Australian Council of Public Sector Retiree Organisations Inc. ABN74202015642

Peak Council representing Commonwealth, including military, State, Territory and other public sector retirees.

State Territory Retirees Commonwealth

Senate Committee on Community Affairs Legislation
Parliament House, Canberra

12/6/2015

Dear Sir/Madam,
Re: BUDGET CHANGES TO AGE PENSION INCOME AND ASSETS TESTS

ACPSRO is the peak council for eight organizations representing retired civilian and military public sector workers from the Commonwealth, State and Territory governments. The number of people represented by our grass roots organizations is in the region of 700,000. That includes retired public servants, retired teachers, retired police officers as well as retired military personnel. When their dependents are taken into account the people we are speaking for number over 1 million Australians, a significant population.

Government superannuation pensioners have welcomed the Federal Government's decision to abandon its attempt to introduce CPI indexation for the age pension. We are hoping that that they have realised that CPI indexation is not enough to maintain living standards; in fact ABS states that the CPI only measures inflation at constant quality, not street prices - which are assiduously discounted to determine CPI. Consequently, our older superannuants are subject to increasing reductions in their living standards and more and more need the supplementation of a part Age Pension.

However, we have some concerns about two new measures in the 2015-16 Federal Budget. These are the proposed 10% cap on the proportion of defined benefit income that can be excluded from the income test for the age pension, and the proposed increase in the assets test taper rate from $1.50 to $3 per $1,000 of assets. Although the other recent changes affecting age pension eligibility allowed for grandfathering, it appears that none is planned for either of these new measures.
We understand that 47,700 defined benefit recipients of part Age Pension will be adversely affected by this proposed Government measure. Most of these recipients will be retired government superannuants on the CSS, PSS and MSBS (Commonwealth schemes) as well as state government defined benefit superannuants. The number of our superannuants affected could be 30 – 40% of the group. The loss to recipients averaging $2150 affects even our very low income superannuants (less than $5000 income). The Government saves some $100m overall, but at a severe cost to many of our government retirees.

1. **The 10% cap**

Many Commonwealth members of ACPSRO belong to the CSS or PSS pension schemes. At retirement, a CSS pensioner must choose to take their own contributions as a lump sum, or use them to purchase a non-indexed pension. Most CSS pensioners have preferred to take the lump sum. Only those who have purchased the non-indexed pension would be affected by the proposed 10% limit.
However, PSS pensioners can purchase a CPI indexed pension with their lump sum, so many of them have chosen to do that, in which case their PSS pensions contain a tax free component which at present is not assessable income for the age pension. It appears that, after the 2007 changes in the treatment of superannuation and the loss of confidence in other investment options due to the 2008 global financial crisis, about a third of PSS retirees have chosen to purchase the additional tax-free CPI indexed pension, believing that it would never be included in the age pension income test.

If the 10% cap is not grandfathered, it will cause hardship to some PSS pensioners. If they had chosen instead to roll their lump sum over into an account-based pension, the treatment of that account-based pension for determining age pension eligibility would have been grandfathered when the recent changes to the treatment of account-based pensions were implemented. To be fair, the 10% cap should also be grandfathered.

Note: A CSS or PSS defined benefit pension consists of three components: a tax-free component, a taxable taxed component and a taxable untaxed component. The taxable untaxed component has been purchased using the employer contributions, upon which the Federal government has paid no tax. It is subject to income tax, with a 10% Income Tax offset. Other defined benefit pensions, such as the NSW public service pension, do not have a taxable untaxed component.

Recommendation: The 10% cap on the proportion of defined benefit income that can be excluded from the income test for the age pension should apply only to those CSS and PSS and state government pensions that begin after 1 January 2016, if at all. Specifically, if the member dies and the revisionary pension goes to the surviving partner, then the cap should not be applied.

2. The proposed increase in the assets test taper rate

While we welcome the increases in the assets test thresholds, particularly for those who do not own their own home, we oppose the proposal to increase the taper rate from $1.50 to $3. A taper rate of $3 would mean that a retiree loses more age pension than they can earn on their additional savings if their assets earn less than 7.8% a year. These days, a pensioner would be very unlikely to find a safe investment returning 7.8%, because bank interest rates are at an all time low and may fall even further. They would be lucky to average 3%.

If this change to the assets test is passed in its present form, people will have to start spending their capital in order to survive. The government may save money in the short term, but in the longer term people will start wondering if there is any point in saving if it is only going to leave them worse off in the long run.
The Government is promising that those who lose their eligibility for the age pension due to the proposed increase in the taper rate will be given a Commonwealth Seniors Health Card (CSHC). As you are no doubt aware, while holders of a CSHC can access cheaper medicines and be bulk-billed when they go to the doctor, they are not eligible for many of the concessions available to those on the Age Pension.

Recommendations:
1. The assets test thresholds should be increased as proposed.
2. The taper rate should remain at $1.50 per $1,000.

3 Conclusion

The Government is developing an anti-public service regime. We object to this vindictive focus and we are appalled at the mean-spiritedness and at times the unintended consequences, often not foreseen. It would be far better to provide us with an adequate and fairer indexation; otherwise leave us alone!

We would appreciate an early meeting with your Committee to explain and discuss our concerns.

Yours sincerely,

Geoffrey G Henkel

Secretary, ACPSRO