independence matters

Association of Independent Retirees

2020-21 Pre Budget Submission to the Federal Treasurer and the Department of Treasury - Budget Policy Division

January 2020

Executive Summary

This submission from the Association of Independent Retirees (A.I.R.) Limited contains the following recommendations across areas of key concern to current and future fully and partly self-funded retirees:

Recommendation 1: Changes to Retirement Savings and Income Policy must be grandfathered.

Recommendation 2: There needs to be an immediate change to the current aged based percentage draw-downs 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 3: The current Deeming Rules are too high in a low investment return environment.

Recommendation 4: That all retirees who could not accumulate sufficient superannuation during their working life are able to contribute up to age 75 without satisfying the work test.

Recommendation 5: To proceed with the legislated increase of Compulsory Superannuation Contributions by employers from 9.5% to 12%.

Recommendation 6: That the Government retains and improves the Seniors and Pensioners Tax Offset (SAPTO) tax concession for people with savings outside superannuation to give equity for people who were not able to save within superannuation and who have contributed to after tax saving outside superannuation.

Recommendation 7: 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.

Recommendation 8: 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 9: 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.

Recommendation 10: 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.

Recommendation 11: 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 12: That with the substantial increase in home care packages, sufficient monitoring and oversight should be implemented to prevent financial misappropriation and fraud.

Recommendation 13: That payments to residential age care providers from the Federal Government be increased immediately to enable continued viability of at least 40% of providers that are operating at a loss.

Recommendation 14: 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 15: That a complaints mechanism similar to OPAN (which applies for non-disabled retirees) be instituted for disabled retires who are covered by the NDIS.

Recommendation 16: 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.

Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing current and future partly and fully self-funded retirees. AIR works to advance and protect the interests and independent lifestyle of Australians in or approaching 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.

At the same time, we accept the need for the Government to maintain a disciplined approach to economic management and we are mindful of the current fiscal position, but we believe our recommendations are sound, with the cost of implementation carefully balanced against the benefit to the community.

Successive Federal Governments have said they are committed to encourage and support those who self-fund their retirement. However, in practice we believe Governments have not consistently supported those in the retirement by restricting benefits or not providing the support to which they have committed.

There are now over 2 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 suggested and ongoing financial impacts to their established income streams may result in them not being able to maintain their independence from Government support in the later years of their retirement.

AIR remains committed to a view that any changes to superannuation, retirement savings and pension 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 have a broad issue of concern with ongoing health care and aged care reforms which may change income and assets tests based on income stream generating assets. We accept the premise that those who can afford to contribute to their health care and aged care costs should do so. However it seems that in practice many self-funded retirees, who are not high wealth individuals and are 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’s will last for the longer term.

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

Rationale to support the recommendations

Superannuation, Retirement Savings and Tax

Recommendation 1: ***Changes to Retirement Savings and Income Policy must be grandfathered.***

Rationale: Fully and partly self-funded retirees and those planning their retirement are 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 retirement saving and income rules to protect those who are in or are approaching retirement has been undermined such that many future retirees have no confidence in the retirement income system.

Recommendation 2: ***There needs to be an immediate change to the current aged based percentage draw-downs 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.*

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 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 funds in pension mode.

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 the commencement of Age Pension and related age care costs for many self-funded retirees.

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

Rationale: With current deeming rates of 3% 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: *That all retirees who could not accumulate sufficient superannuation during their working life are able to contribute up to age 75 without satisfying the work test.*

Rationale: The Government's urgent attention is sought to remove the inequity between self-funded retirees without superannuation and those with superannuation.

Many older retirees could not contribute to superannuation until late in their working life or not at all. As a result, they have low or no super balances. In retirement they may have obtained funds through inheritance, downsizing, etc., but can not make contributions to superannuation due to the work test.

For retirees up to age 75 with less than $500,000 in superannuation, they should be able to contribute to super within current contribution limits without satisfying the work test.

In this way, a work test exemption would apply for everyone between age 65 and 75 with lower superannuation balances.

Recommendation 5: *To proceed with the legislated increase of Compulsory Super Contributions by employers from 9.5% to 12%.*

Rationale: Compulsory 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: *That the Government retains and improves the Seniors and Pensioners Tax Offset (SAPTO) tax concession for people with savings outside superannuation to give equity for people who were not able to save within superannuation and who have contributed to after tax saving outside superannuation.*

Rationale: The benefits of the Seniors and Pensioners Tax Offset (SAPTO) to people with savings outside superannuation is acknowledged. AIR urges the Government to retain or improve this concession as it gives equity for people who not been able to save within superannuation and who have contributed to after tax savings outside superannuation.

Recommendation 7: *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*.

Rationale: Currently, women have much lower superannuation balances on average than for men. 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.

Health Care

Recommendation 8: *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. 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 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.

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 immediate 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.

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 as a result of ever-increasing premiums.

AIR urges the Government 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 9: ***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).

Aged Care

Recommendation 10: ***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.***

Recommendation 11: ***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 12: ***That with the substantial increase in home care packages, sufficient monitoring and oversight should be implemented to prevent financial misappropriation and fraud.***

Recommendation 13: ***That payments to residential age care providers from the Federal Government be increased immediately to enable continued viability of at least 40% of providers that are operating at a loss.***

Recommendation 14: ***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 15: ***That a complaints mechanism similar to OPAN (which applies for non-disabled retirees) be instituted for disabled retires who are covered by the NDIS.***

Recommendation 16: ***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. To ensure facilities meet expectations, it is likely that additional government capital assistance will be required particularly in regional and rural areas.

Given recent information that up to 40% of residential age care providers are operating at a loss, operational payments from the Federal government must be increased immediately to ensure their ongoing financial viability.

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

Further Information:

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