Federal Budget Priorities 2021-22:

Fixing aged care and the retirement income system

January 2021

National Seniors AUSTRALIA

0120213788PAR

Key recommendations

PRIORITY AREA 1: AGED CARE

1. **Strengthen home care**
2. **Create a dedicated Home Care Loans Scheme**
3. **Foster multi-partisan support for additional aged care funding**

PRIORITY AREA 2: RETIREMENT INCOME SYSTEM

4. **Fix pension poverty for seniors who rent**
5. **Restore trust in pension means testing**
6. **Investigate the costs and benefits of a universal pension**

PRIORITY AREA 3: LEGACY FOR OLDER AUSTRALIANS

7. **Help older Australians invest in the future**

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Executive Summary

The 2021-22 Budget comes at a critical time. The aged care crisis combined with the pandemic and related economic uncertainty pose extraordinary challenges for Australia.

These challenges also present us with an opportunity to set a new course for current and future generations.

At its core, the budget must transform the despair left in the wake of the Aged Care Royal Commission into hope.

This budget must 'restore faith' in the aged care system. One of the first and most important steps is to give people what they want – an end to the rationing of home care, especially at the higher level of need.

This will require more adequately trained workers and could be achieved by introducing a training program, targeted at mature age jobseekers.

To help people get additional support we propose a new scheme to enable older Australians to safely unlock their home equity to help more people stay in their homes and out of residential care.

Another area needing urgent reform is the retirement income system. It must support all older Australians to maintain a decent standard of living in retirement.

The recent Retirement Income Review highlighted the need to help those less fortunate, by improving assistance to renters.

We also need a simpler, fairer system. One that rewards people who save and one that gives them the confidence to spend in retirement. To achieve this, we need to reform the tax and transfer system.

Lastly, the federal government should give older Australians a means to invest in sustainability. This can be done by a safe investment option to tackle the challenges posed by climate change.

The recommendations in this submission provide the federal government with policy options to fix some of the biggest challenges facing older Australians. We hope these recommendations will be taken up – to build a better future for all.

Ian Henschke
Chief Advocate

PRIORITY AREA 1: AGED CARE

Reform of aged care is imminent and inevitable.

When the findings of the final report of the Royal Commission into Aged Care Quality and Safety are handed down, government must move swiftly to put the recommendations into action.

The first step is the 2021 Budget.

Older people prefer to stay at home, ideally with a mixture of informal (family) and formal (paid) support[1]. Recognising this preference should be a priority action in the budget.

It's not just about increasing the number of home care packages. We need to reinvent the system to give older people high quality, value for money, care in their own home. From redesigning the pathways to accessing care, to transforming the funding for home-based care, there is a need to make sure the system works for the people who need it.

We recognise reforming aged care will come at a cost.

The rationing of aged care must end. This will require political will and full parliamentary support.

It will also require government to make better use of existing mechanisms to allow older people to unlock the equity in their family home to help them remain at home.

There are three critical ways the 2021 Federal Budget can start to fix aged care:

1. **Strengthen home care.**
2. **Create a dedicated Home Care Loans Scheme**
3. **Foster multi-partisan support for additional aged care funding**

1. Strengthen home care

The first, most important step in reforming aged care is to fund additional home care packages.

RECOMMENDATIONS

As a priority action, the 2021-22 Budget should immediately:

- Fund the number of Level 3 and 4 home care packages required to meet current and future demand
- Increase the maximum level of funding for home care so it equals that available in residential care
- Roll out a traineeship program to rapidly train the additional workers required to meet increased demand for home care.

Australians want to age in their own home but can't do it without adequate support. The rationing of home care means supply continues to outstrip demand by almost 100,000.

99,268 **Older Australians waiting for home care** *(As at 30 June 2020[2])*

Unacceptable waiting times have been highlighted and heavily criticised by the Aged Care Royal Commission.

This failure is concerning given the system is characterised as providing older Australians with choice and control. Addressing the shortfall in higher level packages is a critical step in fixing aged care.

Similarly, National Seniors strongly supports the recommendation made by Counsel Assisting the Royal Commission (in their final submission) to increase the maximum rate for home care packages. Increasing home care package value to match the amounts provided in a residential care setting is a common sense change, which will ensure that people get the right level of care at home.

A third key action required is to initiate a traineeship program to rapidly train new workers to meet increased demand. The federal government should redirect funding from existing mature age employment programs, such as the Restart wage subsidy, to train new workers in the home care setting. This could be done by rolling out an existing South Australian program, which has been successfully identifying and skilling new workers by offering traineeships with an existing provider[3].

The $132,000 Skilling South Australia project creates 15 new traineeships (a similar cost to the existing $10,000 Restart wage subsidy). Under the program a provider works with Registered Training Organisations (RTOs) to screen and identify suitable candidates who are then provided with a traineeship including a Certificate III in Individual Support.

Restart funding could also be redirected to provide training and financial assistance to informal carers who are supporting older people at home.

These three changes will improve the quality of life for people needing care and stop more older people being forced into residential care. These changes can happen while the federal government transforms the system based on the recommendations of the Royal Commission.

Increased spending on home care packages was a key recommendation of the Royal Commission interim report (Neglect)[4] and most importantly is what people want.

2. Create A Dedicated Home Care Loans Scheme

Many older Australians are willing to pay for additional support to help them to remain in their own home.

Even so, many retirees are asset rich and cash poor so are not able to do this.

A simple way to pay for additional support is through the existing Pension Loans Scheme (PLS). The PLS allows any retiree above pension age to use the equity in their home to draw up to 150% of the maximum Age Pension per fortnight in additional income. And it is open to ALL people of pension age – not just pensioners – as the name of the scheme confusingly implies.

Unfortunately, while the PLS is a good idea, it has been poorly promoted and has an unattractive interest rate. It is currently 4.5%. This rate is especially off putting, given record low interest rates.

RECOMMENDATION

The 2021 Budget should create a dedicated Home Care Loans Scheme with a low interest rate (cost recovery) to enable older Australians to safely unlock their home equity and help them stay in their home for as long as possible.

National Seniors is not proposing home equity be used to contribute to the cost of a home care package. This should be met by government.

Counsel Assisting the Aged Care Royal Commission recommended in their final submission that individuals ***should not*** be required to contribute to the costs of any care services when receiving care at home, but ***should*** be required to make ***nominal*** co-payments for any domestic assistance services, social supports, assistive technologies, home modifications, and for ordinary living costs in respite as part of home care.

Most fair-minded people recognise it is acceptable to require individuals to contribute to the cost of maintaining their home, paying for help with domestic chores, purchasing technologies, home modifications and living costs in respite *provided they have the means to do so*.

Income from equity could also be used to pay for additional support or care, *over and above the basic amount funded by the federal government*. This would give older Australians access to a better quality of life and increase the chances they won't end up in residential care.

A cost recovery interest rate would make the scheme attractive, allowing more and more older people to feel comfortable funding additional care and support.

By targeting the scheme at those eligible for home care services, this would dramatically increase the age people would first access a loan, reducing loan length and risk.

There would also be additional benefits to the economy from supporting home equity release as it would stimulate spending and increase employment opportunities.

This relaunched scheme could transform and improve the lives of the vast majority of older Australians. (**NOTE:** Around 80% of 80 year olds own their own home.)

PENSION LOANS SCHEME EXAMPLE

Pensioners – Alison and Bob

Alison and Bob Mayer* are 87 and 84 respectively. They are on a full Age Pension. They own their home outright. It's an older home on a large block and has been recently valued at $780,000. Their combined Age Pension is currently $1,423.60 per fortnight ($37,014 per year).

Alison has dementia and receives a Level 4 package with a dementia supplement. Bob provides Alison's care needs with the support of 11 hours per week from a provider.

Her needs have increased significantly, and Bob is exhausted. His children suggest it is time to look at residential care, but Bob wants them both to remain at home for as long as possible.

Bob decides to use the Pension Loans Scheme to draw down $16,000 per annum ($615.38 per fortnight) to cover the additional costs of private care by topping up their government funded care package. The arrangement provides more personal care hours than in an aged care home (4 hours per day compared to an average of slightly more than 3 hours a day in a residential care home).

Over 5 years, Bob and Alison would build up a loan of $94,765 ($84,101 in income plus compound interest of $10,664).

While Bob and his children are happy to use equity to give Alison the best possible care at home, they are concerned about the high interest rate.

There is a real risk this might undermine Bob's resolve and result in Alison being placed in residential care much sooner than she needs. Ultimately, this will cost the government more in the long term and undermine the quality of life for Bob and Alison.

Under a dedicated Home Care Loans Scheme with a cost recovery interest rate, Bob would be much more likely to use the equity in his home to help fund additional care and support.

**Not their real names.*

3. Foster multi-partisan support for additional aged care funding

Reforming aged care requires significant new investment.

The federal government will have to either raise new revenue or redirect funds from other spending areas. This will require difficult choices.

Multi-partisan support is needed to secure appropriate levels of aged care funding.

RECOMMENDATION

The Federal Government should use the 2021 Budget to signal its intention to negotiate multi-partisan support for the budget changes required to pay for aged care reform.

If the Royal Commission puts forward a proposed funding model, parliament should seek multi-partisan support for its adoption.

If the Royal Commission does not recommend a funding model, the federal government should form an expert panel to put forward the best option to fund aged care. The expert panel process should include full cost benefit analysis and involve consultation with relevant community representatives to arrive at an agreed recommendation.

All options should be modeled by the Parliamentary Budget Office (PBO). Options for consideration include: a new aged care levy; an increase to the Medicare Levy or GST; reducing superannuation concessions for higher earners; or increased tax on superannuation etc. It could include a combination of changes if this was the most efficient and cost-effective approach.

The panel should present its plan to the parliament and the parliament should work together to adopt this in the spirit of multi-partisanship. If required, the funding proposal could be put to the people as a plebiscite at a future election.

A multi-partisan approach to funding aged care is essential to ensure it does not become a political football at the next election. There are too many lives at stake and they are our most vulnerable.

PRIORITY AREA 2: RETIREMENT INCOME SYSTEM

Older Australians want a fair and a simple retirement income system.

For all retirees, there is a belief that a minimum safety net be provided for those who cannot provide for themselves. Yet, for some, the system does not provide that security.

There is also an expectation the retirement income system works in concert with the tax and transfer system to encourage workers to accumulate savings to help fund their health and wellbeing.

According to Dr David Knox *"What we actually want people to do is to save, and when they save, they get the benefits of that saving."*[5]

But, it's not that simple. The system is 'complex', 'full of inefficiencies' and it drives 'perverse' outcomes[6]. Much of this can be traced back to the clumsy, complicated means testing arrangements applied to the pension.

For retirees, it matters deeply how means testing operates.

Taper rates, deeming rates and asset revaluation processes are not arbitrary. They materially impact retiree's day-to-day income and more importantly, signal to retirees whether the system is fair. Based on the feedback National Seniors regularly receives, we would argue many see 'the system' as unfair.

After a life of working and contributing, means testing adds another layer of complexity that frustrates and obfuscates the workings of the system.

The Retirement Income Review report demonstrated how complex and confusing it is. Yet at 648 pages, it still failed to adequately acknowledge the interconnections with the wider tax and transfer system, including health and aged care. For example, most Australians don't think about retirement income in isolation from what happened throughout their working lives, or without consideration of the inevitable costs of ageing.

The failure of subsequent governments to provide adequate aged care is one clear example of the factors influencing thinking about retirement income. Older Australians often hold onto their savings out of fear, including fear of not having enough to pay for adequate care in later life. Yet, government continues to call on retirees to spend down their savings.

If the federal government wants people to feel confident to save for and spend in retirement, they must find ways to simplify and make fairer the retirement income system for all.

There are three ways the 2021 Federal Budget can reform the retirement income system:

1. **Fix pension poverty for seniors who rent.**
2. **Restore trust in pension means testing.**
3. **Investigate the costs and benefits of a universal pension**

4. Fix pension poverty for seniors who rent

As a safety net, the Age Pension provides an important means to address poverty in retirement. Yet for many, it is not adequate.

1 in 4 **Older Australians lives in poverty**[7]

As the Retirement Income Review report noted, there are two groups who are most likely to experience poverty in retirement: those who rent and those forced to retire early due to ill health or disability[8].

While most older Australians own their own home, 25% do not[9]. Worryingly, this figure is projected to rise steadily in the future in the face of rising home prices.

These people likely had broken employment histories, worked low-paid jobs and subsequently would not have adequately benefited from compulsory superannuation. They would also not have been able to use generous tax breaks to make voluntary contributions to bolster their savings. As such, they will be heavily dependent on the Age Pension and other government support.

Older women — those aged 55 and over — were the fastest growing cohort of homeless Australians between 2011 and 2016, increasing by 31%.[10]

RECOMMENDATIONS

As a priority, the 2021-22 Budget should:

- Increase the maximum rate of the Commonwealth Rent Assistance (CRA) for older renters
- Provide a capital grants fund for retirement housing projects offering simple rental agreements, longer term lease options and accessible design

Increasing CRA is a simple, effective way to address the housing problem facing older renters. It will help older people maintain their housing, ensuring stability in the rental market.

Evidence shows housing costs differ greatly across Australia. For example, the average cost of renting in Sydney in the week ending 22 December 2020 was $637.70 per week compared to only $420.9 per week in Adelaide[11].

An increase in the maximum rate of CRA of an average of $10 per week to all pensioners currently receiving CRA would cost around $154m per year[12]. Ideally, any increase could be targeted at full pensioners to reduce the overall cost further.

Ultimately, the maximum rate of CRA should be set by an Independent Pension Tribunal so renters receive enough income to meet reasonable living costs, no matter where they live.

A capital grants fund to build community focused retirement housing will stimulate construction of senior friendly rental options. This should only be available to projects offering a simple rental agreement, preferably with longer lease options and incorporating accessible housing design.

While there are many retirement villages available, very few operate on a simple rental agreement and require up front capital and charge complicated and costly exit fees.

An example of a simple rental style development is the Warner Close retirement village located in Murray Bridge[13]. Unlike regular retirement villages it offers a simple rental agreement with the option of integrated care and support using services available through the aged care system.

5. Restore trust in pension means testing

There is a lack of trust in means testing arrangements among retirees.

Feedback received from older Australians indicates a persistent view that government has and will change the rules simply to reduce costs to government, not improve outcomes for retirees. There are many examples of this.

2014-15

The 2014-15 Budget proposed:

- changes to pension indexation arrangements **(to save $449m over five years)**
- freezing means test limits and thresholds **(to save $1.5b over four years)**
- lowering deeming rate thresholds **(to save $32.7m in 2017 but more beyond this)**[14]
- removing Energy Supplement indexation **(to save $479.1m over five years)**, which commenced from November 2014; and
- removing the Seniors Supplement for Commonwealth Seniors Health Card holders **(to save $999.4m over four years)**[15]

2015-16

The 2015-16 Budget proposed:

- replacing the pension changes from 2014-15 with a new proposal to increase in the Assets Test Taper Rate **(to save $2.4b over five years)**, which commenced from 1 January 2017[16].

2016-17

The 2016-17 Budget proposed:

- removing the Energy Supplement for income support recipients including Age Pension recipients and Commonwealth Seniors Health Card holders **(to save $1.3b over four years)**[17]; while the changes eventually commenced in September 2016, Age Pension recipients were excluded from the change;

The 2016-17 Mid-Year Economic and Fiscal Outlook (MYEFO) proposed:

- removing the Pension Supplement for overseas travellers after 6 weeks **(to save $123.6m over four years)**, this change has not yet been legislated[18].

2017-18

The 2017-18 Budget proposed:

- tightening residency requirements for the Age Pension **(to save $119.1m over five years)**, this change has not yet been legislated[19];

Each of these proposed and enacted changes undermine retirees' confidence in the pension system.

RECOMMENDATIONS

The 2021-22 Budget should restore trust in means testing by:

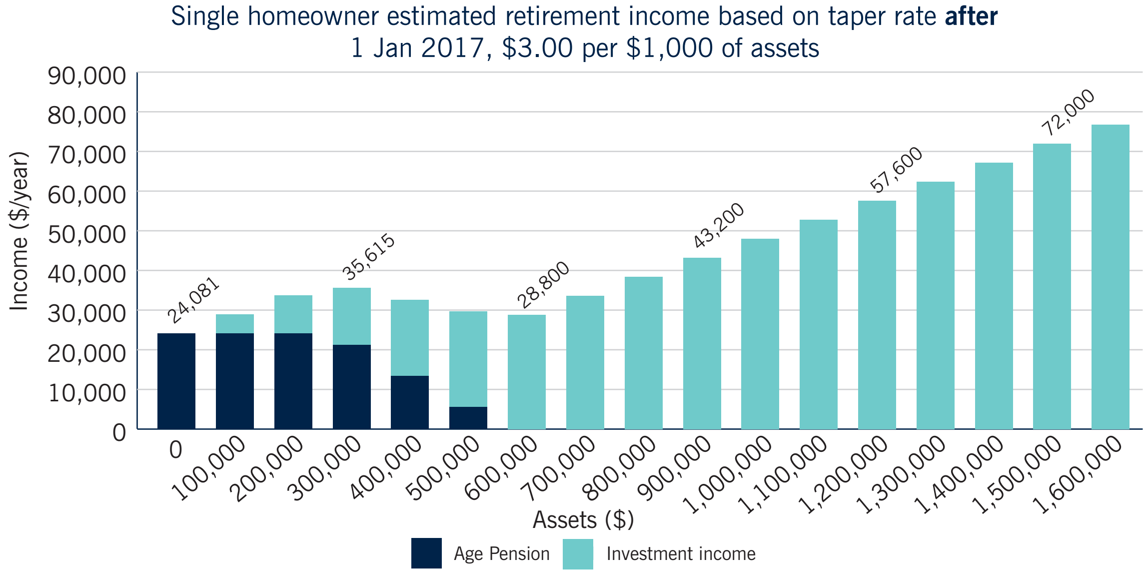
- Lowering the asset test taper rate
- Setting a clear and transparent formula for deeming rate calculations
- Increasing the upper threshold for deeming rates
- Providing automatic revaluation of investments

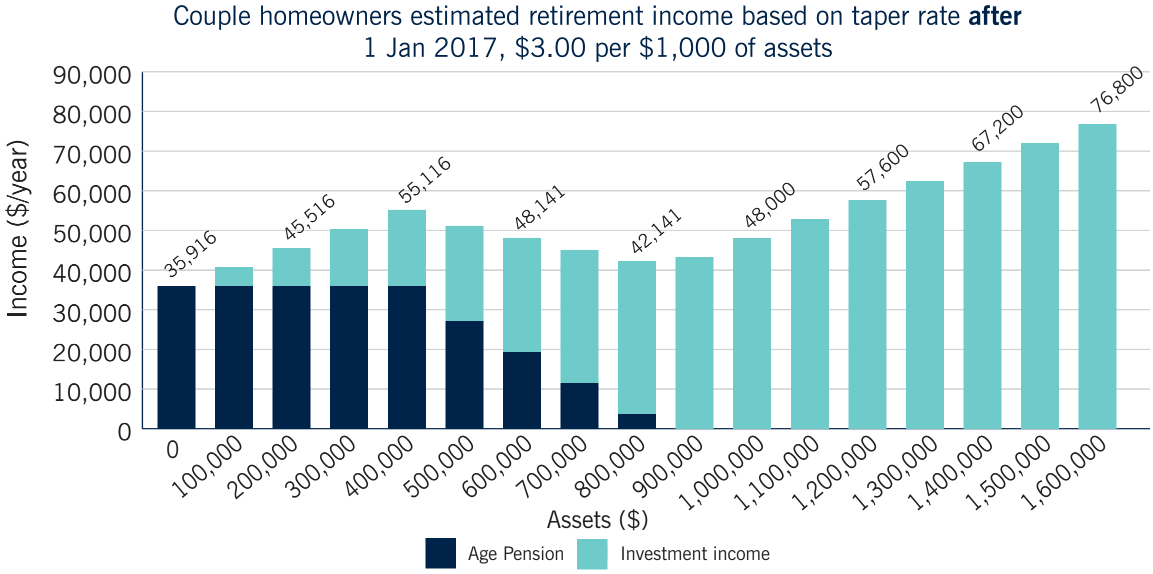
Assets test taper rate

The change to the assets test taper rate in 2017 was particularly harsh and viewed by many retirees as manifestly unfair. The measure affected those who had done the right thing and saved for their retirement.

Around 100,000 retirees lost their part-pension. More importantly, the change to the taper rate meant part-pensioners and low-income self-funded retirees found themselves with incomes lower than those who saved less, as a result of the harsher taper rate (see Figure 1 and 2).

Figure 1 & 2: Impact of current assets test taper rate on income of single and couple homeowners





While the report produced by the Retirement Income Review panel analysed the impact of rectifying this inequity by lowering the taper rate from $3.00 to $2.25 it did not address the issue of the equitable treatment of retirees with differing asset levels.

Instead it fixated on the costs to government and whether the settings provided benefits to retirees above income replacement rates.

However, the key argument for lowering the rate, which was raised in many submissions to the Review, was to remove the distorted treatment of retiree's assets. This issue was not addressed in the final report. Arguments about the fiscal cost of lowering the taper rate only serve to reinforce the view that government is more concerned about fiscal sustainability and not equity.

The distortion in the taper rate creates perverse incentives which encourage retirees to draw down on their savings or overinvest in their home just to gain eligibility for the pension and more pension income.

This sentiment has been shared with us by many retirees.

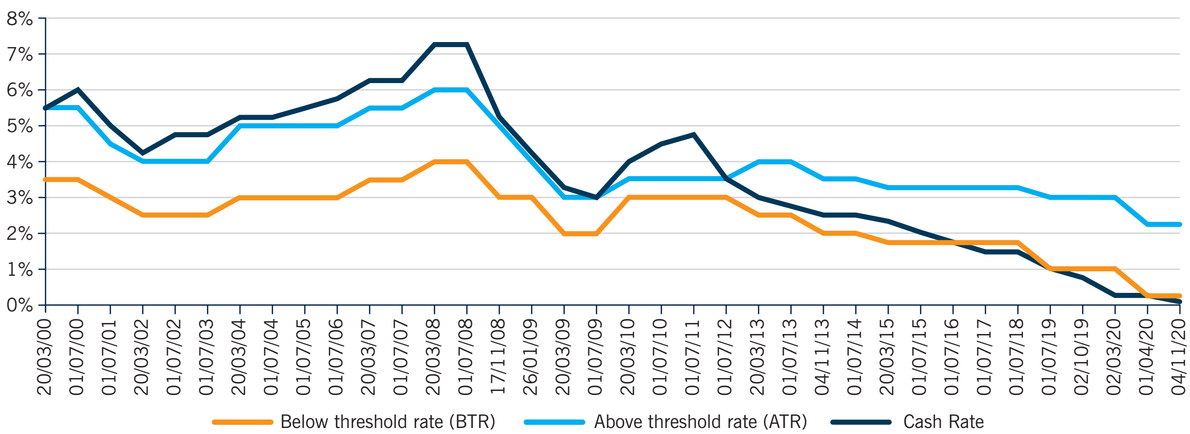
> ***"In 2017, my husband and I lost our part pension completely for nine months due to changes to the asset[s] test. This resulted in a one-third reduction in our income and we had to spend much more of our savings to live. We then re-applied and received a very small amount, representing the lowest level of the pension supplement. Our part pension has gradually increased as our assets have diminished, but with our assets 18% less than before the change we are now only receiving the same amount of part pension that we were receiving prior to 2017. We are now spending our assets more rapidly and, with unprecedented low interest rates on our savings and terms deposits, our income has diminished considerably. We are in the situation of having to spend more of our assets to ensure a higher income from the pension, but this money is then gone forever. We had saved and planned our finances so that we would not be left in the situation of having to live solely and frugally on the full pension. But we now fear that we will soon be completely reliant on the full age pension and no longer able to afford private health insurance or dental care. This will cost the Government more in the long term."***[20]

Lowering the taper rate would signal to retirees that government respects those who save by treating them fairly.

Deeming rates

Government has undermined confidence among retirees by failing to reduce deeming rates over the past decade. When official interest rates have been lowered and the federal government has called on banks to reduce interest rates, older Australians have viewed the lack of action on deeming rates as hypocritical. They view this inaction as a means to balance the budget at the expense of retirees.

Figure 3: Deeming rates versus RBA cash rate, 2000 to 2020



While the federal government periodically reduced deeming rates, there remains a view among retirees that these changes have only come after pressure and therefore there is no rational or logical basis for determining deeming rates.

Older Australians would welcome further reductions in deeming rates to reflect changes in the cash rate and investment returns, however a more formal and transparent process for setting rates would go some way to restore confidence among retirees.

There are two specific ways this could be achieved:

1. The first is to legislate to establish a consistent methodology for the setting of deeming rates that reflects community expectations. In doing so, government must clearly communicate this process so there is no confusion about how the rates are set.
2. The second change is to increase the threshold for the upper deeming rate to ensure it reflects an adequate amount of capital required to provide retirees with liquidity.

National Seniors and many others believe the threshold of the upper deeming rate should be increased so those holding funds in savings accounts which attract low returns, can do so without penalty. This would provide them with adequate cash reserves to ride out market disturbances (such as the GFC and the recent Covid Crisis) or to meet intermittent costs which occur as a result of ageing (e.g. to fund large out-of-pocket health costs).

Automatic revaluation of investments

Centrelink automatically re-values market-linked managed investments, shares and securities twice a year to account for any changes in assets and income. This happens on 20 March and 20 September.

When Centrelink conducts a review, it bases its revaluation on information it receives at different times of the month, depending on the investment. Market-linked managed investment unit prices are collected at the end of month. Listed shares are collected fortnightly.

The automatic review that took place on the 20 March 2020 would have used market linked managed investment unit prices at the end of February. This was at the peak of the stock boom. It means the calculation of a retiree's pension would not reflect the present market reality. As for listed shares, if Centrelink receives these figures fortnightly the difference is likely to be less significant, although still not accurate given the large falls in the market during March.

> ***"This year they have revalued them [investments] in February, the share market has dropped approximately a further 30% up to 20 March thus robbing pensioners of their correct payment."***

National Seniors Supporter

While pension recipients have the right to request a manual revaluation of their investments it is not practical for all pensioners to do this when markets fall dramatically. Not only does this create an undue burden on individuals and Centrelink, there is also the risk many do not know or are given misleading information from Centrelink about their right to have their assets revalued manually.

> ***"I am very upset at Centrelink for deeming our Commonwealth Bank Shares at $81.78 each from 20th March 2020. With the market crash due to Coronavirus they have been hovering between $58 and $61 each making a difference of around $100.00 per fortnight to my pension. I have contacted Centrelink requesting a revaluation but was told this will not be done until 20th September 2020[21]. We age pensioners are suffering enough being in isolation without having any additional worries like this."***
>
> **National Seniors Supporter**

National Seniors welcomed the federal government's revaluation of assets in June 2020, however this is not a permanent fix to an ongoing problem. The simplest solution is that government automatically revalue on a more regular basis, such as quarterly or even monthly.

Revaluing investments more often would:

- provide an immediate boost in income to retirees whose asset values have fallen
- reduce pension overpayments when markets rise, and
- reduce the administrative burden on Centrelink.

6. Investigate the costs and benefits of a universal pension

National Seniors would welcome moves to adjust the assets test taper rate, to have a more rational approach to deeming and to have more regular revaluation of investments as a way of making means testing fairer. However, there is a much bolder option, which would remedy the complexities of the current system.

The federal government should look to other countries for ideas on how to improve the retirement income system to make it simpler and fairer[22]. For example, many of the countries with highly regarded pension systems offer a universal pension (see Table 1).

RECOMMENDATION

The Federal Government should use the 2021-22 Budget to announce an independent task force to investigate the costs and benefits of implementing a universal pension and appropriate tax reforms to simplify our pension system.

A universal pension means retirees would:

- be rewarded for saving more
- have no incentive to overinvest in housing simply to gain the pension
- not be penalised for working in retirement
- not have to constantly deal with Centrelink or be concerned about reporting the value of their investments and income to meet means testing rules (creating savings for government by reducing costly social security bureaucracy), and
- have greater certainty.

Speaking about a universal pension, Dr David Knox has said,

> ***"If we gave them [retirees] more certainty and said here's an income, it's going to be payable for as long as you live … then in fact retirees have got less risk, and they'd probably go and spend a bit more. And that of course would be good for the economy"[23]***

A universal pension would require government to enact tax reform to pay for the cost of providing a pension to all. This would ensure everyone received the benefit of a year-to-year safety net to meet income shortfalls in times of crisis and in later life when capital and income was reduced without creating a burden on the budget. Tax reform would allow government to recoup the cost of a universal pension from retirees with higher incomes without impacting low and middle-income households.

This is how it is done in other countries.

In Canada, for example, the Old Age Security pension recovery tax[24], progressively recoups the cost of providing a basic pension from those on higher incomes. In New Zealand, all retirees pay tax on their pension and their private income, which enables the government to recoup much of the costs of providing a pension to all.

While there may be some resistance to changing the way income and superannuation is taxed in retirement, we believe most older Australians would see the overwhelming benefits of a universal pension.

Ultimately, government needs to have a conversation with all Australians to explain the costs and benefits of shifting to a universal pension. National Seniors would welcome being part of this discussion. We have already raised this matter with older Australians and overwhelmingly the response has been positive.

Table 1: Age Pension and other features of selected pension systems around the world, Source Mercer CFA Institute Global Pension Index 2020[25]

Pension System	MMGPI 2020 Rank	MMGPI 2020 grade	Pillar 1		Pillar 2	Pillar 3
			Universal age pension	Income Supplement	Compulsory superannuation	Voluntary savings
The Netherlands	1	A	YES	No	Earnings-related occupational pension	
Denmark	2	A	YES	Means-tested pension supplementary benefit	A fully funded defined contribution scheme; Mandatory occupational schemes	
Israel	3	B	YES	Means-tested pension supplementary benefit	Employer and employee contributions	
Australia	4	B	Means-tested age pension (based on both assets and income)		Employer contribution	Voluntary contributions from employers, employees and self-employed
Finland	5	B	Income-tested basic national and guarantee pension		Statutory earnings-related schemes	Voluntary Occupational and personal pensions
Canada	9	B	YES	Means-tested pension supplementary benefit	Earnings-related pension based on revalued lifetime earnings	Voluntary occupational schemes and individual retirement savings plans
New Zealand	10	B	YES	No		Voluntary private pensions KiwiSaver direct contribution retirement savings schemes
Germany	11	B	Means-tested safety net		Earnings related pay-as-you-go pension	Supplementary occupational pension plans
United Kingdom	15	C+	YES	Income-tested pension credit		Voluntary occupational and personal pensions
United States	18	C+	YES	Means-tested supplemental security income	Progressive social security benefits	Voluntary occupational and personal pensions

PRIORITY AREA 3: LEGACY FOR OLDER AUSTRALIANS

7. Help older Australians invest in the future

Many retirees are being forced to seek out riskier investment options at a time in life when worry about savings longevity is high[26]. The reduction in returns from traditionally safe investments, such as bonds and term deposits, combined with inflated deeming rates and the attractiveness of shares with franking credit refunds, has encouraged riskier investment strategies.

However, the collapse of markets during the COVID economic crisis (the second crisis in 12 years), highlights the need for retirees to have safe investment options offering liquidity. Retirees, more than ever, need low risk investments, which provide ready access to their savings.

At the same time, many older Australians accept climate change is occurring and want government action to protect the environment and the economy for future generations. Even before the 2019/20 horrific fires a member survey showed almost 60% wanting climate action even at a cost.

58.6% **of older Australians believe climate change is occurring and Australia should act to reduce emissions, even if it creates higher living costs for households[27]**

It is clear the transition to clean energy requires significant investment in renewable energy generation and storage infrastructure. This creates a unique opportunity to combine older Australian's need for safe investments with their desire to act on climate change.

Green infrastructure bond scheme

The federal government can help older Australians support climate change abatement and access safe investment options, by encouraging them to invest in renewable energy infrastructure projects.

A green infrastructure bond scheme could be established to allow older Australians' to invest in existing government institutions, such as the Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation (CEFC); and clean energy projects, such as Snowy Hydro 2.0.

The justification for such a scheme is salient.

Many older individuals are not able to invest directly in green infrastructure projects, despite the potential of these investments[28]. They can only buy shares in companies undertaking such projects. This is both complicated and risky. Not only does it require market nous to select suitable share options, but there are transaction costs involved in purchasing shares through a broker.

While retirees could purchase government bonds, there is no guarantee the money will be invested in green infrastructure projects. Further, brokers are required to buy government bonds. They would also find government bonds unattractive because shorter-term bonds offer limited returns.

RECOMMENDATION

The 2021 Budget should include a plan to develop a green infrastructure bond scheme.

Green infrastructure bonds should:

- be widely available for sale via Australia Post or through commercial banks
- be restricted to Australians of pension age and up to a maximum of $50,000 per person
- offer an annual return similar to government bonds but with their value exempt from the Age Pension assets test (as is already offered for funeral bonds and prepaid funerals[29]), and
- be able to be sold at any time.

This would provide older Australians with an attractive, simple and safe product to invest in securing our energy future, which protects the environment and economy for future generations.

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