Association of Independent Retirees (A.I.R.) Ltd
ACN 102 164 385

Draft of Proposed 2011-12 Pre Budget Submission to the Australian Government

31st October 2010

INTRODUCTION

The Association of Independent Retirees (A.I.R.) is a fully volunteer, Australia wide not-for-profit organisation, whose major purpose is to represent this rapidly growing section of the Australian population at all levels of Government regarding the financial, health and social welfare needs of fully and partially self funded retirees.

- Our Association was formed in 1990
- We are the peak body representing all fully and partially self funded retirees in Australia
- Our members are active and involved members of the community who are vitally interested in their future and the future of Australia.
- We meet monthly at 73 branches across Australia.
- These branches are in both city and country locations in all states of Australia and in the ACT.
- At each branch meeting issues and related matters, that impact on our members and our future, are discussed.

Our Associations objective is to secure

> ***Recognition and equity for Australian residents who by their diligence and careful management fully or in part self fund their own future.***
>
> ***Equitable, economic, taxation and social environment outcomes that recognise and address the special issues faced by those who fully and partly self fund their future***.

A.I.R. commits to the principle that it should be made possible for all future retirees to fund the whole period of their retirement.

A.I.R. assists our members in maximising their life opportunities, social, health care and economic future

A.I.R. commits to educating the wider community (including political parties at all levels of Government) regarding the issues, concerns and needs of self funded retirees.

A.I.R. will oppose and seek to change policies and government legislation that threaten to reduce the standard of living and life style of our members and all self funded retirees.

COMMENTS ON THE 2010-11 BUDGET

- Despite some positive outcomes contained in the 2010-11 Federal Budget our Association's members had concerns with the lack of initiatives in this Budget that are needed by self funded retirees to maintain the quality and standard of retirement lifestyle that they, during their working life, have so carefully and diligently saved and invested to achieve.

- The part pension taper rate increased to 50c in the dollar from 40c, reducing the ability of a number of self funded retirees to obtain a part pension whilst at the same time reducing the amount of the part pension. Many of this group of self funded retirees have suffered large reductions in their assets because of the global financial crisis and were forced to take a part pension.

- Superannuation contribution rates were halved reducing the ability of people, working or retired to maintain themselves in retirement. Changes to the method of determining the effect of work in retirement on the age pension have reduced the incentive to work.

- The Commonwealth Seniors Health Card (CSHC) upper income eligibility threshold has not been indexed for many years nor was it increased in the last budget to reflect inflation.

- The Aged Care provisions were very welcome but we are concerned that significant further funding needs to be committed to do much more in the area of residential aged care to improve the situation for all self funded retirees

- Additional imposts impacting on self funded retirees arise from government policies which have created increases in the day to day living costs and indirectly with the costs of food and other essentials. Self funded retirees have no method of countering these costs and must then draw down more from their retirement asset base / superannuation / account based pension to offset these significant cost increases. This is continuing to be further exacerbated as the balance of the accounts from which they are drawing down from have been decimated by the global economic crises and are further declining over time due to these government policies. Over the past 2 – 3 years a significant number of previously fully self funded retirees have become part pension recipients due to the deteriorating of their retirement accounts from the combination of these two situations.

SUMMARY OF SUBMISSION

A.I.R has a number of major issues in the Aged Care, Health and Financial areas that we are seeking to have addressed by the Treasurer and Treasury in the 2011-12 Budget.

A full explanation of their impact and our recommendations for each of these issues are detailed in the following pages.

We also believe that within the Government there are some who do not appreciate that whilst some self funded retirees are high wealth individuals, the greater majority of self funded retirees and our members are ordinary Australians, former middle income earners and small business owners, who have worked hard to fund their retirement.

The Government states it is committed to and promotes the concept of individuals funding their own retirement yet at the same time we believe the Government is not doing enough to support current self funded retirees and this commitment. An example of this is with retirees with investments in frozen mortgage/property funds where the Government did not introduced any remedial action to lighten the burden in this circumstance, impacting both on the self funded retiree and the Government.

In the area of Aged Care A.I.R. members acknowledge that the Government is working towards building a national aged care system that will allow for seamless transition of care for older Australians, allowing for the move from basic care at home through to nursing home care as their care needs change. We also acknowledge that the Government has taken the first steps to reform by taking full policy and funding responsibility for aged care to ensure that the aged care system is equipped to meet the challenges of the future.

However, it is imperative that Government recognise and introduce measures now as there is much more that is needed to be done to improve aged care services to meet the current needs and shortfall in services.

A.I.R. supports the Government commissioning the Productivity Commission to undertake a full and comprehensive review of our aged care system and A.I.R. has made a very detailed submission to the Productive Commission on this. However, the challenge for the Government is to overcome NOW the inadequacies of the systems and confront the difficult challenge to deliver quality care in the framework of a financial model that those in the industry believe is broken and deteriorating quickly.

Based upon this we need the Productive Commission inquiry to be accelerated by the Government and once the nominated process of consultation has been completed, that the recommendations to improve and address the system's problems and inadequacies be quickly made public and adopted by the current Government

In our submission to the Productivity Commission A.I.R. stated clearly our concerns and our support for the recommendations contained in the National Aged Care Alliance (NACA) 2010-11 Pre Budget submission as a basis for the development of higher quality care through the aged care system

To add to this Access Economics, a leading economic consulting group stated in a research paper this year into "aspects of aged care and in particular to explore alternate models for funding" that was commissioned by National Seniors Australia, that there are three key messages that needed to be accepted by the Australian Government of:

1. The current aged care system is not working well, with quality of care declining over the past 5 years. As demand is growing, their view is that the Government's tinkering with the system is not a solution.
2. Significant investment in aged care is needed by the Government, particularly for new facilities and in developing a more skilled workforce to deliver aged care. Importantly they believe that the current system is not sustainable without higher taxes being levied – not an attractive policy option for anyone.
3. They believe that new ways of financing aged care by the Government are essential.

Specific issues that we request be addressed in the 2011-12 budget are:

1 ***Aged Care***:

Increased funding is needed for:

a. the aged care provided in private homes, community care and residential care facilities to ensure affordable, client directed appropriate quality care and accommodation.
b. enabling the Aged Care Industry to compete with the acute care sector in the employment and training of adequate and suitable staff.
c. the Aged Care Industry to provide improved information, education and awareness programs to assist with the transition process from home care to residential care, and across the aged care industry generally.
d. mental health care and dementia care to improve and increase research into dementia so as to reduce the number of people with dementia, to develop a dementia workforce strategy and promote greater understanding of dementia in the community.
e. carer support infrastructure and support services that are urgently in need of such additional funding and upgrading.

2 *Health:*

a) Single retirees over 65 years are discriminated against with the current threshold level of the Medicare and PBS safety nets. The PBS Safety Net thresholds for single retirees should be reduced to 60% of couples/families threshold level to correct this anomaly.
b) The Commonwealth Seniors Health Card upper threshold has not been indexed since 2001 and that the upper limits threshold of the CSHC should be indexed using the same calculation method and timetable as used for the Age Pension

3 ***Financial**:*

a) The GFC continues to impact on the superannuation fund balances of self funded retirees and the 50% reducing in the mandatory draw down that was introduced in 2008 and then continued in next 2 budgets should again be extend and included in the 2011-12 Budget
b) With the self funding of one's own retirement income there is a unique situation where many older self funded retirees who do not have or never had superannuation and invested for their retirement in income generating assets are being forced to sell assets at a rate greater than would have been expected, due increasingly to the impact of the GFC and pay Capital Gains Tax so as to maintain an annual income stream to live off and A.I.R. believe that the Government should introduce a specific scheme to support this specific group where:
    I. there be no capital gains tax payable from the sale of capital assets for this specific group only, until $80,000 taxable income in the taxation year is exceeded.
    II. averaging of this for 5 continuous years can be applied for and granted in exceptional circumstances for this specific group
    III. a specific time limited plan be established for this specific group to allow them to convert retirement funding assets into an approved account based pension or annuity with limited CGT on asset conversion up to $1 million.
c) That retirees should be able to contribute to and/or set up a new superannuation account and that the Government's "work test" for retirees for this is discriminatory, unnecessarily restrictive and should be removed.
d) That Commonwealth and Defence forces retiree pensions indexing methods are different and thus discriminates against this group of retiree when compared to the Aged Pension indexing method.

SPECIFIC ISSUES THAT A.I.R. REQUEST BE ADDRESSED IN THE 2011-12 BUDGET – Detailed Explanation and Rationale.

1 ***Aged Care**:*

Increased funding is needed for

a. the aged care provided in private homes, community care and residential care facilities to ensure affordable, client directed appropriate quality care and accommodation.
b. enabling the Aged Care Industry to compete with the acute care sector in the employment and training of adequate and suitable staff.
c. the Aged Care Industry to provide improved information, education and awareness programs to assist with the transition process from home care to residential care, and across the aged care industry generally.
d. mental health care and dementia care to improve and increase research into dementia so as to reduce the number of people with dementia, to develop a dementia workforce strategy and promote greater understanding of dementia in the community.
e. carer support infrastructure and support services that are urgently in need of such additional funding and upgrading.

A.I.R. believes that the Government need to provide now increased funding to reflect the real costs of delivering quality care and to enable aged people to have a choice of services including residential, as well as home care and community options. Additional funding for all these services, including Home and Community Care, is of the highest priority.

This is needed to ensure that older Australians can have access to a genuine choice of services in their own communities and homes which are readily available, affordable and client directed and in particular so that the Industry can:

(a) compete with the acute care arena in the training and employment of adequate and suitable staff and
(b) provide high quality health care and health amenities within Residential Aged Care Facilities

Additional funding is needed now for services include provision for optimal levels of continuing and recognised qualifications, training and development for all staff and volunteers in community and residential aged care.

Overall, the quality of aged care at any given time by an Aged Care institution is very much affected by the funding available. For many Residential Aged Care facilities there is a delicate balance between the cost of delivering services, the funding income, and the fees charged. With current award rates, staff wages in Aged Care Facilities are significantly less than those in the private and public acute care sectors; hence, it is commonly very difficult to attract well qualified and experienced staff, particularly nurses and care workers, to work in Residential Aged Care Facilities. Working in the sector is usually difficult - it can be heavy demanding work that involves the physical handling of residents who sometimes exhibit difficult behaviour, and it is difficult to sell the benefits of working in this challenging field when salary levels are lower than those paid in more professionally attractive areas.

A.I.R. also want to see the Government developing better information systems relating to aged care services options which are available within the aged care system generally for consumers. This information service should be complemented by advocacy and support services which should assist people to access services that optimise choice and positive outcomes. For most carers of the aged the transition from home care to residential care is particularly difficult, not only for the obvious reasons (e.g. finding a suitable establishment, managing the attendant financial considerations and, commonly, operating under time restraints) but also from the impact of feelings of emotional guilt and abandonment. The problems associated with this transition time need to be handled with great care and empathy, and this will only happen properly if appropriately funded information systems are provided to assist people to deal with this transition.

There is a very strong view within A.I.R. that obtaining information should be easier to obtain to assist those consumers, or their representatives.

Members want more comparative information to be readily available in order to help residents and their families make informed choices about which aged care facility is best for them as well as wanting an increased capacity to find high and low care accommodation and be able to assess the quality of service provided. An Independent information source is helpful in that regard. Finally there is often a poor understanding of rules applying in a retirement village towards fees, strata title, selling and recovering the balance etc. Indeed consumers are often not aware that there is a specific consumer group – Retirement Village Residents Association which can assist them with concerns.

A.I.R believes the Government should increase funding now in the mental health area for services and supports that will address the challenges Australia faces in addressing the dementia epidemic.

This is a priority need and A.I.R. believes that that the Government should look to achieve a reduction in the numbers of people with dementia through a commitment to increased funding for research into the cause and prevention, identification of population groups most at risk and action to better inform Australians about how to reduce their risk of dementia. Further that a dementia workforce strategy be developed that will strengthen quality dementia care through professional development and training as well as improved access to care services and support for family carers and a national communication strategy to promote public understanding of dementia.

Finally the need of carers isn't being adequately addressed by the government and is seen as an important issue and concern has been expressed by members that more assistance is needed for carers to assist them with their important roles and responsibilities.

A matter raised by a country A.I.R. member is that bookings for carer respite need to be made a long time in advance to secure dates that may be required, and there are not sufficient respite beds available in Hostels or Nursing Homes in some areas, particularly those in country and remote locations. A concern is that the number of days allowed for carer respite is governed by two separate Departments, one which operates on a calendar year and the other on a financial year basis. This creates real difficulties for the consumer and can see consumers disadvantaged in terms of losing their carers allowance.

A.I.R. believes that increased funding and infrastructure for carer support services including respite, (including for older carers to assist in maintaining their own health) counselling, education, training and advocacy is needed now to improve the overall efficiency and effectiveness of the care system

2 ***Health:***

> a) *Single retirees over 65 years are discriminated against with the current threshold level of the Medicare and PBS safety nets. The PBS Safety Net thresholds for single retirees should be reduced to 60% of couples/families threshold level to correct this anomaly.*

Many self-funded retirees are widows or widowers who are financially discriminated against with the PBS Safety net threshold value. These single retirees have to incur the same total expenditures as couples/families before they become eligible for the Safety Net rebate support under either Medicare or the PBS.

In the case of the Medicare Safety Net a couple/family may individually have paid less for visits to doctors and medical tests when their combined out-of-pocket non-hospital medical expenses in a given year reach the Medicare Safety Net threshold yet a single person must expend the same total amount before he/she is eligible for this Safety Net support.

Likewise with the PBS Safety Net, a couple/family become eligible for concession priced prescription medicines when their combined expenditure on medicines in a given year reach the PBS Safety Net threshold and a single person must expend the same total amount before he/she is eligible for the lower-cost for prescription medication.

A.I.R. believes that Safety Net concessions should be available on an equitable basis and that that the Medicare and PBS Safety Net thresholds for single retirees should be reviewed in the 2011-12 Budget so that it becomes available to single retirees at a reduced threshold of 60 per cent of that set for couples/families.

> b) *The Commonwealth Seniors Health Card upper threshold has not been indexed since 2001 and that the upper limits threshold of the CSHC should be indexed using the same calculation method and timetable as used for the Age Pension*

It is well documented and accepted by successive Governments that the CSHC is for that group of self-funded retirees who are 65 years of age and older who have a level of annual income that is less than a clearly defined income threshold. This is confirmed by Centrelink who state that the CSHC is targeted at the particular group of self-funded retirees of age pension age who do not qualify for an Aged Pension because of assets yet have an annual taxable income that is less than the government set threshold value.

Successive governments have stated that income limits for the CSHC will only be increased when a government sees the need to do so and A.I.R. respects the current Government's position on this. However, A.I.R. believes it now time to change this philosophy and commence indexing of the CSHC rather than raising the upper income threshold.

We believe that in the 2011-12 budget the Government should introduce indexing of the current upper threshold limit for CSHC eligibility using the same calculation model and timetable that is used for indexing the Age Pension.

3 ***Financial:***

> a) *The GFC continues to impact on the superannuation fund balances of self funded retirees and the 50% reducing in the mandatory draw down that was introduced in 2008 and then continued in next 2 budgets should again be extend and included in the 2011-12 Budget*

The asset values of most Superannuation Funds Balances in Australia were significantly eroded during 2007 and 2008 and this situation has not yet fully recovered.

The Government agreed in 2008 to a 50 per cent reduction in the mandatory draw down rate and later extended this concession for 2009-10 and 2010-11 taxation years.

This allowed self-funded retirees to make their own decisions on how much they needed to withdraw to meet their living needs without their fund manager being forced to sell assets within their Account Based Pension fund in order to provide the funds to comply with the regulations.

A.I.R. requests that the mandatory percentage draw down requirement be halved again for the 2011-12 tax year and beyond until the economic scene has returning to more normal conditions.

> b) *With the self funding of one's own retirement income there is a unique situation where many older self funded retirees who do not have or never had superannuation and invested for their retirement in income generating assets are being forced to sell assets at a rate greater than would have been expected, due increasingly to the impact of the GFC and pay Capital Gains Tax so as to maintain an income stream to live off and A.I.R. believe that the Government should introduce a specific scheme to support this specific group where*
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> I. *there be no capital gains tax payable from the sale of capital assets for this specific group only, until $80,000 taxable income in the taxation year is exceeded.*
>
> II. *averaging of this for 5 continuous years can be applied for and granted in exceptional circumstances for this specific group*
>
> III. *a specific time limited plan be established for this specific group to allow them to convert retirement funding assets into an approved superannuation based income stream fund with limited CGT on asset conversion up to $1 million.*

With the Non-concessional Contributions Cap between 10 May 2006 and 30 June 2007, you could have contributed up to $1 million of non-concessional contributions to your superannuation fund. However, if a retiree was 65 or older in 2006-07 when the transitional arrangement provisions were available and the retiree was outside superannuation having not had either employer or self contributions, this wasn't available as the individual wasn't legally entitled or able to start up a superannuation fund account at that time to contribute into and to get the benefit of this.

Therefore there is a unique situation for those self funded retirees, who are now in there 70's or older, who saved up over their working life for their retirement by investing in property and shares and didn't have superannuation. They do not get any CGT concession and tax free income benefit to a similar retiree over 65 years old who had superannuation and set up an Account Based Pension or an Annuity for their retirement income.

Many of this group of self funded retirees were unable to access superannuation. A key example is female teachers, public servants, etc. who had to resign on getting married and were required to take their superannuation at that time. Many small businesses and employees were also denied access to superannuation in this period.

These retirees built their assets for their retirement without the incentives and compulsory employer contributions available to superannuants today. In particular they invested in capital assets and paid capital gains tax at full marginal tax rates as they built their assets. In contrast, in superannuation, capital gains and earnings are taxed at concessional rates. Further, in the drawdown phase no tax is paid on earnings from assets in the fund. That is, tax is paid at concessional rates on accumulation but the assets are not double-taxed on drawdown.

People without access to superannuation have had to pay full tax on accumulation and on drawdown. It forces retirees to run down their assets faster than would be the case in superannuation. The government has benefited considerably from the tax revenue generated by this group. The arrangement is clearly inequitable for this affected group.

A.I.R. believes that these special case retirees who did not have superannuation should be permitted to apply now to set up and establish a superannuation fund to convert into an income generating account based pension or purchase an approved annuity having the same conditions that apply to contributions allowed under the superannuation regulations .i.e..the sale of assets to permit this should be able to have limited capital gains tax liability. A.I.R. acknowledges that assets accumulated in superannuation do attract concessional capital gains tax. However, recognising the greater tax revenue paid during accumulation of assets outside superannuation during working life, this equitable proposal would be simple to set up as a one off time limited special case situation that requires no changes to the existing taxation and superannuation rules.

A.I.R. recommend that this unique situation be addressed by the Government in the 2011-12 Budget to offset this anomaly that impacts on this particular group of self funded retirees.

c) *That retirees should be able to contribute to and/or set up a new superannuation account and that the Government's "work test" for retirees for this, is discriminatory, unnecessarily restrictive and should be removed.*

The current superannuation rules prescribe that a person must be working to contribute to a superannuation fund and a self-funded retiree who wishes to contribute funds to a their existing superannuation fund is required to pass, in the relevant taxation year, the 'Work Test' in order to be able to do so.

This test requires self-funded retirees to be in the workforce for a minimum of 40 hours in any 30 day period in order to qualify.

A.I.R. considers that the "Work Test" rule is unnecessarily restrictive and that retirees 65 and older should be allowed to contribute into their own or their spouses (if both are 65 and older and not working) existing superannuation fund, provided the contribution comes from an after tax source, without having to meet a Work Test.

It would also allow retirees to contribute to and build up low value superannuation account balance to a value where they can be converted into an approved Account Based Pension or an approved Annuity.

We accept that any contributions must not exceed the legislated limit and that this must not be used to minimise legal taxation obligations on dividend income, other income from assets outside superannuation or income from an untaxed superannuation scheme.

A.I.R. request that in the 2011-12 Budget the "work test" for retirees 65 years of age and over be rescinded and this group of self funded retirees be permitted to contribute into an existing superannuation fund without having to meet the "work test".

d) *That Commonwealth and Defence forces retiree pensions indexing methods are different and thus discriminates against this group of retirees when compared to the Aged Pension indexing method*

The Commonwealth and Defense Force Superannuation pensions are being disadvantaged and discriminated against due to the indexation method being used for adjusting for inflation their pension payments. This uses the Consumer Price Index (CPI) rate whereas the Age Pensions is indexed using the Male Total Average Weekly Earnings (MTAWE) and is indexed in line with the greater of the CPI and the Pensioner and Beneficiary Living Cost Index (PBLCI).

The PBLCI, which was very recently developed by the Australian Bureau of Statistics, is stated by the Government to have been specifically designed to better reflect changes in the cost of living experienced by pensioner and beneficiary households, rather than the wider community.

The *Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes* which was completed by Mr. Trevor Matthews in December 2008 states: *"That, if a robust index which reflects the price inflation experience of superannuates better than the CPI becomes available in the future, the Australian Government should consider its use for indexing Australian Government civilian and military superannuation pensions"* [Rec. 4].

In a Press Release dated 21 August 2009, Hon Lindsay Tanner MP, the then Minister for Finance, stated that *"The Rudd Government fully supports the findings and recommendations outlined in the (Matthews) report."*

A.I.R. therefore request that the Government in the 2011-12 Budget introduce a consistent method to be used for the indexation of all pension payment and that the Commonwealth and Defense Force Retirees pensions and the upper threshold limit for the Commonwealth Seniors Health Card be indexed using the same indexation model calculation and the same timetable as used for the Age Pension.