independence matters

Association of Independent Retirees

2024-25 Pre Budget Submission to the Federal Treasurer and the Department of Treasury - Budget Policy Division

January 2024

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.

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 over 2 million Australians who either fully or partly self fund their retirement. The greater majority of these are not “wealthy” individuals and unexpected financial impacts to their income streams may result in them needing Government support in the later years of their retirement. APRA predicts there will be another 3.6 million Australians who will move into the retirement phase of superannuation over the next 10 years.

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.

We accept the proposition that those who can afford to contribute to their health care and aged care costs should do so. However, we have concerns with more aged care funding required, fees, charges, consumer contributions, means test arrangements will change and many self-funded retirees will be financially disadvantaged by such measures.

Retirement planning has not only become more complex, but current volatile financial market conditions are making it harder for many retirees to develop a retirement plan that will last for the longer term. The government needs to ensure that in the process of policy change, fully and partly self-funded retirees are not impacted from the unintended consequences of any changes.

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Recommendations

The Association of Independent Retirees (A.I.R.) Limited welcomes the opportunity to provide the following Pre-Budget briefing to the Federal Treasurer containing policy recommendations across areas of concern to current and future fully and partly self-funded retirees.

Superannuation, Retirement Income & Tax Recommendations

Acknowledgement of Policies progressed during the last 2 years.

The Association of Independent Retirees acknowledges the implementation of policy recommendations from previous Pre-Budget submissions and in subsequent legislation/regulation including:

- 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 and 55.

- Retirement Income Covenant for trustees of large public offer superannuation funds.

Recommendation: The current age ranges should be broader and **minimum drawdown percentages lowered** for superannuation account-based pensions once a retiree reaches **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%		5%
80 to 84	7%	80 to 89	6%
85 to 89	9%		6%
90 to 94	11%	90 to 94	7%
Aged 95 or older	14%	95 and over	10%

Rationale: The length of time spent in retirement is becoming longer as life expectancy continues to increase. It is now common for retirement to be 30 years or longer. In addition to this, **longevity risk**, **inflation risk** and **investment risk** increase the 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 are increasingly **concerned about running out of money** in retirement and having **insufficient funds to afford more costly health and aged care.**

With the drawdown percentages increase as we age, funds that are required to be removed from superannuation over age 75 may be more than what is required for everyday expenses. With **investment returns of superannuation funds exceeding those achieved by individuals, retirees would prefer to retain retirement funds in superannuation,** rather than try to invest them outside superannuation and achieve a lower return.

It has been suggested that retirees over age 75 want to retain funds in superannuation to benefit from the low tax environment. The **reality is retirees want to benefit from the higher investment returns in super** that can fund health and aged care rather than try to generate equivalent returns outside superannuation.

In addition to higher investment returns, retirees benefit from **greater security of funds**. With more sophisticated systems in large superannuation funds managing funds movements from one investment to another, it is less likely for member funds to be lost to scams and cyber-security attacks that are occurring with greater frequency.

Recommendation: A national program is required to improve financial literacy and the understanding of the Retirement Income System, so people can adequately plan for, manage risks and maximise their income in retirement.

This national program should include the extension of information available from 'moneysmart.gov.au', ATO online and Services Australia with a personalisation option the through 'my.gov.au.' website 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 risks and strategies in retirement. The Review said that complexity, misconceptions and low financial literacy have resulted in people not adequately planning for their retirement or making the most of their assets in retirement.

There needs to be a better understanding of interaction between the tax, superannuation, social security and aged care systems in retirement. People need to be able to get reliable independent information so they can make knowledgeable decisions when planning for and during retirement.

Recommendation: The current threshold used for Deemed income should be increased to align to the annual ASFA Retirement Standard for couples at the comfortable level ie. nearly $70,000 per year. From July 1, 2024 when the current freeze in deeming rates finishes, the deeming rates should realign to a small discount on the RBA cash rate.

Rationale: The deeming rate (above the threshold) is intended to reflect the rates of return available from a cash investment. The RBA cash rate reflects the 'risk-free' return for cash. It is therefore appropriate that the deeming rate above the threshold should be set at 0.5% below the current RBA cash rate of 4.35%. This deeming rate of 3.85% provides the appropriate incentive for retirees to seek a higher return on their retirement savings but ensures the investment risk can be minimised.

Having a deeming rate threshold that aligns with 1 year of spending, enables retirees to keep readily available funds in an 'at call' cash account earning approximately similar interest returns as the deeming rate for funds below the threshold.

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.

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 Measures

Rationale: With increasing longevity and inflation risk, **there are heightened concerns amongst pre-retirees about whether they will have enough retirement savings to fund their planned retirement.** Retirees with lower superannuation balances should have access to a **range of voluntary measures** to build up their superannuation savings.

Recommendation: **For people 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.**

Recommendation: **For people 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.**

Equity Measures

Rationale: The Retirement Income Review and other studies have found that there have been '**inequitable retirement outcomes for various groups, such as women'.**

These recommendations provide solutions for the **gap in superannuation balances** between men and women at retirement and for people who have **retirement savings outside the superannuation system**.

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

Rationale: With a **'spouse superannuation transfer'** the non-concessional contribution and super balance transfer limits would still apply. Currently, for couples to achieve more equity in their super balances, they need to use somewhat limited spouse contributions.

Recommendation: That the proposed Division 296 tax on 'earnings' on Total Superannuation Balances (TSB) over the threshold of $3 million be indexed.

Rationale: Without indexing the $3 million TSB threshold, current workers will exceed the threshold with their contributions (within current caps) and investment growth in their fund/s. This process of indexing aligns with other superannuation thresholds including the Transfer Balance Cap, Annual concessional and non-concessional contributions.

Without indexation, the TSB threshold should be $5 million as per the Association of Independent Retirees 2022-2023 and 2023-2024 Pre-Budget submissions.

Recommendation:
Annual earnings should not be calculated by the year-on-year difference in the capital value of the TSB over $3 million (adjusted for withdrawals and contributions) Earnings should only be calculated on actual income received from interest, dividends, rents, actual net realised capital gains,

Rationale: Unrealised Capital gains are not actual earnings received and should not be used in calculating earnings for individuals with a TSB greater than $3 million. The taxation of unrealised capital gains is an inappropriate method of income taxation, because the actual gain cannot be determined until the asset is disposed of. Until the asset is sold, the notional gains would need to be recorded, because when the real gains or losses happen they will almost certainly differ from the assumed gains.

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

Aged Care – Quality and Safety

Acknowledgement of Policies progressed during the last 2 years.

The Association of Independent Retirees acknowledges the implementation of the following policy recommendations from previous Pre-Budget submissions and in subsequent legislation/regulation:

- That the Aged Care Quality and Safety Commission improves the quality and safety of residential aged care by lifting the standards of aged care and reducing abuse in residential care by implementing the new Code of Conduct for Aged Care and revising restrictive practise arrangements.

- 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.

- 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.

- Provide sufficient monitoring and oversight required to prevent financial misappropriation and fraud via strengthened prudential oversight of residential accommodation deposits.

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.

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 skilled aged care workers.

Recommendation: To ensure that sufficient aged care workers are being trained, the vocational training and university completion statistics for various Health and Aged Care skills should be reported to the Department of Health and Aged Care for incorporation into provision of ongoing workforce training places.

Recommendation: That the recruitment of aged care workers by aged care providers across the required skill levels is monitored closely via the mandatory reporting requirements to the Department of Health and Aged Care including via the Aged Care Financial Report and other reports.

Recommendation: With the mandating of the use of Registered Nurses in Aged Care facilities, the Strengthened Governance arrangements should be used to ensure that there is not a reduction on overall skill levels by the replacement of Enrolled Nurses with less qualified personal care workers working under the supervision of an RN.

Funding

Recommendation: That the implementation of the Australian National Aged Care Classification (AN-ACC) funding model and the revised Independent Health and Aged Care Pricing Authority (IHACPA) ensure that:

- There is appropriate remediation in the financial viability of loss-making residential aged care providers.

- There is an alternative to the principle of “market competition” to provide quality aged care services at acceptable costs, particularly in rural and remote areas.

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: That any changes to the means test on residential aged care accommodation ensure that the family home of the surviving partner is not be included and the present annual and lifetime costs maximum caps should be only adjusted in line with inflation.

Enduring Powers of Attorney

Recommendation: AIR strongly supports the Attorneys-General in seeking to address financial elder abuse and achieving greater consistency in laws for financial enduring powers of attorney (EPOA) across Australia.

Rationale: AIR considers proposals to make EPOA laws uniform throughout the Commonwealth are long overdue. We support adopting a 'uniform' legislative approach as for corporation's law, whereby the states adopt identical laws across all jurisdictions.

An EPOA should be in a nationally approved prescribed format and EPOA's should be recognised in different jurisdictions.

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 is neither transparent nor fair and reduces the community's confidence in the private health insurance system. This unfairly discriminates against Australians aged 65 years and older for whom the means tested aged-based rebate was provided to support them 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 the choice of medical specialist and allow access to immediate care in Private Hospitals when needed.

A survey of AIR members indicated that over 90% 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. This would be equivalent to the % difference between the threshold income limit to receive the Age Pension for a single person and a couple.

This recommendation will 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.

End of Submission