



12<sup>th</sup> June 2015

Mr. Wyatt ROY MP  
Member for Longman  
Suite A  
69 King Street  
CABOOLTURE Q 4510

## Penalising Low Income Self Funded Retirees – The New Poverty trap

Dear Wyatt ,

The proposed action by the Federal government to increase the age pension taper rate from \$1.50 to \$3.00 per \$1000 has reduced the asset test threshold down to \$810,000 for couples effective 1<sup>st</sup> January 2017. In conjunction with this action the government has indicated it will increase the asset threshold test for a full age pension to \$375,000 for couples who own their own home.

The proposed changes may be appreciated by the recipients of the full age pension but they are punitive to those partially self funded retirees who currently qualify for a part age pension. In fact it has created a 'poverty trap' for those with income producing assets (including super) in excess of \$810,000 and less than \$1.3M. The bulk of self funded retirees will be below the income necessary to maintain a basic lifestyle in retirement. The proposed action by the government will create a new '*poverty trap*' group of self funded retirees whose annual income is below that received by a full age pensioner.

A simple demonstration of the impact these changes is illustrated in the table hereunder.

### **PENALISING LOW INCOME SELF FUNDED RETIREES – The New Poverty Trap**

example : Couples (home owners) @ various levels of asset values

Retiree Status (couples)	Investment Asset Value	Age Pension adjusted For new taper rates	Investment Income (3.25%)	Total Annual Income	
Full Aged Pensioner	\$375,000	\$33,717	\$12,187	\$45,904	
Part Self Funded Pensioner	\$450,000	\$27,867	\$14,625	\$42,492	The New Poverty Trap Group
Part Self Funded Pensioner	\$550,000	\$20,067	\$17,875	\$37,942	
Part Self Funded Pensioner	\$650,000	\$12,267	\$21,125	\$33,392	
Part Self Funded Pensioner	\$750,000	\$4,467	\$24,375	\$28,842	
Part Self Funded Pensioner	\$807,000	\$1	\$26,227	\$26,228	
Part Self Funded Pensioner	\$850,000	0	\$27,625	\$27,625	
Part Self Funded Pensioner	\$950,000	0	\$30,875	\$30,875	
Part Self Funded Pensioner	\$1,050,000	0	\$34,125	\$34,125	
Part Self Funded Pensioner	\$1,150,000	0	\$37,375	\$37,375	
Fully Self Funded Retiree	\$1,311,542	0	\$45,904	\$45,904	



# Association of Independent Retirees (A.I.R.) Limited

ACN 102 164 385

For self funded retiree couples about \$1.3M is required to equal the income of a full age pensioner couple. A similar situation applies to single and non-home owner retirees.

The Howard government recognised the *poverty trap* by reducing the taper rate in the mid nineties and this has been the basis for the retirement plans of the bulk of Australian retirees for many years. The changes now proposed by the government reverse this situation and should government proceed with the changes it will shatter the financial basis for current retirees and remove the incentive to provide for one's own future in retirement.

It is difficult to follow the government thinking behind these changes. There was no prior consultation with stakeholders. It contradicts the government policy of encouraging Australians to provide for their own retirement future and it penalises the current low income self funded retiree.

There is justifiable widespread resentment and loss of confidence in the retirement community.

An urgent rethink of the government's action is required.

Yours truly,

Max R. BARTON

National President

Association of Independent Retirees Ltd (A.I.R.)

National Secretariat

PO Box 329 Deakin West ACT 2600 Tel: 02 6290 2599 Fax: 02 6290 1580 Email: [info@independentretirees.com](mailto:info@independentretirees.com)  
[www.independentretirees.com](http://www.independentretirees.com)