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Re: Submission to the Tax Discussion Paper

Enclosed is a copy of my submission to the Tax Discussion Paper. I found I did not have the necessary computer skills to download the copy that I had typed. I rang the help number and was advised that I could submit it by email or letter. In trying to copy and paste it to an email my numbering system failed to transfer so I have used this alternative.

I do not require it to remain confidential so I give my permission to make it available in the same way as those submitted on the internet. I have signed and dated the copy provided.

Yours faithfully

K N Waters

Ken Waters
6th July, 2015

Re:think – Better tax, better Australia – White Paper

Ken Waters 6 July 2015

<u>Changes to Payments to Single Part-pensioners Not Fair & Equitable</u>

I am grateful for the opportunity to comment on changes to part-pensions and how these compare with those with Superannuation Pension Funds.

<u>Qualifications to make a submission.</u>

<u>Life-time Experiences:</u>

1. **Age 79 years 10 months. Superannuant 43 years with the Education Dept of WA and 10 years part-time with a University. Part-pensioner for 8 years.**
2. **Childhood. Subsistence farming lifestyle with no family income on a grandparent's farm.**
3. **Joined a voluntary superannuation fund as a 19 year old teacher in country schools in 1955 and made contributions for the next 43 years. Paid income tax from the outset.**
4. **After 8 years of teaching grouped classes of 44 or more, spent 1 year as a Deputy Principal teaching 50 children in a grouped class in a country primary school.**
5. **Promoted to the position of a Class III primary headmaster of a school with 75 children. Initially taught 38 children in 6 classes from Years 3-8 and responsible for a further 37 children in Years 1 & 2 in the town hall. Worked over 100 hours, 7 days a week.**
6. **In all, spent 13 years in country schools.**
7. **Opened a new metropolitan school built for 240 children in a difficult socio-economic area. Enrolment on the first day was 320 and this grew to over 500 by the end of the first year with 9 demountable classrooms to accommodate the surplus.**
8. **Promoted to a Class I school in the country.**
9. **After one year, transferred to a metro school which grew from 440 to 690 and returned to 550 and finally accommodated 320 as new schools were built and new administration methods were adopted.**
10. **At age 62 I retired with prostate cancer and was forced to take a superannuation lump sum because the pension provided by that fund would have reduced our income by $25,000 per annum. Had I passed away my wife would have had that pension reduced to two thirds of that amount; a further reduction of $14,000 per annum. By investing the lump sum we were able to obtain an income slightly higher than the**

pension fund but had I passed away my wife would have been able to retain this total income and the lump sum. We were also able to split our income for tax purposes. Salary sacrificing had not commenced when I retired. An amount of tax was taken from the lump sum before it was received and individuals paid normal taxes on superannuation pensions at that time.

11. Interest rates declined for a time after my retirement. After successful treatments I worked part-time for another 10 years providing supervision in 53 schools for over 700 student teachers on practice activities.
12. 2007 taper rate for pensions changed. We became eligible for a small part-pension. Interest rates were around 7%. To return to that taper rate now with interest rates of 3% will make it very difficult for single people to make their money last and I believe most will finally become full pensioners. Had the taper rate not changed we would have been in that situation by now.
13. Payment of tax: People with low incomes have limited ways of reducing tax. Those with higher incomes can pay for advice that provides ways of reducing tax e.g. Kerry Packer "Of course I am minimizing tax." The major problem of the taxation system in Australia is that it is easy to reduce payments to welfare recipients but not as easy to reign in those who can afford to contribute more.

Compulsory superannuation was introduced in 1992 through a tripartite agreement between the Government, employers and the trade unions. The latter agreed to forgo a national 3% pay increase which would be put into the new superannuation system for all employees in Australia. This was to be matched by employer contributions which have risen since. It was described as the "three pillars approach" to retirement income.

- A means tested Government age pension system.
- Private savings through compulsory contributions to superannuation.
- Voluntary savings through superannuation and other investments.

Most of those who have now been retired for 10 years or more would have acquired nearly all of their present assets from the last of these pillars and we are being told that they are not entitled to keep this money to provide investments to produce income for the future. Life expectancy and entry to retirement villages which require regular payments or nursing homes that need large bonds for a reasonable standard of living are considerations for the future. These establishments may not become financially viable if they have to rely on people on full pensions in the case of retirement villages or on government subsidies in the case of nursing homes. We recently had first-hand experience of the latter, looking after the needs and financial affairs of close relatives for 4 years. We know how difficult it is for older people to make decisions on their finances at this time. Although the rules are being changed it will still be the case that those entering these establishments require substantial assets because pension increases are always swallowed up immediately with higher fees.

Conclusion of Life Experiences:

There are many stakeholders making submissions to this review. It would seem that part-pensioners are receiving much of the blame for the country's economic problems. It is important that those who have had real life experiences of having to deal with survival after retirement should be given the opportunity to contribute their views. It is for that reason I have outlined those that have affected me in this first section and some other aspects will be referred to in the following sections.

The Case Against the Use of Emotional Language in Achieving Fairness

In western films in the 1940's and 1950's there were 'snake oil salesmen' with their horse drawn caravans or wagons emblazoned with messages about the latest cures. The salesmen delivered speeches to this effect and the gullible were caught in their spell. Over the years parliamentary language has deteriorated so that today the term 'million dollar mates' can be used by members in parliament and in the media to describe couples who are receiving a pension. The facts are quite different from these emotional outbursts. Couples with a million dollars in assets currently each represent .76% of the anticipated number of pensioners in this category(Commonwealth figures) who will be affected by the proposed pension changes. A home-owning couple with such assets currently receive a pension of $72.74 each per week; not an earth-shattering amount and those with $1.1 million in assets represent .33% of pensioners and receive $35.24 each per week.

Under a consideration of fairness it could be suggested that more attention should be given to the position of a woman in a couple with joint assets of $547,000 whose partner dies when she is 75. She is then left without any pension even though she may live for more than another dozen years(life expectancy for that cohort). Until her partner dies, her share of the assets would have only been $273,500(not a 'million dollar

mate'). But scarcely any mention of this is made by the Government in parliament or in the media. Raising this point would not sell the policy because it is not fair. But more about this anomaly later.

Compare the above with the attack on the Opposition's plan to introduce a 15% tax on the annual incomes of Superannuation Pensions producing above $75,000 per annum. For someone earning $100,000 per annum, using the Government's own figures, they would have to have a pension fund of $2 million dollars producing 5%. 15% tax on the amount of $25,000 above the figure of $75,000 would be $3,750 tax. Such an individual would have an annual income of $96,250 to live on. A widow or widower with $547,000 would have $500,000 to invest after deducting assets of a modest car($15,000), home contents($5,000) and $27,000 to live on for a year. $500,000 at today's interest rates would produce $15,000 income.

So compare the two. Superannuant $97,000 to live on. Widow 75 years of age, $15,000 to live on. The Opposition was repeatedly accused of robbing the 'piggy banks' of superannuants. This is the type of emotive language that captures the attention of the public. But is it fair? Is it possible that there could be other ways that could be used to overcome Australia's problems that are not being addressed? It could be argued that many part-pensioners have contributed a greater proportion of their income in pay-as-you-go taxation than those with greater assets. Today it has been revealed that pharmaceutical companies have been paying 1% in tax.

I have a major concern about this review. The 'piggy bank' rhetoric may be continued. For this reason I have included a section on anomalies(an anomaly to mean 'departing from the rule of fairness') in the proposed changes as to how they will affect single home-owning part-pensioners or those who reach this status through the death of a partner. But before that I submit the following section on conservative investing for older citizens.

Conservative Investing for Older Australians Without Super Funds

I wrote to the Minister for Social Services re the proposed changes to the pension prior to the budget being released. I received a reply from his office after the budget announcements. In my letter I stated that I was 79 years of age and I used the example of a home-owning couple with assets of $450,000 with only $400,000 to invest for the reasons stated previously.

In an early paragraph the reply stated that assets of this size are not typically invested in bank deposits. They could generate interest of 5% in shares, managed investments and superannuation. In a later section the letter gave an example of drawdown investment returns and capital over a 35 year period and long term investment returns averaging 5% producing $50,000 a year in real terms which was $17,000 higher than the full pension.

It would seem that my age had been overlooked for in 35 years from 1st January 2017 I would be 116 and my wife would be 111. A retiree of 81 years of age can no longer enter superannuation funds and most financial advisers point out that if shares drop suddenly older people do not have the time to make up lost ground. One recently suggested that the situation in Greece could cause a 500 point drop in shares. The result this week has been a rise in share prices but this is still a work in progress and no advisers seem to know what the future might hold.

In 2007 we had investments in a finance company that celebrated its 50th anniversary. In a letter dated 24th December 2007, the then chairman, who had a Doctorate and two Masters degrees in economics, advised us to increase our investments in the company which he said had assets of over $480 million. Fortunately we didn't increase our investment because within a couple of months it had gone belly up and we lost 10% of our investment assets. Since then we have been very conservative with our investments, using term deposits that are guaranteed by the Government. Interest rates have ranged down from 7.25% to 3.2% and have become even lower recently.

Retirees find it hard to obtain reliable advice. Daily we read in the papers of financial advisers from major banks being investigated for causing investors to lose large sums of money.

The following section outlines the anomalies of the proposed pension changes and the final section presents recommendations to address these.

Anomalies Affecting Fairness for Payments to Single Part-pensioners

1. **Compulsory superannuation was not introduced before 1992. People who will be 75 years of age at 1st January 2017 would have been approximately 50 years of age at that time. They would have had just 15 years to build up a superannuation pension fund before the retirement age of 65. There were others , who like myself, because of**

the rules at the time, were forced out of pension schemes. This also applies to women who were forced to resign from permanent positions when they married in the 1950's and 1960's. They are pensioners today.

2. **With the current taper rate, a home-owning couple receives a full pension of $34,923. If their partner dies the full single pension reduces to $23,166 which is approximately a drop of one third. In this situation many struggle because there is very little change in annual expenses. Shire rates, power charges, water usage for gardens and water rates, house and contents insurance, home and garden maintenance charges for plumbers, electrician, labour to cut bushes, payments for in-home help and funeral costs do not drop by 50%.**

   With the proposed changes, a couple with assets of 547,000 will receive a joint pension of $21,507. However on the day they lose a partner, the remaining single member will not qualify for any pension. One might expect them to receive two thirds of the amount for a couple or at least 50% for some degree of fairness.

   Recently the WA Government has placed a cap on rebates for council rates, water rates, a means tested energy assistance package will replace a cost of living subsidy for electricity bills, the cost of living rebate has already been halved, and a new $99 no fault insurance levy is being placed on car licences. Electricity charges are to rise by 4.5%, water by 4.5%, emergency services levy by 10.59%, other motor vehicle fees by 3.1% and public transport up by 2.6%. These fees will no doubt rise again by 1st January 2017. With nursing home fees to increase in 2016, the $15 a week rise for pensions is already looking a bit sick.

3. **A single non-home owner with assets of $547,000 can still receive a part-pension of $15,600. With investments of $500,000 at 3% they can receive a total income of $30,600 compared with a home owners income on $500,000 of $15,000. The former will not have most of the expenses listed above for home owners. There is no requirement on where they should live and for those with offspring who can accommodate them, this extra $300 per week is likely to be a welcome addition for the needs of their children or grandchildren.**

4. **Home owner singles or couples will not be able to down-size because this will further reduce pension prospects and concessions that are available.**

5. **The statement that Health Cards or Commonwealth Seniors Health Cards will be available for those of pension age needs to be examined further. The WA Premier has stated that only pension cards will qualify for state concessions. At present health cards are not recognized for some X-rays, blood tests and some specialist's fees.**

6. **Payment of tax. Those not in Super Pension funds will continue to pay tax in retirement. It has only been in the last 3 or 4 years with lower interest rates affecting our income, that my wife and I have ceased to have taxable incomes. Compare that with those with Super Pension funds not contributing tax for the rest of their lives even if they have annual incomes above $75,000; an income that was well above that paid to Primary School Principals during my working life.**

Recommendations to Achieve Fairness

The introduction of compulsory superannuation and changes to the taper rate for pensions were initiated by governments. The people who have been affected by these changes did not initiate them but have arranged their investments in good faith to comply with them. Some are locked in to long term investments which can't be changed or from which they can't draw-down money without losing amounts of interest. Where a proposal is now deemed to be unfair, the Government can still initiate changes. They are not set in stone. I make the following recommendations:-

1. **Single home owner part-pensioners aged 75 years or older at the 1st January, 2017 should be subject to grandfathering rules that give them special consideration. Such rules already exist for pensions paid to people with superannuation funds. Because of government initiatives part-pensioners have been locked into investment categories from which it is difficult to withdraw funds without financial loss. They may also have been unable to remain in superannuation funds because of the rules that prevailed during their working lives or at the time of their retirement. For these reasons <u>they should continue to receive the single part-pension at the rate which is current for this category before the changes take place</u>.**

2. **Taper rates are man-made. They don't necessarily produce fairness. Grandfathering rules should be introduced so that for those under 75 years of age as at 1st January, 2017 and are single home owner**

pensioners with assets of $547,000 can at least qualify for a total annual income that is equal to the basic pension of $23,166 or its equivalent at the 1st January 2017. To achieve this, income from other sources, and not assets or deeming rates, should be used to determine the amount of pension to be paid, e.g. annual income from investments at 30th June, 2016 could be supplemented with the payment of a pension. A person with $547,000 might have invested $500,000 at 3% and received $15,000 in interest. They would then be eligible for a Centrelink age pension of $8,166 per annum. To match the income of a non-home owner they would still have to draw-down $6,834 from their assets which is fairer than the proposed situation of having to draw-down $15,600 to achieve this. In the first 6 months of the 2016/2017 financial year they will have already received a part-pension with the old $1.50 taper rate of $5,021. They would then only require a part-pension of $3,145 for the rest of that financial year to take it to $23,166. In the financial year 2017/2018 the part-pension would operate as explained in the first part of this paragraph based on the income from other sources as at 30th June, 2017.

3. **Efforts should be made through Commonwealth and State funding to make concessions uniform throughout Australia. The Health card that is to be introduced should cover all X-rays, blood tests and specialist fees.**

4. **Superannuation Pension Funds should be taxed at 15% on incomes above $75,000 per annum. This would enable the Government to pay the proposed increase of $30 per fortnight to basic pensioners and also introduce grandfathering rules for single home owning part-pensioners who are 75 years or older and for others at a lesser rate for those under that age. It could even produce a more favorable result for the group listed in No 2 above.**

5. **A much greater effort has to be made to ensure that businesses with large profits and wealthy individuals pay their fair share of tax.**

6. **I have not addressed the suggestion of a tax on bank savings accounts. Tax has already been paid when earning this money so this would be taxing it twice. No doubt banks would pass this on to depositors. Unless this can be prevented then it should not be considered. Ways of dealing with large bank profits and unrealistic salaries received by bank CEO's, but not really earned, should not be beyond government financial advisers to produce the necessary legislation.**

K M Waters
6th July, 2015