

31st January 2020

To: Retirement Income Review Secretariat
The Treasury, Canberra ACT
Cc: Senator Jane Hume, Assistant Minister for Superannuation, Financial Services and Financial Technology

SUBMISSION FOR THE RETIREMENT INCOME REVIEW

While the above Review is focused on 3 “pillars”, this Submission is focused primarily on one of those, i.e. “means Testing for Age Pension”, although I also briefly touch on Superannuation where it is relevant.

My Interest:

Most Retirees agree that we have a completely Broken Age Pension System which must be reviewed and preferably completely replaced urgently as an action outcome following the Retirement Income Review. I am one of those who had a go during my working life, yet find myself disadvantaged by the nonsensical Age Pension system in place currently with complex and highly unfair means testing. It is very important for the public's input to be taken (such as mine), being the main affected parties, rather than it being dominated by inputs from Industry and so-called experts who may not be affected personally by the currently Broken Age Pension System and hence don't understand the nasty effects on others.

PROBLEMS:

1. The new Assets Test from 1st Jan 2017 doubled the rate at which pensions were reduced above maximum Asset limits. An already poor Pension system was thus dragged further down into a complete mess. This has resulted in a highly unfair Assets Test that severely punishes people who saved some money, as those over the Assets Test limits (currently \$263,250 for Singles and \$394,500 for Couples who are Homeowners) have their pensions cut back by \$3 per fortnight, or \$78 per annum, for every \$1,000 by which they exceed these limits for Assets, which means a **Negative 7.8% Return** (after Tax) on the amounts over the Asset Test limits, i.e. a nasty **Retiree Tax!** Thus, if they earn 5% (considered a normal return, although with current low interest rates that is also hard to achieve) on financial assets, they are actually losing more Age Pension than they earn from the portion of Assets over the limits! This has been confirmed by many Economists who have come up with an ideal Asset level of \$400,000 currently for a couple to avoid being penalized by fast reducing Age Pensions at higher asset levels! What a major disincentive to earn and save for retirement!
NOTE: Some part-pensioners lost up to \$14,000 annually from these changes which were also NOT Grandfathered for Retirees and those nearing Retirement who had already planned their retirement. With the Age Pension system broken, many of us have heard many people are now severely tempted to spend their assets through cruises, etc, and thus increase their pensions – how ridiculous, and what a joke of a system!

2. The Deeming Rate of 3.25% for the Income Test for Age Pensions, as well as the Pension Loan Scheme Rate of 4.50%, are the other poorly designed rates which severely disadvantage Age Pensioners, as both are not linked to the RBA rates, and have become **Retiree Taxes** as well.
3. The use of Couple's Rates is also nasty as it favors marriages to break up by giving more to 2 Singles, and also gives less to Couples where only one member is eligible (may be because the other person is not yet pension age) by giving half the Couple's Rate which is less than the Singles Rate – an obvious nasty method to pay less.
4. Previously, the Labor Govt foolishly increased the Pension Age to 67 – thus putting into poverty those who either could not get / retain a job till then (age discrimination being widespread) or those who are unable to do so due to fitness / health issues.
5. There is widespread dissatisfaction with the complex rules and tedious administration of this Broken Age Pension System by Centrelink which causes severe stress and health issues for ageing people. Such poorly designed and badly administered systems should never be foisted in a civilized country on Retirees who worked hard and helped to build up this nation. This is a wealthy and abundantly resource-rich country which needs to treat it's older people who had a go, but are not getting a fair go far, far better than is happening now. A massive amount of the Federal Budget is also being wasted on this massive Centrelink bureaucracy.

QUOTE:

"The stigma of charity should be removed from the age pension. It should be an entitlement earned by the person's personal contribution to the fund," said a very famous Australian long ago. Who & When? Former **Prime Minister Sir Robert Menzies**, at the time the pension scheme was introduced in 1946.

NOTE: The full history of Age Pensions in Australia shows how Pensions, which were to be paid for by a 7.5% tax since 1946 (which is still included in individual tax rates), were destroyed by both Labor and Liberal parties.

6. There are also the fancy Pension Systems set up for pre-2004 first-elected Politicians – who get it *without Assets or Income Tests* (including people serving in high-paying positions such as Mr. Joe Hockey, others earning significant other incomes such as Mrs. Bronwyn Bishop, Mr. Philip Ruddock, Ms Julie Bishop and many more). Also, Politicians do not have to wait for Age 67 to get their pensions. The Pension amounts are massive for the pre-2004 elected politicians - from 50% of base salary (currently around \$211,250) after 8 years service to 75% after 18 years service, Plus other extras based on positions held, with NO Asset, Income or Couples Combined Tests! Compare this to ordinary age pensioners who can currently get maximum \$24,335 for Singles and \$36,682 for Couples, including Supplements) after severe Asset, Income and Couples Combined Tests! The Politicians Special Pensions should have been

cancelled from 2004 (when new rules started) as their re-elections should have been considered NEW Contracts.

Even the Politicians elected from 2004 onwards get a 15.4% Superannuation from the Govt instead of 9.5% for most people. Why? Most people cannot see any reason why there should be a different system for Politicians. Yes, they should get back their Contributed Super and Employer Contributions – just like any other people under the same rules and at the same drawdown age, and nothing more.

Their pension eligibility MUST be under the same rules as other people!

PROPOSED SOLUTIONS:

It is strongly hoped and requested that this Review addresses Reform boldly looking at the long term benefits of the citizens, and not be political or act like Scrooge in the design changes just to protect the next Budget. The obvious (but bold) solutions to reform this Broken system now are:

1. Remove all Special Pensions for Politicians, Bureaucrats, Judges, etc, i.e. anyone on the public payroll (past & present, with no Grandfathering). Any MPs Remuneration Committee must have Pensions & Super removed from their scope, with both Pensions and Superannuation Contributions rules to be the same as for all other people. Everyone must have access to the Same Pensions System regardless of occupation (see Universal Age Pension System proposed below) – stop this ongoing Discrimination against the people by Politicians.
2. Replace the current Broken Age Pension System and Implement an **Universal Age Pension System** without any Assets or Income Tests – that is the current practice in ALL Advanced countries (even NZ), Why Not in Australia, a massively Resource-rich country? As per the Govt's Intergenerational Report of 2015, we spend only 2.9% of GDP on Age Pensions which is less than half of the OECD average! This Universal Age Pension System can be designed as follows:
 - i. At Current Individual Pension Rate + 20% (Scrap Couple Tests & Rates, as there is no need to check who has a Partner), or a similar Dollar rate worked out as a Percentage of Average Weekly Earnings.
 - ii. Along with this, allow only limited Caps on Superannuation Incomes for tax exemption, e.g. say earnings on maximum say \$600,000 to be considered non-taxable. Massive tax benefits for the wealthy needs to be curbed with massive savings available there, as the Super system was NOT meant as a tool for wealth accumulation for the rich.
 - iii. Tax ALL INCOME above these two incomes on full Tax Rates as at present.
 - iv. The Maximum Age Pension Rate should be available for anyone from Age 65, and who has been a Resident of Australia for a minimum of 15 years. For those with less years of residence, pro-rata the rate tapered down to a Minimum 50% rate (at say 10 years Residence) – to remove this as a carrot for new migrants coming in late close to

pension age. Maybe even consider Age Pension for Citizens only (as in NZ) to avoid new migrants who are not Citizens availing of it.

NOTE: The above Proposed Solution for an Universal Age Pension is very much in line with often-suggested Liberal policies favouring Govt getting out of the lives of people, not picking winners or designing policies with political motives, and letting people have a basic level of income and allowing them the full freedom to earn or save more i.e. do better, without being penalized, able to upsize or downsize as needed without being penalized, and overall result in a better and healthier retirement.

FUNDING:

I can already hear the concerns about Funding. Note that a Senior Economist in Your Life Choices (Matt Grudnoff), a major Retirees web forum, analysed that with Universal Age Pension, Age Pensions can indeed be increased if funding is seriously looked at. Suggestions are provided below:

1. The above change to Universal Age Pension will free up a lot of Centrelink staff and thus massively reduce Federal Govt Budget costs for Centrelink. It can be automatically calculated and administered by the ATO with simple software, based on a one-time simple application.
NOTE: Age Pensioners health will also improve with no interaction needed with Centrelink as a side-benefit, i.e. less Health costs!
2. An Universal Age Pension system will also encourage Older Australians to earn and save more, with NO penalties, thus increasing people's wealth whilst also increasing the Govt's Overall Tax Intake which will in return make Universal Age Pension more affordable.
3. Matt Grudnoff's (YLC) funding solution is to remove the majority of Superannuation Concessions as the overall costs of these Concessions will actually very soon overtake the cost of Age Pensions. At least put severe caps to stop the wealthy mainly benefitting from this right now (e.g. Maximum Tax of 15% up to Super balances of \$600K or \$1Mil only, with all other Income fully taxed at Marginal Rates), as the Super system was never designed to fund tax benefits for wealth accumulation by the Rich.
4. Re-start a new Futures Fund by putting into it the 7.5% Taxes being collected to allow earnings on it to be used to fund any future pensions growth. This Fund MUST be run independently of Govt for the benefit of Retirees, as Govt / Politicians must not (by Law) be allowed to control or touch it, or roll it into it's own Consolidated Revenue (as Fraser did).
5. To further absolutely ensure Funding is there long-term, the Govt MUST also implement a Minimum Tax system - say 18-20% of Gross Income for Companies, without allowing any shonky deductions (especially NO Overseas Costs), and 30% for Individuals (as it includes the 7.5% impost for funding Pensions). Even USA has a Minimum Tax, Why Not Australia? This reform is an immediate necessity now, as we have an environment where many Companies (international and local) and Rich Individuals are employing creative accounting and paying ZERO or NIL taxes.

CONCLUSIONS:

I / We, the Australian Retirees, request your Urgent Action to include such an Universal Age Pension proposal as a bold Policy as part of the Retirement Incomes Review now, to be implemented from 1 July 2020.

Please understand that Part Pensioners and Self-funded Retirees are angry and want this Broken Age Pension system to be fixed properly.

You have a major opportunity now to fix this Broken Age Pension System and have a win-win-win outcome for Pensioners, Self-funded Retirees (many more than the initial 420,000 part-pensioners hit by the 2017 Asset Test changes), as up to 3 Million+ Retirees will benefit, and the Govt's own Budgets.

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