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

2016-17 Pre Budget Submission to the Federal Treasurer and the Department of Treasury Budget Policy Division

February 2016

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: financial, health care and aged care.

RECOMMENDATIONS

Recommendation 1: that in view of the severe reduction in the income of self-funded retirees the age related compulsory drawdown / retirement income percentage be halved as it was on similarly difficult occasions in the past for retirees.

Recommendation 2: that the Government moderates the compulsory drawdown percentage of retirees retirement capital to take account of their increasing longevity so that they can continue to live comfortably in their latter years without the fear of the premature exhaustion of their retirement savings.

Recommendation 3: that the sale of productive assets to be transferred into the tax-free income stream product should be exempt from capital gains tax for those who have been self-employed and / or those who did not have superannuation available to them, and wish to commence a superannuation fund to access a tax-free income stream product.

Recommendation 4: that the rebate reducing CPI indexation of Health Insurance rebates that was introduced in 2013 be immediately scrapped and the % rebates for senior Australians be reintroduced in full.

Recommendation 5: that the 2016/17 Budget must address the gaps and dysfunction in our $140 billion a year health arrangements to maintain the long term viability of the health care system, and to ensure adequate, equitable health care for all Australians.

Recommendation 6: that the PBS Safety Net threshold for single retirees be set at 65% of the couples / families threshold level or at the same % difference between the threshold income limit to receive the age pension for a single person and a couple.

Recommendation 7: that the Commonwealth Seniors Health Card for single retirees be set at % difference between the threshold income limit to receive the age pension for a single person and a couple.

Recommendation 8: that the Government will not extend the incorporation of either the assets or income of superannuants, any further than the recent changes to incorporate indexation of the Commonwealth Seniors Health Card, in any changes to eligibility criteria for benefits for retirees.

Recommendation 9: That the Government reconsiders the part age pension taper rate due to come into effect on 1 January 2017 which will particularly impact on some existing part-pensioners who rely primarily on their own assets and investments but need the top up of the part age pension to maintain their current income and retirement living standard. We accept that this rule be applied to those new entrants into the system after 1 January 2017.

Introduction

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.

This submission focuses on those issues and concerns of our members and makes recommendations within the areas of financial, health Care and aged care that are important considerations to be addressed in the framing of the 2016-17 Budget.

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 / drawdown pension phase by restricting benefits or not providing the support they have committed to.

We do have some confidence that there is a recognition of some of the issues impacting on the self-funded retiree sector which have been canvassed in:

- the Discussion Paper on Retirement Income Stream Regulations, published in July 2014 which provided an opportunity for A.I.R. bring to the forefront many issues we have been raising for years regarding the retirement / drawdown phase of Superannuation;
- the *Re:Think* Tax Discussion Paper in April 2015 and its subsequent extension to include an additional item on Sustainable Retirement Incomes; and
- the responses in October 2015 to the Murray Inquiry into the Financial System report that contained several actions agreed by the Government pertaining to Superannuation.

We understand that these issues will specifically addressed in the Tax Green Paper anticipated for release during 2016. It is important that this next Discussion Paper provides for a holistic approach to reform to taxation and superannuation policy. A.I.R. remains committed to a view that any change to superannuation, welfare and pension arrangements must not disadvantage current retirees and those soon to retire. Future changes must include grandfathering and transitionary provisions to protect those retirees whose retirement income is based on the current rules.

There are now more than 1.9 million Australians aged 65 years and over who either in part or fully self-fund their retirement. The greater majority of these are not “wealthy” individuals as many seem to infer. Yes, there are high wealth retirees who do not need support in their retirement but it should be understood that these represent an extremely small percentage of retirees in Australia who are self-funding their retirement.

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 interest rate return to investors and embraces a strong, confident business sector with reliable returns.

For self-funded retirees, this is a significant issue of concern as many of them primarily derive their income from shares in Australian and overseas stock markets. In 2016, we have seen the worst start to any calendar year with a drop of 8% in the market indexes in the first two weeks of trading and Wall Street has also posted its worst start to any year.

Our members question if the Government is aware of or interested in the impact of such drops on the level of funds available to retirees to meet their living expenses. And whether the Government is adequately encouraging and supporting the need for self-reliance, and for lifting retirement incomes delivered by superannuation.

A.I.R. is fully cognisant of the poor return from the local and global markets over the past three years, the very low interest rate on cash deposits and the significant drop in the market since the beginning of 2016. These factors impact especially on self-funded retirees. As a result A.I.R. is specifically recommending that in the 2016-17 Budget, the Government temporarily reduces the minimum percentage drawdown rates by 50% for account based pensions.

We have an 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 generally not high wealth individuals and are under financial pressure, will be financially disadvantaged by such measures. Ultimately this may result in their inability to maintain their independence from Government support in the later years of their retirement.

For further information, please contact Sue Hart, A.I.R. Executive Officer on 02 6290 2599 or A.I.R. Policy Director Robert Curley on 02 9541 2317 or curley@wix.com.au.

Rationales to Support the Recommendations

Recommendation 1: *that, in view of the severe reduction in the income of self-funded retirees, the age related compulsory drawdown / retirement income percentage be halved as it was on similarly difficult occasions in the past for retirees.*

This is not an argument against the mandatory drawdown regulations but their inflexibility to allow for changed economic circumstances which severely impact on the ability of many retirees to survive financially because it accelerates the reduction of their retirement capital as they are forced to use this capital beyond the drawdown percentage to survive. Ultimately this also impacts on the need for retirees to become part pensioners at Government expense. As superannuation retirees do not pay tax, reducing the drawdown rate does not affect Government revenue.

Also the rapidly increasing average age of retirees means that retirees need their income stream to be sustained to provide for a longer life and this is contrary to the current compulsory Government drawdown/retirement income requirement for income stream products which does not allow for this factor and makes it harder for the greater number of retirees in their eighties and nineties to continue to live comfortably.

Recommendation 2: *that the Government moderates the compulsory drawdown percentage of retirees' retirement capital to take account of their increasing longevity so that they can continue to live comfortably in their later years without the fear of the premature exhaustion of their retirement savings.*

A.I.R. members are concerned about the longevity issue as their expected number of years in retirement increases, and thus the need for moderation in the age related compulsory drawdown percentage, so that self-funded retirees do not have their income stream generating assets unnecessarily reduced and potentially exhausted by premature forced withdrawals and then for many forced to draw on government support. The current 1.9 million fully or partly self-funded retirees face particular uncertainties from economic conditions and Government policy decisions. Their desire and expectations of a comfortable and fear free retirement would be enhanced by a reduction in the annual drawdown percentage, particularly for those in their seventies, eighties and nineties.

Recommendation 3: *that the sale of productive assets to be transferred into the tax-free income stream product should be exempt from capital gains tax for those who have been self-employed and / or those who did not have superannuation available to them, and wish to commence a superannuation fund to access a tax-free income stream product.*

There are many members of the community, both males and females for whom superannuation was not available or they were self-employed. These Australians saved for their retirement by investing in securities, including equities and property as an investment or property from which to conduct their small business. These assets normally were not actively traded but held for decades. All had been acquired with after-tax funds. They have gained capital value over the period they have been held and the Capital Gains Tax on the sale of these investments for their retirement is an extremely harsh impost on the individual and their spouse.

Governments have recognised this problem and provided selective Capital Gains Tax exemption for small businesses, including farmers, where the capital assets are held for fifteen years. There is little difference between building assets through small business or through long term investment in equities.

A.I.R. believes that a solution to the problem of the loss of capital through Capital Gains Tax for people about to retire and intend investing funds into an income stream product or an annuity would be to granted an exemption to Capital Gains Tax on the sale of the assets up to a defined cap that are specifically for the purpose of purchasing an income stream product or an annuity at the time of their retirement irrespective of their age at which they retire.

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

Recommendation 4: *that the rebate reducing CPI indexation of Health Insurance rebates that was introduced in 2013 be immediately scrapped and the % rebates for senior Australians be reintroduced in full.*

The previous Government introduced a stratagem of setting the 2013 monetary rebate as the basis for calculating the annual 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 approved by Government has been well above that of the CPI %.

For example, for a person over 65, the rebate is 40%. On a base fee of $2,000 at 1 April 2013, the rebate was 40% of the premium, or $800; hence the net premium is $1,200. The Government has increased premiums by 6.2% as from 1 April 2014; the premium becomes $2,000; 6.2% = $2,124. The CPI is however only 2.5%, the rebate is only $800; CPI = $820. Therefore the net amount of premium is $2,124 - $820 = $1,304, an increase of $104 on the previous year or a percentage increase of 8.68%, not the Government-announced increase of 6.2%. This age related rebate % will reduced even further in April 2015 and will continue to reduce each year.

This hidden method of adding cost to the premium for this group of the community is neither transparent to nor fair and reduces the community's confidence in the credibility of the Government. This specifically and unfairly attacks the group of Australians who are 65 years or older. Private Health Insurance is seen by many, who have contributed for a lifetime to health insurance, 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 necessary. 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.

A.I.R. urges the Government to accept the error in introducing this measure and revert to the previously set age and income based % rebates.

Recommendation 5: *that the 2016/17 Budget must address the gaps and dysfunction in our $140 billion a year health arrangements to maintain the long term viability of the health care system, and to ensure adequate, equitable health care for all Australians.*

Health Care Reforms: The areas needing reform are:

- Primary Health Care and improving care for people with complex and chronic conditions;
- modernising Medicare and the Medical Benefits Schedule;
- Private Health Insurance Review; and
- reduction in out of pocket expenses.

In addition the Government has announced a major reform agenda for mental health services and significant change in the eHealth area by moving to make My Health Record an opt-out model and structural changes to the way healthcare is planned and commissioned regionally with the establishment of Primary Health Networks (PHNs). This work needs to be accelerated and further developed to meet the expectations of the community which were not met by the initial introduction of the Personally Controlled Electronic Health Records (PCEHR) system or the subsequent inquiry into the lack of progress with the system. A.I.R. is supportive of a national shared electronic health record system given its potential benefits to our members, the clinical advantages of better access to patient health information and the sharing of this information across all healthcare providers within the sector.

Private Health Insurance: Challenge:

Australia has a public-private health system. Private Health Insurance (PHI) is a critical component of the Australian health care system.

It is intended to assist with the costs of care in the private system, to support choice of private provider and to help take the pressure off public hospitals. Since 1996 Governments of all persuasions have supported private health insurance through a suite of measure to encourage consumers to maintain their health insurance cover; the tax rebate on premiums, the Medicare Surcharge Levy and most recently the addition of the Lifetime Health Cover rating.

For the health system the main contribution of private health insurance is to reduce demand on the public hospital system and to help consumers pay for treatments and services that are not publicly funded such as dental care, again to reduce demand for these type of services to be publicly provided and funded.

One measure of whether or not private health insurance has been effective in reducing demand on private hospitals is to look at the waiting time for elective surgery in public hospitals. Whilst there are confounders such as the increase in overall demand for elective surgery as the ageing population increases, it does appear that rather than there being a decrease in waiting times, these have actually increased with significant increases in some specialities.

Out of Pocket Costs: Challenge:

Australians face some of the highest out of pocket health care expenses in the OECD and they account for over 17 per cent of health expenditure; this is despite the existence of the universal insurance cover provided by Medicare, the provision of subsidised medicines under the Pharmaceutical Benefits Scheme (PBS) and close to half of the population having Private Health Insurance which helps meet the cost of private treatment.

In the 2014 Budget the Government proposed to increase the PBS co-payments and increase the number of prescriptions required before the safety net came into effect for both concessional and general patients. A.I.R. is opposed these measures due to the particular impact on those on fixed incomes and those whose incomes are dependent on circumstances beyond their control, such as stock market fluctuations.

Research has shown that out of-pocket costs epitomise many of the complex and negative aspects of co-payments in health care. It is evident that rising out of pocket expenses for both medical services and medicines are already deterring people from seeking treatment and getting the medicines that they are prescribed.

A.I.R. is strongly opposed to policies that increase out-of-pocket health care costs through the imposition of new or increased co-payments and/or means tested co-contributions.

Recommendation 6: *that the PBS Safety Net threshold for single retirees be set at 65% of the couples / families threshold level or at the same % difference between the threshold income limit to receive the age pension for a single person and a couple.*

Recommendation 7: *that the Commonwealth Seniors Health Card for single retirees be set at % difference between the threshold income limit to receive the age pension for a single person and a couple.*

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 percentage difference between the threshold income limit to receive the age pension for a single person and a couple.

This recommendation is proposed on the premise these retirees are protected by the safety net for the same total expenditures on prescription medication as a couple/family before they become eligible for the Safety Net rebate which is grossly unfair and inequitable. The 65% reflects the difference between the current upper income threshold value to receive the age pension for a single person of $1,868.60/fortnight and $2,860.00/fortnight for a couple (i.e, 65.34%).

The same applies for the setting of the single upper threshold limit for a single person to receive the CSHC. The upper threshold limit for a couple before indexation from 1 September 2014 was $80,000 and the upper threshold limit for singles based on this should be $52,268 before indexation and not the set $50,000.

A.I.R. considers that both these thresholds should be revised and reset to more equitably reflect the difference between the threshold income limit to receive the age pension for a single person and a couple.

Recommendation 8: *that the Government does not extend the incorporation of either the assets or income of superannuants, any further than the recent changes to incorporate indexation of the Commonwealth Seniors Health Card, in any changes to eligibility criteria for benefits for retirees.*

The continuing changes to superannuation rules for accumulation or drawdown is reducing confidence in the policy. The direct or indirect taxing of the retirement or drawdown phase is making it harder for those affected to know what to do or to plan for a secure future. The national retirement policy is too important for millions of Australians now, and increasingly in the future as the population ages, to be subject to short term Government intervention.

Recommendation 9: *that the Government reconsiders the part age pension taper rate due to come into effect on 1 January 2017 which will particularly impact on some existing part-pensioners who rely primarily on their own assets and investments but need the top up of the part age pension to maintain their current income and retirement living standard.*

The legislated changes to the part age pension taper rate due to come into effect on 1 January 2017 will have a particularly negative impact on those retirees who, due to their diligence in saving for their retirement, are just above the pension limit. The changes also have the potential to act as a disincentive for middle income earners to save for retirement, and it may have the perverse effect of actually providing an incentive for this income category to spend some of their superannuation to attain eligibility for the age pension.

This change will result in some 91,000 retirees losing their part age pension and another 235,000 will see their payments reduced. This impact on 326,000 existing part age pension recipients seems harsh and appears to have been based on quick fix based budget savings rather than the carefully development of the age pension qualifying policy for future generations. We accept that the new rules be applied to new entrants into the system after 1 January 2017 but for existing part age pensioners this should be reconsidered and repealed, or as a minimum the impact on existing part age pensioners considerably reduced in the 2016/17 Budget.

ENDS