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

2018-19 Pre Budget Submission to the Federal Treasurer and the Department of Treasury Budget Policy Division

December 2017

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:

Recommendation 1: That there be an immediate change to the current aged based percentage drawdown requirements for account based income stream pension products with a lowering of the minimum drawdown percentage once a retiree has reached 75 years of age. Changes have occurred since Treasury's 2014 Retirement Income Stream review and the 2015 report to the Government and a change is needed to the minimum drawdown % in retirees later years due to rapidly increasing longevity where today's retirees will need to preserve assets to fund ,without falling back on the age pension, a retirement period of 30 or more years.
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 for the retirement income generated by their assets up to the $1.6m cap.

Recommendation 3: That the Government retains and expands the Seniors and Pensioners tax offset (SAPTO) for retirees with savings outside superannuation to give equality and equity for all.

Recommendation 4: For those who have been self-employed and / or those who did not have superannuation available to them, and when retiring wish to commence a superannuation fund to purchase a tax-free retirement income stream product, the sale of assets to be transferred into the tax-free income stream product up to the cap, should be exempt from Capital Gains Tax.

Recommendation 5: That the reduction in CPI indexation of Health Insurance rebates, introduced in 2013, be immediately scrapped and the % rebate for Australians 65 years and older be reintroduced in full to address the inequitable issue that this section of the Australian population is subject to a higher percentage increase in premiums than the rest of the community.

Recommendation 6: That the PBS Safety Net threshold for single people be adjusted so that they are not disadvantaged in comparison with couples or families. This is particularly disadvantageous to older people.

Recommendation 7: That to encourage elderly Australians to stay longer in their home, the ratio and number of Level Three and Four Home Care Packages be substantially increased to maintain their quality of life.

Recommendation 8: That an additional Level Five Home Care Package be introduced to further assist elderly Australians remain in their home.

Recommendation 9: That the same professional standards and accreditation be required for advisors who provide financial advice on residential aged care as is required for those providing retirement and general financial advice.

Recommendation 10: That the standards of residential aged care and accommodation be monitored more closely to ensure consistent, high levels of care across Australia and encourage increased community confidence in this expanding industry.

Recommendation 11: 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 allowable daily and annual costs not be lifted.

Recommendation 12: That an increased number of residential aged care places be made available to ensure the demand for residential aged care accommodation can be met.
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Background and Concerns of Self-funded Retirees

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees. A.I.R. 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

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 provide both pragmatic and realistic recommendations in this submission for consideration of the Government.

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 committed to encourage and support those who self-fund their retirement. However, in practice we believe Governments have consistently failed to adequately support those in the retirement / drawdown pension phase by restricting benefits or not providing the support to which they have committed.

There are now more than 1.9 million Australians aged 65 years and over who either in part or fully self-fund their retirement. The greater majority of these are not “wealthy” individuals as many seem to infer and ongoing financial impacts on their set income stream generating assets may result in their not being able to maintain their independence from Government support in the later years of their retirement..

A.I.R. remains committed to a view that any change to superannuation, welfare and pension arrangements must not disadvantage current retirees and those soon to retire. Future changes must include grandfathering and transitionary provisions to protect those retirees whose retirement income is based on the current rules.

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.

We have an issue of concern with ongoing health care and aged care reforms which are introducing 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 generally not high wealth individuals and are under financial pressure, will be financially disadvantaged by such measures.

While not including a specific recommendation on this point, we highlight a major concern about the potential unintended consequences that may arise from the development and implementation of user-pay approaches to services and fees applied to retirees, with decisions being made by people with limited understanding of the longer term financial consequences of such changes.

Given the Government's stated need for increased competitiveness and greater efficiency of the superannuation system, it is rather concerning that we now have the situation of a negative impact from ongoing Government changes to superannuation and tax legislation that have further muddied the waters for those planning for their retirement or who are already in income stream pension phase. 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 built to last for the long term. The same situation exists for those relying on their assets to provide a continuation of their lifestyle with an adequate regular monthly income stream.

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

Rationales to Support the Recommendations

Recommendation 1: *That there be an immediate change to the current aged based percentage drawdown requirements for account based income stream pension products with a lowering of the minimum drawdown percentage once a retiree has reached 75 years of age. Changes have occurred since Treasury's 2014 Retirement Income Stream review and the 2015 report to the Government and a change is needed to the minimum drawdown % in retirees later years due to rapidly increasing longevity where today's retirees will need to preserve assets to fund ,without falling back on the age pension, a retirement period of 30 or more years.*

Modifying the aged based minimum drawdown rate for retirement income stream pensions

A.I.R. strongly recommends that there needs to be a clear recognition that the superannuation retirement income stream pension phase is very different from the pre-retirement accumulation phase. In the retirement phase we now have an increasing length of time being spent in retirement and more than ever there is a need for a prudent investment profile to deliver a regular cash flow to provide a self-funded pension over the whole of any retiree's lifetime.

This increased longevity in retirement becomes a serious issue as assets are depleted and the regulated annual drawdown percentage from the fund increases for those relying on their assets to provide a continuation of their lifestyle with an adequate regular monthly income stream.

Based on this, and to maintain non-reliance on the Government's Age Pension in the later years of retirement, we recommend that the following changes are implemented. These would revise the current aged based percentage drawdown requirements and lower the percentage once people have reached 75 years of age:

Current Age of pension account-holder	Current Percentage factors	Change age range to	Proposed new percentage factor from 1 July 2017
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%		

Background to this recommendation:

The Government stated in its 2014 Discussion Paper, *Review of Retirement Income Stream Regulations,* that the purpose of the minimum drawdown was to provide a regular source of income in retirement and **to limit the ability of a person to invest in account based pensions and use their superannuation pension fund as a vehicle to accumulate wealth to be passed onto future generations or an excessive scope for deferral of income.**

This requirement is now overcome with the Government's $1.6 million value cap on the amount of assets that can be transferred into an account based retirement income or held in an account based pension.

Implementing this recommended change will have no cost impact to the Government and, in fact, will be revenue positive as it is estimated that implementing this change will generate as much as $200 million additional savings for the Government by maintaining assets and deferring for some the drawing down on the part Age Pension. Implementing this recommendation would, importantly, provide far greater flexibility in the actual drawdown for many retirees.

The Government needs to engage in this type of genuine reform of the superannuation system to make it more efficient and effective in terms of assisting more Australians to achieve self-sustainable financial independence in retirement.

Agreeing to and making this change will help redress some the hurt, disillusion and distrust from the Government's superannuation reforms in 2016 currently felt by many who are now, or are intending to, self-fund their retirement. This would assist the Government in rebuilding some credibility and confidence in the superannuation system for those Australians who are self-funding their retirement and those planning their retirement.

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 for the retirement income generated by their assets up to the cap.*

Recommendation 3: *That the Government retains and expands the Seniors and Pensioners Tax Offset (SAPTO) tax concession for people with savings outside superannuation to gives equity for people who were not able to save within superannuation and who have contributed to after tax saving outside superannuation.*

Recommendation 4: *For those who have been self-employed and / or those who did not have superannuation available to them, and when retiring wish to commence a superannuation fund to purchase a tax-free retirement income stream product, the sale of assets to be transferred into the tax-free income stream product up to the cap, should be exempt from Capital Gains Tax.*

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

Many retirees who could not accumulate superannuation in their past are unable to access the full range of superannuation concessions. 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.

The benefits of the Seniors and Pensioners Tax Offset (SAPTO) tax concession to people with savings outside supernnuation is acknowledged. A.I.R. urges the Government to retain this concession without change as gives equity for people who not been able to save within superannuation and who have contributed to after tax saving outside superannuation.

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. 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 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 grant an exemption to Capital Gains Tax on the sale of the assets up to a defined cap, providing they are specifically for the purpose of purchasing an income stream product or an annuity at the time of their retirement irrespective of the 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 the reduction in CPI indexation of Health Insurance rebates, introduced in 2013, be immediately scrapped and the % rebate for Australians 65 years and older be reintroduced in full to address the inequitable issue that this section of the Australian population is subject to a higher percentage increase in premiums than the rest of the community.*

A 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 %.

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 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 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 to the previously set aged and income based % rebates. Whilst commendable, it was disappointing to see the Government introduce incentives for young people to obtain private health insurance; however no consideration has been given to assisting older 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.

Recommendation 6: *The PBS Safety Net threshold for single people be adjusted so that they are not disadvantaged in comparison with couples or families. This is particularly disadvantageous to older people*.

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 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 needs to have the same value of medical prescriptions as a couple or family before becoming 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 which for a single person is $22,805/year and $34,382/year for a couple (ie 66.3% difference).

Aged Care

Australia's population is ageing and people are living longer so the demand for Federal Government assistance to help the elderly remain in their home, or in residential aged care accommodation or provide respite care, or provide an adequately trained workforce are all increasing.

Keeping people in their own home is positive for their well-being but a consequence is that they are more frail when they enter care and this means higher levels of assisted care at home and in accommodation.

In the future it is unlikely that community, religious and other non-profit providers, even with some Government capital assistance, will be able to provide enough residential aged care accommodation to meet demand. As a result, there is a necessary but difficult balance between incentives and checks for adequate private sector involvement while retaining public confidence in the system.

The Government, to its credit, is aware of the challenge and is moving to address these issues. There are several priority policy developments listed below that can accommodate these issues, some of which the Government has indicated it supports but needs to accelerate.

Recommendation 7: *That to encourage elderly Australians to stay longer in their home, the ratio and number of Level Three and Four Home Care Packages be substantially increased to maintain their quality of life.*

Recommendation 8: *That an additional Level Five Home Care Package be introduced to further assist elderly Australians remain in their home.*

Recommendation 9: *That the same professional standards and accreditation be required for advisors who provide financial advice on residential aged care as is required for those providing retirement and general financial advice.*

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Recommendation 12: *That an increased number of residential aged care places be made available to ensure the demand for residential aged care accommodation can be met.*

Further Information:

For further information, please contact Alan J. Marshall, A.I.R. National President on 07 3012 6655 / 0418 910 100; email alan@kairosgroup.com.au