

Who are the wealthy retirees targeted in Labor's plans?

Written by Roger Wilkins, Professorial Research Fellow and Deputy Director (Research), HILDA Survey, Melbourne Institute of Applied Economic and Social Research, University of Melbourne

In Labor's budget reply speech, Bill Shorten reaffirmed the plan to remove refundability of dividend imputation credits. His pitch was to Australian voters on lower and middle incomes, in which he pledged to look after the country's ageing population:

We know that giving older Australians the security and dignity they deserve matters more than an \$80 billion corporate tax cut.

The issue of whether or not retirees should be able to get a refund in dividend imputation has sparked considerable discussion of retirees' income and wealth.

The Household, Income and Labour Dynamics in Australia (HILDA) Survey shows that, overall, retired people tend to have lower incomes than the population as a whole, but higher wealth. This is because retirement typically involves ceasing employment and reducing income, while wealth tends to accumulate with age, at least up to the point of retirement, mainly due to paying off the mortgage and accumulating superannuation.

The different mix of income and wealth for retired and non-retired households means it's not straightforward to compare their economic well-being. For example, the HILDA Survey data show that only 23% of retirees aged 60 and over have above-median incomes (compared with 50% of the population as a whole); but 62% have above-median household wealth.

That said, retirees are generally wealthy if they have both above-median household income and above-median household wealth. With this definition, 20% of retirees aged 60 and over are wealthy. This compares with approximately 28% of the Australian population as a whole.

What does retirement wealth look like?

Among retirees aged 60 and over, wealthy retirees are on average about two years younger than other retirees, having an average age of 71.8. Nearly 97% of wealthy retirees own their home, compared with 76% of other retirees.

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These retirees have net wealth in 2014 (when wealth was last measured by the HILDA survey) averaging over A\$2.4 million at today's prices.

While wealthy retirees have high average holdings of superannuation, investment property and other investments, the home is still the most important component of their wealth. The home is also the most important asset for other retirees, but in 2014 it was worth an average of only A\$400,000 (at today's prices) for these retirees, compared with A\$800,000 for wealthy retirees.

Wealthy retirees get most of their income from superannuation and other investments, although government benefits (mostly the Age Pension) nonetheless average over A\$11,000 per wealthy retired household. For other retirees, the Age Pension is the dominant income source, averaging A\$24,000 per household.

The HILDA survey data indicates that both wealthy and other retirees on average pay little income tax - A\$4,256 for wealthy retirees and only A\$94 for other retirees. Indeed, less than 30% of wealthy retiree households, and only 5% of other retiree households, are estimated to actually pay any income tax.

Moreover, the data show that 42% of wealthy retirees, and 22% of other retirees, have negative income tax because of dividend imputation credits received on their holdings of Australian shares. This does not take into account taxes and imputation credits on dividends received by superannuation funds.

Given the tax-free status of superannuation in people's "retirement phase" (albeit now only on the first A\$1.6 million), it's likely that more than 42% of wealthy retirees, and more than 22% of other retirees, effectively have negative income taxes.

Whether you consider Labor's plan good or bad policy, given its exemption of pensioners, it is clear that its impact will be most acutely felt by wealthy retirees.

Roger Wilkins receives funding from the Australian Research Council.

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