# SUBMISSION TO THE INQUIRY INTO THE SOCIAL SERVICES LEGISLATION AMENDMENT (FAIR AND SUSTAINABLE PENSIONS) BILL 2015

**Prepared by:**

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## INTRODUCTION

COTA Australia is the national policy organisation of the eight State and Territory Councils on the Ageing (COTA) in NSW, Queensland, Tasmania, South Australia, Victoria, Western Australia, ACT and the Northern Territory.

COTA Australia's focus on national policy issues is from the perspective of older people as citizens and consumers and it seeks to promote, improve and protect the circumstances and wellbeing of older people in Australia. Our submissions incorporate the views of our members and broader constituencies developed through various consultation mechanisms.

COTA welcomes the opportunity to provide a brief submission to the Community Affairs Legislation Committee in its Inquiry into the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015. Given the very short time available to prepare a submission we would welcome the opportunity to elaborate in an appearance before the Committee.

We provide this submission within the overall caveat that COTA strongly holds the view that changes to parts of the retirement incomes system, such as those contained in this Bill, should only occur after a detailed review of the whole system and within an integrated approach to change. Without a clear vision of the desired overall outcome, and understanding of the interactions between all parts of the system, targeting individual components such as the pension assets test is likely to have unintended consequences and cannot ensure that we will achieve an adequate, fair and sustainable system.

COTA has lead the way over the past year in calling for a dedicated, independent Retirement Incomes Review that looks in an integrated way at taxation, transfer payments, superannuation, mature employment, later life housing, and financing aged care. We have over the year been joined in that call by a growing number of stakeholders including business peaks, superannuation peaks, community organisations, academics and policy think tanks. We firmly maintain that such a review is required to understand the complexity of the retirement incomes system and to find ways to strengthen its adequacy, fairness and sustainability into the future.

## 1. ASSETS TEST CHANGES

The proposal to change the asset test free area thresholds and double the pension withdrawal or "taper" rate per $1,000 above that replaces the 2014 Budget measures to change the pension indexation formula, reduce the deeming thresholds, and introduce freezes on assets test, income test and deeming thresholds.

COTA has heavily critiqued those measures which would have reduced the value of the pension in ways that would have had the greatest impact on those who could least afford it – full pensioners with no other sources of income and little or no assets – and would over time have severely reduced the value of the pension to well below the poverty line. We will not repeat our full critique here as we have given it in submissions and evidence to the Committee previously.

COTA welcomes the Government stepping away from the 2014 Budget proposals. COTA has worked closely with the Minister and the Department in advocating and discussing an alternate approach to pension reform if the government was intent on seeking changes to the pension. This proposal, whether one agrees or disagrees with it, is defensible and has a clear policy rationale.

COTA also welcomes the increase in the assets test free areas to $250,000 for single homeowners and $375,000 for couple homeowners, and an additional $200,000 for non-homeowners.

Based on data provided by the Minister and Department, this will result, even with the increased taper rate, in about 153,000 age pension recipients receiving an increased income (around 172,000 total pension recipients including Carer Payment). This is about 5.7% of age pension recipients (4% of all).

Over 2,232,000 age pensioners will not be affected by this proposal - which is about 83% of all age pension recipients (88% of all recipients).

The increase in the taper rate proposed in the Bill will have a negative impact on single homeowner age pension recipients with more than $289,500 in assets or couple homeowners with more than $451,500. The government estimates that about 215,000 people will receive a reduced level of age pension (8.0%) and almost 236,000 (6%) in all categories.

The cut-off point becomes $547,000 for single homeowners and $823,000 for couple homeowners and this is estimated to result in 86,000 age pensioners (3.2%) and over 91,000 all categories (2%) losing the part pension they currently receive.

COTA acknowledges that continued access to the Commonwealth Seniors Health Card or Health Care Card for those already in the pension system who lose eligibility is a very important aspect of the proposed changes.

The Minister has been explicit that the government expects that pensioners negatively affected will make up the lost income by drawing down from their assets, in a similar way to the requirement that an exempt allocated pension income stream product must involve a minimum annual draw down. The Department has calculated that the requisite drawdowns are fairly modest and do not at their highest exceed 2% pa of the current asset value.

This contrasts with the vast bulk of the feedback COTA has received from this group of people which focuses almost exclusively on the stream of income they are able to generate from their assets; and in most cases these are held in the form of term deposits earning 3% or less interest. The fact that so many are holding all or most of substantial assets in this form is of significant concern.

Pensioners negatively affected by the change who choose not to draw down their asset will be significantly affected, especially in the context of very low and possibly decreasing bank interest rates and returns on other low risk investments.

COTA believes that among a significant group of retirees there is a strong resistance to drawing down on the asset itself, reflecting a strong belief in the need to protect one's assets intact. While for some this is motivated by a desire to transfer wealth to the next generation, there is a complex blend of factors driving this principle and practice among many older Australians. These factors include that in our retirement income system longevity risk and investment risk fall largely on the individual (backed up by the age pension); a long-held set of values about careful management of resources over time; a desire to maintain a "back up" of financial resources independence from Government; a concern to have adequate resources available to fund health and aged care requirements into the future; a desire to not be a burden on children; and a lack of a range of safe and viable financial products in the retirement incomes market.

COTA accepts that there needs to be a broad shift in public understanding about the role of retirement savings in terms of their utilization in retirement. However, we again see this as pointing to the need for a Retirement Incomes Review that clarifies the purpose of our superannuation and pension systems; ensures that all policy settings are aligned with these; and identifies policy settings and measures that will enable people to actually have enhanced incomes in retirement without loss of security, and enable much more productive utilization of their total assets across retirement.

Moving a relatively small group of people off the public pension thereby forcing them to adopt a different financial management strategy without addressing broader underlying issues will not by itself result overall in a more sustainable Retirement Incomes System. There is a pressing need for an integrated, systemic understanding of and approach to retirement incomes, rather than piecemeal change.

COTA remains concerned that the Government is focusing its attention on reducing pension spending while not sufficiently addressing wider retirement income issues including the level and distribution of superannuation tax concessions, disproportionately benefiting already wealthy Australians.

COTA believes the Senate should only pass this measure if the government agrees to a Retirement Incomes Review that will examine the issues to which we refer.

## 2. SENIORS SUPPLEMENT

COTA agrees with ACOSS that the Seniors Supplement has been a poorly targeted payment. It is without clear policy rationale other than being an ex gratia payment to retirees who are not eligible for the age pension. It is paid to Commonwealth Seniors Health Card (CSHC) holders, for which eligibility was increased to $50,000 for singles and $80,000 for couples in 2001, which was then seen as very generous. However those income test limits were then not indexed until 2014/15 and are now not much greater than the cut-off point for the age pension incomes test. However until this year income from allocated pension superannuation streams was not counted as income for CSHC eligibility.

The Seniors Supplement itself commenced in 2009 and amalgamated the previous Seniors Concession Allowance and the Telephone Allowance. Its history provides a good example of the lack of appropriate alignment between the superannuation and pension systems.

The Seniors Supplement provides a good example of the susceptibility of the retirement income system to the shifting political agendas of governments. The initial provision of the precursors of the Seniors Supplement, and now its removal from the transfer system are good examples of a lack of clear purpose, long term direction and rigour in the retirement incomes system as a whole.

COTA recognises that those effected by the removal of the Seniors Supplement will generally be able to manage without it. However these sorts of changes bring instability, uncertainty and worry into the lives of many individual older Australians, and add further complexity and stress into the financial planning of many nearing retirement. Getting a stable, secure, adequate and sustainable retirement income system right for the longer term is very important

## 3. PROPORTIONAL PAYMENT OF PENSIONS OUTSIDE AUSTRALIA

COTA opposes the changes to age pension portability announced in the Budget, cutting from 26 weeks to 6 weeks the period an age pension recipient who has not lived in Australia for over 35 years can be overseas without having their pension reduced.

We support the position taken by the Federation of Ethnic Communities Councils of Australia (FECCA) which has pointed out that nearly 40% of Age Pension recipients were not born in Australia. While COTA is not aware of the proportion of these who will be affected by the 35 year rule we understand the proposed provisions will disadvantage significant numbers of people who were born overseas and maintain active ties with their places of birth. We note that the period of required residency has only just (July 2014) increased from 25 years to 35 years.

COTA notes that no policy rationale, other than Budget savings, has been advanced for this measure. In COTA's view it is not unreasonable that an age pensioner with close family overseas should spend an extended period of time with them. In many cases it is likely such a trip would have been planned and saved for over some time, and staying with family is cost effective for a pensioner.

It may be that the taxpayer community believes that 26 weeks is too long, but we are unaware of any such evidence. However we are confident that most people would regard six weeks as too short and somewhat punitive.

We recommend that the measure be withdrawn until the government has consulted on an appropriate and fair limit.

## 4. PENSIONER EDUCATION SUPPLEMENT AND EDUCATION ENTRY PAYMENT

COTA's concern with the abolition of the Pensioner Education Supplement and the Education Entry Payment is that older Australians in receipt of Newstart or Disability Support Pension will lose access to a small but important financial encouragement to retrain.

Older Australians (50+) face discrimination and other barriers to maintaining jobs and in regaining employment after losing a job. Some opportunities may be available to retrain or upskill through employment service providers, but these will not always be appropriate for mature age workers. The ability to make individual education and training choices aimed at securing and maintaining employment in later working years could make all the difference between self-reliance and the need for ongoing income support.

On these grounds, COTA does not support the abolition of these payments.

## 5. DEFINED BENEFIT INCOME STREAMS

The Government argues that the proposal to change the pension income test for those people on defined benefit superannuation income streams will increase fairness and equity by bringing the treatment of this group of retirees in line with the treatment of all others. COTA understands the special treatment of this group was an unintended consequence of the 2007 changes to superannuation (another example of the complex interconnections of the retirement incomes system).

COTA agrees with this change and considers the current treatment of defined benefit superannuation income to be an unsustainable and unfair anomaly.

However we have had concerns expressed about the impact of this change coming into effect on 1 January 2016. Some people affected have said that while they generally accept the rationale for the change, the transition to a in some cases significantly reduced income in one step in six months' time will create financial difficulties for them.

**15 June 2015**