Speech by Adam Graycar:

"Retirement, ageing and social policy"

presented in Tasmania, May 1987

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TASMANIA
May 1987
Speech
Notes

Adam Graycar
INCOME

Australian Pension
- income maintenance
  poverty alleviation
  basic floor - safety net

Many overseas pensions
- earnings replacement
- percentage of final income

Approx. 70% needed to maintain lifestyle.

Tax Concessions
- \( \frac{1}{2} \) age pension
- $2.6 billion 1983
- declining because of lump sum tax
1.

There are 3 factors that need to be considered when talking about retirement and each of these factors represents a stage in the retirement process that requires adjustment. The first factor is the retirement "event" - that point in time when a person leaves his workplace forever. The second factor is referred to as the "process" of retirement which simply means the process of adjustment to the retirement state. Finally, the "period" of retirement refers to that phase in a life career after the person, or the head of a spouse's household permanently ceases full-time work.

In Australia in recent times the process of adjusting to retirement is becoming more relevant to an increasing number of people and at much earlier ages than ever before. This is illustrated by the dramatic decline in labour force participation rates over the last 2 decades. Between 1966 and 1982 the labour force participation rate of males aged 60-64 fell from 79.4% to 47.7%. For males aged 65 and over the rate fell from 23.3% to 9.2%.

Further, in 1983 there were an estimated 4,479,300 persons in the civilian population aged 45 years or more, of whom 2,155,400 (48.1%) persons had retired from full-time work .... Of the persons who retired at age 45 years or more 832,000 (64.8%) had retired 'early' .... that is at age less than 65 years for males and at age less than 60 years for females.
Social and Personal Issues

3 primary changes in lifestyle can be identified following retirement:

- changing away from work-based friendships
- adjusting to satisfactory activity patterns at home
- establishing an adequate level of income without working.

There is evidence to suggest that for a majority of retired persons the transition from workforce to retirement is relatively easy to accomplish. Survey results indicate that only "15% regarded adjustment to retirement as difficult and a further 17% reported it as 'somewhat difficult' ".

Common complaints were related to the financial consequences of retirement, missing workmates and boredom.

Adjustments have to be made to things like "loss of income, loss of structure and routine for daily activity, loss of interaction with co-workers whomay have become important sources of social support, loss of social status and prestige, loss of a major foundation upon which personal identify rests, and loss of an avenue for attaining the satisfaction of accomplishment and productivity".
McCallum suggests that the higher one's occupational status the less difficulty one has in retirement. He gives the higher levels of resources associated with higher status, the satisfaction of retiring after a successful life, and the greater skills for coping with the new demands of retirement as possible explanations.

Adjustment difficulties are often associated with poor health and inadequate income and housing. In terms of retirement, there is "an economic threshold of low income and home ownership which must be crossed before one's occupational status begins to work in one's favour".
Willingness to Retire; Willingness to Work Longer

There are a number of factors that influence the decision to retire, for example, anticipated income, health, job satisfaction, employment opportunities, to name a few.

Results of surveys conducted in recent years have shown that a significant proportion of retired persons would have preferred to work longer than they did. For example, a Sydney survey found that about 40% of respondents were happy to retire when they did, 40% would have liked to retire later and about 20% would have liked to retire sooner. The hypothetical availability of a full pension or superannuation had little influence over these preferences and improved the response of those wishing to retire sooner by only 4.5%.

In terms of that 40% wishing to retire later, one could argue that this result challenges the popular notion that the large numbers of early retirees is in direct response to greater availability of government benefits, including the large number of service pensions. However, while many people may prefer to remain in the workforce there are factors which preclude them from doing so, such as labour market conditions, including generous retrenchment pay, and government policies that have an indirect effect on retirement decisions.

The most powerful incentive not to want to work is argued to be an interaction of age pension means tests and tax which comes through the nearly universal receipt of age pensions. It is claimed that the high dependency on the age pension with
consequent high effective marginal tax rates on extra dollars earned is the major source of disincentives to work. Age pensioners pay effective marginal tax rates on extra income earned in excess of 60% and as high as 80%, so that unless a retired person can earn more than the age pension income there are positive disincentives to work. Unless people can earn enough to justify the expenditure of effort they will probably not want to work.

Level of income appears to be a strong determinant in terms of whether or not a person wants to work longer. A Sydney survey found that the higher one's income the less likelihood there is of one wanting to work longer. 45.2% of those in the lowest income category wanted to work longer compared to 25.6% of those in the highest income category.

The desire of this group to want to work longer could also be influenced by the fact that a smaller proportion of people on low incomes are covered by retirement schemes such as superannuation compared to those on high incomes. Occupational superannuation is unequally spread across income and occupational categories. Persons who retire on superannuation are predominantly male, while collar, full-time workers with high incomes and high status. (See table re retirement scheme and main source of income on retirement).

[The ACOTA/DSS survey found that the preference to continue working was strongest at the top and bottom of the occupational levels. 41% of professionals and 52% of unskilled workers preferred to continue compared to 18% of proprietors and 37% of clerical workers].
Job Satisfaction and Employment Opportunities

Health

1. More than one aspect of health status to consider in terms of its affect on an individual's decision to retire and in terms of the greater number of males leaving the workforce before the retirement age. Firstly, while it can be said that "poor health is more likely to cause early retirement than to be a consequence of it", in many cases the large numbers of males in their fifties who have left the workforce can be viewed as casualties of structural forces within the labour market. While "the idea that an increase in welfare payments could by itself stimulate a mass exodus from the workforce is highly questionable", it has been suggested that many discouraged workers and those unable to find employment for whatever reason, have because of "more generous interpretations of illness by doctors", been able to claim an invalid pension which has less stigma attached to it than unemployment benefits until they qualify for a service or age pension.

2. While there are many adjustments to be made, health determines how well one adjusts to the retirement process. Maintenance of health and independence in old age is important both for the individual's quality of life and the community's load of dependency.

The most prevalent disorders experienced by elderly
Australians are hypertension, heart disease and arthritis, all related to our lifestyle which ranges from one of total inertia to that of the fast-paced, high stress world of the workaholic, compounded by an inappropriate diet, including high fat intake and high alcohol consumption.

While many chronic conditions increase in incidence with age the likelihood of illness occurring can be tempered by proper attention to diet and exercise, participation in stimulating leisure activities which will help to combat loneliness and isolation, if that is a problem, and which will aid in achieving a sense of having a useful role to play in the community.

Research has shown that many Australians are dissatisfied with the prospects of minimal resources and options in later life. If retirement is to be a healthy and active life phase many more opportunities will need to be created in retirement. Three general areas could be considered:

. improvement in retirement income
. greater opportunity for late life work and
. increased access to leisure (see McCallum).

Socio-economic status can also be seen as a predictor of successful or unsuccessful retirement in terms of health. Those people who have had high income and access to expensive forms of health care during life are also those who enjoy the same advantages during old age. Diet and exercise patterns also
differ between socio-economic groups. "Lower socio-economic groups are less receptive to exercise and have less healthy diets".

"...should not lose sight of the fact that much of what happens to the elderly is determined by lifetime patterns which we do have the power to do something about in our social welfare policies during younger years." (McCallum).

Employment Opportunities

Constraints against remaining in the workforce:

- the fact that there is little or no training expenditures on workers aged 45 or more
- the heavy effective marginal tax rates which apply once one is receiving an age pension
- the lack of suitable job opportunities for older workers. (See McCallum)

These are clearly more complex problems than the interaction of age pensions and personal taxation. In the first instance there are considerations of returns on investments in training of older workers and of the allocation between age groups and across a life span. Secondly, the availability of suitable jobs for older persons in Japan seems to depend upon self employment and family firms operating in diffuse distributional and production systems. Such industry structures and industrial
that
relations patterns do not exist in Australia. Finally, the plateau of wage rates in later working life demonstrates that many older workers are relatively advantaged in terms of wage rates. Some lowering in their expectations of wages and conditions may be necessary if they wish to work after they retire. The failure to lower expectations may be another cause why people lose their desire to work. The importance of this effect is difficult to assess in the presence of the current age pension system.
Self-employed and Professionals

- Can choose when to retire - some work well beyond the age pension age.
- Job satisfaction - high job satisfaction - 41% preferred to work longer. (ACoTn/DSG Survey).
- Are able to make gradual transition from the workforce - for many professionals there is always the prospect of guest lectures, committees or ongoing work involvement.

While many of this group may choose to remain in the workforce, as mentioned before, the government by its actions can indirectly influence an individual's decision to retire -

In 1983 Section 23F(b) of the Income Tax Assessment Act was amended to allow the self-employed and those with self-administered superannuation to withdraw their benefits at age 55 rather than age 60. While the purpose of these regulations was to prevent tax avoidance this change "may have had a significant effect on the retirement decisions of the self-employed and others" (see Butterworth and Newton).

Gender Differences

Retirement isn't exclusively a male phenomenon. Women also have to adjust to retirement, be it their own or their spouses. In most cases it is the latter.
Surveys show that most spouses (male or female) have no problems adjusting to the retirement of their husband or wife (72%). The worst things about a spouse's retirement were 'the spouse always being there' (16.8%) 'financial' (8.9%). The best things were found to be 'companionship' (38%) and 'joint interests' (14.4%).

However, the adjustment to the retirement of one's spouse appears to be more difficult for women than it is for men. 88% of males found their spouse's retirement relatively easy to adjust to compared to 65% of females. Wives are more likely to find companionship and joint interests as positive factors while the husband always being there as a negative factor. Most males on the other hand find nothing negative about the retirement of their wife and no disruption to household arrangements.
Persons who retired from full-time work at age 45 years or more: occupation in last full-time job, whether belonged to a retirement scheme and main source of income at September 1983

<table>
<thead>
<tr>
<th>Main Source of Income</th>
<th>Occupation in last full-time job</th>
<th>Professional and Technical</th>
<th>Tradesmen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Superannuation</td>
<td></td>
<td>23.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Invalid, age, service pensions</td>
<td></td>
<td>40.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Dependent on another person</td>
<td></td>
<td>8.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td>19.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Savings/sale of assets</td>
<td></td>
<td>-</td>
<td>0.9</td>
</tr>
<tr>
<td>Part-time work</td>
<td></td>
<td>6.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>-</td>
<td>1.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Whether Belonged to a Retirement Scheme</th>
<th>Occupation in last full-time job</th>
<th>Professional and Technical</th>
<th>Tradesmen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Belonged to a retirement scheme</td>
<td></td>
<td>63.0</td>
<td>38.0</td>
</tr>
<tr>
<td>Did not belong to a retirement scheme</td>
<td></td>
<td>37.0</td>
<td>62.0</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics, Persons Retired from Full-time Work, Australia, September 1983, Cat. No. 6238.0
The acceptance of late life without work is by no means a necessary consequence of demographic transitions and economic development. In the post-war era Japan has undergone both rapid demographic transition and high economic growth. Despite a retirement age of 55 years on average about 1 in 4 of all Japanese over 65 years are in the labour force. There is also a persistently strong desire to work and diligent job search amongst older Japanese. (see McCallum)

Australian culture and economic conditions have created a retirement lifestyle that is quite specific to this country. It is not at all a necessary consequence of demographic transition. In fact, increased longevity should imply the opposite trend – that people would work longer. (see McCallum)

For that 40% of retired persons who would have preferred to work longer, retirement opportunities could be expanded by

- improving retirement income
- providing greater opportunity for late-life work
- increasing access to leisure (see McCallum)

- help to make retirement a healthy and active life phase.

(This last para. is duplicated on p. 2 under Job Satisfaction + Employment Opportunities).
<table>
<thead>
<tr>
<th>Age</th>
<th>Number of People Experiencing Chronic Conditions per 1,000 Population</th>
<th>Number of Chronic Conditions Experienced per 1,000 Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 15</td>
<td>239.2</td>
<td>318.8</td>
</tr>
<tr>
<td>15 - 44</td>
<td>416.3</td>
<td>657.3</td>
</tr>
<tr>
<td>45 - 64</td>
<td>659.4</td>
<td>1347.7</td>
</tr>
<tr>
<td>65+</td>
<td>776.3</td>
<td>1791.3</td>
</tr>
</tbody>
</table>

Source: ABS Australian Health Survey 1977-78 Chronic Conditions Cat. No. 4314.0

Aust. Health Survey 1982

Most prevalent disorder experienced during 2 weeks prior to interview:

- Circulatory system: 467 persons/1000
  - Hypertension: 287
  - Heart disease: 176
- Arthritis: 176