1 February 2019

Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Email **prebudgetsubs@treasury.gov.au**

Dear Sir/Madam

Pre-Budget submission (2019-2020)

The Actuaries Institute is the organisation that represents the actuarial profession that primarily serves the Australian financial services sector. It educates members and supports ongoing professional development. The Institute is also active in contributing to public policy debates where its members have relevant expertise.

In this submission, the Institute's aim is to help improve the efficiency of the superannuation sector, in line with community expectations, improve the community's resilience to natural disasters and improve the government service outcomes. Accordingly, we suggest that consideration be given to including the following policy recommendations in Treasury's pre-budget deliberations.

Retirement income

The Institute agrees with Recommendation 30 of the Productivity Commission Superannuation Report (Assessing Efficiency & Competitiveness; January 2019) for the Government to establish an independent inquiry into the retirement income system.

RECOMMENDATION 30 **INDEPENDENT INQUIRY INTO THE RETIREMENT INCOMES SYSTEM**

The Australian Government should commission an independent public inquiry into the role of compulsory superannuation in the broader retirement incomes system, including the net impact of compulsory super on private and public savings, distributional impacts across the population and over time, interactions between superannuation and other sources of retirement income, the impact of superannuation on public finances, and the economic and distributional impacts of the non-indexed $450 a month contributions threshold. This inquiry should be completed in advance of any increase in the Superannuation Guarantee rate.

The institute is developing its own green paper on this topic and has identified several policy options that should be considered to improve equity and efficiency in the current retirement income system including;

- Introduction of partial protection (up to a cap) from the Age Pension means test for amounts released under home equity release schemes or downsizing.

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- Develop an improved regulatory environment for home equity release schemes.
- Review the Age Pension means tests to improve fairness in the system between homeowners and non-homeowners, potentially including a dollar cap on the value of the family home that is exempt from the Age Pension means test.
    - It is notable that 95% of homeowner couples are projected to be on retirement incomes of at least the ASFA modest level, compared to only 28% for renting couples. Single female private renters are projected to have the lowest levels of retirement income adequacy, with only 23% expected to achieve the ASFA modest level, compared to 35% for single male renters.

      Actual rental payments are significantly higher than the level of Centrelink rental assistance, with the maximum Centrelink rent assistance being $136 per fortnight for a single renter living alone whereas the median rent is closer to $400 per fortnight. CEPAR research indicates commonwealth rental assistance has fallen as a percentage of average rental payments since 2001. We therefore recommend that Commonwealth rental assistance be increased by 40% to provide more meaningful support for recipients.
- The Institute believes the recent increase in the Age Pension assets test taper rate, the from $1.50 each fortnight for every $1,000 in assets to $3.00, which took effect from 1 January 2017, is too harsh. Effectively, if the means tests apply to you, you must earn 7.8%pa on any additional savings to offset the reduction in your Age Pension payments. The Institute suggests that the taper rate should be reduced to a more reasonable level such as $2.25.

Climate Change and Natural Disaster Funding

The Institute has a strong interest in the potential for climate change to impact the financial services sector not only on insurance but also on investments and superannuation that are vulnerable to ‘stranded assets”. Recently, the Institute launched a climate index, an objective measure of extreme weather conditions and changes to sea levels, to help policymakers and Australia’s businesses assess how the frequency of weather extremes is changing over time.

Based on expert scientific findings, the Actuaries Institute recognises that climate change is expected to have major environmental, economic and social impacts, and poses a serious risk to the industries that actuaries advise. We estimate an annual natural peril cost to Australia of $11-12 billion, of which only 40% is insured. This figure includes public assets and the cost of intangible losses such as mental health and family violence as a result of natural disasters.

Accordingly, the profession urges the Government to support policies to improve the nation’s resilience against natural disasters and to design funding mitigation and adaptation measures supported by comprehensive cost benefit analyses. The Institute’s view is that a timely investment to mitigate the potential impacts of climate change will protect future budgets from significant adverse effects to the revenue. Some specific policy suggestions are:

- Adopt the Productivity Commission’s recommendations in 2015, specifically:
    a. Co-contributing with the States $200 million a year towards mitigation and resilience measures to reduce losses from natural disasters
    b. Requiring local governments to budget for natural disaster costs each year

- Include estimates of future costs of natural disasters in the Statement of Risks section of the budget, both at an expected level and at different annual return intervals. This would provide transparency and encourage planning for the expected cost of natural disasters.
- Develop climate policy to reduce Australia's emissions in line with both Australia's NDIC to the Paris Agreement, and to achieving net zero emissions by 2050. This will enable industry, including the financial services industry to implement long term planning in line with a transition to a low-carbon economy.
- Fund research on the impact of climate change on future weather extremes, including the development of a national service to provide climate projections at a regional level.

Investment approach for provision of government services

The Institute recognises the primary role of government for providing services such as income support, healthcare and education that represent a significant proportion of GDP. Pressure on government expenditure can be reduced over time by placing greater emphasis on the service quality that can generate longer-term public savings whilst delivering better community outcomes.

The context and arguments around improved government service delivery is contained in an Institute research paper *People, Projections and Payments: a look at modern government service delivery*

The thrust of the paper is that governments should adopt an actuarial approach to service provision. That includes:

- Utilisation of more sophisticated data analysis to better target payment recipients. This can be assisted by better linkage of government data sets
- Provision of early intervention programs e.g. better early childhood education to drive improved employment opportunities in adulthood
- Innovative funding mechanisms such as social impact bonds that can achieve government savings and desired social outcomes
- Measurement of program effectiveness
- Alleviation of long-term budgetary pressures

The Institute recommends Treasury consider incorporating these principles into its framework for developing future budgets.

Should you wish to discuss any aspect of this submission or make arrangements for a meeting with Institute representatives please contact Elayne Grace, Chief Executive Officer of the Actuaries Institute, Elayne.Grace@actuaries.asn.au

Yours sincerely

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