

Reducing poverty in retirement:

The pension systems of Australia, Sweden and Norway

Australia has a much higher poverty rate among people aged over 65 than Sweden and Norway. Unlike Australia, Sweden and Norway's robust public pension systems ensure retirement security. Australia could reduce levels of poverty in retirement by increasing spending on the Age Pension. This could be funded by reducing the inequitable tax concessions on superannuation given to high income earners.

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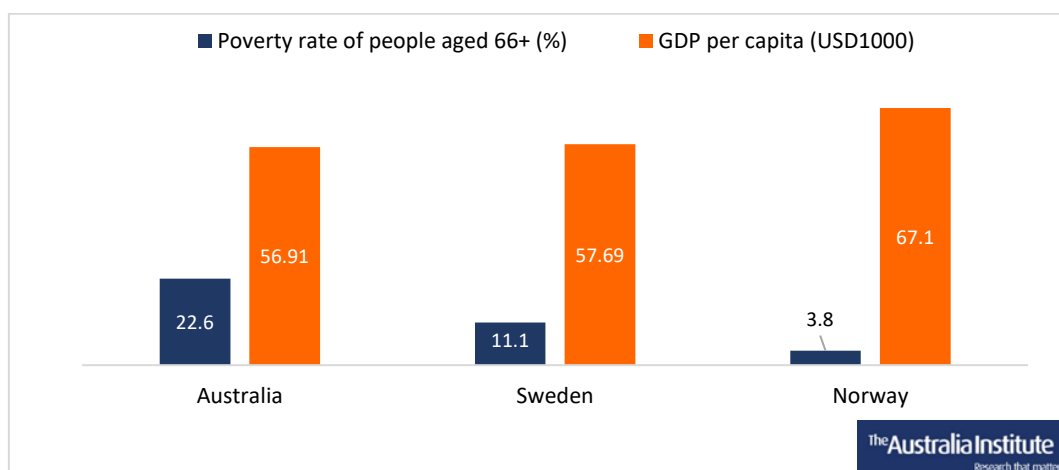
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Introduction

This report compares Australia’s superannuation scheme and Age Pension program with the pension systems of Sweden and Norway to show that the mostly public systems of these Nordic Countries are more effective at ensuring income security for retirees. Compared to both Sweden and Norway, Australia has a significantly higher poverty rate¹ among people in retirement.²

The mostly public retirement saving systems of Sweden and Norway ensure that more retirees have financial security. As Figure 1 shows, even though these three countries have similar levels of GDP per capita, Australia has much higher rates of poverty in retirement (22.6%) as compared to Sweden (11.1%) and Norway (3.8%). In Australia, the poverty rate among people aged 66 and over is twice as high as it is in Sweden, and nearly six times higher than it is in Norway.

Figure 1: Poverty rate among people aged 66+ compared to GDP per capita, 2020



Source: OECD (2024)³

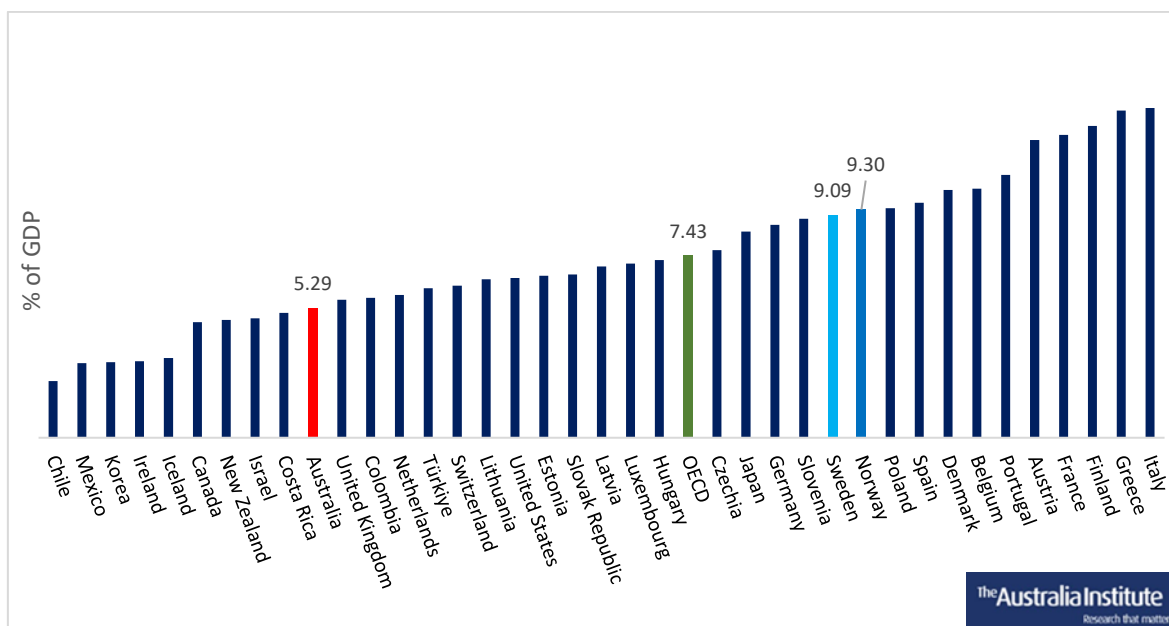
¹ For international comparisons, the OECD treats poverty as a “relative” concept. The yardstick for poverty depends on the median household income in a particular country at a particular point in time. The poverty threshold is set at 50% of median, equivalised household disposable income. OECD (2024) *Income and poverty of older people*, <https://data-explorer.oecd.org>

² This refers to those aged 66 and over: OECD (2024) *Income and poverty of older people*, <https://data-explorer.oecd.org>

³ OECD (2024) *Income and poverty of older people*; OECD (2024) *Annual GDP and consumption per capita* (USD, current prices, current PPPs: Gross domestic product, per capita) <https://data-explorer.oecd.org>

The reason for this is clear: the Australian Government spends less on its public pension programs.⁴ In fact, as Figure 2 shows, Australia’s public spending on pensions as percentage of GDP is the tenth lowest among OECD countries. Compared to an average of 7.43% among all OECD nations, Australia spends just 5.29%. This is significantly lower than Sweden (9.09%) and Norway (9.3%).

Figure 2: Public spending on pension (% of GDP), 2019



Source: OECD (2024)⁵

Note: this public spending consists of pension, early retirement pension, other cash benefits, residential care/home, and other in-kind benefits. In this figure, pensions consists of the Age Pension and other pensions that support retired people. It excludes survivor pensions.

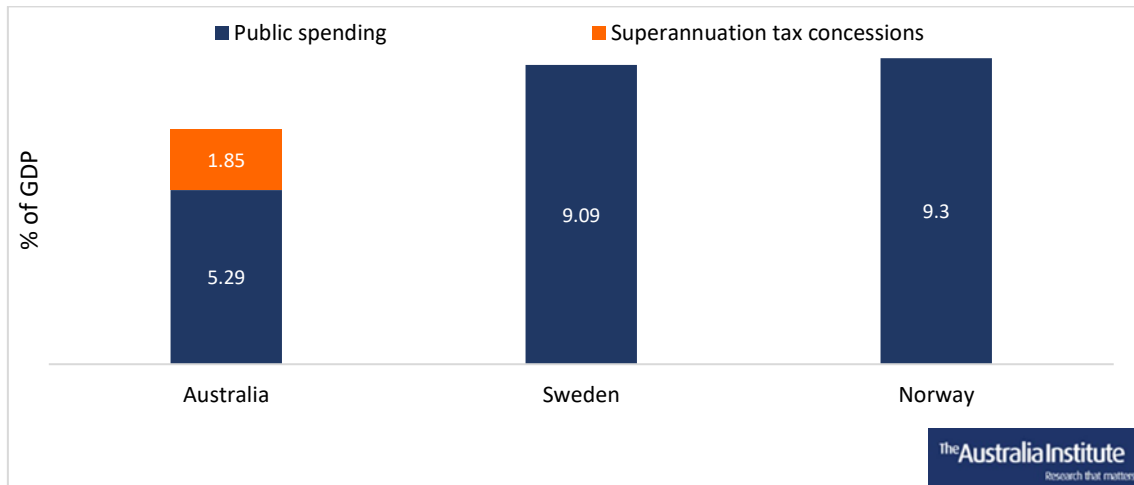
However, the figures above do not include the revenue that is foregone by the Australian Government in superannuation tax concessions. In 2019–20, these superannuation tax concessions were worth \$36.77 billion, which was equivalent to 1.85% of Australia’s GDP.⁶ If we add these superannuation tax concessions together with public spending on pensions, total public spending on retirement would be 7.14% of Australia’s GDP, which is much closer to the levels seen in Sweden and Norway, as shown in Figure 3.

⁴ OECD (2024) *Public and private social expenditure: Old age*, <https://data-explorer.oecd.org>

⁵ OECD (2024) *Public and private social expenditure: Old age*

⁶ Treasury (2024) *Tax expenditure and insights statement 2024*, p 121-125, <https://treasury.gov.au/publication/p2024-489823>; OECD (2024) *Annual GDP and components – output approach*, <https://data-explorer.oecd.org>;

Figure 3: Public funding on retirement, 2019



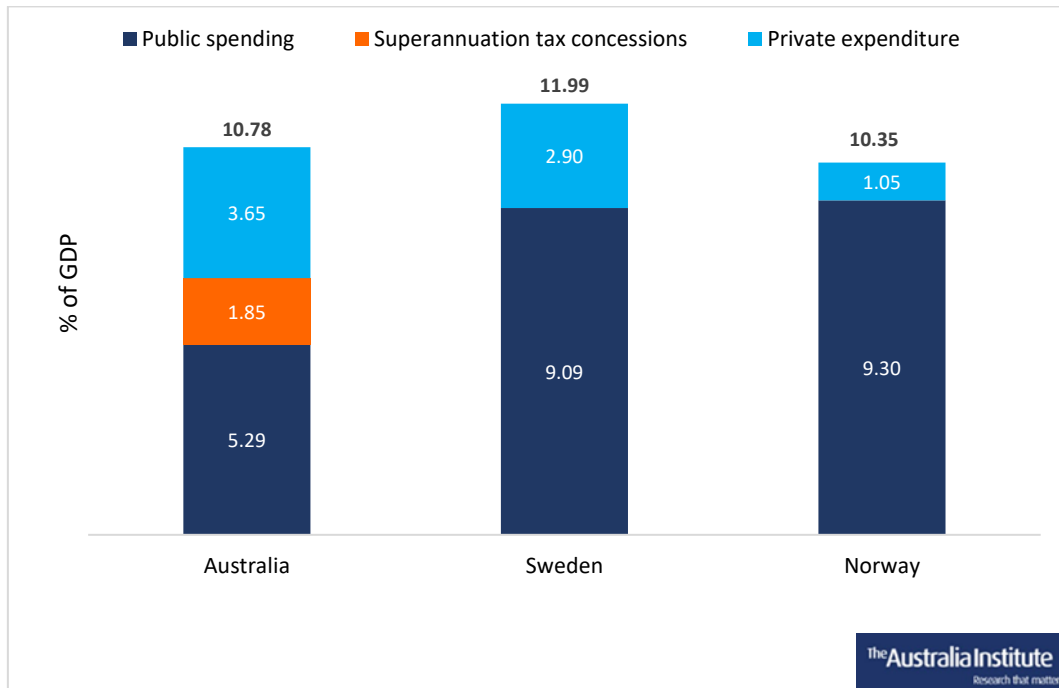
Source: OECD (2024); Treasury (2024)⁷

Note: In Norway, a deferred tax incentive is available for one particular type of retirement savings scheme (this is discussed below). But the amount of revenue lost to this scheme is so small that it is not included in this chart. Sweden has no similar tax incentives.

Figure 4 shows that if private expenditure for retirement is combined with public funding for retirement, Australia spends 10.78% of GDP, Sweden spends 11.99% of GDP, and Norway spends 10.35% of GDP. Although these totals are very similar, the poverty rate among retirees in Australia is twice as high as it is in Sweden, and nearly six times higher than in Norway.

⁷OECD (2024) *Public and private social expenditure: Old age*; OECD (2024) *Annual GDP and components – output approach*; Treasury (2024) *Tax expenditure and insights statement 2024*, p 121-125

Figure 4: Public and private funding on retirement, 2019



Source: OECD (2024); Treasury (2024)⁸

The problem is not so much the quantity of spending, but how that spending is distributed. By putting a much greater emphasis on public pensions than private superannuation systems, Sweden and Norway ensure greater financial security for their retirees.

⁸OECD (2024) *Public and private social expenditure: Old age*; OECD (2024) *Annual GDP and components – output approach*; Treasury (2024) *Tax expenditure and insights statement 2024*, p 121-125

How retirement is funded in Sweden, Norway, and Australia

In Sweden and Norway, a large public pension program is complemented by a smaller private pension program. The opposite is true of Australia, where a private superannuation system is supplemented by the public Age Pension program.⁹

SAVING FOR RETIREMENT IN SWEDEN AND NORWAY

Sweden's National Public Pension, and Norway's Old-age Pension function in very similar ways, and both are part of broader national social insurance schemes.¹⁰ Funding comes partly from the national government, but employees and employers must also make social security contributions equivalent to a defined percentage of an employee's earnings.¹¹ For these income-based pension, an employee must make contributions after they earn a certain amount. These contributions are capped at a certain amount,¹² which helps ensure income equality among retirees because high-income earners are unable to save a great deal more than medium and lower-income earners.

A guaranteed pension – similar to Australia's age pension – is also available to people who have little or no income-based pension. In both Sweden and Norway these

⁹ Treasury (2023) *Superannuation Reforms*, <https://treasury.gov.au/superannuation-reforms>

¹⁰ Government Offices of Sweden (2016) *Social insurance in Sweden*, https://www.government.se/globalassets/government/dokument/socialdepartementet/socialinsurance/insweden_august-2016.pdf; Norwegian Ministry of Labour and Social Inclusion (2024) *The Norwegian Social Insurance Scheme*, <https://www.regjeringen.no/en/dokumenter/the-norwegian-social-insurance-scheme-20242/id3029440/>

¹¹ Government Offices of Sweden (2016) *Social insurance in Sweden*; Norwegian Ministry of Labour and Social Inclusion (2024) *The Norwegian Social Insurance Scheme*

¹² OECD (2023) *Pension at a glance: country profiles -Sweden*, <https://www.oecd.org/els/public-pensions/oecd-pensions-at-a-glance-19991363.htm>; Norwegian Ministry of Labour and Social Inclusion (2024) *The Norwegian Social Insurance Scheme*; OECD (2023) *Pension at a glance: country profiles -Norway*, <https://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm>

pensions are means tested against public income-based pensions and pensions available to people who have survived their spouses.¹³

Unlike Australia, these guaranteed pensions are not affected by any income earned if people decide to continue to work after they reach retirement age.¹⁴ This gives those receiving a pension the choice to continue to work when they reach retirement age. Because these two complementary systems are universal (everyone is covered), the governments of Sweden and Norway are able to distribute resources among pensioners equitably, which helps keep inequality in retirement low.¹⁵

In addition to these government-funded programs, workers in Sweden and Norway can also contribute money through their employer to occupational pension systems, which work in a similar way to Australia's superannuation system. In Norway, employers are legally required to contribute to an occupational pension program. In Sweden, although these contributions are not required by law, collective agreements mean that most employers are involved in one of these schemes.¹⁶ These schemes cover more than 90% of employees in Sweden and 100% of employees in Norway.¹⁷

Swedish and Norwegian people may also choose to save for retirement through personal savings with a bank, insurance company, or by investing in funds or stocks. In Sweden there is no tax incentive for this kind of private savings, but in Norway, the government provides a deferred tax incentive as part of an individual pension saving (IPS) scheme. While this scheme has a relatively low annual cap of NOK 15,000 (about AUD 2,082), this means that people only pay tax when they withdraw their savings.¹⁸

SAVING FOR RETIREMENT IN AUSTRALIA

In contrast to these Nordic countries, the Australian Government, through policy decisions made since the 1990s, prioritises a private superannuation system. This has

¹³ Norwegian Ministry of Labour and Social Inclusion (2024) *The Norwegian Social Insurance Scheme*; European Commission (2020) *The Swedish pension system and pension projections until 2070*, https://economy-finance.ec.europa.eu/system/files/2021-05/se_-_ar_2021_final_pension_fiche.pdf

¹⁴ European Commission (2020) *The Swedish pension system and pension projections until 2070*

¹⁵ In previous research, The Australia Institute has argued that superannuation tax concessions be redirected towards a universal age pension system. See Ingles and Denniss (2014) *Sustaining us all in retirement*, <https://australiainstitute.org.au/report/sustaining-us-all-in-retirement/>

¹⁶ FES (2015) *Occupational Pensions in Sweden*, <https://library.fes.de/pdf-files/id/12113.pdf>; SPK (2024) *The Norwegian pension system*, <https://www.spk.no/en/retirement-pension/the-norwegian-pension-system>

¹⁷ OECD (2023) *Pension at a glance: country profiles -Sweden*; SPK (2024) *The Norwegian pension system*

¹⁸ Life in Norway (2024) *IPS: Individual Pension Savings in Norway*, <https://www.lifeinnorway.net/ips-individual-pension-savings>

come at the expense of the publicly-funded Age Pension, which is now only available to people who can pass both an income and asset test.

Current policies have the effect of restricting the Age Pension to those on low incomes. As the amount of Age Pension is determined by income and assets held in retirement,¹⁹ any income earned over a threshold in retirement reduces the amount of Age Pension received. For example, at the time of publication, the amount of pension a single person received is reduced by 50 cents for each dollar they earn over \$212, on a fortnightly basis.²⁰ This reduces the incentive to work and, as the Age Pension is currently low, this can lead to lower standards of living. At the time of publication, the maximum amount that a single pensioner can get from the Age Pension is \$1,144.40 per fortnight (\$572.2 per week),²¹ which is below the poverty line of \$612.47 per week for a single person.²² This restricts the Age Pension to low-income earners.

All Australians in formal employment save for retirement through a private superannuation fund. The money in these superannuation funds is generated by the contributions that employers are legally required to make, which can be supplemented by the additional contributions that employee can choose to make. These contributions earn interest and profits from the investments made by superannuation funds, and the balance can be drawn upon at specific amounts once 'preservation age' and/or retirement age is reached.

To encourage people to invest in superannuation, the Australian Government gives tax breaks for both contributions and earnings. These tax breaks are not restricted to low- and middle-income earners – in fact, as our research has shown, high income earners are some of the largest beneficiaries.²³

Superannuation tax concessions exacerbate inequality

Exacerbating this problem is the reality that the Australia Government also provides tax concessions on superannuation contributions and earnings that unnecessarily and

¹⁹ Australian Government (2024) *How much age pension you can get*,

<https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get?>

²⁰ Australia Government (2024) *Income test*, <https://www.servicesaustralia.gov.au/income-test-for-age-pension?context=22526#cutoff>

²¹ Australia Government (2024) *How much you can get*, <https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get?context=22526>

²² Melbourne Institute (2024) *Poverty Lines: Australia*, https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0006/4961229/Poverty-Lines-Australia-March-Quarter-2024.pdf

²³ Le (2024) *Who benefits? The high cost of super tax concessions*, <https://australiainstitute.org.au/report/who-benefits/>

disproportionately benefit high income earners. In 2020–21, 54% of the benefit of concessional taxation of superannuation contributions and 57% of the benefit of concessional taxation of superannuation earnings went to the top 20% of income earners.²⁴ This policy is meant to encourage people to save more for retirement, but in reality it helps high income earners become richer. In fact, the concessions provided to high-income earners are so great that Treasury has estimated that they “receive more lifetime government support in dollar terms than lower- and middle-income earners”.²⁵ The amount of foregone revenue that goes to superannuation concessions is so large that it is nearly equivalent to the cost of the Age Pension.²⁶ Treasury forecasts that combined tax concessions for super contributions and earnings will cost the Commonwealth budget more than the Age Pension by 2045–46.²⁷ Rather than continuing to give generous tax concessions on superannuation contributions to people who are already wealthy, the Australian Government could help more pensioners by increasing expenditure on the Age Pension.

Australians continue to depend on the Age Pension

Although the percentage of Australian’s contributing to superannuation is increasing, the public Age Pension remains crucial to many Australian retirees. Table 1 shows that the proportion of people aged 67 and over for whom superannuation was the main source of retirement income increased from 20.2% to 29% between 2014 and 2023. In 2022–23, the Age Pension was the main source of retirement income for 46.4% of people aged 67 and over – this was a reduction from 50.7% in 2014–15.

²⁴ Treasury (2024) *Tax expenditures and insights statement*, <https://treasury.gov.au/publication/p2024-489823>

²⁵ Treasury (2020) *Retirement Income Review Final Report*, p 247, <https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf>

²⁶ Total superannuation tax concessions have been calculated by adding up Concessional taxation of capital gains for superannuation funds, Concessional taxation of employer superannuation contributions, Concessional taxation of personal superannuation contributions, Concessional taxation of superannuation entity earnings, Superannuation measures for low-income earners and Concessional taxation of unfunded superannuation; Treasury (2024) *Tax expenditure and insights statement 2024*; Because support to seniors is mostly made of the age pension and because the Government does not release separate figures just for the age pension, when this paper refers to the cost of the age pension it is referring to support for seniors; Australian Government (2023) *Budget strategy and outlook: Budget paper no. 1*, <https://budget.gov.au/content/bp1/index.htm>

²⁷ Australian Government (2023) *Intergenerational Report 2023*, <https://treasury.gov.au/publication/2023-intergenerational-report>

Table 1: Main source of retirement income among people aged 67 and over, 2014–23

	2014-15	2016-17	2018-19	2020-21	2022-23
Government pension or allowance	50.7%	50.1%	49.3%	45.7%	46.4%
Superannuation	20.2%	25.9%	25.5%	27.3%	29%

Source: ABS (2024)²⁸

The total amount of money held by Australians in superannuation is much higher than expenditure on the Age Pension. In 2021–22, Australians held a collective \$2,817 billion in superannuation, of which, Australians aged 65 and over held \$946 billion.²⁹ In one year alone (2021–22) Australian’s contributed more than \$152 billion³⁰ to their superannuation accounts. This far exceeded the \$51.6 billion³¹ spent on the Age Pension in 2021–22.

The problem is that this superannuation is not equally distributed. Of the total amount of superannuation, 47% is held by just 7% of Australian workers.³² Among Australians aged 65 and over, only 10% have a superannuation balance of more than \$1 million, yet these people hold 51% of all superannuation money among this age cohort.³³ Therefore, even as the total amount of superannuation increases, most of it will be held by wealthy people. Without increased investment in the Age Pension – which could be as simple as redirecting the tax concessions given to superannuation contributions and earnings – Australia will continue to have relatively high rates of retirement poverty.

²⁸ ABS (2024) *Retirement and Retirement Intentions, Australia: Table 6. Sources of income in retirement*, <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release>

²⁹ ATO (2024) *Tax Stats 2021-22 Table 22*, <https://data.gov.au/data/dataset/taxation-statistics-2021-22>, derived.

³⁰ ATO (2024) *Tax Stats 2021-22 Table 22*

³¹ Because assistance to the aged is mostly made of the Age Pension and because the Government does not release separate figures just for the Age Pension, when this paper refers to the cost of the Age Pension it is referring to support for seniors; Australia Government (2022) *Budget Strategy and Outlook: Budget Paper No. 1*, <https://archive.budget.gov.au/2022-23/>

³² ATO (2023) *Tax Stats 2021-22 Table 22*

³³ ATO (2023) *Tax Stats 2021-22 Table 22*

Conclusion

There are two reasons that retired Australians live in greater poverty than their Swedish and Norwegian peers: 1. Because the Australian Government spends less on the public pension; and 2. It gives away a fortune in superannuation tax concessions to people who already wealthy.

As a percentage of GDP, the Australian Government collects fewer taxes than Sweden and Norway,³⁴ but it also makes decisions about how to spend the revenue that is available. The mostly public pension systems of Norway and Sweden mean that fewer people live in poverty when they retire. In contrast, the revenue the Australian Government forgoes in superannuation tax concessions has become concentrated in the hands of people who are already wealthy, which means that income inequality is relatively high among retirees.

This inequality could be reduced if the tax concessions on superannuation given to the already wealthy were limited or removed entirely, and the revenue generated was instead used to fund the Age Pension.

In addition, the Australian Government could borrow from the policies of Norway and Sweden and require the contributions currently made to private superannuation funds to instead go towards a universal public pension program.

Furthermore, the Australian Government could help reduce poverty among Australia retirees by allowing them to work and earn income without it affecting their Age Pension payments, as retirees in Sweden and Norway can.

³⁴ OECD (2024) *Global Revenue Statistics Database: Total tax revenue*, <https://data-explorer.oecd.org>