



Submission to the
Community Affairs Legislation Committee

on the

Social Security and Other Legislation Amendment (Pension
Reform and Other 2009 Budget Measures) Bill 2009

**COTA Over 50s
(Councils on the Ageing)**

18 June 2009

Contents

1. Introduction	3
2. Tapering	4
3. Indexation	5
4. Pension age	5
5. Conclusion	6
6. Notes	7

COTA Over 50s Ltd
ACN 118 911 541

Mr Ian Yates, AM
Chief Executive
COTA Over 50s
PO Box 3508
MANUKA ACT 2603
Telephone: (02) 6295 1844
Fax: (02) 6295 1807
Email: info@cotaover50s.org.au
Web site: www.cotaover50s.org.au

1. Introduction

With this legislation the government is delivering a positive response to long standing calls by the COTA movement (Councils on the Ageing) and by other seniors' organisations, for the single pension to be increased to two-thirds the couple rate.

COTAs had been pointing out the iniquitous and inequitable situation of single pensioners since the early 2000s, and made strong representations on this from 2004 onwards. We have also been calling for an increase in all age pensions and improved indexation provisions over the latter period.

Passage of this legislation means years of unfair treatment of single age pensioners will have finally been acknowledged and large steps taken to rectify it.

In addition, four current allowances are rolled into the Pension Supplement. For single pensioners there has been a further increase of \$2.49, bringing the proposed total single pension payment at 20 September to \$336.68

Couples will receive no increase in the base rate of their pension but will receive an extra \$10.14 per week (\$5.07 each) as the Pension Supplement to bring their pension to \$507.50 per week.

These are very welcome signs that the Government recognises that the pension system needed a complete overhaul.

However the overall pension reform package falls short of COTA's objectives as a key member of the Fair Go for Pensioners campaign. COTA believes that the couple pension should have also been increased and the single pension increased further.

Based on the Harmer Report's own Finding 6 ⁽¹⁾ the increase in the Couple Pension should have been at least \$19.23 instead of \$10.14. On the two thirds proportion the Single Pension should therefore have increased by \$40.20 instead of \$32.49. This is based on Harmer's conclusion that the couples pension plus bonuses was "adequate", with which we do not agree.

In addition, as the Harmer Report itself notes, the situation of pensioners in the private rental market remains dire, and the government's welcome and admirable efforts to increase public housing are only one tool required to address this ⁽²⁾.

However the government's pension reform package represents a significant improvement in the living standards of many pensioners and a substantial boost to Singles and is therefore most welcome.

2. Tapering

The so-called “taper rate” – the amount the pension is reduced per dollar earned – will increase from 40 cents to 50 cents. Some years ago it used to be 60 cents.

The taper was increased as a means of focusing the increase on pensioners with no or little income other than the pension itself, or with modest savings. The increased taper is a key factor in containing the budget impact of the increase in the “out years” when the numbers of retirees increases dramatically.

COTA understands the government’s decision in that context, while recognising that there will be opposition among parts of our constituency to the higher taper rate

However it is worth noting in this context that there is a new Work Bonus which creates real financial incentives to continue working on a part-time basis. One half of earnings up to \$250 per week will not be taken into account in the income test. This is an excellent initiative.

Effectively this means that for many pensioners the 50 cents taper will apply to their investment and superannuation income while the effective taper for wages up to \$250 per week becomes 25 cents as a result of the Work Bonus.

After 20 September single people on an income of around \$38,700 will not be eligible for the pension compared to people on around \$41,015 today. For couples the figures are \$59,228 and \$68,497 respectively ⁽³⁾. For people still working these figures can increase by up to \$6,500 each due to the \$125 per week exemption under the Work Bonus.

The government’s budget information refers to the change in the taper meaning that people who had an income up to \$47,444 single or \$72,423 couple would have been eligible for the pension on a 40 cent taper. Those figures are based on applying the 40 cents taper to the new higher rates. However the changed taper is obviously part of the package that also delivers a substantial increase in the pension rate.

It also means that below those levels the amount of part-pension entitlement will be a little less than it would have been, depending on your mix of wages and other income.

This will not apply to current pensioners. We are advised that the government has put in place transition arrangements that mean current pensioners will not go backwards financially.

The pension eligibility of some people planning retirement in the near future will be detrimentally affected by the changed levels of eligibility for part-pension. However the amounts lost are not large and the principal concern of many part pensioners is to be eligible for health benefits. The Seniors Health Card eligibility is not affected by the pension changes.

COTA would prefer that the taper not increase but recognises the political / fiscal realities of the long term budget tradeoffs that were necessary to achieve this reform⁽⁴⁾. We prefer a higher pension increase with the 50c taper rather than a lower increase with the 40c taper.

3. Indexation

The government has announced that a new Pensioner and Beneficiary Living Cost Index is being developed by the Australian Bureau of Statistics. The pension will be indexed by the higher of this Index and the CPI, and will still be benchmarked to Male Total Average Weekly Earnings.

COTA welcomes this decision, which is in keeping with our proposals to government over a long period. The Harmer Review and the government have accepted the arguments we have put for a long time about the living costs of pensioners and other low income earners having a different pattern to the overall community.

We will of course carefully scrutinise the new Index when it is released and will closely monitor its effectiveness in better safeguarding the living standards of Australians in retirement.

4. Pension age

The Bill proposes to increase the pension age to 67 years between 2017 and 2023. It will remain at 65 years until 2017 then go up by six months each two years until it reaches 67 years in 2023. This gives people eight years notice of the first change and fourteen years before the change is complete.

The demographic argument for this is clear. The pension age of 65 has been in place for over 100 years and in that time the number of people reaching pension age has risen from around 50% to 85%, and the time spent in retirement has increased from 11 years to almost 20 years for men and over 23 years for women.

Over the next few decades we will need to keep people in the workforce, not encourage them out. We are already seeing a rapidly rising number of people working beyond 65 years, with some surveys showing about half the “baby boomers” planning to do so.

However there is a significant minority of people for whom an increased pension age is not attractive. This includes people who work in very demanding jobs and already struggle to get to 65 years before retiring. Indeed many do not – they end up on the Disability Pension well before that. At least they are assured that Disability Pension conditions will be the same as the Age Pension.

Of greater concern are the many tens of thousands of mature workers who are long term unemployed in their late fifties and sixties, and those who have dropped out of the workforce altogether due to direct and indirect age discrimination. Many of these find themselves on Newstart allowance, which is considerably less than the Age Pension.

So COTA support for increasing the pension age depends on government redoubling efforts to address mature age unemployment and age discrimination in the workforce, and introducing measures to address unemployment among mature age workers.

These measures are required now, not in eight years time. Older workers have been ignored for far too long.

The COTA National Policy Council has suggested an examination of reintroducing the Mature Age Allowance for older long term unemployed people.

Beyond income security responses we need major leadership from government on attraction and retention of mature age workers, including assistance with developing new careers, training and retraining, employer education and assistance, and tackling age discrimination in a serious manner.

5. Conclusion

This package of Pension Reform measures represents a great breakthrough after years of not being able to get real pension reform on the public policy agenda.

However there is genuine disappointment among many pensioners that the increases are not greater.

There are areas of significant challenge that must still be better addressed, such as pensioners in private rental.

COTA will continue to seek improvement in the level and conditions of the age pension, which is the basic retirement income of most current retired Australians and will continue to be a key pillar of retirement income for the foreseeable future.

Concern about the cost of the age pension needs to be put in perspective alongside, for example, the actual cost to the taxpayer of superannuation concessions and their equity.

This Pension Reform package is a major step forward, but we regard it as just that – a step toward an even better pension system for Australia in the future.

Notes

1. See Harmer, Dr Jeff Pension Review Report 27 February 2009 at pages 51-52.

At the third paragraph on p52 of the Report – “On balance, it is considered that the current package of assistance, including the amount of the Seniors Bonus as provided in the 2008-09 Budget, provides couple pensioners who are living in their own homes, or accessing public housing, and who do not face disproportionate costs associated with health and disability, with a basic, acceptable standard of living.”

Pensioner couples received a \$1,000 pa one-off bonus (\$500 per person) in the 2008-09 Budget, equivalent to \$19.23 per week, whereas the Pension Reform increase is only \$10.14 per week, a difference of \$9.09 per week.

2. See Harmer, Dr Jeff Pension Review Report 27 February 2009, Finding 7 at pages 52-53.
3. Centrelink website 18 June 2009 “Income test for pensions” page. For part-pension maximum income \$1577.50 per fortnight single or \$2634.50 per fortnight couple.
4. Commonwealth of Australia, Budget Overview, 12 May 2009, graph page 23.