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

2015-16 Pre Budget Submission to the Federal Treasurer and the Department of Treasury Budget Policy Division

February 2015

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 in view of the severe reduction in the income of self-funded retirees the age related compulsory drawdown / retirement income percentage be halved as it was on similarly difficult previous occasions for retirees.

Recommendation 2: that the Government needs to moderate the compulsory drawdown percentage of retirees retirement capital to take account of their increasing longevity so that they can continue to live comfortably in their latter years without the fear of the premature exhaustion of their retirement savings.

Recommendation 3: 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.

Recommendation 4: that for those who have been self-employed and / or those who did not have superannuation available to them, and wish to commence a superannuation fund to access a tax-free income stream product, then the sale of productive assets to be transferred into the tax-free income stream product should be exempt from capital gains tax.

Recommendation 5: that all discriminatory age and work tests for retirees 65 years and over to set up and pay into superannuation be abolished to reduce the disincentive for older people to continue in the workforce part time or as private contractors.

Recommendation 6: that the rebate reducing CPI indexation of Health Insurance rebates that was introduced in 2013 be immediately scrapped and the% rebates for senior Australians be reintroduced in full.

Recommendation 7: that the PBS Safety Net threshold for single retirees be set at 65% of the couples / families threshold level or at the same % difference between the threshold income limit to receive the aged pension for a single person and a couple.

Recommendation 8: that the Commonwealth Seniors Health Card for single retirees be set at % difference between the threshold income limit to receive the aged pension for a single person and a couple.

Recommendation 9: that the Government will not extend the incorporation of either the assets or income of superannuants, any further than the recent changes to the Commonwealth Seniors Health Card, in any changes to eligibility criteria for benefits for retirees.

Recommendation 10: that the eHealth initiatives, including the Personally Controlled Electronic Health Records (PCEHR), current proposals be progressed.

Recommendation 11: that Federal Government Aged Care regulations do not reduce the ability of non-profit organisations to maintain and increase residential care facilities.

Introduction

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees. Our members have a clear understanding of the need for changes to allow for better management of the financial risks they face in retirement, and those other issues of concern that impact on their capacity to have an independent and fulfilling retirement. In close consultation with our members, we have provided both pragmatic and realistic recommendations in this submission for consideration of the Government.

Federal Governments have committed to encourage and support those who self-fund their retirement, yet in the eyes of many, there has been little evidence to support this philosophy. In fact the Government policy position of encouraging self-funding of retirement has in practice consistently failed to fully support this group in the retirement / drawdown phase by restricting benefits or not providing the support it has committed to provide.

The Government's discussion paper on Retirement Income Stream Regulations, published in July 2014, has to A.I.R. been an opportunity to bring to the forefront many issues we have been raising for years regarding the retirement / drawdown phase of Superannuation. We eagerly await the final report from the Government and trust that our submission on this issue and our recommendations in this document receive favourable consideration in the 2015-16 Federal Budget.

Of concern also is the lack of acceptance by some in the community and some Parliamentarians that self-funded retirees are a significant part of the community. This is a very diverse group of ordinary Australians who have worked hard to provide for their financially independent life in retirement. There are currently more than 1.7 million Australians aged 65 years and over who either in part or fully self-fund their retirement. These are generally not high wealth individuals as many seem to infer. A.I.R. acknowledges there are high wealth retirees who do not need support but it should be understood that these are an extremely small percentage of those retirees in Australia who are self-funding their retirement.

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

Likewise we have an issue of concern with the provision of health care and aged care where income and assets tests are now being introduced based on income stream generating assets with the intention that those who can afford to contribute to their health care and aged care costs do so. In principle this may be valid but it seems that many self-funded retirees who are generally not high wealth individuals and are under financial pressure will be financially disadvantaged by such measures. Ultimately this may result in their not being able to maintain their independence from Government support in the later years of their retirement.

This submission focuses on those issues and concerns of our members and makes recommendations within the areas of Financial, Health Care, Aged Care and Social Welfare that are important and need to be addressed in the Government's 2015-16 Budget. We, at the same time, 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.

The Association of Independent Retirees (A.I.R.) Ltd is a member-driven national, not for profit, non-political organisation which works to advance and protect the interests and independent lifestyle of Australians in retirement. A.I.R. seeks to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

For further information, please contact A.I.R. Policy Director Robert Curley on 02 9541 2317 or curley@wix.com.au.

Max R Barton
A.I.R. National President

Rationales to Support the Recommendations

Recommendation 1: *that, in view of the severe reduction in the income of self-funded retirees, the age related compulsory drawdown / retirement income percentage be halved as it was on similarly difficult previous occasions for retirees*

This is not an argument against the mandatory drawdown regulations but their inflexibility to allow for changed economic circumstances which severely impact on the ability of many retirees to survive financially because it accelerates the reduction of their retirement capital as they are forced to use this capital beyond the drawdown percentage to survive. Ultimately this also impacts on the need for retirees to become part pensioners at Government expense. As superannuation retirees do not pay tax, reducing the drawdown rate does not affect Government revenue.

Also the rapidly increasing average age of retirees means that retirees need their income stream to be sustained to provide for a longer life and this is contrary to the current compulsory Governments drawdown/retirement income requirement for income stream products which does not allow for this factor and makes it harder for the greater number of retirees in their eighties and nineties to continue to live comfortably.

Recommendation 2: *that the Government needs to moderate the compulsory drawdown percentage of retirees retirement capital to take account of their increasing longevity so that they can continue to live comfortably in their later years without the fear of the premature exhaustion of their retirement savings.*

AIR members are concerned about the longevity issue as their expected number of years in retirement increases, and thus the need for moderation in the age related compulsory drawdown percentage, so that self-funded retirees do not have their income stream generating assets unnecessarily reduced and potentially exhausted by premature forced withdrawals and then for many forced to draw on government support. The 1.7 million in whole or in part self-funded retirees face economic and government policy uncertainties and together with their greater expectations of a comfortable and fear free retirement means that the annual drawdown percentage needs to be reduced, particularly in their seventies and eighties and nineties.

Recommendation 3: *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.*

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 4: *that for those who have been self-employed and / or those who did not have superannuation available to them, and wish to commence a superannuation fund to access a tax-free income stream product, then the sale of productive assets to be transferred into the tax-free income stream product should be exempt from capital gains tax.*

There are many members of the community, both males and females for whom superannuation was not available or they were self-employed. These Australians saved for their retirement by holding investing in securities, including equities and property as an investment or property from which to conduct their small business. These assets normally were not actively traded but held for decades. All had been acquired with after-tax funds. They have gained capital value over the period they have been held and the Capital Gains Tax on the sale of these investments for their retirement is an extremely harsh impost on the individual and their spouse.

Governments have recognised this problem and provided selective 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. believes that a solution to the problem of the loss of capital through Capital Gains Tax for people about to retire and intend investing funds into an income stream product or an annuity would be to granted an exemption to Capital Gains Tax on the sale of the assets up to a defined cap that are specifically for the purpose of purchasing an income stream product or an annuity at the time of their retirement irrespective of their age at which they retire.

This would encourage all those who were self-employed and those who have invested for their retirement but where superannuation was not available to them to invest in an income stream product or purchase an annuity to self-fund their retirement.

Recommendation 5: *that all discriminatory age and work tests for retirees 65 years and over to pay into superannuation be abolished to reduce the disincentive for older people to continue in the workforce part time or as private contractors.*

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 6: *that the rebate reducing CPI indexation of Health Insurance rebates that was introduced in 2013 be immediately scrapped and the % rebates for senior Australians be reintroduced in full.*

The previous Government introduced a stratagem of setting the 2013 monetary rebate as the basis for calculating the annual 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 approved by Government has been well above that of the CPI %.

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. The CPI is however only 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 age related rebate % will reduce even further in April 2015 and each year after this.

This hidden method of adding cost to the premium for this group of the community is neither transparent to nor fair and reduces the community's confidence in the credibility of the Government. This specifically and unfairly attacks the group of Australians who are 65 years of age and older. Health Insurance is seen by many, who have contributed for a life time to Health Insurance, 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 necessary. The rebates were specially introduced to help support and encourage retirees to continue with their Private Health Insurance and not simply rely on the overloaded Public Hospital system.

A.I.R. urges the Government to accept the error in introducing this and revert back to the previously set aged and income based % rebates.

Recommendation 7: *that the PBS Safety Net threshold for single retirees be set at 65% of the couples / families threshold level or at the same % difference between the threshold income limit to receive the aged pension for a single person and a couple.*

Recommendation 8: *that the Commonwealth Seniors Health Card for single retirees be set at % difference between the threshold income limit to receive the aged pension for a single person and a couple.*

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

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

This recommendation is proposed on the premise these retirees are protected by the safety net for the same total expenditures on prescription medication as a couple/family before they become eligible for the Safety Net rebate which is grossly unfair and inequitable. The 65% reflects the difference between the current upper income threshold value to receive the aged pension for a single person of $1,868.60/fortnight and $2,860.00/fortnight for a couple (i.e, 65.34%).

The same applies for the setting of the single upper threshold limit for a single person to receive the CSHC. The upper threshold limit for a couple before indexation from 1 September, 2014 was $80,000 and the upper threshold limit for singles based on this should be $52,268 before indexation and not the set $50,000.

AIR considers that both these should be revised and both reset to more equitably reflect the difference between the threshold income limit to receive the aged pension for a single person and a couple.

Recommendation 9: *that the Government will not extend the incorporation of either the assets or income of superannuants, any further than the recent changes to the Commonwealth Seniors Health Card, in any changes to eligibility criteria for benefits for retirees.*

The continuing changes to superannuation rules for accumulation or drawdown is reducing confidence in the policy and in the case of taxing directly or indirectly the retirement or drawdown phase is making it harder for those affected to know what to do or securely plan for the future. The national retirement policy is too important for millions of Australians now and increasingly in the future to be subject to short term Government intervention.

Recommendation 10: *that the eHealth initiatives, including the Personally Controlled Electronic Health Records (PCEHR), current proposals be progressed.*

In 2011 the then Government announced that the Personally Controlled Electronic Health Records (PCEHR) had been established as a "key building block of the National Health and Hospitals Network" and the system went live on 1 July 2012.

It failed to meet expectations and an inquiry was set up to report to Government on the issues associated with the PCEHR system. A.I.R. provided a submission to this inquiry on 19 November 2013.

On 19 May 2014, the Government released the Independent Report from the Review into the Personally Controlled Electronic Health Records (PCEHR). The Review looked into concerns about progress in implementing the PCEHR system. The Review supports the ongoing operation of the PCEHR and made several recommendations aimed at making it more usable, and able to deliver meaningful use and the expected benefits in a shorter period. The Review examined issues with the existing system including: complexity, expectations and governance, recommending changes to increase use and bring forward the delivery of benefits and savings.

The current expectation was that a revised program would have modified and rolled out but this expectation has not been met.

The current Government has stated its commitment to an eHealth and the PCEHR system but almost 12 months later is still considering and has not acted on the Review of the PCEHR system recommendations.

A.I.R. believes that there is a need to make provision in the 2015-16 Budget to roll out the recommended changes, re-establish a more consumer friendly and GP acceptable PCEHR system. A.I.R. is supportive of a national shared electronic health record system and its potential benefits to our members and the clinical advantages of better access to patient health information and the sharing of this information across all healthcare providers within the sector.

Recommendation 11: *that Federal Government Aged Care regulations do not reduce the ability of non-profit organisations to maintain and increase residential care facilities.*

The non-profit sector of the residential aged care accommodation program is an essential part of the future of a balanced and successful policy. Sections of this sector are facing financial difficulty and inability to maintain their accommodation to an acceptable level, and changes to the way retirees can now pay their bond for certain levels of accommodation is making it more difficult for managements to borrow for further development.

ENDS