

INQUIRY INTO THE COST OF LIVING PRESSURES ON OLDER AUSTRALIANS



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

Submission

To

SENATE COMMUNITY AFFAIRS COMMITTEE

INQUIRY INTO THE COST OF LIVING PRESSURES ON OLDER AUSTRALIANS

July 2007

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INQUIRY INTO THE COST OF LIVING PRESSURES ON OLDER AUSTRALIANS

Introduction

The Association of Independent Retirees Ltd (A.I.R) endorses the Government's retirement income policy that includes incentives, flexibility and security for all retired Australians.

The three pillars of a pension subsidy, superannuation savings and other savings should mean that retired Australians are able to enjoy a higher standard of living than could be achieved through reliance on any of the pillars on its own.

Whilst accepting the need for thresholds, A.I.R believes that neither those who have substantial savings nor those who for whatever reason have been unable to save enough should be disadvantaged.

Older Australians have and continue through voluntary work and participation, to contribute to the prosperity of Australia.

The age pension and benefits should;

- Support a minimum living standard that is not achieved through the present level of payment.
- Support living standards through transfer payments that help maintain the spending power of a retiree's own savings.

About Us

1. The Association of Independent Retirees, more widely known as A.I.R., is the peak body representing fully and partly self funded retirees. First formed in 1990, A.I.R. is a non-party political organisation, representing retired and partly retired people.
2. It is a not-for-profit volunteer organisation which represents this rapidly growing section of the Australian population through promoting their views and concerns.
3. A.I.R. policies endeavour to achieve dignity, independence and freedom of choice, recognising a diverse range of individual circumstances.
4. A.I.R. has Branches located in every State and Territory. Members who are not able to attend regular Branch meetings, because they reside long distances from the location of their nearest Branch, join as Country Members and receive the same benefits as Branch members.

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Response to the Terms of Reference

Set out below are A.I.R.'s responses to the cost of living pressures on older Australians, both pensioners and self-funded retirees.

- (a) the impact of recent movements in the price of essentials, such as petrol and food,
- (b) the costs of running household utilities, such as gas and electricity, and
- (c) the cost of receiving adequate dental care.

Most retirees are unable to increase their savings once they have retired. Whilst there is a trend toward part time work and staying in the work force longer these do not substantially add to overall savings.

For most, the capital they retire with and the earnings from this capital, is what they have to use through retirement.

A person retiring with \$250,000 in capital could expect to receive an annual income of \$20,000 over 30 years, assuming a net return of 7.45% (This uses Australian Securities and Investments Commission calculator for a moderate investment strategy).

The discounted value of this, assuming an annual inflation rate of 2.5% is \$9,326 after 30 years.

The Westpac-ASFA Retirement Living Standard benchmarks the annual budget needed by Australians to fund living expenses in the post-work years. It is updated quarterly to reflect inflation, and provides detailed budgets of what singles and couples would need to spend to be able to have either a modest lifestyle or comfortable lifestyle.

The March 2007 result indicated the following:

	Modest	Comfortable	Age Pension
Single	\$18,375	\$35,668	\$13,652
Couple	\$25,780	\$47,766	\$22,802

With the Age Pension retirees may also be entitled to additional payments and benefits comprising of:

- Pharmaceutical Allowance may be payable.
- Rent Assistance may be payable.
- Telephone Allowance may be payable.
- Utilities Allowance may be payable.

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- Remote Area Allowance may be payable.
- A \$500 Advance Payment of Age Pension may be available.
- Pension Concession Card

It can be seen that the age pension is below that required for a modest lifestyle particularly for a single person.

Today because of the Superannuation Contribution Guarantee most are retiring with some superannuation savings. This assists in meeting living costs.

The average net worth of all baby boomers aged between 60– 64 is \$381,000 with \$274,000 being outside of the family home. (Using ABS data)

Where a couple retire with a combined \$250,000 in Superannuation savings and draw down the earnings as income they would also receive a part pension. This would ensure that the combined earnings would exceed the amount required for a modest lifestyle.

Indexation of the part pension goes somewhat toward mitigating the loss of value of the income they may receive.

However, most retirees are unable to maintain retirement capital through retirement without deducting some lump sums.

It is unlikely that the family car (\$30,000), carpets and furnishings (\$, 20,000) home maintenance (\$20,000) and other durables will last through retirement and need to be replaced.

Serious illness also has the effect of reducing capital and living income.

As prices increase, particularly where household utilities, petrol and council rates increase at a faster rate than the underlying inflation rate and AOWE the cost pressures for retirees increases.

Both the ASSIRT Retiree Price Index (now discontinued) and the Westpac ASFA survey indicate that the effect of inflation for retirees exceeds the CPI.

The conclusion is that neither CPI nor AOWE are a proper measure of increased costs for retirees and just as Westpac and others are able to calculate the amount needed to provide a modest lifestyle, so should the Government. **The minimum pension should be set at that figure and adjusted quarterly.**

The income test for pension eligibility is counter productive as it only applies to those with modest assets. Increasingly the asset test is the determiner of part pension entitlement.

The complexity and cost of reducing an aged pensioner's entitlement because of a modest additional income must outstrip the benefit to government. It clearly targets the less well off, increasingly widows and has the effect of reducing modest incomes.

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Dental Costs

Dental care should be included in Medicare. Where dentists are largely compensated through private health insurance, there is no adequate control on their pricing. This affects those without private health insurance who are unable to afford even the most basic dental care.

The committee should also include hearing aids and spectacles in its deliberations as these are essential to maintaining well being.

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- (d) the impact of these cost pressures on the living standards of older Australians and their ability to participate in the community
- (e) the impact of these cost pressures on older Australians and their families, including caring for their grandchildren and social isolation;

The following table is taken from the Westpac-ASFA Retirement Living Standard benchmark survey.

Type of Expense	Modest Single	Modest Couple
Housing (ongoing costs only)	\$63.37	\$65.54
Energy	\$11.54	\$13.87
Food	\$63.44	\$133.52
Clothing	\$14.36	\$24.77
Household Goods and Services	\$49.02	\$51.91
Health	\$11.84	\$22.32
Transport	\$70.16	\$70.94
Leisure	\$44.00	\$72.86
Personal Care	\$24.54	\$38.68
Gifts/alcohol	\$21.56	\$43.11
Total per week	\$352.40	\$494.11

It does not take a huge amount of deduction to anticipate that where the price of essentials increase, and where a person is already receiving less than what is required to achieve a modest lifestyle, other costs need to be reduced or eliminated. These costs are generally those that allow social connection.

Even for those with better than modest incomes, increase in basics like petrol preclude them from using transport and enjoying leisure activities.

To support this A.I.R offers the following taken from a survey of its members.

- Most own their own homes until 85 when there is a significant decline. The cost of maintaining the home and assistance with living at home increases with age because: loss of male partner, retirees become less capable of DIY, increase in age of homes requires maintenance (painting, bathroom & kitchen refurbishment, aids for elderly).

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- Retirees dominantly own their own cars until 85 but then rely more heavily on taxis and public transport where they are fit enough.
- About one-third of respondents were concerned about their financial future in the financial categories up to \$35,500.
- In the categories with a taxable income below AOWE home maintenance was of greatest concern followed closely by the ability to go on holidays.
- In the categories below a taxable income of \$21,600, respondents reported difficulty with maintaining their health, undertaking local travel, and enjoying social outings. This result suggests that people with a taxable income of about half of the after-tax AOWE have difficulty in achieving a reasonable life style, including remaining active.
- Travel is a major factor in lifestyle activities. Nearly three-quarters (73.5%) travelled interstate during the last two years, with nearly half (48.4%) travelling two or more times. About one-quarter (24.7%) travelled overseas once and 13.8% two or more times.

Cost increases lead to a reduced ability to participate in the community and leads to increasing social isolation. Added costs reduce discretionary spending and hence capacity to be active. Increase in cost of health care is directly proportional to degree of inactivity. Hence, it is imperative that retirees have sufficient discretionary income to maintain their activity.

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- (f) the adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs.

The Government's enhancement of superannuation for retirees is applauded. Superannuants are rightly rewarded through very favourable taxation incentives. The increase in the asset threshold as from 20 September has gone a long way to addressing the inequity felt by a large number of Australian's who were funding their own retirement on modest incomes.

Reductions in income tax through SATO and LITO and income tax threshold changes from 1 July together with the changes to superannuation where people in taxed funds will not pay tax or the Medicare levy will also increase incomes.

However, there are many retirees who through prior legislation and particular circumstances must endure the legacy of a far more modest superannuation and an assortment of independent investments for which they are already committed. They are now also precluded from partaking in superannuation because of an age factor or work test requirements.

Investments held outside of superannuation attract a different tax treatment than assets within superannuation. Retirees who were prudent enough to invest in their own retirement need to pay CGT and other income tax on investments they sell to fund their retirement.

A.I.R considers that retirees in this position and particularly those over 75 years of age should receive Capital Gains Exemption equivalent to the contribution limits under "Better Super", that is \$150,000 per year or \$450,000 in a three year period.

The CSHC was introduced to compensate those who were not eligible for a part pension particularly for the cost of pharmaceuticals. The recent changes to Superannuation where those in a taxed Superannuation scheme do not have a taxable income has exacerbated the situation where a minority of retirees are excluded simply because they saved at a time when Superannuation was not available.

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(g) review the impact of government policies and assistance introduced across all portfolio areas over the past 10 years which have had an impact on the cost.

A.I.R is not able to conduct this review.

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