# *WESTERN AUSTRALIA SELF FUNDED RETIREES Inc.*

57 Ashmore Way
Sorrento WA 6020
phone (08) 9447 1313

Retirement Income Review Secretariat
The Treasury
Langton Crescent
Parkes ACT 2600

The following comments are submitted in accordance with the government's decision to accept the recommendation from the Productivity Commission's report "*Superannuation: Assessing Efficiency and Competitiveness",* dated December 2018, regarding a review into retirement incomes.

There is a total of 26 questions in 8 different categories. Many of these 8 categories call for comments etc. supported by documentary proof and would require a great deal of research. Rather than become involved in a very lengthy submission, we have chosen to confine our comments to the category under the heading "*Equity"* (questions 13 to 17).

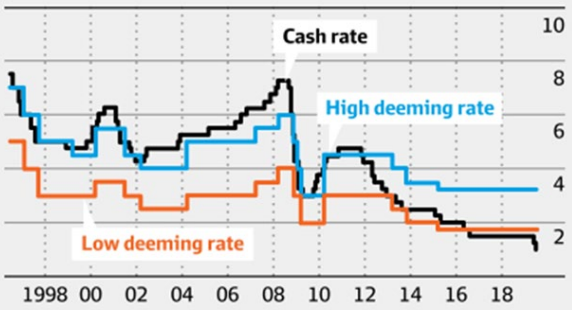
There are several areas that need to be highlighted in order for this review to have any degree of acceptance by the general public

- the first point that we feel should be made is that "grandfathering" should be maintained when any changes being made by the government would be a disadvantage to the people involved (we feel that all members of the review committee are aware of what is meant by the term "grandfathering")
- secondly, there is the situation where income received by a retired couple (over 60), who have invested in superannuation, currently receive their income free of any income tax ($3.2 million cap), and only pay 15% tax on all other income in excess of the $3.2 million cap
    - compare this with another retired couple (over 60), who have not the opportunity to invest in superannuation, but have invested a similar amount in property, Bank deposits, shares etc. and who have to pay the full amount of income tax on all their earnings (in excess of the $18,200 tax-free threshold)
    - this issue is extremely unfair and needs to be corrected
        - a similar tax-free environment should be created for all retirees, over the age of 60, to receive a similar tax-free limit of $3.2 million (couples), whatever their source of income may be (and pay 15% tax on any excess income over the $3.2 million cap)
- the third issue relates to the Deeming rates set by the government to assess the level of income used in calculating entitlement to the Centrelink Age pension
    - since 1996 the Deeming rates (upper and lower), have closely followed the changes in the Reserve Bank Cash Rate and have always been lower than the Cash Rate
        - unfortunately, since 2012 the upper Deeming rate has remained at a level above the Cash Rate - despite there having been 6 reductions in the Cash Rate since March 2015, and only one small reduction in the upper Deeming rate since that time (down from 3.25% to 3%)
        - with the rate available from all the major Banks for Term Deposits being below 2%, it is most inequitable for the government to assume income above that which is reasonably available to seniors/retirees
            - the upper Deeming rate should not be any more than 2% (preferably 1.75%)
        - it is worth noting that the lower Deeming rate is now, for the first time since 1996, higher than the Reserve Bank Cash Rate (see chart on page 2)

**How the deeming changes work***

| Investment balance | Deeming rate now (%) | Deeming rate from Sep (%) | Savings per year ($) | ASX 200 yields (%) | Term deposit rates (%) | Super fund returns (%) |
|---|---|---|---|---|---|---|
| First $51,800 for singles | 1.75 | 1.00 | 804 | 4.50 | 1.75 | 5.50 |
| First $86,200 for couples | 1.75 | 1.00 | 1053 | | | |
| Amounts above | 3.25 | 3.00 | | | | |

**Deeming rates v RBA cash rate (%)**




> **The ASX 200 is up 12% through the year. So we've actually seen very strong returns for super funds, for managed funds, and in the stock market.**
>
> **Josh Frydenberg**
> Treasurer

*Deeming rates are the assumption used to calculate how much pensioners earn on financial investments & reduces how much government pension they receive

SOURCE: FINANCIAL REVIEW, RBA

- the fourth issue relates to the method used to index the Centrelink Age pension (and many other similar pensions/payments), as opposed to the method used to index the defined benefit pensions paid by the Commonwealth Superannuation Corporation (CSC) to ex-Commonwealth employees
    - the 2 main pension schemes in this category are the CSS and the PSS schemes
        - the CSS scheme closed in 1990, and the PSS scheme closed in 2005
    - since 2009 the Centrelink Age pension has been indexed by whichever is the higher of the CPI and the PBLCI (Pensioner Beneficiary and Living Cost Index), benchmarked against 27.7% for singles (41.76% for couples), of the MTAWE (Male Total Average Weekly Earnings)
    - the CSS and PSS schemes are only indexed by the CPI - a much lower level
    - there have been 3 different Senate Select Committees investigate this discrepancy (in 2001, 2002 and again in 2008), and each report has recommended that the CSS and PSS schemes be indexed by the same method as is used for the Age pension
        - in 2014 a similar request by ADSO (Alliance of Defence Service Organisations), was successful in having the indexation of the DFRB and the DFRDB ex-military pension (defined benefit) schemes indexed in the same way as the Age pension
- the fifth issue relates to not allowing those people over the age of 75 to contribute to superannuation
    - those people over 75 and <u>still in the workforce,</u> are allowed to contribute funds to superannuation through the SGL (currently 9.5%)
    - but those over 75 <u>not working</u> are precluded from putting any money into superannuation
        - this matter is not equitable and can be easily rectified by simply lifting the ban on placing funds into superannuation for those aged over 75
        - this issue was a recommendation of the report "*Australia's Future Tax System"* in December 2009 (more commonly known as the Ken Henry report)
- the next item relating to "*Equity*" concerns the level of pharmaceutical prescriptions that must be reached (in a calendar year), before the cost drops to a concessional level
    - for those seniors/retirees on a Centrelink Pension Concession Card (PCC) they need to reach the total of $316.80 before each further prescription becomes free of charge

    - the problem is that a single person needs to reach the same level as does a couple/family before a lower cost becomes available
        - this is regarded as most unfair to the single person and should be corrected

- when calculating a person's eligibility for the Centrelink Age pension there is a "taper rate" of $3 per fortnight (of Age pension), for every $1,000 of Assets owned by the claimant to arrive at an amount which determines whether a claimant is eligible (or not)
    - "Assets" includes household effects, caravans, motor vehicles, boats, Bank deposits, Shares, rental properties as well as hobby or investment collections and personal items such as computers and jewellery
    - prior to 2017, the taper rate was $1.50 per $1,000 of Assets, but changed (doubled) to the current rate of $3 per $1,000 on 1 January 2017
        - this doubling of the taper rate caused a large number (over 300,000) part pensioners to be removed from being in receipt of the Age pension and being forced to cut into their life savings in order to exist
        - it has been claimed that the rate of $3 per fortnight per $1,000 is an effective penalty rate of 7.8% against those seniors/retirees that are now in the twilight of their years
        - many different organisations have voiced their opinion that the current taper rate should be lowered - a level of $2 per fortnight per $1,000 seems a more appropriate level
- the NDIS scheme commenced in 2013 and a specific levy of 0.5% was introduced in July 2014 in order to try to cover the costs - this levy was <u>specifically to fund the operation of the NDIS</u>
    - unfortunately, the NDIS does not cover anyone over the age of 65 who contracts a disability after reaching the age of 65
        - however, they are still required to pay the levy of 0.5% (despite not being covered)
        - this is extremely unfair and those over the age of 65 should be covered by the NDIS, or, alternatively, they should be exempt from paying this <u>specific</u> levy.

Following are general comments aimed at addressing the remainder of the 7 other categories in the Retirement Income Review Consultation Paper

- without having detailed information concerning systems that operate in other countries we are unable to compare the Australian retirement system against others
- we do not believe that there is widespread knowledge, and appreciation, of the Australian system
    - there is a responsibility on the government, in addition to the many different retiree and financial organisations, to ensure that attempts are made to address this problem
- it does seem that there is an increasing number of people entering retirement who still have a mortgage on their principal place of residence (plus more people having to rent a property)
    - all that can be done is to emphasise there should be a priority to paying out the mortgage (asap)
- the 4 principles, Adequacy, Equity, Sustainability and Cohesion do seem to be sufficient
- the matter of "Adequacy" will vary from family to family and is almost impossible to define, however, it could be said that a percentage of the minimum wage (?? maybe 45% for couples and 30% for singles), would be a figure that might be acceptable to most people
- Equity is covered on pages 1 - 3
- the matter of "Sustainability" can be measured by the growing cost to the government of tax concessions (which do seem to be growing), although the cost of maintaining the Age pension does seem to be decreasing as more people are attracted to investing in superannuation
    - there is a feeling that the SGL should be increased from the current 9.5% to 12% (in line with government policy)

        - Australia's current rate of 9.5% is much lower than most other countries
    - there are some people who have said that the current rate of 15% tax payable on superannuation balances greater than $3.2 million (for a couple), in the accumulation phase is too generous (there is no upper limit), and some consideration should be given to increasing this rate to 30%
        - this could alleviate any perceived problems with franking credits
    - at the beginning of this submission we have clearly outlined the matter of lowering the taper rate for the Age pension from $3 per fortnight per $1,000 down to $2 per fortnight per $1,000
        - this will be an increased cost to the government, however, it is essential that the unfair decision taken to double the taper rate (from 1 January 2017), be addressed
- basically, it could be said that most people do try to save for their retirement, however, unforeseen events such as a marriage breakdown, the death of the main breadwinner, bankruptcy and bad financial decisions can, and do, contribute to low levels of financial balances at the time of retirement
    - there does not seem to be a viable solution to problems such as these
    - it does appear necessary to continue to maintain the Age pension, at a reasonable level, in order to cope with circumstances that are, sometimes, outside the ability of people to control
- interaction with Aged Care is not satisfactory
    - there are different sets of criteria that confuse many people.

Several other organisations e.g. the Alliance for a Fairer Retirement System, National Seniors Australia, COTA, Association of Independent Retirees (A.I.R.) Ltd., Gold Coast Retirees Inc. as well as many professional associations will be submitting their well-researched thoughts in the next few days. It is our hope that serious consideration is given to each of these submissions which are, basically, in line with what our members support.

R. de Gruchy OAM
President

27 January 2020