COST OF LIVING PRESSURES ON OLDER AUSTRALIANS

Submitted by: Colin McCosker

Unfair policies & practices by Federal Government agencies that bring unnecessary financial pressures on older Australians include:

Centrelink

1. *Pension increases* have not kept up with increases in the basic living costs faced by the aged. A catch-up addition to pension rates is needed together with a more realistic basis for calculating future adjustments to restore living standards.
2. *Allowable earnings* are only $116 pw for a couple before additional income brings a 40c/$ reduction in pension. This policy makes it extremely difficult to cope with major expenses, e.g. rates, insurance, replacement of major appliances or car, or hope for any type of holiday. These reductions apply unevenly - one pensioner may earn up to $116 every week & not be penalised whereas another may work only one or two full weeks in a year & lose a large proportion. An *annual figure* for allowable earnings would be fairer, preferably higher than the figures presently set for couples & single pensioners.
3. Incidentally, some Centrelink staff assess allowable earnings on a *daily* basis. For example, if $116 is earned in one day they reduce the pension relevant to that week! Calculations are based on before-tax earnings, further reducing the gain to some pensioners. There needs to be a consistent & fair assessment policy.
4. Also, earnings must be reported within 14 days of the work being carried out, otherwise a penalty applies. This policy applies regardless of whether payment has been received, leaving some pensioners struggling as the pension is reduced immediately.

   All these policies on allowable earnings need reviewing to reduce pressures on pensions
5. *Deemed earnings* on cash held start at 3.5% pa but banks pay miniscule interest on amounts under $2000 - some only 0.01%, even on special pensioner accounts! Money held in funeral funds is exempt but pensioners with little cash prefer to hold their funeral savings in a bank account where they can access it if

serious illness or other emergencies unexpectedly arise. Why not exempt from the calculation of deemed earnings the first $5000 (or higher) of cash & funeral funds? This would be fair to all.

6. Another anomaly is that any loan or credit account is ignored when calculating the basis for deemed earnings. This means that even though a pensioner may be paying interest on a significant debt, still the pension may be reduced because of "earnings" from a cash deposit held for emergencies or upcoming major expenses. There seems no logic for this approach!
7. One particular area where the concept of deemed earnings makes life difficult for pensioners is where they need to sell their home to move into smaller premises or into a retirement home. Often there is a period of a few months where cash from the sale is held until payment is made for the new residence. Once the cash held is declared, their pension is reduced in part or whole, making it difficult to cover their basic needs. Few have the financial knowledge to make the cash work to gain an appropriate return as deemed, especially when the length of the changeover period is uncertain. Allowing the pension to remain unchanged for a period of say six months (or longer) after sale while arrangements are finalised would greatly reduce the pressure on these retirees.

Australian Taxation Office

1. *Income tax* is often payable by pensioners even after their pension is reduced because of the same earnings. Any special effort to obtain needed funds, e.g. to replace a vehicle, or a windfall opportunity to earn larger income than usual often mean less than half the relevant income is retained by the pensioner - with Centrelink & the ATO the main beneficiaries! High income earners fare better than this before they retire! Considering the current skills shortages, this policy must deter pensioners from contributing their valuable expertise when they get an opportunity. Surely pensioners should not lose a large part of their pension AND pay tax on the balance. This double-charge is long overdue for correction.
2. *Tax rebates* are granted to allow a couple to have combined tax-free income, including pension, of around $40,000. However, this figure only applies if each earns one half of the figure – seldom possible unless they have joint investments. The tax-free total is less if one spouse is not able to provide a

significant contribution. In contrast, Centrelink calculates entitlements for each pensioner based on the joint earnings. Why not apply the same principle to income tax reductions?

3. Furthermore, the effect of reducing tax by means of tax rebates is that any taxable earnings immediately attract a high tax rate. Granting an allowable deduction for pensioners to reduce their taxable income figure would mean tax payable would commence at the lowest rate, as for other income earners.
4. *Income tax* is no longer payable on superannuation withdrawals BUT any amount withdrawn is counted as part of total income when assessing the tax rate on other income. In my case, a large withdrawal to enable the purchase of our retirement residence meant that the highest tax rate was applied to my pension and some casual wages for that year, even though my income for Centrelink purposes was not enough to cause any pension reduction. As a result, I paid extra tax because of the superannuation withdrawal & this cannot be justified.

Miscellaneous

1. *Superannuation* is inadequately protected. Payments are not forwarded regularly by some employers. Some firms delay forwarding superannuation contributions & deductions to finance their own business for a time. Then there is nothing for employees if the business collapses! There should be a legal requirement to forward payments to superannuation funds monthly (possibly quarterly if the amount is small), with heavy penalties & personal liability on directors and/or managers if this is not carried out. Retirees can suffer immense pressures if their expected superannuation disappears due to dishonest employers.
2. *Passport fees* are increasing continually. Many retirees plan for an international once-in-a-lifetime holiday. There is a concessional passport fee for those over 75 but by then many pensioners are unable physically to contemplate such travel & even more no longer have sufficient funds to do so. Pensioner concessions are available from numerous government & commercial organisations & it would seem reasonable to expect that the Federal Government could grant passport concessional fees similarly.