



Australian Seniors Finance Limited

Submission to

**Senate Community Affairs
Committee**

**Inquiry into the cost of living
pressures on older Australians**

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ABOUT AUSTRALIAN SENIORS FINANCE LIMITED

Australian Seniors Finance Limited (ASF) is an Australian company, specialising in home equity release (referred to as a Lifetime Loan).

It was launched with the specific aim to provide seniors with the freedom to use their home to enhance their lifestyle.

While the thinking and planning behind the creation of the Lifetime Loan is revolutionary and in many ways complex, the benefits to seniors are remarkably straightforward and access to such a loan is easy.

Essentially, the Lifetime Loan gives the freedom to access equity that exists in the home. The owners are free to use this money, in any way they wish, to enjoy a more rewarding lifestyle.

Those involved with ASF's establishment have a track record of achievement and success in financial markets throughout Australia and internationally. They have specific expertise in the area of the provision of financial services and mortgages. As mentioned above the main thrust of ASF's business is specialising in home equity release.

The detailed understanding of the Australian market, combined with world-class experience and insight, allows ASF the capabilities to offer sound financial opportunities. The ASF Lifetime Loan has been adapted from highly successful overseas models to meet the needs and desires of seniors living in Australia. There are strictly adhered to guidelines in place to ensure those entering into a Lifetime Loan are not placing themselves in a situation that in the future will cause them unnecessary stress or hardship in their retirement.

Further and importantly, support and funding is provided from leading Australian and international financial institutions, including The Commonwealth Bank of Australia and Hannover Reassurance.

The Board of Directors of ASF are

THE HON. JEFFREY KENNETT AC Chairman

JOHN P THOMAS Managing Director and Chief Executive Officer

RICHARD COON Finance Director

CHRIS COON Director and Actuary

IAN HENDRY Non - Executive Director

RICHARD G UDOVENYA Director and Company Secretary

Consultant to the Board

DAVID R DEANS

BACKGROUND

The terms of reference set out in the call for submissions – Inquiry into the cost of living pressures on older Australians, highlights critical issues facing senior Australians.

Seniors, both pensioners and self –funded retirees experience challenges in meeting the increases in the cost of living during their retirement.

It is generally accepted that the majority of senior Australians in retirement, particularly home owners, are asset rich but income/ cash poor.

Many young seniors plan to work beyond the pensionable age – 65 years for males and 63 years for females – to build up the level of assets for their retirement. However, age discrimination in the work place often precludes them from being able to succeed with this ambition. In many cases contributions to superannuation have not resulted in sufficient funds to convert to say an allocated pension or to invest in such a way as to provide reasonable income from that investment.

Other submissions will respond in detail to the specific questions in the terms of reference, this submission in the main is targeted at providing a solution to the financing of the pressures of the increase in the cost of living and the cost of retirement generally.

The Westpac/ASFA Retirement Standard (March 2007) distinctly sets out the two levels of income required to enjoy either a modest or a comfortable lifestyle in retirement. To achieve a modest lifestyle (the lower of the two) a couple needs to spend \$25,780 per annum. For comparison the age pension for a couple is \$22,802. This difference highlights the pressure placed on those living on the age pension. As at today there is a shortfall of \$2978 per annum or 13 % below the Westpac/ASFA recommended level. The single pensioner is much worse off with a 35% or \$4,723 per annum difference, between the single pension of \$13,652 and the Westpac/ASFA figure of \$18,375 – a sure indication that the age pension for a single person is inadequate. It is suggested by others, such as National Seniors Association, that the single age pension should increase to be 66% of the couple's age pension or \$15,050, an increase of \$1,397 per annum. Even with this adjustment it is still 22% less than the Westpac/ASFA figure for a modest lifestyle in retirement.

Recognising the pressures placed on retirees by the increases in the cost of living, some Australians are taking steps to overcome this pressure by accessing some of the capital which is tied up in their homes to meet these demands and to supplement their living standards.

There are a growing number of senior Australians who are taking up home equity conversion loans (reverse mortgages)– that is borrowing on the value of their home. Australia has a high home ownership rate. For many owning your own home is life’s major accomplishment. (One of the serious retirement policy issues yet to be dealt with is the issue of older Australians renting accommodation in their retirement. The level of rent assistance available is negligible when compared with market rents. This is a particular issue for single retirees and more specifically for female retirees).

Experience shows that those who take up a home equity conversion loan do so for the following reasons

- Carry out home renovations

- Purchase capital items e.g. motor vehicle and white goods replacements. Often these are unexpected expenses that are not planned, therefore they are not budgeted for
- Accommodation bond for residential care
- Health expenses including dental care (this has a positive impact on the public health system as people pay for the service themselves)
- To reduce the stress caused by rising costs of goods and services which are out of their control e.g. rates, energy supply and communication
- Payment of local authority rates and taxes on time. (This reduces the pressure on council funds.)
- Pay off outstanding mortgage
- Pay off credit card debt (accumulated over time)
- Vacation (encouraging social interaction and reduces social isolation)
- Assist with grandchildren's education

(Care must be taken to obtain professional advice to ensure that Centrelink payments are not greatly affected by the receipt of funds from home equity conversion loan. See recommendation 1)

While those on the age pension have a low level of income, many self-funded retirees find themselves in the same position. If a self-funded retiree is defined as someone who isn't in receipt of any age or DVA pension the number of self-funded retirees is approximately 500,000 compared with 1,900,000 on an age pension and 300,000 on a DVA pension. Many more retirees who rely largely on the return on investments, usually a lump sum or superannuation pensions receive a part age or DVA pension and are included in the figures above. These people sometimes declare themselves to be self-funded retirees. Many of those people are retired public servants and former defence personnel.

Over the years local, state and federal governments have introduced many concessions for retired seniors such as – local authority rates rebate, water rate rebate, electricity and gas rebate, transport discount, telephone line discounts, motor vehicle registration discounts etc.

These concessions help seniors greatly, however self-funded retirees are often not eligible for such concessions.

RECOMMENDATIONS

Given the issues highlighted in this paper, the following recommendations are put forward as suggested solutions to the growing cost of living pressures on older Australians.

- 1 The treatment of a lump sum payment from a reverse mortgage by Centrelink to be the same as funds from the sale of a house (not treated as an asset for 12 months) rather than the current policy(not treated as an asset for only 90 days).
- 2 Increase the single age pension to a minimum of 66% of the couples age pension viz \$13,652 to \$15,050.
- 3 Carry out a review of the adequacy of the age pension for singles and couples.
- 4 Encourage the state and territory governments to make concessions, particularly travel concessions reciprocal between states and territories.