independence matters

Association of Independent Retirees

2022-23 Pre Budget Submission to the Federal Treasurer and the Department of Treasury - Budget Policy Division

January 2022

Executive Summary

The Association of Independent Retirees welcomes the opportunity to provide the following Pre-Budget submission containing policy recommendations across areas of concern to current and future fully and partly self-funded retirees:

Superannuation, Retirement Income & Tax Recommendations

The Association of Independent Retirees acknowledges the progress of our policy recommendations from our 21-22 Pre-Budget submission and in subsequent government announcements.

With the limited parliamentary sitting days before the election, The Association of Independent Retirees sees a very real risk that the various pieces of legislation will not be passed by Parliament by the intended implementation date.

Recommendations

Recommendation: That legislation related to changes to retirement savings and income announced in the 21-22 federal budget be expedited so they are passed by Parliament before the 30th June, 2022 for implementation from 1st July 2022.

Recommendation: Changes to Retirement Savings and Income Policy should be grandfathered.

Recommendation: More flexibility is required with the current aged based percentage drawdowns for account-based 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.

Recommendation: The current Deeming Rates are too high in a low investment return environment and rates should be lower to align with actual cash rates of return.

Recommendation: That the Government retains and improves the Seniors and Pensioners Tax Offset (SAPTO) for people with income from retirement savings outside superannuation.

Recommendation: A national program is required to improve their financial literacy and understanding of the Retirement Income System, so people can adequately plan for their retirement and/or make the most of their retirement savings. This should include the extension of information available from 'moneysmart.gov.au' and Services Australia with a personalisation option through 'my.gov.au.' and promotion of these information sources.

Recommendation: The Gifting Rules (or Deprivation provisions) have not been adjusted since they were introduced in 2002. They should be updated immediately and then adjusted for inflation/CPI on a regular basis as occurs with the Pension assets test.

Adequacy and Equity Measures

Further to **Retirement Income Review**'s criteria of **adequacy and equity** where **retirees with lower balances** should have access to measures to build up their superannuation to provide an adequate retirement income.

Recommendation: For workers approaching retirement (over age 55) with less than $500,000 in superannuation, the annual concessional contribution cap should be doubled from $27,500 to $55,000 until their super balance exceeds $500,000. This will provide more scope for additional concessional contributions than the existing carry-forward concessional contribution arrangements.

Recommendation: For workers over age 55 with less than $500,000 in superannuation, the annual non-concessional contributions cap should be doubled from $110,000 to $220,000 until their super balance exceeds $500,000. Where pre-retirees have particularly low balances and/or limited time before retirement, this arrangement could be more workable than the current 3-year bring-forward non-concessional contribution arrangements.

Recommendation: To provide a 'spouse superannuation transfer' facility for couples within the same superannuation fund to enable more equitable super balances for members of a couple.

The **Retirement Income Review** also noted that **very large superannuation balances** over $5m were not required for retirement income purposes. The provision of earning tax concessions for very large accumulation account balances is unlikely to encourage additional savings and is mainly used as a tax minimisation strategy.

Recommendation: It is recommended that superannuation funds containing members with **very large superannuation balances (over $5m) attract an earning tax surcharge of 15%** on their member accumulation accounts similar to the additional Division 293 tax that is levied on the superannuation contributions of individuals over the Division 293 threshold.

Aged Care – Quality and Safety

In response to the Age Care Royal Commission into Aged Care Quality and Safety report findings, the Association of Independent Retirees notes that progress has been made and plans have been formulated in number of areas.

Recommendation: Prior to the implementation of the new Aged Care Act in July 2023, the Aged Care Quality and Safety Commission should consider progressively implementing transitional measures as soon as possible to improve the capacity, quality and safety of residential aged care and home care services.

Recommendation: That the Aged Care Quality and Safety Commission comprehensively pursues complaints about aged care providers and implements a complaints mechanism similar to OPAN for disabled retirees who are covered by the NDIS.

Staffing

Australia’s population is ageing and are living longer. There is increasing demand for assistance to help the elderly remain in their home, or in residential aged care accommodation or respite care.

Recommendation: To provide the growing skilled aged care workforce required to meet the rapidly increasing needs of aged care providers, additional vocational training programs and places need to be funded and resourced.

Recommendation: To enable aged care providers to recruit sufficient aged care workers and to encourage more interest in aged care training programs, the pay rates for aged care workers should be increased (as a matter of urgency) to more closely align to other segments of the health care workforce.

Funding

In response to the Age Care Royal Commission into Aged Care Quality and Safety report findings, the Association of Independent Retirees notes that measures to improve provider viability have been made from our last year’s Pre-Budget submission.

Recommendation: That adequate funding must be provided to meet the current and future demand for residential aged care and home care at the required standards including better quality food and adequate staffing levels.

Recommendation: If an aged care provider does not publish their fees on the My Aged Care website in a timely manner, they should be removed from the website.

Recommendation: Implement aged care funding models that are fair to self-funded retirees.

Recommendation: That if there are 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.

Home Care

Additional Home Care Packages

The Association of Independent Retirees acknowledges the 21-22 federal budget announcements of 40,000 new home care packages provided from July 2021, with another 40,000 from July 2022, predominantly at level 3 and 4. This implements AIR’s policy recommendations from last year’s Pre-Budget submission.

Improved Payment Arrangements

From September 2021, the Department of Health and Services Australia implemented several key improvements to the payment arrangements for Home Care Packages.

AIR acknowledges and supports this change in payment arrangements and notes that it helps address our observations and recommendations in our last year’s Pre-Budget submission.

The ‘New Support at Home’ Program

The Association of Independent Retirees notes the announcement of the new Support at Home Program that will replace the Commonwealth Home Support Program (CHSP), Home Care Packages (HCP) and Short Term Restorative Care (STRC) Program from July 2023. We further note the following key features of the new program:

- New assessment tool and individualised service recommendations
- A Service List including care management
- Access to goods, equipment, assistive technologies and home modifications
- Supporting senior Australians to self-manage their care
- Consistent funding arrangements and support for providers operating in thin markets
- Better support for specific care cohorts including informal carers

AIR notes that this new Support at Home Program provides ‘more client control over funds allocated for home care’, a more integrated aged care system and support for regional and rural clients that we recommended in our last year’s Pre-Budget submission.

Health Care

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

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

Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees is the national peak body representing current and future partly and fully self-funded retirees. AIR works to advance and protect the interests of Australians seeking independence in retirement. AIR 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.

There are now over 2 million Australians who either fully or partly self fund their retirement. The greater majority of these are not “wealthy” individuals as has been suggested and unexpected financial impacts to their income streams may result in them needing Government support in the later years of their retirement.

AIR remains committed to a view that any changes to superannuation, retirement savings and income arrangements must not disadvantage current retirees and those about to retire. Future changes must include grandfathering and transitionary provisions to protect those retirees whose retirement income is based on the current rules.

We accept the premise that those who can afford to contribute to their health care and aged care costs should do so. However, we have a concerns with aged care reforms, income and assets tests based on retirement income stream generating assets may change and many self-funded retirees will be financially disadvantaged by such measures.

Retirement planning has not only become more complex, but current volatile market conditions, low interest rates and the impacts of the COVID-19 pandemic are making it harder for many to develop a retirement plan that will last for the longer term.

The Government needs to adopt a holistic approach to bring about greater effectiveness and efficiencies from the retirement savings and income system especially for those in the pension phase. It needs to ensure in the process of change that this group is protected from unintended consequences of change.

Rationale to support the recommendations

Superannuation, Retirement Income and Tax

Acknowledgement of Policies progressed since the 21-22 Budget

The Association of Independent Retirees acknowledges the progress of the following policy recommendations from our 21-22 Pre-Budget submission and in subsequent government announcements:

- The interest rate for the Pension Loan Scheme is too high and needs to be reduced in line with owner occupied home loans of below 4%.
- Those retirees who could not accumulate sufficient superannuation during their working life are able to make voluntary contributions up to age 75 without satisfying the work test.
- Reduction in Downsizer super contribution eligibility from age 65 to 60
- Removal of the $450 Monthly Minimum Wage threshold for Superannuation Guarantee contributions
- Retirement Income Covenant for trustees of large public offer superannuation funds
- Conversion of legacy market-linked or lifetime income streams to account based pensions

Concern that enabling legislation will not passed by Parliament before the intended implementation date.

It was intended that many of the above measures will be passed by parliament before the 30th June, for implementation from the 1st July, 2022. At the time of write, many changes are still moving through the legislative and consultation processes.

With the limited parliamentary sitting days before the election, The Association of Independent Retirees sees a very real risk that the various pieces of legislation will not be passed by Parliament before the intended implementation date.

Recommendations

Recommendation: That legislation related to changes to retirement savings and income announced in the 21-22 federal budget be expedited so they are passed by Parliament before the 30th June, 2022 for implementation from 1st July 2022.

Recommendation: Changes to Retirement Savings and Income Policy should be grandfathered.

Rationale: Fully and partly self-funded retirees and those planning their retirement have been impacted by ongoing changes to superannuation, retirement savings and income policy made over the last 10 years.

Current and future retirees need policy certainty to plan decades into the future. These ongoing changes have eroded their confidence in the retirement income system and have added complexity and made understanding of the system more difficult.

The **Retirement Income Review report** has highlighted in its key observations that **“**the retirement income system is complex. Complexity, misconceptions and low financial literacy have resulted in people not adequately planning for their retirement or making the most of their assets when in retirement**”**.

Recommendation: More flexibility is required with the current aged based percentage drawdowns for account-based 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.

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. In addition to this longevity risk, over the course of this longer retirement, investment risk increases with high likelihood of many severe shocks to the value of retirement savings and retirement income.

Self-funded retirees bear the full consequences of these risks but we also accept the premise that those who can afford to contribute to their health care and aged care costs should do so.

We therefore need the flexibility to ensure they we can fund living increasing expenses, health insurance, out of pocket health expenses and aged care while generating considerable savings to the Federal budget by reducing government funded age pension, health and aged care expenses in later life.

Recommendation: The current Deeming Rates are too high in a low investment return environment and rates should be lower to align with actual cash rates of return.

Rationale: With current deeming rates (above the threshold) of 2.25% that are much higher than the RBA cash rate, income is ‘deemed’ to have rates of return that are many times 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: That the Government retains and improves the Seniors and Pensioners Tax Offset (SAPTO) for people with income from retirement savings outside superannuation.

Rationale: The benefits of the Seniors and Pensioners Tax Offset (SAPTO) to people with earnings from retirement savings outside superannuation is acknowledged.

This recommendation is consistent with **Retirement Income Review**'s key element of **equity '**where the system should provide similar outcomes for people in similar circumstances'.

AIR urges the Government to retain or improve this concession as it gives some equity of tax treatment between earnings from retirement savings within superannuation and earnings from retirement savings outside superannuation.

Recommendation: A national program is required to improve financial literacy and understanding of the Retirement Income System, so people can adequately plan for their retirement and/or make the most of their retirement savings.

This should include the extension of information available from 'moneysmart.gov.au' and Services Australia with a personalisation option through 'my.gov.au.' and promotion of these information sources.

Rationale: The **Retirement Income Review** report included many observations about the need to improve understanding of the retirement income system. There is significant evidence of low financial literacy particularly about the key issues in the retirement phase. There needs to be a better understanding of interaction between the tax, superannuation, social security and aged care systems in retirement. People need to know where to get reliable independent information so they can knowledgeable decisions when planning for and during retirement.

Recommendation: The Gifting Rules (or deprivation provisions) have not been adjusted since they were introduced in 2002. They should be updated immediately and then adjusted for inflation/CPI on a regular basis as occurs with the Age Pension assets test.

Rationale: The current gifting rules (deprivation provisions) have remained at $10,000 per year or $30,000 over a 5 year period since they were introduced in 2002. Inflation/CPI changes since 2002 has significantly eroded the current value of these rules. These limits should be updated immediately to take account of inflation effect since 2002 and updated regularly every three years.

Adequacy and Equity Measures

Recommendation: **For workers approaching retirement (over age 55) with less than $500,000 in superannuation, the annual concessional contribution cap should be doubled from $27,500 to $55,000 until their super balance exceeds $500,000. This will provide more scope for additional concessional contributions than the existing carry-forward concessional contribution arrangements.**

Recommendation: **For workers over age 55 with less than $500,000 in superannuation, the annual non-concessional contributions cap should be doubled from $110,000 to $220,000 until their super balance exceeds $500,000. Where pre-retirees have particularly low balances and/or limited time before retirement, this arrangement could be more workable than the current 3-year bring-forward non-concessional contribution arrangements.**

Rationale: The Retirement Income Review's identified the need for **adequacy** and retirees with **lower balances** should have access to measures to build up their superannuation to provide an adequate retirement income.

Recommendation: To provide a 'spouse superannuation transfer' facility for couples within the same superannuation fund to enable more equitable super balances for each member of a couple.

Rationale: Currently, many couples do not have equity in their superannuation balances. To move toward more **equity** with their super balances, couples are required to use a lump sum withdrawal/re-contribution strategy. This artificially inflates the number of lump sum withdrawals and requires superannuation investments to be liquidated and then re-invested after re-contribution by the spouse.

With a 'spouse superannuation transfer' the non-concessional contribution and super balance transfer limits would still apply.

This recommendation provides a solution to observations made by the **Retirement Income Review:**

- where there have been 'inequitable retirement outcomes for various groups, such as women'.
- 'that the gap in superannuation balances at retirement between men and women is the accumulation of economic disadvantages faced by women in working life, particularly the gap in earnings and time spent in the workforce'.
- 'Voluntary superannuation provides the flexibility for people to make catch-up savings after periods out of the workforce'.

Recommendation: It is recommended that superannuation funds containing members with very large superannuation balances (over $5m) attract an earning tax surcharge of 15% on their member accumulation accounts similar to the additional Division 293 tax that is levied on the superannuation contributions of individuals over the Division 293 threshold.

Rationale: The **Retirement Income Review** noted that **very large superannuation balances** over $5m were not required for retirement income purposes. The provision of earning tax concessions for very large accumulation account balances is unlikely to encourage additional savings and is mainly used as a tax minimisation strategy.

It is appropriate that earnings from very large superannuation accumulation accounts balances be treated in a similar way to superannuation contributions from high income earners.

Aged Care – Quality and Safety

In response to the Age Care Royal Commission into Aged Care Quality and Safety report findings, the Association of Independent Retirees notes that progress/action has been made in number of areas including the following:

- The Serious Incident Response Scheme (SIRS) to reduce abuse and neglect in Australian Government-subsidised residential aged care commenced on 1 April 2021 for residential aged care

- The $10 Basic Daily Fee supplement for residential aged care

- The Australian Commission on Safety and Quality in Health Care assumed responsibility for setting clinical care components of the Quality Standards from 1 July 2021.

- Improvements to the quality of care in dementia, diversity, food and nutrition services in 2021.

- From 1 July 2022, the SIRS will be expanded from residential care to in-home aged care services.

- That the Aged Care Quality Standards are being reviewed and the review will be completed by December 2022.

- Transitional arrangements to a single set of Quality Standards for all aged care services has resulted in temporary arrangements to the assessment and monitoring of aged care services

Recommendation: Prior to the implementation of the new Aged Care Act in July 2023, the Aged Care Quality and Safety Commission should consider progressively implementing transitional measures across the planned reforms as soon as possible to improve the capacity, quality and safety of residential aged care and home care services.

Recommendation: That the Aged Care Quality and Safety Commission comprehensively pursues complaints about aged care providers and implements a complaints mechanism similar to OPAN for disabled retirees who are covered by the NDIS.

Staffing

Australia’s population is ageing and we are living longer. There is increasing demand for assistance to help the elderly remain in their home, or in residential aged care accommodation or respite care.

It is notable that many aged care staff are in precarious employment and often working at more than one location. This highlights a need for improved regulation and management of staffing arrangements.

There has been significant public criticism and substantial consumer dissatisfaction with aged care providers engaging untrained care workers or not being able to recruit or retain sufficient aged care workers.

Recommendation: To provide the growing skilled aged care workforce required to meet the rapidly increasing needs of aged care providers, additional vocational training programs and places need to be funded and resourced.

Rationale: To support the increased demand for more complex aged care, adequate staffing numbers with appropriate skill sets are required.

Recommendation: To enable aged care providers to recruit sufficient aged care workers and to encourage more interest in aged care training programs, the pay rates for aged care workers should be increased (as a matter of urgency) to more closely align to other segments of the health care workforce.

Rationale: It is likely that in an environment of labour shortages, the current pay scales for aged care workers are not competitive with other allied health roles or other industries (like retail and hospitality) who are competing to fill vacant positions.

Funding

In response to the Age Care Royal Commission into Aged Care Quality and Safety report findings, the Association of Independent Retirees notes that measures to improve provider viability have been made including the following:

- Monitoring, compliance and intervention to help providers build financial sustainability, capability and resilience in 2021

- Structural Adjustment Program to deliver increased provider viability from 2022

These programs address AIR's policy recommendations from last year's Pre-Budget submission as follows:

- To implement an alternative to the principle of "market competition" to provide quality aged care services at acceptable costs, particularly in rural and remote areas.

- A remediation program should be implemented as a matter of urgency to support the continued viability of residential aged care providers that are operating at a loss.

Recommendation: That adequate funding must be provided to meet the current and future demand for residential aged care and home care at the required standards including better quality food and adequate staffing levels.

Recommendation: If an aged care provider does not publish their fees on the My Aged Care website in a timely manner, they should be removed from the website.

Rationale: Providers are required to publish their management fees on the My Aged Care website for comparison purposes, but many have not. AIR understands that the Aged Care Quality and Safety Commission have followed up a number of providers who have failed to publish their fees, but the providers had not resolved all the issues.

Recommendation: Implement aged care funding models that are fair to self-funded retirees.

Recommendation: That if there are changes to the means test on residential aged care accommodation, the family home of the surviving partner should not be included and the present maximum caps on the annual and lifetime costs should not be lifted.

Home Care

Additional Home Care Packages

The Association of Independent Retirees acknowledges the 21-22 federal budget announcements of 40,000 new home care packages provided from July 2021, with another 40,000 from July 2022, predominantly at level 3 and 4.

This implements AIR's policy recommendations from last year's Pre-Budget submission as follows:

- The allocation of Home Care Packages should be substantially increased particularly at Level 3 and 4.

- The waiting lists for home care packages at all levels be reduced to near zero so that waiting periods can be reduced substantially for aged care support

Improved Payment Arrangements

From September 2021, the Department of Health and Services Australia implemented several key improvements to the payment arrangements for Home Care Packages as follows:

- Service providers will be paid in arrears based on the services delivered
- Home care accounts for each individual receiving care will be created
- The Australian Government will utilise these accounts to manage unspent Commonwealth funds
- Service providers can opt in to return unspent Commonwealth funding

AIR acknowledges and supports this change in payment arrangements and notes that it helps address the following observations and recommendations in our last year's Pre-Budget submission:

- With the total funding paid directly to the Home Care provider, the provider controls unspent funds in a client's account and could invest these funds and retain any investment earnings.

- With a substantial increase in home care packages, sufficient monitoring and oversight is required to prevent financial misappropriation and fraud.

- Provide transparency of funding over funds allocated for home care.

The 'New Support at Home' Program

The Association of Independent Retirees notes the announcement of the new Support at Home Program that will replace the Commonwealth Home Support Program (CHSP), Home Care Packages (HCP) and Short Term Restorative Care (STRC) Program from July 2023. We further note the following key features of the new program:

- New assessment tool and individualised service recommendations
- A Service List including care management
- Access to goods, equipment, assistive technologies and home modifications
- Supporting senior Australians to self-manage their care
- Consistent funding arrangements and support for providers operating in thin markets
- Better support for specific care cohorts including informal carers

AIR notes that this new Support at Home Program provides **‘the client control over funds allocated for home care’** that we recommended in our last year’s Pre-Budget submission.

However, we remain concerned that aged care clients and their families/carers will still struggle to understand how the system works and their fees. Even with an improved Service list and more transparent system, we wonder whether many clients evaluate their options to get a better deal.

Health Care

Recommendation: That the CPI indexation of Health Insurance rebates be immediately scrapped and the % rebate 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. This reduces the rebate entitlement annually 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 that of the 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.

Many retirees who have maintained Health Insurance policies over their lifetime, see it as essential in the later years, to allow them choice of medical specialist and allow access to immediate care in Private Hospitals when needed.

A survey of AIR members indicated that 93% of our members currently have private health insurance cover. The rebates were specially introduced to help support and encourage retirees to continue with their Private Health Insurance and not rely on the overloaded Public Hospital system.

Whilst commendable to see the Government introduce incentives for young people to obtain private health insurance, it was disappointing that no consideration has been given to assisting older people to retain their long-held private health insurance. These people are now being forced out of this insurance because of ever-increasing premiums.

AIR urges the Government to acknowledge the shortcomings of the existing rebate calculation for older Australians and revert to the previously set aged and income based % rebates.

Recommendation: The PBS Safety Net threshold for single people should 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).

AIR 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).

Further Information:

For further information, please contact Wayne Strandquist, National President, Association of Independent Retirees on 02 9871 7927 / 0412 434 467; email president@independentretirees.com.au