Report
June 2026

Actuaries Institute.

Australian Actuaries Intergenerational Equity Index

Spotlight on the Australian Tax and Transfer System



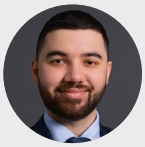
About the Lead Authors



Hugh Miller – Hugh Miller is a principal at Taylor Fry. For the past 15 years he has been applying actuarial techniques to social sector problems spanning welfare, employment, housing, disability and health. He, along with Laura Dixie and Ramona Meyricke, codesigned the Australian Actuaries Intergenerational Equity Index, exploring how wealth and wellbeing differs across time and generations. Hugh was 2021 Actuary of the Year.



Laura Dixie – Laura Dixie is an experienced actuary and a director at Taylor Fry. She works in Taylor Fry's Government practice using quantitative analysis applied to a range of datasets to understand how people interact with services in the health, education and social sectors.



Shams Mehry – Shams Mehry is a consultant at Taylor Fry. He works across government sectors applying his statistical modelling and quantitative analysis skills in a range of health, education and transport contexts.

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About this Report

This Report has been prepared as part of the Actuaries Institute's Public Policy and Thought Leadership program. Reports prepared in this program involve the Institute Public Policy staff working closely with the lead authors and the Institute's volunteer network in order for the Report to present the Institute's contribution, on behalf of its membership, to the discussion of an important societal topic.

We thank the people who generously contributed to this project, particularly external expert Robert Breunig and Peter Varela (Tax and Transfer Policy Institute), James Rice who provided data inputs related to the National Transfer Accounts, experts who provided feedback on a draft including from the e61 Institute and the extensive group of Actuaries Institute volunteer reviewers across multiple practice areas, and Institute representatives (Elayne Grace and Vanessa Beenders).

This report uses unit record data from Household, Income and Labour Dynamics in Australia Survey, HILDA. HILDA is conducted by the Australian Government Department of Social Services (DSS). The findings and views reported in this paper, however, are those of the authors and should not be attributed to the Australian Government, DSS, or any of DSS' contractors or partners. DOI: 10.26193/NBTNMV.

All charts in the report use numbers from a combination of HILDA, TTPI, NTA, ABS, MYEFO projections, Australian Federal Budget papers, the Productivity Commission, S&P Global and authors' calculations.

Enquiries should be directed to the Institute's Public Policy Team at public_policy@actuaries.asn.au.

Acknowledgement of Country

The Actuaries Institute acknowledges the traditional custodians of the lands and waters where we live and work, travel and trade. We pay our respect to the members of those communities, Elders past and present, and recognise and celebrate their continuing custodianship and culture.

ISBN: 9781764362276

Suggested Citation: Actuaries Institute., Miller, H., Dixie, L., & Mehry, S. (2026). *Australian Actuaries Intergenerational Equity Index: Spotlight on the Australian Tax and Transfer System.* Actuaries Institute.

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Executive Summary

The overall balance of government taxation and spending is a key policy question, and demographic challenges mean that it can be helpful to view this through an age lens. This highlights the generational nature of taxation and spending. Within all age groups there are also wide variations. Balancing taxation and spending is at the core of being able to provide government support to people who need it of all ages, throughout their lifetimes.

The share of government spending by age is part of the Australian Actuaries Intergenerational Equity Index (AAIEI); our recent update shows that there has been a growing share to the older age group and this is a long-run contributor to the widening wealth and wellbeing gap between older and younger Australians.

In this report we explore age-specific taxation and spending in greater detail, drawing on the work of the index, related academic research, and some new mechanical projections to highlight demographic dimensions. While looking at average outcomes by age obscures important intragenerational effects (such as high poverty rates for older people who do not own their own home), they are important for understanding the implications of the current structure of tax and spending settings.

Estimates of current spending, taxation and income

Figure 1 shows our key estimates for taxation, spending and income in 2024-25 (using the broad Haig-Simons measure which recognises effects such as the value of imputed rent for homeowners).

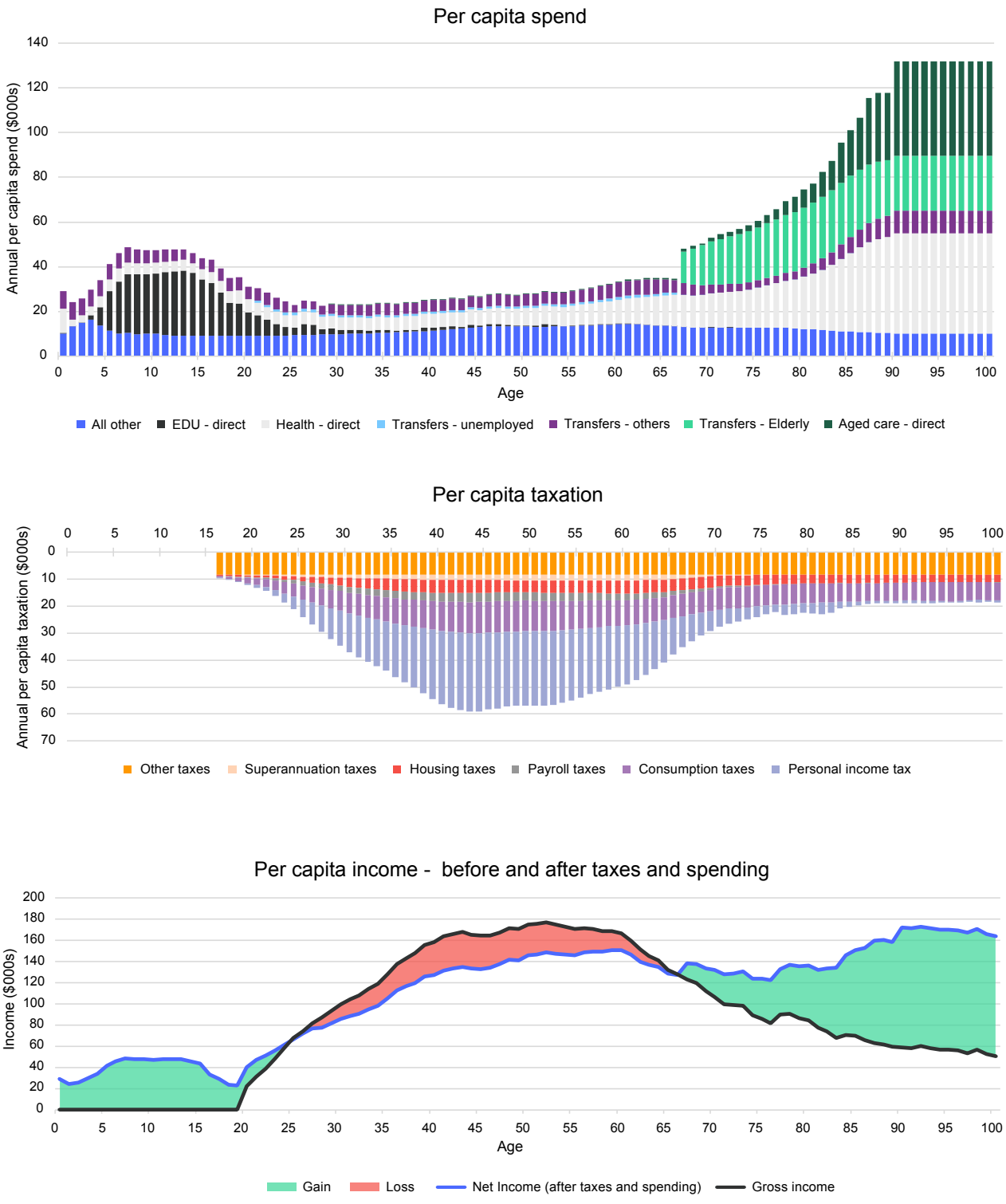
Total government spending was about $1,020 billion in 2024-25, corresponding to $37,000 per person. The natural 'U' shape to government spending is visible, with higher spending on children (driven by education spending) and even higher levels of spending on the elderly (driven by health spending, the Age Pension and aged care spending). We estimate spending per child averages about $41,000 per year, per 30-year-old averages $23,000, and for those in their 80s averages $93,000. When considering total government spending on the population this is highest for 6-16 years olds, with more government spending on 13-year-olds than any other age.

Government taxation has the opposite shape to the spend pattern, falling predominantly on working-age people. This inverse 'U' shape recognises that historically those most able to pay tax tend to be those working, as they have higher incomes. Average taxation peaks at over $50,000 per person for those aged 40-60. Australia relies heavily on income taxes (which includes capital gains tax) for government revenue and per capita income taxes fall most heavily on those aged 30 to 65. Per capita superannuation and housing taxes (e.g. stamp duty) are also higher for working-age people, even though the wealth of these components is also accumulated at older ages.

We can combine these components to give the net picture of government spending and taxes by age, after adjusting for mortality. On average, total government spending is $3.4 million over the life course, and total tax is $2.5 million. There is a bias towards spending – with taxes around 73% of spending. We estimate this would need to be in the 85-90% range to be budget neutral after allowing for other sources of government income.

The third panel of Figure 1 shows the result of taxation and spending when layered atop estimates of income. The blue line is the net result in terms of income per person, with green areas indicating boosts (government spending and transfers greater than taxation) and light red areas indicating reductions (tax paid greater than government spending and transfers received). One key observation is that age groups with very similar gross income end up with very different levels of net income. An average 30-year-old has total gross income of $100,000, which reduces to $85,700 net because the tax paid more than outweighs any direct spending and income transfers they receive from government. In contrast, an average 71-year-old has the same total gross income of $100,000 which increases to $128,100 net. This very large discrepancy of $42,000 partly reflects need (older people have higher healthcare needs leading to higher direct healthcare spend from government) but mainly reflects the differences in eligibility for benefits and taxation settings.

Figure 1: Summary of government spending and taxation by age, per capita



Changes over time

We examine how these figures have changed in the past two decades:

- Government spending has generally increased across most age groups. This growth comes in different sectors by age; education spending is up for the young, the National Disability Insurance Scheme (NDIS) has added to spending across all people up to age 65 (and to some extent beyond), and aged-care spending is driving increases for older people.
- Taxes have also increased but not as much as spending; around 70% as much. These increases have not been broadly distributed, falling on the 40-65 age group (~$10,000 higher tax over two decades) primarily through more income taxes.
- Gross income has increased for older people, and been constant for people age 32 and below. Income estimates are affected by variation in asset gains (housing and superannuation), particularly affecting older groups; wages and salaries have grown more steadily.
- With increased income and receipt of more spending older people have had very material gains per person. In contrast, people age 20 to 30 are notable as the only age group not to have benefited in net income over the past two decades.

Future scenarios

To understand the implications of current policy settings, we have used a simple 10-year projection of our 2025 results. While deliberately simplistic, this provides instructive results of what could be:

- The population will age, going from 22.1% of adults being aged over 65 to 24.8% in 2035
- The share of total income to this group will increase even more quickly, from 17.8% to 21.3%
- Taxes on older Australians will also increase, reducing the proportion of all taxes raised from people aged 30 to 64 from 73.4% to 71.0%
- The corresponding increase in share of government spending going to people over 65 is from 31.0% to 36.4%
- The proportion of aggregate spending funded by aggregate taxation improves slightly from 85.2% to 87.0% but still sits well below historical levels. Increasing employment amongst older Australians, more Millennials moving into peak income ages and an assumed curbing of NDIS growth contribute to this result. It also relies on a strong assumption around fiscal discipline, where per capita spending for each age does not increase in real terms.

Policy implications

There are a range of policy issues that speak to the generational balance, particularly:

- **Aged-based tax and spending settings** – Current policy settings treat similar incomes differently depending on age, rather than means. As the distribution of income and wealth change, these settings could be reviewed. Two potential areas are age-based tax and income support offsets and retirement and superannuation taxation settings.
- **Broadening the tax base** – Current policy settings place a heavy reliance on taxes paid by people aged 30-65. Key ways the tax base could be broadened include:
  - Higher GST rates which would spread collections across different ages based on consumption
  - More equal taxation of different income sources, particularly investment income
  - Land and wealth taxes.

  We note measures announced in the 2026-27 Budget relating to changes to capital gains tax, negative gearing and discretionary trust tax rates fall largely into the second area which, in general terms and subject to final implementation details, would balance some of the differential treatment of income.
- **Overall fiscal discipline** – Restraint in overall government spending significantly improves the sustainability picture. Holding by-age per capita spending constant (in real terms, aside from some NDIS growth) would still see overall real spending grow at about 1.6% per year. This would be significantly below the estimated 3.0% average per year observed two decades earlier.
- **Supporting asset accumulation at younger ages** – Particularly measures which reduce barriers to entering the housing market by addressing housing affordability through housing supply, considering the relationship between net migration and home construction capacity, and encouraging growth in regional cities.

Additionally, we flag key data gaps that could be filled to support further research. Firstly, household-level expenditure estimates are well out of date and we use those from the 2015-16 Australian Bureau of Statistics (ABS) Household Expenditure Survey as the latest available. Additionally, there is little information on inheritances and gifts, the size and nature of discretionary trusts, as well as the (related) role of the 'Bank of Mum and Dad' in supporting homebuyers.

1

Introduction



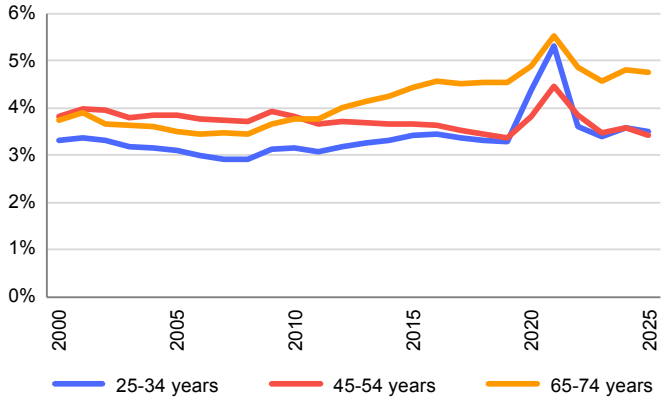
1.1 Aims of the report

Our recent update to the Australian Actuaries Intergenerational Equity Index (AAIEI)[1] showed that intergenerational concerns are pervasive and supported by data. The index tracks 25 indicators across six domains, and for three domains in particular (economic, housing and environment) the indicators show a widening gap in wealth and wellbeing outcomes between younger and older Australians. One of the biggest drivers of the gap is the economic domain, including how fiscal support is distributed.

This spotlight report focuses on one of the AAIEI economic indicators that is of key concern to policymakers – government expenditure by age, along with related tax and income considerations. That indicator (spending by age group as a percentage of GDP) is shown in Figure 2; it shows the increasing share of government spending has been directed towards older Australians over the past 25 years, reflecting a combination of shifting demographics and policy choices (e.g. relatively large increases in healthcare, disability, Age Pension and aged care spending relative to other types of government spending).

Our analysis focuses on average income, taxes and government spending at each age. But it is important to note that wealth and income vary significantly within generations, not just between them. While this report does not examine intragenerational inequality, it remains an important dimension of any complete assessment of generational equity. Specifically, while the report does point to more favourable outcomes for older Australians on average, we recognise the high rates of poverty and significant health challenges experienced by many older Australians.

Figure 2: Indicator – Government expenditure by age band as a percentage of GDP



The figure masks a significant amount of complexity – allocating spending across age groups requires a significant level of detail derived from government and survey datasets. This report:

- Delves into the detail of government spending by age.
- Expands to also model government taxation and private income by age, so that we can see how current government tax and expenditure policies effectively cross-subsidise between generations over the life course.
- Explores how policy and demographic changes have affected the age balance over time, including implications for the future.

The key purpose of this report is to inform a national conversation on is whether the pattern of government expenditure (spending) and taxation by age is sustainable in a society that seeks intergenerational equity.

1.2 Relevant research and data

We recognise and acknowledge existing research on this topic, particularly two key pieces that form the basis of our main estimates:

- The Tax and Transfer Policy Institute (TTPI) at the Australian National University has released a working paper by Peter Varela, Bob Breunig and Matthew Smith examining precisely the same question of tax and transfers by age, and how this has evolved over thirty years[2]. They have generously allowed us to build on their results rather than attempting to re-do analysis – this includes using their estimates of taxation by age as a key input for our report.
- Our spending estimates, as used in the AAIEI, build on work on the National Transfer Accounts (NTAs) by Peter McDonald, Jeromey Temple and James Rice[3]. These are a systematic attempt to capture and allocate government spending, including by age. While the latest survey data (about transfers and services people receive from the government) is now dated (the ABS Household Expenditure Survey has not been recently updated), these remain the best estimates. They have generously shared outputs and we have used their relativities, with some updates to categories of government expenditure.

We specifically thank Bob Breunig, James Rice, and Matthew Smith, for sharing time, thinking and data related to their work.

The other definitive resource in the area is the official Intergenerational Report (IGR), produced regularly by the Commonwealth Government and we note some state governments produce IGR equivalents or similar reports. The 2023 IGR includes a careful consideration of economic and other factors affecting the Australian economy, including a projection of different tax and spending components[4]. It recognises ageing of the population and slowing population growth as powerful long-term forces to plan around, and the importance of migration in supporting population growth and reducing dependency ratios. It also recognises the importance of productivity as the key driver of long-term improvements in our standard of living, rising workforce participation rates (including amongst older Australians). It further includes broader discussion around wellbeing frameworks, and the implications of climate change for Australia's future, including adaptation costs as well as opportunities in harnessing mineral reserves and renewable energy. The 2026 IGR is expected to be published later this year.

Assessing the sustainability and equity of tax is familiar territory for actuaries. For example, Frank (2015)[5] previously looked at the NTA in the context of fiscal sustainability over the lifecourse. It highlighted demographic pressures including declining fertility rates, increasing longevity and population ageing.

1.3 Some initial observations on generational tax and spending

The government tax and spending system (including transfers) serves several purposes, many of which manifest as generational transfers. Figure 3 shows the total per capita government spending by age, and the per capita taxation. While per capita figures facilitate useful comparison across generations, they only tell part of the whole story as they do not reflect distributional differences within age groups.

There is a distinct 'U' shape to the pattern of both government spending and taxation by age (Figure 3). Some of this 'U' shape of government taxation (shown as negative values) and spending (shown as positive values) by age is natural. It reflects society's desire to invest in human capital, such as education spending on the young, care for the infirm in aged care and higher healthcare spending for older people. There are also welfare concerns – for example, income support is provided to those with less private income. This welfare spending will vary by age since private income also varies by age. The 'U' shape also recognises that historically those most able to pay tax tend to be those working, as they have higher incomes.

Finally, the use of means-testing and tiered rates of taxation are important parts of the Australian design, as they are in many other developed countries, affecting the distribution around the average at any given age. However, the charts obscure distributional differences within age bands and the role of government for redistribution to address this – while very important, these considerations fall outside the scope of this report.

While many aspects of the tax and spending system are natural, the core question of this report is whether spending by age is both sustainable and maintains a fair intergenerational balance. This requires an analysis of the current degree of generational transfer, how this has changed over time, and factors to consider into the future.

Figure 3: Summary of per capita government spending and taxation by age



1.4 Our approach

Details on our technical approach to estimating and subdividing expenditure and income are included in the Appendix, and in our main update report for the AAIEI. In brief:

- Key sources are the National Transfer Accounts (NTA), the TTPI paper and the Household, Income and Labour Dynamics in Australia (HILDA) survey.
- We look at total government spending across all levels of government, including transfers (e.g. income support payments) and direct spending (e.g. provision of public hospitals and Medicare spending).
- Government taxation estimates are relatively broad, and reconcile relatively well with total revenue excluding dividends, interest and sale of goods and services.
- Income is the broad Haig-Simons measure, which includes recognition of capital gains and imputed rent. This broader definition is useful (in that it captures wealth and value not covered in standard income studies), but care is needed – income related to capital gains and imputed rent is not as readily usable (liquid) as cash-based income measures.
- A significant methodological difference to the TTPI paper is we allocate government expenditure to children directly, rather than their parents. This is more instructive for understanding the fiscal cycle over all ages, but both approaches have relative strengths.
- All figures are in December 2025 dollars.

There are some limitations to our work, mainly related to data availability (and so common to similar analyses). The largest limitation is that recent policy changes will only be partly reflected in the results, as we capture aggregate changes (up to and including the 2024-25 Budget), but the allocation to age weights is less up to date (e.g. if recent increases to education spending focuses disproportionately on specific ages, this will not be reflected).



2

How do Spending, Taxation and Income Vary by Age?

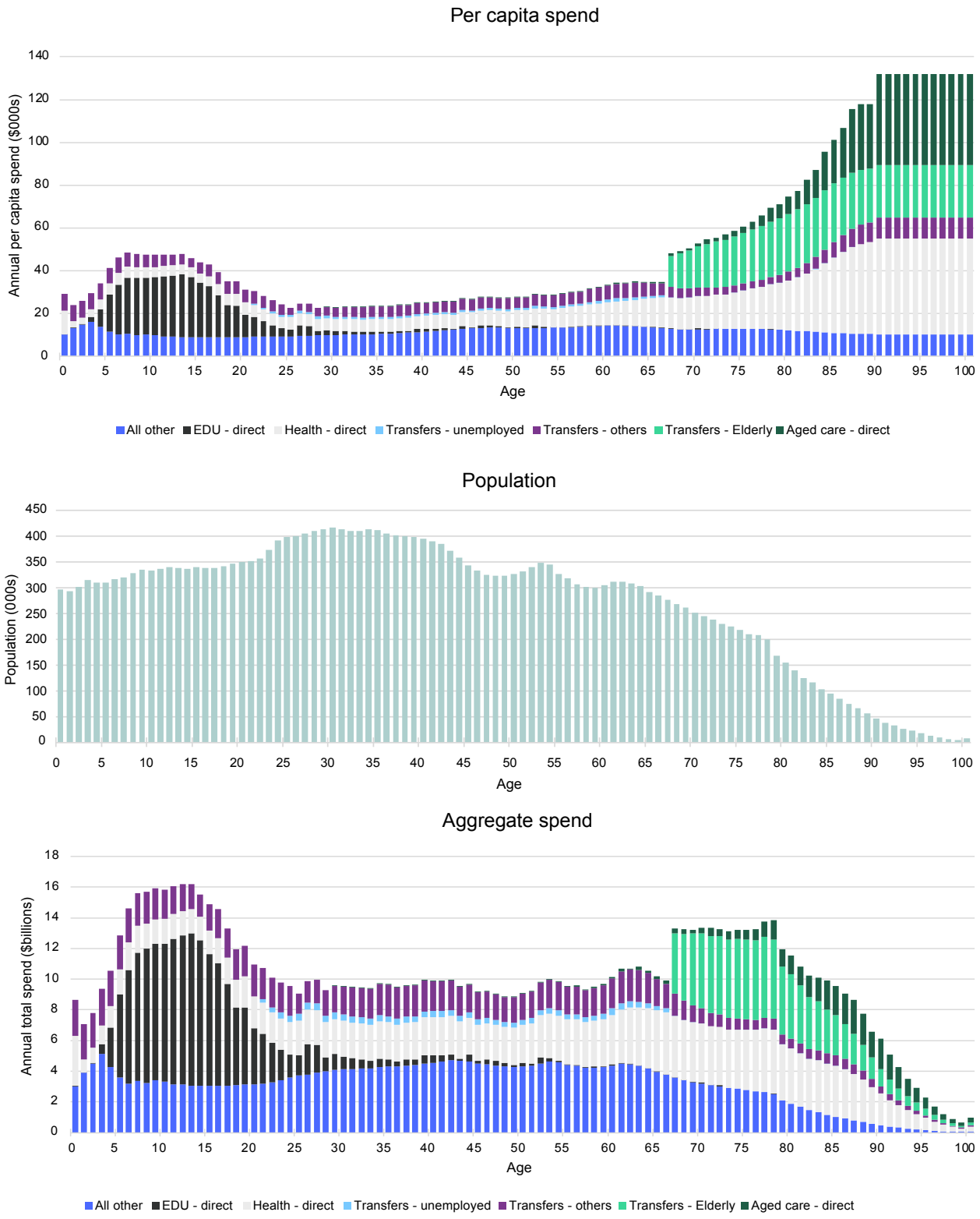


2.1 Government spending

Total government spending was about $1,020 billion in 2024-25, corresponding to $37,000 per person. This varies greatly by age, and per capita spending by age is summarised in Figure 4. Per capita spending is split into the following components (see Section 6 for further detail):

- "Aged care – direct" – Aged care direct spending
- "Transfers – elderly" – Primarily Age Pension payments
- "Transfers – others" – Other categories of transfer, dominated by family payments (e.g. Family Tax Benefit) and Disability Support Pension
- "Transfers – unemployed" – Transfers related to unemployment benefits
- "EDU – direct" – Direct spending on education
- "Health – direct" – Direct spending on health and disability which includes NDIS spending
- "All other" – Spending categories that typically do not vary by age, such as general public services, defence, public order and safety, and transport.

Figure 4: Summary of government spending by age, per capita and total



The charts generate some immediate observations:

- The per capita shape has a natural 'U' shape, with higher spending on children (driven by high amounts of education spending) and even higher levels of spending on the elderly (driven by growth in health spending, plus additional components for Age Pension and aged care spending). We estimate annual spending averages about $41,000 per child, $23,000 per person in their 30s, and $93,000 per person in their 80s. This final increase reflects that health care costs rise steadily across an average person's lifespan, apart from an initial modest spike at age zero.
- The aggregate picture is markedly different, since the Australian population is not even across all ages; deaths for older Australians mean there are relatively few aged above 90 where expenditure is highest. The 'U' shape in the aggregate plot across the population is more even, with Age Pension and aged care costs not as dominant. We find aggregate government spending peaks across 6-16 year-olds (and is highest for 13-year-olds), reflecting a combination of high education spending per capita and the larger number of people at these ages compared with older age groups.

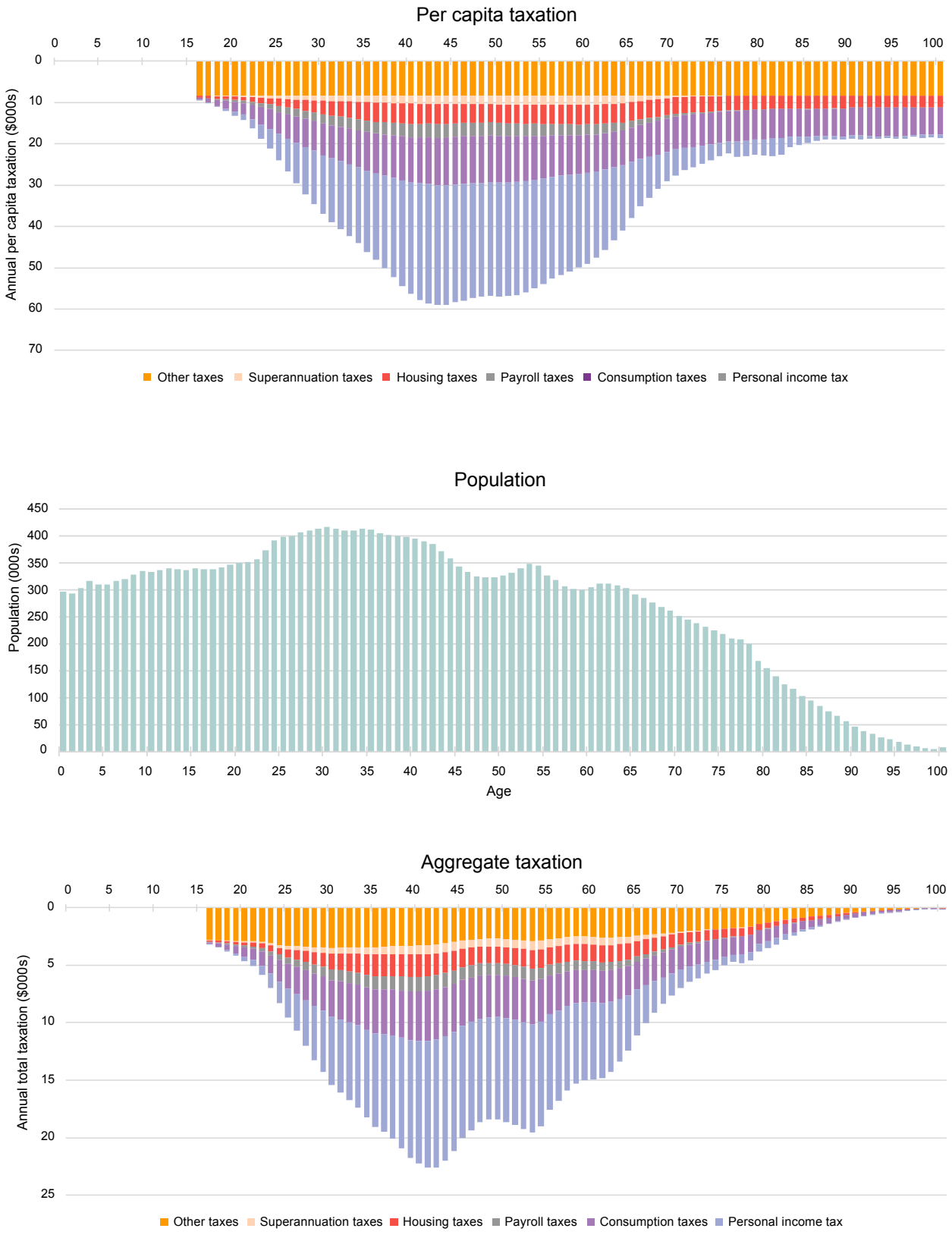
2.2 Government taxation

Taxation levels by age are shown in Figure 5. We track taxation for those age 16 and over (although we only model income from age 20 and over, consistent with the TTPI paper). Figure 5 shows there are negligible contributions by younger ages. Taxation patterns have the opposite shape to the spend pattern, with taxation payments largest for people of working age – driven by income, payroll and housing tax patterns. Consumption taxes are more evenly distributed. The 'Other Taxes' component does not align as naturally with age and is set equal across ages by assumption. We see:

- Australia's reliance on income taxes (which includes capital gains tax) over other forms of taxation is clear – it is roughly double the contribution from each of 'Consumption taxes' (including the GST) and 'Other Taxes' (which includes corporations tax). Per capita income taxes fall most heavily on those aged 30 to 65, and we discuss the demographic implications of this in Section 4.
- While income and payroll taxes obviously should align with those working, it is noteworthy that superannuation and housing taxes are more focused on working-age people, even though wealth from these components may continue to accumulate at older ages. In the case of housing, the emphasis on stamp duty when people are buying property occurs more frequently and at higher values during working ages aligned with changes in family and household structures. Superannuation taxes are collected at the contribution and accumulation phases, which also align more with working-age people.
- The story is similar at the aggregate level, after population adjustment (the bottom chart of Figure 5). The contribution by older people shrinks in line with lower populations, and bumps in the population and aggregate taxation curves are also evident.



Figure 5: Summary of government taxation by age, per capita and total



2.3 Combining tax and spending – generational transfers

2.3.1 Overall generational transfers

Adding together the figures of Sections 2.1 and 2.2 gives the net tax and transfer at each age, shown as the black line on Figure 6.

2.3.2 How does the picture change allowing for mortality?

One might attempt to 'sum up' the net tax and spending of Figure 6 to gauge whether this cross-sectional view of government spending is balanced over the lifecycle. However, straight addition is incorrect since most people do not live to age 100. Instead, we must adjust the age curves for mortality effects, which we do in Figure 7 – these are the same amounts as Figure 6, but multiplied by the probability that a notional Australian is alive.

The figure shows that, for a notional Australian, total government spending is $3.4 million over the life course, and total tax is $2.5 million. This per capita view shows an overall bias towards spending – the green bars (taxes) in Figure 7 total only about 73% of the orange bars (spending). We estimate this would need to be in the 85-90% range to be budget neutral after allowing for other sources of government income. If, hypothetically, Australia was a closed population with static mortality, this would correspond to long-term structural deficits in the hundreds of billions per year.

Figure 6: Combined view of government transfer and taxation by age, per capita

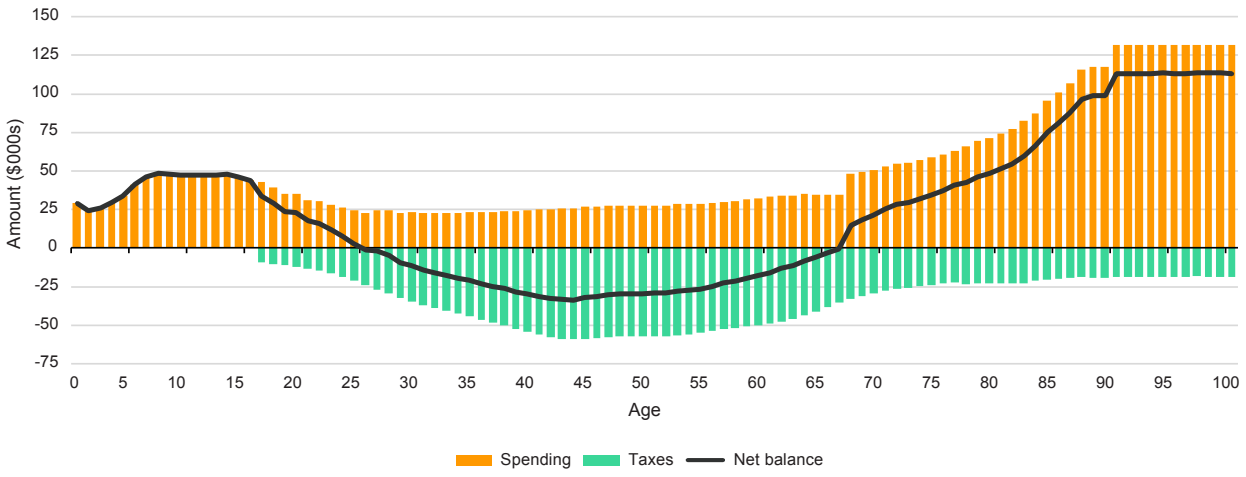
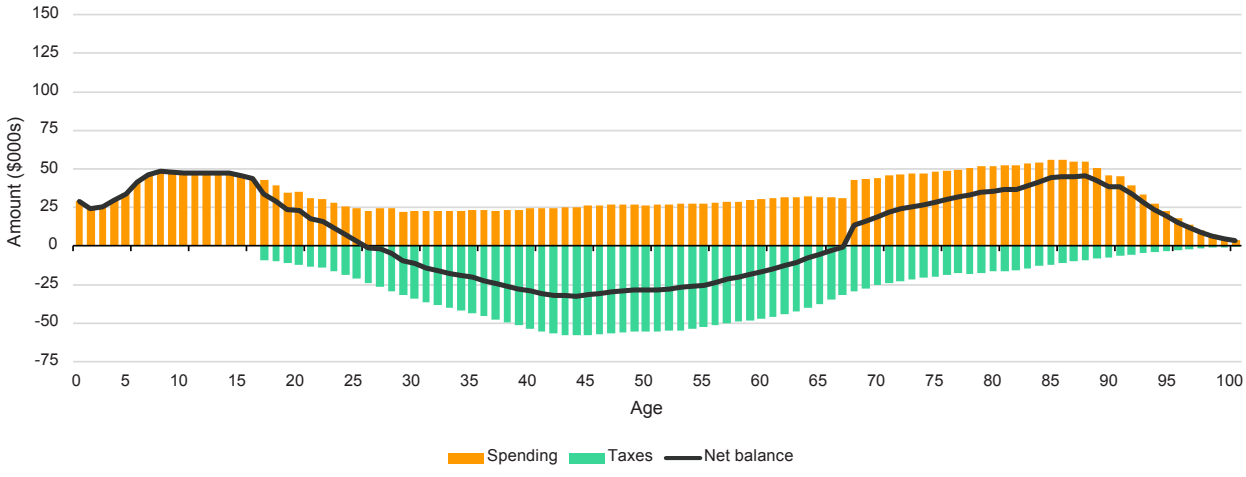


Figure 7: Combined view of government spending and taxation per capita, with mortality adjustment

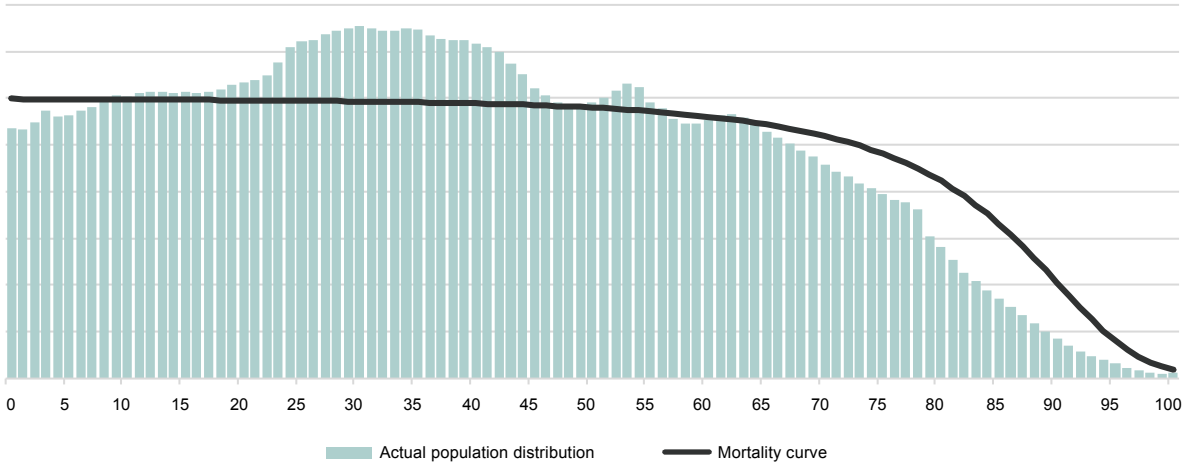


Of course, the Australian population is not static:

- Australia has relatively high net migration, focused on younger people. This increases the proportion of the population in the 30-65 age groups where taxes are larger than spending. Many of these are temporary migrants – about 10% of the Australian population.
- Historical mortality rates have been higher, with a more pronounced impact at older ages. This means we have fewer older people today than if current mortality had always applied.
- There remains an ongoing demographic dividend related to fertility rates being greater than the replacement rate up to around 1975. In the population graphs in Figure 4 and Figure 5 this is the bump in the population curve at ages 20-45.

These effects mean we still have, on balance, a population age distribution that is fiscally favourable, with more people in the 20-45 age range and fewer in the 65-100 age range than a pure mortality curve would imply. This is shown in Figure 8. In short, Millennials are providing significant balance to the budget.

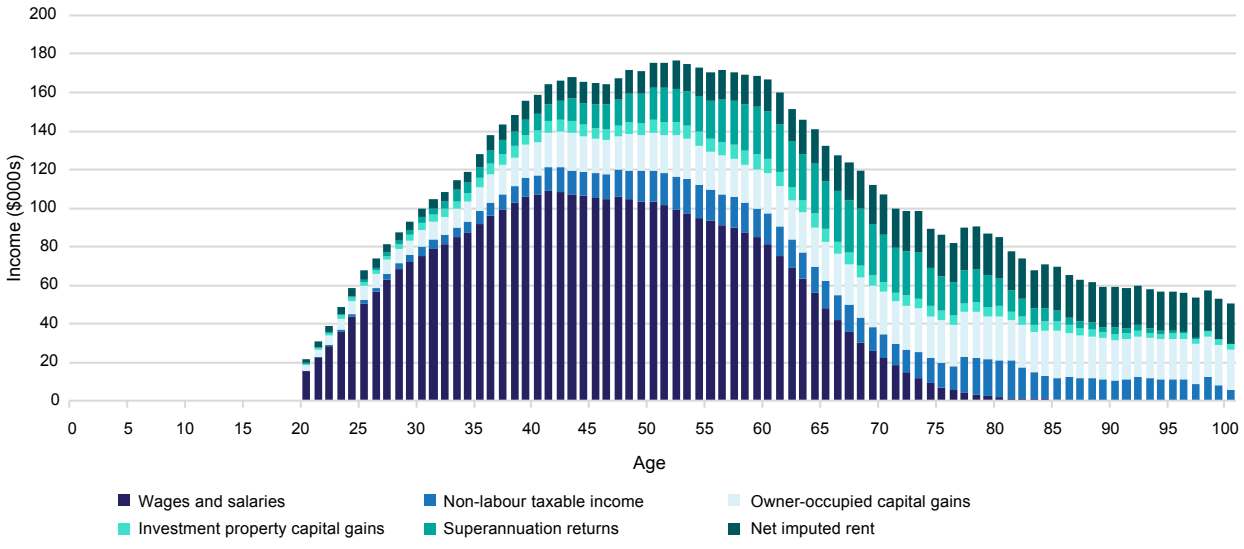
Figure 8: Population age distribution of Australia. The mortality curve is the implied distribution for a closed population with static mortality rates and fertility rates exactly at replacement rates



2.4 The impact of tax and spending on income

It is hard to judge the appropriateness of government tax and spending across ages without also considering income by age – age groups with higher incomes will need less support, all else equal. Figure 9 shows 'gross' income (our broader definition that includes capital gains and imputed rent) by age, before the impacts of government taxes and spending. The gross income curve is humped, and is highest for ages 40 to 65, peaking at age 52.

Figure 9: Gross income per person by age



The transition from wages and salaries to other forms of private income is the dominant story in the figure. At age 30 wages and salaries are $75,000 per person, and this represents three quarters of total income for that age group. At age 61 a similar amount of money is earned as wages and salaries, but this represents only 47% of the total; other components provide an additional $85,000 of income in various forms. By age 71 total private income is the same as those at age 30, but wages and salaries are only a fifth of the total.

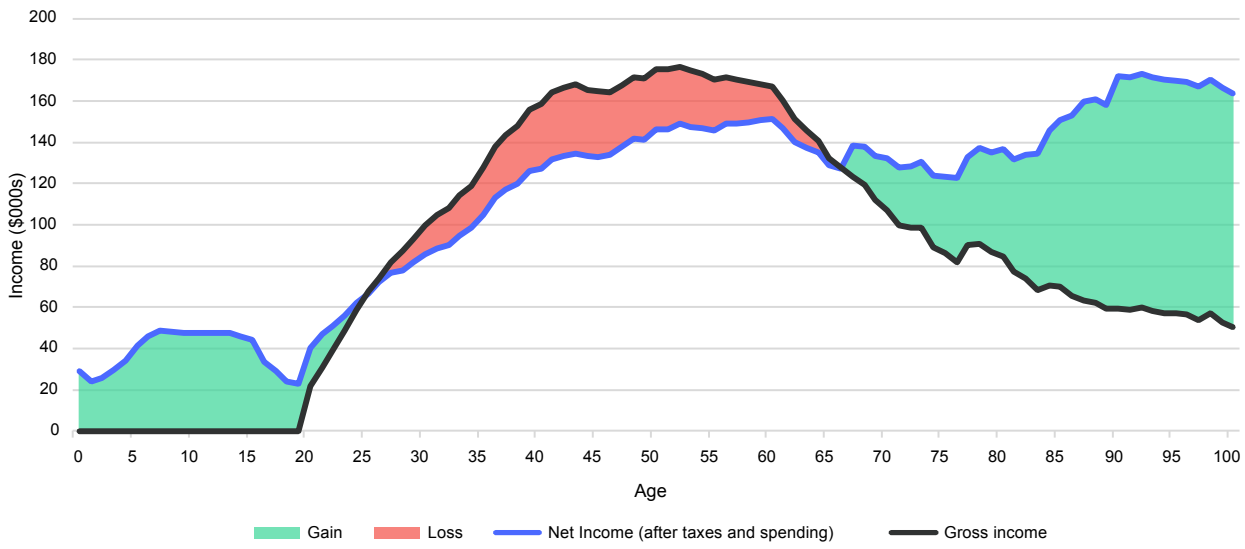
Figure 10 shows the net income picture, where gross income is modified by the net tax and spending results of Section 2.3. The blue line is the net result, with green areas indicating boosts (government spending and transfers greater than taxation) and light red areas indicating reductions (tax paid greater than government spending and transfers received).

The most striking part of the results in Figure 10 is that **age groups with very similar gross income end up with very different levels of net income.** An average 30-year-old has total gross income of $100,000, which reduces to $85,700 net because the tax paid more than outweighs any direct spending and income transfers they receive from government. In contrast, an average 71-year-old has the same total gross income of $100,000 which increases to $128,100 net because the direct spending and income transfers they receive from government more than offset tax paid.

This very large discrepancy of $42,000 partly reflects need (older people have higher healthcare needs leading to higher direct healthcare spend from government) but mainly reflects the differences in eligibility for benefits and application of taxation:

- Age Pension receipt is relatively broad (at full or part rate), providing extra income to older people. Further, the means testing for Age Pension is more generous than that for government payments to working-age people like JobSeeker.
- There is significantly lower taxation on capital gains, superannuation returns, and net imputed rent.

Figure 10: Net income per person by age, after the impact of government taxation and spending



3

How have Taxes and Transfers Changed Over Time?



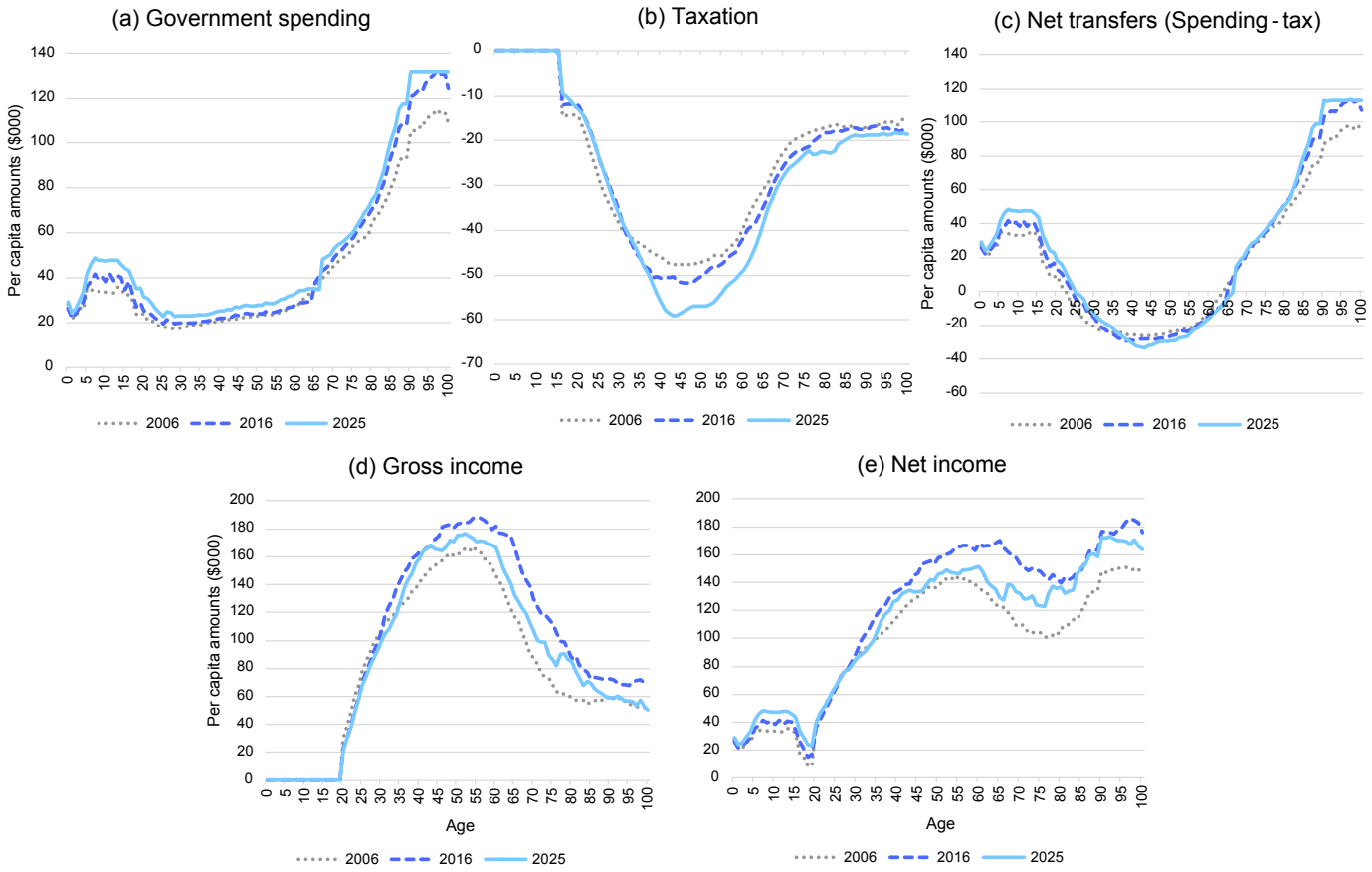
3.1 Main estimates of decadal change

We have extracted government spending for three years in our index range (2005-06, 2015-16, 2024-25) and have included income and tax estimates from the TTPI data. There are multiple competing factors driving change over time, including the variability of capital gains over time on the income side. All numbers are in December 2025 dollar values, so any changes are real.

Examining the change over time, we observe:

- Government spending (panel a) has trended higher across most age groups. The change in the Age Pension eligibility age sees a slight 'kink' around 65, but otherwise substantive increases across the whole curve. This growth comes in different sectors by age; education spending is up for the young, NDIS has added to spending across all people up to age 65 (and to some extent beyond), and aged care spending is driving increases for older people.
- The largest per capita increases are in the 6-17 age group (driven by school-age education spending) at around $13,000 more per person over the two decades, and the 80+ age groups (driven by health and aged care spending) at $15,000-$25,000.
- Taxes (panel b) have also increased but not as much as spending; our estimates have tax increases equalling around 70% of spending increases. In contrast to spending, tax increases have not been broadly distributed, falling largely on the 40-65 age group (~$10,000 higher tax over two decades) primarily through additional income taxes. For a hypothetical person with a life course as shown in the figures, the share of total tax paid between ages 30 and 64 has increased from 60% to 62% over the life course. This shortfall is in addition to other challenges, such as the demographic consequences of an ageing population, as the relative size of this 45-60 age group falls (see Section 4).
- Gross income (panel d) has not increased substantially for people aged 32 and below. In contrast, older people have on average seen stronger growth in income, including large gains in asset values such as housing and superannuation. Even when focusing only on wages and salaries, the pattern is similar – income growth has been more pronounced for older age groups, while younger people have seen relatively little change.
- The combined effect is visible in the net income chart (panel e) – higher income and receipt of more spending means that older people have had material gains per person. In contrast, **people aged 20 to 30 are notable as the only age group not to benefit in net income over the past two decades.**

Figure 11: Change over time in generational spending, taxation and incomes



3.2 Alignment with wealth

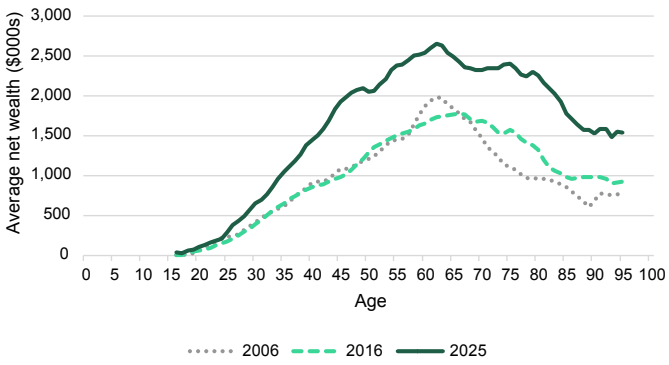
Income related to capital gains and imputed wealth have grown in part because the value of the underlying assets has grown. This effect has continued in the past decade where housing and equities have posted strong returns (in the range of 8%-10% p.a. nominal[i]). Household wealth by age, estimated from HILDA, is shown in Figure 12. These increases in net wealth advantage those already holding assets, which tend to be older Australians. However, these averages mask substantial variation in wealth within age groups; a more detailed view of this variability for select age groups is provided in our main report.

These trends are closely linked to structural changes over the past two decades. Australia's superannuation system has continued to mature, with compulsory contributions increasing from 9% in 2000 to 12% by 1 July 2025. Superannuation balances at retirement have grown materially as historical increases have washed through and will continue to increase as recent increases affect accumulation. At the same time, strong growth in house prices has contributed to rising household wealth, with gains accruing to those already holding such assets. Together, these factors have contributed to a substantial increase in wealth accumulation for older Australians.

The impact for longer-term wealth accumulation for younger people is unclear. While there is some evidence that wealth accumulation trends remain intact[6], it is also true that:

- Exclusion from (or delayed entry into) home ownership may reduce the opportunity for asset accumulation for many.
- There are also doubts that long-term asset returns can outpace incomes indefinitely (particularly for house prices), meaning that younger people may not experience some of the accelerated gains previous age groups have.

Figure 12: Per household average real net wealth by age, smoothed



Source: HILDA, with asset inflation factors applied to the latest available year (2022). Values in Dec-2025 dollars.

Wealth accumulation is a natural part of the lifecycle but becomes problematic when asset prices inflate at much higher rates than labour incomes, distorting this accumulation; for example, if it means there are unreasonable barriers to the housing market for those unable to draw on the 'Bank of Mum and Dad'. Similarly, a retirement income system should encourage appropriate drawing down of this wealth in retirement.

Wealth accumulation also has implications for standards of living in the retirement phase – in addition to the incomes estimated above, older Australians with wealth are able to draw down on it, further augmenting consumption.

i ABS's mean price of residential dwellings has increased at a compound rate of 7.8% p.a. over 10 years to September 2025. S&P has total returns for the All Ordinaries Index over 10 years to March 2026 as 9.5% p.a.

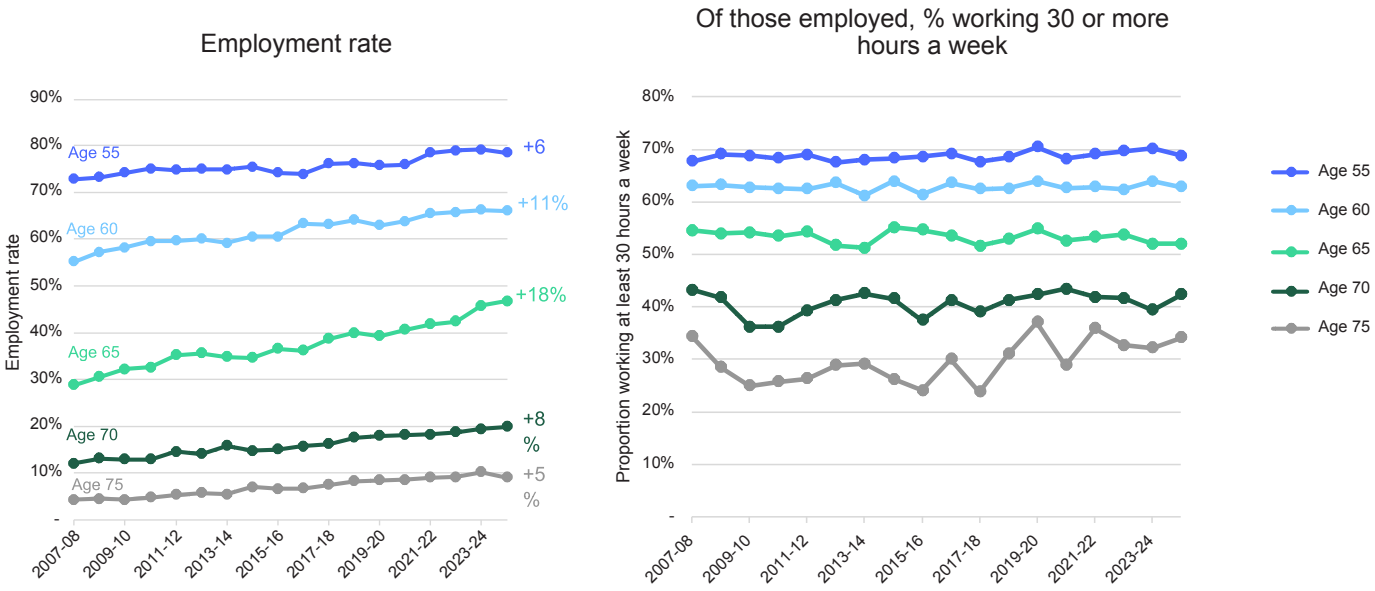
3.3 Workforce participation of older Australians

One important trend related to incomes for older Australians is the rising rate of employment. Some of this is consistent with policy design (raising the Age Pension eligibility age from 65 to 67), but substantial increases are visible at ages above 67 too – see Figure 13.
The proportion of people age 70 who are employed has risen 8 percentage points over the 17 years shown, and for age 75 it has more than doubled. The proportion of employed persons at each age working at least 30 hours a week has been broadly stable over this time, so it is not a case of the extra employment being skewed to low hours.

There are different ways to interpret the trend, although we take an optimistic one that people are choosing to work longer because they have greater ability and opportunity to. The counterargument is that cost of living pressures are forcing people to work past retirement age.

One important consequence is commentary about fiscal sustainability, which is often studied using an old-age dependency ratio of people over 65 compared to workers aged 15-64. Figure 13 shows this is a less meaningful construct; if we are in a situation where nearly half of people age 65 are working, then a dependency ratio measure needs to be tailored to reflect these higher employment rates. Recent iterations of the IGR include a modified dependency ratio for this reason.

Figure 13: Employment rates for selected ages



Source: ABS labour force statistics. Three-year age bands used for stability (i.e. 55 result is the average of 54 to 56).

4

How might Taxes and Transfers Change into the Future?



4.1 Baseline mechanical projection

To understand the implications of current policy settings, we model a 10-year mechanical projection of our 2025 results. We term this 'mechanical' because we assume most components are fixed (rather than allowing for the impact of known, planned or likely policy changes, and other evolution in the economy) and only allow a small number of things to change:

- **Demographic** – allowing the number of people at each age to evolve in line with ABS population predictions. This is intended to be the main driver of results, recognising the importance of demographic change along the tax and spending curves.
- **Employment rates** – allowing employment rates to continue to increase at rates seen over the past 10 years for the 65–80-year-old cohort, with average real income unchanged. For 65-year-olds this rate is about 1 percentage point per year, and about half a percentage point for people aged 70. Above age 80 we assume a 13% per year exponential decay on employment rates (for the purpose of calculating modified dependency ratios). We also allow for a proportionate increase in personal income tax paid by the 65-80 age group.
- **NDIS spending** – allowing for a tightening in participant numbers to reflect recent government announcements to curb growth[7,8,9], with a recognition of a changing age profile. We allow for this as it represents a large driver of observed increase in government spending and existing weights would not well handle the forecast changes.
- **Capital gains** – assume that capital gains income grows at 3% above wages/CPI, and that related housing and superannuation taxes grow similarly. While sustained divergence between asset (particularly property) prices and wage growth would not be expected over the long term, this reflects a reasonable estimate of the gap over the projection period and sits below the rates seen in the past decade. We note that a higher rate would in many cases suggest a greater imbalance in wealth accumulation, and lower returns are also possible.

In particular, we do not allow for increasing income (and changes to personal income taxation), nor allow for government spending to change beyond NDIS-related changes. We also do not capture the cohort effects related to superannuation balances (including the washing through of the 12% guarantee), which is a relatively complex exercise. Effects such as income tax bracket creep may provide some natural protection for fiscal sustainability (in the absence of threshold changes or indexation) but we do not model these explicitly here.



Table 1: Actual and mechanically projected estimates for key demographic measures

Item	Description	Actual			Mechanical projection	
		2006	2016	2025	2030	2035
Demographic balance	Proportion of total adults who are aged over 65	17.1%	19.6%	22.1%	23.7%	24.8%
Demographic balance (2)	Proportion of total adults who are aged over 75	8.1%	8.5%	10.3%	11.5%	12.8%
Generational balance of taxation	Proportion of taxes raised from people aged 30 to 64	74.1%	73.8%	73.4%	72.0%	71.0%
Generational balance of gross income	Proportion of gross income to people over 65	11.6%	17.3%	17.8%	19.8%	21.3%
Generational balance of net income	Proportion of net income & services to people over 65	16.7%	22.3%	23.7%	26.1%	27.9%
Generational balance of government spending	Proportion of government spending to people over 65	25.7%	29.6%	31.0%	34.0%	36.4%
Fiscal sustainability	Proportion of aggregate spending funded by aggregate taxation (excluding non-tax government revenue – around 10% of total)	97.7%	90.6%	85.2%	85.8%	87.0%
Unmodified old-age dependency	Ratio of people over 65 to people aged 15-64 who are working	26.6%	31.8%	34.7%	38.0%	40.4%
Modified old-age dependency ratio	Ratio of people over 65 not working to people aged 15 to 80 who are working	23.9%	26.8%	27.9%	29.9%	31.2%

While not a comprehensive projection, the results are informative:

- The demographic shift, in the form of more older Australians, is visible in the first two measures. The proportion of people aged over 75 is expected to rise from 8% in 2006 to nearly 13% in 2035, while the proportion aged over 65 is expected to rise from 17% to 25% over the same period. This means Australia's population is shifting further towards those who, at a point in time, receive more in transfers and services than they pay in taxes.
- The share of taxes paid by people aged 30 to 64 (the group earlier identified as shouldering the bulk of tax increases) is expected to fall slightly, primarily due to more income tax being paid by people aged 65-80 under our mechanical assumptions (population and more employment). This factor is one that increases generational balance over the next decade. Real wage increases and bracket creep effects for personal income tax amongst those aged 30 to 64 may offset this trend in practice. Differences between actual migration and the assumptions underlying the population projection would also affect this outcome.
- The proportion of gross income going to people aged 65 and over is expected to increase, which mainly reflects the demographic shift of more people into that age bracket. The higher government expenditure at older ages means that the increase is slightly faster for the net income results. Note the large jump between 2006 and 2016 relates to stronger capital gain income estimates.
- The trend in the fiscal sustainability measure is neutral (but in reality will be affected mostly by how wage growth compares to government spending growth). Assuming current tax and spending levels remain largely unchanged, the proportion of expenditure covered by taxes rises to 87% over the next decade. The shift is less than that seen over the past decade, where real spending increases have been material. We remind readers that this relates to **all** government spending, not just the Commonwealth budget. This, perhaps surprising result, relies on the combination of zero real growth in government spending per person by age (a very strong assumption), plus the benefits of higher employment rates at older ages and net migration.
- The last two lines show the difference between a traditional dependency ratio calculation versus one that adjusts for employment among older Australians; the traditional measure sees a 14 percentage point movement between 2006 and 2035, whereas the change is only 7 points for a more refined measure. While both indicate a growing dependency on the working-age population, it is important to note that migration rates play a significant role in shaping the size of that population.

The projection shows that demographic shifts continue to be significant for fiscal sustainability and generational balance, but there are some factors ameliorating headline trends.

The main dimension missing from the projection is productivity growth, and the extent to which this is reflected in the public sector as well as the private sector. Projecting productivity growth is challenging, given both its importance to overall economic growth and its lower rate in recent years (and muted translation of these gains into wage benefits, largely caused by a decoupling in the mining and agriculture sectors[10]). Accelerated productivity growth, whether from AI-related technologies or broader sources, can give more economic headroom to fund spending related to demographic shifts. However, this headroom can be automatically absorbed into higher government spending – for example, the Age Pension rate is tied to average wages.

4.2 Scenario analysis

Several scenarios for future tax and transfer settings were considered in addition to the main projection results above. The main changes resulting from each scenario are as follows:

- **Higher NDIS cost growth** – Assuming growth in participants and total costs in line with forecasts from the 2024-25 Annual Financial Sustainability Report, this results in a $46 billion increase in government spending by 2035, reducing the proportion of aggregate spending funded by aggregate taxation by 3.2 percentage points (from 87.0% to 83.8%).
- **Lower population growth** – Assuming lower levels of migration and fertility consistent with the ABS 'Series C' projection, the primary impact on the population distribution is fewer children and lower child-related spending. This in turn increases the proportion of aggregate spending funded by aggregate taxation by 0.6 percentage points (from 87.0% to 87.6%).
- **Higher population growth** – Using ABS's 'Series A' scenario with higher fertility and migration, the shortfall between aggregate taxation and spending widens by 0.9 percentage points (from 87.0% to 86.1%). This reflects the increase in aggregate spending on children (due to higher fertility rates) outweighing the fiscal benefits of greater migration.
- **Additional growth in Age Pension payments** – Assuming annual growth exceeding CPI by 1%, this increases aggregate spending in 2035 by about $13 billion and raises the share of total spending which is allocated to those over 65 by 0.7 percentage points to 37.1%. The proportion of aggregate spending funded by aggregate taxation in 2035 falls by 1 percentage point (from 87.0% to 86.0%).

The population growth assumptions are interesting, as they show there are some medium-term benefits from falling fertility (less spending on children), which would obviously have implications longer-term in the form of accelerating the demographic shift to older ages.



5

Discussion and Policy Implications



There are a range of policy issues that speak to the generational balance explored in this report, which are grouped thematically below.

We recognise the challenges of substantive policy reform in the system of tax, transfer and spending, particularly reforms that affect those in the retirement phase. Some of these concerns are legitimate – for instance, people have made decisions and planned for retirements assuming a certain set of policy settings and changes. At the same time, there is recognition that aspects of the system may be misaligned to emerging patterns of wealth and income. Our hope is that evidence-based discussion will helpfully aid the direction of reform, particularly in areas where generational gaps are emerging.

Responding to the higher income and wealth of older Australians

The TTPI paper authors sum up the situation neatly – "As Australian retirees have accumulated significant wealth and associated capital income, the Australian tax and transfer system has not adjusted"[11]. Over time, superannuation savings, greater participation in the workforce, plus income through capital gains and imputed rents have meant that many older Australians enjoy significant private income.

This is then compounded by current policy settings for tax and spend. We have a system where similar incomes are treated very differently due to a combination of age and income source; a 71-year-old earning $100,000 a year (on the broader Haig-Simons definition of income, which includes imputed rent) is much better off (in terms of net income) than a 30-year-old on the same amount of gross income.

The global statements above obviously must be nuanced by income and wealth not being even within age groups. As we observe in our main AAIEI report, one of the highest poverty rates is for Age Pensioners who do not own their own property. This means that appropriately targeted support through the Age Pension (and rental assistance) remains very important.

The natural policy response is to consider changes to the settings that provide the more favourable treatment of older Australians with higher income and wealth. This includes:

- **Reviewing age-based tax and income support offsets** – Two current employment incentives for older Australians are the Seniors and Pensioners Tax Offset (SAPTO) and the Work Bonus. Comparable offsets are much smaller for working-age Australians. Given the increasing rates of employment and high effective incomes observed, the justification for such incentives is weaker.
- **Superannuation taxation settings and Age Pension assets test** – Despite recent reforms to superannuation taxes, there remain questions about the overall balance of concession levels. The treatment of the family home (as being exempt from the Age Pension assets test) continues to be a point of inequity among Age Pensioners that could be gradually addressed.

Full references and broader discussion are included in our main index update, Section 4.

Broadening the tax base – including by age

One striking result from the curves of government taxation is the heavy reliance on people aged 30 to 65. With a larger proportion of the population moving into the over-65 category, it may not be reasonable to assume the burden of tax increases should continue to fall on the 30-65 group. There are some areas of tax reform that could help spread the tax burden across the curve:

- **GST collection** – Consumption taxes (particularly the GST) which fall at the point of private spending rather than earning would better spread collections across different ages.
- **Taxation of investment income** – The differing treatment of different forms of investment income has long been identified by economists as problematic, including the Henry review[12], with a range of views on specific reforms. Bank interest, dividends, share capital gains and property returns (particularly primary residential property) are all taxed differently. Components with relatively light taxation are generally favourable to older people who receive a greater share of such income. Income through discretionary trusts could also be taxed differently to regular personal income.

  The measures announced in the 2026-27 Budget, subject to final design informed by consultation and legislative passage, partly address this, with the tightening of capital gains taxes, limits to negative gearing arrangements and minimum tax rates for discretionary trusts. Such changes are obviously not without controversy, with impacts on business founders attracting particular attention. More far-reaching changes could include dual-income tax systems where investment income is taxed consistently but in a different bucket to wages income[13].
- **Land and wealth taxes** – Other options could include tax measures on wealth, in various forms. A broad-based land tax is often recommended by economists. In addition to the well-documented efficiency benefits, a shift to a broad-based land tax would also shift the tax base towards older Australians who have benefited significantly from increased house prices and away from younger Australians trying to buy their first house. Wealth and inheritance taxes are harder to implement effectively but could be mechanisms for addressing overly light taxation of past wealth accumulation. The 17% tax on superannuation death benefits paid to non-dependent beneficiaries is a wealth tax that already applies in Australia, although given benefits can be transferred tax-free prior to death this is often considered in estate planning and raises questions of equity[14].

Other options for tax reform exist, addressing other domains of intergenerational equity. These were raised in our main index update report.

Overall fiscal discipline

The comments above reflect how there are opportunities to respond on the tax side. We also recognise that overall fiscal balance includes discipline on the spending side. This includes areas of current high growth (such as the NDIS – see Ranjan and Lowe, 2023[15]). The results shown in our scenario analysis allow for some growth (related to people ageing) but assume the per capita spending for a given age does not grow (apart from our NDIS allowances). This would imply keeping real spending growth to about 1.6% per year, significantly below the 3.0% average we estimate between 2006 and 2025.

Supporting asset accumulation at younger ages

Given the importance of home ownership in asset accumulation and its ability to provide a stronger connection to community, ensuring younger Australians can choose to enter the housing market remains a policy priority. Alan Kohler's recent Quarterly Essay[16] argues for a suite of measures with an aim to minimise growth in property prices over an extended period of time to aid affordability. Our main index report discusses some ideas related to housing affordability, including encouraging housing supply, considering the relationship between net migration and home construction capacity, and encouraging growth in regional cities.

Opportunities for better data collection

Our research makes the best use of available data, but there are gaps that would benefit from improved data:

- **Inheritances, gifts and trust income** – We know surprisingly little about inheritances and wealth transfers. HILDA includes questions on gifts and inheritances, but these tend to be small in number and accuracy is difficult to verify. A Grattan Institute report found a distribution by manually looking at Victorian probate reports in 2016, which found a median of $500,000 and a mean of $773,000[17]. Better data would inform an understanding of inequalities, as well as the viability of potential tax reforms. Likewise, the nature and size of discretionary trusts is poorly understood in Australia and would benefit from better data.
- **'The Bank of Mum and Dad'** – Relatedly, good information on the frequency and size of parental assistance for homebuyers is valuable for understanding barriers to the housing market and issues of intergenerational inequality.
- **Household-level budgets** – It is striking that our expenditure estimates (and those of others) rely on the 2015-16 ABS Household Expenditure Survey. The ABS's Survey of Income and Housing has similarly not been updated since 2017-18. This means there are up to 10 years of policy evolution that is not properly captured in the modelling. Examples include the roll out of home care packages, the NDIS and increases to the childcare subsidy.



6. Appendix

6.1.1 Definitions

Government spending

Our estimates of government spending use Government Finance Statistics[18] allocated to ages using the NTA weights. Total spending in 2024-25 by governments (of all levels), covering both direct spending and financial transfers, was just over a trillion dollars (with 2024-25 being the first year it crossed that threshold). For this report we have divided government spending into seven categories:

- Direct spending on education ('education consumption').
- Direct spending on health and disability ('health consumption') – this includes NDIS spending.
- Transfers to the elderly (dominated by the Age Pension).
- Transfers related to unemployment benefits (including those on Jobseeker but with partial capacity to work or no mutual obligations due to sickness).
- All other transfers – these are dominated by family payments (such as the Family Tax Benefit) and the Disability Support Pension.
- Aged care direct spending.
- All other government spending – Key categories include general public services, defence, public order and safety, and transport. While these are significant areas of spending, many do not naturally vary by age and so are evenly allocated per capita across the population.

Government taxation

Government taxation, under our setup, totals about $870 billion in 2024-25. This is not quite all of government revenue (which was about $1,007 billion in 2024-25 in Dec-25 dollars), but reconciles relatively well with revenue excluding dividends, interest and sale of goods and services, which are material contributors to overall government revenue. We rely on the TTPI paper and follow their approach to allocate taxation revenue into:

- Personal income tax – representing about 40% of the total in 2024-25.
- Consumption taxes – including the GST, wholesale sales taxes, and excises on alcohol, fuel and tobacco.
- Payroll taxes.
- Housing taxes – including stamp duty, land taxes and council rates.
- Superannuation taxes – for both contributions and earnings.
- Other taxes – dominated by corporations tax and resources royalties.

'Other taxes' have been evenly (per capita) allocated across people aged 16 to 100, noting there are alternative ways to make this allocation.

Private income

The report also discusses private income, allocated as per the TTPI paper into:

- Wages and salaries
- Non-labour taxable income
- Owner-occupied capital gains
- Investment property capital gains
- Superannuation returns
- Net imputed rent (the estimated financial benefit, or "hypothetical income," an owner-occupier receives from living in their own home rent-free).

These together form the relatively broad Haig-Simons income measure. We recognise not all sources of income are equal; for instance, the first two are typically what people think of as 'income' as it corresponds to regular cash in the bank. The broader view is important since the income from other sources are key to understanding generational impacts. For example, the housing divide is reflected in the capital gains for those that already own property, and the growth in superannuation returns is fundamental to understanding the change in incomes for older Australians. The most controversial inclusion is perhaps the net imputed rent, since this is an 'invisible' form of income; however it is still highly consequential – those who own their home outright and do not pay rent are in a very different income and expense situation compared to those exposed to market rental payments or mortgage repayments.

Our 2025 estimates are based on CPI-inflated estimates drawn from the 2018-19 to 2022-23 years of the HILDA survey. While simplistic, we note that the largest component (wages and salaries) has grown at a similar rate to the Consumer Price Index (CPI) over the period. Other components will have varied – we have not attempted to update capital gains and superannuation figures, even though these have been stronger than usual in the past few years and acknowledge this as a shortcoming.

6.1.2 Specific aspects of our approach

We have used a combination of existing research, survey data (primarily HILDA) and government statistics to construct estimates of government expenditure, government taxation, private income, and net wealth by age and over time. Our calculation of expenditure relies on the National Transfer Accounts (NTA) and our approach is described in detail in our main AAIEI update report.

We highlight some specific aspects of our approach:

- We have used 2024-25 as our main year of results, and express all figures in December 2025 dollar values to make them more current. For cases where the latest available data is prior to 2024-25 we have applied inflationary increases.
- Our expenditure estimates include manual adjustments for the NDIS, as this spending has increased rapidly and age weights would not be properly reflected in national accounts.
- We have adjusted the NTA weights for 2025 to remove Age Pension payments to people aged 65 and 66. The age weights draw on older data, so the policy change to eligibility from age 67 is not fully reflected without this adjustment being made.
- Our estimates in the main AAIEI update report did not split aged care out into a different spending category. We have implemented this additional split, given the strong age-specific impact combined with large growth in aged care spending over the past decade.
- The NTA have very large increases in per person aged care spending beyond age 90. We have capped this increase, noting that given the relatively small number of people in that age group, the results are not materially affected.
- In line with our main report, we have used the (older) 2009-10 NTA weights to inform the distribution of government spending in older years (we present 2005-06 in this report). Given ages 85 and older were aggregated in the 2009-10 NTA weights, the per capita spending figures for these ages were informed by the relative increases observed in 2015-16 which used the more recent NTA weights.
- Section 2.3 includes discussion of mortality impacts. Mortality rates are from the ABS (for the most recent 2022-2024 time period). We have taken a 51%-49% blend of male and female mortality rates at birth, consistent with existing rates[19].
- Population projections in Section 4 rely on growth rates in the ABS Series B populations, baselined to 2025 population estimates; while a little dated, they are sufficient for our purposes. Other specific assumptions related to the projection are covered in that section.

Further technical detail is included in the appendices in our main index report.

6.1.3 Limitations

We note several limitations to the work:

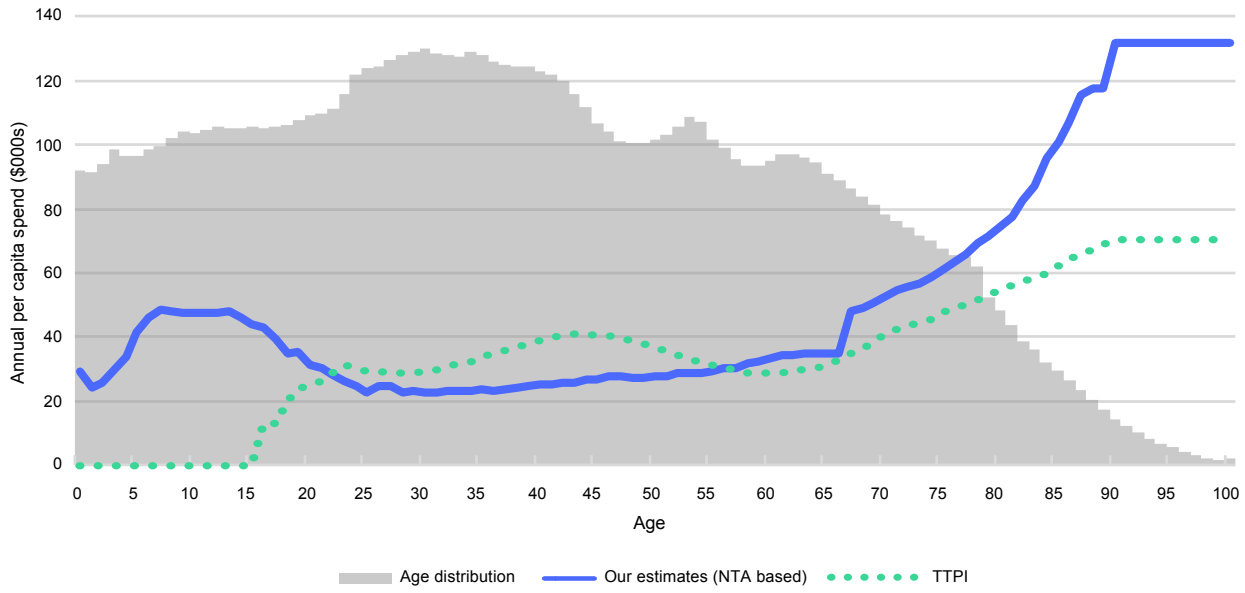
- Recent policy changes will only be partly reflected in the results – Our most recent expenditure results are drawn from the 2024-25 Budget, and subsequent policy changes are not reflected at all in the aggregates or weights. Slightly older policy changes (for example, changes occurring in 2022-23 or 2023-24) will be reflected in our aggregate figures (e.g. an increase in education spending) but not in the age-level weights (e.g. if the increase goes to 3-year-olds more than 4-year-olds). These limitations are inherent to the data available. Notably:
  - Increases to childcare subsidies over the past few years likely affected education age weights.
  - Superannuation tax changes passed in 2025 will have a small impact on taxation for older Australians not reflected in our numbers.
  - Income tax relief passed in 2024 ('Stage 3 tax cuts') are reflected by an aggregate income tax total that is consistent in aggregate, but to the extent the cuts affected different age groups disproportionately, this will not be reflected.
- The methodology does not allow direct calculation of budget surplus and deficits; since there are some government revenues separate to the taxation categories considered, there is not full symmetry. This is reflected in our commentary.

6.2 Comparison of spending to other estimates

We compare our estimate of total government spending by age to the TTPI paper introduced in Section 1.2 (see Figure 14). Overall, we regard the alignment as quite good, subject to two methodological points:

- We have chosen to look at government spending by intended target, which means that we allocate spending on children (NDIS, education, etc.) to those children. The TTPI paper allocates this to the parents (since they are the ones controlling the household finances). Both are legitimate alternatives. Our approach means we have nonzero spending under age 16 and correspondingly less spending for parents (typically aged 25 to 55). In this report we focus on the lifecycle of government spending, so view allocation to children as more instructive.
- We have a higher level of government spending from about 85 years of age onward. We understand the primary difference is methodological – our NTA-based estimates included explicit data on spending for people over age 85 (up to age 100, although we have capped at 90 in our calculations), whereas the data used for the TTPI paper was effectively capped at 85. Survey data responses are sparser for estimation at this end, and the NTA relies on survey data that is now a decade old, so there are genuine uncertainties around exact levels. In terms of what the difference represents, much of this relates to the distribution of aged care spending; this has grown rapidly (nearly doubling since the 2016 NTA estimates in real terms), and maintaining the same skew towards the very old leads to very high per capita spending at older ages (our blue line in Figure 14). Healthcare spending is also higher at very old ages, and this too has increased significantly.

Figure 14: Comparison of total government spending per capita to TTPI paper



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Actuaries Institute.



Actuaries Institute
ABN 69 000 423 656

Level 34, Australia Square
264 George Street, Sydney NSW 2000

T +61 (0) 2 9239 6100
E actuaries@actuaries.asn.au
W actuaries.asn.au

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