

***Submission to Social Services and
Other Legislation Amendment
(2014 Budget Measures No. 1)
Bill 2014 and Social Services and
Other Legislation Amendment
(2014 Budget Measures No. 2)
Bill 2014***

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National Seniors

Australia

About National Seniors Australia

National Seniors is a not-for-profit organisation that gives voice to issues that affect people aged 50 years and over. It is the largest membership organisation of its type in Australia with more than 200,000 individual fee paying members and is the fourth largest in the world.

We give our members a voice – we listen and represent our members' views to governments, business and the community on the issues of concern to the over-50s.

We keep our members informed – by providing news and information to our members through our Australia-wide branch network, comprehensive website, forums and meetings, bi-monthly lifestyle magazine and weekly e-newsletter.

We provide a world of opportunity – we offer members the chance to use their expertise, skills and life experience to make a difference by volunteering and making a difference to the lives of others.

We help our members save – we offer member rewards with discounts from thousands of businesses across Australia. We also offer exclusive travel discounts and more tours designed for the over 50s and provide our members with affordable, quality insurance to suit their needs.

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Recommendations

Timing of Changes to Legislation

1. Legislative changes to the age pension, proposed within the Bills to take place from 2017, should be suspended until after the next Federal election in 2016.

Indexation

2. Maintain current indexation and assessments of the value of the age pension through the Consumer Price Index, Pensioner and Beneficiary Living Cost Index (PBLCI) and Male Total Average Weekly Earnings (MTAWE).

3. Maintain current indexation rules for income and assets test free areas.

4. Evaluate the impacts of increasing taper rates on deemed assets.

Deeming Thresholds

5. Maintain the current deeming thresholds for singles and couples and monitor deeming interest rates to align with secure investment deeming account returns.

Age Pension Age

6. Increase the age pension age only when mature age workers are able to gain employment suited to their skills and personal capacity.

Introduction

National Seniors appreciates that age pension changes through income and asset test freezes, indexation to CPI rather than the higher of CPI, Pensioner and Beneficiary Living Cost Index (PBLCI) or Male Total Average Weekly Earnings (MTAWE), and revised deeming thresholds have all been held over until 2017. The three year deferral of these changes means that the over-50s have the chance to register their support or otherwise when they vote at the next federal election.

National Seniors is pleased that the government has honored an election commitment to index the income thresholds for eligibility to the Commonwealth Seniors Health Card (CSHC). The current CSHC income threshold of \$50,000 for singles and \$80,000 for a couple has not been increased since 2001. National Seniors believes that a review of these limits is long overdue.

National Seniors also commends the government for proposing an extension to the period for which CSHC holders may travel temporarily overseas without losing qualification for the card from six weeks to nineteen weeks from 1 January 2015.

We also support the inclusion of untaxed superannuation income in the assessment for the CSHC which has been unassessed for CSHC eligibility since the tax-free super changes were introduced in 2007. This aligns the assessment with that applied to eligibility for the age pension. National Seniors also supports the grandfathering rules attached to this change. The prospective rules will allow current holders of the CSHC to be exempt from the assessment of untaxed superannuation income for card eligibility. Introducing policy changes that are not retrospective is imperative to ensure certainty for those already in retirement.

Timing of Changes to Legislation

Recommendation 1: *National Seniors recommends that legislative changes to the age pension, proposed within the Bills to take place from 2017, be suspended until after the next Federal election in 2016.*

The breadth of announcements made within the 2014-2015 Federal budget will greatly affect the capacity of older Australians to cope with everyday living costs, significantly disrupt already over-stretched household budgets and impede the health and welfare of older Australians.

Therefore, National Seniors believes that it is imperative that all measures within the Bills are examined and considered by the Senate Community Affairs Legislation Committee.

National Seniors understands that the government needs to make tough budgetary decisions for Australia's future. However, we have concerns that the government's choices will leave already struggling and vulnerable older Australians exposed to greater disadvantage.

Age pensioners will especially feel the full weight of the 2014-2015 Federal budget from 2017 if these Bill are legislated. Changes to the pension should only occur after the next federal election. Prime Minister Tony Abbott has stated that the government has "been very upfront with the

pensioners of Australia. If people don't like that, they will have the opportunity to vote at the next election¹."

Indexation

Recommendation 2: *Maintain current indexation and assessments of the value of the age pension through the Consumer Price Index, Pensioner and Beneficiary Living Cost Index (PBLCI) and Male Total Average Weekly Earnings (MTAWE).*

Recommendation 3: *Maintain current indexation rules for income and assets test free areas.*

Recommendation 4: *Evaluate the impacts of increasing taper rates on deemed assets.*

Schedule three of the Bill outlines changes to indexation of the value of the age pension and related income and asset test thresholds for eligibility to the age pension. National Seniors is concerned about the impact that multiple indexation changes to the age pension will have on the cost of living and health and welfare of low income older Australians. These changes include:

- Indexing the value of the age pension in line with the Consumer Price Index (CPI) rather than the the higher of CPI, Pensioner and Beneficiary Living Cost Index (PBLCI) and Male Total Average Weekly Earnings (MTAWE).
- Freezing the indexation of the income and asset test thresholds for eligibility to the age pension.

National Seniors remains opposed to the proposal to index the age pension in line with CPI rather than the higher of CPI, PBLCI and MTAWE. National Seniors recommends that the PBLCI and MTAWE continue to be used to measure the effect of changes to the prices of out-of-pocket living expenses on age pensioner households. National Seniors believes that the PBLCI best reflects pensioners' changing expenditure patterns over time. CPI is designed to measure price inflation for the household sector as a whole and is not an appropriate measure for assessing the impact of price changes on pensioner household incomes.

Currently, the single rate of pension equals 27.7 per cent of the MTAWE and the couple combined rate is equal to 41.76 per cent. Once the initial indexation is applied (either CPI or PBLCI) if the rate of age pension is less than the benchmark of the MTAWE, the payment rate will be lifted to equal the agreed percentage of MTAWE. Benchmarking the age pension against MTAWE was introduced in 1983 to ensure that age pensioners maintain a decent standard of living, relative to the rest of the population.

The following table compares the retirement living standard as outlined by the Association of Superannuation Funds of Australia (ASFA) with the current value of the age pension. A modest lifestyle is defined by ASFA as 'better than the age pension, but still only able to afford fairly basic activities'².

¹ <http://www.theguardian.com/world/2014/may/14/seniors-pledge-to-campaign-in-marginal-seats-to-reverse-budget-cuts>

² ASFA Retirement Standard – March quarter 2014

	Modest Lifestyle (single)	Modest Lifestyle (couple)
Yearly total (ASFA)	\$23,283	\$33,509
Age pension p/a (with pension and energy supplements)	\$21, 912.80	\$33,036.60
Difference between retirement standard and age pension	\$1370.20	\$472.40

The current value of the age pension is close to meeting the needs relative to a modest lifestyle. Benchmarking the age pension to a percentage of MTAWA acknowledges a standard of living that the broader Australian community have. National Seniors recommends that the age pension continue to be indexed in line with the higher of CPI, PBLCI and a percentage of MTAWA.

Furthermore, our research has revealed that over the five years to March 2013, the cost of essential items, such as water, gas, insurance, medical services, and rates, all rose by more than double the inflation rate:

- Electricity rose by 83 per cent (6.2 times CPI).
- Water and sewerage rose by 63.1 per cent (4.7 times CPI).
- Gas has rose by 57.5 per cent (4.3 times CPI).
- Property rates and charges rose by 32.6 per cent (2.4 times CPI)³.

Older Australians report that they 'go without basics' such as food, medicines and heating or cooling to make ends meet. In 2011, 750,000 of 50 plus households were spending half of their disposable income (average \$14,000) on groceries, electricity and gas, and healthcare and almost a quarter of a million (245,000) senior households said they had been unable to pay their utility (electricity, gas or telephone) bills on time².

The table below shows that the age pension has only been indexed once by CPI since 2009.

Pension Indexation since 2009

Date	Indexation Applied
September 2009	Pensioner and Beneficiary Living Cost Index (PBLCI)
March 2010	Male total average weekly earnings (MTAWA)
September 2010	PBLCI
March 2011	MTAWA
September 2011	PBLCI
March 2012	MTAWA
September 2012	MTAWA
March 2013	MTAWA
September 2013	MTAWA
March 2014	CPI

³ National Seniors Productive Ageing Centre. 2013. *A squeeze on spending? An update on household living costs for senior Australians*. Melbourne.

If the age pension payment is indexed only to CPI, then the living standards of age pensioners will fail to keep pace with increases to essential services and meeting their costs of living will become a daily struggle. With age pensioners struggling to make ends meet, their capacity to reallocate limited pension incomes is clearly unmanageable.

In addition, freezing the indexation of the income and asset test thresholds for eligibility to the age pension will, overtime, push some people off the age pension as their modest investments increase in line with increasing market values.

Deeming Rates and Thresholds

Recommendation 5: Maintain the current deeming thresholds for single and couple pensioners and monitor deeming interest rates to align with secure investment deeming account returns.

Many retirees are asset rich and cash poor. In 2009-10 over 75 per cent of all over 65 year old households had disposable incomes that placed them in the bottom 40 per cent of all households. Therefore the level of income deemed to be earned on their assets has a significant impact on their eligibility for age pensions and access to concessions.

Current deeming rates which are set by Centrelink are higher than the actual return available on investments through standard 55 plus accounts. An example of the discrepancy in deemed income compared with actual income earned for a specified level of assets is provided in the table at the end of this section.

National Seniors lobbied hard for the last deeming rate interest cuts which occurred in March and November 2013 after four years of little change, in spite of reduced returns on investments. We also called for deeming rates to remain in line with the cash rate at the 2013 Federal election.

If legislated, the reduction of deeming thresholds to \$30,000 for single pensioners and self funded retirees on lower incomes (currently \$48,000) and \$50,000 for couples (currently \$79,600) will reduce eligibility and access to the age pension from 2017. It is estimated that more than 500,000 age pensioners and self funded retirees on low incomes will be affected by this change (SMH, 14 May 2014).

Resetting the deeming rate thresholds back to the levels introduced in 1996 will mean that a single person will have an extra \$18,000 of income assessed at the higher deeming rate and a couple, an additional \$29,600 of income assessed (calculations based on 2014 deeming rate thresholds).

Lowering the asset thresholds at which the higher deeming rate applies will mean that self funded retirees on low incomes who receive a small part pension are likely to face a reduction or cancellation of their pensions. This change may prevent many from receiving a small pension and reduce their access to concessions. In addition, some people who are now eligible for the full pension may see their pension cut while new applicants for the age pension may also miss out.

The last time the deeming interest rate was at 2 per cent and 3 per cent below and above the deeming threshold was in 2009 when the single deeming rate threshold was set at \$42,000 and the couples' deeming rate threshold was set at \$70,000. The thresholds at that time were closer to the current thresholds and much higher than those proposed in the changes to the Bill.

Current 2014 and proposed 2017 deeming levels result in over-estimation of earnings compared with the actual interest earned from investment deeming and similar accounts. The proposed reduction of the deeming thresholds in 2017 will further disadvantage older Australians.

The following tables compare the income Centrelink deems to be earned in 2014 and 2017 on a couple's assets above the allowable amount with income earned in an investment deeming account which calculates interest on a 'stepped' basis. In the examples provided, the difference between the deemed income and the actual earned income doubles in 2017 compared with 2014. This could have significant impacts on those part-pensioners who are at the upper limits of eligibility.

2017 Deeming rate	Assets	Deemed Income	Account	Interest rates	Assets	Interest earned	Variance
2%	\$50,000	\$1,000.00	Savings Account	2%	\$99,999.00	\$1,999.98	
3.5%	\$115,000	\$4,025.00	Term Deposit	3.5%	\$65,001.00	\$2,275.04	
Total	\$165,000	\$5,025.00			\$165,000.00	\$4,275.02	-\$749.99

2014 Deeming rate	Assets	Deemed Income	Account	Interest rates	Assets	Interest earned	Variance
2%	\$79,600	\$1,592.00	Savings Account	2%	\$99,999.00	\$1,999.98	
3.5%	\$85,400	\$2,989.00	Term Deposit	3.5%	\$65,001.00	\$2,275.04	
Total	\$165,000.00	\$4,581.00			\$165,000.00	\$4,275.02	-\$305.99

Age Pension Age

Recommendation 6: Increase the age pension age only when mature age workers are able to gain employment suited to their skills and personal capacity.

National Seniors does not support an increase to the age pension age while there is still no progress on mature age employment. Any pension age increases must come with bold initiatives, driven by government, that engage with, and shift the attitudes of, both business and the community.

For over a decade, both sides of politics have committed to raising mature age participation rates. But despite training programs, business inducements and information campaigns, discriminatory attitudes persist. Long term unemployment rates amongst the over-50s are consistently higher than other age groups. Older job seekers are unemployed for an average 71 weeks compared to the 41 weeks of those aged 25 to 44⁴

The Organisation for Economic Co-operation and Development (OECD) 2013 figures show that Australia's mature age (age 55 to 64) workforce participation rates, at 63.6 per cent, fall behind

⁴ National Seniors Australia, *Barriers to Mature Age Employment: Final Report Of The Consultative Forum On Mature Age Participation*, Productive Ageing Centre.

other OECD countries including New Zealand (77), Sweden (77.1), Switzerland (72), Japan (68.2), Germany (65.4) USA (64.5) and Canada (63.8)⁵.

National Seniors welcomes the Restart initiative announced at the 2014-2015 Federal budget that allocates a \$10,000 incentive payment to businesses who hire older workers for a period of two years. However, experience suggests that cash bonuses do not work in isolation.

Australia needs a suite of measures that tackle community attitudes, promote workplace flexibility and remove the legal barriers to employment that mature age people face before the age pension age is increased to 70.

National Seniors recommends that age of eligibility to the age pension should increase beyond age 67 only when mature age workers are able to gain employment suited to their skills and personal capacity.

I cannot imagine working as a laborer or a nurse until 70 years of age. Why is it that pensioner's bear the brunt of it?

- National Seniors Member

I am appalled at the latest focus of the government where they are pushing to change the retirement age. Although I am still working, I can truly understand why 70 can sometimes just be that little bit too much for some to aim for.

- National Seniors Member

I am not retired or will be anytime soon, but ...my concerns are not just working or finding a job, my concerns are: Living long enough. I would be pretty confident that a lot of men in physical, outdoor work have life expectancy that is much lower. The demands on the body of working physical jobs mean that an office sit down type job is probably not going to work anyway, the damage has already been done let alone ...finding employment. Why is a 'one answer fits all solution' to retirement appropriate? There are many different lines of work and professions, which allow some people to work longer... I am sure there are many valid reasons to argue against such policy [raising the age pension age] but I do think that the voice of the blue collar / fluoro orange worker is not heard, or even being considered in this debate.

- National Seniors Member

Conclusion

The combination of proposed changes to the Social Services Acts will decrease the real value of the age pension, reduce eligibility of people with low income and assets who would otherwise be eligible, force people who receive a small amount of pension off the payment, force people to sell their assets and significantly reduce access to concessions. Other Australians who experience a reduction to income have the capacity to increase their future working hours. However, for those in receipt of the age pension, this is usually not an available option.

Moreover, according to Mercer⁶, the value of the age pension indexed at the lower CPI level from 2017 will have limited impact initially, but over time will become very significant. In 2022, after 5

⁵ OECD (2013), *OECD Employment Outlook 2013*, OECD Publishing. doi: [10.1787/empl_outlook-2013-en](https://doi.org/10.1787/empl_outlook-2013-en)

⁶ <http://www.mercer.com.au/content/dam/mercer/attachments/asia-pacific/Mercer-Spotlight-on-2014-Aus-Fed-Budget.pdf>

years of the reduced indexation, Mercer predicts that the age pension could be up to 10 per cent lower than if no change had been made to current indexation arrangements.

For example, if the age pension was 10 per cent lower than it is currently (\$766.00), a single pensioner would be receiving \$689.40 a fortnight. A couple combined (\$1,154.80) would be receiving \$1039.32 a fortnight. When contrasted with the current poverty lines⁷, which are set at \$408.48 a week for a single person and \$578.55 a week for a couple, the future decreasing value of the age pension, when considering changes to deeming thresholds, indexation changes and fixed income and asset tests, is very concerning.

Under the Bills put forward, the right to social security as found in Article 9 of the *International Covenant on Economic, Social and Cultural Rights* (ICESCR) has not been taken away all together. However, the Bills severely restrict access to the age pension, leaving many in a position of significant vulnerability. The lower indexation benchmarking and resetting of deeming rates will result in a lack of income security for vulnerable older Australians.

National Seniors calls for the Committee to:

- scrutinise the overall impacts that both the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 1) Bill 2014* and the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 2) Bill 2014* will have on the lives of older Australians.
- recommend that the legislative changes to the age pension, proposed within the Bills to take place from 2017, be suspended until after the next Federal election in 2016.

⁷ The Melbourne Institute of Applied Economic and Social Research. 2013. Poverty lines: Australia