NationalSeniorsAustralia
Independent voice of the over 50s

Submission to the Review of Australia's Future Tax System

(Retirement Income System)

February 2009

About Us

National Seniors Australia (NSA) is the largest organisation representing Australians aged 50 and over with some 280,000 members.

NSA members are from metropolitan, regional and rural areas across all states and territories, and are broadly representative of the three key ageing cohorts: those aged 50-65; those aged 65-75; and those aged 75 and over.

NSA works to provide a voice and address the needs of this diverse membership:

> **We represent –** to governments, business and the community on the issues of concern to the over 50s;
>
> **We inform** – by providing news and information through our website, forums and meetings, our bi-monthly award winning magazine, a weekly E-newsletter and our Australia-wide branch network;
>
> **We provide opportunity** – to those who want to use their expertise, skills and life experience to make a difference in indigenous communities and on our environmental legacy;
>
> **We support those in need** – our Charitable Foundation raises funds to provide comfort and support for our most vulnerable older citizens;
>
> **We provide savings** – through quality insurance, affordable travel and tours and discounts on goods and services.

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Section 1 – Executive Summary

Introduction

National Seniors Australia (NSA) believes that Australia's tax-transfer system can and should play a significant role in addressing the social, economic and demographic challenges of the 21st century, in particular the ageing of the population.

To meet this challenge, we would like to see adjustments to the tax-transfer system that improve people's capacity for self-sufficiency and guarantee a decent standard of living in retirement.

The areas for action outlined in this submission seek to maintain a balance between the need for additional financial assistance and incentives, with the need for the tax and transfer system to be sustainable in the face of population ageing.

Australia is starting the discussion about the framing of a future tax-transfer system from a position of relative strength.

Aside from being a world leader in its introduction of compulsory retirement savings for employees, a number of tax and investment related changes over the last decade have encouraged personal contributions to superannuation, and have made superannuation income streams an efficient vehicle for providing retirement incomes. The industry in ordinary (non superannuation) money has also grown substantially offering a wider choice for investors looking to put in place a retirement savings plan.

Despite the considerable progress in the areas of tax and superannuation reforms, Australia still has some way to go if it is to increase average retirement savings and achieve the goal of full, universal self-sufficiency. Research shows that almost half of all working Australians are not prepared for their retirement,[1] and the majority of those retiring today have inadequate savings to fund even a modest lifestyle. There is also a marked difference in savings provision for women compared to men, and for self employed persons compared with wage and salary earners.

It is not surprising that retirement incomes will fall well short of adequate levels for current and imminent retirees, given that compulsory superannuation has only been in operation since 1992. But alarmingly, future projections suggest that while average superannuation balances will grow, end balances will be inadequate to fund a decent standard of living in retirement without at least partial reliance on the government pension.

Key Points

- Financial incentives and a greater level of compulsion, supported by better consumer education are essential if government is to expand its influence on savings behaviour beyond current levels.
- Taxation arrangements directly influence investment decisions, and in turn can either reduce or extend retirement savings. Poorly targeted taxes can also inappropriately reduce savings. An equitable tax-transfer system and the removal of inappropriate taxes, will allow Australians to realise the full benefit of their savings.
- A level playing field for all workers, regardless of age, is essential in order to increase mature age participation and facilitate a better standard of living in retirement. To achieve this, tax-transfer related barriers must first be removed.

[1] (2008) Retirement Scope, A Global Reference Study *I want to live in Australia when I retire*,

- Australian workers increasingly transition out of the workforce or cycle back and forth between periods of work and non-work. The tax-transfer system needs to recognise and adapt to this change by removing age restrictions (i.e. superannuation) and ensuring that social security recipients are not inappropriately penalised for undertaking part-time work in order to top-up their income in retirement.
- NSA believes that the minimum contribution needs to be increased from 9% to 15% by 2015, to assist low-income earners, those who have not had the benefit of Superannuation Guarantee (SG) for their full working lives and those with interrupted work histories. However, any increase should ensure an equitable balance between employers and the employees, and should not disadvantage small business.
- The income limits for the Commonwealth Seniors Health Card (CSHC) were increased significantly in 2001; however they are not automatically indexed and represent a diminishing value over time. NSA believes these limits should be indexed (bi-annually) against the higher of CPI and Male Total Average Weekly Earnings (MTAWE).
- The recent financial turmoil has once again highlighted how retirees can be inappropriately disadvantaged by social security means testing. NSA believes it is inequitable that people with frozen assets do not have recourse to a revaluation of those assets, and is calling for the introduction of asset deeming to establish provisional eligibility for the pension while circumstances surrounding frozen or liquidated assets are resolved.
- The current system of minimum withdrawal requirements based on an individual's age creates inefficiencies for managing retirement savings over a person's lifetime, and fails to account for the impact on savings in periods of economic adversity. NSA welcomed the halving of minimum withdrawal requirements as a short term action; however it is now time for the rationale for minimum withdrawals to be reviewed. This is very much in the interests of government and taxpayers as a failure to act will only increase reliance on the age pension.

Recommended Reforms

Superannuation

- Continue to develop tax incentives aimed at those nearing retirement and explore additional incentives that encourage people to save for retirement at a younger age.
- Gradually increase the Superannuation Guarantee (SG) from 9% to 15% by 2015, while maintaining an equitable balance between employer and employee contributions.
- Reduce the Superannuation Guarantee (SG) minimum earning threshold (currently $450 p/month) to assist lower income earners and to encourage workforce participation amongst older age groups.
- Ensure that all workers (that meet the minimum earning threshold) are paid the Superannuation Guarantee (SG), and are able to make personal contributions to their superannuation savings, regardless of age.
- Abolish the upper age at which the superannuation co-contribution scheme ceases.
- Expand the co-contribution scheme to provide higher payments to eligible low-income earners and individuals age 50+ with low savings balances, to encourage greater voluntary contributions.
- Develop and implement an awareness and education campaign (spearheaded by the Australian Taxation Office) to increase participation in the co-contribution scheme.

- Make permanent the Concessional Contributions Cap (CCC) of $100,000 per annum for a person age 50+ (and index it from 1 July 2012).
- Remove the 9% Superannuation Guarantee (SG) from the Concessional Contributions Cap (CCC) to provide greater simplicity and to allow individuals to plan their savings without risk of a penalty for unexpected excess contributions.
- Allow employees who do not have access to salary sacrificing to make personal deductible contributions within their available Concessional Contributions Cap (CCC).
- Review the operation of salary sacrificing arrangements with the aim of ensuring that employees who choose to salary sacrifice do not suffer a loss of benefits or a reduction of SG entitlements.
- Allow a non-dependant the choice to roll death benefits into their own superannuation fund as a fully preserved amount, with no attached tax liability or contributions tax.
- Halve the superannuation contributions and earnings tax rates for those on the lowest marginal tax rate (based on an adjusted marginal tax rate test that includes salary sacrificed contributions, and net rental property and investment losses). The before tax and personal after tax contributions limits should still apply.
- Allow members to make in kind withdrawals from their SMSF once they have retired.

Non-superannuation investments

- Provide those aged 75+ on 9 May 2006 with a one-off opportunity to transfer savings and investments into superannuation on terms similar to those given to the rest of the community between 9 May 2006 and 30 June 2007.

Insurance Cover

- Equalise the tax position of insurance inside superannuation and outside superannuation by allowing tax deductions on death and total and permanent disability policies which are held outside superannuation.
- Remove the penalty taxation on death benefits that are derived from an insurance policy inside superannuation and tax these benefits at 15% to ensure consistency with the tax rate on death benefits from accumulated superannuation.
- Develop additional mechanisms through the tax system to ensure that private health insurance remains accessible and affordable for low-income earners and retirees.

Utilisation of savings & income streams

- Abolish minimum withdrawal requirements applying to superannuation income streams in order to provide retirees with greater flexibility in managing their savings over the course of their retirement.
- Ensure the tax-transfer system continues to promote and encourage the use of superannuation income streams as a product that can assist individuals in managing savings across their entire retirement.
- Allow tax deductions on fees for financial planning advice from a licensed financial planner to encourage people to seek advice on retirement savings.

- Develop and implement a national awareness and education campaign, which includes information on the major financial considerations in retirement, including the need for savings diversification.
- Index Commonwealth funded superannuation and military pensions (bi-annually) against the higher of CPI and Male Total Average Weekly Earnings (MTAWE).
- Introduce asset deeming to enable applicants to establish provisional eligibility for the pension while circumstances surrounding frozen or liquidated assets are resolved.
- Provide senior Australians with an exemption from stamp duty when downsizing their homes (with the exemption threshold indexed to the median house & unit prices in each state and territory).

Payment transfer system

- Expand the scope of the Pension Bonus Scheme by providing those of age pension age, including those in receipt of a pension, with a rebate on all pension entitlements foregone due to earning 'wage based' income. This rebate should equal 50% of all foregone pension entitlements and should be provided at the end of the financial year.
- Index CSHC income limits (bi-annually) against the higher of CPI and Male Total Average Weekly Earnings (MTAWE), in-line with that applied to the age pension.
- Explore options for extending the CSHC health benefits to those who will lose eligibility from 1 July 2009 as a result of being narrowly over the income limits.

Emissions trading scheme

- Ensure that all retiree households receive at least the intended amount of compensation under the Carbon Pollution Reduction Scheme (CPRS).
- Ensure that energy efficiency subsidies under the CPRS to retiree households are targeted appropriately.

Small business owners

- Index the small business Capital Gains Tax (CGT) retirement exemption.
- Allow any proceeds from the sale of an eligible small business to be contributed under the small business Capital Gains Tax (CGT) cap.

Section 2 – Superannuation system and taxation

Superannuation is the most tax effective method for the accumulation of retirement savings. Concessions associated with contributions (through deductions, offsets and co-contributions) mean that more money is available to invest, while those applied to withdrawals ensure that savings are maximised.

Incentives that encourage people to contribute to super and retain the money to fund their retirement are therefore very important. Equally important is the need to build confidence in the system with stability in legislative changes.

Case Study

Bill, who is on the 31.5% marginal tax rate (including Medicare levy), will have $6,850 left to invest out of $10,000 gross income outside superannuation or $8,500 left to invest if the $10,000 is either salary sacrificed to superannuation or contributed as a personal deductible contribution. If these amounts are invested (one-off contribution) at a gross 8% per annum return over a 15 year period, Bill's end balance will have grown to $20,120 outside super or $24,966 inside superannuation. In this example, if it is assumed that all earnings are taxed outside super at 31.5% and inside super at 15%, the net balances adjust to $14,457 and $21,351 respectively.

A major problem with superannuation is that many people confuse the structure with investment returns. For example, in periods of downturns (such as at the current time) people fear that superannuation is not a good investment because the balances are falling. Rather it is the asset allocation and not the structure that is causing balances to fall.

The following discussion highlights areas of superannuation where NSA believes inefficiencies exist that either create inequities or disincentives to save.

2.1 Life cycle issues

Evidence based on contribution levels and superannuation balances indicate that people are often not interested in saving for retirement until they reach age 50+ and retirement is more imminent.

This age group typically also has higher disposable income and a greater capacity to save, but given the changes in Australian demographics it is a group that still faces particular challenges for saving due to:

- Dependent children – The average age of women bearing their first child in Australia has risen from below 26 years in 1991 to nearly 30 years in 2003. First births in women over 35 years now account for 12% of all births[2], compared with 6% a decade ago. This results in increased childhood associated costs later in life, such as higher education fees and rent assistance. This trend is likely to continue or increase;
- Ageing parents – Many people aged 50+ have parents who are ageing and often may need care – this can lead to a "sandwich" impact for women who have given up careers and earning capacity in younger years to raise children and then are unable to return to a maximum earning capacity in later years due to the care needs of their elderly parents; and

[2] Missed conceptions: the need for education. Michael G Chapman, Geoffrey L Driscoll and Bryony Jones *Delayed childbearing is not an issue to "keep mum" about*

- Paying off outstanding mortgage debts – A recent AMP/NATSEM study found that twice as many people aged 60+ are paying off a mortgage compared with 10 years ago (9.5% in 2005-06 compared to 4.2% in 1995-96).[3]

Many people leave their retirement savings plans until this stage of their life when they have reduced other family and lifestyle commitments and are potentially at their earnings peak. However, they are also in a high risk area for redundancies or serious illnesses which can disrupt and destroy these plans. Accordingly, while concessions need to be targeted at these age groups to allow them to maximise the incentive to save, encouragement to save at younger ages is also important.

Recommendation

Continue to develop tax incentives aimed at those nearing retirement and explore additional incentives that encourage people to save for retirement at a younger age.

2.2 Superannuation Guarantee

Minimum Contribution

The Superannuation Guarantee (SG) is an important part of the superannuation system as it ensures that all workers accumulate retirement savings. The adequacy of the current minimum employer contribution is however the subject of much debate with many commentators believing an increase is required, whilst ensuring that the system does not overly burden employers (especially small businesses). Commentators believing that an increase is not required typically assume a continuous 40 year working life, but the reality is that this is not achieved by many people due to other life circumstances.

NSA believes that an increase in the minimum contribution would be particularly helpful for low-income earners, those who have not had the benefit of SG for their full working lives, and for those with an interrupted work history.

Recommendation

Gradually increase the Superannuation Guarantee (SG) from 9% to 15% by 2015, whilst maintaining an equitable balance between employer and employee contributions; and

Reduce the Superannuation Guarantee (SG) minimum earning threshold (currently $450 p/month) to assist lower income earners, and to encourage workforce participation amongst older age groups.

Age Discrimination

ABS figures show that in January 2009 there were approximately 127,000 full-time and 140,000 part-time workers aged 65 and over. In addition, there are over 1.4 million workers who will be turning 65 in the next 10 years.[4] The number of people continuing to work in retirement or beyond pension age is projected to rise dramatically. A recent AXA study found more than half of working Australians expect to work during retirement.[5]

[3] AMP-NATSEM. (2008) *Wherever I lay my debt, that's my home?*. Sydney.
[4] ABS, Australian Labour Force Statistics, January 2009. Available at: http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/C93F43286C848C35CA2574D6001792F1/$File/61050_oct%202008.pdf
[5] AXA (2008) Retirement Scope, A Global Reference Study *I want to live in Australia when I retire*

Age restrictions in superannuation arrangements are serving to undermine the ability of those choosing to work past the age of 65 from accumulating additional retirement savings. Superannuation funds can only accept contributions (employer and personal) provided the fund member meets a gainful employment test. Employers are also not obliged to pay SG contributions once a worker turns age 70 and are prohibited from doing so once these workers turn 75. It should also be noted that as these are voluntary employer contributions, the superannuation guarantee charge for 'late payment' of contributions does not apply.

NSA recognises that some industrial awards, such as those for employees of some state governments, provide for an increase in salary of 9% for those workers aged 75+. However, these provisions are by no means universal and the majority of employees aged 70+ experience a 9% wages cut on the basis of age.

A number of current retirees have also garnered substantial savings outside of superannuation, or receive a pension from an overseas fund. Those aged 75 and over will be unable to transfer these assets into a superannuation fund in Australia, and will therefore miss out on a number of tax benefits.

Recommendation

Ensure that all workers (that meet the minimum earning threshold) are paid the Superannuation Guarantee (SG), and are able to make personal contributions to their superannuation savings, regardless of age.

Abolish the upper age at which the superannuation co-contribution scheme ceases.

2.3 Co-contribution scheme

Australian Tax Office (ATO) statistics show that participation in the co-contribution scheme has increased significantly each year since 2003/04, with total co-contribution payments by the government totalling $1,931,358,000 in 2006/07. In particular, participation has increased markedly for women and people aged 50+. This suggests the scheme has become an important concession for those without the benefit of the SG throughout their whole working life.

In order for this progress to continue the scheme needs to be better targeted at low income earners and those nearing retirement. This would be particularly beneficial to women rejoining the workforce and to older self-employed people trying to catch-up on their retirement savings. To make the scheme a more effective incentive to make voluntary contributions awareness of the scheme must also be improved. Over 50% of respondents to a recent Australian Institute of Superannuation Trustees (AIST) survey decided to participate in the scheme having become aware of it, without seeking further advice.[6]

Recommendation

Expand the co-contribution scheme to provide higher payments to eligible low-income earners and individuals age 50+ with low savings balances, to encourage greater voluntary contributions.

Develop and implement an awareness and education campaign (spearheaded by the Australian Taxation Office) to increase participation in the co-contribution scheme.

[6] The Australian Institute of Superannuation Trustees (AIST), *Co-contributions Report*, April 2008

2.4 Superannuation contribution capacity and limits

The current rules limit how much an individual can contribute to superannuation each year. These limits apply to concessional and non-concessional contributions, and while the limits are largely aimed at restricting the extent of taxation concessions provided to wealthier Australians, they assume an even pattern of contributions throughout an individual's lifetime creating inefficiencies in relation to savings incentives.

Concessional Contribution Caps (CCC)

Caps on concessional (largely employer and personal deductible contributions) are currently set at $50,000 (indexed) per financial year. A transitional measure allows people age 50+ to contribute $100,000 (non-indexed) per year until 30 June 2012, after which time the limit reduces back to the standard $50,000 limit.

Work and life patterns mean that most people cannot save level amounts each year. Individuals generally reach their 50s largely unprepared for retirement but with the greatest capacity (and need) to save. Accordingly, this group (over 50s) needs to be provided with the greatest opportunity and encouragement to maximise savings in these years. Recent tax changes in the United States have enabled persons age 50+ to make additional catch-up contributions to their retirement fund on a permanent and not a transitional basis.[7]

Recommendation

Make permanent the Concessional Contribution Cap (CCC) of $100,000 per annum for a person age 50+ (and index it from 1 July 2012).

Interaction of concessional contribution cap (CCC) and SG

The inclusion of the employer SG in the CCC means the incentive to further salary sacrifice, in order to build savings, is limited to the remaining available cap. The inclusion of the SG in the cap can also create complications with calculations and planning as the exact amount of SG that will be payable in the year can be an unknown quantity, especially if there is a potential for pay increases or bonuses during the year.

Recommendation

Remove the 9% Superannuation Guarantee (SG) from the Concessional Contributions Cap (CCC) to provide greater simplicity and to allow individuals to plan their savings without risk of a penalty for unexpected excess contributions.

2.5 Personal deductible contributions

As employees are generally unable to claim personal tax deductions for contributions to superannuation, to access concessions they are largely reliant on employers offering salary sacrifice.

[7] http://www.usa-federal-state-individual-tax.com/individual_retirement.asp

Salary sacrifice, while providing taxation concessions and an incentive to save, may result in other inefficiencies such as a loss of other employment benefits which are calculated on cash salary component. This can include a reduction of benefits such as long service leave entitlements, worker's compensation and other leave entitlements. In fact, depending on employers policies it could also result in a reduction or loss of SG entitlements as the employee sacrificed amount is deemed to be an employer contribution and counts towards SG requirements.

Recommendation

Allow employees who do not have access to salary sacrificing to make personal deductible contributions within their available Concessional Contributions Cap (CCC).

Review the operation of salary sacrificing arrangements with the aim of ensuring that employees who choose to salary sacrifice do not suffer a loss of benefits or a reduction of SG entitlements.

2.6 Taxation on benefits

Withdrawal of benefits

The superannuation and taxation changes effective from 1 July 2007, which allowed superannuation benefits to be received tax-free by a person age 60+, have made superannuation income streams an even more efficient vehicle for providing retirement incomes. This has also allowed greater simplicity of taxation management in retirement.

Recommendation

The tax-free nature of retirement benefits from age 60 should be maintained.

Death benefits

An individual age 60+ can withdraw all benefits tax-free from a taxed superannuation fund. Upon an individual's death, benefits are paid tax-free to a dependant, as defined under taxation legislation.[8] However, if the benefits are paid to a person who does not meet this definition, tax is payable on the taxable component at the rate of 15% or 30% on any element untaxed.

The interaction between the tax on withdrawals while the owner is alive and death benefits tax creates an anomaly. A person who is aware of their imminent death is able to take action to withdraw benefits tax-free and pass them onto non-death benefit dependants. In contrast, a person who does not have this warning or foresight may pass on benefits to their beneficiaries, after their death, with a tax liability.

Recommendation

Allow a non-dependant the choice to roll death benefits into their own superannuation fund as a fully preserved amount, with no attached tax liability or contributions tax.

[8] This includes a spouse, child under age 18, person who was financially dependant upon the deceased at the time of death or a person who was in an interdependency relationship with the deceased at the time of death.

2.7 Self managed superannuation funds (SMSFs)

The regulation of superannuation stipulates that withdrawals, either as a pension or a lump sum, must be in cash. This is a corollary of a ban on a member of a superannuation fund deriving any benefit from the assets in which their superannuation contributions and the return on those contributions are invested during the accumulation phase. A member of a self-managed super fund that owns a house or a work of art, not having derived any pre-retirement benefit from this investment but wishing to do so in retirement, is forced, as the fund's trustee, to sell the asset to himself/herself as the fund's member, potentially incurring substantial costs in the process, e.g. stamp duty.

Recommendation

Allow members to make in kind withdrawals from their SMSF once they have retired.

2.8 Savings transfers

The inability of those aged 75 and over to contribute to a superannuation fund has meant that the benefits of superannuation reform under the previous Government are not available to them. This is not only the case for regular contributions, as they have also been denied the opportunity given those aged up to 74 at the time of the reform to transfer assets into their superannuation fund.

As a result, private income from investments for retirees aged 75 and over continues to be subject to income tax. NSA is of the view that this arrangement is inequitable, and believes the unnecessary depletion of savings will result in increased dependency on an age pension in later stages of retirement.

Recommendation

Provide those aged 75+ on 9 May 2006 with a one-off opportunity to transfer savings and investments into superannuation on terms similar to those given to the rest of the community between 9 May 2006 and 30 June 2007.

Section 3 –Insurance Cover

3.1 Life insurance premiums

As well as having a retirement savings shortfall Australians are significantly underinsured. The superannuation choice legislation has mandated small amounts of insurance inside default funds, but this can be lost if the member chooses their own fund and does not arrange for cover in that fund.

The default level of cover is generally insufficient to meet the needs of most individuals and families, although individuals often do not recognise this inadequacy. If a family or person is inadequately insured, it can result in the person and/or family needing to rely on government income support payments if a death or disability occurs.

A major reason for the underinsurance problem is cash flow. To ease cash flow many people seek to hold the insurance inside super, using SG or accumulated savings to pay the premiums. This will contribute towards the inadequacy of retirement savings.

Alternatively people may salary sacrifice additional contributions to cover the cost of premiums which uses up some of the available contribution cap to pay for insurance benefits rather than to maximise retirement savings.

Holding insurance inside super, aside from causing a depletion of retirement savings, often sees individuals holding inferior insurance products compared to non-superannuation options. Many features or benefits are not allowed inside superannuation due to the sole purpose test or preservation requirements.

Recommendation

Equalise the tax position of insurance inside superannuation and outside superannuation by allowing tax deductions on death and total and permanent disability policies which are held outside superannuation.

3.2 Insurance death benefits from superannuation

The payment from a death insurance policy held outside superannuation is generally paid tax-free.[9] However, inside superannuation if it is paid to a non-death benefits dependant (such as an adult child) taxation is payable at 30 per cent (plus Medicare) as it is considered an element untaxed of a taxable component.

In addition, if deductions have been claimed for premiums inside the fund the taxation on other accumulated superannuation savings can also be increased from 15 per cent to 30 per cent plus Medicare. The Government has made recent changes to remove taxation on terminal illness payments, which has been a very welcome change. However, the implications for after death benefits also need to be addressed.

Recommendation

Remove the penalty taxation on death benefits that are derived from an insurance policy inside superannuation and tax these benefits at 15% to ensure consistency with the tax rate on death benefits from accumulated superannuation.

[9] Tax can be payable in cases where ownership of the policy has transferred to another person (not the original owner) for consideration or if held for some business purposes.

3.3 Health insurance

NSA is concerned that as more and more individuals begin to drop their private health insurance, it will be older Australians on fixed incomes who will be most affected by the increases to premiums. The Australian Government Department of Health and Ageing's 2008 State of Our Public Hospitals Report shows that the majority of hip (55%) and knee (63%) replacements are carried out in private hospitals.

A significant proportion of older Australians have private health insurance. The Australian Bureau of Statistics reports that approximately 60 per cent of 55-64 year olds; 52 per cent of 65-74 year olds; and 41 per cent of the 75+ age group have private health insurance. What these statistics suggest is that older Australians are keen to bypass the public health system with its waiting lists. However, what these statistics also suggest is that as people progress through retirement and run down retirement savings, significant numbers are forced out of private health insurance as it becomes unaffordable.

With participation in health insurance highest among 55-64 year olds and lowest among those aged 75 and over, it is obvious that those who need health insurance most and who may have paid premiums for many years now have to return to the public system. It is inevitable that this will cause lengthy delays in treatment and based on experience lead to many putting off treatment altogether, the consequence of this will inevitably be reduced capacity and independence and further pressure on the health and aged care system.

Recommendation

Develop additional mechanisms through the tax system to ensure that private health insurance remains accessible and affordable for low-income earners and retirees.

Section 4 – Utilisation of savings & income streams

The effective utilisation (and continued generation) of retirement savings and income is affected by the interactions across the welfare transfer payments, superannuation tax system and personal tax system.

4.1 Account-based pension minimum payments

While the abolition of maximum payments on account-based pensions was a welcome change, the current system of minimum withdrawal requirements based on an individual's age creates inefficiencies for managing retirement savings over a person's lifetime. In particular, the current rules were framed in a period of economic growth, and completely fail to account for the impact on savings in periods of economic adversity.

Periods of market volatility hit retirees who have to draw down on assets in their income stream accounts the hardest. NSA members are reporting up to a 50% decline in the value of their savings. The recent slump in asset values has revealed a number of unintended consequences of requiring retirees on a market linked superannuation pension to make annual minimum withdrawals based on the balance of their account at the start of the financial year. Some individuals may be encouraged to move from pension to accumulation phase in order to eliminate the need to make withdrawals and live off other income sources while they wait for assets to recover. This creates inefficiencies with costs and complexity.

NSA has welcomed the halving of minimum withdrawal requirements as an immediate action that needed to be taken, but it is now time for the rationale for minimum withdrawals to be reviewed. This is very much in the Government's own interest as a failure to act will only increase reliance on the age pension and will boost social security spending in the longer term.

Recommendation

Abolish minimum withdrawal requirements applying to superannuation income streams in order to provide retirees with greater flexibility in managing their savings over the course of their retirement.

4.2 Longevity issues

One of the greatest challenges facing retirees is the need to make their savings last for the duration of their retirement. Greater education is needed to increase awareness of this challenge amongst current retirees and those approaching retirement.

Investment products can also provide significant assistance with managing savings. Lifetime income streams have been largely unpopular due to the relatively low returns the traditional products have provided. This is due to actuarial calculations to meet the level of risk and the capital reserving requirements.

Favourable treatment under the age pension income test has gone some way to reversing the decline in the popularity of income stream products. Recent superannuation reforms have also changed the taxation definition of an income stream so that the legislation is less prescriptive in terms of product development. However, some inefficiencies still apply and further incentives in the tax-transfer system are needed to ensure that income stream products continue to develop, to assist people to manage their savings for the duration of their potential retirement.

Recommendation

Ensure the tax-transfer system continues to promote and encourage the use of superannuation income streams as a product that can assist individuals in managing savings across their entire retirement.

4.3 Frozen assets

The recent financial turmoil has once again illustrated how retirees can be disadvantaged by the provisions under which means testing for age pension eligibility is carried out. The current assets test makes an artificial distinction between assets of which the value can be readily determined because they can be freely sold, and 'frozen assets', including assets in liquidation, which for a considerable period of time cannot be sold or, indeed, proven to have little or no value.

Individuals can apply to Centrelink at any time for a revaluation of non-frozen assets and have their pension entitlement adjusted accordingly, while the owners of frozen assets do not have recourse to such a facility. This is unfair, in that both in the case of non-frozen assets and frozen assets the desire for a revaluation is prompted by a significant drop in value of those assets. While the value of non-frozen assets, having gone down as demonstrated by executable market price, can be revalued for the purpose of pension eligibility, the value non-frozen assets, having gone down in value as demonstrated by the fact that they have been taken off the market, continue to be valued based on purchase price.

Clearly, for the purposes of establishing financial need the distinction between non-frozen assets and frozen assets is one of degree rather than category. NSA proposes the introduction of asset deeming for frozen assets and of a provisional eligibility for the age pension in cases where applicants own frozen assets. Once the issues surrounding frozen assets have been resolved and their actual value has become known, any over- or under-payment of the pension can be addressed.

Recommendation

Introduce asset deeming to enable applicants to establish provisional eligibility for the pension while circumstances surrounding frozen or liquidated assets are resolved.

4.4 Indexation – Commonwealth & military pensions

A non-uniform approach to the indexation of retirement incomes is both inequitable and divisive, and serves to undermine public trust in retirement standard benchmarks.

Between June 1998 and June 2008, MTAWE increased by 50% while the CPI increased by only 36%. In contrast to the bi-lateral indexation of age and disability pensions and the carer payment, military pensions and commonwealth superannuation are indexed solely against the CPI. This is despite the fact that the Senate Report on Superannuation and Standards of Living (2002) recommended that commonwealth superannuation be indexed against the higher of MTAWE or CPI.

Recommendation

Index Commonwealth funded superannuation and military pensions (bi-annually) against the higher of CPI and Male Total Average Weekly Earnings (MTAWE).

4.5 Savings diversification

Aside from highlighting the low levels of consumer understanding in respect to the security of retirement savings, the current economic downturn has clearly illustrated the need for savings diversification, both inside and outside superannuation.

The current Australian Government has already attached considerable importance to financial security issues such as governance, dispute resolution and compensation, and diversified investment.[10] To ensure this focus is not lost, Australia needs to debate how consumers can become better informed that different investments have varying degrees of volatility and that no single investment asset always performs better than others. This means that diversified portfolios usually provide more consistent, less risky, returns.[11] There are many parties that will need to be involved in this debate, including governments, business, financial professionals, educational institutions and consumer groups.

Recommendation

Develop and implement a national awareness and education campaign, which includes information on the major financial considerations in retirement, including the need for savings diversification.

4.6 Deductibility of financial planning advice

Fees for managing taxation affairs are deductible, but generally speaking the fees for managing financial affairs are not.

People who receive financial planning advice are likely to have healthier retirement savings balances and a greater sense of direction, but the lack of tax deductibility of the advice fees are a disincentive to seek such advice.

If financial planning advice fees were deductible this may also increase the consumer demand for fee-for-service and a move away from commissions, which would also serve to increase retirement savings.

Recommendation

Allow tax deductions on fees for financial planning advice from a licensed financial planner to encourage people to seek advice on retirement savings.

[10] Minister Sherry. (2008). Speech to the Conference of major superannuation funds – super and the new government. Brisbane.
[11] Ibid.

4.7 Stamp duty

Many senior Australians will move out of their family home in order to live in a smaller residence. The reasons are many and varied, including the need for proximity to medical services, family or friends, and the desire to access the benefits of retirement village living.

Others also seek to realise some of their property wealth in order to top-up their low-fixed incomes and provide themselves with the financial security to meet any unexpected one-off costs in later life. Many older Australians have relatively low incomes and high levels of housing wealth, and typically are seen as being 'asset rich but income poor'.

The current rates of stamp duty for seniors downsizing varies widely across states and territories, but typically rates fail to recognise the benefits of downsizing and act as a considerable disincentive. There is also disparity in the treatment of ordinary housing with retirement village accommodation, which is generally exempt from stamp duty.

Both the ACT and Victorian Governments provide age pensioners with a full exemption from duty for home purchases up to the value of $412,000 and $330,000 respectively.

Recommendation

Provide senior Australians with an exemption from stamp duty when downsizing their homes (with the exemption threshold indexed to the median house & unit prices in each state and territory).

Section 5 – Payment transfer system

The payment transfer system (largely facilitated through Centrelink and the Department of Veterans' Affairs) is an important adjunct to the taxation system to ensure efficiency in savings and the utilisation of retirement savings.

5.1 Incentives to work

Aspects of the taxation and payment transfer systems often discourage older Australians from participating in the workforce. Currently, only 3.2% of age pensioners have private earnings.[12] The overall goal should be to increase the options for participating in the labour market and enhance the capacity of individuals by removing barriers, constraints and disincentives, including those that are tax-related.

The age pension income test is an essential and integral part of the pension system, but it fails to distinguish between wage-based and non wage-based income, and as a result unfairly penalises those who choose to top up their pension with part-time employment. For a single rate pensioner earning $200 per week in wages, every $1 in income earned reduces the pension by 25 cents a week (see Figure 1 below).

Figure 1: Impact of additional income on single rate pension entitlements & total income (under current income test)

Private wage based income (per week)	**$100**	**$150**	**$200**	**$250**	**$300**	**$350**	**$400**
Pension reduction (per fortnight)	$25	$65	$105	$145	$185	$225	$265
Net impact on additional (wage) income	-12%	-22%	-26%	-29%	-31%	-32%	-33%

(Source: National Seniors Australia, National Policy Office)

There is considerable scope for the Pension Bonus Scheme to be expanded in order to provide an incentive for those who are currently receiving an age pension to earn additional income. Expanding the Pension Bonus Scheme to provide those already receiving an age pension with a 50% rebate on lost entitlements resulting from 'wage-based' income would enable those who are eager to top up their incomes to do so without being unfairly penalised. Under this proposal a single rate pensioner earning an additional $250 per week would be over $35 a week better off, and a pensioner couple earning $600 per week (combined) would be $76 a week better off (see Figure 2).

Figure 2: Impact of additional income on single rate pension entitlements & total income (under expanded Pension Bonus Scheme)

Private wage based income (per week)	**$100**	**$150**	**$200**	**$250**	**$300**	**$350**	**$400**
Pension reduction (p/fortnight)	$25	$65	$105	$145	$185	$225	$265
Pension rebate (p/fortnight)	$12	$32	$52	$72	$92	$112	$132
Net impact on additional (wage) income	-6%	-11%	-13%	-15%	-15%	-16%	-17%

(Source: National Seniors Australia, National Policy Office)

[12] Department of Families, Housing, Community Services and Indigenous Affairs, Portfolio Budget Statement 2008-2009

Further, to ensure that participants on the Bonus Scheme are rewarded equally irrespective of the length of participation on the scheme, bonus payments should be based on the number of days that entitlements have been foregone with no minimum or maximum claim periods. The current requirement that participants in the scheme make a claim within 13 weeks of ceasing work should also be removed.

Recommendation

Expand the scope of the Pension Bonus Scheme by providing all those of age pension age, including those in receipt of a pension, with a rebate on all pension entitlements foregone due to earning 'wage based' income. This rebate should equal 50% of all foregone pension entitlements and should be provided at the end of the financial year.

5.2 Commonwealth Seniors Health Card (CSHC)

Income limits

The income limits for the Commonwealth Seniors Health Card (CSHC) are currently set at $50,000 per annum for a single person and $80,000 per annum for a couple combined. These limits are not automatically indexed and have not increased since 2001, so they represent a diminishing value over time. The indexation of these limits is not a pressing issue in the current economic downturn however it is important that indexation is in place in time for an economic recovery and a return to wages growth.

Proposed means-test changes

The 2008-2009 Budget stated that from 1 July 2009 the CSHC income test will include gross income from superannuation income streams from a taxed source, and will include income that is salary sacrificed to superannuation in the income assessment.

On the basis of providing equity with other sources of income NSA considers the proposed means test changes to be reasonable; however concerns arise for those seniors with chronic and complex health conditions who narrowly miss out on CSHC as a result of the proposed changes. As well as providing much needed financial assistance, the health concessions provided by the card provide peace of mind to seniors that should they fall ill there will some form of safety net in place.

Recommendation

Index CSHC income limits (bi-annually) against the higher of CPI and Male Total Average Weekly Earnings (MTAWE), in-line with that applied to the age pension.

Explore options for extending only the health benefits of the CSHC to those who will lose eligibility from 1 July 2009 as a result of being narrowly over the income limits.

5.3 Emissions Trading Scheme

Full rate single pensioners (lowest household income), who face a cost-of-living increase of 1.4%, would be expected to defray the additional cost-of-living increase associated with a permit price of $40 with a buffer of 1.1%. Full rate pensioner couples (lower household income), facing a cost of living increase of 1.2%, are expected to cope with the effects of a $40 permit price with a buffer of 1.3%. Self-funded retirees, i.e. Commonwealth Seniors

Health Card (CSHC) holders and DVA Gold Card holders of pension age (low income), facing the general increase of 1.1%, would have a buffer of 1.4%.

While single pensioners and self-funded retirees with private income from superannuation will all receive the intended $382, the effects of income tax and offsets are causing some discrepancies in the value of compensation that will accrue to retirees on taxable income. Single pensioners with private income subject to income tax of approximately $28,000 p.a. stand to gain the intended $382. However, incomes beyond that attract a maximum of almost double that: $714. Similarly, single self-funded retirees with private income subject to income tax up to about $24,000 receive $382. However, compensation doubles for incomes beyond that.

Self-funded retiree couples receive the intended $640 if their income is from super. If their income is taxable they get $640 up to $24,000. It then increases to $1,030 until income reaches $50,000, when compensation reduces to $640.

Pensioner couples receive $640 if they have private income from super, or if their taxable income does not exceed the income-free area. With taxable income of $10,000, compensation of $934 is payable. Taxable income of between $15,000 and $35,000 attracts $838. However, at a taxable income of $45,000, compensation is of less than the intended amount ($616) is payable, and at $55,000, compensation falls to $448.

While these variations are concerning in themselves, it will also be very difficult, if not impossible, for many retiree households to work out if they are indeed receiving the intended amount of compensation. While in the vast majority of cases, actual compensation will exceed intended compensation, there will be cases in which actual compensation falls well short.

At this stage, the Carbon Pollution Reduction Scheme does not offer energy efficiency initiatives in the form of subsidies on appliances and insulation. However, the Government has committed to take these matters into account in delivering energy efficiency measures before the start of the scheme.

NSA is anxious that such measures enable all retiree households to become energy efficient, which is likely to require assistance to low-income households at a level above that required for middle- and high-income households.

Recommendation

Ensure that all retiree households receive at least the intended amount of compensation under the Carbon Pollution Reduction Scheme (CPRS); and

Ensure that energy efficiency subsidies under the CPRS to retiree households are targeted appropriately.

Section 6 - Small business owners

Australian Superannuation Funds Association (ASFA) research shows that the self-employed make up 19 per cent of the paid labour force. 26 per cent of the self-employed have no super and a further 53 per cent of the self-employed have superannuation balances of less than $40,000.[13]

Data collected in the ASFA study indicates that average superannuation balances have increased significantly in recent years and some self-employed are on track for a comfortable standard of living in retirement but the majority will fall well short of achieving this. Of the self-employed persons who recently retired, around half receive some age pension and around 30% are on the full age pension. The average income of recent retirees who were self-employed is only $24,500 a year.

A self-employed person operating under a sole trader or partnership structure is not required to make any superannuation contributions. Therefore, they may not be accumulating any savings. This should be addressed with the extension of the SG system to include these people. Small business owners tend to reinvest all available capital into the business for operating capital and to allow expansion. It is effectively seen as "superannuation." In recognition of this, the government has provided small business Capital Gains Tax (CGT) concessions to reduce tax payable on the sale of the business or active business assets and a small business CGT cap to allow small business owners to contribute an additional $1.045 million (indexed) into superannuation over their lifetime. This cap is in addition to the normal concessional and non-concessional contribution caps.

While this cap offers a significant benefit to small business owners, it comes with some unnecessary limitations. For example, if the business has been owned for at least 15 years, the full cap of $1.045 million is available. If the business has been owned for a shorter timeframe, only the taxable amount that can be claimed under the CGT retirement exemption (i.e. up to $500,000) can be contributed under the small business CGT cap.

The CGT retirement exemption is a tax concession that allows CGT to be eliminated on the taxable capital gains of an eligible small business. The limit has not been indexed since its introduction in 1999. Therefore it has a diminishing real value, which will also flow onto a diminishing benefit for the superannuation small business CGT cap.

Recommendation

Index the small business Capital Gains Tax (CGT) retirement exemption.

Allow any proceeds from the sale of an eligible small business to be contributed under the small business CGT cap.

[13] ASFA. *The self employed and saving for retirement*. Ross Clare, Director ASFA Research and Resource Centre, June 2008-10-17