Association of Independent Retirees

… Working for Australians in Retirement

2016 Federal Election Priorities

June 2016

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 other issues of concern that impact on their capacity to have an independent and fulfilling retirement.

A.I.R. is calling on all political parties and candidates to strongly support the implementation of firm, unambiguous policy on superannuation and put an end to the continual change which creates an environment of fear and uncertainty for all current self-funded retirees and those soon to retire.

Neither the current Government nor the Opposition are without fault in this area and are increasingly seen to be incapable of reaching a bi-partisan agreement on superannuation and retirement income policy. As a result it is highly likely that voters will vote with their feet and neither party will gain sufficient seats when forming Government to be able to pass their proposed superannuation legislation.

Successive Federal Governments have committed to encourage and support those who self-fund their retirement. However, in practice 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.

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. 2016 saw 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 posted its worst start to any year.

A.I.R. members question whether the Government is 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. Ultimately this will result in their inability to maintain their independence from Government support in the later years of their retirement.

Of particular concern is the assumption in the Budget announcement of the new $1.6 million transfer balance cap that the return on this cap will be round $80,000 per annum – equivalent to four times the Age Pension. This assumes a 5.5% return on investment which is completely unrealistic – particularly given that interest rates are at an all-time low and the Government is currently issuing Bonds at around 2%.

Whatever the outcome of the election, it is imperative that the elected Government undertakes a complete and holistic review of Australia's taxation and retirement income system and legislates measures that will not be open to change at the whim of every future Treasurer trying to balance a budget.

A.I.R. proposes a number of recommendations for consideration by political parties and candidates in the lead up to the 2016 Federal Election and in the subsequent framing of policy positions. These recommendations are grouped under three headings: Superannuation; Health Care and Aged Care.

Superannuation

Stop fiddling with Superannuation Policy. Self-funded retirees and those planning their retirement are extremely concerned and angry at a number of the changes to superannuation announced in the 2016/17 Federal Budget. The superannuation changes have again eroded the principle of stability and certainty and affects plans they have already made over many years. The long-held principle of grandfathering superannuation changes to protect those who are in or are approaching retirement has been completely destroyed by the 2016 Budget measures.

The 2015 legislated changes to the part Age Pension taper rate due to come into effect on 1 January 2017 will have a further negative impact on retirees, with more than 300,000 part Age Pensioners likely to lose their pension or have it significantly reduced. A.I.R. believes this legislation should be reconsidered.

The new $1.6 million transfer balance cap. This cap imposes a tax on retirement savings over $1.6m. We believe a cap is needed but in an era of low investment returns this should be extended to a cap of $2.5m per individual in line with superannuation industry recommendations. The cap should be sensibly indexed for inflation. Alternatively, a tax on superannuation earnings as proposed by the ALP might be fairer to retirees without forcing them to move into higher risk investments.

The new $500,000 lifetime cap on non-concessional contributions. This cap is retrospective as it is back-dated to 2007. There is an issue if one's circumstances did not allow sufficient concessional superannuation contributions and you have been unable to build up a superannuation balance that would support a comfortable retirement. With a transfer balance cap in place, it is not clear why a cap on non-concessional contributions is required. Alternatively, to allow individuals with low balances to build up superannuation, the non-concessional cap should be extended to $1m for balances under $500,000.

Change is needed to the compulsory minimum pension fund drawdown. In recognition of the current low cash and bond rates and the need to have available cash in income stream products, A.I.R. suggests the introduction of a temporary 50% cut, as was implemented during the GFC, and special consideration applied to retirees who have a combination of income stream products such as an account based pension and a Government Defined Benefit Pension.

To coincide with the commencement date of the introduction of the asset cap and the increasing longevity of people in retirement, A.I.R. also believes there is a need for a bi-partisan agreement to lengthen the periods of the current aged based % drawdown requirements and lowering the % for those after they have reached 75 years of age; for example:

Current Age of pension account-holder	Current Percentage factors	Change age range to	Proposed new percentage factor
Under 65	4%	Under 65	4%
65 to 74	5%	65 to 79	5%
75 to 79	6%	80 to 90	6%
80 to 84	7%	90 to 95	7%
85 to 89	9%	95 and over	10%
90 to 94	11%		
Aged 95 or older	14%		

The effect of the current minimum pension withdrawal rates is to limit the ability of a person to simply use their superannuation pension fund as a vehicle to accumulate wealth that gets passed onto future generations.

Given the $1.6 million limit on transfers into a supernnuation pension fund, it is reasonable to reconsider the need for these minimum withdrawals, as the $1.6m limit will do this. It is particularly problematic to force a person in retirement to take a minimum pension withdrawal during periods of historically low cash rates when a superannuation pension fund might be earning 2% on the cash in their fund, but is forced to withdraw at twice this rate to meet the minimum pension requirement. Forcing retirees to withdraw capital from their superannuation pension fund at continually increasing rates above the rate of income earned increases the uncertainty around superannuation planning.

The cost for the elected Government in introducing this is zero and there will be a positive budgetary impact as it will reduce the cost of the part Age Pension of older retirees who are faced with a rapid reduction in assets and substantial impact on their returns from the need to liquidate assets to fund an increasing drawdown requirement.

NOTE: If retirees up to age 75 are receiving too much income from a combination of defined benefit and account based pensions, then under the age contribution changes, they could re-contribute surplus funds back into super.

Current Deeming Rules are unfair in a low interest environment. In this environment of historically low cash rates, where a cash investment might be earning around 2%, having income from a cash investment "deemed" to earn 3.25% seems unfair given that those impacted by these rules will effectively receive significantly less in income than they are deemed to receive. Linking deeming rates to the actual cash rates of return would provide some relief for retirees.

Allow superannuation accumulation accounts to be commenced after age 65. The removal of the requirement that an individual aged 65 to 74 years must meet the work test before making contributions to superannuation is applauded. However, there needs to be the ability for any individual aged from 65 to 74 years to set up a superannuation accumulation account after they have retired to allow voluntary or non-concessional contributions to be made to superannuation.

Health Care

Australia's Medicare system is a high quality, universal health care supported by Private Health Insurance, the Pharmaceutical Benefits Scheme and the National Medicines Policy and is probably the world's best universal Medicare system.

However, can this be sustained? The system seems to be failing and A.I.R. wants to see a commitment to a fundamental rethink of the central funding mechanisms for Australia's health system in both the short and long term to control the rapidly increase costs while maintaining an effective and efficient universal Medicare system in Australia.

Scrap the CPI indexation of Health Insurance rebates and reinstate the age and income based % rebates for senior Australians. 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 for Australians who are 65 and over. 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 % and the effect is that the cost of Private Health Insurance for older Australians is pushed well above that of the agreed premium increase.

This hidden method of adding cost to the premium for this group of the community is neither transparent nor fair and specifically and unfairly attacks Australians who are 65 years or older. This should be immediately scrapped and the % rebate for older Australians reintroduced in full.

Medicare Rebate for GPs. The freeze on the Medicare Rebate for GPs until 2020 should be lifted immediately and brought up to date to prevent doctors being forced to pass on costs to their patients through new or high co-payments. The announcement in the 2016 Budget extended the freeze in place since 2014 and is predicted to increase the cost of a GP visit by $10 to $20.

PBS Safety Net Threshold/CSHC eligibility: The discrimination and financial impact on single retirees caused by the PBS Safety Net threshold for single individuals should immediately be changed and replaced with a more fair and equitable threshold value of 65% of the couples /

families threshold level or be changed to the same % difference between the threshold income limit for the age pension for a single person and the threshold for a couple. Similarly eligibility for the Commonwealth Seniors Health Card (CSHC) for single retirees should be set at the % 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 CSHC. 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.

A fundamental rethink of the funding mechanisms for health care in Australia. This is urgently needed to 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. The health care areas in need of 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; and reducing out of pocket expenses.

The previously announced health reform agenda around mental health services, changes in the eHealth area by making the My Health Record an opt-out model and structural change through the establishment of Primary Health Networks must be accelerated and further developed. A.I.R. is supportive of a national shared electronic health record system given the clinical advantages of better access to patient health information and the sharing of this information across all healthcare providers within the sector which would be a significant advantage to seniors.

All political parties should agree a bi-partisan approach to encourage consumers to maintain their health insurance cover, and address spiralling out of pocket healthcare expenses which account for over 17% of health expenditure and deter people from seeking treatment and getting the medicines that they are prescribed. The 2014 Budget measure to increase the PBS co-payment and the number of prescriptions required before the safety net comes into effect should be scrapped as they particularly impact on those on fixed incomes and whose incomes are dependent on circumstances beyond their control. Government must put in place measures to reverse the rapidly increasing out of pocket expenses for general and specialist medical services, and address the continuing increase in the difference between the scheduled fee and the fee charged to retired consumers. Government incentives should be provided for all specialists to bulk bill Age Pensioners and CSHC holders as is provided to GPs.

Aged Care

Increased number of aged care accommodation places. Action is urgently required to allocate an increased number of places in aged care accommodation to keep up with our ageing population and to provide special access and assistance for rural and smaller regional areas which are having difficulty to provide for the even more rapidly increased percentage of aged people.

Further information

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