



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

Pre-Election Submission

Federal Election 2010

June 2010

Foreword

The Association of Independent Retirees (A.I.R.) Ltd encourages its members to maintain their *independence*, and achieve *equality and justice* in their lifestyle. These are the guiding principles embraced in our accompanying submission.

Our members' interests reach across many income brackets and financial status of retirees and partly retired Australians. The recommendations outlined in the accompanying document reflect these interests and circumstances.

Of equal, or greater, importance to retirees is the delivery of personal health services and maintenance of social well-being. Together with financial stability, these issues remain the primary focus for retirees.

We ask that our recommendations be considered during the development of policies of all political parties. These recommendations are an accurate reflection of the endeavours of retirees to live in modest comfort and have access to services to maintain their lifestyle security.

Theresa Kot
National President

June 2010

About the Association of Independent Retirees

The Association of Independent Retirees (A.I.R.) Ltd is the peak body representing the interests of some 1.5 million retirees throughout Australia who are wholly or partly self-funded in retirement.

Formed in 1990, A.I.R. is a not-for-profit, non-party political, volunteer organisation that is focused on matters affecting the standard of living, health and welfare of retired and partly-retired people. As well as carrying out research and gathering information that will assist its members in maximising their life opportunities, the Association is committed to educating the wider community (including political parties at all levels of Government) on the views and concerns of the retirees that it represents.

A.I.R. has 73 Branches located in every State and Territory and has a current membership of 11,000.

Retirees continue to make significant contributions to the Australian way of life as taxpayers, volunteers, family supporters, occasional part-time workers, and tourists. A.I.R. policies are concerned with enabling those it represents to achieve dignity, independence and freedom of choice in retirement, whilst recognising a diverse range of individual circumstances.

Executive Summary

This Policy Statement is made on behalf of the members of the Association of Independent Retirees, whose members include full self-funded retirees, part-pensioners, and superannuants.

A number of recent issues have impacted negatively on self-funded retirees and the lifestyle they have saved for during their working lives. Among these are:

- increased pension taper from 40c to 50c in the dollar thus reducing access to a part pension and/or reducing the amount of entitlement to a part pension;
- reduction of superannuation contribution rates and changes to the method of determining the effect of work in retirement;
- loss of capital base for Account Based Pension, Allocated Annuities and Market Linked (term allocated) Annuities to meet statutory draw down requirements early in the Global Financial Crisis which has not yet been fully covered despite the 50% concession granted over the last two years;
- lack of adjustment to recognise inflationary trends to the CSHC upper income eligibility threshold; and
- the increasingly stringent criteria to access residential aged care facilities for self-funded retirees.

Following are a series of recommendations relating to current issues of concern to the members of A.I.R.

The information is provided in the form of recommendations in the sincere hope of encouraging the national political parties to recognise the need for a more equitable recognition of their current needs and concerns, in the context of their ongoing contributions to the economic and social development of the nation.

The recommendations are not listed in any order of priority.

Recommendation 1:

That the 50 per cent mandatory draw down requirement for Account Based Pension, Allocated Annuities and Market Linked (term allocated) Annuities be reinstated for 2010-11.

Recommendation 2:

That, for retirees over the age of 65, capital gains arising from the sale of capital assets held outside superannuation not be included in taxable income calculations until the retiree's taxable income exceeds the tax threshold for the 2010-11 37 per cent marginal tax rate of \$80,000.

Recommendation 3:

That together with recommendation 2, a specific taxation provision be established to allow self-funded retirees to average their tax commitment over a five years period, when their income is derived from earnings of asset investments.

Recommendation 4:

That the Federal Government provide sufficient funding for aged care to ensure that all Australians have ready access to affordable, client directed, appropriate care and accommodation when it is required.

Recommendation 5:

That the Federal Government undertakes an audit of the investigation and assessment processes affecting aged Australians in the fields of social welfare and aged care, with a view to eliminating redundant and unnecessary processes.

Recommendation 6:

That the Medicare and the Pharmaceutical Benefits Scheme (PBS) Safety Net thresholds for single retirees be reduced so that access to the Safety Nets become available to single retirees at 60 per cent of the thresholds for couples/families.

Recommendation 7:

That the upper income eligibility thresholds for the Commonwealth Seniors Health Card (CSHC) be indexed annually immediately in the same method used for indexing the Age Pension.

Recommendation 8:

That there be consistency with the indexing formula used for all pension payments and that Commonwealth Superannuation and Defence Pensions be indexed using the same indexing formula as is used to adjust the Age Pension.

Recommendation 9:

That those retirees who are eligible to contribute into a superannuation fund be allowed to contribute up to the prescribed limit without having to meet the Work Test.

Recommendation 10:

That for retirees 65 and older who have never had a superannuation account, an account based pension or an annuity, a special arrangement be set up to allow assets used for income generation in retirement to be sold and transferred into a new (special case) complying superannuation Account Based pension or used to purchase a complying Annuity within the same taxation year.

A.I.R. recommends an incentive for retirees to do this with the capital gains tax obligation on this asset sale being waived on the first \$80,000 of the tax that would have been payable from this sale.

A.I.R. further recommends that the transfer should be limited to a sum of up to \$1 million in one year or a total of \$1.5 million over a three year period.

Recommendation 11:

That the components of a retiree's income that are derived from untaxed superannuation schemes and from non-superannuation 'outside' sources be assessed separately for taxation purposes, as is the case with a retiree who derives an income from a taxed superannuation scheme.

Recommendation 12:

That provision be made in the Taxation Act to permit income sharing between retired partners where one member is in receipt of an approved superannuation income and either the other is without any structured superannuation income or has a small structured superannuation income.

Rationales Underlying the Individual Recommendations

Recommendation 1:

That the 50 per cent mandatory draw down requirement for Account Based Pension, Allocated Annuities and Marked Linked (term allocated) Annuities be reinstated for 2010-11.

It is well documented that the asset values of most Superannuation Funds Balances in Australia were reduced by 30 per cent or more during 2007 and 2008 and this situation has not yet fully recovered. As a result, the incomes from cash management and savings accounts were also substantially reduced and the living standards of self-funded retirees with much of their life-savings in Taxed Superannuation Funds were adversely affected and remain so at this time.

As most self-funded retirees are not normally able to return to work to replenish their lost capital base, their savings will become depleted sooner and they will be compelled to turn to the Federal Government for support via the Age Pension system.

The regulations require that for those aged 65 and above with Account Based Pension, Allocated Annuities and Market Linked (term allocated) Annuities, at least 5 per cent of fund balance must be withdrawn each financial year with this minimum withdrawal percentage increasing with the age of the retiree.

To minimise losses of capital to meet this requirement the Government agreed in 2008 to a 50 per cent reduction in the mandatory draw down rate and again extended this concession for 2009-10 tax year. 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. As the losses incurred at the time of the global financial crisis have still to be fully recouped A.I.R. recommends that the compulsory withdrawal requirement be halved again for at least the 2010-11 tax year and beyond until the economic scene has returning to more normal conditions and the available fund balances can be returned to the levels they were at previously.

Recommendation 2:

That, for retirees over the age of 65, capital gains arising from the sale of capital assets held outside superannuation not be included in taxable income calculations until the retiree's taxable income exceeds the tax threshold for the 2010-11 37 per cent marginal tax rate of \$80,000.

Recommendation 3:

That together with recommendation 2, a specific taxation provision be established to allow self-funded retirees to average their tax commitment over a five year period, when their income is derived from earnings of asset investments.

With the Transitional arrangement for the non-concessional contributions cap between 10 May 2006 and 30 June 2007, up to \$1 million of non-concessional contributions could be placed into a super fund. This limit was referred to as the transitional non-concessional contributions cap and could not be exceeded even if payment was made over several funds.

In the event that investment had been permitted, sale of the investment would have involved payment of capital gains tax, whereas a person within a super fund can accumulate capital gains on the investments in the fund over the lifetime of the fund and the accumulated capital gains is not taxed after the age of 65.

Therefore, a person now in their 70's or older and without superannuation who over their working life invested in property and shares for their retirement and retired five years ago is denied any capital gains tax concession and tax free income benefit as is available to a similar retiree aged over 65 who had superannuation and set up an Account Based Pension or an Annuity for their retirement income.

Such an arrangement would ensure that self-funded retirees do not pay tax over a number of years in excess of that paid by a person with a comparable but steady income of \$80,000 per annum or less with their need from time to time to sell assets to release cash for their day to day living expenses.

A.I.R. acknowledges the need to limit the maximum amount of tax free entitlement in any one year and proposes that the cap should reflect the portion of income required for normal expenses obtained from their investment and to allow for cash accumulation for out of pocket medical expenses, holidays and the occasional purchase of necessary replacement cars, white goods and other such items.

A.I.R. submits that this is a special case situation specific to older retirees who have saved for retirement before the advent of current superannuation legislation and are not highly wealthy individuals. It is expected that it would only apply to a small number of persons and make minimal impact on government revenue derived from capital gains tax and would only have application for a relatively limited period being limited by the age of retirees.

Recommendation 4:

That the Federal Government provides sufficient funding for aged care to ensure that all Australians have ready access to affordable, client directed, appropriate care and accommodation when it is required.

Recommendation 5:

That the Federal Government undertakes an audit of the investigation and assessment processes affecting aged Australians in the fields of social welfare and aged care, with a view to eliminating redundant and unnecessary processes..

A.I.R supports the National Aged Care Alliance proposals contained in their 2010-2011 Pre-Budget Submission including the statement set out below.

“Where older Australians require support or care they should have access to services in their own communities and homes that:

- are readily available, affordable and client-directed;
- promote wellness and independence, and assist them in realising their aspirations;
- provide genuine choice to meet the aspirations, needs and preferences of a diverse older population;
- are underpinned by a commitment to quality improvement, evaluation and ongoing research;
- be the principal decision makers about when they may need assistance and the nature of that assistance;
- have access to affordable, effective and safe health and medical care; and
- have easy access to reliable and relevant information about the availability, quality and cost of aged care services”.

A.I.R. urges the Government to provide additional funding so these objectives can be achieved.

While control of the residential aged care industry is currently a joint Federal-State responsibility, Aged Care legislation is in the Commonwealth's jurisdiction under the *Aged Care Act 1997*, and the Federal Government controls the funding. A.I.R. notes the intended extension of that funding responsibility. The number of residents in residential aged care is constantly increasing as the population ages and, as life spans increase, they have been accompanied by notable increases in clients with complex needs.

Overall, the quality of aged care at any given aged care institution is very much affected by the funding available. For many aged care providers 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 and hence, it is commonly very difficult to attract well qualified and experienced staff, particularly nurses and care workers, to work in the industry.

Working in this sector is usually difficult as 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. believes it is essential that the Government provide measures that will ensure that optimal staffing for all health professionals in the sector can be achieved. It is essential that the Federal Government provide adequate funding to ensure that sufficient skilled, appropriately and competitively remunerated staff are attracted to, and retained, in aged care and respected for their work.

The quality and level of provision of amenities and facilities does vary between residential aged care facilities, and are unlikely to be improved within present funding structures of most establishments. There is an urgent need for high quality health care and health amenities and a need for improved funding arrangements, including a sustainable indexation of subsidy arrangements to take these matters into account. The Government should ensure adequate funding that reflects the real costs of delivering quality care to enable aged people to have a choice of services including residential options as well as home care and community options.

In summary, A.I.R. strongly believes that aged care is not getting the Government's support that is needed and is considered to be the poor relative when compared with the hospital system in the area of recruitment and with service conditions. While the current imbalance continues, aged care facilities will continue to be at risk and have staff quality, recruitment and retention problems.

Finally, A.I.R. also believes that Government should foster the development of a better information system 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 and the information system needs to be provided to assist people to deal with this transition.

Recommendation 6:

That the Medicare and Pharmaceutical Benefits Scheme (PBS) Safety Net thresholds for single retirees be reduced so that access to the Safety Nets become available to single retirees at 60 per cent of the thresholds for couples/families.

Many self-funded retirees are widows or widowers who are often at the stage of their life when they require expensive and sustained medical attention. Yet 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 pay less for visits to doctors and for medical tests when their combined out-of-pocket non-hospital medical expenses in a given year reach the Medicare Safety Net threshold and 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 expenditures 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 medicines.

These criteria mean that single retirees are heavily discriminated against in that they must incur the same total costs as couples/families before they reach either of the Safety Net thresholds.

A.I.R. believes that Safety Net concessions should be available on an equitable basis. It is unfair and discriminatory that a single person should have to spend the same amount as a couple/family before he/she becomes eligible for a Safety Net.

A.I.R. requests that the Medicare and PBS Safety Net thresholds for single retirees be reviewed and set so that it becomes available to single retirees at a reduced threshold, perhaps 60 per cent, of that set for couples/families.

Recommendation 7:

That the upper income eligibility thresholds for the Commonwealth Seniors Health Card (CSHC) be indexed annually immediately in the same method used for indexing the Age Pension.

The intent of the CSHC is well documented by the current Government and is clearly aimed at self-funded retirees on lower levels of income with clear income limits. This is confirmed by Centrelink who state that the CSHC is targeted at self-funded retirees of age pension age who do not qualify for an Aged Pension because of assets or income level.

In the Social Securities and Veteran's Entitlement Amendment (Commonwealth Seniors Health Card) Bill 2009 it states that the adjustments to the definition of adjustment taxable income used for the CSHC will continue the targeting of access to the CSHC to self funded retirees on a low level of income.

Successive governments have previously stated that income limits for the CSHC are not indexed in any way and are only increased when a government sees the need to do so.

A.I.R. respects this but believes it now time to introduce indexing of the CSHC annually rather than raising the upper income threshold whenever the government see fit.

With this clear definition and income threshold now in place and the cost / benefit analysis clearly understood by the Government. A.I.R. considers that this can now be indexed by the Government without a possibility of any cost blow out to the Government using the same method used for indexing the Age Pension.

Recommendation 8:

That there be consistency with the indexing formula used for any pension payments and that Commonwealth Superannuation and Defence Pensions now be indexed using the same indexing formula as is used to adjust the Age Pension.

The Commonwealth and Defence Force Superannuation pensions are indexed for inflation at the Consumer Price Index (CPI) rate whereas Age Pensions are tied to Male Total Average Weekly Earnings (MTAWE) and 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 superannuants 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, Minister for Finance, stated that *“The Rudd Government fully supports the findings and recommendations outlined in the (Matthews) report.”*

A.I.R. considers that Commonwealth and Defence Force Retirees are being disadvantaged and that all retiree’s pension payments (and the CSHC eligibility threshold income limit) should be indexed in the same way as the Age Pension.

Recommendation 9: *That those retirees who are eligible to contribute into a superannuation fund be allowed to contribute up to the prescribed limit without having to meet the Work Test.*

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.

We accept that this must be limited and the contribution must not exceed the limit laid down in the 2010-11 Budget nor that this can be used in an attempt to minimise legal taxation obligations on dividend income, other income from assets outside superannuation or income from an untaxed superannuation scheme.

The normal taxation rules for superannuation funds on the taxing of the capital gains and the income of the fund should remain. This can allow the retiree to build up this superannuation fund to a level over time when it can be converted into an income stream via either an account based pension or used to purchase an annuity.

Recommendation 10: *That for retirees 65 and older who have never had a superannuation account, an account based pension or an annuity, a special arrangement be set up to allow assets used for income generation in retirement to be sold and transferred into a new (special case) complying superannuation Account Based pension or used to purchase a complying Annuity within the same taxation year.*

A.I.R. recommends an incentive for retirees to do this with the capital gains tax obligation on this asset sale being waived on the first \$80,000 of the tax that would have been payable from this sale.

A.I.R. further recommends that the transfer should be limited to a sum of up to \$1 million in one year or a total of \$1.5 million over a three year period.

This recommendation would be a cost effective method to enable all self-funded retirees 65 and older to set up for themselves, if they so wish, an income stream pension or annuity.

A.I.R. believes that this will address and solve the issue with those who in the retirement are asset rich but cash poor and are struggling with the tax burden on their day to day living expenses.

This, like our previous recommendation 2, is for those who were likely self employed and didn't have superannuation and had saved up over their working life for their retirement by investing in property and shares and have now retired.

Likewise A.I.R. considers that this must be viewed as a special case situation as it will only be for a small number of persons so the impact on the government receipts from this would be low and this special case action by the government would eventually become no longer necessary as it is limited by age.

Recommendation 11: *That the components of the a retiree's income that are derived from untaxed superannuation schemes and from non-superannuation 'outside' sources be assessed separately for taxation purposes, as is the case with a retiree who derives an income from a taxed superannuation scheme..*

A retiree who derives his/her income from a taxed superannuation scheme, i.e. a scheme on which the requisite taxes were paid on superannuation contributions and earnings, is treated differently for taxation purposes from a retiree who derives income from an untaxed defined-benefit superannuation scheme (e.g. a retired Commonwealth, State public servant or a Defence Force employee).

In the case of a taxed superannuation scheme the pension component of a retiree's income that is derived from that scheme is regarded as having a value of zero for tax assessment purposes. If the same retiree has an additional income component that is derived from sources that are outside the superannuation fund, that 'outside' component is then assessed at normal taxation rates as if it were the sole income for taxation purposes. In the case of an untaxed scheme, however, the pension stream derived from the superannuation fund is not tax-free; rather, the pension income is added to the 'outside' income, the tax payable is calculated, and then a

concessionary tax offset of 10 per cent of the superannuation pension is subsequently applied to the tax payable (whose derivation usually involves the application of a higher marginal tax rate on the combined taxable income).

The anomaly associated with the differing treatments of 'outside' incomes was addressed in the bipartisan Report of the Senate Economics Committee (dated February 2007) which recommended that, for equity reasons, the two types of income should be treated separately,

1. "The committee is of the view that the government should reconsider the way in which total taxable income is classified for those in untaxed schemes. Instead of combining both a superannuation income stream and additional income to produce a total assessable income, the two types of income should be assessed separately. This would enable additional income received by all superannuation income stream recipients to be assessed for tax purposes from a starting point of zero. [Par 3.58] and
2. "The government should consider separately assessing, for taxation purposes, superannuation income streams and assessable income." [Rec. 4]

A.I.R considers that this anomaly should be redressed by the in coming government for the 2011-12 taxation year.

Recommendation 12: *That provision be made in the Taxation Act to permit income sharing between retired partners where one member is in receipt of an approved superannuation income and either the other is without any structured superannuation income or has a small structured superannuation income.*

Prior to the introduction of the current superannuation legislation many older retirees had been required to make compulsory superannuation contributions over a period of decades. At the same time their spouse/partner was frequently unemployed or not permitted/enabled to similarly contribute to a super fund with the result that they now comprise a major income unit with one partner receiving most of the taxed income and the other dependent partner being with no or only a small (non taxed) income such as is derived from interest from savings or small investments.

Current superannuation legislation provides a degree of flexibility that recognises the family structure and provides for superannuation investments to be structured to permit income to be spread between each partner and thus reduce somewhat the final tax liability. For Centrelink purposes this is recognised by a process of income sharing and an equitable payment is given each partner.

It is proposed that retired couples dependent on superannuation sources such as that derived from a Commonwealth or State Government source be permitted to apply a similar form of income sharing, as is provided for assessment of Centrelink entitlements, in respect to assessment of their tax liability.



A.I.R. National Secretariat

PO Box 329, Deakin West ACT 2600
Phone: (02) 6290 2599; Email: info@independentretirees.com.au
www.independentretirees.com.au