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

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A project of the Southern Cross Division

State Pre-Election Submission
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INTRODUCTION TO THE ASSOCIATION OF INDEPENDENT RETIREES (A.I.R.) Ltd

A.I.R. is - The peak body representing the views of fully and partly self-funded retirees. A not-for-profit, non party-political, community service based organization, mainly relying financially on its membership fees.

A.I.R. covers every State and Territory, and has 13 Branches incorporating 2 Divisions in Victoria. Members have a wide range of views. However, they all expect Government policies affecting their retirement incomes and quality of life to be fair and non-discriminatory, and to provide incentives for independence.

A self-funded retiree is someone who has put aside part of their income whilst in the workforce or when running their own business to provide for their retirement. Against this background of prudent financial management, it is considered that the modest concessions sought by A.I.R. are well justified.

It is in the interests of both Federal and State Governments to adopt policies that provide incentives for all retirees to maintain a reasonable level of retirement income, to retain their independence, to continue to contribute to the economic development of the nation and to avoid becoming a drain on the public purse.

Escalating costs and the global financial crisis have impacted disastrously on retirees, who often have limited or no opportunities to increase their income. Notwithstanding these factors over which retirees have no control, retirees continue to make a significant contribution to the nation as taxpayers, volunteers, family supporters and interstate tourists.

A.I.R. believes that it is essential for Governments to develop timely policies to cope with the economic impact of the demographic changes occurring in Australia. Statistics show that the percentages of older people in the total population are gradually increasing.

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PCC –Pensioner Concession Card

CSHC – Commonwealth Seniors Health Card

PREAMBLE

The global financial crisis [GFC] has seen a considerable decrease in the income and value of investments of self funded retirees. Many formerly independent retirees have been so adversely affected that they have become eligible for part or full pensions from Centrelink.

In addition, the cost of living has continued to increase, thus impacting on living standards of all retirees. In Victoria, all retirees are facing very significant increases in utilities bills (water and electricity in particular). It is now recognized that pensioners and self funded retirees often suffer a disproportionate increase on costs of living compared to other household sectors, due to static or declining incomes. The Australian Government has recognized this, and has introduced a separate Cost of Living Index for indexing Centrelink pensions and benefits.

According to the Hon Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs, in a speech she delivered on 21 October 2009 - “Before the crisis hit in August last year, the average weekly number of claims for the age pension was around 2,500 - with around 2,000 pensions granted. As the crisis hit and financial markets and investment returns tumbled, these numbers grew rapidly. By November, the claim rate was 3,500 a week with more than 2,700 grants of new pensions. This rate largely continued through February and March with a slight decline in April; however in May, claim rates were still over 3,000 a week. By August this year, the age pension claim rate had subsided to below 2,500 - the level before.”

According to Centrelink Corporate & Data Services Branch which listed the number of Concession Card holders by Federal Electorate as at 02 January 2009, the number of Pensioner Concession Card holders [PCC] in Victoria was 865,975 and the number of Commonwealth Seniors Health Card holders [CSHC] was 73,779.

Although the number of PCC cardholders will have increased since the data was produced the number of CSHC cardholders has probably not changed a great deal. Many CSHC cardholders would have become eligible for the PCC but with the GFC the income of many retirees would have diminished to such an extent that they now qualify for the CSHC. Perhaps 75,000 is a reasonable estimate for the number of CSHC cardholders in Victoria at the present time which would equate to about 9% of the PCC numbers.

CONCESSIONS

The Australian Government in their "Budget 2009-10 – Pension Review Report. produced by the Department of Families, Housing, Community Services and Indigenous Affairs, discussed the role of concessions in Section 6.2 of the document. They agree that "Concessions are generally used to provide more affordable access for low-income groups to necessary goods and services such as water, power, health care and transport. As user charges are increasingly applied to these goods and services, concessions are becoming more important to low and fixed income groups."

However they admit in Section 6.5.2 that "In some areas the real value of concessions is reducing because indexation arrangements for the cash value of the concession are not keeping pace with price changes, or because concession providers are setting caps on concessions in order to keep the cost of the concessions manageable. For example, the increase in general rates in virtually all states has far outstripped any indexation arrangements for concessions on rates, leaving pensioners to fund any difference."

The Victorian Government recognised the importance of concessions by devoting Chapter 5 in the Victorian Budget 2010-11, Budget Paper4: Statement of Finances, to Tax Expenditure and Concessions. In this chapter, Table 5.4 : Aggregate tax expenditure[excluding thresholds} classified by persons or entities affected , lists the estimated cost for Pensioner/concession card holders as $125 million for 2009-10 rising to $131 million for 2010-11.

Of these total concessions in 2008-09, 25% was attributed to energy, municipal rates, water and sewerage while private transport accounted for 12%.

All of these concessions apply to a cost per household. If we assume about 75,000 CSHC holders in Victoria that probably equates to about 50,000 additional households who could claim rebates if the Victorian government made these concessions available to CSHC holders as is done in Western Australia.

Given that some of these CSHC holders would not own their home and /or a vehicle, the number of concessions likely to be claimed would represent a small percentage of the overall expenditure on concessions.

When compared to an expected budget outlay of $44.9 billion for the general government sector as outlined in the Victorian Budget 2010-11 Overview, the cost of providing additional concessions as requested is very small.

You will note that we are not advocating additional concessions for all retirees, but only for those retirees holding PCC, HCC, or CSHC. This is in the spirit of "fairness" and recognises that retirees not holding any of these concession cards are better able to bear the additional costs of living mentioned.

Issue 1: Municipal Rates and Water and Sewerage Charges

A considerable number of PCC and CSHC holders have lived in their present home for many years. Suburbs and towns that were once relatively undesirable, and where house prices historically were low, have become gentrified and prices have risen far faster than the consumer price index would predict. This is particularly so in inner suburbs and coastal regions. The issue of asset rich but cash poor families was discussed in the „Age" on 5 June.

The " Herald Sun " on 22 May 2010, page 4, listed the average residential municipal rates for 11 metropolitan councils and 4 rural councils for 2010-11.In the metropolitan region, average rates varied from $950 to $1515 whilst in the rural shires the range was $714 to $1322 on a much lower average residential valuation.

When one considers that the present concession for PCC holders is a 50% discount but to a maximum of $184.30 for 2009-10 it is no wonder that the Federal Government admitted that " the increase in general rates in virtually all states has far outstripped any indexation arrangements for concessions on rates." [see above]

The arguments above also apply to the concession for the cost of water and sewerage since they, apart from water consumption which only contributes the minor portion of total bills, are based on the capital value of the property.

Recommendation: That the concessions for municipal rates and water and sewerage charges be maintained at a 50% discount but to a maximum of $500.00 per annum, and that these concessions be made available to all PCC and CSHC holders.

Issue 2: Motor Vehicle Registration and TAC insurance

Those retirees owning a car and still able to drive, value their independence. This independence contributes greatly to their well being and consequently helps to maintain their good health. In many instances retirees, on an annual basis, only cover few kilometres. The cost per kilometre driven therefore becomes very high.

The major contributing cost under these circumstances is Motor Vehicle Registration and Transport Accident Commission [TAC] insurance.

Recommendation: That the concession available to PCC holders in relation to Motor Registration and TAC Insurance , that is a 50% rebate on each, be made available to CSHC holders.

Issue 3: Energy Supply

Australia and the world are moving towards a low emissions future which will significantly increase the cost of energy. In the aftermath of the GFC many households are finding it difficult to cope with ever increasing energy costs.

Climate change and extreme weather conditions, both hot and cold, are causing large increases in energy consumption and consequently cause a large percentage increase in the amount of house hold expenditure devoted to energy costs.

As a consequence of climate change, health problems are exacerbated by increasing temperatures. Dr. Martin Cope from CSIRO was quoted in the Sydney Morning herald on 25 March 2009 as saying "We know that we currently have about 1000 deaths a year in Australia due to heat stress and related illness."If people are not able to afford the use of air conditioners these numbers will undoubtedly increase. Illnesses associated with heat stress will put more strain on our already overloaded health system.

It is also clear that proposed changes to the way energy costs are to be monitored and charged for will adversely impact more on pensioners/retirees than many other households. This will be due to the fact that pensioners/retirees will have very little scope to reduce energy use, particularly during peak usage times.

Recommendation: That the winter energy and medical cooling concessions be withdrawn and replaced with an annual concession of 17.5% on all power and gas usage and that the concessions be made available to all holders of PCC, HCC and CSHC.

Issue 4: Stamp Duty on Property Transactions

Stamp Duty on property transactions is an important part of State revenues. A.I.R. recognises and acknowledges this. The Henry Tax Review has proposed that this tax (and some other State taxes) should be replaced by other broad based taxes. This recommendation has not been taken up by the Federal government.

Many elderly Victorian home owners feel the need to sell the family home and purchase a home more suited to their requirements in old age. This is colloquially referred to as 'downsizing'. They have reached an age when the difficulties and expenses of maintaining and servicing the family home are beyond them. The idea of a smaller more convenient residence is appealing. But often the financial barrier can be quite daunting and they hesitate. Further, rapidly increasing property values often bring about much higher Council rates, and seeking to “downsize” is sometimes one way of reducing this cost burden.

These elderly Victorians have been taxpayers for a very long time. They have paid income taxes all their lives. In recent times they have also been required to pay Goods and Services Tax (GST) which tends to fall disproportionately on elderly consumers.

The Victorian members of our Association have urged the State government on previous occasions to give some relief to senior Victorians when they decide to sell the family home and buy a smaller home more suitable to their requirements in old age. First home buyers receive financial help from both the State and Federal governments. The State Government has been generous in this regard. Furthermore first home buyers are eligible for the First Home Buyers grant or the concessional stamp duty. Elderly Victorian home buyers ('last home buyers') do not receive any form of assistance.

Many retirees face considerable expense when they need to relocate or downsize to more appropriate housing. The financial costs can be onerous, compounding a situation which may be distressing for a range of other reasons. Apart from stamp duty, capital is further reduced by the need to pay GST on legal fees and commissions to estate agents. Relief from stamp duty could encourage retirees to re-locate at the optimum time rather than defer the move to a later time when circumstances may be even more challenging.

According to the Minister for Environment and Climate Change in a “Report on Victorian Median Property Prices” dated 04 March 2010, the median price for a house in metropolitan Melbourne in the September quarter 2009, increased to $420,000 and for units it increased to $385,000. The Victorian stamp duty payable on that median priced house in Melbourne, according to Xinc Finance Brokers, would be $17,370 which is the second highest rate that would be charged anywhere in Australia for a house of that price.

We believe there could be economic side benefits for the community flowing from downsizing. If elderly residents feel it necessary to stay longer in their larger family home, the alternative cost to the government in being called upon to provide community care packages could very well be higher than the stamp duty revenue foregone. Furthermore the release of larger homes back into the housing market could help to ease the existing shortage of family-type housing available to buyers and the state would benefit from the stamp duty payable on these released homes.

We acknowledge that several State taxes have been reduced or abolished - Debits Tax, Mortgages, Transfer of Unquoted Shares and Leases. These are useful initiates but benefit business more than the elderly. With a strong economy in Victoria and a budget in surplus fed by strong revenue streams, we believe the stamp duty relief we are seeking is fully justifiable and affordable.

Recommendation: That PCC and CSHC holders be exempt from stamp duty on property transfer when downsizing their homes with the exemption threshold indexed to the median house or unit price of the Municipality in which the house is situated.

Issue 5: Smart meters

The decision by the Government to approve the installation of "Smart meters" to all households by 2013 is of great concern to pensioners and self funded retirees.

The Auditor General.s report- "Towards a „smart grid.- the rollout of Advanced Metering Infrastructure [AMI]" was presented to Parliament on 11 November 2009. The report quoted the following reasons for the introduction of Smart Meters -

"To achieve energy efficiency, and hence a corresponding reduction in carbon emissions, consumers and the electricity industry both need to work together to:

• reduce energy demand and waste where appropriate and possible

• promote the efficient use of household appliances, and limit the inefficient use of appliances such as air conditioners and pool filters

• shift consumption patterns to maximise the efficient use of power generating assets and smooth out peak consumption periods, which cause spikes in the cost of electricity and create inefficiencies in the allocation of capital to new generation capacity."

We agree with the need to achieve energy efficiency and a reduction in carbon emissions however we do not agree that the cost of supply and installation of Smart meters should be borne by consumers- particularly pensioners and self-funded retirees. An effective and continuing education program could have achieved the objectives listed above.

According to Section 2.5.4 of the Auditor General.s report, " The Australian Energy Regulator [AER] recently determined that on average, customers will pay $67.97 more in 2010 for metering services than in 2009, with a further increase of $8.42 in 2011". The Department of primary Industry [DPI] estimated that consumers would pay $40–50 a year for meter costs. Retailers could also pass their costs on to consumers, with one retailer recently indicating in a public statement that consumers may have to pay an extra $100–150 each year. In another public report, a consumer advocacy group has estimated that the average annual cost of electricity may rise by $120–170 due to the implementation of AMI.

In a report from the Sun Herald dated19 May 2010: "The State Government yesterday admitted the embattled smart meter project has increased to $1.6 billion-30 per cent over budget". This means the $500 million increase will be passed on directly to families. The Australian Energy Regulator (AER) set the claw back on installation costs at $60- $134; this will now be much higher. These increases are before the impact of any emission reduction scheme which is acknowledged would add further substantial increases

If the project.s emerging risks delay the installation of Smart meters it is likely that consumers will face further cost increases.

According to the Auditor general.s report in Section 2.5.4 “The national level cost-benefit study for AMI indicates that a mandatory distribution-led AMI roll-out would primarily deliver gross and net benefits to the distribution businesses, but not to retailers and consumers.”

As well as installation costs, the ever-increasing cost of power consumption is of great concern to pensioners and retirees on fixed incomes. Again the Auditor General reports “For example, consumers with a heavy consumption profile as a result of high usage volume or longer usage periods could see their bills increase if they do not change their pattern of consumption.

This is likely to occur particularly in relation to those customers with air conditioners and/or with residents at home during the day, which is when peak periods apply.

On the other hand, customers without these appliances and who are frequently not at home during the day could expect to see their bills fall.”

This statement again demonstrates that the elderly, pensioners, retirees and families with young children at home all day will bear the brunt of higher power costs.

It is difficult to understand that, when the day temperature is around 35 degrees during peak load [2.00 pm to 8.00 pm according to Energy Australia.s website], the aged, at risk to their health, will be forced to switch off fans or air-conditioners or only operate them at night when power is cheaper under the proposed time-of-use pricing.

The decision announced by the Minister for Energy and Resources, Mr Peter Batchelor, on 22 May for a moratorium on time- of - use pricing is to be commended. He said “Electricity distribution businesses have agreed to delay the introduction of time-of-use pricing until more work is done to protect vulnerable Victorians” We would hope that the“ joint assessment between government, industry and consumer groups” will place more emphasis on the opinions of consumer groups than has been done in the past.

Consumers from overseas have reported their dissatisfaction with Smart meters: in the Netherlands the Government has been forced by voters to change the installation from mandatory to voluntary; in the United States there are class actions by citizens in various states seeking damages, who report that their bills for energy have doubled or more since smart meters were connected to their homes. They are also concerned about privacy issues. Privacy and cyber security is seen overseas as a risk due to the ability of Smart meters to gather more information than just the amount of electricity used.

Even if electricity use is not recorded minute by minute, or at the appliance level, information may be gleaned from ongoing monitoring of electricity consumption such as the approximate number of occupants, when they are present, as well as when they are awake or asleep. Data mining techniques could determine the types of appliances that are used within the home because different devices have identifying power signatures.

From a security perspective, it is not only inadvertent or illegal use by employees but the use of wireless networks is risky and hacking into a network or central database is not inconceivable. We are yet to be assured that these concerns re privacy can be overcome, particularly after reading in the Herald Sun on 11 June 2010 that the privacy Commissioner, Helen Versey, had made a submission to the Essential Services Commission about potential privacy issues related to the use of Smart meters.

The above arguments lead us to make the following recommendations re Smart meters.

Recommendation 5.1: That all PCC and CSHC holders be recompensed for the additional costs related to the installation of Smart meters.

Recommendation 5.2: That differential pricing for the supply of electricity by "time -of -use" not be introduced.

Recommendation 5.3: That increased emphasis be placed on developing means of ensuring the privacy of individuals when Smart meters are introduced.

Issue 6: Fire Services Levy

The system of funding the cost of fighting fires in Victoria by imposing a levy on the premiums on property insurance policies has been criticised by A.I.R. in the past. We have argued that it is unfair, inefficient and inequitable.

The current method of funding the Metropolitan Fire Brigade and the Country Fire Authority by means of the Fire Services Levy [FSL] on insurance policies is unfair as it does not apply to all users of these services.

The just concluded Royal Commission into February's bush-fires has found that not all property is insured and many properties are underinsured. This means that the revenue derived from the FSL is contributed by only those who insure. This is a system that is patently unfair and inefficient. We submit that it can be readily rectified.

A.I.R. advocates that the Victorian government adopts a funding system similar to the method operating in Western Australia where an Emergency Services Levy (ESL) is applied to all property (land) regardless of its development and use. Vacant land attracts a small nominal charge. Built land attracts a higher charge. The revenues raised by this system are contributed by all owners of real estate in proportion to the rateable value of the property. Unlike the system presently applied in Victoria this system is broad based, transparent and fair and equitable. It captures revenue from all owners of property regardless of whether they insure or not.

We recognise and acknowledge that the government is required to incorporate in the Budget the funding requirements of a range of government services. Fire and emergency services is just one of many essential services that must be funded. We understand that the Henry Tax Review commissioned by the Federal government recommended that many State taxes and levies be replaced by a broad based tax. We also acknowledge that the Victorian government did eliminate some State taxes at the time of the introduction of the GST.

The widespread destruction of property by the devastating bush-fires of last February has resulted in very large insurance claims and pay-outs. This will undoubtedly have an impact on underwriter's pricing of risk and increased insurance premiums. Already we have seen an increase in the FSL and the consequent increase in the total cost of premiums after adding GST and stamp duty.

Many of our members in Victoria are on fixed incomes and will find the cost of insuring their properties unaffordable. We therefore urge you to introduce a fairer broad based system of funding the fire and emergency services in Victoria.

Recommendation 6: That the Victorian Government institute a fairer broad based system of funding the fire and emergency services in Victoria.