

The points A.I.R. wishes to make at the teleconference set for 11 am Friday 19 June are as follows:

1. Taper increase from 40 cents to 50 cents in the dollar
 - (a) effect of the change.

A.I.R. represents self-funded retirees, many of whom receive a part Age Pension.

The present level at which the part-age pension cuts out is approximately \$41,000, or about 75% of MTAW. Part age pensioners represent 41% of all age pensioners and 73% receive over 90% of the full age pension. Consequently, the level of assets held by part age pension recipients is very low. They rely on the part age pension to carry these assets through their retirement, an increasing and unknown number of years (longevity risk). These private assets are used to cater for unexpected costs of having to change accommodation, to maintain homes and other capital items, and to meet unforeseen health costs. They can in no measure be considered to have excess assets to fritter away on non-essential matters.

Increasing the taper rate reduces the part age pension. Consequently, (i) they have to run down their personal assets more quickly, (ii) they will move to a higher level of part age pension more quickly offsetting any financial gain to government made by the proposed change, and (iii) their standard of living will be reduced toward that of the full age pension (recognised as a safety net level providing a minimum standard of living).

The net result is (i) a short term gain for the government to be replaced by a higher cost in the long term, (ii) greater worry by pensioners that they will not have the resources to manage longevity risk, and (iii) that their well being in retirement will suffer.

Private earnings are dependent on investment performance, which has been devastating because pensioners do not have products available that give them security of earnings with sufficient returns. They are now faced with a further reduction in their income from the increase in the taper.

The government has proposed the change in the taper despite its Review into Australia's Future Tax System. The Henry Review intends to examine in detail the best means testing arrangements for pensions including "the taper rates that best achieve balance between incentives to work and save, effective targeting and fiscal considerations". A.I.R. believes that the government should not prejudge the outcome from its Review and the budget proposals should at least be deferred until the Henry Tax Review Report is available.

(b) Transition measures

The transition measures allow for present part age pensioners to retain their pension (based on the 40 cents taper) until such time as the other indexes catch up.

However, the value of a retiree's pension is recalculated at least annually depending on the earnings from the assets and earnings from working after retirement. This recalculation may lead to an increase or a decrease in the part age pension. This means that the government will be faced with: (i) two different streams of taper rates extending well over the next thirty years, (ii) two large groups of retirees with one group seeing disadvantage compared with the other group, and (iii) complex arrangements difficult for retirees to understand. The proposed arrangements are unclear in the Bill.

2. Other matters

A.I.R. does not have any comment on the other matters to be considered by the Committee.

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