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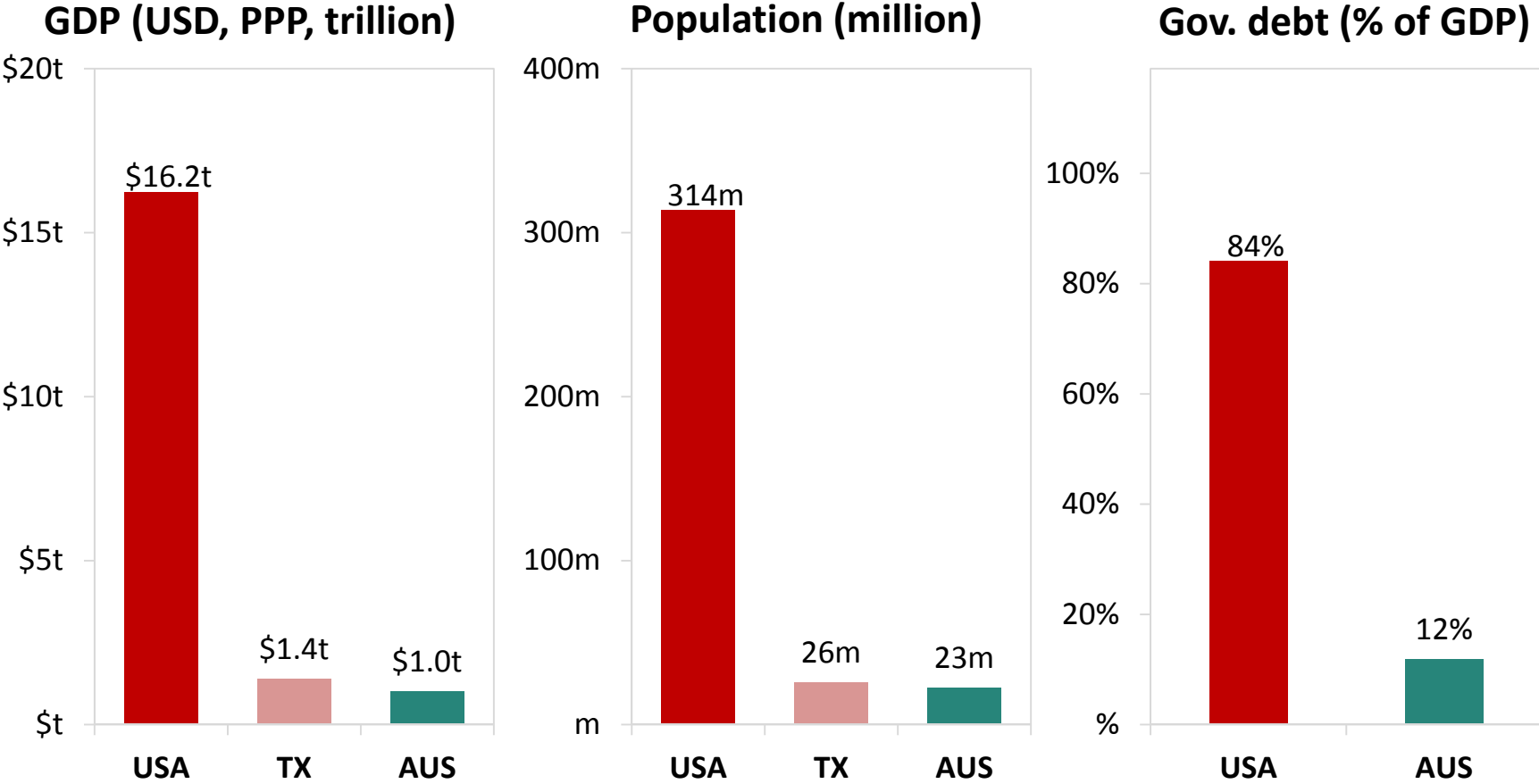
Australian and United States Retirement Income Systems: Comparisons and Lessons

John Piggott and Rafal Chomik

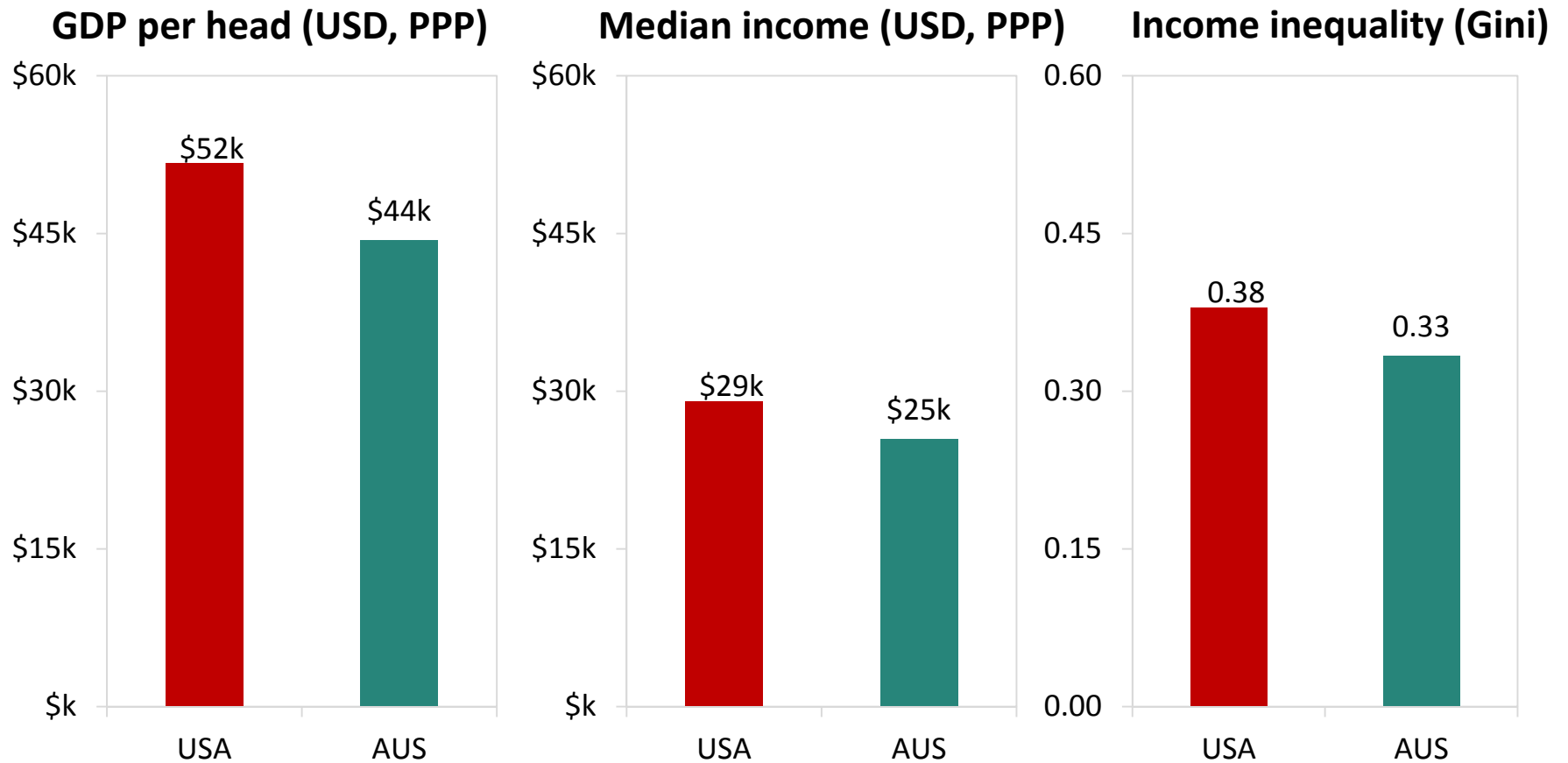


1. Demographic & economic context
2. Retirement income system
3. Outcomes
4. Means testing
5. Compulsion and choice
6. Public employee pensions

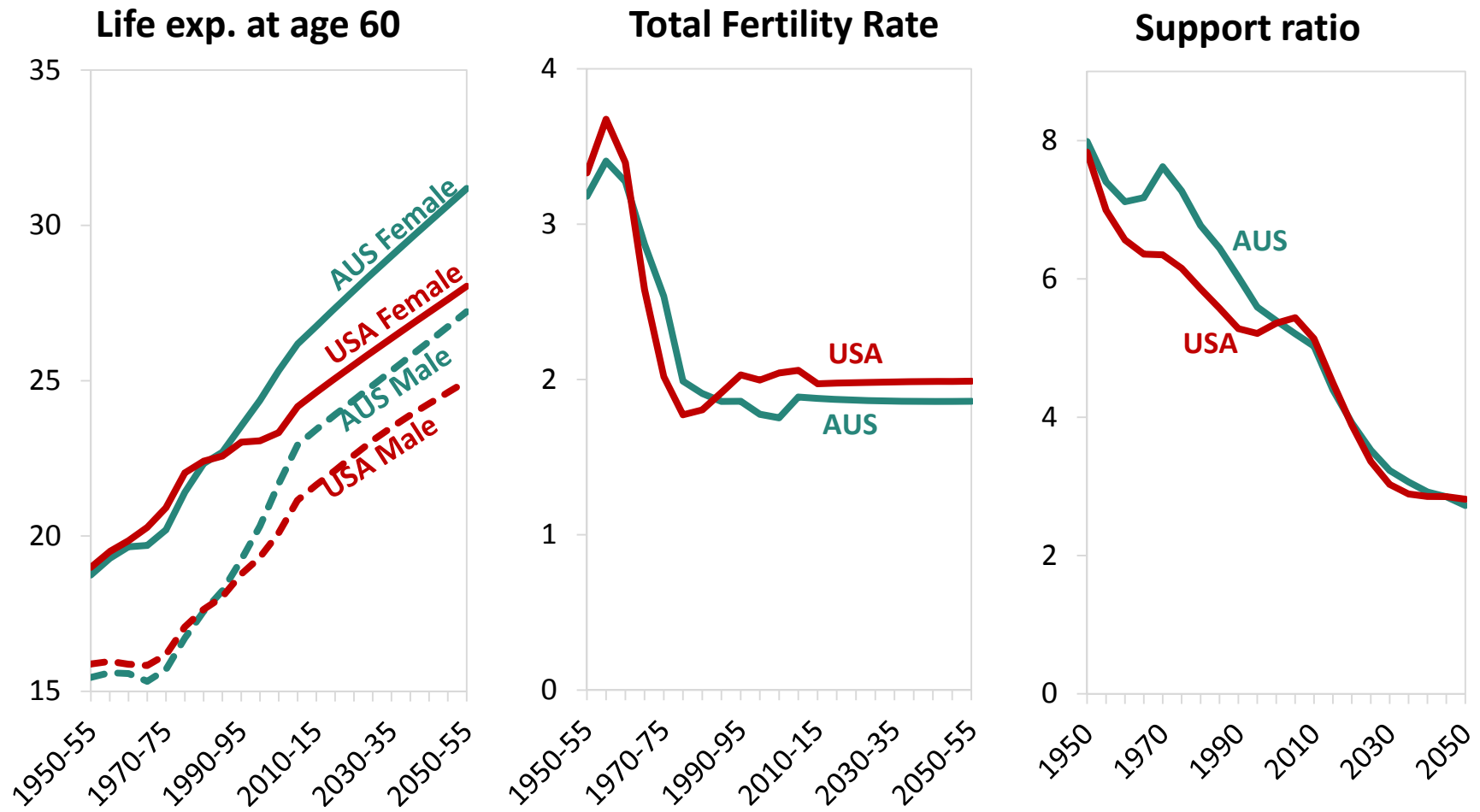
1. Context: Demography and economy



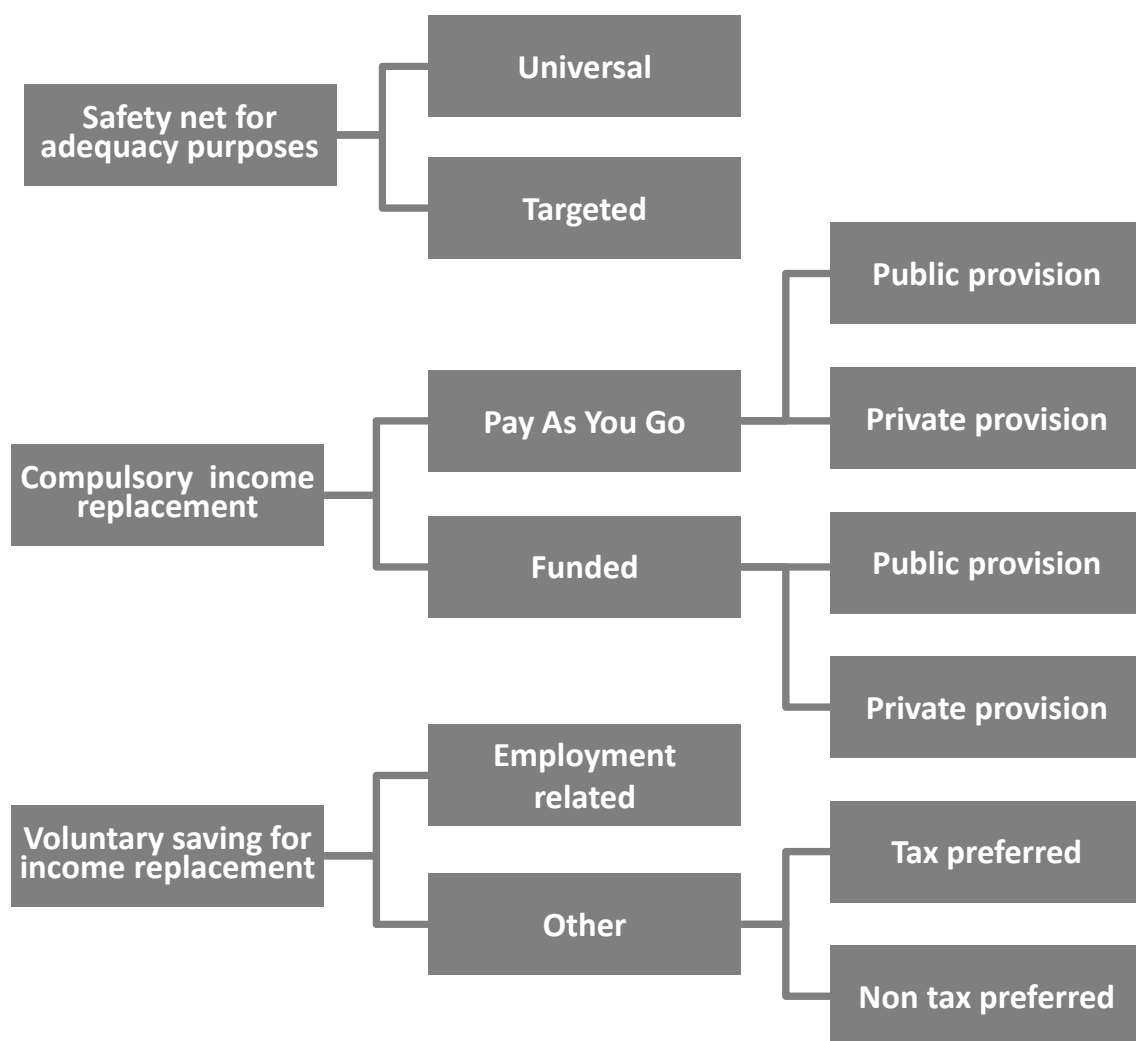
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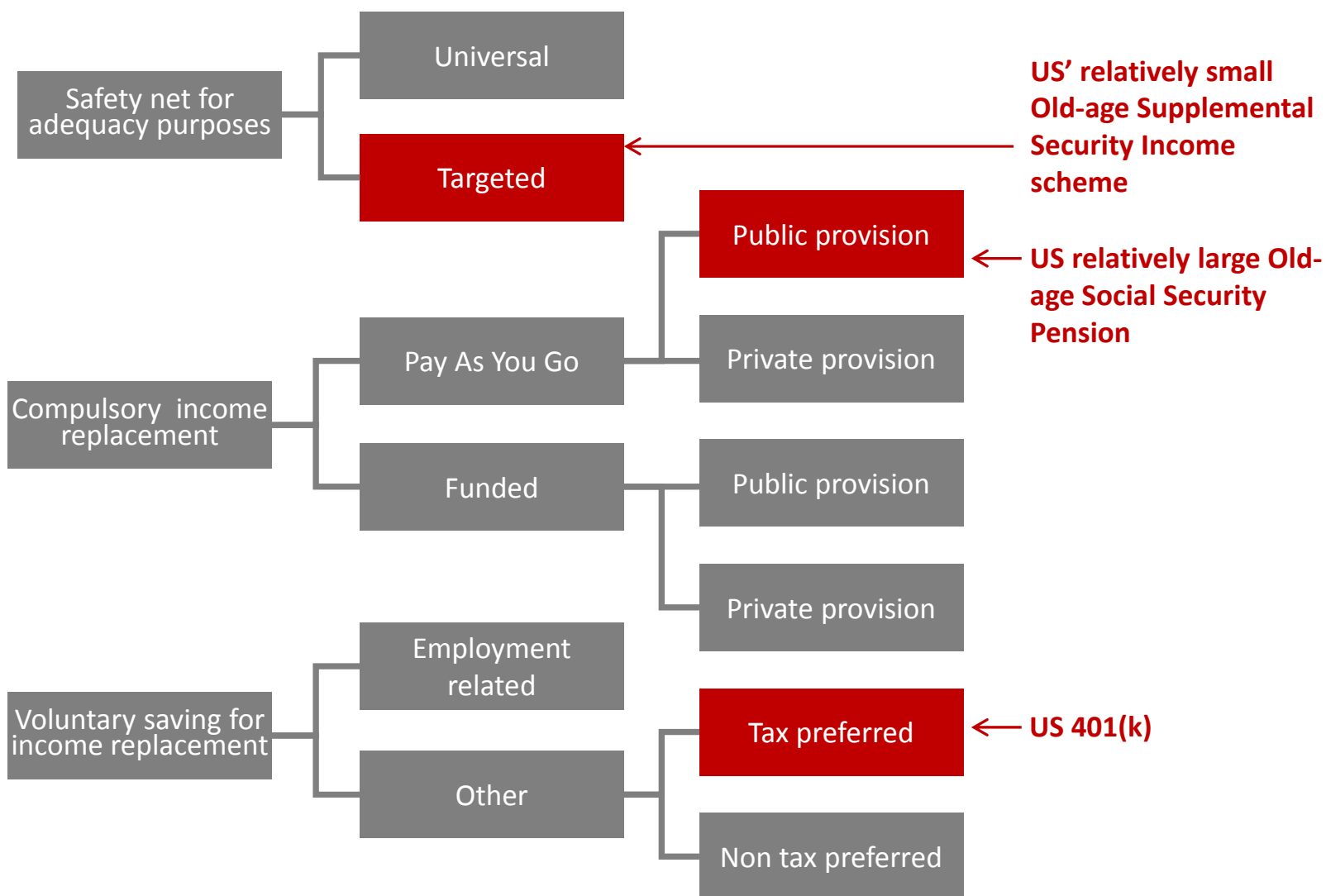
1. Context: Demography and economy



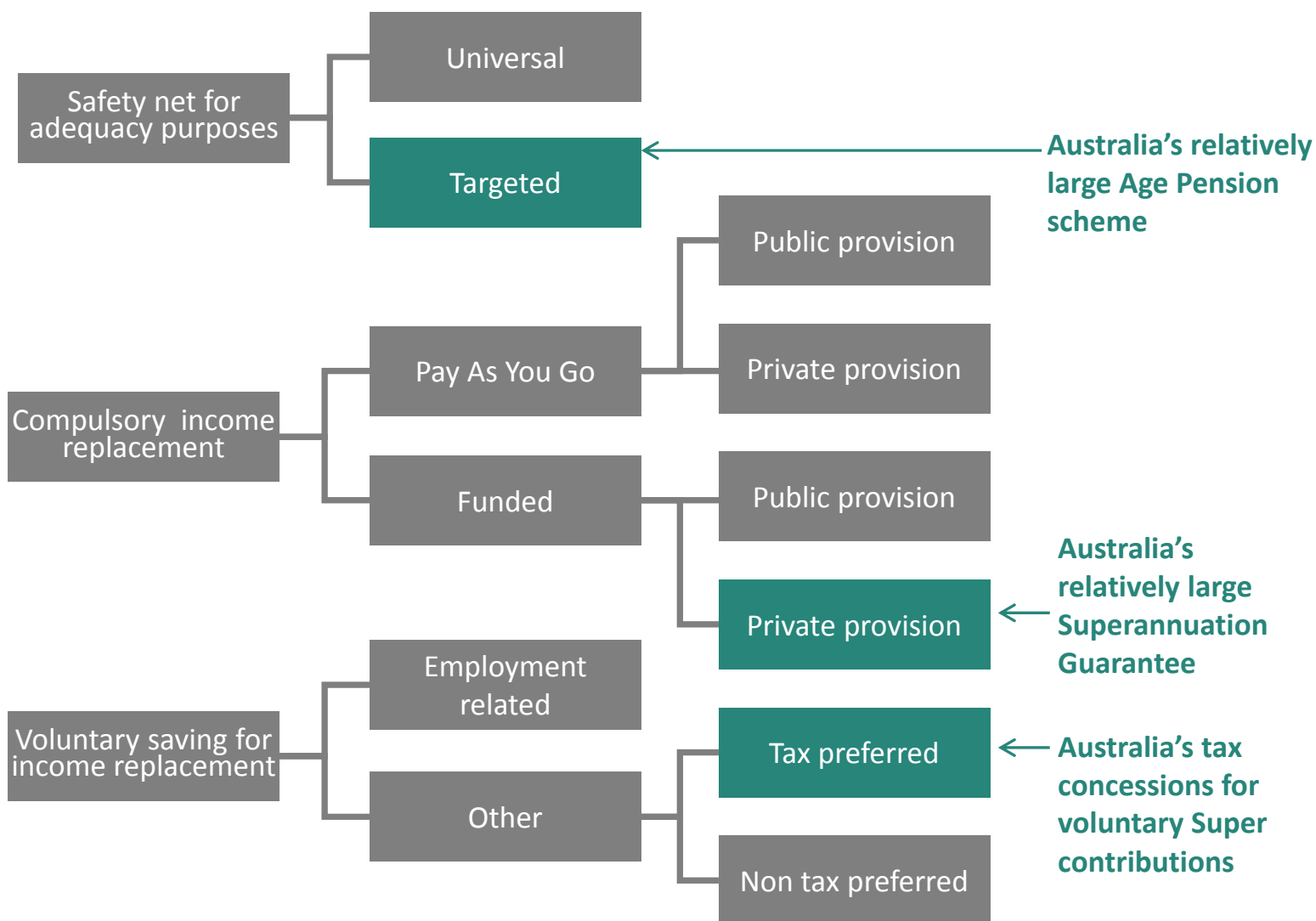
2. Retirement income system



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2. Retirement income system: Pillar 1

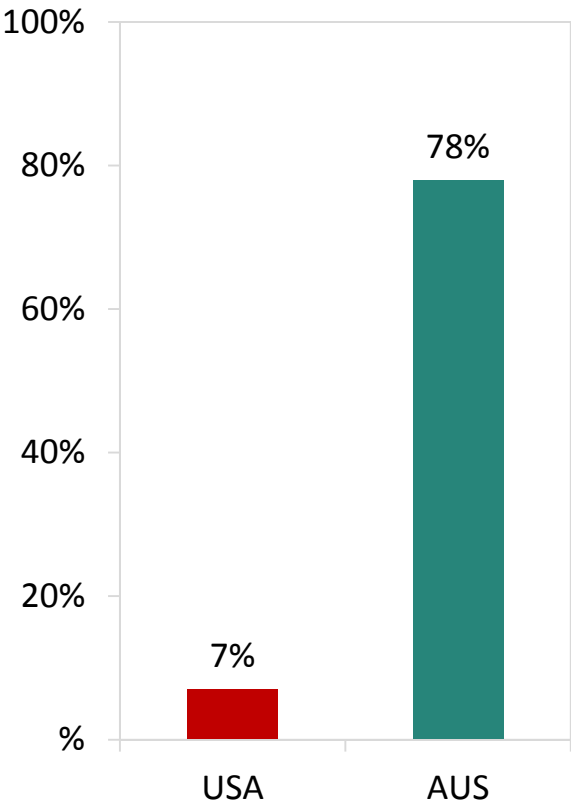
- Non-contributory, tax financed, means tested
- Access age: 65, moving to 67
- Benefits flat at 28% of average f/t male earnings for singles, 40% for couples
- Benefits tax-free, so higher net replacement rate
- Affluence tested, not targeted at destitution:
- 50% full, 25-30% part, 20-25% get nothing
- Costs 2.7% of GDP in 2010; 3.9% in 2050

2. Retirement income system: Pillar 2

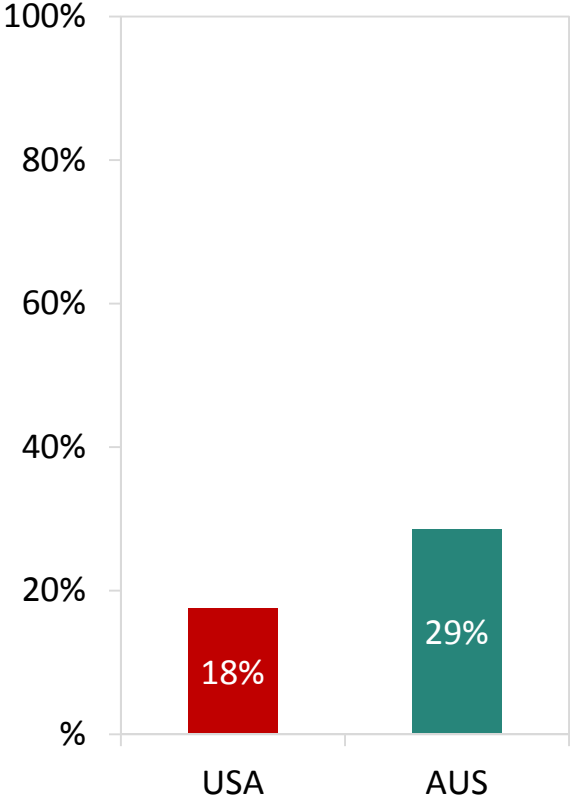
- Mandated
- Covers almost all employees
- Contribution rate of 9%, moving to 12%
- Preserved tax free at 60
- Tax preferred
- No decumulation structure

3. Outcomes: Poverty & targeting

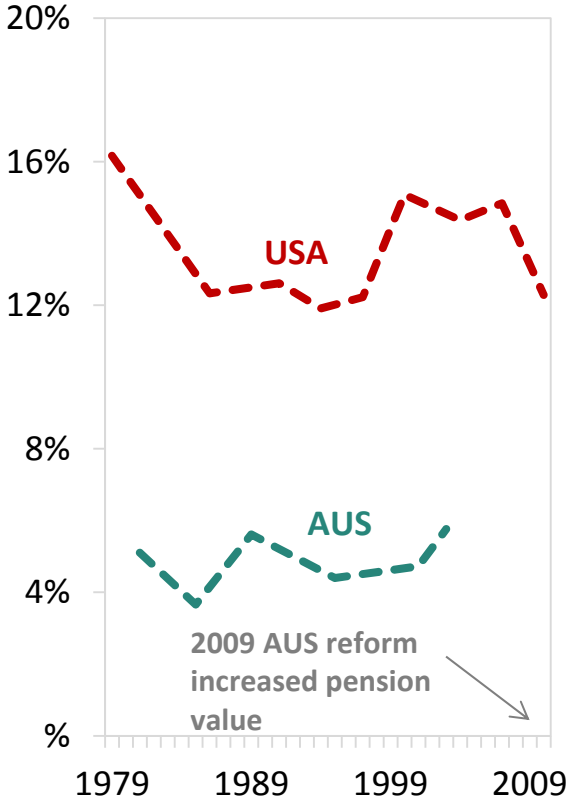
Coverage of targeted pension (% of 65+)



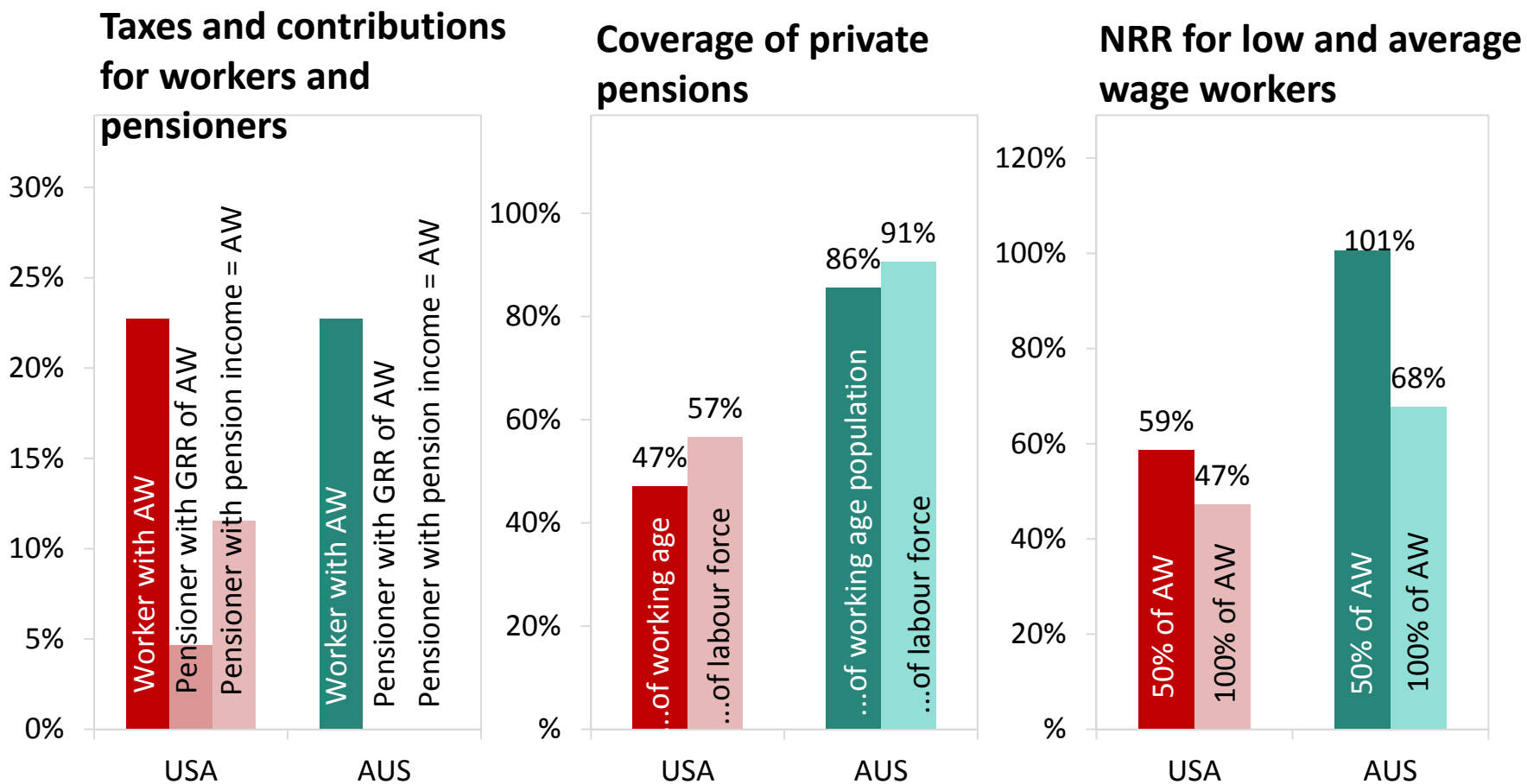
Value of targeted pension (% of AW)



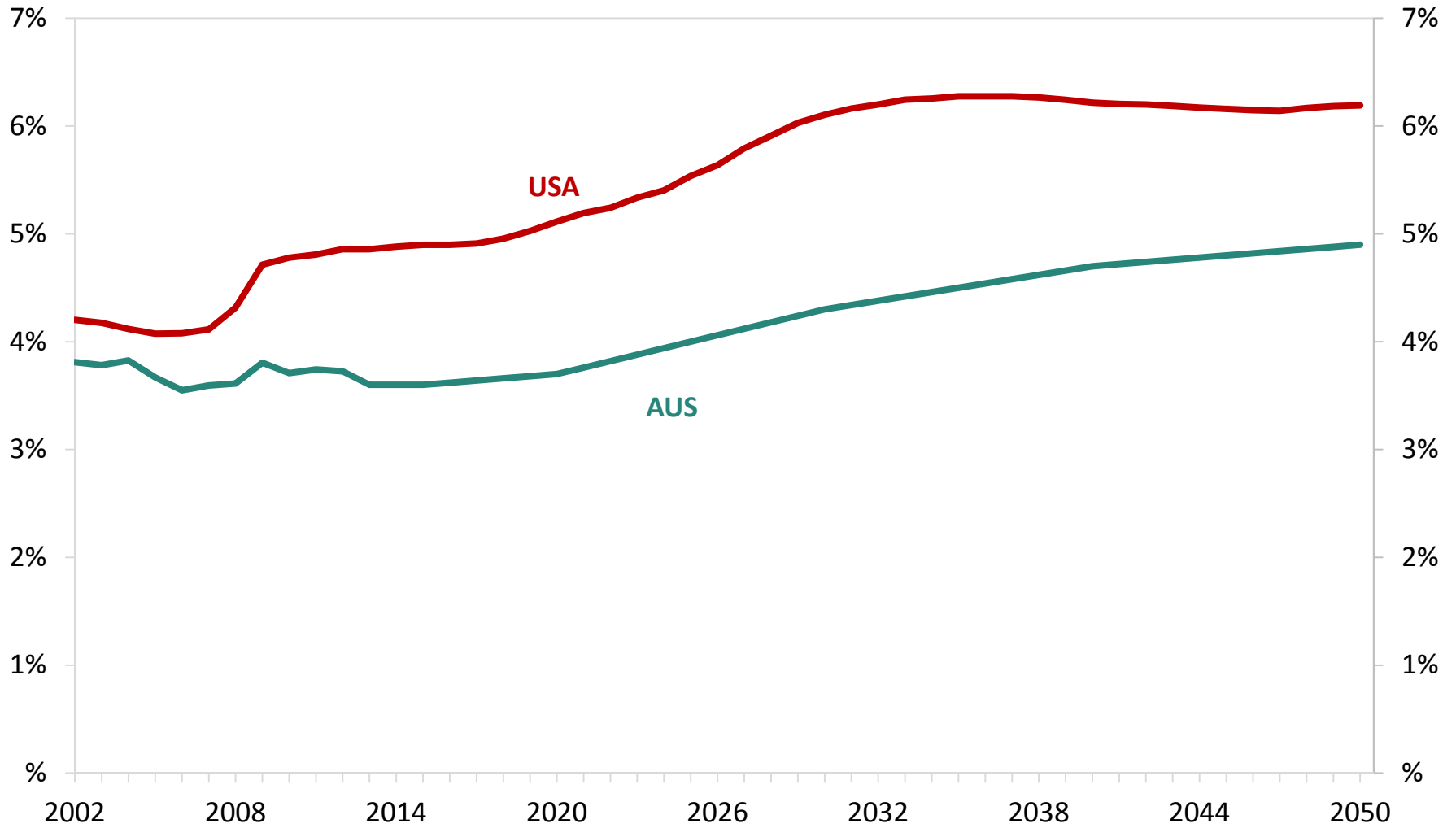
Poverty (% of 65+ below 40% of pop median)



3. Outcomes: Income replacement

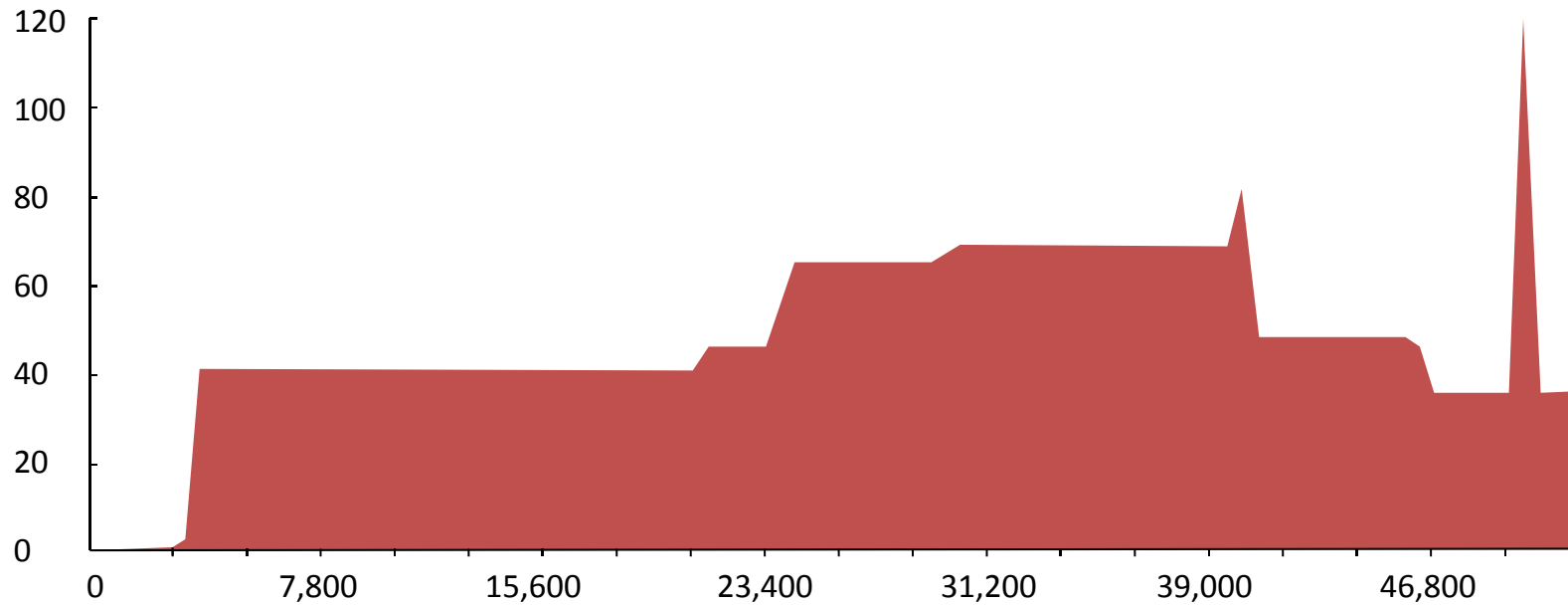


3. Outcomes: Fiscal



4. Means test issues: EMTRs

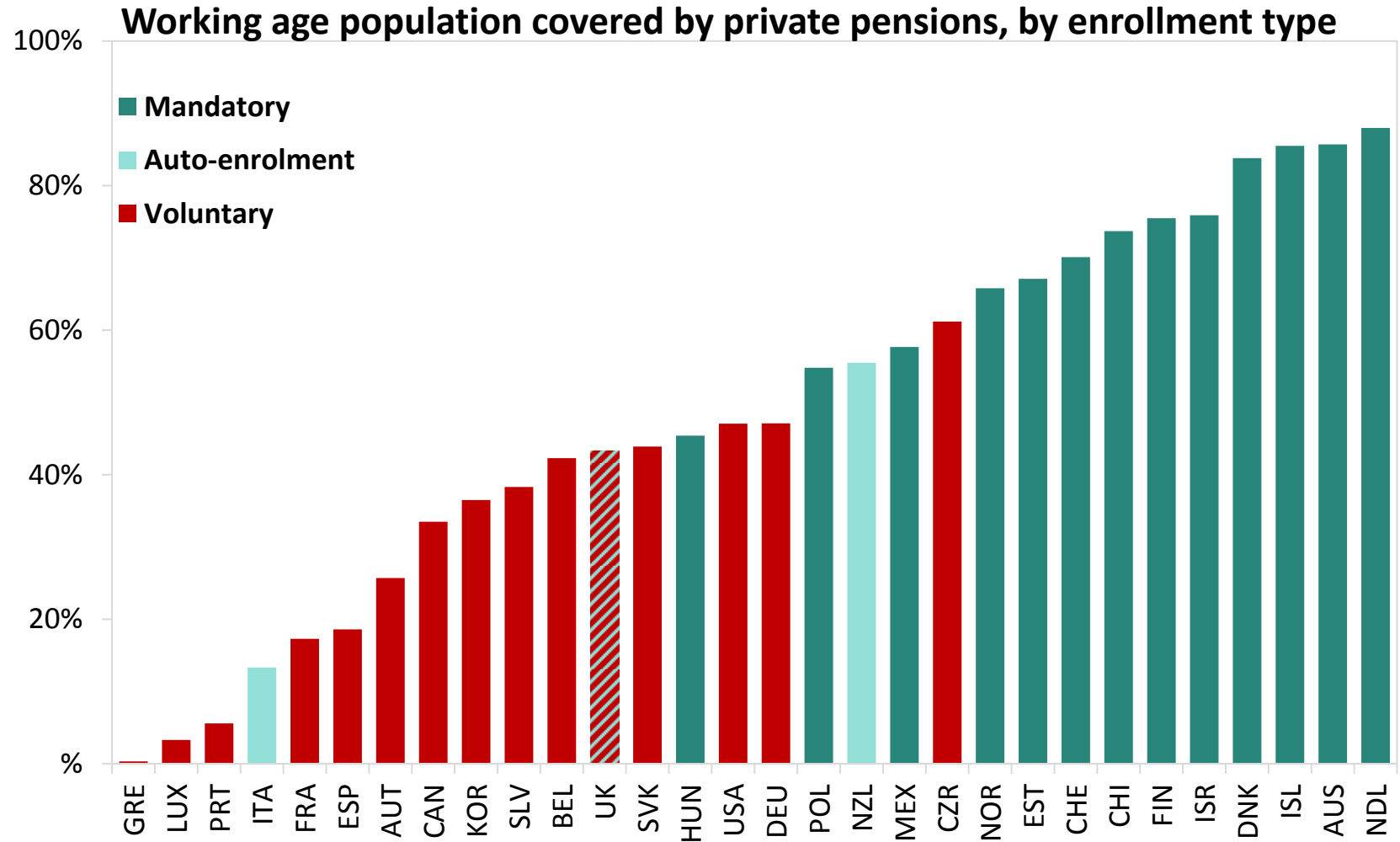
Effective marginal tax rates—single age pensioner, January 2009



4. Economy-wide analysis

- Revenue requirements matter: means testing is cheaper
- Personal taxes can vary with age as well as income
- Means testing is a form of personal capital taxation, and is also age-based: it may be desirable (Conesa 2009)
- Higher taper rates are welfare improving: Lower taxes on workers means less compounding of distortions (Kumru and Piggott 2010)

5. Compulsion and choice



6. Public employee pensions

- Large legacy costs (15% of GDP), BUT
- Federal and states have now shifted to DC
 - Military and judiciary the only exceptions
- Private sector reform as driver of public reforms

Conclusion

1. Similar demographics
2. Different pension system approaches
3. Different poverty & income outcomes
4. Lesson 1: benefits of means testing
5. Lesson 2: benefits of compulsion / costs of choice
6. Lesson 3: Public employee pensions follow



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Questions?

4. Means testing: Revenue requirements

