# SPECIAL BUDGET REPORT TO A.I.R. MEMBERS

**Comments on the 2013/2014 Budget: Barry Ritchie, 15 May 2013**

The Budget claimed to present a "clear path to return the Budget to surplus while building a stronger economy, a smarter nation and a fairer society."

As is normal the Budget was presented for the 2013/2014 financial year plus three additional years. At the end of this time the Budget is predicted to be in surplus. For 2013/2014 receipts are expected to be $376billion (8% up on $350billion 2011/2012) and payments are expected to be $391billion (7% up on $367billion 2011/2012). These are significant increases and I will let you make a judgement about how prudent the Government has been.

Eleven major areas of the economy were covered in the Treasurer's speech: a responsible Budget building a stronger Australia through: historic investment in Australian schooling; Disability Care Australia; Infrastructure; rolling out the NBN; building stronger regions; supporting farmers and protecting the environment; investing in our health care system; delivering cancer care and research; supporting senior Australians; a more sustainable aged care system; and making our retirement income system stronger. The last five are of direct interest to Self-funded retirees.

Investing in our health care system includes new medicines in the PBS including treatment for chronic nerve pain, chronic hepatitis C, and Parkinson's disease and the National Health Reform Agreement with the States.

Delivering cancer care and research includes a new Prostate Cancer Research Centre, funding of bone marrow transplants, improving treatment and outcomes for lung cancer sufferers, expansion of the target age range for the BreastScreen Australia Program to age 70 – 74, bowel cancer screening and dispensing of chemotherapy medicines to patients

Supporting Senior Australians includes a scheme to exempt $200,000 of funds derived from downsizing the family home from the age pension means tests for a maximum of ten years (family home must have been occupied for 25 years and at least 80% of the surplus must be invested in a bank account).

A more sustainable aged care system includes the $3.7billion *Living Longer Living Better* package, expanded home care, investment in residential aged care facilities including rural, regional and remote areas, and establishment of a *My Aged Care* website for obtaining information.

Making our Retirement Income System stronger includes increase in the Superannuation Guarantee (SG) from 9% to 9.25% from 1 July 2013, concessional cap increased to $35,000 for over age 60s in 2013 and over age 50s in 2014. The amount will not be escalated and will become equal to the escalated general cap, presently $25,000, by 2018 when the age limits will disappear. Other changes will include a reduction in the concession for people with incomes over $300,000 from 15% to 30%, fairer excess contributions tax, and taxing of earnings from pension assets over $100,000.

A.I.R. President, Max Barton, has put out the following Media Releases:

- Opposition to taxing pension earnings above $100,000;
- Changes to the concessional caps;
- Continued decline in retiree living standards arising from the Budget; its effect on retirees' investment in equities, historically low interest rates, and cost escalation.

# MEDIA RELEASE

## Taxation of Superannuation Pension Earnings Strongly Opposed

The President of the Association of Independent Retirees (A.I.R.) Ltd, Max Barton said that the bulk of A.I.R. membership is strongly opposed to the present government's proposed superannuation taxation changes announced in the Budget."

The third of the three million retirees with quite modest levels of assets, considerably less than $2million, will be forced to pay tax on their superannuation pension earnings during years of high investment returns. Capital gains tax will distort dramatically the effectiveness of investment strategies. The number of retirees affected will steadily increase as CPI escalation of the tax free threshold of $100,000 reduces its real threshold value.

"Many retirees have planned their retirement investment strategies over a number of years on the basis that pension earnings would not be taxed. Without any prior warning they are now likely to have some of these earnings taxed and their planned income reduced," Mr Barton said. "This is grossly unfair and unreasonable."

"While drawing down superannuation assets in retirement, the remainder still needs to be invested in a volatile financial market. Unlike long term asset accumulation where market fluctuations can be recovered, any withdrawal, whether to pay tax or to meet living costs, can only be partially recovered in high return years."

Mr Barton said that capital gain remains an essential investment strategy. A retiree's asset must increase in value in money terms to maintain living standards over thirty and more years of retirement. A retired couple who lived off the earnings of their $1million superannuation fund asset in 2007/2008 have far less today with correspondingly less income. Interest on earnings is at historical lows.

Council rates, electricity, water, and insurance have increased far beyond CPI since 2007. The gap between income and expenditure has widened dramatically. To keep pace with inflation, their fund should have increased in value over this period, not decreased. Without capital gain this cannot be achieved. Taxation of capital gains is a highly retrograde step.

Max Barton said that it is wrong to assume that a retiree's needs reduce with age; they change from predominantly living costs to health and maintenance costs over time but do not reduce without reducing standards of living."

"The financial imperative is for retirement assets to support retirees across a life span in retirement of thirty years and more. Imposition of an income tax on superannuation for the bulk of retired superannuants reduces their capacity to be independent of government pensions and maintain living standards. It reduces long term sustainability of government retirement policy for short term financial gain," he said.

Claims that retirees receive unwarranted concessions need to be measured against the benefit to Government of a captive 15% tax on the Superannuation Guarantee (SG) taken upfront with no allowable deductions, generating $8.5billion in 2013/2014 increasing to $10billion in 2015/2016 as the SG moves from 9% to 12%.

"The long suffering contributor has only the net 7.5% of the present 9% to invest reducing dramatically the size of the fund over its accumulation life of up to forty years. The majority of contributors who have taxable incomes less than $80,000 could accumulate much more by investing the funds and paying income tax at the end of the financial year, many with an average tax significantly less than 15%," Mr Barton said.

"Attempting to restrict concessions by focusing on particular elements of superannuation policy has led to a rapid increase in complex regulation, causing disenchantment, high costs and loss of credibility. Administering income and capital gains tax on pensions, re-allocation/roll-over of assets, and multiple accounts, makes the administrative burden and complexity unmanageable for both APRA funds and SMSFs."

"The use of thresholds on assets has already been shown to be administratively difficult and unsustainable in the long term because of the effects of multiple accounts, work tests and complex pension arrangements. The same holds true for thresholds on earnings."

Mr Barton stressed that retirement superannuation policy should aim to match individual retiree's priorities to retirement income by encouraging flexibility and increasing simplicity. "The work test should be removed, SG contributions should be able to be added to an existing pension or taken as part of remuneration, and regulations should not force retirees to have multiple accounts, Mr Barton concluded.

For further information contact: Dr Barry Ritchie, Deputy President A.I.R.
Email: britchi1@bigpond.net.au, Tel: 07 5537 2137.

15 May 2013

*The Association of Independent Retirees (A.I.R.) Ltd, with national membership of 8,000 across 65 State Branches, represents the interests of self-funded retirees. Its Mission is to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.*

# MEDIA RELEASE

## Policy bungling causes never-ending changes to Superannuation Contribution Caps

The President of the Association of Independent Retirees (A.I.R.) Ltd, Max Barton, in addressing Budget changes, said that baby boomers and retirees are fed up with yet more regulatory change to one of the most important parameters determining their retirement income investment strategy.

"The Government is playing with decisions affecting billions of dollars in hard-earned savings," he said. "In this Budget, the cap for concessional contributions will change once again in 2013 and yet again in 2014. It will be $35,000 for people over 60 from 1 July 2013 and for people over 50 from 1 July 2014. These changes come on top of at least five other changes to the concessional cap in the last five years."

People around the age of 50 are more likely to have the capacity to build their superannuation to a more sustainable level as they near the peak of their career and family pressures ease. Greater contributions through salary sacrifice become possible. Mr Barton said that the frequent change of regulation by Government is preventing people from making sound decisions affecting their life savings and is destroying the credibility of and confidence in Government.

Simpler Super in 2007 set a concessional cap for people over 50 of $100,000. This was reduced to $50,000 in the 2010/2011 Budget except for people with superannuation assets less than $500,000. Despite consistent messages from key stakeholders that this arrangement could not be administered, it was retained in the 2011/2012 Budget but deferred until 2014 to allow the administrative process to be established. In this recent Budget, the Government has finally acknowledged that it could not be administered and has set a concessional cap of $35,000, but limited to people over the age of 60 for 2013/14; the age will be reduced to 50 in 2014/2015. The concessional cap is not indexed so it will steadily decline in real terms. A number of these changes would not have been necessary had the Government consulted properly with key stakeholders, including consumers.

Mr Barton said that attempting to restrict concessions by focusing on particular elements of superannuation policy has led to a rapid increase in complex regulation, causing disenchantment, high costs and loss of credibility in superannuation as a savings vehicle for retirement.

"The Budget proposal to tax income on highly variable pension earnings above $100,000, including capital gains which require grandfathering clauses, adds to cost and complexity and distorts optimum investment decision making. It is not supported by A.I.R."

Combining back-office systems for APRA regulated funds through Superstream (a desirable initiative) has caused a Superstream levy of $44.61 to be imposed on all accounts, irrespective of the account value, eating away investment earnings. Formalising of re-allocation/roll-over of assets because of Superstream has caused SMSF costs to be increased.

Mr Barton said that about 330,000 of the 3.1 million people over 65 were undertaking paid work at the 2011 Census. Approximately 42% of baby boomers anticipated having to work beyond normal retirement age.

“The anachronistic work test and regulations preventing contributions being added to existing pensions should be removed. Superannuation Guarantee contributions should be able to be added to an existing pension or taken as part of remuneration. Regulations should encourage superannuants to consolidate accounts, not force retirees to have multiple accounts. These changes would have a greater beneficial effect on Government Budgetary efficiency than the negative prescriptive changes in the Budget,” Mr Barton said.

For further information contact: Dr Barry Ritchie, Deputy President A.I.R.
Email: britchi1@bigpond.net.au, Tel: 07 5537 2137.

15 May 2013

*The Association of Independent Retirees (A.I.R.) Ltd, with national membership of 8,000 across 65 State Branches, represents the interests of self-funded retirees. Its Mission is to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.*

# MEDIA RELEASE

## Self-funded Retirees face declining living standards from the Federal Budget

The President of the Association of Independent Retirees (A.I.R.) Ltd, Max Barton in responding to the Federal Budget said that increasing the 9% Superannuation Guarantee (SG) contribution to 9.25%, and removing the SG age barrier are pluses for retirees. "Providing an age pension exemption of $200,000 on downsizing the family home is a new and welcome initiative. Increasing support for breast screening and cervical and bowel cancer for older retirees is welcomed," he said. "However, retirees face a significant decline in living standards affecting their welfare and health."

Continuing Budget deficits caused by questionable growth in Budget spending (7% in 2013/2014) will not improve industry confidence sufficiently to encourage investment and growth. Combined with increased costs from moving the SG contribution to 9.25%, from industrial relations, and from higher energy imposts, declining corporate profitability will not support share market health, critical for sustaining retirement returns. Interest rates are at historical lows further reducing retiree investment returns.

Mr Barton said that retirees, who established their retirement investment strategy on the assumption that they would not have to pay tax on their pension earnings, are now suddenly confronted with a $100,000 tax threshold. "Concessional caps for baby boomers and working retirees have changed every year for over five years. Part-pension eligibility has been lowered. Reduced income has been the consequence," he said.

Federal Government policies on climate change including the carbon tax and renewables have led to dramatically higher costs of household energy and services. Health costs have increased dramatically with health insurance costs rising far more than CPI. These are major costs for retirees in maintaining their households.

Mr Barton concluded that despite some welcome initiatives in this budget, the net result is steadily declining standards for retirees, many who had hoped to remain fully self-funded through their retirement but are now faced with having to seek welfare support.

For further information contact: Dr Barry Ritchie, Deputy President A.I.R.
Email: britchi1@bigpond.net.au, Tel: 07 5537 2137.

15 May 2013

*The Association of Independent Retirees (A.I.R.) Ltd, with national membership of 8,000 across 65 State Branches, represents the interests of self-funded retirees. Its Mission is to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.*