



Submission to the Senate Economics
Legislation Committee

**Inquiry into the Social Services and Other
Legislation Amendments (Supporting
Retirement Incomes) Bill 2018**

Prepared by
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About COTA Australia

COTA Australia is the national consumer peak body for older Australians. Our focus is on national policy issues from the perspective of older people as citizens and consumers and we seek to promote, improve and protect the circumstances and wellbeing of older people in Australia. Information about, and the views of, our constituents and members are gathered through a wide variety of consultative and engagement mechanisms and processes. Our members are the State and Territory COTAs (Councils on the Ageing) in each of the eight States and Territories of Australia. The COTA Federation has more than 1,000 seniors' organisation members, which jointly represent over 500,000 older Australians, as well as about 30,000 individual members and supporters.

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Introduction

COTA Australia welcomes the opportunity to provide comment and input to the inquiry into the Social Services and Other Legislation Amendments (Supporting Retirement Incomes) Bill 2018 which encompasses measures to support Australians in retirement.

COTA Australia strongly supports the proposed amendments to the Social Security Act and the Veterans' Entitlement Act, which include:

- new means test rules to encourage the development and take-up of lifetime retirement income products/streams;
- an expansion of the Pension Loans Scheme; and
- an increase and expansion of the pension work bonus.

These measures form part of the *More Choices for a Longer Life* package of 42 measures directed to older Australians in the 2018 Federal Budget, into the development of which COTA made a significant contribution. The first measure originates from government initiatives announced in the 2016 Budget that have been delayed in their implementation.

Lifetime retirement income streams

The proposed means test rule changes aim to encourage the development and take-up of innovative lifetime retirement income products that would better support a significant number of older Australians with appropriate retirement incomes streams. The means test rule forms an important part of a wider range of measures designed to achieve that aim.

These actually date back to the 2016/17 Federal Budget which announced the Government's intention to change tax barriers and means test disincentives. Tax barriers hampering the development of a range of income stream products, including deferred products, investment-linked pensions and annuities, and group self-annuitised products were removed from 1 July 2017. This measure deals with the means-testing issue and has been the subject of extended discussion within government and through closed and open consultation with consumers and providers. COTA was an active participant in both modes of consultation and made subsequent representations to the government. This legislation is consistent with COTA's representations.

COTA's view is that there is a real need to improve the range and variety of retirement income products available to retirees that will generate appropriate and sustainable income streams designed to ensure that retirees' needs are optimally provided for within the limits of their retirement resources, taking into account their retirement goals and need to plan for probable needs (such as aged care).

Such products will not be optimal or appropriate for everyone, but they provide an important option for significant numbers of people now and that proportion will increase into the future as the numbers and proportions of retirees with significant superannuation balances, and often other assets, increases.

In a recent major survey of older Australians (people aged 50 and over) undertaken by COTA¹ one in four of those surveyed felt insecure about their finances being able to meet their needs for the rest of their lives. Ironically the evidence is that few retirees with significant assets at retirement do actually run out of funds, indeed around half either do not diminish or even increase the value of their assets during retirement². This does mean that many retirees are experiencing a lower standard of living than they can actually afford.

Concern about whether one's finances will meet one's needs for the rest of your life can be at least in part assuaged by appropriate retirement products that include deferred income streams that cut in at later age. Without going into the detail of various commercial approaches to this, such products can give a retiree reassurance and confidence that if they live to that age they will have a significant and secure income stream to enable them to meet their requirements of daily living and other potential needs such as the provision of in-home support and care, or daily payments for residential care. This therefore also gives assurance that the assets remaining, not set aside to generate the later income stream, can confidently be utilised between now and that income stream commencing.

The proposed means test rule changes are designed to support the increased availability of a wider range of retirement incomes products of this nature for older Australians by removing the bias against such products in current means testing (either actively or through uncertainty as to treatment) and creating a slight nudge to encourage people to look at products that involve pooled longevity risk and therefore the possibility that a person may not benefit.

In our consultations on this matter we did receive some actuarial advice arguing for more sophisticated means testing rules. However, in supporting the government's proposals, which accord with the majority view of experts to whom we spoke, we give strong priority to the rules being relatively simple in formulation and easy to understand, which is very important for retirees and pre-retirees seeking to understand the rules themselves, as well as for financial advisers and their retiree clients. In the aforementioned survey by COTA, 48 percent of older Australians responding indicated that they found it difficult to understand the changing rules around retirement income and superannuation.

We note that the introduction of innovative new product types and products in this space needs to be closely monitored to help ensure that they are fit for purpose for older Australians needs in retirement; and there is adequate disclosure of financial information and any related risks with regards to newly created income stream products. We view this as particularly important as such financial products can often be complex in nature and sometimes not straightforward to understand. For instance, the means test rule changes are designed to encourage the development of products which would have restrictions that limit the access people have to their initial investments should they wish to withdraw from the products³.

In this regard COTA has strongly supported the introduction of new powers for ASIC over Design and Distribution Obligations (DADOs) on financial service products and Product Intervention Powers (PIPs) for ASIC, which would better address these concerns.

COTA encourages the Committee to recommend that this Bill be passed in the forthcoming session, and urges the Government to give the Bill the priority needed to effect this, given the limited number of Sitting Days before Budget.

Unless the Bill is passed the means test arrangements currently in place will continue to impede the development and introduction of new products, which are themselves an important step on the road to the purpose for which a Retirement Income Covenant is being introduced, to require a Retirement Income Framework to be developed by superannuation funds. The Covenant will codify the requirements and obligations for superannuation trustees to consider the retirement income needs of their members, expanding individuals' choice of retirement income products and improving standards of living in retirement.

This matter has now been in process for a considerable period of time. If not passed this session there will be further delay in these products becoming available. Both the industry and consumers are expecting an implementation date of 1 July 2019.

Pension Loans Scheme

The Pension Loan Scheme provides an option for eligible older Australians to access the equity they have in their real assets (usually the home) to provide themselves with additional income.

COTA Australia strongly supports the proposed changes to the Pension Loan Scheme which include substantially broadening eligibility for the scheme and increasing the fortnightly rate of the pension or allowance payable to a person to a maximum of 150 per cent of the pension. COTA recommended the inclusion of these changes in the *More Choices for a Longer Life* package and was delighted that they were included.

Some people may utilise the Scheme from early in retirement, but we believe that for the foreseeable future this will only be a small minority, and most likely those with specific circumstances that make such a decision advantageous and low risk. It is more likely that larger numbers of retirees will exercise this option either some years into retirement when relatively low levels of superannuation or other assets have been exhausted, and/or when the additional income will make a material difference to their capacity to purchase home support and/or aged care services, either in their home or in various forms of residential care.

As mentioned above, in the recent survey undertaken by COTA, one in four older Australians surveyed felt insecure about their finances being able to meet their needs for the rest of their lives. Furthermore, many older Australians are on relatively fixed and low incomes and accessing paid employment to help boost their incomes can be difficult due to issues such as age discrimination.

In a review of reverse mortgage lending in Australia by the Australian Securities and Investment Commission (ASIC), which was focused primarily on lending from commercial institutions, it found that reverse mortgages are one of the main options available to older Australians who want to

draw on the equity in their home while continuing to live in their property⁴. ASIC's consumer research indicated that reverse mortgages enabled borrowers to:

- maintain their current living arrangements with less financial stress;
- obtain short-term finance;
- have a general safety net for living expenses; or
- afford a better quality of life.

However, ASIC's research (focused primarily on lending from commercial institutions) did report that reverse mortgage contracts can potentially contain unfair terms, although the products are much better regulated now than when first introduced (for example it is no longer legal to sell a product that can result in negative equity). Strong new DADOs and PIPs powers for ASIC would strengthen safeguards. However, many older people remain nervous about traditional reverse mortgages, which are in any case often clunky and unimaginative products. For those people who do want to access them the reality is that now there are almost no providers of them in Australia and their cost is not attractive. In the UK, for example, the costs are much lower and availability much easier.

COTA Australia's view is that the Pension Loan Scheme, with the proposed change to increase the rate to a maximum of 150 per cent of the pension or allowance, can offer older Australians an additional option to support their incomes. We do however note that it is important for individual older Australians to carefully consider their individual circumstances before taking out a loan, and preferably seek qualified financial advice.

We note that the 2011 Productivity Commission report, *Caring for Older Australians*, recommended that government introduce an equity release scheme, managed by government or tendered out on strict conditions, to enable older people to readily access the equity in the real estate to provide for support and care services either at home or in residential care. This recommendation was widely and strongly supported by the many thousands of older Australians with whom COTA consulted on the Commission's recommendation. However it was not introduced as part of the Labor Government's Living Longer Living Better Reforms, or the later Coalition Government's Choice and Control measures. The Pension Loan Scheme expansion is a major step forward in addressing the need to which the Commission pointed. We hope after experience with the Scheme government will look to expand it to include the potential for lump sum payments for care.

We have noted the change to remove the existing provision for a person to nominate a "guaranteed" amount that they are entitled to retain when their loan is paid off⁵. Advice provided to government and explained in the Explanatory Memorandum notes that this proposed change is because:⁶

- the "guaranteed amount" in the current Pension Loans Scheme can prevent the Commonwealth from recovering a set amount of an asset's sale;
- because the "guaranteed amount" is able to be altered at any time it could be used by a person participating in the Pension Loan Scheme to render some, or all of their debt unrecoverable by the Commonwealth.

We note that the “Guaranteed Amount” has been replaced by the “Nominated Amount” which enables a borrower to exclude an amount of the value of their home or other real assets from the loan calculation, so that they can retain that amount for example to leave some money to their children upon passing away, or to ensure they have a lump sum for an aged care refundable accommodation deposit. We note that it is legally possible that the Commonwealth could recover funds owed it under this scheme from the “Nominated Amount”. However after detailed discussion with the government we accept that this is very unlikely to occur in practice because of the conservative manner in which loan amounts will be calculated, and the government’s control over all the variables, such as interest rate; and the provision in the Scheme that if advancing further sums would exceed the “age based table” limits in the Act, calculated fortnightly, then the borrower would be informed and the loan would not be allowed to further grow (unless the borrower then applied to change the terms, such as by reducing the Nominated Amount).

We strongly recommend the passage of the Pension Loan Scheme amendments.

Pension Work Bonus

COTA Australia supports the proposed changes to the Social Security Act and Veterans’ Entitlement Act to increase the work bonus income test concession from \$250 to \$300 per fortnight, and the changes that would extend the work bonus eligibility to those who are self-employed, independent contractors or consultants, and farmers.

COTA has always been a strong supporter of the Work Bonus, the terms of which have improved in a number of steps over the years since it was introduced (such as removing the matching dollar requirement and introducing the accumulation provision), which have significantly enhanced the measure. However the \$250 has not been increased since the Work Bonus was introduced, and this is an appropriate increase. It should in future be more frequently adjusted.

The proposed changes are a positive initiative, as most older Australians are on relatively fixed and low incomes, and many seek to remain in employment for reasons such as increasing their income, connection to colleagues and community, and skills maintenance or development. For some older Australians, continuing employment to a very mature age can be vital due to factors such as low savings and superannuation, high costs of living, and being in the private rental market.

The proposed changes help to contribute to an improvement in older Australians incomes by enabling them to retain more of their income from the Age Pension or Service Pension when they receive other income from their work. The extension to other income earners is equitable and sensible in light of the many retirees who do operate as self-employed.

Thank you for the opportunity to provide comment and input into this inquiry. Should you have further enquiries regarding this matter please do contact the Chief Executive, Ian Yates

¹ State of the (Older) Nation 2018; A nationally representative survey prepared by the Council on the Ageing; December 2018; Newgate Research; Pages 50, 51, 52; Link: <https://www.cota.org.au/policy/state-of-the-older-nation/>

² Money in Retirement: More than enough; John Daley and Brendon Coates; Grattan Institute; November 2018 contains details of a number of research studies

³ Resulting from recent changes to the Superannuation Industry (Supervision) Regulations 1994 – and requirements to meet a Capital Access Schedule; see Social Services and Other Legislation Amendments (Supporting Retirement Incomes) Bill 2018; Explanatory Memorandum; Pages 2, 3;

⁴ Australian Securities and Investment Commission; Report 586; Review of reverse mortgage lending in Australia; August 2018; Pages 4; 8; 15;

⁵ Social Services and Other Legislation Amendments (Supporting Retirement Incomes) Bill 2018; 10 Subsection 1133AA (1) and 54 Subsection 52ZAAA(1); and Explanatory Memorandum; page 42 and 48;

⁶ Social Services and Other Legislation Amendments (Supporting Retirement Incomes) Bill 2018; Explanatory Memorandum; Items 10 and 11 – Page 42; and Item 41 Page 45;