Association of Independent Retirees (A.I.R.) Limited
Working for Australians in Retirement

2014-15 Pre Budget Submission to the Federal Treasurer and the Department of Treasury Budget Policy Division

January 2014

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Mr Stephen Hally-Burton
Contact Officer
Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Via email: prebudgetsubs@treasury.gov.au

Dear Mr Hally-Burton

Association of Independent Retirees (A.I.R.) 2014-15 Pre-Budget Submission

This Pre-Budget Submission addresses a number of issues of particular concern to fully and partly self-funded retirees and which affect their lives and living standards. While mindful of the current fiscal position, A.I.R. submits these recommendations and supporting rationales to seek to address some anomalies and inequities for this particular sector of the community.

The recommendations in this submission, which have been developed in consultation with A.I.R. members across Australia, are realistic measures by which assistance can be provided via the Federal Budget mechanism.

A.I.R. is well placed to inform retirees about Government policies affecting their financial security. In this context, we would be happy to consult with you further regarding policies and programs impacting on self-funded retirees and the broader aged care sector.

I hope that this submission will be accepted as positive and supportive of Government policy objectives. Should you require any further specific information in relation to this submission, please contact A.I.R. Deputy President Barry Ritchie, as follows:

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Yours sincerely

Max R Barton
National President

EXECUTIVE SUMMARY

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

RECOMMENDATIONS

Recommendation 1: that the Government allocate funds for a review of the drawdown phase of superannuation including the value, cost-benefit and discriminatory nature of its complex regulation.

Recommendation 2: that all retirees, no matter whether they accumulated their retirement assets within superannuation or outside superannuation, should have access to a specified tax-free component of their assets after retirement for their day to day living expenses, at least to the same extent as applies for those with superannuation.

Recommendation 3: that, if it is necessary to commence a superannuation fund to access the tax-free income stream component, the sale of assets to be transferred should be exempt from capital gains tax.

Recommendation 4: that all discriminatory age and work tests for retirees 65 years and over be abolished.

Recommendation 5: that with increasing longevity creating greater financial security risk and with the continuing negative impact of Global Financial Crises on self-funded retirees' already depleted superannuation investment balances (from which living expenses are derived) the Government remove the mandatory drawdown rate regulation, or at least revert to the previous 50% discount to the mandatory draw down rate on pensions as a permanent measure.

Recommendation 6: that the Government reintroduce the personal tax exemption on $1,000 of financial instrument interest introduced in the 2010-2011 Budget.

Recommendation 7: that the Government election commitment to make pension indexing methods consistent with those used for the Age Pension for the Defence Forces be proceeded with expeditiously and extended to include ex-Commonwealth Government employees.

Recommendation 8: that the Government remove the 2013 base rate for calculation of the Private Health Insurance Rebate introduced by the previous Government.

Recommendation 9: that the Government election commitment to index eligibility for the Commonwealth Seniors Health Card (CSHC) be implemented expeditiously with indexation based on the same calculation method and timetable as used for the Age Pension.

Recommendation 10: that the PBS Safety Net threshold for single retirees be set at 65% of the couples / families threshold level.

Introduction

This submission reflects the views, concerns and issues of partly and fully self-funded retirees who have experience in managing their affairs during retirement. As such they have a clear understanding of the issues that affect their capacity to live a fulfilling retirement and provide pragmatic and realistic advice relating to their current situation.

Successive Federal Governments have encouraged through their policies a position where Australians can ultimately self fund their retirement. Yet, in the eyes of many, they do little to support this philosophy for those who are self funding, either in part or in full, their retirement income stream and everyday expenses. Despite this policy position of encouraging self funding of retirement, Governments have in practice consistently failed to fully support this group by restricting or taking benefits away.

The actions of successive Federal Governments have been to change and readjust the accumulation phase of superannuation and yet they do little to simplify or enhance the current restrictive drawdown phase of superannuation.

There has been little, if any, attempt made to address the ongoing stigma associated with the words and title “a self funded retiree” by Governments at all levels and the media.

It should be appreciated that self funded retirees are a very diverse group of ordinary Australians who have worked hard to provide for their life in retirement. They are generally not high wealth individuals as many seem to infer. It is suggested that the majority of A.I.R.’s members are from lower middle class and middle class working employment background or are former small business owners. It is not disputed that high wealth retirees do not need any government support but these high wealth retirees are the exception and are an extremely small number of those retirees in Australia who self fund their retirement.

As at 30 June 2013 the Australian Bureau of Statistics has estimated the residential population in Australia for those 65 years and over as being 3,337,600 persons. Of these, some 50% either partly or fully self fund their retirement.

This submission focuses on those issues, concerns and recommendations within the areas of Financial, Health Care and Aged Care. The protection of these areas and the ability to maintain an independent lifestyle by Australia’s fully and partly self-funded retirees is important and needs to be addressed in the Government’s 2014-15 Budget.

We appreciate and respect 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 carefully balanced against the benefit to the community.

About A.I.R

The Association of Independent Retirees (A.I.R.) Limited is the peak body representing the interests of retirees who are wholly or partly self-funded in retirement. A.I.R.’s members include fully self-funded retirees, part-pensioners, and superannuants.

Founded in 1990, A.I.R. is a not-for-profit, non-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, A.I.R. is committed to educating the wider community (including political parties at all levels of Government) in regard to the views and concerns of self-funded retirees.

Rationales to Support the Recommendations

Recommendation 1: *that the Government allocate funds for a review of the drawdown phase of superannuation including the value, cost-benefit and discriminatory nature of its complex regulation.*

A clear distinction has emerged between the accumulation component of superannuation and the drawdown component, defined to commence upon retirement. The recommendations in this submission relate specifically to the drawdown component.

Regulation of the drawdown component has been built on the accumulation component thus adding to complexity. The regulations were written when the drawdown component was in its infancy; most people were accumulating funds prior to retirement. The proportion of people retiring with superannuation has now increased markedly; difficulties in administration and fund management have emerged. A.I.R. strongly believes that all aspects of regulation of the drawdown component, including encouragement to work and longevity financial management, need to be reviewed.

Recommendation 2: *that all retirees, no matter whether they accumulated their retirement assets within superannuation or outside superannuation, should have access to a specified tax-free component of their assets after retirement for their day to day living expenses, at least to the same extent as applies for those with superannuation.*

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

Many retirees could not access superannuation in their past and are now denied superannuation concessions, including a reasonable tax-free day to day income stream and access to the Commonwealth Seniors Health Card (CSHC). They must live off assets and investments purchased from their after-tax funds accumulated responsibly by them for their retirement; these assets have been accumulated after paying full tax at marginal rates.

Over 10% of workers in Australia include owners of small businesses, critical for maintaining Australian economic growth and employment. They have constantly reinvested in their businesses as a fundamental priority for use of scarce capital. Consequently they have been unable to accumulate superannuation with its concessions. Females, out of the workforce for many years raising their families, have also been unable to accumulate superannuation assets. These groups have no method of setting up an effective superannuation account in the years just before they retire, due to restrictive Government regulations on contributions.

Recommendation 3: *that, if it is necessary to commence a superannuation fund to access the tax-free income stream component, the sale of assets to be transferred should be exempt from Capital Gains Tax.*

A very high proportion of people who accumulate savings for their retirement do so by holding securities, including equities and property used for investment or to conduct a business. These assets are not actively traded but held for decades. Many are 'blue-chip investments' such as banks; all have been acquired with after-tax funds. They have gained significant capital value over the period, including accumulating dividends. Capital Gains Tax on the sale of these investments is an extremely harsh impost on their savings.

Governments have recognised this problem and provide Capital Gains Tax exemption for small businesses, including farmers, where the capital assets are held for fifteen years. There is little difference between building assets through small business or through long term investment in equities.

A.I.R. suggests that one solution to the problem of loss of capital through Capital Gains Tax for people about to retire and setting up a superannuation fund would be to exempt from Capital Gains Tax the sale of assets up to a defined cap for the purpose of establishing a superannuation fund.

Recommendation 4: *that all discriminatory age and work tests for retirees 65 years and over be abolished.*

A.I.R. acknowledges removal of the age limit of 75 years in the 2011-2102 Budget for the Superannuation Guarantee (SG) contribution for those meeting the work test. However, age and work restrictions still apply for concessional and non-concessional contributions. People who undertake gainful employment but do not meet the rigid work test definition are denied the 9.25% SG contribution, thus being paid at a lower rate. This contravenes the principles of equal pay for equal work in the Fair Work Act.

The work test is based on the definition of ‘gainful employment’; undertaking paid work for a minimum of 40 hours in a thirty day period in a financial year. Many retirees undertake gainful employment but with greater flexibility than available with this out-of-date definition of employment because of their retirement priorities, economic circumstances, and family needs. Consequently, discrimination occurs, depriving people from 9.25% of their legitimate remuneration including those most in need of building their superannuation retirement savings.

Examples of retirees using flexible work patterns include those working at polling booths during elections, emergency work in teaching or nursing, or standing in for a family member (supporting family members is recognised as a major role for retired people). Casual consulting contracts are often used, often for significant amounts of work, and are drawn up on the basis of a financial return for delivering a specified outcome within an agreed timeframe; the method of arriving at the specified outcome is not defined, nor is the work pattern. A common example in universities is in supervision of a research student. The supervision pattern cannot be defined as 40 hours in any one thirty day period but incurs reasonable income levels.

ABS statistics show that about 5% of the overall workforce would not meet the gainful employment test that is applied restrictively to the cohort of retirees 65 years and over. General workforce patterns include working one day or a varying number of days per week, working one hour or less per day, or working a variable number of hours per week. A high percentage of retirees 65 years and over would be expected to be represented in these work patterns. Females made up about 46% of total employed persons in all age groups in 2011, but only 33% in the age cohort 65 years and over. It is well recognised that females, because of their background and need for greater flexibility, have difficulty in meeting the gainful employment test. Thus, the definition of the gainful employment test is discriminatory for people age 65 and over against workforce practice as a whole.

The work test does not recognise the needs of people, particularly the more elderly, to manage their financial affairs using superannuation assets as the vehicle. For example, emergency health and changing accommodation requirements often need lump sums to be withdrawn temporarily from superannuation assets (allowed under the regulations). The ability to return some of this capital to an individual's superannuation account is denied where the person cannot meet the work test.

The work test does not take into account the size of the retirement asset held by an individual in superannuation. Individuals unable to participate in paid work for whatever reason, and with low asset balances that allow access to the age pension, are denied the ability to add to those assets through non-concessional contributions, such as funds arising from downsizing accommodation.

A.I.R. believes that the age and work tests have little impact on meeting Government revenue objectives to restrict the transfer of funds into superannuation compared to the resultant discrimination and disincentive to work. Concessional and non-concessional caps on contributions should be used as the mechanism to meet this Government objective fairly rather than the existing discriminatory age and work tests.

Recommendation 5: *that with increasing longevity creating greater financial security risk and with the continuing negative impact of Global Financial Crises on self-funded retirees' already depleted superannuation investment balances (from which living expenses are derived) the Government remove the mandatory drawdown rate regulation, or at least revert to the previous 50% discount to the mandatory draw down rate on pensions as a permanent measure.*

A.I.R. argues that regulations should be independent of changeable economic circumstances. The mandatory drawdown rate has been varied in most years since the Global Financial Crisis and is budgeted to return to the original value in the 2013-2014 financial year.

Changes of this type create uncertainty and impede good management and investment of retirement assets, which have greatest benefit when invested over a lengthy period. The budgetary consequence of varying the rate is negligible, even over the long term.

Since the mandatory minimum drawdown requirement was introduced there has been increasing recognition of the fact that retirees are living longer and having to bear a significant longevity risk that their retirement assets will be inadequate, particularly toward the end of their life when health costs escalate and institutionalised accommodation costs can become draconian with split family needs.

The concept of requiring all retirees to draw down high percentages (14% over age 90) of superannuation savings at this latter stage of their life is counter to the whole concept of superannuation and adds immeasurably to uncertainty.

The mandatory drawdown rate on pensions bears no relationship to the way in which retirees need to use their assets over their lifetime. They have a need to maintain a level of asset to meet unexpected circumstances. The mandatory drawdown rate is an example of arbitrary bad regulation which does little, if anything, to achieve its objective of reducing the use of superannuation concessions for Estate Planning purposes, which is not the prime reason for maintaining an asset balance.

Recommendation 6: *that the Government reintroduce the personal tax exemption on $1,000 of financial instrument interest introduced in the 2010-2011 Budget.*

The Henry Tax Review noted the inequitable taxation treatment of financial instrument interest compared to equities and recommended that the tax treatment of each class should be brought into line. The Government moved in this direction by including in its 2010-2011 Budget tax relief for the first $1,000 of financial instrument interest. This was subsequently reduced to $500 and then withdrawn completely in subsequent Budgets.

At the same time RBA interest rates have been continually reduced impacting severely on income earned from superannuation funds and from investments of retirees without superannuation, both already heavily affected by the downturn in Australian equity values. To reduce risk in uncertain equity markets, a substantial proportion of funds need to be held in financial instruments. The return on these has been steadily reducing to levels far below where income from these assets can be sustainable over a retiree's anticipated life span.

A.I.R. believes that the original Government commitment to equitable treatment of interest from financial instruments should be reinstated.

Recommendation 7: *that the Government election commitment to make pension indexing methods consistent with those used for the Age Pension for the Defence Forces be proceeded with expeditiously and extended to include ex-Commonwealth Government employees.*

Ex-Commonwealth Government employee pension and the Defence Forces retiree pension indexing methods based on CPI are lower than the Aged Pension indexing method thus discriminating against these groups of retirees. The Coalition committed itself to delivering fair indexation to military superannuants within the first year of a Coalition Government.

A.I.R. believes that this commitment should be implemented as soon as possible, and extended to include former Commonwealth Government employees.

Recommendation 8: *that the Government remove the 2013 base rate for calculation of the Private Health Insurance Rebate introduced by the previous Government.*

The previous Government introduced the subterfuge of setting the 2013 monetary rebate as the basis for calculating the annual rebate amount. The effect of this is to annually reduce the rebate entitlement until it is phased out.

For example, for a person over 65, the rebate is 40%. On a base fee of $2,000 at 1 April 2013, the rebate was 40% of the premium, or $800; hence the net premium is $1,200. The Government has increased premiums by 6.2% as from 1 April 2014; the premium becomes $2,000 * 6.2% = $2,124. On the assumption that the CPI is 2.5%, the rebate is only $800 * CPI = $820. Therefore the net amount of premium is $2,124 - $820 = $1,304, an increase of $104 on the previous year or a percentage increase of 8.68%, not the Government announced increase of 6.2%.

This hidden method of adding cost to the community is neither transparent to the community nor fair and reduces community confidence in the credibility of Government.

A.I.R. argues that the Government should revert to simply understood and transparent methods for modifying its rebates and charges.

Recommendation 9: *that the Government election commitment to index eligibility for the Commonwealth Seniors Health Card (CSHC) be implemented expeditiously with indexation based on the same calculation method and timetable as used for the Age Pension.*

The community benefit and support provided by the Commonwealth Seniors Health Card has been well documented and accepted by successive Governments for that small group of self-funded retirees above the Age Pension age who have qualified to receive the CSHC.

This is confirmed by Centrelink who state that the CSHC is targeted to support a portion of those self-funded retirees of age pension age who do not qualify for an Age Pension because of assets yet have an annual taxable income that is less than the Government-set threshold value.

However despite this acknowledgement and support by Government agencies, the qualifying income threshold limit has not increased over the past 12 years.

Recommendation 10: that the PBS Safety Net threshold for single retirees should be set at 65% of the couples / families threshold level.

Single and widowed retirees continue to be discriminated against with the current threshold level of the Medicare and Pharmaceutical Benefits Scheme (PBS) Safety Net.

A.I.R. believes that Safety Net concessions should be available on an equitable basis and that the Medicare and PBS Safety Net thresholds for single and widowed retirees should be set at 65% of the couples / families threshold level.

This recommendation is proposed in acknowledgement that these retirees incur the same total expenditures as a couple/family before they become eligible for the Safety Net rebate.