independence matters

Association of Independent Retirees

2019 Federal Election Priorities

Version 1

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Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees. A.I.R. works to advance and protect the interests and independent lifestyle of Australians in or approaching retirement. A.I.R. seeks to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

Our members have a clear understanding of the need for ongoing management of the financial, health and longevity risks they face in retirement, but are concerned about changes that impact on their capacity to have an independent and fulfilling retirement

AIR is calling on all political parties and candidates to strongly support stable policies on superannuation and put an end to continual changes that create an environment of uncertainty for current and future self-funded retirees.

In recent years, government, opposition and the cross-bench members of parliament are increasingly unable to reach bi-partisan agreement on retirement incomes, health or aged care policies. As a result, the parliament has been unable to implement important legislation to these key areas for our members.

Successive Federal Governments have said they are committed to encourage and support those who fully or partly self-fund their retirement. However, in practice we believe Governments have consistently failed to adequately support retirees by restricting benefits or changing rules for those they have committed to support.

There are now more than 1.9 million Australians aged 65 years and over whom either fully or partly self fund their retirement. The greater majority of these are not “wealthy” individuals as many have inferred and ongoing financial impacts on their established income streams may result in their not being able to maintain their independence from Government support in the later years of their retirement.

A.I.R. remains committed to a view that any changes to superannuation, welfare and pension arrangements must not disadvantage current retirees and those soon to retire. Future changes must include grandfathering and transitionary provisions to protect those retirees whose retirement income is based on the current rules.

The ability of self-funded retirees to continue to contribute to the economy and to maintain their living standard and necessary retirement income stream depends on a vibrant Australian economy that provides a real rate of return to investors and embraces a strong, confident business sector with reliable returns.

We have broad concerns with ongoing health care and aged care reforms that are introducing income and assets tests on income stream assets. We accept that those who can afford to contribute to their health and aged care costs should do so. However it seems that in practice many self-funded retirees, who are not wealthy and under financial pressure, will be financially disadvantaged by such measures.

Retirement planning has not only become more complex, but current volatile market conditions and low interest rates are making it harder for many to develop a retirement plan that will last for the longer term.

Whatever the outcome of the election, the elected government needs to undertake a complete and holistic review of Australia’s long term taxation and retirement income systems so that it is not subject to change by future governments reacting to short term fiscal issues.

Recommendations

Superannuation, Retirement Savings and Tax

Recommendation 1: Stop fiddling with Superannuation/Retirement Savings Policy.
Fully and partly self-funded retirees and those planning their retirement are extremely angry and frustrated at a number of the changes to superannuation and retirement savings made or proposed over the last 10 years.

These ongoing changes have eroded the principle of stability and certainty and affects plans they have already made over many years. The long-held principle of grandfathering superannuation and retirement rules to protect those who are in or are approaching retirement has been undermined such that many future retirees have no confidence in the superannuation system.

Recommendation 2: *That there be an **immediate change to the current aged based percentage drawdowns** for account based income stream pensions with a broadening of the age ranges and a lowering of the minimum drawdown percentages once a retiree has reached 75 years of age.*

A change is needed to the minimum drawdown % for retirees in later years due to the rapidly increasing longevity of older retirees who need to more funds for a longer retirement and increasing age care costs.

Current age of pension account holder	Current drawdown %	Change age range to	Proposed new drawdown %
Under 65	4%	Under 65	4%
65 to 74	5%	65 to 79	5%
75 to 79	6%	80 to 90	6%
80 to 84	7%	90 to 95	7%
85 to 89	9%	95 and over	10%
90 to 94	11%		
Aged 95 or older	14%		

Rationale: The length of time spent in retirement is now considerably longer than when the superannuation system was set up. It is now common for retirement to be 30 years or longer. With this longer time frame and current high drawdown rates in later years, retirees are now more likely to completely deplete their superannuation savings and fall back on to the age pension with many years to live.

This is further compounded with age care costs increasing substantially after 75 years of age. Unfortunately, with the current drawdown rates, retirees have often depleted their superannuation funds just when they need pay for higher age care costs. Without any retirement savings left, these retirees will be relying on the government age pension and age care costs will need to be met by the government.

AIR understands the current drawdown rates were set to prevent people from using superannuation as a vehicle for wealth transfer to future generations. This issue has now been overcome with the $1.6 million cap on the funds in pension mode. This together with longer life expectancy and increasing aged care costs now means that retirees are much more likely to completely run down their superannuation in their/spouse's lifetime.

Implementing this recommendation will have **no cost impact to the budget expenditure**. In fact, will be **revenue positive** as it is estimated that implementing this change will generate as much as $200 million savings by delaying for some self-funded retirees the commencement of part Age Pension and related age care costs.

Recommendation 3: *Current Deeming Rules are too high in a low investment return environment.*

Rationale: With current deeming rates of 3.25% that are much higher than the RBA cash rate, income is 'deemed' to have rates of return that are much higher than the actual returns available from a cash investment. This means that retirees receive significantly less actual income than they are unfairly 'deemed' to receive. Linking deeming rates to the actual cash rates of return would provide considerable relief for retirees.

Recommendation 4: *Workers who were self-employed or did not have superannuation available to them, should be able to sell privately held assets exempt of capital gains tax up to a defined cap and purchase a tax-free retirement income stream product.*

Rationale: This would encourage all those who were self-employed and those who have saved for their retirement outside superannuation, to invest in an income stream product or annuity to self-fund their retirement. This should be available beyond the current retirement age restrictions.

Recommendation 5: *To support the gradual increase of Compulsory Super Contributions by employers from 9.5% to 12%.*

Rationale: Compulsory concessional contributions to Superannuation by employers are the cornerstone of Australia's retirement savings system. With 12% of employee earnings per annum over their working life, superannuation balances would grow to a level that would support a modest retirement income for the average worker.

Recommendation 6: *To retain the existing payment of share dividend franking credit refunds.*

Rationale: Any removing of refundable franking credits unfairly targets:

- retirees on low taxable incomes with personal shareholdings
- retired members of SMSF's not in receipt of an age pension before 28th Mar 2018
- retirees just over the age pension assets test threshold
- retirees who have less than $1.6m in super

To avoid undue exploitation of the franking credit refunds, consideration should be given to grandfathering the ownership of a defined cap of shareholdings, applying a reasonable cap to the refund or exempting Commonwealth Seniors Health Holders under the pensioner guarantee.

Recommendation 7: ***To retain the existing Capital Gains Tax discount of 50% on the sale of investment assets (including property) after a 1 year holding period.***

Rationale: While the proposed reduction of CGT discount to 25% will be grandfathering for existing assets, it will impact retirees and those approaching retirement by reducing the sale prices of real estate and other growth assets.

Recommendation 8: ***To retain the existing negative gearing arrangements on pre-owned investment properties.***

Rationale: While negative gearing will be grandfathering for existing pre-owned investment properties, it will impact retirees and those approaching retirement by reducing the demand and sales price of pre-owned real estate.

Recommendation 9: ***To retain the existing non concessional contribution cap of $100K per year rather than reduce it to $75K per year as proposed. In addition, the 3 year carry forward contribution cap be retained at $300K rather than reduced to $225K as proposed.***

Rationale: The non concessional contribution cap has already been reduced from $150K to now $100k per year. This provision enables those workers approaching retirement who only have modest super balances to make after tax contributions (from inheritances or asset sales) to super to boost their retirement savings.

Recommendation 10: ***To retain the super catch up provisions that would enable the concession contributions annual cap of $25K to be used over a five year period.***

Rationale: These super catch up provisions allow workers who are not able to use the full 25K cap for concessional contribution in 1 year to roll the remainder over and use it in subsequent years for up to 5 years. This was an important provision to help women in particular, who may be working reduced hours or out workforce for a few years to catch up with super contributions when they return to full time work.

Recommendation 11: ***To retain the current taxation arrangements of discretionary (family) trusts so that income from a family trust is taxed at a the marginal tax rate of the recipient rather than a minimum of 30% as proposed.***

Rationale: AIR supports the long held principle that income received by individuals should be taxed at the individual’s marginal rate of tax (after the application of any applicable deductions and tax offsets). We believe that there are valid situations where discretionary trusts are required for asset protection, but recognise that these trusts structures should not be over exploited for tax purposes.

Health Care

Recommendation 12: ***That the CPI indexation of Health Insurance rebates be immediately scrapped and the % rebate be based on % premium increases for Australians 65 years and older be reintroduced in full.***

Rationale: A previous Government introduced a process of setting the rebate amount based on CPI rather than the actual % increase in premiums. The effect of this is to annually reduce the rebate entitlement for some people until it is phased out. History has shown that the premium % increase for Health Insurance approved by Government has been well above the % increase in CPI.

This increasing cost of health insurance premiums for this group of the community is neither transparent nor fair and reduces the community's confidence in the private health insurance system. This specifically and unfairly attacks the group of Australians who are 65 years of age and older for whom the means tested aged-based rebate was provided to support older Australians in their continuing contributions to health insurance.

Health Insurance is seen by many, who have made contributions over their lifetime, as essential in the later years to allow them to use the medical specialist of their own choice and allow access to care in Private Hospitals when needed. The rebates were specially introduced to help support and encourage retirees to continue with their Private Health Insurance and not simply rely on the overloaded Public Hospital system.

A.I.R. urges the parliament to acknowledge the short-comings of the existing rebate calculation for older Australians and revert to the previously set aged and income based % rebates.

Recommendation 13: ***The PBS Safety Net threshold for single people be adjusted so that they are not disadvantaged in comparison with couples or families. This is particularly disadvantageous to older people.***

Rationale: Single and widowed retirees continue to be discriminated against with the current threshold level of the Medicare and Pharmaceutical Benefits Scheme (PBS) Safety Net and with the upper threshold value for singles to receive the Commonwealth Senior Health Card (CSHC).

A.I.R. believes that Safety Net concessions should be available on an equitable basis and the Medicare and PBS Safety Net thresholds for single and widowed retirees should be set at 65% of the couples / families threshold level or the % difference between the threshold income limit to receive the Age Pension for a single person and a couple.

This recommendation is proposed to address a significant inequity between single people and couples/families. A single person currently needs to have the same value of medical prescriptions as a couple or family before they become eligible for the Safety Net rebate. This is grossly unfair and inequitable and a change should be made to reflect the difference between the current upper income threshold value to receive the Age Pension for a single person and a couple (ie. 66.3% difference).

Aged Care

Recommendation 15: ***That to meet growth in number of elderly Australians who wish to stay longer in their home, the allocation of Home Care Packages be substantially increased particularly at Level 3 and 4. In addition, a new Level 5 Home Care Package should be introduced to support higher care needs in the home.***

Recommendation 16: ***That to provide the growing skilled age care workforce required to meet the rapidly increasing needs of age care providers, additional vocational training programs and places be funded and resourced.***

Recommendation 17: ***That with the substantial increase in home care packages, sufficient monitoring and oversight should be implemented to prevent financial misappropriation and fraud.***

Recommendation 18: ***That the Aged Care Quality and Safety Commission effectively lifts the standards of aged care, reduces abuse in residential care and comprehensively pursues complaints about aged care providers.***

Recommendation 19: ***That in any changes to the means test on residential aged care accommodation, the family home of the surviving partner not be included and the present maximum caps on the annual and lifetime costs not be lifted*.**

Rationale: Australia's population is ageing and people are living longer. Therefore, there is increasing demand for assistance to help the elderly remain in their home, or in residential aged care accommodation or provide respite care. As a result, there is increasing demand to provide an adequately trained workforce.

Keeping people in their own home is positive for their well-being but as a consequence they are frailer when they need care. This means higher levels of assisted care at home and in accommodation.

AIR understands that to provide enough residential aged care accommodation to meet demand, there will be an ongoing need for community, religious, private sector and non-profit providers. It is also likely that some government capital assistance will be required particularly in regional and rural areas.

However, to retain public confidence in this vital aged care sector, there is an ongoing need to proactively monitor and act to ensure community expectations of age care standards are met.

Further Information:

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