independence matters

Association of Independent Retirees

2023-24 Pre Budget Submission to the Federal Treasurer and the Department of Treasury - Budget Policy Division

January 2023

Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees is the national peak body representing current and future partly and fully self-funded retirees. AIR works to advance and protect the interests of Australians seeking independence in retirement. AIR 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 ongoing management of the financial, health and longevity risks they face in retirement, but are concerned about changes that impact on their capacity to have an independent and fulfilling retirement.

There are now over 2 million Australians who either fully or partly self fund their retirement. The greater majority of these are not “wealthy” individuals and unexpected financial impacts to their income streams may result in them needing Government support in the later years of their retirement. APRA predicts there will be another 3.6 million Australians who will move into the retirement phase of superannuation over the next 10 years.

AIR remains committed to a view that any changes to superannuation, retirement savings and income arrangements must not disadvantage current retirees and those about to retire.

We accept the premise that those who can afford to contribute to their health care and aged care costs should do so. However, we have concerns with aged care reforms, income and assets tests based on retirement income generating assets may change and many self-funded retirees will be financially disadvantaged by such measures.

Retirement planning has not only become more complex, but current volatile financial market conditions are making it harder for many retirees to develop a retirement plan that will last for the longer term. The government needs to ensure in the process of policy change, fully and partly self-funded retirees are not impacted from the unintended consequences of the changes.

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Recommendations

The Association of Independent Retirees (A.I.R.) Limited welcomes the opportunity to provide the following Pre-Budget briefing to the Federal Treasurer containing policy recommendations across areas of concern to current and future fully and partly self-funded retirees.

Superannuation, Retirement Income & Tax Recommendations

Acknowledgement of Policies progressed during the last 2 years.

The Association of Independent Retirees acknowledges the implementation of the following policy recommendations from previous Pre-Budget submissions and in subsequent legislation/regulation:

- The reduction in the interest rate for the Home Equity Access Scheme to 3.95% and the extension of the scheme to provide lump sum withdrawals.
- Those retirees who could not accumulate sufficient superannuation during their working life are able to make voluntary contributions up to age 75 without satisfying the work test.
- Reduction in Downsizer super contribution eligibility from age 65 to 60 and 55.
- Removal of the $450 Monthly Minimum Wage threshold for Superannuation Guarantee contributions
- Retirement Income Covenant for trustees of large public offer superannuation funds

Recommendation: The Association of Independent Retirees **seeks to extend the reduction to the age-based minimum drawdown percentages** for their superannuation account **until 30th June, 2024**. This flexibility would enable retirees to have a more sustainable and longer lasting income from their superannuation.

Rationale: With the ongoing volatility and uncertainty in world financial markets, retirees need continued flexibility in the minimum amount they are required to draw down from their superannuation.

If retirees are forced to withdraw the legislated minimum amount when the value of a superannuation account is substantially diminished due to unprecedented investment circumstances or when the returns being generated are low, it will adversely impact how long their superannuation will last.

The 50 per cent reduction in the minimum age based drawdown percentages for superannuation income streams for the past three years has significantly assisted retirees.

Recommendation: Permanent flexibility is required with the current aged based percentage draw-downs for account-based pensions with a broadening of the age ranges and a **lowering of the minimum drawdown percentages** once a retiree has reached 75 years of age.

Current age of pension account holder	Current drawdown %	Change age range to	Proposed new drawdown %
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%		

Rationale: The length of time spent in retirement is now considerably longer than when the superannuation system was set up. It is now common for retirement to be 30 years or longer. In addition to this **longevity risk**, over the course of this longer retirement, **investment risk** increases with increased likelihood of many severe shocks to the value of retirement savings and retirement income.

Self-funded retirees bear the full consequences of these risks but we also accept the premise that those who can afford to contribute to their health and aged care costs should do so.

We therefore need the flexibility to ensure they we can fund living increasing expenses, health insurance, out of pocket health and aged care expenses while generating considerable savings to the Federal budget by reducing government funded age pension, health and aged care expenses in later life.

Recommendation: A national program is required to improve their financial literacy and understanding of the Retirement Income System, so people can adequately plan for their retirement and/or make the most of their retirement savings.

This should include the extension of information available from ‘moneysmart.gov.au’ and Services Australia with a personalisation option through ‘my.gov.au.’ and promotion of these information sources.

Rationale: The Retirement Income Review report included many observations about the need to improve understanding of the retirement income system. There is significant evidence of low financial literacy particularly about the key issues in the retirement phase. The review said that complexity, misconceptions and low financial literacy have resulted in people not adequately planning for their retirement or making the most of their assets when in retirement.

There needs to be a better understanding of interaction between the tax, superannuation, social security and aged care systems in retirement. People need to be able to get reliable independent information so they can knowledgeable decisions when planning for and during retirement.

Recommendation: The Gifting Rules (or Deprivation provisions) have not been adjusted since they were introduced in 2002. They should be updated immediately and then adjusted for inflation/CPI on a regular basis as occurs with the Pension assets test.

Rationale: The current gifting rules (deprivation provisions) have remained at $10,000 per year or $30,000 over a 5 year period since they were introduced in 2002. Inflation/CPI changes since 2002 has significantly eroded the current value of these rules. These limits should be updated immediately to take account of inflation effect since 2002 and updated regularly every three years.

Adequacy Measures

Rationale: Consistent with the Retirement Income Review's criteria of **adequacy, retirees with lower balances** should have access to a range of voluntary measures to build up their superannuation to provide for an adequate retirement income.

Recommendation: For workers approaching retirement (over age 55) with less than $500,000 in superannuation, the annual concessional contribution cap should be doubled from $27,500 to $55,000 until their super balance exceeds $500,000. This provides more scope for additional concessional contributions than the existing carry-forward concessional contribution arrangements.

Recommendation: For workers over age 55 with less than $500,000 in superannuation, the annual non-concessional contributions cap should be doubled from $110,000 to $220,000 until their super balance exceeds $500,000. Where pre-retirees have particularly low balances and/or limited time before retirement, this arrangement could be more workable than the current 3-year bring-forward non-concessional contribution arrangements.

Equity Measures

Rationale: The Retirement Income Review found that there have been 'inequitable retirement outcomes for various groups, such as women'. It also observed that the 'retirement income system should provide similar outcomes for people in similar circumstances'.

These recommendations provide solutions for the **gap in superannuation balances** between men and women at retirement and for people who have **retirement savings outside the superannuation system**.

Recommendation: To provide a '**spouse superannuation transfer**' facility for couples within the same superannuation fund to enable re-balancing of super balances for members of a couple. With a 'spouse superannuation transfer' the non-concessional contribution and super balance transfer limits would still apply. Currently, for couples to move toward more **equity** with their super balances, they need to use spouse contributions.

Recommendation: That the Government retains and improves the Seniors and Pensioners Tax Offset (SAPTO) for people with income from retirement savings outside superannuation.

Very Large Total Superannuation Balances

Recommendation: That superannuation funds containing members with **very large total superannuation balances (over $5m) attract an earning tax surcharge of 15%** on their member accumulation accounts.

Rationale: The Retirement Income Review noted that ‘very large superannuation balances over $5m could not be justified for purely retirement income purposes. The provision of earning tax concessions for very large accumulation account balances is unlikely to encourage additional savings and is mainly used as a tax minimisation strategy’.

It is appropriate that earnings from very large superannuation accumulation account balances be treated in a similar way to Division 293 tax superannuation contributions from high income earners.

Aged Care – Quality and Safety

Acknowledgement of Policies progressed during the last 2 years.

The Association of Independent Retirees acknowledges the implementation of the following policy recommendations from previous Pre-Budget submissions and in subsequent legislation/regulation:

- That the Aged Care Quality and Safety Commission improves the quality and safety of residential aged care by lifting the standards of aged care and reducing abuse in residential care by implementing the new Code of Conduct for Aged Care and revising restrictive practise arrangements.

- To provide the growing skilled aged care workforce required to meet the rapidly increasing needs of aged care providers, additional vocational training programs and places need to be funded and resourced.

- If an aged care provider does not publish their fees on the My Aged Care website in a timely manner, they should be removed from the website.

- Provide sufficient monitoring and oversight required to prevent financial misappropriation and fraud via strengthened prudential oversight of residential accommodation deposits.

Transitional Arrangements

Recommendation: Prior to the implementation of the new Aged Care Act, the Aged Care Quality and Safety Commission should consider progressively implementing transitional measures as soon as possible to improve the capacity, quality and safety of residential aged care and home care services.

Recommendation: That the Aged Care Quality and Safety Commission comprehensively pursues complaints about aged care providers and implements a complaints mechanism similar to OPAN for disabled retirees who are covered by the NDIS.

Staffing

Australia’s population is ageing and are living longer. There is increasing demand for assistance to help the elderly remain in their home, or in residential aged care accommodation or respite care.

There has been significant public criticism and substantial consumer dissatisfaction with aged care providers engaging untrained care workers or not being able to recruit or retain sufficient skilled aged care workers.

Recommendation: To ensure that sufficient aged care workers are being trained, the vocational training and university completion statistics at various skill levels should be reported to the Department of Health and Aged Care for incorporation into provision of ongoing workforce training places..

Recommendation: That the recruitment of aged care workers by aged care providers across the required skill levels is monitored closely via the mandatory reporting requirements to the Department of Health and Aged Care including via the Aged Care Financial Report and other reports.

Recommendation: That the pay rates of aged care workers is monitored closely to ensure that the increases from July 2023 following the recent wage case decision by Fair Work Australia are passed on.

Recommendation: With the mandating of the use of Registered Nurses in Aged Care facilities, the Strengthened Governance arrangements should be used to ensure that there is not a reduction on overall skill levels by the replacement of Enrolled Nurses with less qualified personal care workers working under the supervision of an RN.

Funding

Recommendation: That the implementation of new Australian National Aged Care Classification (AN-ACC) funding model and the revised Independent Health and Aged Care Pricing Authority (IHACPA) ensure that:

- There is appropriate remediation in the financial viability of loss-making residential aged care providers.

- There is an alternative to the principle of “market competition” to provide quality aged care services at acceptable costs, particularly in rural and remote areas.

Recommendation: That adequate funding must be provided to meet the current and future demand for residential aged care and home care at the required standards including better quality food and adequate staffing levels.

Recommendation: That any changes to the means test on residential aged care accommodation ensure that the family home of the surviving partner is not be included and the present annual and lifetime costs maximum caps be only adjusted in line with inflation.

Health Care

Recommendation: That the CPI indexation of Health Insurance rebates be immediately scrapped and the % rebate based on % premium increases for Australians 65 years and older be reintroduced in full.

Rationale: A previous Government introduced a process of setting the rebate amount based on CPI rather than the actual % increase in premiums. This reduces the rebate entitlement annually for some people until it is phased out. History has shown that the premium % increase for Health Insurance approved by Government has been well above that of the CPI %.

This increasing cost of health insurance premiums is neither transparent nor fair and reduces the community's confidence in the private health insurance system. This specifically and unfairly attacks the group of Australians who are 65 years of age and older for whom the means tested aged-based rebate was provided to support older Australians in their continuing contributions to health insurance.

Many retirees who have maintained Health Insurance policies over their lifetime, see it as essential in the later years, to allow them the choice of medical specialist and allow access to immediate care in Private Hospitals when needed.

A survey of AIR members indicated that 93% of our members currently have private health insurance cover. The rebates were specially introduced to help support and encourage retirees to continue with their Private Health Insurance and not rely on the overloaded Public Hospital system.

Whilst commendable to see the Government introduce incentives for young people to obtain private health insurance, it was disappointing that no consideration has been given to assisting older people to retain their long-held private health insurance. These people are now being forced out of this insurance because of ever-increasing premiums.

AIR urges the Government to acknowledge the shortcomings of the existing rebate calculation for older Australians and revert to the previously set aged and income based % rebates.

Recommendation: The PBS Safety Net threshold for single people should be adjusted so that they are not disadvantaged in comparison with couples or families. This is particularly disadvantageous to older people.

Rationale: 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).

AIR 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. This would be equivalent to the % difference between the threshold income limit to receive the Age Pension for a single person and a couple.

This recommendation will address a significant inequity between single people and couples/families. A single person currently needs to have the same value of medical prescriptions as a couple or family before they become eligible for the Safety Net rebate.