2019-20 Pre Budget Submission to the Federal Treasurer and the Department of Treasury - Budget Policy Division

February 2019
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 pensions with a broadening of the age ranges and a lowering of the minimum drawdown percentages once a retiree has reached 75 years of age.

A change is needed to the minimum drawdown % for retirees in later years due to the rapidly increasing longevity of older retirees who need to more funds for a longer retirement and increasing age care costs.

Recommendation 2: That all retirees, no matter whether they accumulated their retirement savings within superannuation or outside superannuation, should have access to a specified cap of retirement savings where the retirement income generated would be tax-free.

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

Recommendation 4: Those workers who have been self-employed and/or those who did not have superannuation available to them, often in retirement wish to purchase a tax-free retirement income stream product. They should be able to sell privately held assets to purchase a tax-free income stream product up to a cap that is exempt from Capital Gains Tax.

Recommendation 5: That the CPI indexation of Health Insurance rebates be immediately scrapped and the % rebate based on % premium increases for Australians 65 years and older be reintroduced in full.

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.
Background and Concerns of the Association of Independent 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 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 whom either fully or partly self fund their retirement. The greater majority of these are not “wealthy” individuals as many have incurred and ongoing financial impacts on their established income streams 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 changes to superannuation, welfare and pension arrangements must not disadvantage current retirees and those soon to retire. Future changes must include grandfathering and transitional 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 rate of return to investors and embraces a strong, confident business sector with reliable returns.

We have a broad 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 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 and with decisions being made 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 concerning that we now have negative impacts from ongoing 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 will last for the longer term.

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

Superannuation, Retirement Savings and Tax

Recommendation 1: That there be an immediate change to the current aged based percentage drawdown requirements for account based income stream pensions with a broadening of the age ranges and a lowering of the minimum drawdown percentages once a retiree has reached 75 years of age.

A change is needed to the minimum drawdown % for retirees in later years due to the rapidly increasing longevity of older retirees who need to more funds for a longer retirement and increasing age care costs.

<table>
<thead>
<tr>
<th>Current age of pension account holder</th>
<th>Current drawdown %</th>
<th>Change age range to</th>
<th>Proposed new drawdown %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 65</td>
<td>4%</td>
<td>Under 65</td>
<td>4%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>5%</td>
<td>65 to 79</td>
<td>5%</td>
</tr>
<tr>
<td>75 to 79</td>
<td>6%</td>
<td>80 to 90</td>
<td>6%</td>
</tr>
<tr>
<td>80 to 84</td>
<td>7%</td>
<td>90 to 95</td>
<td>7%</td>
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<tr>
<td>85 to 89</td>
<td>9%</td>
<td>95 and over</td>
<td>10%</td>
</tr>
<tr>
<td>90 to 94</td>
<td>11%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aged 95 or older</td>
<td>9%</td>
<td></td>
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Rationale: The length of time spent in retirement is now considerably longer than when the superannuation system was set up. It is now common for retirement to be 30 years or longer. With this longer time frame and current high drawdown rates in later years, retirees are now more likely to completely deplete their superannuation savings and fall back on to the age pension with many years to live.

This is further compounded with age care costs increasing substantially after 75 years of age. Unfortunately, with the current drawdown rates, retirees have often depleted their superannuation funds just when they need pay for higher age care costs. Without any retirement savings left, these retirees will be relying on the government age pension and age care costs will need to be met by the government.

AIR understands the current drawdown rates were set to prevent people from using superannuation as a vehicle for wealth transfer to future generations. This issue has now been overcome with the Government’s $1.6 million cap on the funds in pension mode. This together with longer life expectancy and increasing aged care costs now means that retirees are much more likely to completely run down their superannuation in their lifetime with little left for beneficiaries.

Implementing this recommendation will have no cost impact to the Government. In fact, will be revenue positive as it is estimated that implementing this change will generate as
much as $200 million savings for the Government by delaying for some self-funded retirees the commencement of part Age Pension and related age care costs.

**Recommendation 2:** That all retirees, no matter whether they accumulated their retirement savings within superannuation or outside superannuation, should have access to a specified cap of retirement savings where the retirement income generated would be tax-free.

**Rationale:** The Government’s urgent attention is sought to remove the inequity between self-funded retirees without superannuation and those with superannuation.

Many older retirees who could not accumulate superannuation during their working life are unable to access the full range of superannuation concessions. They must live off assets and savings accumulated during work by them for their retirement. These investments have been purchased after paying full income tax at marginal rates and being prudent in their expenditure.

**Recommendation 3:** That the Government retains and improves 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.

**Rationale:** The benefits of the Seniors and Pensioners Tax Offset (SAPTO) tax concession to people with savings outside superannuation 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.

**Recommendation 4:** Those workers who have been self-employed and/or those who did not have superannuation available to them, often in retirement wish to purchase a tax-free retirement income stream product. They should be able to sell privately held assets to purchase a tax-free income stream product up to a cap that is exempt from Capital Gains Tax.

**Rationale:** Over 10% of workers in Australia are owners of small businesses, critical for maintaining Australian economic growth and employment. They have constantly reinvested in their businesses as the priority for use of their scarce capital. Consequently they have been unable to accumulate sufficient superannuation during work. Women, who are often out of the workforce for many years raising their families, have also been unable to accumulate sufficient superannuation assets.

These groups have no method of setting up adequate superannuation accounts in the years just before they retire, due to restrictive Government regulations on contributions.

These Australians often saved for their retirement by investing in shares and property (including property from which they conduct their small business). These assets are normally held for decades, not actively traded and have been acquired with after-tax funds.
These assets/investments have gained capital value over time and Capital Gains Tax on the sale of these investments for retirement is a harsh impost and a significant disincentive for these people to establish a retirement income stream. AIR acknowledges that governments have recognised this problem and provided Capital Gains Tax concessions for small businesses, including farmers. However, small business assets must be held for fifteen years for a CGT exemption.

Furthermore, at retirement, there is little difference between assets built through small business or long term private investment in equities or property.

A.I.R. believes that a solution to this loss of capital through Capital Gains Tax for people about to retire and wanting to purchase an income stream product or annuity, would be to grant an exemption to Capital Gains Tax on the sale of the assets up to a defined cap irrespective of the age of retirement.

This would encourage all those who were self-employed and those who have saved 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.

**Health Care**

**Recommendation 5:** That the CPI indexation of Health Insurance rebates be immediately scrapped and the % rebate based on % premium increases for Australians 65 years and older be reintroduced in full.

**Rationale:** A previous Government introduced a process of setting the 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 for Health Insurance approved by Government has been well above that of the CPI %.

This increasing cost of health insurance premiums for this group of the community is neither transparent nor fair and reduces the community’s confidence in the private health insurance system. 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 needed. 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.

Whilst commendable to see the Government introduce incentives for young people to obtain private health insurance, it was disappointing that no consideration has been given to assisting older people 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.

A.I.R. urges the Government to acknowledge the short-comings of the existing rebate calculation for older Australians and revert to the previously set aged and income based % rebates.
**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.

**Rationale:** 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 currently needs to have the same value of medical prescriptions as a couple or family before they become 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 for a single person and a couple (ie. 66.3% difference).
Aged Care

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.

Rationale: Australia’s population is ageing and people are living longer. Therefore, there is increasing demand for Federal Government assistance to help the elderly remain in their home, or in residential aged care accommodation or provide respite care. As a result, there is increasing demand to provide an adequately trained workforce.

Keeping people in their own home is positive for their well-being but as a consequence they are frailer when they need care. 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 an ongoing need for private sector involvement, however, it is necessary to balance incentives and checks for adequacy to retain public confidence in the system.

The Government, to its credit, is aware of the challenges and has moved to address some of our age care recommendations, but we believe this support needs to be accelerated.

Further Information:

For further information, please contact Wayne Strandquist, A.I.R. Acting National President on 02 9871 7927 / 0412 434 467; email deputypresident@independentretirees.com.au