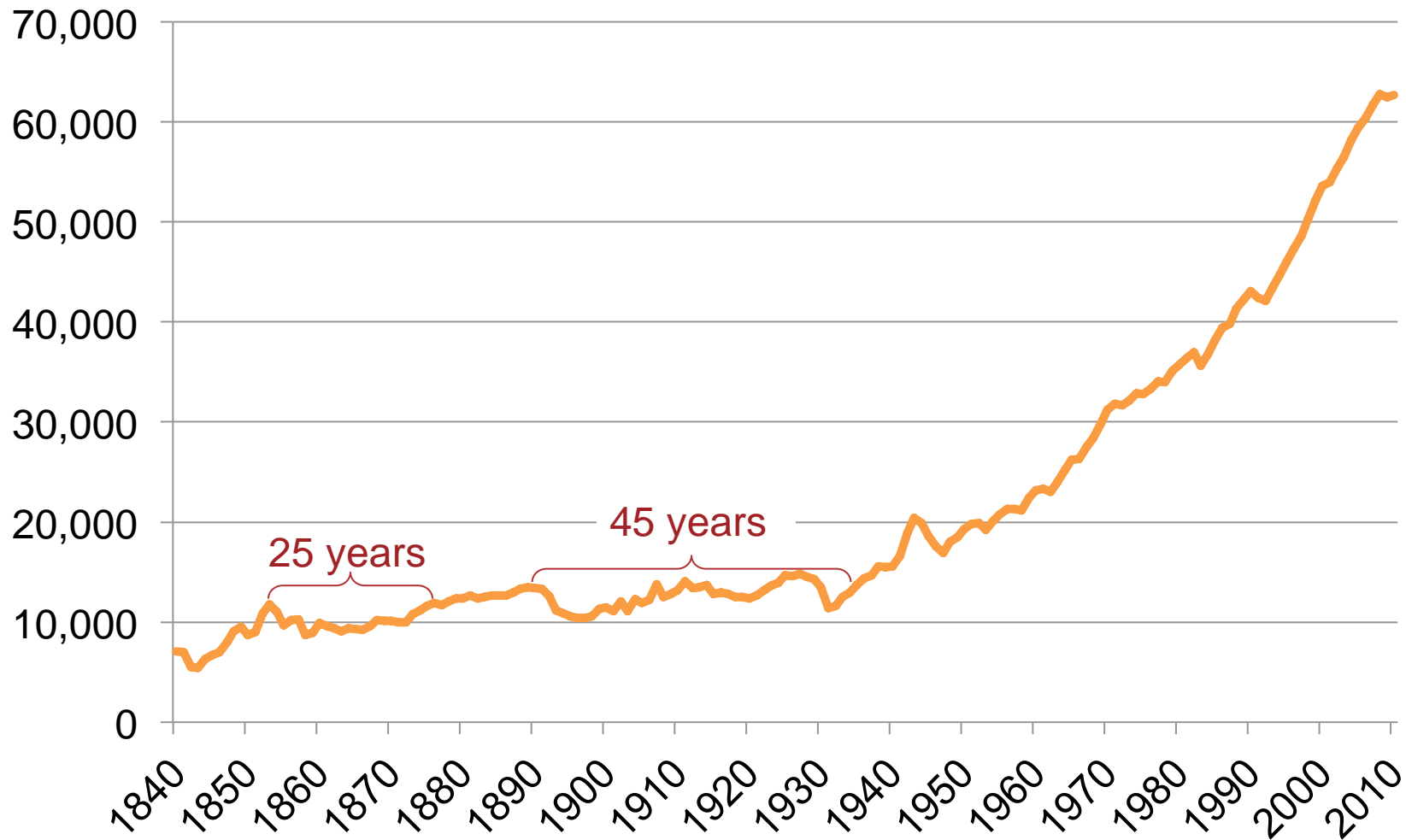
2014\$ 000



Historically there have been long periods of little income growth in Australia

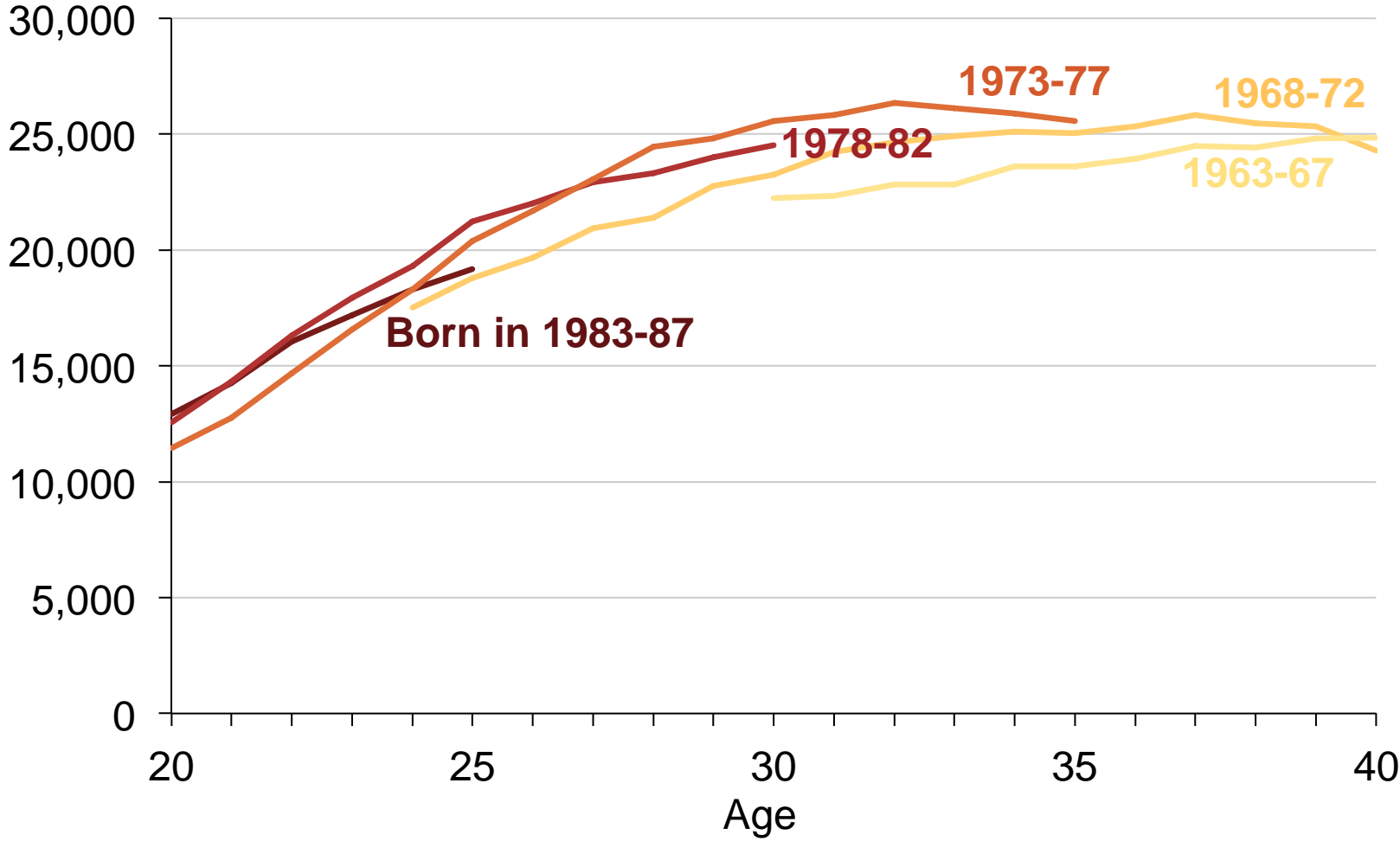
Real per capita incomes

\$ 2010



Younger cohorts in the UK now earn less than their predecessors at the same age

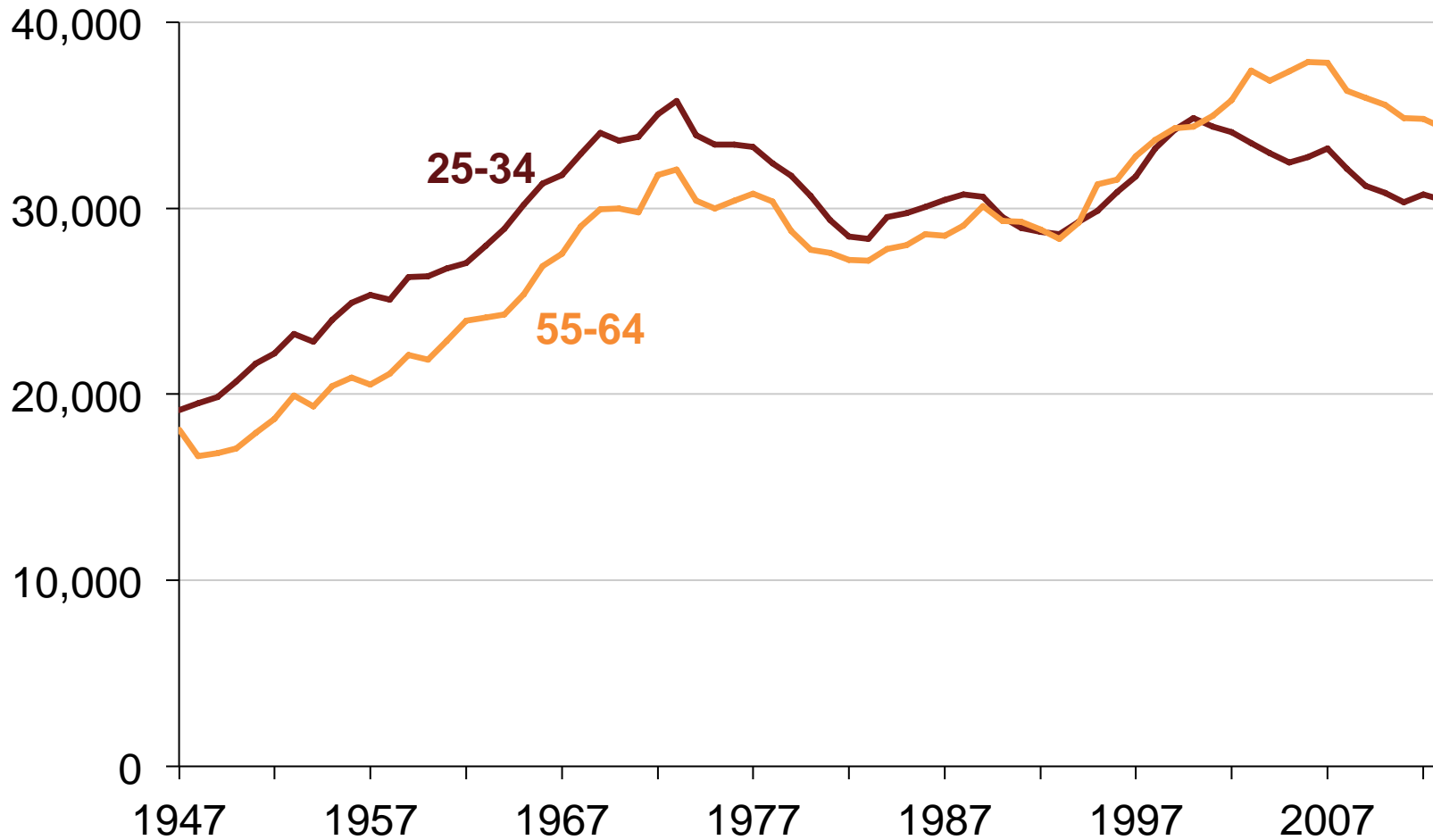
Median gross annual wages in UK
2013£



Source: Belfield, C et al, Living standards, Poverty and Inequality in the UK , Institute of Fiscal Studies Report, p.10

The incomes of 24-34 year olds in the US have declined relative to older workers

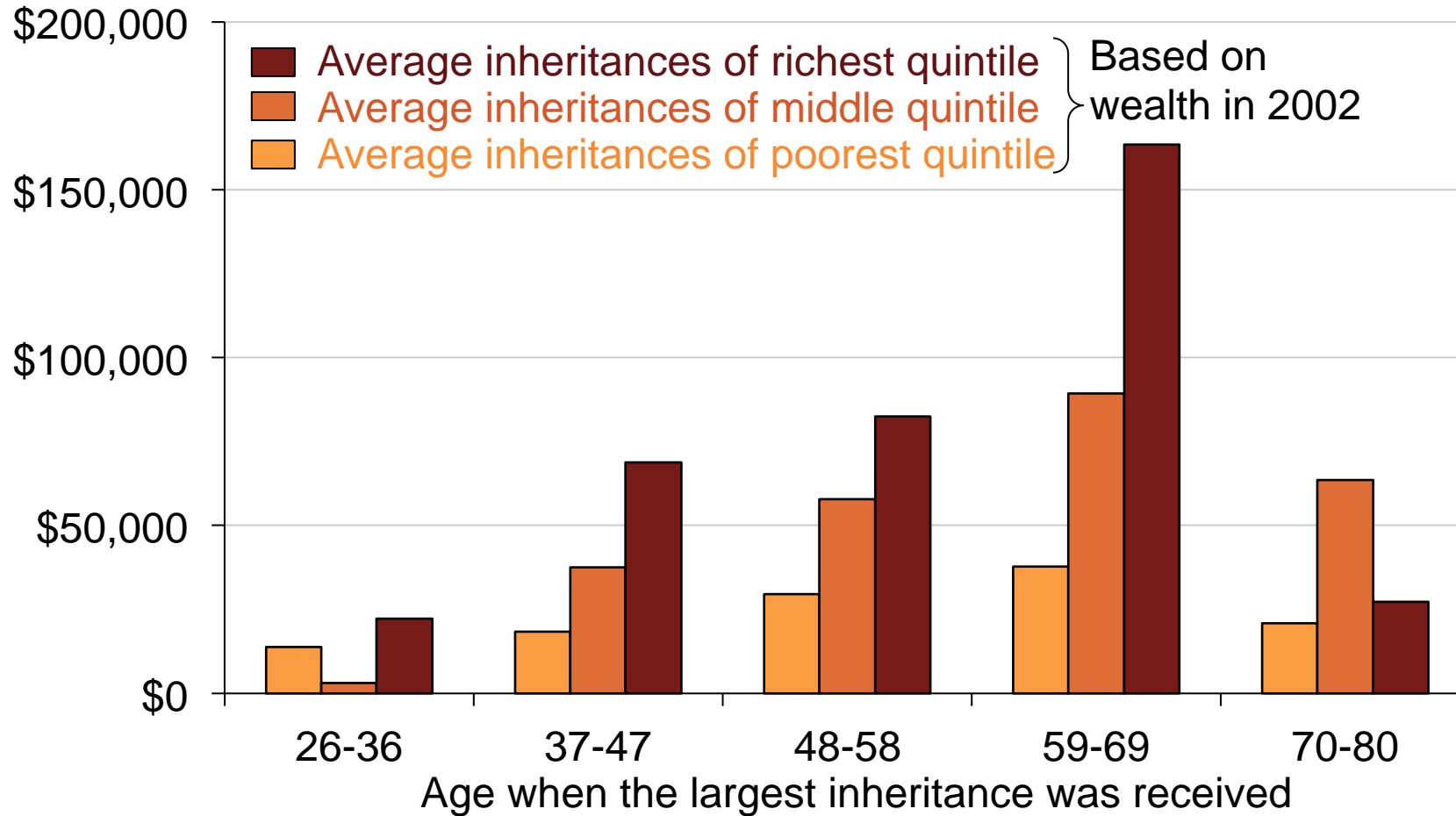
Median incomes in US
2013USD



Source: Data from US Department of Commerce (2013), US Census Bureau, Historical income tables (table 8).

Wealthy people of a given age tend to receive larger inheritances

Average inheritances if one one received
2002-2012, nominal



Note: Wealth quintiles are based on relative wealth in 2002 and therefore do not include the effect of inheritances received after this time. The HILDA survey asks about payments received from inheritances. It is possible that some respondents did not include housing assets in their estimates.

Source: Grattan Analysis of [HILDA \(2002\)](#); [\(2012\)](#)

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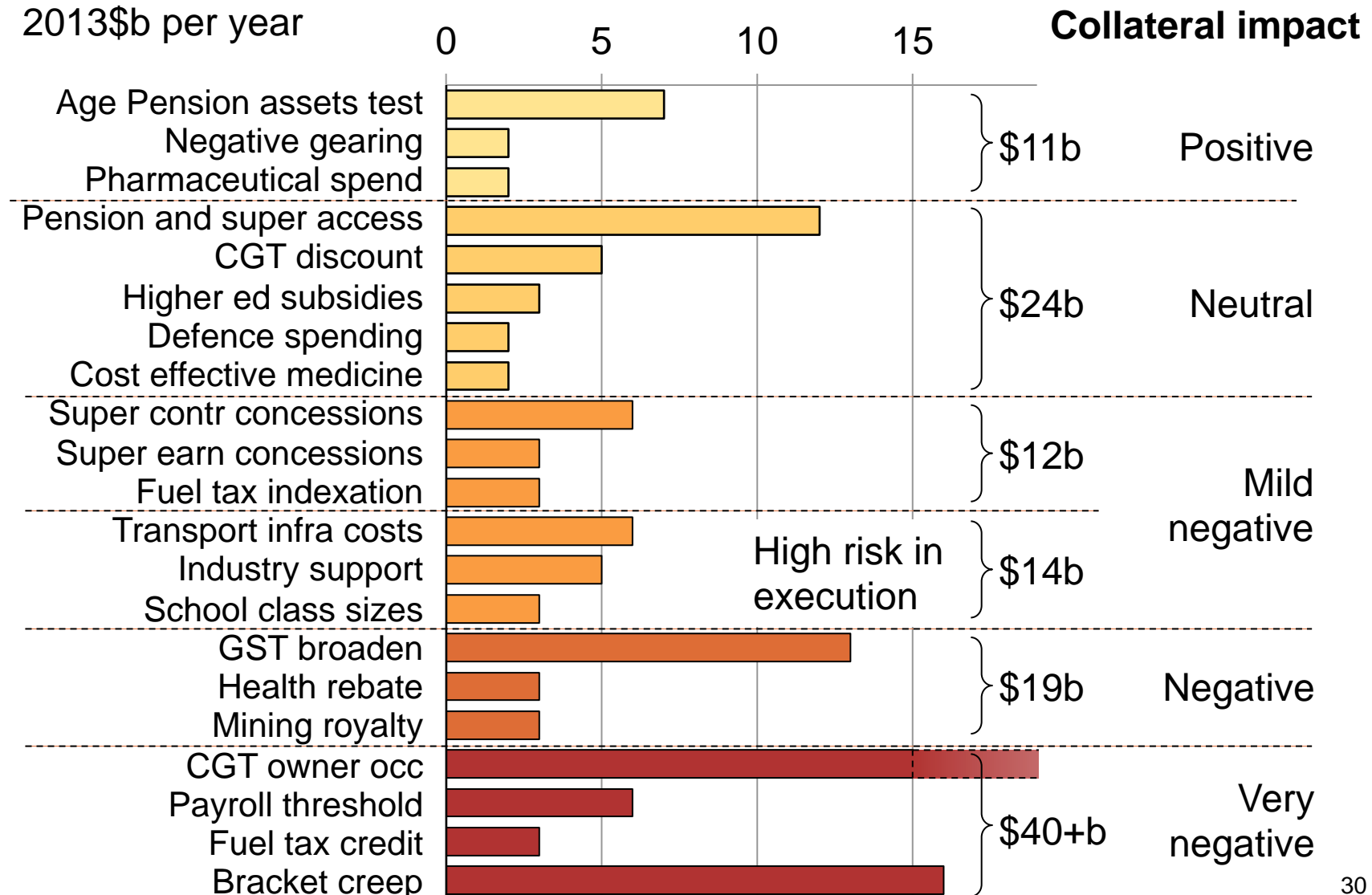
Responsible budget repair will disproportionately affect older households with more assets

- Better targeting of age pensions, superannuation, and asset taxation dominate the options for budget repair that are both large and socially responsible
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There are few options for budget repair that are both large and socially responsible

Budgetary impact of tough budget choices

2013\$b per year

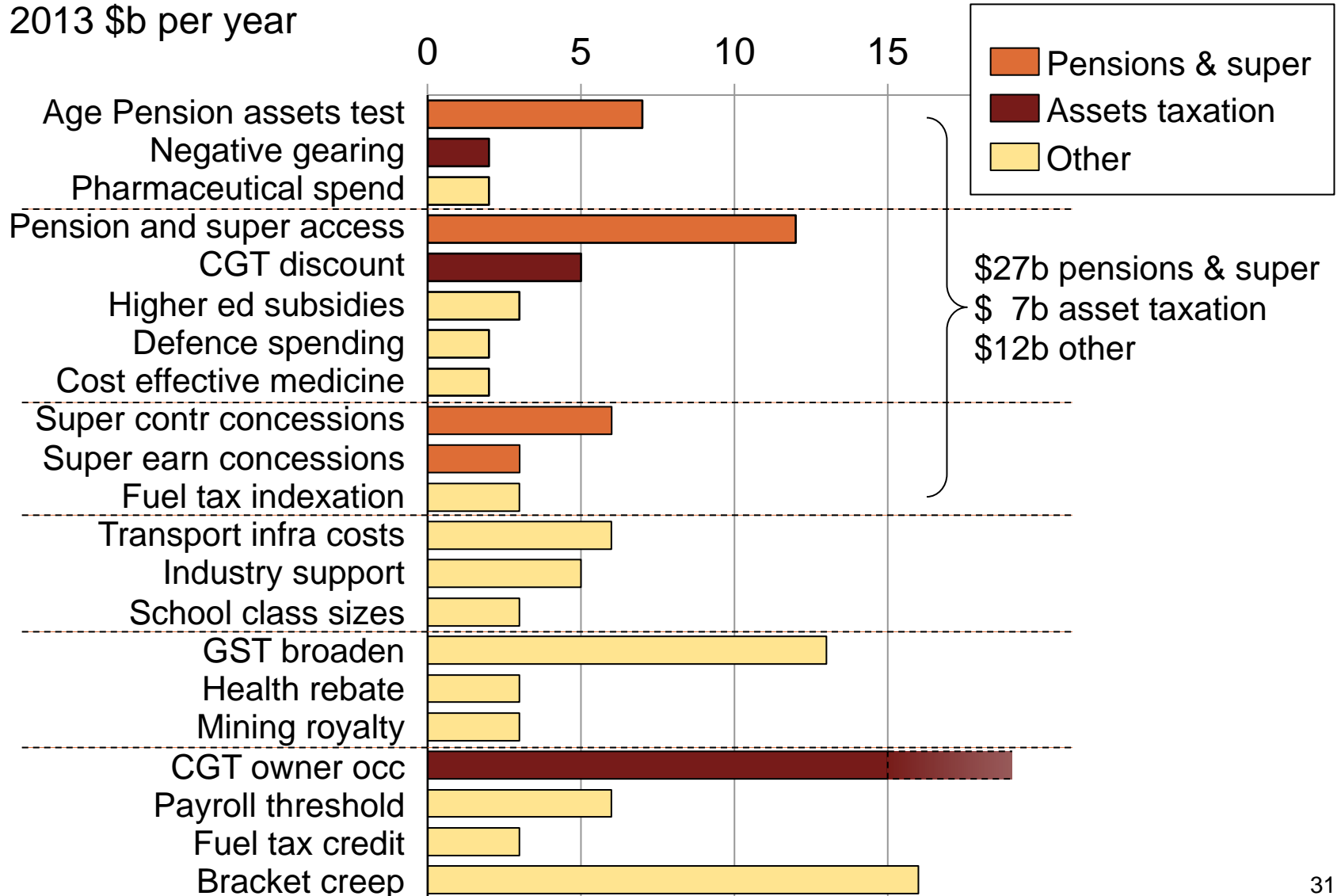


Source: Grattan Institute, *Balancing Budgets*

Better targeting of age pensions, super, and asset taxation dominate the attractive options

Budgetary impact of tough budget choices

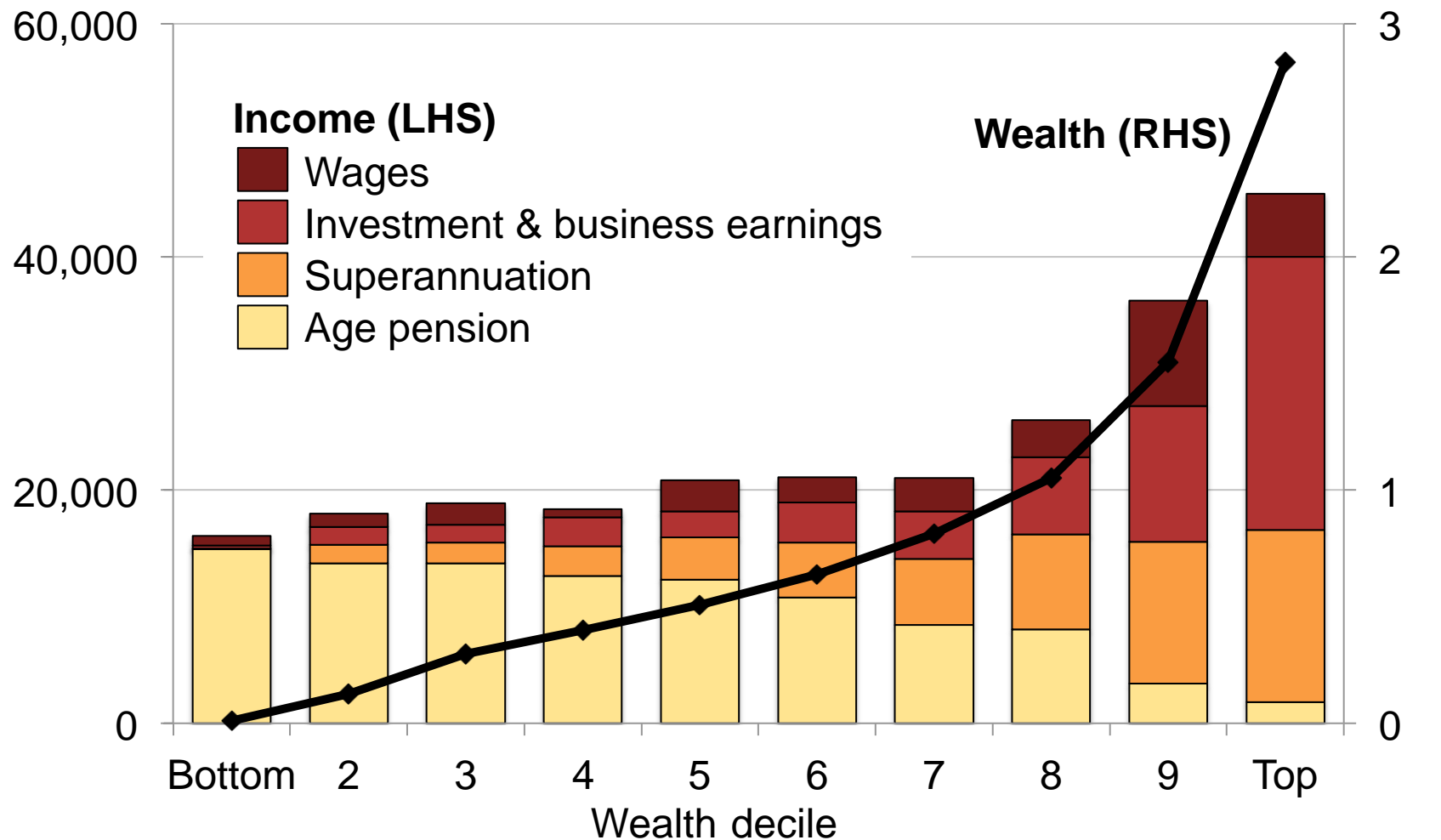
2013 \$b per year



The most wealthy retirees earn more from superannuation – and even more elsewhere

GRATTAN Institute
work in progress –
not for citation or
publication

Annual income, people aged >65
2010\$

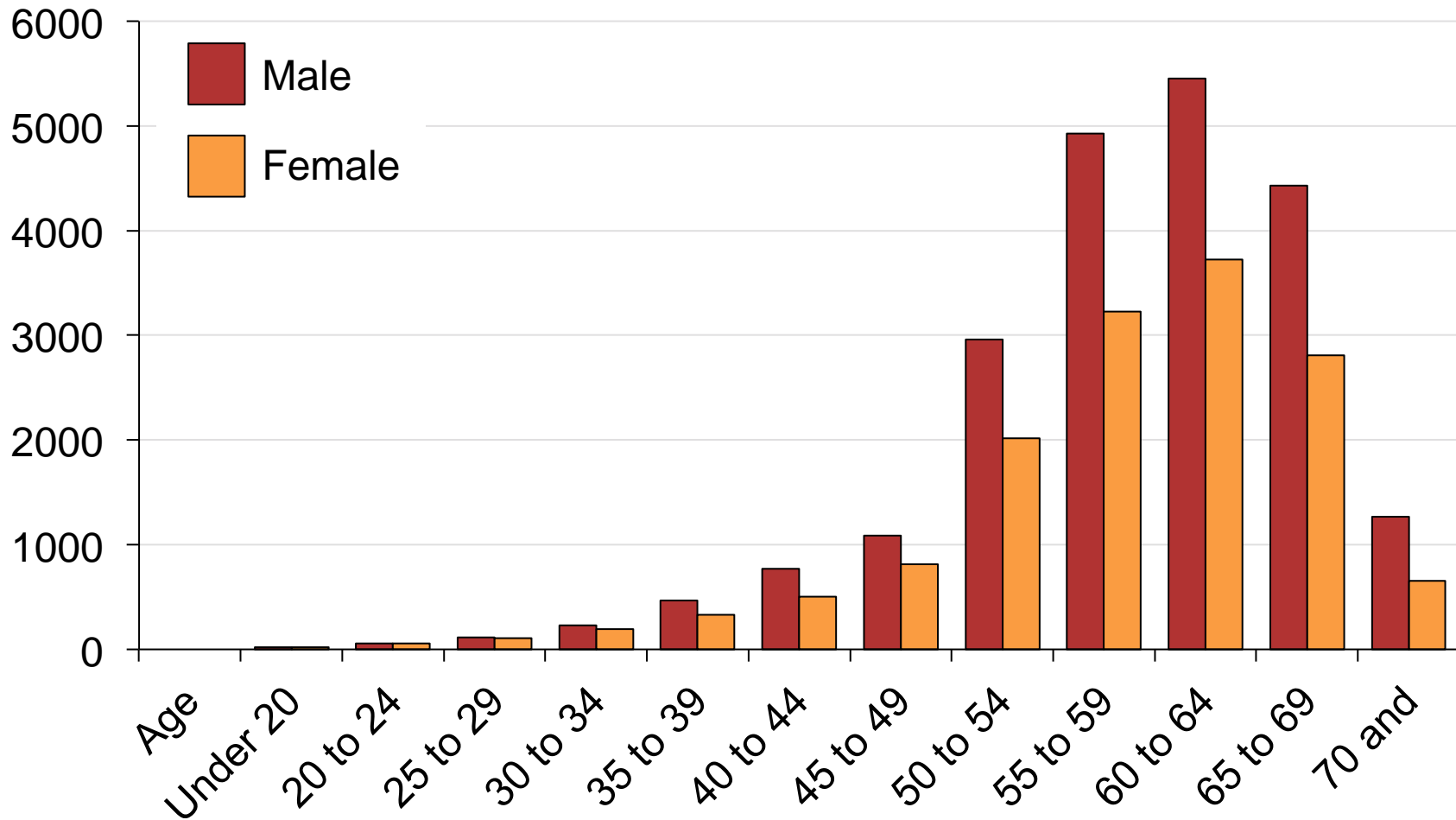


Source: HILDA survey 2009-10; Grattan Institute analysis. Excludes outliers (top and bottom wealth percentile).

Most voluntary contributions to super are made *after* reaching 60 years old

GRATTAN Institute
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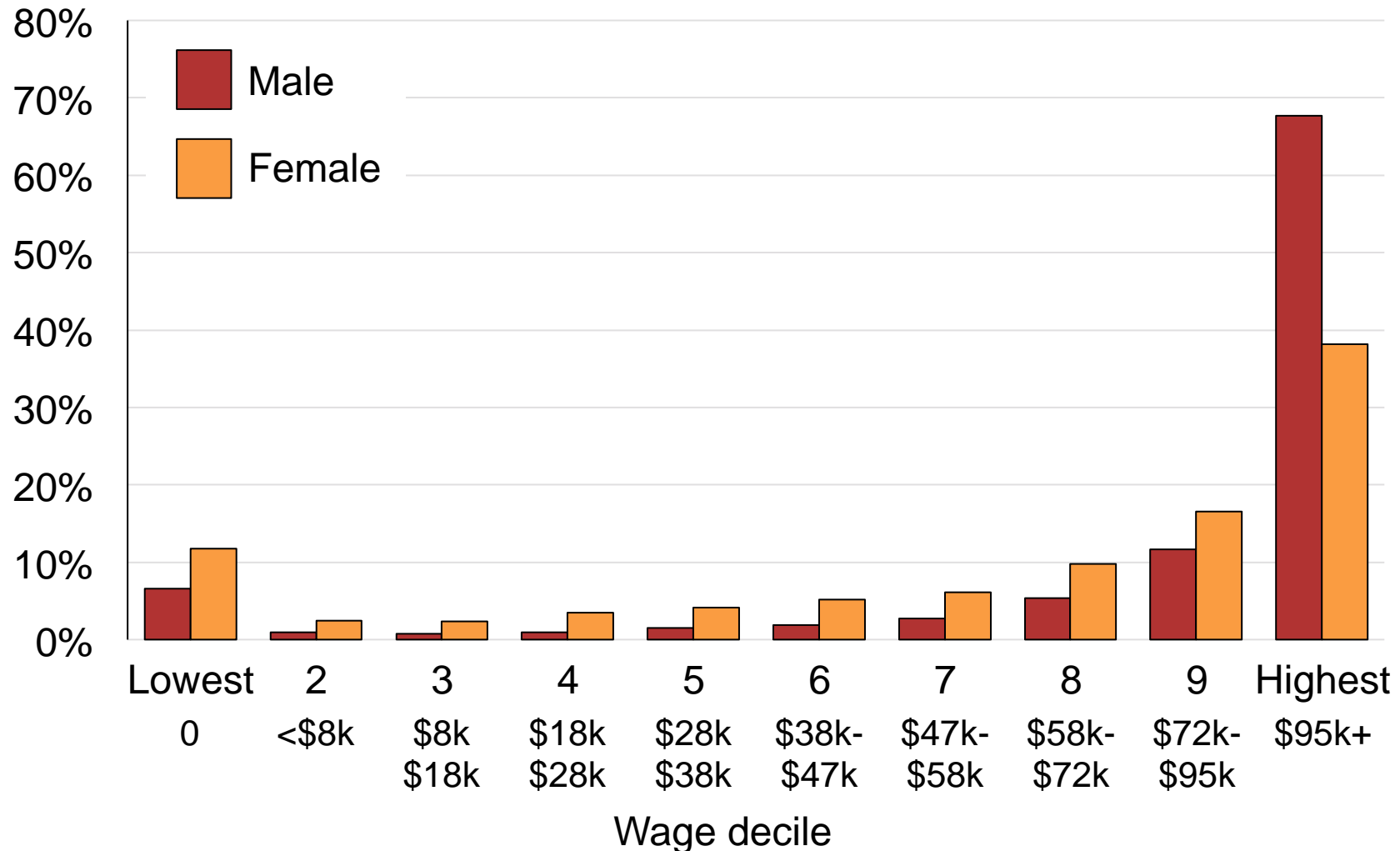
Average annual voluntary super contribution
\$2012



Most people who contribute more than \$10k to superannuation are well off

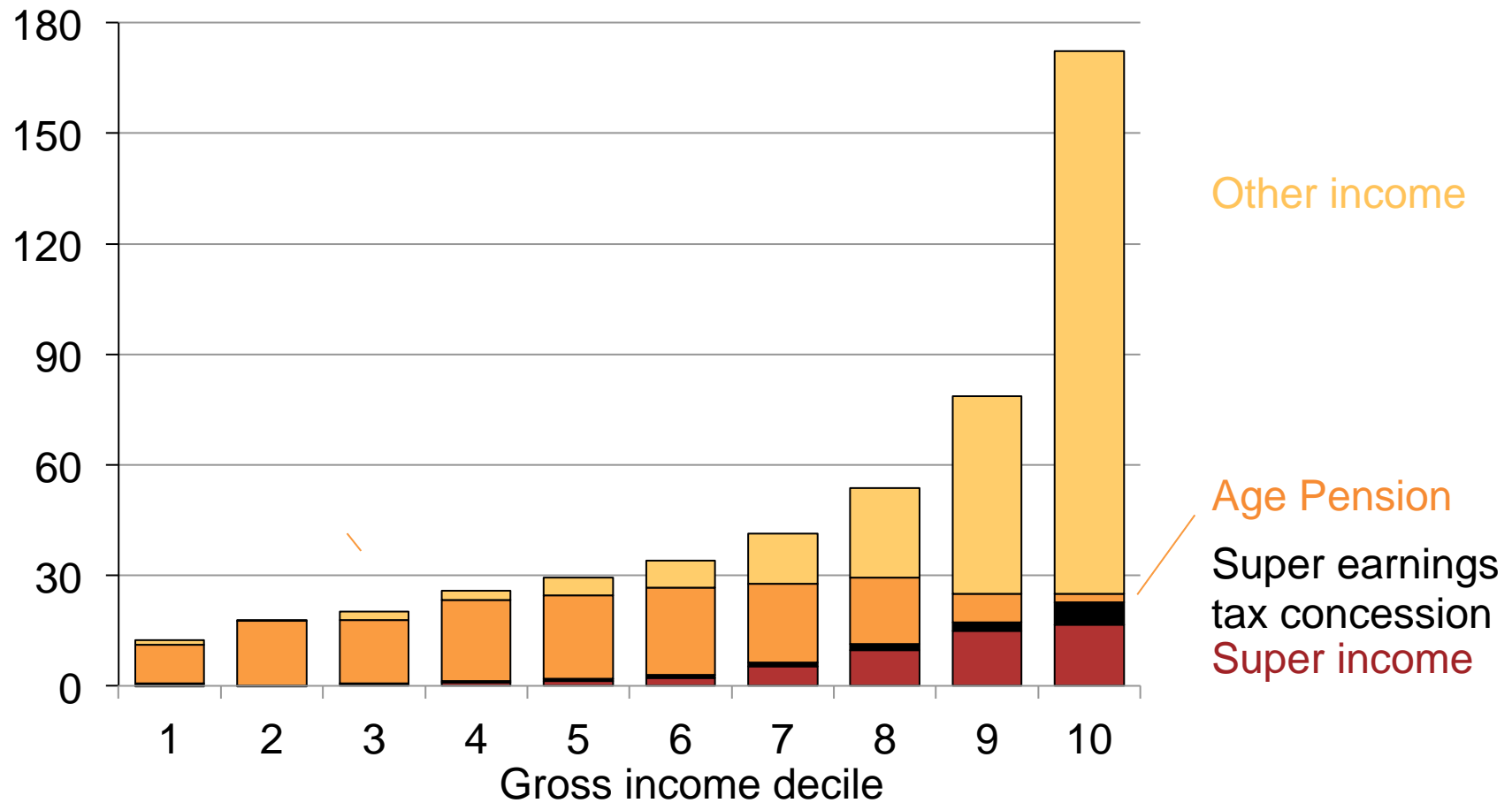
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Proportion of people who contribute more than \$10k to super, by wage decile, Per cent



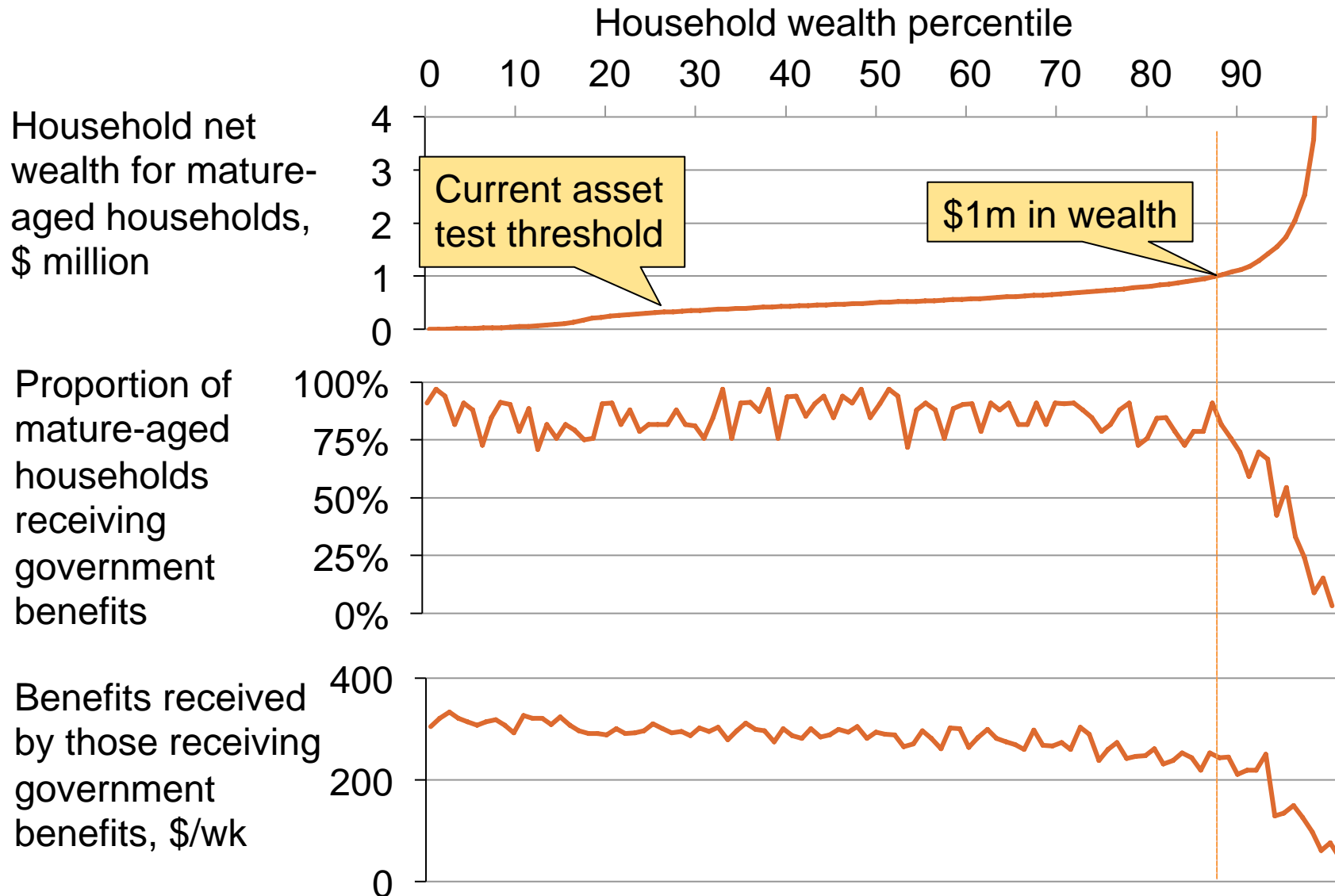
Tax free earnings on super for over 60s mostly benefit rich old people

Income by source for those in their 60s, by income decile, \$k yearly



Note: Numbers presented are the income decile averages for each income category for those aged 60-69.
Source: Grattan Institute, *Balancing Budgets: hard choices we need*

The Age Pension could be better targeted

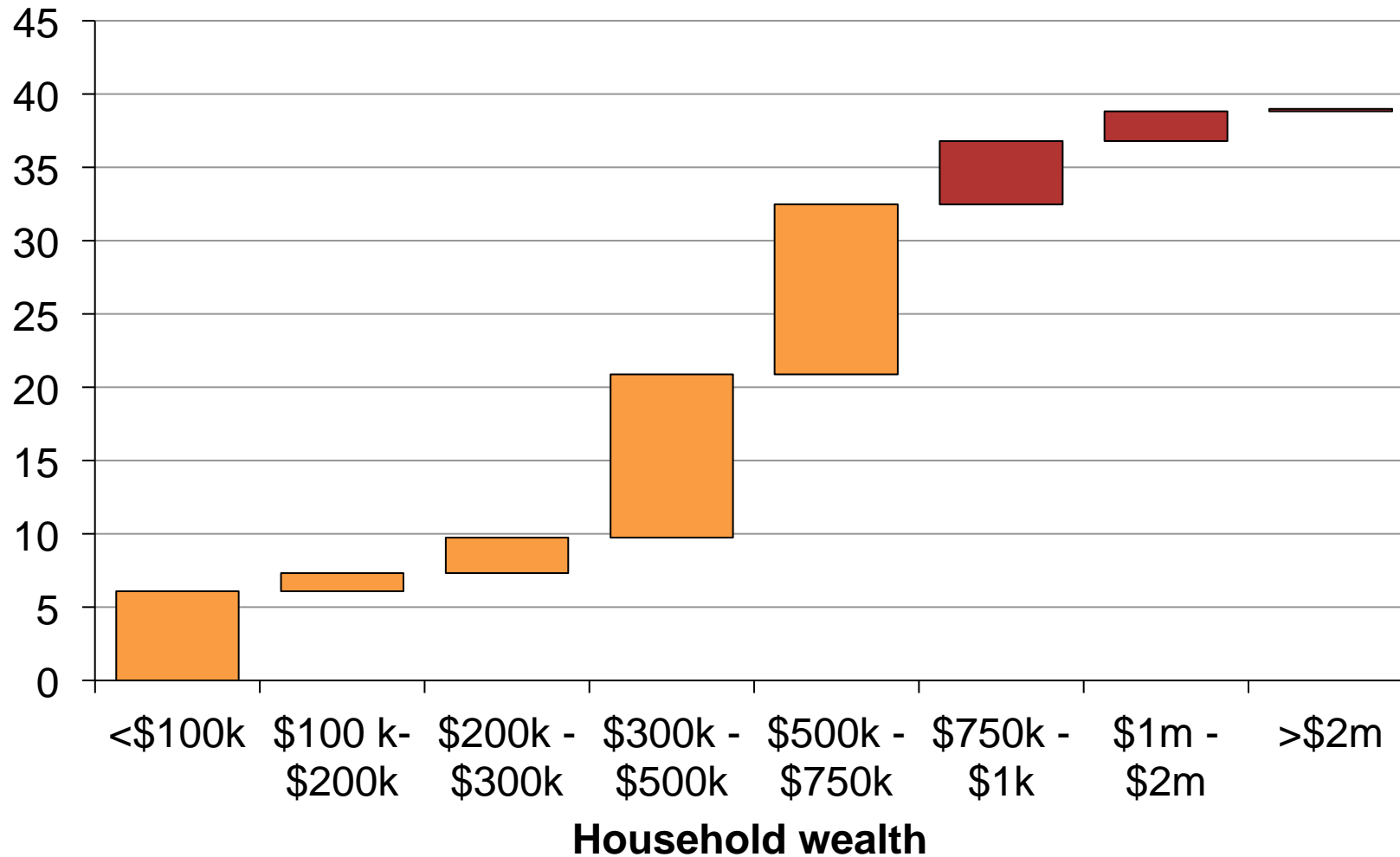


Source: *Balancing budgets*. Note: "mature-aged household is household where oldest occupant is over 65

\$7 billion a year in Age Pension is paid to households with more than \$750k in assets

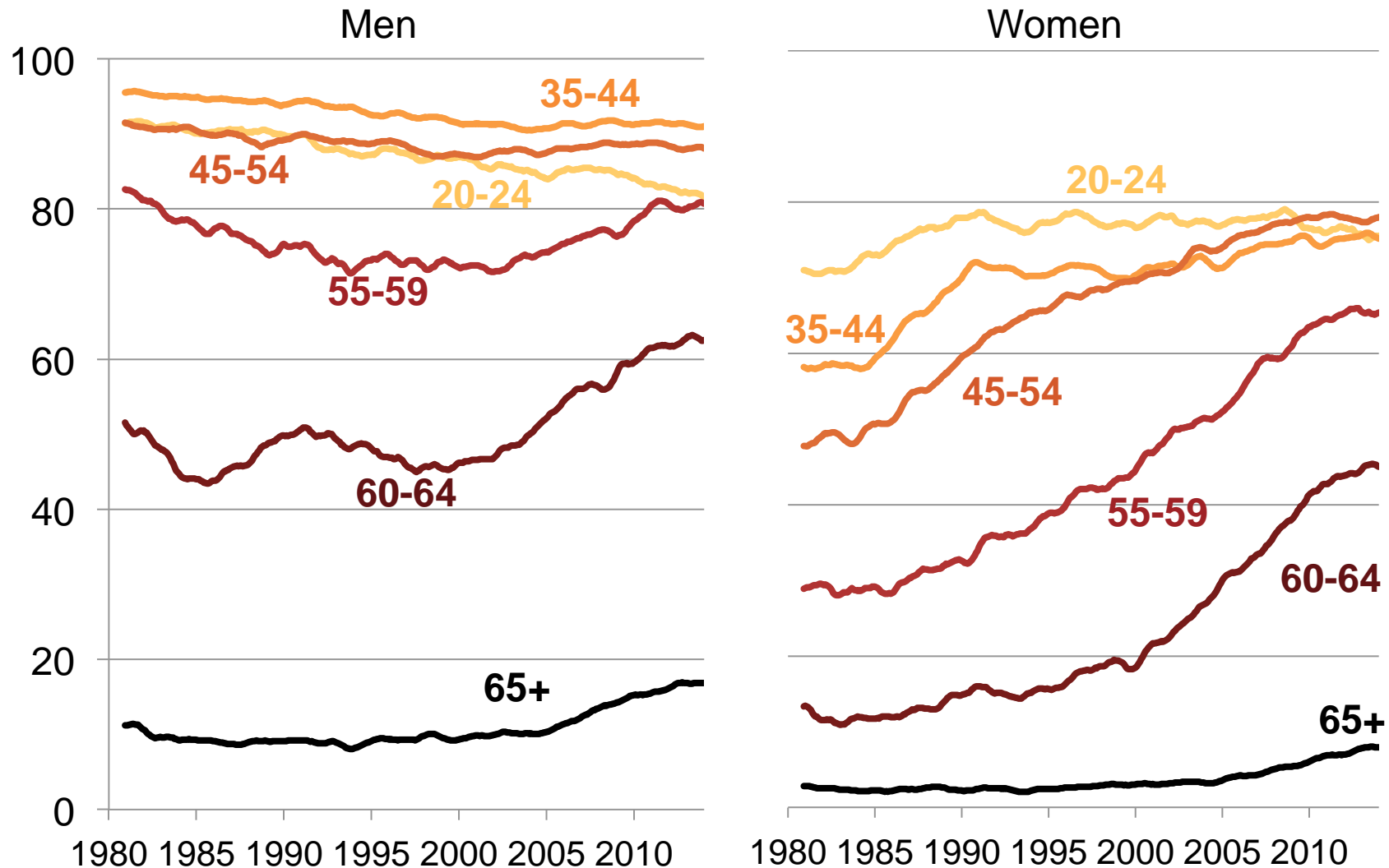
Age pension expenditures and household wealth

2012-13, \$ billion



Participation of older age groups and women has trended up for over 15 years

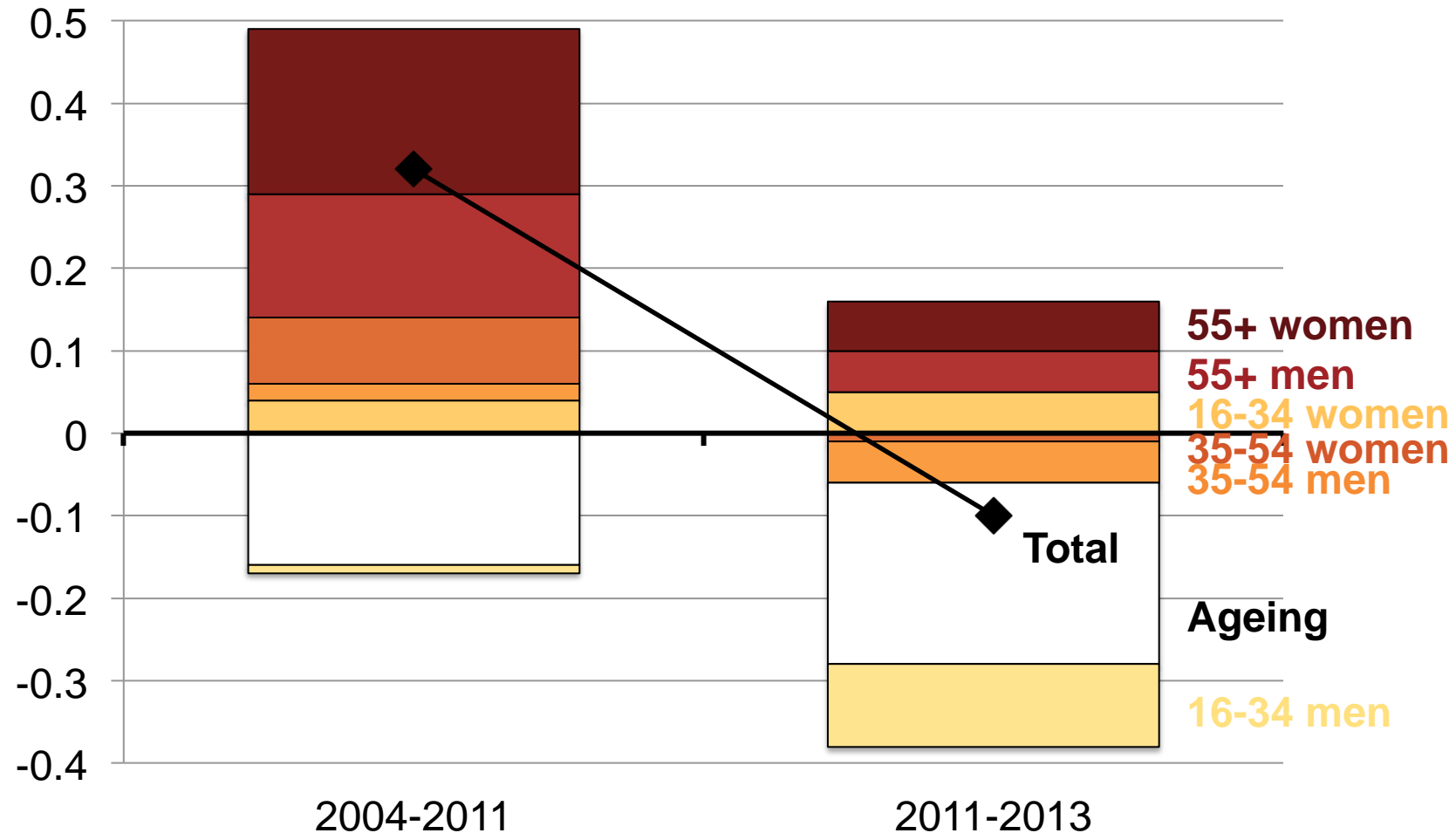
Labour force participation rates (per cent of age cohort)



Until recently, increases in older age participation outweighed the ageing population

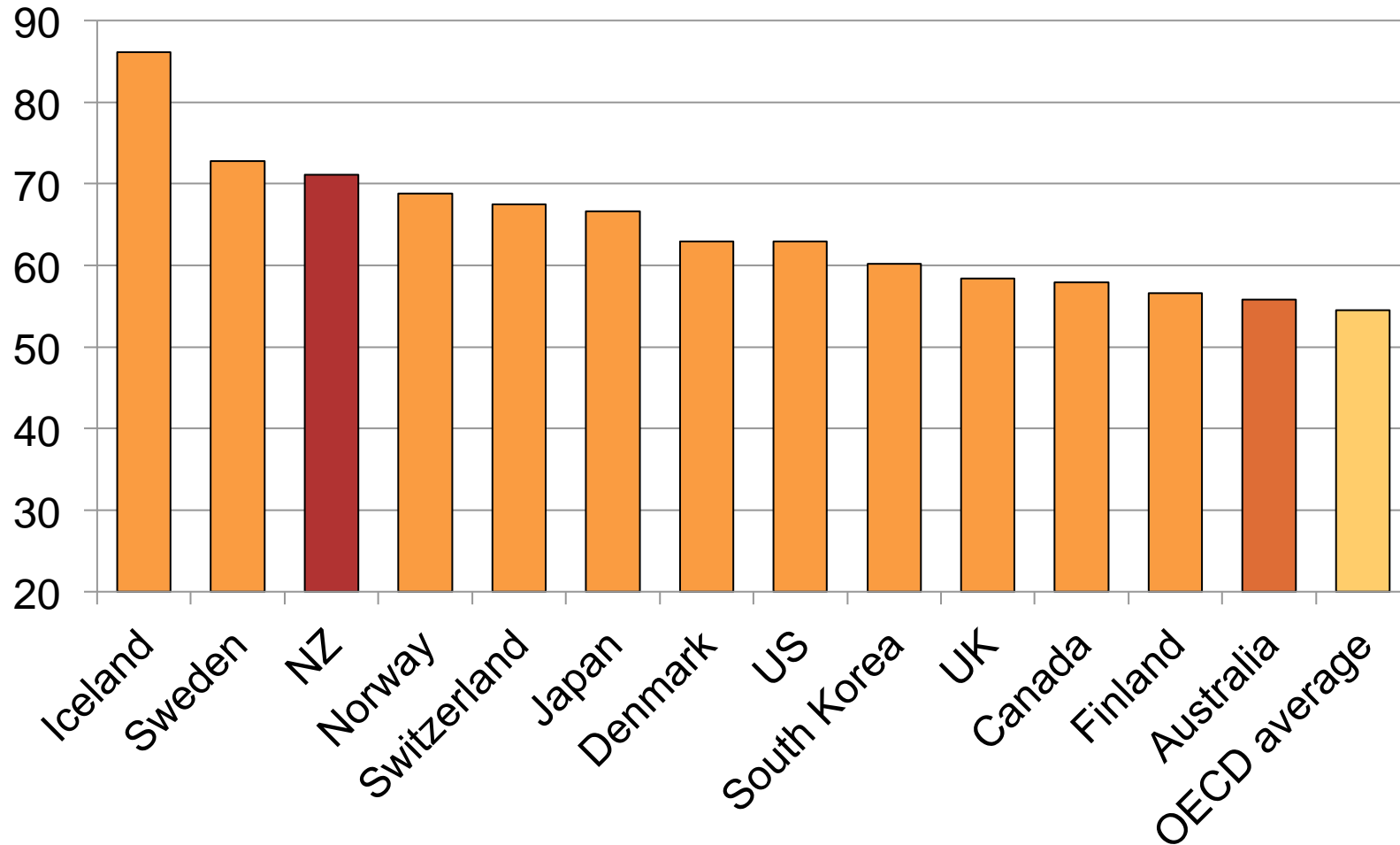
Contribution to change in participation rate

Percentage points per year



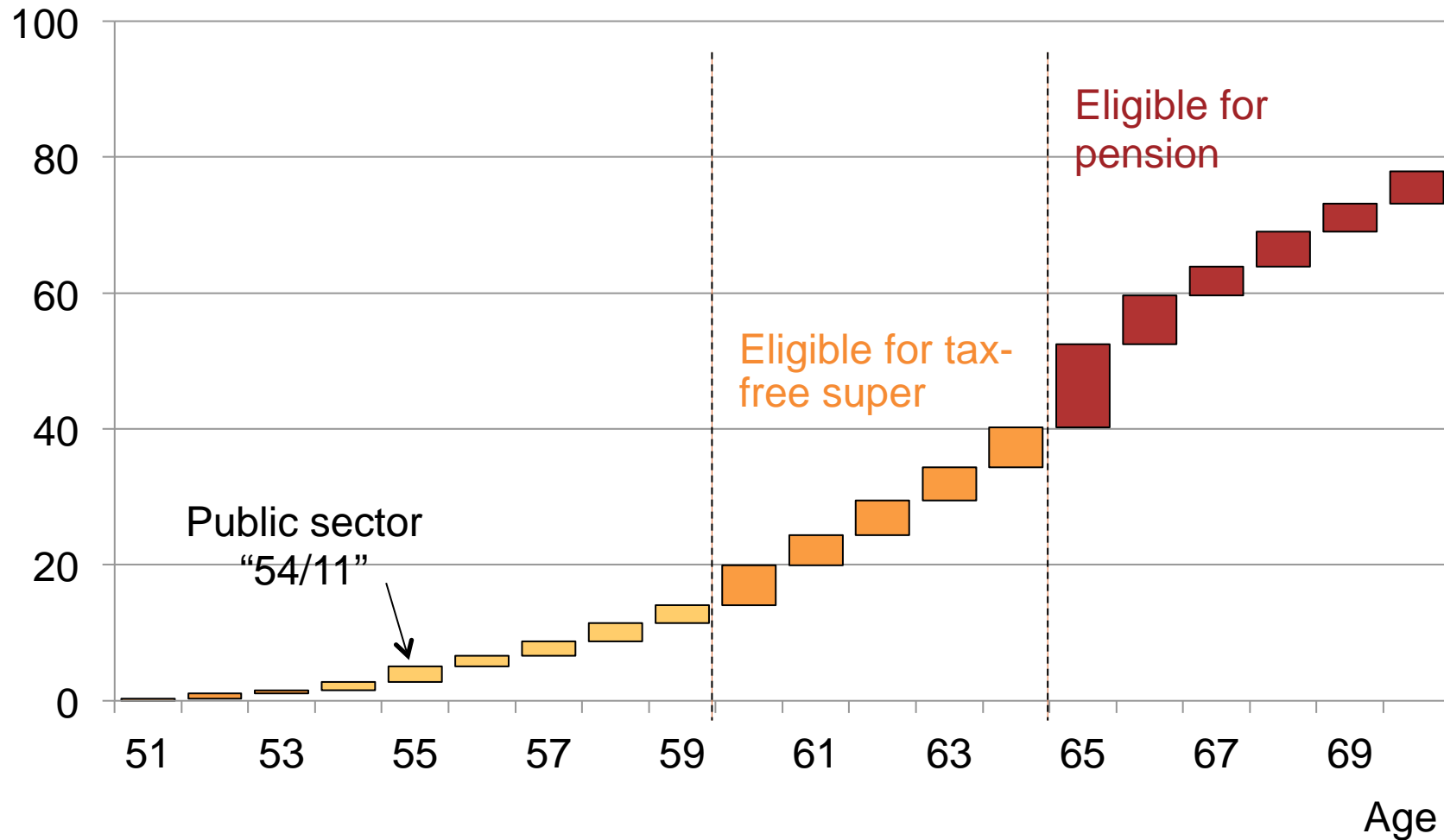
Older age workforce participation is relatively low in Australia

Adjusted workforce participation rates of 55-64 year olds (%)



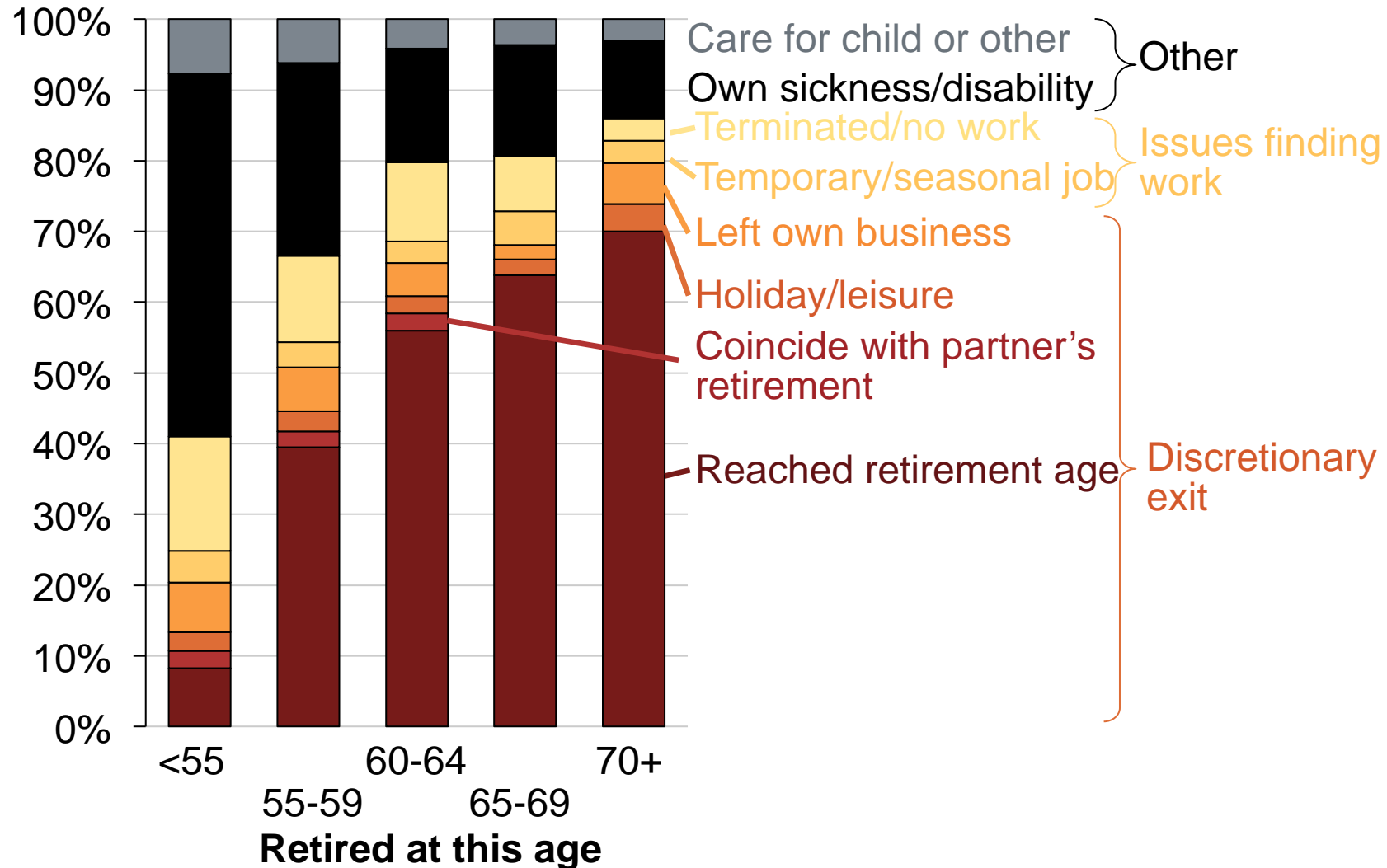
Lifting eligibility for Age Pension and tax-free super would increase retirement ages

Cumulative per cent of male labour force retiring by age
Percent



Most older people choose to leave the workforce

Per cent of people retired



Source: ABS (2013) Cat 6238 Table 6.1

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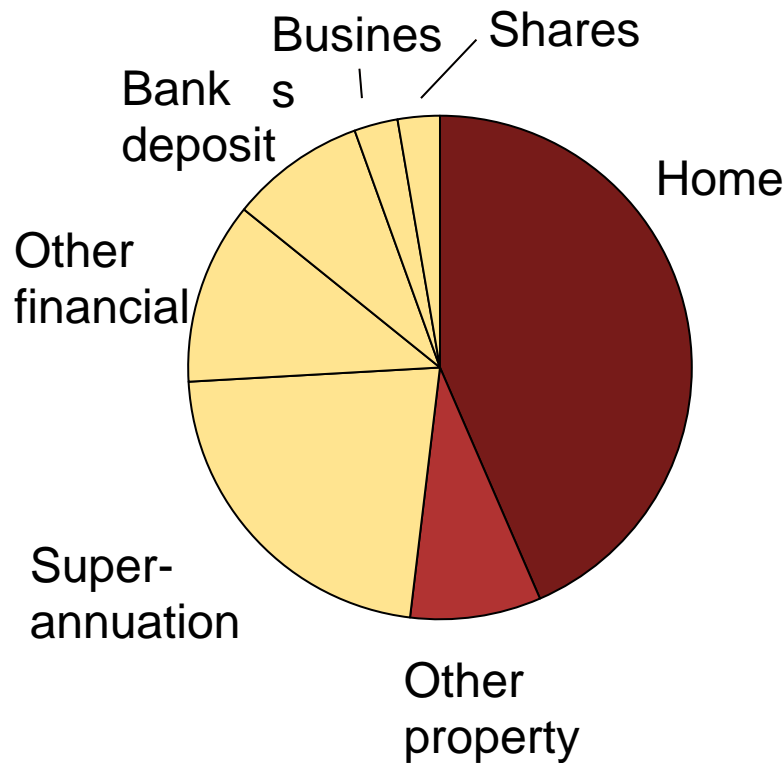
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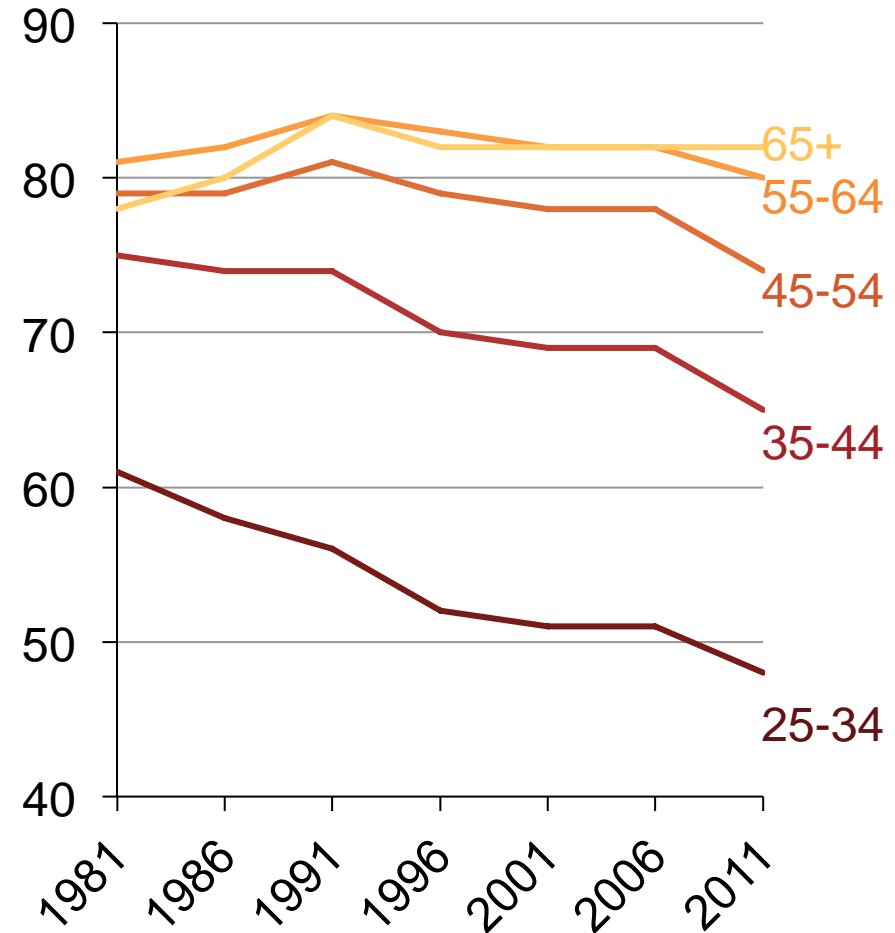
Wealth is dominated by home ownership, but younger people are struggling to buy

Composition of household wealth, 2010



Source: Grattan analysis of HILDA 2010

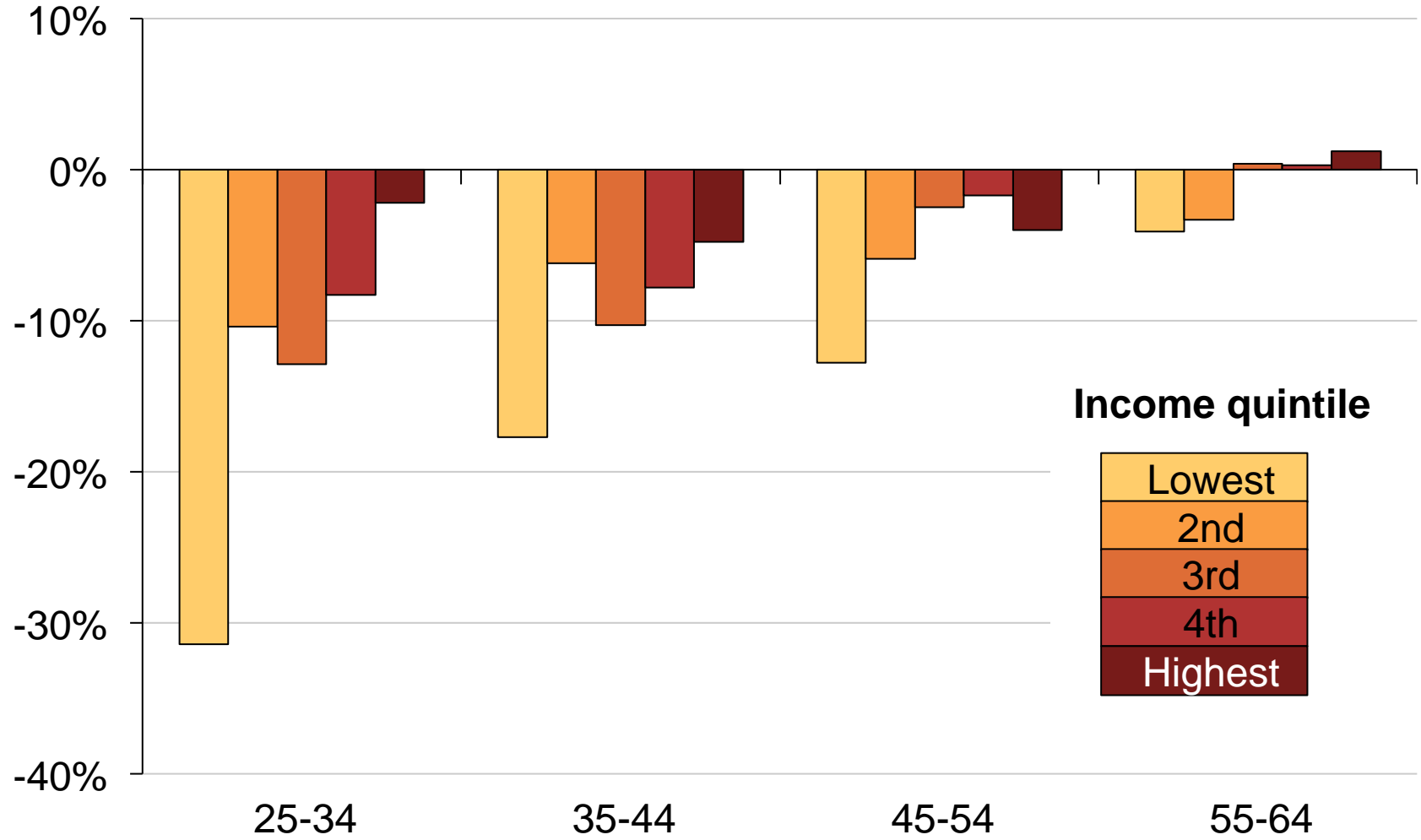
Home ownership rate by age
Per cent



Source: Yates (2011a)

Home ownership rates have fallen fastest for young people on low incomes

Percentage point change in home ownership rates, 1981 to 2011



Source: Grattan Institute, *Wealth of Generations*

Questions

May 2014



November 2013



December 2014

