Association of Independent Retirees (A.I.R.) Limited

Working for Australians in Retirement

A.I.R. Response

Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015

29 June 2015

…. *Working for Australians in retirement*

23 June 2015

Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100 Parliament House
Canberra ACT 2600

Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015
Penalising Low Income Self Funded Retirees

The proposed action by the Federal Government to increase the age pension taper rate from $1.50 to $3.00 per $1000 has reduced the asset test threshold down to $820,000 approximately for couples effective 1 January 2017.

The proposed changes may be appreciated by the recipients of the full age pension but they are punitive to those partially self funded retirees who currently qualify for a part age pension. In fact it has created a *poverty trap* for those with income producing assets (including super) in excess of $820,000 and less than $1.3M. The proposed action by the Government will create a new *poverty trap* for the average self funded retiree. The majority of self funded retirees do not have sustainable superannuation pension streams and will be forced to accelerate the draw down of their superannuation account balances in order for them to maintain a basic lifestyle in retirement.

For self funded retiree couples about $1.3M is required to equal the income of a full age pensioner couple. A similar comparative situation applies to single and non-home owner retirees.

The Howard Government recognised the *poverty trap* by reducing the taper rate. This arrangement was integral to the retirement plans for the bulk of Australian retirees in the last decade. The changes now proposed by the Government reverse this situation and should Government proceed with the changes it will shatter the financial basis for current retirees and remove the incentive to provide for one's own future in retirement.

It is difficult to follow the Government thinking behind these changes. There was no prior consultation with stakeholders and it contradicts the Government policy of encouraging Australians to provide for their own retirement future. It penalises the current low income self funded retiree.

I have never encountered the level of resentment, anger and concern currently expressed by the self funded retirement community during my 10 plus years as a member of the Association of Independent Retirees (A.I.R.).

An urgent rethink of the Government's action is requested.

Max R. BARTON
National President
Association of Independent Retirees Ltd (A.I.R.)

Summary

This submission from the Association of Independent Retirees (A.I.R.) Limited contains the following recommendations.

Recommendation 1

a. The application of changes to the age pension taper rate and its effect on the asset test threshold for part aged pension entitlement to apply from 1 January 2017 be deferred until a comprehensive review of retirement income that restores a fair balance between the inter-related components of the age pension, taxation, superannuation and retirement income producing assets.

b. In undertaking such a review the Government to ensure that all stakeholders are represented to avoid any notional bias towards or against any specific retiree group.

Recommendation 2

Future legislative changes affecting partial and fully self funded retirees must be applied with realistic *transitional or grandfathering* arrangements to mitigate the impact on those already in retirement.

Introduction

On 4 June 2015, the Senate referred the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 to the Senate Community Affairs Legislation Committee for inquiry and report. Submissions were sought by 12 June 2015 with the reporting date set as 15 June. On 15 June 2015, the Senate granted an extension of time for reporting until 22 June 2015. On 16 June 2015, the Senate granted a further extension of time for reporting until 10 August 2015. On 18 June 2015, the Senate re-set the reporting date back to 22 June 2015.

This created confusion resulting in A.I.R. being unable to respond within the time of the re-set reporting date.

Consequently this is a late submission by A.I.R. to bring to the attention of Government the Association's opposition to the inclusion of changes to the age pension taper rate and its effect on the asset test threshold for part aged pension entitlement to apply from 1 January 2017.

The consequences of the Bill has also introduced a '*flow on*' loss of concessions for State public transport, utility services, local rates, vehicle registration, rail holiday travel etc. concessions.

About A.I.R.

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees. We are a member-driven, not for profit, non-political national organisation who has branches and members across Australia. We work to advance and protect the interests and independent lifestyle of Australians in retirement.

Our mission is to secure recognition, fairness and equity for Australians who, through their diligence and careful management, fully or in part self-fund their own retirement needs.

Currently there are over 1.6 million Australians who fully or in part self-fund their own retirement needs.

Our Association's response to the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 only covers those areas that we consider specifically relate to those Australians who are retired and in part or fully self-fund their retirement.

In close consultation with our members, we believe we have provided both pragmatic and realistic recommendations in this submission for consideration and adoption.

Background Rationale

The progressive Federal Government ad hoc removal of SFR entitlements one-by-one over time has disguised the cumulative effect of reduced SFR entitlements. In recent years SFR have been stripped of long standing entitlements, i.e.

- Reduction in Health Insurance Rebates
- Tighter CSHC qualifications
- Means tested co-contribution applied to SFR for Aged Care
- Means tested contribution applied to SFR for Home Care
- Removal of the Seniors Supplement
- Increased taper rate for part age pension eligibility

For retirees, the average superannuant or those dependent upon income producing assets (outside of super) the outcome has been a reduced lifestyle below the accepted ASFA benchmark of $58,000 for a couple to maintain a comfortable lifestyle. The established retirement plans has been shattered for the majority of SFR.

A superannuation account balance of approximately $1.3M is required to sustain an annual income equal to that received by a full aged pension couple ($ 45,904 max.). Table 1 illustrates the situation that will now confront the average superannuant couple from 1January 2017. A similar comparative situation applies to single and non-home owner retirees.

Table 1

PENALISING LOW INCOME SELF FUNDED RETIREES – The New Poverty Trap

example: Couples (home owners) @ various levels of asset values

Retiree Status (couples)	Investment Asset Value	Age Pension adjusted For new taper rates	Investment Income (3.25%)	Total Annual Income	
Full Aged Pensioner	$375,000	$33,717	$12,187	$45,904	
Part Self Funded Pensioner	$450,000	$27,867	$14,625	$42,492	The New Poverty Trap
Part Self Funded Pensioner	$550,000	$20,067	$17,875	$37,942	
Part Self Funded Pensioner	$650,000	$12,267	$ 21,125	$33,392	
Part Self Funded Pensioner	$750,000	$4,467	$24,375	$28,842	
Part Self Funded Pensioner	$807,000	$1	$26,227	$26,228	
Part Self Funded Pensioner	$850,000	0	$27,625	$27,625	
Part Self Funded Pensioner	$950,000	0	$30,875	$30,875	
Part Self Funded Pensioner	$1,050,000	0	$34,125	$34,125	
Part Self Funded Pensioner	$1,150,000	0	$37,375	$37,375	
Fully Self Funded Retiree	$1,311,542	0	$45,904	$45,904	

To achieve the ASFA benchmark for a comfortable lifestyle for a retired couple ($58,000 per annum) a minimum superannuation balance of $1.8M (calculated on 3.25%).

The outlook for SFR is bleak when combined with the current economic environment of low interest rates for term deposits and bonds.

Along with this hostile economic environment a *campaign of envy* have been successfully played by powerful social welfare and aged pensioner groups where the average superannuant has been vilified and branded as *rich and wealthy.* The notion of a couple with superannuation assets above $823,000 as *rich and wealthy* persists to the detriment of SFR.

The outcome of these changes will be a pension system out-of-balance with the basic needs of the average SFR.

The Federal Government have stated in policy documents and other communications that they recognise that many SFR are not wealthy and are under financial pressure and that by looking after their own retirement needs save the Commonwealth Budget considerable pension costs.

However, they have acted contrary to this philosophy by taking away benefits and not providing the support they have committed to provide. There has been no prior consultation with SFR stakeholders and representatives before the Bill was introduced.

Furthermore there has been no attempt to phase in or provide transitionary conditions which would normally be applied when chances of this magnitude are contemplated.

A.I.R. is calling for a comprehensive review of retirement incomes that restores a fair balance between the inter-related components of the age pension, taxation, superannuation and retirement income producing assets.

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