10 December 2021

Dr Jim Chalmers MP

Shadow Treasurer

PO Box 6022

House of Representatives

Parliament House

Canberra ACT 2600

Dear Dr Chalmers

**Activating mature age workers to meet labour shortages**

This week the Australian Chamber of Commerce and Industry (CCI) called for change to the Age Pension income test to encourage more pensioners to work and help ease labour shortages. CCI CEO, Andrew McKellar, told Macquarie Radio: “Another 450,000 could be attracted back into the workforce.”

**Australia has a large untapped resource of mature aged workers**

According to Australian Bureau of Statistics 4.3m are 65 and over. However, the OECD reports only 14.2% (610,000) are in the workforce compared to 19.4% in the USA, 24.8% in New Zealand, 25.5% in Japan and 34.3% in Korea.

Labour force participation among pensioners is even lower. According to Department of Social Security data, only 84,000 (3.3%) of the 2.6 million people receiving the pension had income from employment.

In New Zealand, pensioners are not penalised for earning additional income. If Australia had a participation rate of over 65’s similar to New Zealand’s 24.8%, it would result in an additional 450,000 available workers.

Like the. CCI, National Seniors Australia believes the current Age Pension income test acts as a disincentive to work for older Australians with limited savings. A change of policy could encourage people to work longer, work more hours or re-enter the workforce.

For every $1 over $480 per fortnight ($12,480 pa) of work income, a pensioner loses 50c of their fortnightly pension. With work and pension income also taxable, older Australians question why they should bother. Some are choosing to work in the cash economy, undermining tax revenue.

This situation is most acute among pensioners with limited savings, who can only work one day per week without penalty. In contrast, a pensioner with adequate savings (whose pension is determined by the assets test) can work more without affecting their pension. The present income test penalises those with the least, with the most to gain from ongoing workforce participation.

To solve this problem and unlock mature labour, we recommend **exempting employment income from the income test for pensioners with limited assets using a two-year trial.**

Exempting employment income for those with limited assets would target retirees who **need to work** because they **don’t have much savings**.

Those with ample savings would not benefit from the proposed changes because they would **continue to come under the assets test**.

By making eligibility for the exemption subject to a stricter assets test, only those most in need would benefit. This would **reduce any unintended cost to government**.

It would also simplify the process for pensioners because those holding an exemption would not have to regularly report their income to Centrelink.

Pensioners earning additional income would pay additional income tax, **offsetting pension costs**.

*For example, a single pensioner who earns $75,000 in addition to their $25,000 pension would have a taxable income of $100,000 and pay $24,967 in tax. They’ve paid for their pension by working!*

Work needs to be done to understand if there would be any increased pension costs, how much additional income tax revenue would be generated from any additional workforce participation among pensioners. This could be readily modelled using Treasury and Centrelink data.

However, given only 3.3% of pensioners have employment income and retirees with adequate assets will not benefit, this proposal will only benefit those most in need, limiting costs. As such, I urge you to consider this idea in the lead up to the election.

The business world is backing this proposal and as Gina Rinehart recently said, “providing an incentive to work will be good for pensioners, good for industry and good for Australia.”

We’d like to have a zoom meeting to discuss this further.

Yours sincerely



**Ian Henschke**

**Chief Advocate**

cc: Hon Richard Marles MP, Shadow Minister for Employment; Chloe Bennett, Senior Policy Advisor for Opposition Leader Anthony Albanese