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Retirement Income Review Secretariat
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**Retirement Incomes and Aboriginal and Torres Strait Islander Australians:
Submission to the Treasury Retirement Incomes Review**

Dear Secretariat,

The purpose of this submission is to impress upon the Secretariat and Treasury researchers conducting the review of Australia's retirement income system of the need to include a focus on the adequacy of retirement incomes for Indigenous Australians and to highlight the current lack of evidence relating to this issue.

The Retirement Income Review Consultation Paper notes that the aim of the retirement incomes system is to allow older Australians to achieve adequate income in retirement (p .8), and proposes four principles for assessing the system's performance:

- Adequacy – whether the system allows for Australians to achieve an adequate standard of living in retirement.
- Equity – whether the system produces fair outcomes for different groups of Australians.
- Sustainability – whether the system is able to continue to meet its objectives into the future and maintain broad community support.
- Cohesion – whether the incentives across the system reinforce or conflict with the system's objectives both before and during retirement.

The Consultation paper makes only two references to Indigenous Australians, both simply noting that life expectancy for Aboriginal and Torres Strait Islander Australians is below that for the broader population (pp. 10 & 17). As set out below, I believe the circumstances facing this group warrant a much stronger focus and special recognition in assessing options for policy reform.

Aboriginal and Torres Strait Islander peoples greatly enrich our nation in many ways, including as the custodians of the world's oldest known continuous cultures; celebrated successes in sports, arts and music; unique knowledge of country, its management and properties of plants as food and medicine; all contributing to an integral part of our wider national identity. Regrettably, however, Indigenous Australians also face multiple barriers in achieving the outcomes they have right to value and, on average, experience substantial disadvantage relative to population as a whole. This is well documented in the regular

Overcoming Indigenous Disadvantage: Key Indicators reports. To select just a few of many potential examples, mortality rates for Indigenous young children (aged 0-4) are double that for non-Indigenous children; suicide rates for Indigenous Australians are around twice those of non-Indigenous Australians; and age-adjusted adult incarceration rates *thirteen* times higher. Indigenous youth are 30 per cent less likely to complete Year 12 and almost one-quarter of Indigenous Australians have a disability, 1.7 times the rate for non-Indigenous Australians (SCRGSP 2016).

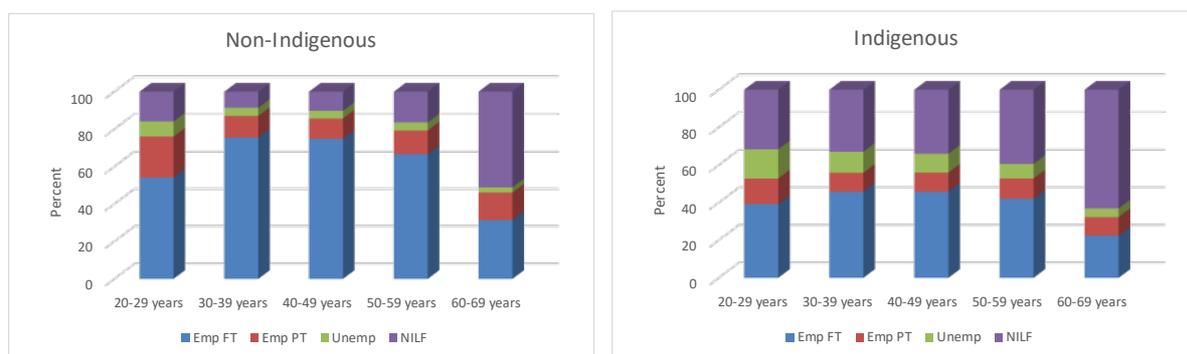
Disadvantage accumulates over the life-course and the well-known intergenerational gradient in socio-economic status means that such disadvantages are perpetuated, as today's Indigenous children are disproportionately born into families facing hardship. It can be expected then, that inequality between Indigenous and non-Indigenous Australians will widen with age to be even more pronounced for people of retirement age. Despite this, there appears to have been very few studies that have looked at the adequacy of Indigenous Australians' incomes in retirement, or their comparative standard of living. The one study I have been able to identify is Bianchi, Drew, Walk and Wiafe (2016), which uses simulations of superannuation contributions from age 25 and investment returns by asset class to estimate that the superannuation balances of full-time workers on retirement would be, on average, 27 per cent lower for the median Indigenous male worker and 39 per cent lower for the median Indigenous female worker relative to their non-Indigenous counterparts. Their results indicate that 10 per cent of Indigenous workers would achieve a comfortable retirement compared to over 20 per cent of non-Indigenous workers, using a benchmarks for required incomes in retirement developed by the association of Superannuation Funds of Australia.

However, the Bianchi et al. (2016) contribution looks at only part of the picture. Their simulations are for persons assumed to work full-time for 40 years from age 25. Hence, the differences in superannuation balances arise only from differences in wage rates for full-time workers and differences in returns on superannuation funds, such as due to higher proportionate management fees for lower balance accounts. They make no allowance for the lower employment rates of Indigenous Australians or differences in the incidence of part-time work, or the earnings penalties associated with intermittent work patterns and part-time employment.

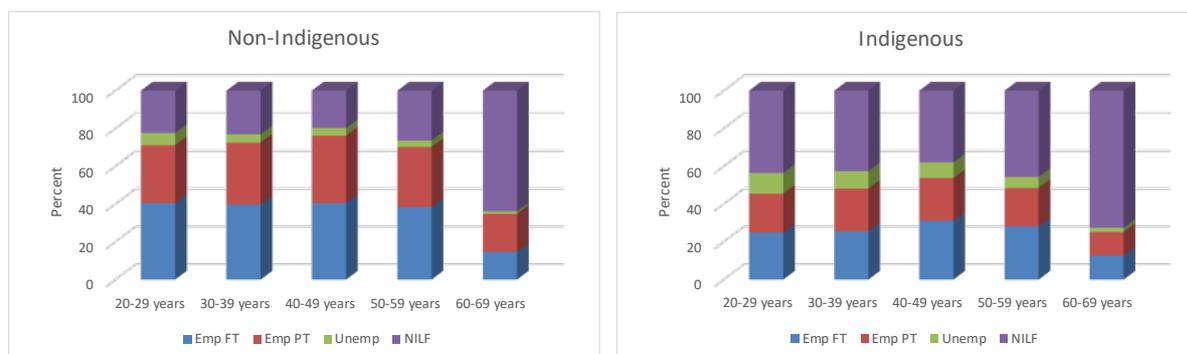
To highlight this, Figure 1 presents a comparison of labour force status over the working life for Indigenous and non-Indigenous Australians, with data taken from the 2016 Australian Bureau of Statistics' Census of Population and Housing. The much lower incidence of full-time employment and greater amount of time spent out of the labour force for Indigenous Australians is apparent for both genders and for each age cohort. The proportion of non-Indigenous males in full-time employment across the prime working ages from 30 to 59 is around 70 per cent compared to around 45 per cent for Indigenous men. On the flip side, around 12 percent of non-Indigenous men are outside of the labour force over this age range, compared to around 35 per cent of Indigenous men. Large gaps in accumulated working experience are also apparent for Indigenous women. Clearly, differences in earnings for those in full-time employment will account for only a fraction of the gap in savings for retirement.

Figure 1: Labour force status by 10-year age cohort: Indigenous and non-Indigenous Australians, 2016 Census.

(a) Males



(b) Females



Notes: Emp FT – employed full-time, Emp PT – employed part-time, Unemp – unemployed, NILF – not in the labour force. Source: Authors calculations from 2016 Census data, downloaded from the ABS on-line TableBuilder facility.

Data on actual superannuation holdings are not readily accessible by Indigenous status. One potential source is the data from wealth modules which have been included in the Household, Income and Labour Dynamics in Australia Survey every four years commencing from 2002. While the sample sizes are limiting when it comes to making inferences for Indigenous persons by age, the available data suggest average superannuation balances for Indigenous Australians aged 55-64 years of \$117,000, close to half the \$230,000 average for non-Indigenous Australians of the same age.

In a collaborative project with Unisuper, the Bankwest Curtin Economics Centre is currently undertaking more detailed modelling of the work patterns, earnings patterns and accumulated superannuation balances of Indigenous Australians over the life-cycle. Unfortunately, the results from that modelling are not yet available, but it is hoped that they may be able to be provided to the Secretariat prior to the finalisation of the final report of the Retirement Incomes Review.

As noted in the Consultation Paper, compulsory superannuation is just one of what are commonly referred to as the ‘three pillars’ of the retirement incomes system, along with the

Age Pension and voluntary savings (Treasury 2019: 6-7). Capacity to accumulate private savings is, of course, closely linked to income, and will be diminished for households nearer the poverty line where current consumption needs are a high proportion of income. The lower employment rates and earnings of Indigenous Australians highlighted above will similarly impact upon Indigenous people's capacity to accumulate savings outside of the compulsory superannuation system.

The major vehicle for voluntary savings in Australia as people approach retirement age is in the form of owner-occupied housing. The current system generates significant incentives to invest in owner-occupied housing over other forms of savings through exemptions from assets testing and capital gains tax. Whether or not one owns their own home has substantial implications for financial comfort in retirement. Drawing on HILDA data pooled over the 17 waves from 2001 to 2017, retirees aged 65 to 74 who did not own their home were about 4 times more likely to be in financial stress than those who did own their home (whether outright or paying a mortgage) – 23 per cent as opposed to 6 per cent.¹ When asked to rate their 'prosperity given current needs and financial responsibilities' on a scale ranging from 1='very poor' to 6='prosperous', the average response was 3.9 for home owners (close to the 4='reasonably comfortable' point on the scale) compared to 3.4 for non-home owners (closer to the 3='just get along' point).

However, Indigenous Australians are largely excluded from this critical form of saving for retirement. This is particularly so in remote communities, where homeownership is extremely rare. Data from the 2016 Census indicate that among Indigenous households – defined as households with at least one Indigenous usual resident – the home ownership rate is 40 per cent compared to 68 per cent for other households. Almost 20 per cent of Indigenous households live in public housing, compared to 3 per cent of other households. Given the importance of home ownership for financial wellbeing in retirement, the concessions for this form of saving over other investments, and its potential added value in the context of a culture that emphasises extended kinship relationships and reciprocity, it may well be argued that investing in an owner-occupied home would be preferable to investing in superannuation for many Indigenous Australians. However, the compulsory nature of superannuation contributions is likely to make it more difficult for Indigenous Australians who aspire to owning their own home to achieve that goal, particularly for those lower down in the earnings distribution and income distribution.

In terms of the third 'pillar', currently Australians become eligible for the age pension, subject to means and assets tests, at age 67 years. Based on the most recent life tables (ABS 2018, 2019), 71 per cent of Indigenous males and 80 per cent of Indigenous females born today will live long enough to qualify for the age pension. This compares to 86 per cent and 92 per cent, respectively, for male and female Australians as a whole. Upon reaching the qualifying age for the age pension, the typical Indigenous male will live just 16 more years before passing away, and the typical Indigenous woman 18 years. The comparable figures for the overall population are 19 years for men and 22 years for women. A similar disparity applies to the likelihood of Indigenous persons living to an age at which they can access their superannuation, and the duration for which they can expect to enjoy those benefits. For those

¹ The financial stress indicator is based on whether the individual reported one of a range of events in the past 12 months, such as not being able to pay bills or rent, having to ask friends or family for financial help, having pawned or sold something due to a lack of money.

Indigenous Age Pension recipients, few will benefit from the tax and transfer concessions of home ownership.

Many factors contribute to the lower life-time earnings of Indigenous Australians and associated lower accumulated savings to provide for life in old age. On average, Indigenous Australians will have lower health status from early childhood. Differences in geographical distribution of the population contribute to lower access to services, including education, as well as to employment opportunity. Many will develop a disability and many others will take on responsibilities for caring for a family member who has a disability. One's thirties are a pivotal stage for building careers. For the cohort aged 30-39 years, 21 per cent of Indigenous women were caring for a person with a disability on an unpaid basis, compared to 12 per cent of non-Indigenous women of the same age at the time of the 2016 Census. For males aged 30-39 years, the figures are 13 per cent compared to 8 per cent for non-Indigenous males. While rates of unpaid caring converge for Indigenous and non-Indigenous Australians by age 55, they are substantially higher in relative terms for younger cohorts of Indigenous Australians, at an age where such responsibilities will impact upon educational attainment and career paths.

While the causes behind these factors are complex and multidimensional, there can be no doubt that much of the disadvantage faced by our Indigenous peoples arises from the effects of colonisation. This includes trauma and psychological stress associated with massacres, forced removal from families and from homelands, racism, discrimination, loss of culture and the failure of the nation to openly acknowledge our history (Dockery 2020, 2012; Paradies 2006, 2016). From an economics perspective, the incentive to save for the future requires that the return on investment exceeds, or at least equals, one's discount rate. It is perfectly rational for Indigenous Australians to have relatively high discount rates and lower savings rates. Their lower life expectancy, lower incomes, more urgent current needs for themselves and family around them, and justifiable distrust of institutions would all increase the relative value of current expenditure over saving for the future.

Australia's retirement incomes system features three pillars of compulsory superannuation, voluntary savings (largely through home ownership), and the Age Pension. As set out above, Indigenous Australians face substantial barriers and disadvantage when it comes to earnings through the life course and the capacity, or even incentive, to save. On the system performance criterion of equity, is it fair that Indigenous Australians experience such disadvantage throughout their working lives, to then be faced with accumulated disadvantage when they reach old age? They have lower superannuation balances, lower savings and low rates of homeownership. Due to difference in mortality rates, they will not enjoy the benefits of superannuation or the age pension to the same extent as other Australians. By and large, they will not benefit from the concessions to home ownership inherent in the current system.

I believe these considerations all point to deficiencies in the current system in terms of adequacy, equity and cohesion; and whether public support is adequately targeted. Yet this submission has only scratched the surface of potential issues facing Indigenous Australians. There are many other issues relevant to the terms of reference, such as those around financial literacy, incarceration, the burden of funeral expenses and whether aged care options adequately reflect the importance of attachment to country and kin for Indigenous people. Moreover, there is a paucity of research and empirical evidence upon which to base an assessment of whether the system is providing an adequate or equitable standard of living for

Indigenous Australians. I encourage the Review to consider outcomes for Indigenous Australians in more depth, as well as potential reforms to the parameters of the existing system to address any inequities.

Yours sincerely,



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