

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates, 2 June – 4 June 2009

**Question: bet 16**

**Topic: Self-Funded Retirees**

**Hansard Page: Written**

**Senator Williams asked:**

1. Do self-funded retirees in Australia enjoy benefits comparable to those in the United States?
2. Are self-funded retirees on modest incomes, who have paid their share of tax in their working lives, being considered for an additional benefits in the immediate future?

**Answer:**

1. The Australian Government is committed to encouraging individuals to save in order to secure a higher standard of living in retirement than would be possible from the Age Pension alone. It supports this commitment with significant taxation and other concessions to superannuation to encourage individuals to undertake these savings.

Superannuation benefits paid, either as an income stream or as a lump sum, from a taxed source (that is, one in which taxes have been paid on contributions and earnings), are tax free for people aged 60 and over. Where benefits are paid to a person below the age of 60, those benefits are subject to taxation. Benefits paid from untaxed schemes (mainly affecting public servants) are also taxed, but at reduced rates when paid to those aged 60 or over.

Tax free superannuation benefits for people aged 60 and over provide an incentive to remain in the workforce until at least that age. As superannuation benefits are not included in assessable income from age 60, people may also pay less tax on their work income. This increases the incentive for people aged 60 and over to undertake some work while drawing on their superannuation.

More generally, for those whose savings fall outside the superannuation system, the Government provides additional financial support to eligible senior Australians (irrespective of where their income is sourced).

Self-funded retirees may qualify for the senior Australians tax offset (SATO), the low income tax offset (LITO) and an increased private health insurance

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rebate. Through the SATO and the LITO, eligible seniors are able to earn more income before they pay income tax or the Medicare levy.

The SATO, when combined with the LITO, ensures that eligible single older Australians could have income up to \$28,867 in 2008-09 without paying income tax or the Medicare levy. As part of the Government's plan to reduce income taxes, this increased to \$29,867 for 2009-10 and will increase to \$30,685 for 2010-11.

A senior Australian who is a member of a couple was able to earn up to \$24,680 for 2008-09 without paying income tax or the Medicare levy. For 2009-10 this threshold increased to \$25,680 and will increase to \$26,680 for 2010-11. As a further concession, the Government allows couples to transfer any unused SATO to their spouse, allowing couples with different incomes to maximise the benefits from the SATO.

Furthermore, the Government recognises the impact of the global recession on the incomes of self-funded retirees and provided extra assistance in the 2009-10 Budget. From 1 July 2009, the Government halved the minimum amounts self-funded retirees have to draw down from their account-based pensions for 2009-10. This extends the drawdown relief provided by the Government for 2008-09, recognising the impact of the global recession

From 20 September 2009, the Australian Government will provide around 300,000 self-funded retirees with access to the Seniors Supplement. The Seniors Supplement will be available to self-funded retirees who are eligible for the Commonwealth Seniors Health Card or the Department of Veterans' Affairs Gold card with current Seniors Concession Allowance. It incorporates existing payments of Seniors Concession Allowance and the higher rate of Telephone Allowance.

For singles, the new supplement will increase payments by \$129 a year, bringing their rate of payment to two third of that received by couples combined.

The Seniors Supplement will be \$790.40 a year for singles and \$1190.80 a year for couples combined, with payments being made quarterly.

The Seniors Supplement is equivalent to the minimum rate of the Pension Supplement to be paid to part pensioners. This alignment will allow a seamless transition as seniors move from the part pension onto the Commonwealth Seniors Health Card if their income increases.

Eligible seniors will also continue to be eligible for other concessions linked to the Commonwealth Seniors Health Card. These concessions include a reduction in prescription medicines under the Pharmaceutical Benefits Scheme and a discounted Medicare safety net threshold.

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The Government has also decided not to proceed with proposed changes to include gross tax-free superannuation income in the income test for the Commonwealth Seniors Health Card, which came into effect on 1 July this year.

#### **The United States of America (US) system**

In the US, federal income tax is levied on most types of income (including wages and salaries, pensions, bonuses, commissions, business income, dividends, interest, capital gains, rent and royalties).

Individual states also impose various types of taxes. State taxes can include sales taxes, excise taxes, license taxes, income taxes, intangible taxes, property taxes, estate taxes and inheritance taxes.

The treatment of deductions and offsets can vary from state to state. There is also varying treatment of social security benefits, pensions and individual retirement account (IRA) contributions.

As the systems in the US and Australia differ, and as a result of the varying treatment of taxes and benefits within individual states in the US, it is difficult to establish whether the benefits to self-funded retirees are comparable in the US to Australia. However, as outlined above, Australian self-funded retirees are entitled to significant benefits to assist them with their retirement.

2. Improvements to the tax and transfer payment system for individuals and working families, including those for retirees, falls within the scope of the Australia's Future Tax System Review which is due to release its final report in December 2009.