

The background of the entire page is a solid yellow color. Overlaid on this are several thick, dark blue lines that form an abstract, geometric pattern. These lines include straight segments and large, sweeping curves that intersect to create various shapes and negative spaces. The lines are positioned such that they appear to be part of a larger, partially visible design that extends across the top and bottom of the page.

**RETIREMENT IN AN ERA OF AGEING**  
**The cost impact of the early displacement of people from work**  
**Australian Employers Convention 2001**



**australian  
employers  
convention**

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## INTRODUCTION

This report documents the findings of research commissioned by the Australian Employers Convention, undertaken by Leanne Kinsella-Taylor. The research and report production were funded by the Victorian State Government Department of Human Services.

The Australian Employers Convention (AEC) was established in 1999 by Jobs East, the Area Consultative Committee for Melbourne's east, to promote the benefits of an age balanced workforce to business across Australia.

The AEC draws on the available international literature and undertakes Australian based research to develop information products and resources for Australian business. Thereby assisting business to understand the current trends that result in the de-skilling and displacement of workers as they age and the business challenges presented by the ageing demographic of the population and the associated labour market.

## THE ANALYSIS

The direct and secondary costs of employment-induced early retirement place a considerable burden on government expenditure. The following analysis is intended to draw attention to the threat that this phenomenon poses to the economic sustainability of our ageing population.

Illustrative case studies have been utilised to explore government expenditure arising from the induced early retirement of individuals whose jobs have been 'lost to the economy' or who have experienced displacement from work due to redundancy.

The cost of providing social security for early retirees has been compared with the potential income tax revenue and superannuation accumulated, had that individual remained in the workforce until age 60 (women) and age 65 (men).

The case studies compared high, low and average earnings scenarios. The effects of early retirement on superannuation accumulation, lost income tax revenue and social security outlays have been compared at various exit points (ages 45, 50, and 55).

The results are intended as indicative expenditure estimates, rather than a definitive costing.

Individual case study costs were then multiplied by the total number of people estimated to fit the category of social security-dependent, employment-induced early retirees in 1994.

The following national expenditure estimates were developed; the cost of induced early retirement in a high-income scenario was calculated at \$42.6 billion. This compared with \$28.3 billion in a median income scenario and \$24.6 billion for a low-income scenario.

The analysis brings into question the effectiveness of the Superannuation Guarantee system in ensuring financial independence for older Australians. The results provide a compelling case for a priority policy focus on mature age unemployment and extending the connection to work into older age to contain the costs of our ageing population.

## **BACKGROUND**

### **Population Demographics**

Between the 1981 and 1991 census, the population aged 65 years and older increased by 33.4 per cent - that is twice as fast as the total population. In the 1990s the number of persons aged over 65 is expected to increase by 23.7 per cent to 2.36 million. Between 2011 and 2031, when the total population is projected to increase by just 14 per cent, the total number of elderly Australians will increase by over two thirds from 2.89 million to 4.84 million (Borowski & Hugo 1997).

The total number of aged persons is expected to exceed the total number of children by the year 2026. This has sparked concern from some about the potential economic impact of increasing numbers of 'dependent' elderly persons relative to a declining working population (Borowski & Hugo, 1997).

### **The Economic Impact of Australia's Ageing Population**

Population ageing has raised questions regarding the sustainability of existing social policies. While it is generally accepted that population ageing will place increased pressures on government expenditure, the extent of those pressures are under debate.

As the ratio of those working (that is, PAYE taxpayers) to those not working declines, significant additional pressures are imposed on taxpayers and thus on the nation's budget. In Australia the retired dependency ratio (the ratio of persons retired to those working) is presently around 40 per cent and based on current trends, is estimated to rise to 60 per cent next century (Gallagher & Bacon 1995).

In other words, if current trends continue there is likely to be a doubling of the relative tax burden imposed by the aged on those working over the next four decades.

The impact of population ageing has generally resulted in policy initiatives aimed at assigning greater responsibility to individuals for the costs associated with their ageing. Employment-funded retirement schemes such as the Superannuation Guarantee (SG) have been the central method engaged to contain costs (Walker, 1998).

Under the SG system, each individual's final benefits will, in most cases, be dependent upon the amount of contributions they are able to make (or that have been made on their behalf) over the course of their working life. In the case of those in defined benefit schemes, final benefits will depend on the number of years of qualifying service with a particular employer.

While the system will take several decades to mature, when it does it is intended that it will play a major part in the provision of retirement income.

However, the attainment of this policy outcome will require individuals to experience unbroken, full-time, employment over forty years. Outcome projections relating to the SG are problematic, since they are based around the employment profiles of men with middle or higher incomes and long-term continuous employment (Cornish 1997).

In addition, there are many leakages from the system which, if not prevented, will result in the use of benefits intended to support 'normal' retirement for alternative purposes.

These critical dependencies are set against a climate in which Australian employers are either unprepared, or unwilling, to support continuous employment for people aged over 45<sup>1</sup>.

There has been a substantial decline over the past two decades in the labour force participation rates of Australian men in older age groups. An increasing number of individuals who face difficulty finding or retaining employment are using their superannuation accumulations to finance early retirement (Cornish 1997).

Ultimately, the sustainability of our ageing population will be determined by our capacity to provide equal access to employment opportunities for older Australians to ensure their financial independence.

The following analysis has been undertaken to provide insight to the economic imperative for a priority policy focus on mature age employment as a means of containing the costs of our ageing population.

## **THE NATURE AND EXTENT OF MATURE AGE UNEMPLOYMENT**

### **Estimating unemployment in the 45 plus age group**

It is well recognised that official unemployment estimates for individuals aged over 45 are underestimated.

The unemployment rate for person's aged 15-44 was 14 per cent as of January 1999<sup>2</sup>; this compared with six per cent for those aged 45 and over. Whilst the official unemployment rate for older persons may appear low, it masks two significant factors of potential labour market detachment.

Firstly, the high rate of non-participation in the labour force. Australian Bureau of Statistics (ABS) data indicate that 47 per cent of men and 68 per cent of women aged 45-64 are non-participants (this compares with 17 per cent and 32 per cent for females and males aged 15-44)<sup>3</sup>.

Secondly, the rate of discouraged job seekers, that is, people who want to work but have ceased looking because they believe they would not be able to find a job. Rife and Belcher (1994) have stated that older workers are more likely to abandon job search and withdraw from the labour force than members of other age groups. Indeed, those aged 45 and over account for 63 per cent of all discouraged job seekers<sup>4</sup>. According to the ABS, as of September, 1997, 311,900 people aged 45 or over were no longer in the labour force but would work if work was available<sup>5</sup>.

In addition, employment rates typically underestimate actual figures, since they do not include individuals who are underemployed, or employed on a part-time or casual basis but seeking full-time employment. It is estimated that 116,600 persons aged over 45 work part-time but are seeking full-time employment, including 74,400 females and 42,200 males. (ABS Cat. No 6265.0, September 1998).

When considered together, the high rate of non-participants, discouraged job seeking and underemployment suggests that the figure of six per cent unemployment amongst the mature aged is artificially low.

<sup>1</sup> Refer to Kinsella-Taylor, 1998, *Profiting From Maturity*, Jobs East, Victoria

<sup>2</sup> ABS Cat No. 6203 Labour Force January 1999

<sup>3</sup> ABS Cat No. 6203 Labour Force January 1999

<sup>4</sup> ABS Cat No. 6220.0 Persons not in the Labour Force September 1998

<sup>5</sup> ABS Cat. No 6220.0, September 1997.

Jones (1999) has recently produced an 'unofficial estimate of mature age unemployment which takes into account underemployment, discouraged job seeking, non-participation and induced early retirement for employment-related reasons. Using this analysis, Jones (1999) estimated that the actual unemployment rate for people aged over 45 was closer to 11.6 per cent.

Unemployment itself may be hidden amongst the mature aged, however long-term unemployment is clearly disproportionately concentrated amongst this demographic<sup>6</sup>. As of January 1999, individuals aged 35-54 made up 47 per cent of the long-term unemployed. This compares with 27 per cent for persons aged 25-34 and 15 per cent for persons aged 20-24<sup>7</sup>. Furthermore, the average duration of employment for persons aged 35-54 is 78 weeks compared with 36 weeks for persons aged 20-24<sup>8</sup>.

Low participation rates, discouraged job seekers, and long-term unemployment are all recognised as contributing to a 'hidden' figure of mature age unemployment. Research by Cornish (1997) has explored the extent to which 'early retirement'<sup>9</sup> is also a synonym for unemployment amongst the mature aged.

## RETIREMENT INFLUENCES

### Early Retirement

Early retirement is common and likely to impose substantial costs on the social security system. It has been reported that since 1960, early retirement rates from full-time work for both males and females have quadrupled for persons aged 45 to 59 (Bacon & Gallagher, 1995).

Data indicates that there were 3,146,000 Australians retired from full-time work in November 1994 (ABS Retirement and Retirement Intentions Survey in Bacon & Gallagher, 1995). Of these, 2,490,500 (79 percent) retired before age pension age.

### Induced Early Retirement - The Influence on the Labour Market

Research on retirement behaviour conducted by Cornish (1997) reveals that retirement decisions are predominantly affected by the amount of work available. Cornish (1997) has identified two fairly distinct patterns of early retirement. The first pattern is 'voluntary' in the sense that it is freely chosen. The second and more common pattern is 'induced', in that whilst an element of choice may exist in some retirement situations, retirement is actually initiated by factors beyond individual control.

In the study conducted by Cornish (1997), induced retirement was defined as resulting from reasons beyond individual control in terms of those who experienced employment problems<sup>10</sup>, health problems<sup>11</sup> and those who reported they had 'reached compulsory retirement age'.

<sup>6</sup> Long-term unemployment is defined as a lack of employment for at least 12 months

<sup>7</sup> ABS Cat No. 6203 Labour Force January 1999

<sup>8</sup> ABS Cat No. 6203 Labour Force January 1999

<sup>9</sup> Conceptually, full retirement occurs when a person leaves the work force and never re-enters it. In reality there is always the possibility that circumstances will change and a retired person will decide to go back to work. Early retirement is defined as retirement between the age of 55 to normal retirement age (65 for males and 60 for females), very early retirement is defined at aged 45 – 55.

<sup>10</sup> Employment problems were defined as unsuccessful job search immediately before retirement and/or attribution of retirement to any of 'able to get early retirement package', 'lost my job/business closed' and 'unable to get full time work'

<sup>11</sup> Mention of 'own ill health problems', and/or 'care for a sick family member/friend' was taken as evidence of health problems.

Cornish (1997) estimated that 81 per cent of men and 64 per cent of women who retired early from the period 1992 to 1996 had retirements consistent with the concept of induced early retirement. This represents approximately four in five men and two in three women.

These findings have significant implications for the SG system that assumes a high degree of choice in the timing of retirement.

Of all early retirees over the period from 1992 to 1996, 50 per cent of men and 31 per cent of women demonstrated evidence of significant employment problems prior to their retirement. In addition, 20 per cent of all male recent, early retirees cited an early retirement package as a reason for their retirement, giving evidence of the role of public and private sector restructuring and rationalisation in inducing early retirement<sup>12</sup>.

Discouraged, male job seekers who had retired early typically did so only after a sustained struggle to find full time work. On average, these men reported that they had only stopped looking for full time work 3 years after they had finished their last full time jobs.

Bacon and Gallagher's (1995) estimate that only 22 per cent of early retirees could be categorised as having retired voluntarily is consistent with these findings. Voluntary work related reasons included 'retired', 'did not want to work any longer', 'wanted to work part time', 'early retirement package', or 'returned to studies'<sup>13</sup>.

Thirty seven per cent of early retirees were categorised as involuntary due to work related reasons, which included 'retrenched', 'job was temporary', 'own ill health', 'business closed down', 'unsatisfactory work arrangements', or 'employer thought too old'<sup>14</sup>.

These findings are consistent with research that indicates early retirement is a psychological defense against the stigma of being unemployed. It has been suggested that early retirement enables the unemployed to progressively redefine themselves as retired, and thereby re-gain a sense of personal control over their lives (Jackson & Taylor 1994, in Cornish 1997).

Clearly, early retirement is a synonym for unemployment for many older Australians. It is difficult to definitively account for the number of people who have been induced into early retirement for employment-related reasons. However, retirement intention survey research provides a good indicator of the extent to which an unresponsive labour market may compel individuals to retire.

There is an urgent need for further research to definitively quantify the extent to which early retirement is a synonym for unemployment amongst the mature aged. However it is evident from existing studies that induced early retirement poses a significant threat to the economic sustainability of our ageing population.

<sup>12</sup> Cornish (1997) acknowledges that the number of people attributing induced early retirement due to employment reasons may have been underestimated. For example, there was circumstantial evidence to suggest that poor health was used to rationalise early retirement and that pre-pension age men who reported that they were in full-time work often did not receive a level of personal income that reconciled with full-time work.

<sup>13</sup> The inclusion of 'retired' and 'early retirement package' in this category may have led to an overestimation of the number of voluntary early retirements due to a tendency for many mature age unemployed to redefine themselves as retired because of the social stigma attached with being unemployed.

<sup>14</sup> 39 per cent of early retirees (59 per cent females and 4 per cent males) were said to have left the work force because of family reasons such as 'to get married', 'pregnancy', 'to have children', 'to look after family, house or someone else'.

### **Direct Costs of Early Retirement**

Early retirement results in direct expenditure costs to the retiree and government. Early retirees who have been induced to retire are more likely to rely on government pensions/benefits as their main source of income than other retirees are.

For example, Bacon and Gallagher (1995) found that involuntary retirees are more than twice as likely as voluntary retirees to utilise social security at retirement age. Thirty six per cent of involuntary retirees had social security as a main income source compared with 15 per cent of voluntary retirees.

If the early retiree runs down superannuation assets, this may lead to higher age pension requirements than would otherwise have been the case. If the early retiree dissipates superannuation benefits (after tax money used for purposes other than financial investment), then the share of those benefits represented by tax concessions will not achieve their objective of lowering social security outlays and improving incomes in retirement.

Rothman (1998) has noted that pension costs are quite responsive to the level of funds dissipated and drawing-down patterns in retirement.

Early retirement which has occurred because a job has been made redundant or 'lost to the economy' has a greater cost than standard job loss (Bacon & Gallagher, 1995). Since the job loser will not be replaced in the labour market, the effect will be an additional welfare recipient combined with lost income tax revenue.

Induced early retirement also results in significant secondary costs. Permanent unemployment may reduce the financial capacity of the individual to fund such things as private health insurance, resulting in increased pressure on government expenditure.

The direct and secondary costs of employment-induced early retirement place a considerable burden on government expenditure. The following analysis is intended to draw attention to the threat that this phenomenon poses to the economic sustainability of our ageing population.

## **METHODOLOGY**

### **Determining the Number of People Likely to be Induced into Early Retirement**

Before investigating expenditure costs it was necessary to gain an understanding of the number of persons likely to be induced into early retirement for employment related reasons.

The data utilised was drawn from a summary analysis of ABS retirement survey data (November 1994), developed by Bacon and Gallagher (1995).

In November 1994 there were 3,146,000 Australians who had retired from full-time work. Of these, 2,490,500 (79%) retired before age pension age. Early retirees were categorised as exiting the labour force 5 years, 6 to 10 years and 11 to 20 years before standard retirement age.

Table 1 provides a breakdown of retirement in relation to pension age that was produced by Bacon and Gallagher (1995). The original figures included 932,731 persons who retired from the labour force more than 20 years earlier than pension age. This group does not meet the criteria for employment-induced retirement and therefore are not included in the analysis. Excluding the latter group, the total number of persons estimated to have entered into early retirement is 1,557,777.

**Table 1**  
**Early Retirees – Retirement in Relation to Pension Age**

Retirement Age	Males	Females	Total Persons
Early retirees, retired 5 years before retirement	332,969	198,287	531,256
Early retirees, retired 6-10 years before retirement	248,505	206,091	454,596
Early retirees, retired 11-20 years before retirement	188,802	383,122	571,924
Total population of early retirees	770,276	787,500	1,557,776

Source: Bacon and Gallagher (1995), summary analysis of November 1994 ABS retirement survey data.

### Employment-Induced Early Retirement

Bacon and Gallagher (1995) estimated that of all those who retired early from the labour force at 1994, 37 percent (920,713) did so for involuntary work related reasons<sup>15</sup>.

Having obtained an estimate of the total number of employment-induced early retirees, it was necessary to determine the age at which early retirement occurred.

Bacon and Gallagher's data provided total numbers of early retirees at three key exit points - five years, six to 10 years and 11 to 20 years. However it did not indicate which of those individuals were retiring for involuntary work reasons.

To overcome this, 37 per cent of early retirees who exited the labour force in 1994 were assigned as employment-induced across the three primary exit points, five years (196,565), six to 10 years (168,201) and 11 to 20 years (211,612) (refer table 2)<sup>16</sup>.

**Table 2**  
**Estimated Exit Points from the Labour Force**  
**Employment Induced Early Retirees**

Exit Point from the Labour Force	No of Male	No of Female	Total No of
	EI Early Retirees	EI Early Retirees	EI Early Retirees
	Males	Females	Total Persons
Retired 5 years before retirement	123,199	73,366	196,565
Retired 6-10 years before retirement	91,946	76,254	168,201
Retired 11-20 years before retirement	69,857	141,755	211,612
Total population of Employment Induced early retirees	285,002	291,375	576,378

\*EI = Employment Induced

<sup>15</sup> The data produced by Bacon and Gallagher (1995) on early retirees includes those who retired 20 years or more before standard retirement age (932,731 persons). This group do not meet the criteria for employment-induced retirement and are not included in the cost analysis.

<sup>16</sup> These figures are utilised consistent with our knowledge that of a total population of early retirees, 37 per cent are likely to have been employment-induced.

### Use of Social Security by the Early Retired

In order to assess expenditure costs related to early retirement it was necessary to determine the extent to which early retirees would make use of social security. Bacon and Gallagher (1995) note that involuntary retirees are more than twice as likely as voluntary retirees to have social security as their main income source at retirement (Bacon and Gallagher 1995).

Indeed, early retirees who could be categorised as employment-induced were most likely to have social security as their main income source upon retirement – 48 per cent of men and 17 per cent of women.

Therefore, in assessing expenditure costs, only 48 per cent of men and 19 per cent of women from the total population of employment-induced early retirees were included (refer to Table 3).

**Table 3**  
**'Employment Induced' Early Retirees, Social Security as Main Income Source Upon Retirement**

Exit Point from the Labour Force	No of Male EI Early Retirees	No Male EI Early Retirees, Main Income Source is Social Security	No of Female EI Early Retirees	No Female EI Early Retirees, Main Income Source is Social Security	Total No of EI Early Retirees, Main Income Source is Social Security
	Males		Females		Total Persons
Retired 5 years before retirement	123,199	59,135	73,366	13,939	73,074
Retired 6-10 years before retirement	91,946	44,134	76,254	14,488	58,622
Retired 11-20 years before retirement	69,857	33,531	141,755	26,933	60,464
Total population of Employment Induced early retirees	285,002	136,801	291,375	55,361	192,160

### Indicative National Expenditure Estimates

Case studies of early retirees were developed to illustrate the individual expenditure costs associated with early retirement. The costs were then applied to the known population of employment induced early retirees (whose main income at retirement is social security) to gain indicative national expenditure estimates.

Direct expenditure costs associated with employment induced early retirement include the provision of social security, lost income tax revenue and lost superannuation. The effects of early retirement on the provision of social security, generation of income tax revenue and accumulation of superannuation were compared with potential cost savings had the individual remained in the workforce until age 60 (women) and age 65 (men).

The case studies compared high income, low income and average earnings scenarios. Data was drawn from the 1996 Census (refer to Appendix A). The effects of early retirement on superannuation accumulation, lost income tax revenue and social security outlays was compared at various exit points (ages 45, 50, and 55).

## **CASE STUDY PARAMETERS**

### **Exclusions**

The case studies were based on real dollars (constant 1999 dollars) and due to the difficulties associated with indexing inflation, inflation was not taken into account.

Consumer debt was not accounted for.

Case studies were based on individual income and did not take into account spousal income or dependants.

The case studies assumed that individuals who are unemployed would work if work was available.

### **Jobs that are 'lost to the economy'**

The case studies specifically relate to induced early retirement and very early retirement for employment-related reasons where jobs have been 'lost to the economy'.

Jobs that have been 'lost to the economy' are defined as positions that have been made redundant by way of retrenchment, technical advances, changes in the nature of the job, or a business closure or sale for economic reasons. The costs associated with unemployment resulting from 'jobs lost to the economy' are higher, since the government gains a welfare recipient and loses a tax payer (i.e. the job is not taken up by another, otherwise unemployed person).

The extent to which Bacon and Gallagher's (1995) classification of 'involuntary retirement for work related reasons' fits within the definition of 'jobs lost to the economy', is not clear. Bacon and Gallagher define work-related reasons as including; 'retrenched', 'job was temporary', 'own ill health', 'business closed down', 'unsatisfactory work arrangements', or 'employer thought too old'.

It could be reasonably assumed that most of these responses are consistent with jobs having been lost to the economy (with the exception of 'own ill health'). On balance, given the tendency for employment-related retirement to be underestimated (even through claims of ill health), this data can be said to be reasonably indicative of actual numbers of employment-induced early retirees whose jobs have been lost to the economy.

**Income**

Case studies were based on individual income and did not take into account spousal income or dependents. Therefore, it is likely that expenditure estimates are conservative.

Income per annum is based on the 1996 Census of weekly individual income data, by age and sex. Income has been categorised into high, medium and low earning brackets based on the 25th, 50th and 75th percentiles (refer to Appendix A).

Earnings per annum were frozen at 1999 earnings. Thus, case studies do not take account of promotion, demotion, reduction in hours worked or an annual average increase in earnings.

Income tax payable on annual average income was drawn from the Australian Taxation Office Personal Marginal Tax Rates Schedule (refer to Appendix B).

Early retirees who can be categorised as employment-induced are most likely to have social security as their main income source upon retirement, 48 per cent of men and 17 per cent of women. Therefore, in assessing expenditure costs, only

48 per cent of men and 17 per cent of women from the total population of employment-induced early retirees are included.

A superannuation accumulation of seven per cent of income per annum has been calculated, consistent with the existing Superannuation Guarantee minimum.

Social Security outlays were based on an average of the social security payment schedules for individuals receiving the Mature Age Allowance, the Age Pension and the New Start Allowance (refer to Appendix C).

**Point of Exit from the Labour Force**

The 'point of exit from the labour force' data in Bacon and Gallagher's (1995) analysis is divided into relatively broad time brackets, (i.e. retired up to five years early, retired 6-10 years early, retired 11-20 years early). For ease of calculation, the upper ends of these brackets will be utilised, (i.e. 5 years, 10 years and 20 years).

## RESULTS

Illustrative case studies were developed of employment-induced early retirees whose main source of income at retirement is social security. The case studies produced the following individual cost estimates in high, medium and low income scenarios (refer to Tables 4, 5 & 6)

**Table 4.**  
**Individual Case Study - High Income Earners**  
**Total expenditure/lost revenue cost**

Retirement Status	Males (\$ 33,774 pa)	Females (\$18,174 pa)
retire 5 years early	\$114,233	\$69,531
retire 10 years early	\$228,466	\$139,063
retire 20 years early	\$456,937	\$278,126

**Table 5.**  
**Individual Case Study - Median Income Earners**  
**Total expenditure/lost revenue cost**

Retirement Status	Males (\$18,174 pa)	Females (\$9,334 pa)
retire 5 years early	\$69,531	\$58,198
retire 10 years early	\$139,063	\$116,396
retire 20 years early	\$278,126	\$232,793

**Table 6.**  
**Individual Case Study - Low Income Earners**  
**Total expenditure/lost revenue cost**

Retirement Status	(\$9,334 pa)	Females (\$7,254 pa)
retire 5 years early	\$58,198	\$54,791
retire 10 years early	\$116,396	\$109,583
retire 20 years early	\$232,793	\$219,166

These individual case study costs were multiplied by total the number of people estimated to fit the category of social security-dependent, employment induced early retirees in 1994.

The following national expenditure estimates were developed; the cost to the nation of induced early retirement in the high-income scenario was \$40.1 billion. This compared with \$22.4 billion in a median income scenario and \$42.3 billion for a low-income scenario.

Tables 7 – 9 provide a summary overview of the expenditure estimates. A more detailed cost analysis is included in Appendix A.

**Table 7,**  
**National Expenditure Estimates of Employment-Induced**  
**Early Retirement High Income Scenario**

Retirement status	National cost males	National cost Females	Estimated total national cost
5 years early	\$6.8b	\$970m	\$7.77 billion
10 years early	\$10b	\$2b	\$12 billion
20 years early	\$15.3b	\$7.4b	\$22.7 billion
Total	\$32.1 billion	\$10.47 billion	\$42.66 billion

**Table 8.**  
**National Expenditure Estimates of Employment-Induced Early Retirement Median Income Scenario**

Retirement status	National cost males	National cost Females	Estimated total national cost
5 years early	\$4.1b	\$810m	\$4.91 billion
10 years early	\$6.2b	\$1.7b	\$7.9 billion
20 years early	\$9.3b	\$6.3b	\$15.6 billion
Total	\$19.6 b	\$8.8 1 billion	\$28.3 billion

**Table 9.**  
**National Expenditure Estimates of Employment-Induced Early Retirement Low Income Scenario**

Retirement status	National cost males	National cost Females	Estimated total national cost
5 years early	3.4b	\$764m	\$4.16b
10 years early	5.2b	\$1.6b	\$6.8b
20 years early	7.8b	\$5.9b	\$13.7b
Total	16.4b	\$8.26 billion	\$24.6b

The purpose of this analysis has been to highlight the critical role that continuous employment plays in ensuring the sustainability of our ageing population. The figures are not definitive, yet they highlight the enormity of the threat that mature age unemployment and induced early retirement poses to the success of the Superannuation Guarantee system in protecting Australia from an age-dependency burden.

In addition to the direct expenditure costs described above, unemployment results in a significant reduction in the financial capacity of the individual. This is likely to result in secondary government expenditure increases in the following areas:

#### Secondary expenditure costs

- Reduced capacity to pay private health insurance and increased dependence on the public health system.
- Reduced capacity to repay Higher Education Contribution Scheme (HECS) debt.
- Reduced capacity to meet mortgage repayments, resulting in loss of private housing and increased housing needs.
- Reduced capacity to provide care or financial assistance to elderly parents.
- Reduced capacity to provide financial assistance or transfer wealth to family members.
- Loss of investment, loss of profit, shares etc and human resource.

It is imperative to note that individuals who have been induced to retire for employment reasons, but whose jobs are not lost to the economy, would face these same reductions in financial capacity.

At the national level, savings and investments in Australia have been relatively low in recent years. However it is not the overall level of savings that is at issue, but the extent to which individuals place their personal savings aside for aged care rather than being locked into non-age related investments or consumed before the need for aged care arises (Walker 1998).

The split of total savings between consumption, wealth transfer and aged care will depend to a great extent on government policies. Continuation of the ready availability of the age pension would favour wealth transfer, but would mean higher taxes for the working population. On the other hand, much tighter means testing of the age pension would force older people to finance a higher proportion of their aged care costs and could lead to the risk of increased poverty amongst this group. Inheritances would be reduced, but so would the burden of taxation on the declining proportion of the population in paid work (Walker 1998).

The 'baby boomers' have funded the pension for their parents, but Mackay (1997) raises the question 'who will fund the pension for the 'Boomers', in vast numbers, when they reach retirement?' Not their children, certainly, because there simply aren't enough of them.

## DISCUSSION

This study considered the expenditure costs of a hidden sector of the mature age unemployed.

Two direct costs to government were explored, lost income-tax revenue resulting from the loss of jobs to the economy, as well as the provision of social security benefits. In addition, reduced individual capacity for self-funded retirement as a result of early and very early retirement was considered.

The results are intended to be indicative of the potential for government expenditure in this area. There is a need for research that can definitively assess these costs, as they are likely to have a significant impact on our capacity to sustain an ageing population.

On the basis of the best evidence currently available, we can conclude that:

- Early retirement is endemic amongst men and women.
- Involuntary and family retirements out-number voluntary retirements by more than three to one.
- A significant percentage of involuntary, early retirees have been induced by employment-related problems.
- Early retirement leads to substantial use of social security payments, a reduction in superannuation accumulation and lost income tax revenue.
- Early retirement leads to a reduction in the financial capacity of individuals, with a likely secondary effect of increased pressure on government expenditure.

The impact of population ageing has generally resulted in policy initiatives aimed at assigning greater responsibility to individuals for the costs associated with their ageing.

As a central method of containing the costs associated with population ageing, the Superannuation Guarantee system does not provide comprehensive coverage as its success is critically dependent upon the continuous and full-time employment across the span of a working life, which is not the experience of many Australians.

In reality, Australian employers are unwilling and unprepared to support an environment of continuous employment for workers across a life span. A growing number of individuals who face difficulty finding or retaining employment are using their superannuation accumulations to fund early retirement.

The effect of employment-induced early retirement is a substantial increase in direct and secondary expenditure costs to government.

Ultimately, the sustainability of our ageing population; will be determined by our capacity to provide older Australians equal access to employment opportunities to ensure their financial independence.

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## APPENDIX A

### METHODOLOGY

#### SCENARIO 1 NATIONAL COST ESTIMATES OF EMPLOYMENT -INDUCED EARLY RETIREMENT OF HIGH INCOME EARNERS

**Table 1**  
**Individual Case Study - Male High Income Earner (\$ 33,774 per annum)**

Retirement Status	social security allowance	Lost income tax revenue	Total expenditure/lost revenue cost	Lost super contribution	Total cost
5 years early	\$44,997	\$57,416	\$102,413	\$11,820	\$114,233
10 years early	\$89,995	\$114,831	\$204,826	\$23,640	\$228,466
20 years early	\$179,990	\$229,663	\$409,653	\$47,284	\$456,937

**Table 2**  
**National Cost Estimates - Male High Income Earners (\$ 33,774 per annum)**

Exit Point	No employment –induced ER	Total individual cost	Estimated National cost
5 years early	59,135	\$114,233	\$6.8b
10 years early	44,134	\$228,466	\$10 b
20 years early	33,531	\$456,937	\$15.3b

**Table 3**  
**Individual Case Study - Female High Income Earner (\$18,174 per annum)**

Retirement Status	social security allowance	Lost income tax revenue	Total expenditure/lost revenue cost	Lost super contribution	Total cost
5 years early	\$44,997	\$18,174	\$63,171	\$6,360	\$69,531
10 years early	\$89,995	\$36,348	\$126,343	\$12,720	\$139,063
20 years early	\$179,990	\$72,696	\$252,686	\$25,440	\$278,126

**Table 4**  
**National Cost Estimates - Female High Income Earners (\$18,174 per annum)**

Exit Point	No employment –induced ER	Total individual cost	Estimated National cost
5 years early	13,939	\$69,531	\$9.7m
10 years early	14,488	\$139,063	\$2 b
20 years early	26,933	\$278,126	\$7.4 b

**SCENARIO 2  
NATIONAL COST ESTIMATES OF EMPLOYMENT  
-INDUCED EARLY RETIREMENT OF MEDIAN INCOME EARNERS**

**Table 5  
Individual Case Study - Male Median Income Earner (\$18,174 per annum)**

Retirement Status	social security allowance	Lost income tax revenue	Total expenditure/lost revenue cost	Lost super contribution	Total cost
5 years early	\$44,997	\$18,174	\$63,171	\$6,360	\$69,531
10 years early	\$89,995	\$36,348	\$126,343	\$12,720	\$139,063
20 years early	\$179,990	\$72,696	\$252,686	\$25,440	\$278,126

**Table 6  
National Cost Estimates - Male Median Income Earners (\$18,174 per annum)**

Exit Point	No employment –induced ER	Total individual cost	Estimated National cost
5 years early	59,135	\$69,531	4.1b
Retire 10 years early	44,134	\$139,063	6.2b
Retire 20 years early	33,531	\$278,126	9.3b

**Table 7  
Individual Case Study - Female Median Income Earner (\$9,334 per annum)**

Retirement Status	social security allowance	Lost income tax revenue	Total expenditure/lost revenue cost	Lost super contribution	Total cost
5 years early	\$44,997	\$9,934	\$54,931	\$3,267	\$58,198
10 years early	\$89,995	\$19,868	\$109,863	\$6,533	\$116,396
20 years early	\$179,990	\$39,736	\$219,726	\$13,067	\$232,793

**Table 8  
National Cost Estimates - Female Median Income Earners (\$9,334 per annum)**

Exit Point	No employment –induced ER	Total individual cost	Estimated National cost
5 years early	13,939	\$58,198	\$810m
10 years early	14,488	\$116,396	\$1.7b
20 years early	26,933	\$232,793	\$ 6.3b

**SCENARIO 3  
NATIONAL COST ESTIMATES OF EMPLOYMENT  
-INDUCED EARLY RETIREMENT OF LOW INCOME EARNERS**

**Table 9  
Individual Case Study - Male Low Income Earner (\$9,334 per annum)**

Retirement Status	social security allowance	Lost income tax revenue	Total expenditure/lost revenue cost	Lost super contribution	Total cost
5 years early	\$44,997	\$9,934	\$54,931	\$3,267	\$58,198
10 years early	\$89,995	\$19,868	\$109,863	\$6,533	\$116,396
20 years early	\$179,990	\$39,736	\$219,726	\$13,067	\$232,793

**Table 10  
National Cost Estimates - Male low Income Earners (\$9,334 per annum)**

Exit Point	No employment –induced ER	Total individual cost	Estimated National cost
5 years early	59,135	\$58,198	\$3.4b
10 years early	44,134	\$116,396	\$5.2b
20 years early	33,531	\$232,793	\$7.8b

**Table 11  
Individual Case Study - Female Low Income Earner (\$7,254 per annum)**

Retirement Status	social security allowance	Lost income tax revenue	Total expenditure/lost revenue cost	Lost super contribution	Total cost
5 years early	\$44,997	\$7,254	\$52,251	\$2,540	\$54,791
10 years early	\$89,995	\$14,508	\$104,503	\$5,080	\$109,583
20 years early	\$179,990	\$29,016	\$209,006	\$10,160	\$219,166

**Table 12  
National Cost Estimates - Female Low Income Earners (\$7,254 per annum)**

Exit Point	No employment –induced ER	Total individual cost	Estimated National cost
5 years early	13,939	\$54,791	\$764m
10 years early	14,488	\$109,583	\$1.6b
20 years early	26,933	\$219,166	\$5.9b

**APPENDIX B****AVERAGE ANNUAL INCOME ESTIMATES**

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Data drawn from the ABS 1996 Census

The average annual income for Males aged 45+

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25th percentile:	\$9,334
50th percentile:	\$18,174
75th percentile:	\$33,774

The average annual income for Females aged 45+

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25th percentile:	\$7,254
50th percentile:	\$9,334
75th percentile:	\$18,174

**APPENDIX C****PERSONAL MARGINAL TAX RATES**

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1998/1999 rates, Australian Tax Office

<b>Taxable Income Payable</b>	<b>MTR</b>	<b>Tax</b>
Up to \$5,400	Nil	Nil
\$5,401 - \$20,700	20%	\$3,060
\$20,701 - \$38,000	34%	\$8,492
\$38,001 - \$50,000	43%	\$14,102
Excess over \$50,000	47%	

## APPENDIX D

### Payment Rates

An average annual payment rate taken from all three allowances will be utilised, representing \$8999.50

Mature Age Allowance (MAA), basic rate, single, no children

- Aged 60 and over but less than Age pension age.
- Basic rate \$325.30 per fortnight, \$9159.80 per annum.
- Calculations do not include rental assistance (maximum \$75.80 per fortnight if fortnightly rent is more than \$173.67) or pharmaceutical benefits (\$2.40 per fortnight).

NewStart Allowance (NSA), basic rate, single, no children

- Aged 21 or over but under Age pension age and registered as unemployed.
- Basic rate \$325.70 per fortnight, annual rate of \$8468.20.
- Calculations do not include rental assistance (maximum \$75.80 per fortnight if fortnightly rent is more than \$173.67) or pharmaceutical benefits (\$2.40 per fortnight).

Age Pension (AP), basic rate, single, no children

- Man aged 65 or over or woman aged 61 or over.
- Basic rate \$361.40 per fortnight, annual rate of \$9370.40.
- Calculations do not include rental assistance (maximum \$75.80 per fortnight if fortnightly rent is more than \$173.67) or pharmaceutical benefits (\$5.40 per fortnight).

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**NOTES**



**australian  
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convention**