

82. My Longevity Pty Limited

My Longevity response to ALRC Discussion Paper on Barriers to Work

Prepared by David Williams, Founder and CEO of My Longevity Pty Limited

I agree with the proposals contained in this Discussion Paper, which is comprehensive exposition of the issues.

I will comment on the importance of fostering greater longevity awareness in the broader community and how this might be achieved.

I have also responded to some Questions.

Longevity Awareness

Widespread ignorance about longevity is one of the major barriers to older persons participating in the workforce. Two of the more important issues are Remaining Life Expectancy and Socio-economic Factors. There are many other issues.

Remaining Life Expectancy

Ignorance about remaining life expectancy is easily tested by asking an 'older person' as defined in the Discussion Paper how long they might expect to live from today, and why. The range of responses shows that few people understand that remaining lifespan (longevity) is what matters, not total life expectancy. Most have no idea why they might be different from average. Our experience at My Longevity Pty Limited is that this ignorance is as prevalent among professional advisers of all kinds as it is among the general public.

This ignorance is compounded by the publication of Life Tables by the Australia Bureau of Statistics (ABS) and the Australian Government Actuary (AGA) which underestimate the more likely average outcomes for individual. This is because these particular tables do not take account of the long term trend of declining mortality.

These tables are widely used by people who are ignorant of this deficiency. While this may seem a technical issue, at age 65 the difference is 2-3 years. This means people on average are currently likely to live for more than 10% longer than their published remaining life expectancy. The difference declines with increasing age.

This is an important difference when people are seeking to better manage their future.

It is also an important factor to be aware of when considering changes to age-based legislation.

I recommend that all Government departments should be required to use mortality-adjusted life expectancies in their considerations of individuals. This data should be provided by the ABS and AGA.

Socio-economic Factors

Socio-demographic factors have a major bearing on average remaining life expectancy.

For example, while the situation of Indigenous peoples is rightly a concern, in life expectancy terms their outlook is little different from that of the lowest socio-economic quartile of the Australian

community. This bottom quartile are likely to be unaffected by legislative changes contemplated in the Discussion Paper. Many will have died by age 65.

The top socio-economic quartile is the most likely to be affected by the proposed age-based legislative changes. It is also worth noting that this quartile is likely to live two to three years longer than the community average. Improved awareness of their potential life expectancy is likely to have a major impact on the willingness of this important quartile to continue to contribute to their own support and that of the wider community as they age.

I recommend that the final report provides some further analysis of the potential differential impact on the community of the age-based changes proposed. Such an analysis would provide an important perspective for readers, for older people in particular and for those ultimately responsible for execution of the recommendations of the final report.

Fostering a climate for change

Much of the Discussion Paper addresses financial issues. A clear understanding of remaining life expectancy issues is especially important when a person's financial future is under review.

Few people adequately understand the issues involved. This is serious at two levels:

- At the personal level, people are making important decisions regarding their future productivity and well-being without a sufficient knowledge base.
- Advisers and those responsible for providing the right environment for fostering longer participation in work are poorly prepared for doing this effectively.

Longevity awareness requires some understanding of the implications of demographics, social changes, economic impacts, behavioural differences in older people affecting their decision making and the basic biological factors involved in ageing.

At My Longevity, through our website at www.mylongevity.com.au we have addressed the lack of personal awareness. This site is free and sponsor free. More than 30,000 personal assessments have been provided. This suggests a thirst for information in the community which is not being effectively addressed. Removing legal barriers to work will facilitate productive outcomes at the individual level but it is important that sufficient public education is done in parallel to explain the importance of any changes to individuals and to the community.

Financial advisers are likely to be involved in assisting many people in making properly informed commitments to decisions about their personal and financial future. Financial advisers include personal financial planners, accountants and trustees of superannuation funds. Our experience is that the vast majority of these advisers are not adequately longevity aware. We have developed an online training program to address this problem at www.longevityadviser.com.au

Many of the activities of these professionals are regulated by the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA) and the Tax Commissioner (ATO). ASIC in particular is fostering the development of Codes of Practice to improve the conduct of such advisers. ASIC approves codes as set out in RG 183 and in accordance with s1101A of the Corporations Act 2001.

Codes of Practice are an important legal mechanism for requiring sound professional behaviour. They foster the role of profession associations to take responsibility for ensuring that the knowledge, skills, training and disciplinary requirements of their members adequately reflect the rapidly changing environment. This mechanism is able to react much more quickly than traditional legal processes in fostering productive change in behaviour.

Because increasing longevity is driving many important changes in our community (providing the rationale for this ALRC Report) regulators such as ASIC can make a difference by requiring a higher level of training in longevity awareness in those areas they supervise. A similar opportunity exists in the regulation of the banking, insurance and superannuation industries regulated by APRA.

I recommend that the final report points to the importance of adequate longevity awareness of individuals so they can take full advantage of any legal changes made as a result of the Report's recommendations.

I recommend that the final Report suggests ASIC, APRA and the ATO ensure that longevity awareness, knowledge and training in its use should be a requirement in Codes of Practice and other professional skill and behaviour levels they are fostering.

I recommend that the final report points to the importance of effective longevity awareness and training for people involved in counselling individuals regarding the receipt of social and compensation benefits.

I recommend that the final report emphasises the importance of professionals and managers involved in fostering the retention of older workers being properly trained in longevity awareness.

Answers to Questions

Question 8-1

Regulations 7.04(1) and 7.01(3) of the Superannuation Industry (Supervision) Regulations 1994 (Cth) stipulate a work test for members of superannuation funds aged 65 years and over who wish to make voluntary superannuation contributions. Members must be gainfully employed on at least a part-time basis during the financial year, that is, for a minimum of 40 hours over a consecutive 30-day period. What changes, if any, should be made to the work test? For example, should the minimum hours of work be increased and, if so, over what period?

Forty hours over thirty days is the approximate equivalent of 1.4 days per weeks based on a seven hour working day.

I recommend that the benchmark should be changed to at least 60 hours over each of two consecutive 30 day periods.

This change underscores to the individual the importance of making a real commitment to work and provides potential employers with more assurance that the induction and training processes will result in worthwhile participation by the employees involved.

Question 8-2

The Australian Government has legislated two key changes to the retirement income system: the superannuation preservation age will increase from 55 to 60 years between 2015 and 2025; and the Age Pension age will increase from 65 to 67 years between 2017 and 2023.

Should the preservation age be increased beyond 60 years? For example, to:

(a) 62 years—maintaining the five-year gap between the Age Pension age and the preservation age; or

(b) 67 years—aligning the preservation age with the Age Pension age?

In cases of genuine hardship individuals can access their superannuation. There is also the opportunity for people to access a disability pension if their circumstances allow.

It follows that there is little logic in otherwise allowing access to superannuation before the date of entitlement to the Age Pension.

This would discourage the current practice of people accessing their superannuation and disposing of it quickly in order to qualify for the Age Pension. The Age Pension should be regarded as a fall-back not simply a right. Tighter requirements for access to the Age Pension should be considered. If access is to remain age-based as at present, then an actuarially based annual indexation of the access age should be legislated to reflect the ongoing reductions in community mortality.

I recommend that access to superannuation should be over the next ten years be brought into line with the age of entitlement to the Age Pension, which itself should be indexed annually to reflect the ongoing reductions in mortality.

Question 8–3

The age for tax-free access to superannuation benefits is set at 60 years. Should this age setting be increased:

(a) to align with any further increase to superannuation preservation age (that is, beyond 60 years); or

(b) instead of any further increase to preservation age—for example, to:

(i) 62 years—maintaining the five-year gap between the Age Pension age and the tax-free superannuation access age;

(ii) 65 years—aligning the tax-free superannuation access age with the unrestricted superannuation access age; or

(iii) 67 years—aligning the tax-free superannuation access age with the Age Pension age?

Reflecting the changes suggested in my responses to Questions 8-1 and 8-2, I recommend that the age for tax-free access to superannuation should be the same as that for access to the Age Pension.

David Williams

CEO

My Longevity Pty Limited

www.mylongevity.com.au

www.longevityadviser.com.au

david@mylongevity.com.au

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