Association of Independent Retirees (A.I.R.) Limited
Working for Australians in Retirement

2013-14 Pre Budget Submission to the Federal Treasurer and the Department of Treasury Budget Policy Division

January 2013

ACN 102 164 385

31 January 2013

Hon Wayne Swan MP
Treasurer
Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Swan

Association of Independent Retirees (A.I.R.) 2013-14 Pre-Budget Submission

This Pre-Budget Submission addresses a number of issues of particular concern to fully and partly self-funded retirees and which affect their lives and living standards. While mindful of the current fiscal position, A.I.R. submits these recommendations and supporting rationales to seek to address some anomalies and inequities that remain for this particular sector of the community.

The recommendations in this submission, which have been developed in consultation with A.I.R. members across Australia, are realistic measures by which assistance can be provided via the Federal Budget mechanism.

A.I.R. is well placed to inform retirees about Government policies affecting their financial security. In this context, we would be happy to consult with you further regarding policies and programs impacting on self-funded retirees and the broader aged care sector.

I hope that this submission will be accepted as positive and supportive of Government policy objectives. Should you require any further specific information in relation to this submission, please contact A.I.R. Director, Robert Curley, as follows:

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Yours sincerely

Max R Barton
National President

EXECUTIVE SUMMARY

This submission from the Association of Independent Retirees (A.I.R.) Limited contains the following recommendations across three areas of key concern to fully and partly self-funded retirees: Financial, Health Care and Aged Care.

A. FINANCIAL

Recommendation 1: that the Government allocate funds for a review of the drawdown phase of superannuation including the value, cost-benefit, and discriminatory nature of its complex regulation.

Recommendation 2: that all retirees, no matter whether they accumulated their retirement assets within superannuation or outside superannuation, should have access to a specified tax-free component of their assets after retirement for their day to day living expenses, at least to the same extent as applies for those with superannuation.

Recommendation 3: that, if it is necessary to commence a superannuation fund to access the tax-free income stream component, the sale of assets to be transferred should be exempt from capital gains tax.

Recommendation 4: that all discriminatory age and work tests for retirees 65 years and over should be abolished.

Recommendation 5: that with the continuing negative impact of Global Financial Crises on self-funded retirees' already depleted superannuation investment balances (from which living expenses are derived) the Government revert to the previous 50% discount to the mandatory draw down rate on pensions as a permanent measure.

Recommendation 6: that the Government reintroduce the personal tax exemption on $1,000 of financial instrument interest introduced in the 2010-2011 budget.

Recommendation 7: that the ex-Commonwealth Government employee pension and the Defence Forces retiree pension indexing methods should be changed to that used for the Age Pension.

B HEALTH CARE

Recommendation 1: that the PBS Safety Net threshold for single retirees should be set at 65% of the couples / families threshold level.

Recommendation 2: that the upper threshold for eligibility for the Commonwealth Seniors Health Card (CSHC) should be indexed using the same calculation method and timetable as used for the Age Pension.

C AGED CARE

Recommendation 1: that further consideration be given to the user pay fees proposed under the Living Longer, Living Better aged care reform program to ensure a fair and equitable balance between the financial viability of Australia's residential aged care providers and accommodation and care fees to be charged after 1 July 2014.

Recommendation 2: that the LLLB aged care reform program incorporates a wellness and re-enablement approach in aged care assessment.

Recommendation 3: that the Government committed funding to the LLLB aged care reform and associated programs be maintained as this is essential for the successful implementation of this important initiative.

Introduction

The Association of Independent Retirees (A.I.R.) Limited is the peak body representing the interests of retirees who are wholly or partly self-funded in retirement. A.I.R.'s members include fully self-funded retirees, part-pensioners, and superannuants.

Founded in 1990, A.I.R. is a not-for-profit, non-political, volunteer organisation that is focused on matters affecting the standard of living, health and welfare of retired and partly-retired people. As well as carrying out research and gathering information that will assist its members in maximising their life opportunities, A.I.R. is committed to educating the wider community (including political parties at all levels of Government) in regard to the views and concerns of self funded retirees.

This submission reflects the views, concerns and issues of partly and fully self-funded retirees who have experience in managing their affairs during retirement. As such they have a clear understanding of the issues that affect their capacity to live a fulfilling retirement and provide pragmatic and realistic advice relating to their current situation.

This submission focuses on those issues, concerns and recommendations within the three areas of Financial, Health Care and Aged Care. The protection of these areas and the ability to maintain an independent lifestyle of Australia's fully and partly self-funded retirees is important and need to be addressed in the Government's 2013-14 Budget.

We appreciate and respect the need for the Government to continue its disciplined approach to economic management and we are mindful of the current fiscal position, but we believe our recommendations are sound with the cost carefully balanced against the benefit to the community.

Rationales to Support the Recommendations

A. FINANCIAL

Recommendation 1: *that the Government allocate funds for a review of the drawdown phase of superannuation including the value, cost-benefit, and discriminatory nature of its complex regulation.*

A clear distinction has now emerged between the accumulation component of superannuation and the drawdown component, defined to commence upon retirement. The recommendations in this submission relate specifically to the drawdown component.

Regulation of the drawdown component has been built on the accumulation component thus adding to complexity. The regulations were written when the drawdown component was in its infancy; most people were accumulating funds prior to retirement. The proportion of people retiring with superannuation has now increased markedly; difficulties in administration and fund management have emerged. A.I.R. strongly believes that all aspects of regulation of the drawdown component, including longevity financial management, need to be reviewed.

Recommendation 2: *that all retirees, no matter whether they accumulated their retirement assets within superannuation or outside superannuation, should have access to a specified tax-free component of their assets after retirement for their day to day living expenses, at least to the same extent as applies for those with superannuation.*

Government's urgent attention is sought to removing the inequity between self-funded retirees who do not have or never had superannuation and those with superannuation.

Many retirees could not access superannuation in their past and are now denied superannuation concessions, including a reasonable tax-free day to day income stream and access to the CSHC. They must live off assets and investments purchased from their after-tax funds accumulated responsibly by them for their retirement; these assets have been accumulated after paying full tax at marginal rates.

Over 10% of workers in Australia include owners of small businesses, critical for maintaining Australian economic growth and employment. The latter have constantly reinvested in their businesses as a fundamental priority for use of scarce capital. Consequently they have been unable to accumulate superannuation with its concessions. Females, out of the workforce for many years raising their families, have also been unable to accumulate superannuation assets. These groups have no method of setting up an effective superannuation account in the years just before they retire, due to restrictive Government regulations on contributions.

Recommendation 3: *that, if it is necessary to commence a superannuation fund to access the tax-free income stream component, the sale of assets to be transferred should be exempt from capital gains tax.*

A very high proportion of people who accumulate savings for their retirement do so by holding securities, including equities and property used for investment or to conduct a business. These assets are not normally traded but held for decades. Many are 'blue-chip investments' such as banks and have been acquired with after-tax funds. They have gained significant capital value over the period, including accumulating dividends. Capital gains tax on the sale of these investments is an extremely harsh impost on their savings.

Selling assets and paying capital gains tax often takes away the advantage of commencing a superannuation fund to take advantage of the tax concessions on the resulting pension/pensions.

Governments have recognised this problem and provide capital gains tax exemption for small businesses, including farmers, where the capital assets are held for fifteen years.

A.I.R. suggests that one solution to the problem of loss of capital through capital gains tax for people about to retire and setting up a superannuation fund would be to modify the applicable legislation to allow people without superannuation to be exempt from capital gains tax on the sale of assets up to a defined cap for the purpose of establishing a superannuation fund.

Recommendation 4: *that all discriminatory age and work tests for retirees 65 years and over should be abolished.*

A.I.R. acknowledges removal of the age limit of 75 years during the 2011-2102 budget for the SG contribution for those meeting the work test. However, age restrictions still apply for concessional and non-concessional contributions.

The work test is based on the definition of 'gainful employment'; undertaking paid work for a minimum of 40 hours in a thirty day period in a financial year. Many retirees 65 years and over need greater flexibility than available with this definition because of their retirement priorities, economic circumstances, and family needs. Consequently, discrimination occurs often depriving those most in need from building their retirement savings in superannuation.

Examples of retirees using flexible work patterns include 'non-traditional' types of work such as working at polling booths during elections, emergency work in teaching or nursing, or standing in for a family member (supporting family members is recognised as a major role for retired people). Many retirees move from full time work to part time work. Casual consulting contracts are often used, often for significant amounts of work, and are drawn up on the basis of a financial return for delivering a specified outcome within an agreed timeframe; the method of arriving at the specified outcome is not defined, nor is the work pattern. A common example in universities is in supervision of a research student. The supervision pattern cannot be defined as 40 hours in any one thirty day period but incurs reasonable income levels.

ABS statistics show that about 5% of the overall workforce would not meet the gainful employment test that is applied to the cohort of retirees 65 years and over. Patterns include working one day or a varying number of days per week, working one hour or less per day, or working a variable number of hours per week. A high percentage of retirees 65 years and over would be expected to be represented in these work patterns. Thus, the level of the gainful employment test is discriminatory for people age 65 and over.

Females made up about 46% of total employed persons in all age groups in 2011, but only 33% in the age cohort 65 years and over. It is well recognised that females, because of their background and need for greater flexibility, have difficulty in obtaining 'traditional' employment and meeting the gainful employment test.

The work test does not recognise the needs of people, particularly the more elderly, to manage their financial affairs using superannuation assets as the vehicle. Emergency health and changing accommodation requirements often need lump sums to be withdrawn temporarily from superannuation assets (allowed under the regulations). The ability to return some of this capital to an individual's superannuation account is denied where the person cannot meet the work test.

People who work less than the gainful employment test requirement are denied the 9% SG contribution, thus being paid at a lower rate. This contravenes the principles of equal pay for equal work in the Fair Work Act.

The work test does not take into account the size of the retirement asset held by an individual in superannuation. Individuals unable to participate in paid work for whatever reason, and with low asset balances that allow access to the age pension, are denied the ability to add to those assets through non-concessional contributions. In contrast, those with the ability to undertake paid work, no matter what their asset balance is, can make non-concessional contributions irrespective of the size of their superannuation asset balance up to age 75. This is clearly discriminatory.

A.I.R. believes that the age and work tests have little impact on meeting Government revenue objectives to restrict the transfer of funds into superannuation compared to the discrimination and disincentive caused. Concessional and non-concessional caps on contributions should be used as the mechanism to meet this Government objective rather than the discriminatory age and work tests.

Recommendation 5: *that with the continuing negative impact of Global Financial Crises on self-funded retirees' already depleted superannuation investment balances (from which living expenses are derived) the Government revert to the previous 50% discount to the mandatory draw down rate on pensions as a permanent measure.*

AIR argues that regulations should normally be independent of changeable economic circumstances. The mandatory drawdown rate has been varied in most years since the Global Financial Crisis and is budgeted to return to the original value in the 2013-2014 financial year.

Changes of this type create uncertainty and impede good management and investment of retirement assets by retirees, which have greatest benefit when invested over a lengthy period. The budgetary consequence of varying the rate is negligible, even over the long term.

Recommendation 6: *that the Government reintroduce the personal tax exemption on $1,000 of financial instrument interest introduced in the 2010-2011 budget.*

The Henry Tax Review noted the inequitable taxation treatment of financial instrument interest compared to equities and recommended that the tax treatment of each class should be brought into line. The Government moved in this direction by including in its 2010-2011 budget tax relief for the first $1,000 of financial instrument interest. This was subsequently reduced to $500 and then withdrawn completely in subsequent budgets.

At the same time RBA interest rates have been continually reduced impacting severely on income earned from superannuation funds and from investments of retirees without superannuation, both already heavily affected by the downturn in Australian equity values. To reduce risk in uncertain equity markets abnormally high proportions of funds have been held in financial instruments only to find their return steadily reducing to levels far below where income from their assets can be sustainable over their anticipated life span.

AIR believes that the original Government commitment to equitable treatment of interest from financial instruments should be reinstated.

Recommendation 7: *that the ex-Commonwealth Government employee pension and the Defence Forces retiree pension indexing methods should be changed to that used for the Age Pension.*

Ex-Commonwealth Government employee pension and the Defence Forces retiree pension indexing methods are different from the Aged Pension indexing method thus discriminating against this group of retirees. This should be changed to use the same indexing method as that used for Aged Pensioners.

Despite numerous Government Inquiries recommending continuation of the use of the CPI as the indexation mechanism, the facts of the matter are that many retirees have suffered severe income deprivation:

- from levels of defined benefits now demonstrated to be unreasonably low compared with equivalent private sector employees, including benefits for spouses of deceased members;
- from the use of CPI as an indexation measure, which continuously reduces the relative value of the pension in the hands of retirees;
- from the effects of untaxed fund regulations where the rebate on superannuation income is a crude mechanism that denies retirees access to the same concessions as private sector retirees, such as the Commonwealth Seniors Health Card.

B HEALTH CARE

Recommendation 1: *that the PBS Safety Net threshold for single retirees should be set at 65% of the couples / families threshold level.*

Single and widowed retirees continue to be discriminated against with the current threshold level of the Medicare and Pharmaceutical Benefits Scheme (PBS) Safety Net.

A.I.R. believes that Safety Net concessions should be available on an equitable basis and that the Medicare and PBS Safety Net thresholds for single and widowed retirees should be set at 65% of the couples / families threshold level.

This recommendation is proposed in acknowledgement that these retirees incur the same total expenditures as a couple/family before they become eligible for the Safety Net rebate.

Recommendation 2: *that the upper threshold for eligibility for the Commonwealth Seniors Health Card (CSHC) should be indexed using the same calculation method and timetable as used for the Age Pension.*

The community benefit and support provided by the Commonwealth Seniors Health Card has been well documented and accepted by successive Governments for that small group of self-funded retirees above the Age Pension age who have qualified to receive the CSHC.

This is confirmed by Centrelink who state that the CSHC is targeted to support a portion of those self-funded retirees of age pension age who do not qualify for an Age Pension because of assets yet have an annual taxable income that is less than the Government-set threshold value.

However despite this acknowledgement and support by Government agencies, the qualifying income threshold limit has not increased over the past 12 years.

C AGED CARE

Recommendation 1: *that further consideration be given to the user pay fees proposed under the Living Longer, Living Better aged care reform program to ensure a fair and equitable balance between the financial viability of Australia's residential aged care providers and accommodation and care fees to be charged after 1 July 2014.*

A.I.R. is actively involved in the area of Aged Care reform, working within the National Aged Care Alliance (NACA), in NACA's involvement as an advisory group to the Department of Health and Ageing and with the Minister for Mental Health and Ageing, the Hon Mark Butler, in regard to the Government's *Living Longer, Living Better* (LLLB) aged care reform program. Minister Butler openly acknowledges the work on consumer concerns and the advice provided by NACA and A.I.R. and our active involvement in the aged care LLLB reform implementation.

A.I.R. acknowledges that the LLLB reform program represents a substantial start to reforming aged care and moving the system from being provider oriented to consumer directed.

However more needs to be done to ensure Australia's new aged care system will be fair and equitable for consumers and will be sustainable in the longer term. There are major concerns with the user pay fees proposed. It is suggested that a lot more work will be needed to ensure the financial viability of Australia's residential aged care providers is balanced against fair and equitable accommodation and care fees to be charged to new residents who move into these residential aged care facilities after 1 July 2014.

Additional financial modelling is required as well as a more realistic appraisal of the financial situation for those who will enter residential care and their ability to fund the user pays concept. There is a concern with the viability of the scheme if all those who enter residential care are recipients of welfare and pay no fees. A scheme properly funded by Government is essential acknowledging consumer concerns about equitable and reasonable fees.

Recommendation 2: *that the LLLB aged care reform program incorporates a wellness and re-enablement approach in aged care assessment.*

The *Living Longer, Living Better* aged care reforms would be strengthened by the adoption of a wellness and re-enablement approach in aged care assessment which focuses on and enhances individuals' capabilities to achieve personal goals. This approach recognises that older people:

- can (and do) recover from illness and injury; and
- continue to have aspirations and goals throughout their lives.

Unfortunately the current system focuses on a person's deficits and assumes a continual decline in functioning. This assumption drives the planning and delivery of services and reinforces stereotypical views of all older people as requiring ongoing and increasing amounts of support.

Under the LLLB program, Consumer Directed Care (CDC) was introduced as the new norm for in-home care initially, extending over time to residential care. The principles of CDC require that the consumer is allocated resources based on assessed needs to determine the level of support and service required, where these should be provided, and by whom.

Adoption of the wellness/re-enablement similar to the CDC approach will also allow more cost-effective usage of limited resources as the need for higher-cost services such as residential or acute care is deferred or averted altogether.

Recommendation 3: *that the Government committed funding to the LLLB aged care reform and associated programs be maintained as this is essential for the successful implementation of this important initiative.*

Given the significant commitment made by the Government and strong community support to the LLLB program A.I.R. believes that any diversion of funds in the 2013-14 budget away from the timetabled implementation of the LLLB program will be seriously detrimental to achieving significant aged care reform.