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

2017-18 Pre Budget Submission to the Federal Treasurer and the Department of Treasury Budget Policy Division

January 2017

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:

RECOMMENDATIONS

Recommendation 1: that there be a clear recognition and acceptance that the superannuation retirement income stream pension phase is very different from the pre-retirement accumulation phase. In recognition of this position, from 1 July 2017 changes are implemented that revise the current aged based percentage drawdown requirements and lowering the percentage once people have reached 75 years of age. This is necessary as, due to increasing longevity, people may spend up to 30 years or more in retirement.

Recommendation 2: that all retirees, no matter whether they accumulated their retirement assets within superannuation or outside superannuation, should have access to a specified tax-free component of their assets after retirement for their day to day living expenses. 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, the sale of productive assets to be transferred into the tax-free income stream product should be exempt from Capital Gains Tax.

Recommendation 3: 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 4: that the PBS Safety Net threshold for single people be adjusted so that they are not disadvantaged in comparison with couples or families.

Recommendation 5: that the Government amends the Superannuation (Objective) Bill 2016 to reflect the intent of the superannuation system - which is to support the self-funding of a sustainable income stream in retirement that will adequately provide for a comfortable and active lifestyle in retirement.

Background and Concerns of Self-funded Retirees

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.

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 to which they have committed.

A.I.R.'s overarching concern in addition to the recommendations contained in this submission, however, remains a strong call for the Government to cease making ad hoc changes to superannuation and Australia's retirement income system. Retirees and the superannuation industry have been subjected to a raft of legislative change and a plethora of reviews and enquiries over recent years which has resulted in increased complexity, confusion and an undermining of consumer confidence in the superannuation system.

The constant change has particularly impacted on those who self-fund their retirement (or who have planned to do so) on the basis of Government policy in place at the time of setting up their retirement plans. 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 and ongoing financial impacts on their set income stream generating assets may result in their not being able to maintain their independence from Government support in the later years of their retirement..

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.

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.

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.

While not including a specific recommendation on this point, we highlight a major concern about the potential unintended consequences that may arise from the development and implementation of user-pay approaches to services and fees applied to retirees, with decisions being made by people with limited understanding of the longer term financial consequences of such changes. This has recently been exposed with the 1 January 2017 cuts to the Age Pension upper threshold qualification asset test value and subsequent redefining of a large number of retirees from being part Age Pensioners to fully self-funded retirees. The change resulted not only in the loss of their part Age Pension but also of a range of State and Local Government rebates and entitlements previously received.

Given the Government's stated need for increased competitiveness and greater efficiency of the superannuation system, it is rather concerning that we now have the situation of a negative impact from ongoing Government changes to superannuation and tax legislation that have further muddied the waters for those planning for their retirement or who are already in income stream pension phase. Retirement planning has not only become more complex, but current volatile market conditions and low interest rates are making it harder for many to develop a retirement plan that's built to last for the long term. The same situation exists for those relying on their assets to provide a continuation of their lifestyle with an adequate regular monthly income stream.

The Government needs to adopt a truly holistic approach to bring about greater efficiencies from the superannuation system especially for those in this retirement income pension phase. It needs to ensure in the process of change that this specific group is protected from unintended consequences of change.

Rationales to Support the Recommendations

Recommendation 1: *That there be a clear recognition and acceptance that the superannuation retirement income stream pension phase is very different from the pre-retirement accumulation phase. In recognition of this position, from 1 July 2017 changes are implemented that revise the current aged based percentage drawdown requirements and lowering the percentage once people have reached 75 years of age. This is necessary as, due to increasing longevity, people may spend up to 30 years or more in retirement.*

Modifying the aged based minimum drawdown rate for retirement income stream pensions

A.I.R. strongly recommends that there needs to be a clear recognition that the superannuation retirement income stream pension phase is very different from the pre-retirement accumulation phase. In the retirement phase we now have an increasing length of time being spent in retirement and more than ever there is a need for a prudent investment profile to deliver a regular cash flow to provide a self-funded pension over the whole of any retiree's lifetime.

This increased longevity in retirement becomes a serious issue as assets are depleted and the regulated annual drawdown percentage from the fund increases for those relying on their assets to provide a continuation of their lifestyle with an adequate regular monthly income stream.

Based on this, and to maintain non-reliance on the Government's Age Pension in the later years of retirement, we recommend that from 1 July 2017, the following changes are implemented. These would revise the current aged based percentage drawdown requirements and lower the percentage once people have reached 75 years of age:

Current Age of pension account-holder	Current Percentage factors	Change age range to	Proposed new percentage factor from 1 July 2017
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%		

Background to this recommendation:

The Government stated in its 2014 Discussion Paper, *Review of Retirement Income Stream Regulations,* that the purpose of the minimum drawdown was to provide a regular source of income in retirement and **to limit the ability of a person to invest in account based pensions and use their superannuation pension fund as a vehicle to accumulate wealth to be passed onto future generations or an excessive scope for deferral of income.**

This requirement is now overcome with the Government's $1.6 million value cap on the amount of assets that can be transferred into an account based retirement income or held in an account based pension on 1 July 2017.

Implementing this recommended change will have no cost impact to the Government and, in fact, will be revenue positive as it is estimated that implementing this change will generate as much as $200 million additional savings for the Government by maintaining assets and deferring for some the drawing down on the part Age Pension. Implementing this recommendation would, importantly, provide far greater flexibility in the actual drawdown for many retirees.

The Government needs to engage in this type of genuine reform of the superannuation system to make it more efficient and effective in terms of assisting more Australians to achieve self-sustainable financial independence in retirement.

Agreeing to and making this change effective from 1 July 2017 will help redress some the hurt, disillusion and distrust from the Government's superannuation reforms in 2016 currently felt by many who are now, or are intending to, self-fund their retirement. This would assist the Government in rebuilding some credibility and confidence in the superannuation system for those Australians who are self-funding their retirement and those planning their retirement.

Recommendation 2: *That all retirees, no matter whether they accumulated their retirement assets within superannuation or outside superannuation, should have access to a specified tax-free component of their assets after retirement for their day to day living expenses. 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, the sale of productive assets to be transferred into the tax-free income stream product should be exempt from Capital Gains Tax.*

Government's urgent attention is sought to removing the inequity between self-funded retirees without superannuation and those with superannuation.

Many retirees who could not accumulate superannuation in their past are unable to access the full range of superannuation concessions. They must live off assets and investments purchased from their after-tax funds accumulated responsibly by them for their retirement; these assets have been accumulated after paying full tax at marginal rates.

The benefits of the Seniors and Pensioners Tax Offset (SAPTO) tax concession to people with savings outside supernnuation is acknowledged. A.I.R. urges the Government to retain this concession without change as gives equity for people who not been able to save within superannuation and who have contributed to after tax saving outside superannuation.

Over 10% of workers in Australia include owners of small businesses, critical for maintaining Australian economic growth and employment. They have constantly reinvested in their businesses as a fundamental priority for use of scarce capital. Consequently they have been unable to accumulate superannuation with its concessions. Females, out of the workforce for many years raising their families, have also been unable to accumulate superannuation assets. These groups have no method of setting up an effective superannuation account in the years just before they retire, due to restrictive Government regulations on contributions.

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 grant an exemption to Capital Gains Tax on the sale of the assets up to a defined cap, providing they are specifically for the purpose of purchasing an income stream product or an annuity at the time of their retirement irrespective of the 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 3: *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.*

A 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 %.

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 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. Health Insurance is seen by many, who have made contributions over their lifetime, 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 and revert to the previously set aged and income based % rebates.

Recommendation 4: *The PBS Safety Net threshold for single people be adjusted so that they are not disadvantaged in comparison with couples or families.*

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 % difference between the threshold income limit to receive the Age Pension for a single person and a couple.

This recommendation is proposed to address a significant inequity between single people and couples/families. A single person needs to have the same value of medical prescriptions as a couple or family before becoming eligible for the Safety Net rebate. This is grossly unfair and inequitable and a change should be made to reflect the difference between the current upper income threshold value to receive the Age Pension which for a single person is $22,805/year and $34,382/year for a couple (ie 66.3% difference).

Recommendation 5: *That the Government amends the Superannuation (Objective) Bill 2016 to reflect the intent of the superannuation system - which is to support the self-funding of a sustainable income stream in retirement that will adequately provide for a comfortable and active lifestyle in retirement.*

It is considered by many that the current stated Objective misses the opportunity to position superannuation as the main plank of a comprehensive retirement incomes policy that encourages all Australians to take responsibility for their own financial security in retirement rather than rely on the taxpayer funded age pension.

We also recommended that the subsidiary Objectives be redrafted as they fail to meet the requirement of being measurable. These subsidiary Objectives should be included in the Bill rather than being just a general reference in the accompanying explanatory memorandum.

We strongly believe that modifying and strengthening of the Objective and the subsidiary Objectives will increase the rigour in improving the effectiveness and efficiency of the superannuation system in the future. There is no cost to Government of implementing this recommendation.

Further Information:

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