



**independence
matters**

Association of
Independent Retirees

Association of Independent Retirees (A.I.R.)

Submission to Senate Select Committee on Cost of Living

May 2023

Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees is the national peak body representing current and future partly and fully self-funded retirees. AIR works to advance and protect the interests of Australians seeking independence in retirement. AIR seeks to secure recognition for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

Our members have a clear understanding of the need for ongoing management of the financial, health and longevity risks they face in retirement, but are concerned about economic and policy changes that affect their capacity to have an independent and fulfilling retirement.

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

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

For more information on this submission, please contact:

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Terms of Reference

The AIR response below has been presented in accordance with the Committee Terms of Reference which are to inquire into and report on:

- a. the cost of living pressures facing Australians;
- b. the Government's fiscal policy response to the cost of living;
- c. ways to ease cost of living pressures through the tax and transfer system;
- d. measures to ease the cost of living through the provision of Government services;
and
- e. any other related matter.

Methodology of gathering responses from AIR members

A national survey was conducted of AIR members from branches across most states and territories. Members/Branches were asked to comment on the terms of reference.

These survey responses were consolidated into a single document..

Terms of Reference A: The Cost of living pressures facing Australians

AIR recognises that the primary driver of cost of living pressures on fully and partly self-funded retirees is due to the recent steep increases in national and international inflation.

This national and international inflation increases have been attributed to imbalances between supply and demand, logistics issues, labour and raw material shortages and the war in Ukraine.

Summary of Retiree Cost of Living Pressures:

The costs of living pressures effecting retirees are highly weighted to the following key areas:

- food and household essentials
- energy (electricity and gas)
- fuel
- insurance (house and private health)
- health care
- home maintenance costs

The Size of Retiree Cost of Living increases:

All of these costs of living increases that have been identified by our members have increased significantly more than both the headline or core inflation rate.

Please note, that cost of living increases for retirees can often exceed that experienced by the general population due to the particular range of goods and services required by people in retirement.

Based on the survey results from members of the Association of Independent Retirees, percentage increases to example products and services are as follows:

- electricity costs up 18% per year
- health insurance up 11% per year
- food prices up 9.2% per year
- Healthcare costs such as surgery and dentistry have seen cost increases over recent years of 100% or more.

Retiree Income Reductions

Self-funded retirees have also seen their investment income impacted by inflation due to lower company performance. This lower investment income has caused many retirees to drawdown more of their savings to make ends meet.

Impact of price increases on home maintenance

The growth in pay-as-you-go wages growth does not reflect the income growth of self-employed tradesmen and sub-contractors working in building and construction industry. These self-employed contractors are reported to represent about 10% of the workforce in Australia.

The charge-out rates of these sub-contractors have risen well in excess of CPI and reflects a large proportion for the cost of labour. These increases in sub-contractor fees are increasing inflation in the building and construction industry. This in turn has pushed up home building and maintenance prices. This has been reflected in vehicle sales with the highest selling vehicles in Australia being tradesmen's utility vehicles.

Terms of Reference B: The Government's fiscal policy response to the cost of living

Approach to Government Policy Response

The Association of Independent Retirees (A.I.R.) recommends that the Government's fiscal policy response to cost of living assistance should be carefully targeted so that it does not further increase inflation.

It is not the first occasion an inflation spike has occurred, so this Senate Inquiry needs to investigate how past inflation spikes were addressed and learn from past successes and failures.

The control of inflation has been almost entirely reliant on monetary policy (ie. interest rates) until now, and largely left to the Reserve Bank (RBA).

This is not a time to make radical changes in fiscal or monetary policy.

Government short term handouts will likely generate higher demand in the economy and feed inflation.

A falling exchange rate will add to inflation. Restricting supply of goods and services will drive higher inflation.

There is more that can be done to curb inflation at a whole of Government level.

Government Policy impact on Cost of Living increases

Many of our members believe that some of the price/cost increases have been exacerbated by Government policy.

They believe that electricity and gas prices (for example) have increased due to supply constraints and long term investment concerns in those areas.

In particular, the government's discontinuation of the reduced fuel excise levy has led to higher inflation across a number of product and service sectors.

While wage earners have achieved some CPI adjustments to their pay due to staff shortages, self-funded retirees do not get automatic CPI increases to their retirement incomes.

Many retirees believe that Government's policy responses has in part added 'fuel to the inflation fire' and driven higher demand in the economy. This includes increased child care subsidies and increased wages for a whole range of lower paid workers (some by double digit amounts).

Further suggestions by our members on Possible Govt Responses

Suggestion – Return to Capital Gains Tax based on Indexation

Return the Capital Gains Tax system to indexation with CPI adjustment of capital gains to determine the net taxable amount. This was the original 1985 legislation and, as agreed by both sides of politics, provides the most equitable system.

The current 50% so-called ‘discount’ favours quicker turnover of investments and can penalise long term investors. The use of the word ‘discount’ in media commentary is very misleading and was always intended to be an ‘adjustment for inflation’.

Suggestion: Reinstatement of the reduced petrol excise. This would reduce transport costs, which flow on to all aspects of the economy and would put downward pressure on inflation.

Suggestion: The Legislated “Stage 3” Tax Cuts tax cuts to take effect from July 1 2024 could be deferred and/or modified to reduce the probable higher demand response into the economy.

Suggestion: Government should focus on improving supply chains and reducing supply bottlenecks including providing incentives for new manufacturing in Australia. Supply chain capacity or duration are a major factor in inflation and with the pandemic has been a trigger for inflation.

Suggestion: Government should consider implementing a temporary excise tax increase on luxury goods and remove some of the anomalies that provide GST exemptions for non-essential items. Note that health services should remain GST free. Products impacting Government health costs such as cigarettes, vaping, alcohol and betting agencies should be paying more tax.

Suggestion: Increase audits of NDIS providers to identify unnecessary spending and thereby lower inflation.

Suggestion: Expenditure savings need to focus on recurrent expenditure so that we can still engage in prudent capital expenditure to enhance national resilience in areas such as renewable energy and transport infrastructure as well as national security.

Suggestion to Address Shortage of Rental Accommodation:

The Government should allow a home-owner to rent a room and declare the income without risking losing the tax-free status of their home.

Rationale: Rent inflation is being triggered by a shortage of supply. Many home owners including retirees are trying to make ends meet with rising costs and are considering renting a room in their family home. However, there is concerns among retirees that if home-owners do this, it could affect the capital gains tax free status of their family home.

Multi-National Tax Avoidance – despite considerable legislation both within Australia and in consultation with other countries there is still a lot more work to be done to reduce multi-national tax avoidance. **AIR strongly supports Government efforts in this area.**

Terms of Reference C: Ways to ease cost of living pressures through the tax and transfer system.

AIR recognises that the Australian's welfare system is one of the best in the world and that through means testing and other measures the welfare is generally paid to those most in need.

However, AIR members believe that more could be done to assist those retirees whose assets/income falls just over the threshold for the part aged pension and are being impacted more heavily by cost of living pressures and require assistance.

Suggestion: That the Government improves the Seniors and Pensioners Tax Offset (SAPTO) to assist in providing more support to people with income from retirement savings outside superannuation. The SAPTO threshold amount should be increased immediately by 10% and then annually by the CPI.

Suggestion: That the Federal Government expand access to the part aged pension by increasing the asset/income means test levels by 10%.

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

Suggestion: The PBS Safety Net threshold for single retirees should be adjusted to 66% of that of couples or families.

Suggestion: Further expand access to the CSHC (Commonwealth Seniors Health Card). All retirees over 80 to be eligible for the CSHC i.e. no adjusted income test for over 80's. In addition, the CSHC should be expanded to include financial assistance with home care and dental care.

Suggestion: The Gifting Rules (or Deprivation provisions) have not been adjusted since they were introduced in 2002. They should be updated immediately and then adjusted for inflation/CPI on a regular basis as occurs with the Pension assets test. This, for example, could allow retirees to assist their adult children experiencing mortgage payment stress.

Suggestion: Increase the Medicare rebate to doctors so that the patient contribution (gap payment) is in the order of 10 to 20% not 50%.

Suggestion: Permanent doubling of the aged pension work bonus. This would allow pensioners and part pensioners to earn more wages income to cover additional costs due to inflation.

Retain Higher Solar Feed-in Tariffs:

A very large number of self-funded retirees have invested heavily in installing Solar Panels in order to reduce the cost of rapidly rising electricity bills. However, the Feed-in Tariff is being gradually reduced & currently is as low as \$0.05 cents per kWh with some retailers.

Maintaining a higher feed-in tariff would offset the higher cost of electricity bills.

Terms of Reference D: Measures to ease the cost of living through the provision of Government services

Retirees are currently experiencing above rate of inflation increases in the **costs of essential health and aged care services**. This includes residential care, home care, GPs and Specialists and dental care.

Increase assistance measures to part pensioners - the aged pension is adjusted for CPI but currently does not reflect the actual increases in expenses such as electricity and rent. The rental assistance and energy assistance components of the aged pension should be increased at the actual increases rather than CPI.

Make Government Services Usable:

Government services should not only exist - they need to be usable.

AIR members consistently report poor 'customer' service from Centrelink and other Federal government agencies. Getting information from Centrelink about what benefits are available is a major challenge.

This is particularly relevant to those retirees who are not fully computer literate. Clients of Centrelink are almost forced to try and navigate the system online. The alternative is to wait for hours on the phone. Not everyone has access to a computer with internet connection.

In short, the focus should be to help those in need; instead it seems to be assumed everyone is out to defraud the system until they manage to prove otherwise.

Make Healthcare more accessible in outer suburbs and regions

Make government health services more accessible by making them more widely available in outer areas and regional areas to reduce transport costs and other travel costs.

The Australian Federal Government should insist that all people entitled to a **British Pension should be paid at the current British Pension rate**; i.e. that their British pensions are not frozen. It would save Australia money and give the British retirees justice.

Terms of Reference E. Any other related matter

Government Infrastructure/Defence Bonds - the Federal Government should issue an Infrastructure Bond paying guaranteed quarterly interest at CPI (or BBSW) plus 1 or 2%. This money to be then used to fund infrastructure such as roads, rail, urban expansion, defence etc. These bonds would be ideal for retirees seeking to invest and fund their retirement and would be a relatively cheap form of Government funding.

Banks slow to pass on rate rises on deposits - the banks are far too slow to increase interest rates on savings accounts and term deposits after an RBA interest rate rise. Retirees are switching to managed funds from term deposits because bank interest rates are so low at greater risk to loss of capital.

Support measures to boost housing supply, i.e., through the development of more sensible policy settings around urban planning through the development of a set of binding principles where states, territories and local councils develop and implement planning policies which stimulate residential construction and better align urban density to workplaces and transport networks.

Strengthen policing of money laundering. Most criminals are avoiding tax and supporting other criminal activity such as drug dealing, break-ins and other robberies. All of this criminal activity adds to the overall cost of living for the general population.

Review Nuclear Power – small scale base load nuclear power stations are becoming more economically feasible for Australia.

Consumer discounts - Government to encourage major supermarkets to provide discounts/specials to pensioners & senior concession card holders on specific categories of basic goods.

Review gambling advertising – there is a very high rate of TV advertising for gambling - often during prime-time news and sports. This advertising is enticing people to spend more on gambling and less on essentials. It is adding to cost of living pressures for families.

Local Government – Council rate rises are supposedly controlled but are often being increased beyond the rate of CPI due to specific local cost issues. These increases feed into the cost of living for residents. Over many years local Councils have been expanding their ambit from basic services. There needs to be a review of the role of local government and where it should spend rate payers' money.

End of AIR Submission