

To the members of the  
Senate Standing Committee  
on Community Affairs

Dear Senators,

**Re: age pension income test taper rate**

S.A. Superannuants is an organization representing the interests of members of the South Australian Government's state pension scheme. This scheme has approximately 21,000 members including about 15,000 already retired. Similar schemes exist around the country and the matter raised in this communication will affect a substantial number of people in every state and territory.

The average pension paid by the South Australian scheme is about \$30,000 p.a. and a large majority of the members are, or will be, part age pension recipients having an age pension entitlement determined by the income test. This is the case also for other similar schemes.

The Association supports the announcement in the recent Federal Budget that the base rate of the age pension is to be raised and that the single pension rate is to become two thirds that of the couple's rate.

But we are very concerned by the intention to raise the income test taper rate from 40 cents to 50 cents in the dollar. There is to be no change in the assets test taper rate.

In a joint media statement entitled '***Secure and Sustainable Pension Reform: Better targeting of the pension***', and released on budget night, the Treasurer and the Minister for Families, Housing, Community Services and Indigenous Affairs said:

"From 20 September 2009, payments to pensioners will be reduced by 50 cents for each extra dollar of private income above the income test 'free area'. Pensioners with private income above the 'free area' currently have their pension payments reduced by 40 cents for each extra dollar of private income.

The Harmer Review of Pensions found that it was appropriate to "*limit the flow on of the increase to pensioners with low to moderate reliance on the pension*".

Changing the income test taper will mean the full benefit of the pension increase will flow to those with no or little private income, while ensuring those with higher incomes receive proportional increases."

We respectfully submit to you that this series of statements is quite misleading.

It suggests the proposed change in the income test taper rate is necessary to prevent a flow on of the increase in the base rate to people having a low to moderate reliance on the age pension. We have completed calculations (Attachment 1) showing that the income test taper rate change will see couples with combined private incomes above about \$11,700 p.a. being worse off if their pension commences after the reforms are in place. In other words the effect of the taper rate change will not be that it just prevents a flow on, it will roll back age pension entitlement for many couples with very modest private incomes and a heavy reliance on the age pension. All these people will be part age pensioner couples with entitlements determined by the income test. On the other hand the fact that the asset test taper rate is to remain

unchanged will ensure that the entire amount of the improvement in the base rate flows on undiminished to every asset-tested part age pensioner.

The statement also suggests that, as private incomes increase, couples can expect to still get an improvement, but proportionately less than those with private incomes below the threshold. Our calculations in Attachment 1 show, for people commencing age pension after 20/9/2009, that beyond a combined private income of about \$11,700 for couples one is dealing not with increases, but with decreases and these decreases will reach \$4,700 p.a. at the new cutout value of about \$59,000.

### **Existing Part Age Pensioners**

It appears that the Government wants members of Parliament and the existing part age pensioners who will be affected by the change in income test taper rate to believe that its grandfathering provisions will protect existing part age pensioners from any detriment.

In the House of Representatives on 16 June 2009 the Hon Tony Abbott, MP spoke about the income test taper rate change as follows:

“this legislation changes the withdrawal taper rates. In future the pension will be reduced by 50c for every dollar of additional income earned rather than, as was the case under the Howard government, by 40c. This is obviously not going to benefit some people who would otherwise be on the pension. Nevertheless, I note that the government will be grandfathering existing pensioners. I presume this will necessitate the maintenance of two scales for many years to come—in fact for as long as current pensioners continue to receive the pension. I imagine that it will create a certain amount of administrative complexity for Centrelink, but, nevertheless, if such a change is going to be made, it is a fair way of doing it.”

From the fact that Mr Abbott believes two income testing scales are going to be used as long as current pensioners continue to receive the pension we know he has formed an understanding that existing part age pensioners are to have their existing pension entitlements determined as they are now for their remaining lifetimes. This is not true but no criticism can be directed at Mr Abbott because he shares his misunderstanding with tens of thousands of existing, and unsuspecting, income tested part age pensioners.

The misunderstanding is the product of the Government’s carefully crafted description of its grandfathering arrangements. This goes as follows:

“For existing pensioners who would otherwise face a payment reduction because of the new income test, a transitional safety net will apply. The transitional safety net will ensure that current payment rates for part pensioners are maintained in real terms, and that they benefit from an increase of \$10.14 per week for singles or couples combined. They will continue to receive these existing entitlements, including the increase, until they are better off under the new pension rules, including the new 50 cent income test withdrawal rate.”

The Association has carried out calculations to investigate the actual effect of the change in the income test taper rate on existing income tested part age pensioners. The results are set out in Table form in Attachment 2

Our calculations show that for income tested part age pensioners with private incomes above quite modest levels there is no question of being better off under the new pension rules. People can only become worse off than they would be under the current arrangements.

Existing part age pensioner couples who are income tested are destined to have their age pension entitlements reduced compared to what the entitlements would be if the taper rate was not changed. They will find themselves moved over time to a pension calculated using the new, higher taper rate. The time it takes for this to happen depends on the amount of private income the couple has. People with relatively small private incomes will find themselves on the new lower pension relatively quickly. All this is set out in the table contained in Attachment 2.

For single part age pensioners who have their entitlement determined by the income test the effect will be similar with the main difference being that the income level beyond which a single age pensioner is destined to be worse off under the new taper rate is higher than that for couples. But many single income tested part age pensioners of modest means will be adversely affected.

At tomorrow's hearing Mr Tom Hayes will be speaking to you about the matters set out in this e-mail and the attachments. Mr Hayes' connection to S.A. Superannuants is that he is Vice-President of the *Australian Council of Public Sector Retiree Organisations*. S.A. Superannuants is an affiliate of this Council and Mr Hayes is well known to us. He has a good knowledge of this income test issue.

Yours sincerely,

Ray Hickman  
Membership Officer, S.A. Superannuants.