Chapter Nine

Income Support Arrangements for Pre-retirees and Retirees

Introduction

9.1 This chapter examines possible changes that could be made to the superannuation and government income support arrangements to encourage mature age workers to remain in employment and to assist retirees to gain access to an adequate income in retirement.

The superannuation accumulation system

The SG Rate

9.2 The Committee noted in Chapter Six trends in retirement incomes in Australia, including information on the pressure on the age pension system expected in the future as the population ages. This was based on evidence from the Committee's earlier report *Superannuation and standards of living in retirement*.

9.3 Given this forthcoming pressure on the age pension system, various parties to the inquiry advocated that the SG system be extended. For example, the ABA noted in its written submission that many retirees expect to rely on SG contributions in retirement, yet for many of them, SG contributions alone will not provide enough money for them to maintain an adequate standard of living in their extended retirement.[1]

9.4 Similarly, the AWU argued that Australia needs to start lifting superannuation contributions now to ensure that workers have a secure retirement. The AWU advocated increasing the SG levy to 15 per cent over the next eight years, and indicated that it is making this a bargaining agenda item.[2]

9.5 The Committee also notes the evidence of Mr Covick, Associate Professor in Economics at Flinders University, on 9 May 2003. He advocated two strategies to encourage additional savings during the remunerated working years without drawing down public savings:

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1 *Submission* 41, ABA, pp. 4-5.

2 *Submission* 35, AWU, p. 4.

a) Increasing the SG rate to 10, 11 or 12 per cent;

b) Extending the SG arrangements to those parts of the younger working population not currently properly covered by it, notably the self-employed and those who are unable to work.[3]

The Superannuation Surcharge

9.6 In its written submission, the ABA argued that the superannuation surcharge is an inefficient tax which is expensive to collect. In addition, people who have deferred making contributions until later in life pay more than people who spread their contributions over their lifetime. This can impact on persons whose normal income is well below the threshold for paying the surcharge. This was reiterated by Mr Rice representing the ABA in the hearing on 5 May 2003:

> I think the surcharge is an inefficient tax. It costs a lot to raise. It would be better to look at manipulating the tax rates of high income earners on their personal tax rather than within superannuation. That is a debate we have had for seven or eight years now.[4]

9.7 The Committee also notes the evidence of Dr Olsberg in the hearing on 5 May 2003 when she noted that the superannuation surcharge could be assessed on the basis of total savings in superannuation over a lifetime, rather than on current income. Under such a scheme, people with superannuation savings of less than $300,000, for example, would be exempt from paying the 15 per cent surcharge. This would provide an inducement for individuals without sufficient superannuation savings to contribute more to their superannuation without facing a 30 per cent up-front tax rate.[5]

Rules relating to contributions

9.8 The current superannuation work test rules require that employees aged 65-75 can only contribute to a super fund if they are working 10 hours or more per week.[6] Contributions to a superannuation fund can be accepted for a member under the following conditions:

a) Age 65-70 and working 10 hours per week: award, SG, voluntary member, voluntary employer and spouse contributions can be accepted.

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3 *Committee Hansard*, 9 May 2003, p. 189.

4 *Committee Hansard*, 5 May 2003, p. 32.

5 *Committee Hansard*, 5 May 2003, p. 53.

6 Prior to 1 July 2002, those aged over 70 could not make personal contributions. See *Submission* 46, Treasury, p. 2.

b) Aged 65-70 and working under 10 hours per week: award or SG contributions only. Member, voluntary employer and spouse contributions cannot be made.

c) Over age 75: award contributions only. SG contributions, member, voluntary employer and spouse contributions cannot be made after age 70.[7]

9.9 In their written submissions to the inquiry, the Superannuated Commonwealth Officers Association, the Association of Independent Retirees – Whyalla and Districts Branch, the IAA and ASFA all cited these work test rules. ASFA gave particular attention to this matter.

9.10 ASFA noted that up to age 65, there are no real limits, other than the reasonably generous limits on deductible contributions per employee, on contributions to funds. Between the ages of 65 and 70, ASFA noted that a super fund may accept contributions by or in respect of a member, provided that the member is gainfully employed or the contributions are mandated employer contributions relating to pre-age 65 employment. Where the member has reached 70 years of age, the fund may continue to accept employer contributions if they are mandated under an award (the SG does not apply to persons 70 or over) or the contributions are personal contributions. ASFA continued:

> Navigating this maze of tests about payment of benefits and contributions is not something that those of advancing years (or any age for that matter) should be required to do. ASFA considers the rules relating to both contributions and the cashing of benefits for people who have reached preservation age are complex, inequitable, difficult to apply and not suitable for the modern workforce. ASFA advocates the adoption of a policy that would permit a gradual or phased retirement for people after age 60.

9.11 Accordingly, ASFA recommended that the contributions and cashing rules for those over their preservation age be modified so that individuals can change labour force status (full-time employment to part-time employment to withdrawal from the paid workforce, or the reverse or any mix of this pattern) without seriously compromising their superannuation options or outcomes.

9.12 For instance, individuals who have reached their preservation age should be allowed to move from full-time to part-time employment with the same employer and be able to access their superannuation benefits to supplement their income. As well, drawing down on a superannuation benefit should not prevent an individual from contributing to the fund they are receiving the benefit from, or another fund.[8]

9.13 Similarly, the IAA in its written submission argued that the inability to contribute at older ages, and the lack of compulsory SG contributions after age 70,

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7 *Submission* 47, IAA, p. 9.

8 *Submission* 33, ASFA, pp. 14-15.

distinctly disadvantages some people, such as those with broken work patterns or who commenced contributions later in life. Accordingly, the IAA argued that the rules relating to contributions for those aged over 65 should be reviewed.[9]

9.14 The Committee notes that this issue was also raised in hearings. Mr Smith representing the Investment and Financial Services Association (IFSA) noted in evidence on 5 May 2003 that after the age of 65, there is a nexus between employment and contributions which does not exist up until that age, and advocated the removal of this additional complication from the contribution rules in the SI(S) Act.[10] Ms Rubinstein from the ACTU similarly stated:

> We support the changes to the law to allow for voluntary contributions to be made by workers up to the age of 75. We believe that the SG ought to be payable as well up to the age of 75. … It is clearly discriminatory and based on outmoded actuarial approaches to superannuation which are clearly inappropriate in accumulation schemes.[11]

9.15 In its hearing on 15 May 2003, the Committee raised with representatives of Treasury the issue of the contribution and cashing-out standards that apply to fund members over the age of 65. In response, Mr Brake indicated that the Government has asked Treasury to review these matters, and that Treasury has accordingly started consultations with industry.[12]

The superannuation benefits system

The superannuation preservation age

9.16 The superannuation preservation age is the earliest age that superannuation lump sums can be accessed following retirement. Currently, the superannuation preservation age in Australia is 55, but it is being increased to 60 on a phased basis.[13]

9.17 In their written submissions to the inquiry, the CSA, the FPA and the COTA National Seniors Partnership all supported an increase in the superannuation preservation age, to prevent ‘double dipping’:

- The CSA argued that access to superannuation at age 55 puts additional strains on retirement savings because benefits are regularly accessed up to 10 years before the age envisaged when retirement benefits were funded.[14]

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9 *Submission* 9, IAA, p. 9.

10 *Committee Hansard*, 5 May 2003, p. 59.

11 *Committee Hansard*, 8 May 2003, p. 117.

12 *Committee Hansard*, 15 May 2003, p. 289.

13 *Submission* 46, Treasury, p. 2.

14 *Submission* 25, CSA, p. 6.

- The FPA noted that the government has initiated a policy to link access to super with retirement. However, the FPA argued that this policy should be redesigned so that lump sum superannuation benefits are linked to age pension age. This would steer people away from taking lump sum payments at age 55 and then at age 65 relying on the age pension.[15]
- Similarly, the COTA National Seniors Partnership argued that it is illogical that the superannuation preservation age ever differed from the age pension eligibility age, since it inevitably leads to "double dipping". To address this, the Partnership recommended that the current process of increasing the superannuation preservation age progressively to 60 years of age should be extended so that it ultimately matches the age pension eligibility age.[16]

9.18 The Committee notes, however, the opposition of the ACTU to any increase in the superannuation preservation age.[17]

9.19 The Committee also notes the paper by the OECD in the *OECD Economic Outlook* cited earlier entitled 'Increasing Employment: The Role of Later Retirement'. In this paper, the OECD noted that before the age of 60, there is virtually no incentive to retire under the regular old-age pension system in any OECD country. However, significantly, the OECD listed Australia as one of the few exceptions to that rule because of the ability of individuals currently to draw on their mandatory savings from 55.[18]

Fixed term income stream products

9.20 Various parties to the inquiry argued for stronger incentives for individuals to take fixed-term income stream products rather than lump sum payments on retirement.[19]

9.21 In its written submission, IFSA reiterated the observations of the Committee from its report *Superannuation and standards of living in retirement* that many rules in tax and superannuation legislation appear to assume that a person retires once, and only once, from the workforce. For example:

- An income stream, once commenced, cannot be suspended if the purchaser returns to work – it must be commuted and restarted.
- An income stream, once commenced, cannot be topped up with new monies – it must be commuted and restarted.

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15 *Submission* 32, FPA, pp. 11-12.

16 *Submission* 31, COTA National Seniors Partnership, p. 23.

17 *Committee Hansard*, 8 May 2003, p. 116.

18 OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), pp. 146-148.

19 See the Australian Pensioners' and Superannuants' League Queensland, Centrestone, the ICA, the IAA.

9.22 To remove these perceived anomalies, IFSA argued for a wholesale rewrite of the release of benefits rules and income stream provisions in superannuation, tax and social security legislation.[20] This was reiterated by Mr Smith representing IFSA in evidence on 5 May 2003:

> We see a number of people [moving] from a retired status back into the accumulation phase of a fund and that is where we need some flexibility in the rules. We need flexibility to allow people to have the right mix of investments or pensions or accumulation stage assets to fit their situation. Any rule introduced into the SI(S) regulations should be flexible enough for the new type of transition in retirement …[21]

9.23 The ICA also argued that future retirement income products should be developed which enable the contribution of additional assets during retirement as homes are downsized to suit the changing family structure.[22]

9.24 In response to this issue, the Committee notes the written submission of Treasury in which it addressed the reasons for the current restriction on adding contributions to a fixed term income stream product once it has commenced:

a) Allowing amounts to be added to a pension would blur the distinction between the accumulation and pension phases of superannuation which currently have distinct taxation treatments within a fund. Specifically, no earnings tax is payable by a fund in respect of assets backing pensions, however earnings tax is payable with respect to assets in the accumulation phase.

b) Each time new contributions were added to the pension, the fund would need to recalculate a pension's undeducted purchase price, rebateable proportion, minimum and maximum drawdown amounts and RBL value.

c) The ability to contribute to a pension, for example annually, would result in higher drawdowns in the early years of the pension, relative to if the new contributions were in an accumulation fund until the person completely retired.

d) The impact of fees and charges and the potential for additional complexity would also need to be considered.[23]

9.25 The Committee also notes the evidence of Mr Clare from ASFA that one of the main impediments to the purchase of retirement income streams at the present

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20 *Submission* 27, IFSA, pp. 4-5. See also *Committee Hansard*, 5 May 2003, pp. 56-57.

21 *Committee Hansard*, 5 May 2003, p. 60.

22 *Submission* 36, ICA, p. 2.

23 *Submission* 46, Treasury, pp. 3-4.

time is that current average retirement savings are in the order of $65,000 – simply not enough to justify the taking of an income stream. Such small sums, Mr Clare noted, can be better used in retirement to replace a car or white goods, or make repairs to the house. As the superannuation system matures and average superannuation retirement savings increase, Mr Clare suggested that the taking of income streams may become more of an issue.[24]

9.26 In the hearing on 16 May 2003, Mr Brunner from APRA indicated that if government policy moved to encourage the take up of allocated pensions, APRA would be concerned to ensure the financial viability of the funds, including their capitalisation, and that they had the ability to continue to pay the income stream as agreed.[25]

Reasonable Benefit Limits (RBLs)

9.27 In their written submissions to the inquiry, the FPA and Centrestone argued that the Government should either abolish or raise the RBL, on the basis that it is a punitive tax limiting the build-up of retirement savings.

9.28 The FPA noted in its written submission that RBLs were introduced to steer retirees into purchasing pensions with their superannuation savings rather than taking the money as a lump sum. However, the FPA argued that the RBL system is clearly not achieving its policy intent, and rather is hindering those who can save from contributing excess money into super, because of fear of reaching the RBL quickly before retirement.

9.29 Accordingly, the FPA recommended that the government abolish RBLs. Alternatively, as a means of encouraging older Australians to take an allocated pension rather than a lump sum (the original intent of RBLs) the FPA recommended doubling the RBLs for allocated pensions and retaining the current level for lump sums.[26]

9.30 Centrestone also argued that if the Government aims to encourage people to work longer and build up their retirement benefits, it is contradictory to limit the amount of superannuation that they can received through punitive taxation under the RBL system.[27] Centrestone also noted that the current RBL legislation is failing to encourage the use of income streams – only those individuals who are least likely to draw on government support are encouraged into income streams as only those with lump sums in excess of approximately half a million dollars exceed the lump sum RBL.[28] In the hearing on 5 May 2003, Ms O'Keefe from Centrestone noted:

24 *Committee Hansard*, 5 May 2003, p. 41.

25 *Committee Hansard*, 16 May 2003, pp. 317-318.

26 *Submission* 32, FPA, pp. 16-17.

27 *Submission* 3, Centrestone Wealth Management Pty Ltd, p. 11.

28 *Submission* 3, Centrestone Wealth Management Pty Ltd, p. 16.

> Another proposal that we raised in our submission to encourage people to adequately plan for their retirement was the abolishment of RBLs—reasonable benefits limits. In practice, RBLs limit the amount of money that people want to put into super. If the aim is to encourage people to work longer and contribute to super, the idea of RBLs does not really fit in, as it can discourage people who may have excessive benefits to make further contributions. So it puts a limit on the amount of money that you would want to put into super.[29]

9.31 In response to these arguments in favour of abolishing or raising RBLs, Senator Sherry noted that very few people are ever going to reach the RBL, and that there should be some limits to tax concessions for high wealth individuals. Without such a limit, there is effectively a tax transfer to high wealth individuals.[30]

9.32 Against this viewpoint that RBLs should be abolished or raised, Associate Professor Covick noted that the only real encouragement under the current superannuation framework for individuals to put their retirement savings into prudently managed vehicles is the RBL system. However, Associate Professor Covick argued that the current arrangements are deficient because those that are most at risk of running out of savings in their retirement are also most likely to fall below the RBL, and therefore receive no encouragement not to take a lump sum payment. He continued:

> The taxation (and social security means-testing) advantages currently provided to so-called 'allocated pensions' may be perceived by less-well-informed retirees (and workers approaching retirement) as providing these products with some sort of stamp of government approval as prudent means of deploying one's retirement savings. These products typically provide zero longevity insurance. These products are available across a broad spectrum of capital-risk. It is madness for public policy to provide no significant 'encouragement' for 'below lump sum RBL' retirees to deploy their monies into true prudently managed life annuities as compared with putting the same monies into so-called allocated pensions with significant capital-risk properties.[31]

9.33 In follow-up testimony in the hearing on 9 May 2003, Associate Professor Covick argued that the Government should restrict access to lump sum payments to the very rich. He advocated that only once a retiree has accumulated sufficient savings to buy an appropriate annuity should they be permitted to take the remainder, or a proportion of the remainder, as a lump sum.[32]

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29 *Committee Hansard*, 5 May 2003, p. 21.

30 *Committee Hansard*, 5 May 2003, p. 21.

31 *Submission* 8, Associate Professor Covick, p. 3.

32 *Committee Hansard*, 9 May 2003, pp. 191-192.

9.34 The Committee notes that Mr Rice, representing the ABA, also argued in the hearing on 5 May 2003 that the Government should reduce the amount of lump sum that people can take on retirement, thereby forcing them to take income streams.[33]

9.35 The Committee addresses the issue of income streams and life annuity products below. However, the Committee notes that many people still prefer to take a lump sum on retirement rather than an income stream in order to pay off their housing loan or other debts.

Life Annuity Products

9.36 The Committee wishes to cite in some detail the evidence of Associate Professor Covick to the Committee in the hearing on 9 May 2003 on the subject of life annuity products.

9.37 Associate Professor Covick noted that, through the social security system, the government provides retirees with a safety net to prevent them from having an intolerably low standard of living. At the same time, however, he argued that the government's mechanisms for trying to get individuals to attempt to provide for their own retirement are not geared correctly – individuals are not being compelled to take incomes that last the remainder of their lives, topped up by government payments if need be. Associate Professor Covick provided the following analogy:

> … if you had a system whereby everybody whose house ever burnt down had the government come in and pay for its reconstruction, nobody in their right mind would ever insure their own house against fire. We want people to insure themselves against running out of money after they have retired. You cannot have a system that says, 'If you do run out of money, we'll look after you; don't worry about it,' and, if we have managed successfully to compel you to save a couple of hundred thousand dollars: 'Do what you want with that. You can have a tolerable living standard, paid by taxing working people after they have retired.'[34]

9.38 Accordingly, Associate Professor Covick argued that the Government should take steps to 'encourage' the taking of live annuity products – products that provide retirees with a steady income for the remainder of their lives, regardless of how long that may be. Furthermore, those products should be geared to real earnings, and not the consumer price index (CPI), in order to keep up with improvements in community living standards 10, 15 or 25 years ahead.[35]

9.39 By way of 'encouragement' for mature age workers to take life annuities, Associate Professor Covick argued that people are compelled to save money towards their retirement during their working lives, so why not compel people to place a reasonable proportion of their savings in a life annuity product? This would prevent

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33 *Committee Hansard*, 5 May 2003, p. 34.

34 *Committee Hansard*, 9 May 2003, p. 194.

35 *Committee Hansard*, 9 May 2003, p. 189.

them from spending it too rapidly, or from investing it in risky assets on the advice of a charlatan.[36]

9.40 Associate Professor Covick acknowledged that the disadvantage that many people see in life annuities is the fear that the life insurance company will go broke, or that they will die tomorrow or next week, in which case their superannuation savings would become a windfall for the insurance company. In addition, many people see the returns of life annuities as too low. Associate Professor Covick suggested two reasons for this:

a) The bulk of people do not appreciate what their average life expectancy is. Many people have a fair knowledge of average life expectancies at birth in Australia. However, if you have lived to 65 already without dying, your life expectancy is considerably higher than the average life expectancy at birth. Actuarial tables take this into account, with the result that the prices for life annuities often look high.

b) Life officers add on to what is actuarially fair various margins. One margin is just profit margin to run the operation and pay the administrative costs. Another is associated with the risk of looking after the portfolio. A third is the adverse selection margin – life insurance officers assume that people buying life annuity products are more healthy than the general population, otherwise they would not want a life product.[37]

9.41 In response to this perceived problem, Associate Professor Covick indicated that many life insurance companies would like to offer life annuities which would give the individual a residual lump sum if they died within, say, the first 10 years. Life insurance companies believe that such a product would attract far more customers. However, at the moment life insurance companies cannot create such a product because it would not pass the test of a qualifying life annuity. Associate Professor Covick continued:

> So, if the definition of a qualifying life annuity were altered to allow perpetuities with a capital value when the person died, or life annuities which had a lump sum payout if the person died before some relatively short period of time, that, it strikes me, would be compatible with the intent of current policy arrangements. At the same time, it would provide a much greater incentive to a larger number of individuals to take proper longevity insurance embodied life annuities.[38]

36 *Committee Hansard*, 9 May 2003, p. 189.

37 *Committee Hansard*, 9 May 2003, pp. 192-193.

38 *Committee Hansard*, 9 May 2003, p. 191.

9.42 The Committee notes that the attractiveness of life annuity products was also raised by other parties to the inquiry. In the hearing on 5 May 2003, Mr Rice representing the ABA noted that almost all annuities are sold as term certain annuities, and that life companies are reluctant to take on the longevity risk that an individual may live considerably beyond their average life expectancy.[39]

9.43 Mr Rice also noted that many life annuity products provide very low returns, due to increasing life expectancies and uncertainty, and that accordingly people do not find them attractive.[40]

9.44 This point was also made by Mr Clare from ASFA:

> The main reason that life annuities and the like have not taken on in Australia is that the implicit rate of return and the income streams generated by a capital sum are relatively low and there is a lack of flexibility where in most cases at death there is nothing to the estate or dependents—it goes into the life office funds, to contribute both to their profits and the payment of income streams to people who live longer than the life expectancy for that group.[41]

Purchasing a life annuity from the government

9.45 Flowing on from the issues raised above in relation to the take up of genuine life annuity products, the Committee notes that a major issue raised during the inquiry was the possibility of the government offering a life annuity product for purchase in the market place. This might fill the perceived gap in the private sector provision of life annuity products.

9.46 This suggestion was first raised by the ABA. In its written submission, the ABA raised the possibility of allowing those retirees who are not eligible to receive a full age pension to be able to use their accumulated superannuation assets to purchase one, in whole or in part, from the government on retirement.[42] This suggestion was further elucidated by Mr Connolly representing the ABA at the hearing on 5 May 2003:

> One option would be to allow people who do not currently qualify for either a full pension or even a part pension to buy their pension by effectively transferring the equivalent value, either through direct transfer or through buying it from other assets that they may have. Our experience of the marketplace suggests that in Australia there is an inordinate desire to access the pension. People will go to the most extraordinary lengths to distort their financial situation; they will actually run at a major loss if necessary in terms of the opportunity cost factors just to qualify for at least a part

39 *Committee Hansard*, 5 May 2003, p. 37.

40 *Committee Hansard*, 5 May 2003, p. 37.

41 *Committee Hansard*, 5 May 2003, p. 42.

42 *Submission* 41, ABA, p. 1.

> pension. This is precisely one of the reasons why we have said that we have to stop all this and get back to the fundamentals.[43]

9.47 The Committee raised this proposal for the purchasing of a life annuity type product from the government, similar to the age pension, with a number of parties during hearings, noting that the government has the potential to offer some alternative products and overcome some of the uncertainty in the market.

9.48 In response, Associate Professor Covick noted that a government purchased age pension could be used to address this issue of longevity risk, and that there would be no impediment to the government offering a life annuity product with the same features as the current age pension at a price which is the actuarially fair present value.

9.49 Mr Clare from ASFA supported the proposal in the hearing on 5 May 2003, but noted that the capital sum that would be required to replicate the age pension in full would most likely be over $200,000 in lump sum terms. In addition, the government would have to consider whether it could offer an income in excess of that offered in the private sector without some form of implicit subsidy from the taxpayer.[44] Mr Clare continued:

> If the government provided some subsidy, either through the concessional social security treatment or, if they were a provider, through providing more attractive returns, there would be greater interest.[45]

9.50 Similarly, Dr Parkinson from ARPA(SA) indicated in the hearing on 9 May 2003 that some of the association's members had had difficulty in buying annuities or setting up appropriate income streams. Accordingly, he welcomed the suggestion of purchasing a pension from the government.[46]

9.51 The Committee also raised this proposal for the government to provide a life annuity type product at a competitive rate with representatives of Treasury in the hearing on 15 May 2003. In response, Mr Rosser from Treasury indicated Treasury's belief that the Government relies on the provision of retirement products through the competitive market.[47]

<u>Rules on the taking of superannuation benefits</u>

9.52 The current superannuation rules require that those over age 65 draw down their superannuation where they are not working at least part-time. A member between 65 and 75 must work at least 10 hours per week in order to avoid having to

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43 *Committee Hansard*, 5 May 2003, p. 34.

44 *Committee Hansard*, 5 May 2003, pp. 41-42.

45 *Committee Hansard*, 5 May 2003, p. 42.

46 *Committee Hansard*, 9 May 2003, p. 183.

47 *Committee Hansard*, 15 May 2003, p. 292.

draw down, while those over age 75 must work full-time (at least 30 hours per week).[48]

9.53 In its written submission, ASFA noted that where a member is aged over 65, the trustee must have in place monthly monitoring arrangements to determine whether the member satisfies the gainful employment test in respect of each week. Individuals with intermittent work patterns face the risk of having contributions returned, unaccepted by a fund. They may even have their entire balance paid out without it being requested.

9.54 ASFA argued that these current restrictive provisions relating to the gainful employment test should be revised, so as to be more supportive of a flexible approach to work and retirement. ASFA suggest the work test be simplified by using a "look back" test for the employment status of those aged 65 or over:

a) For employees, the "look back" evidence could be a copy of a group certificate or certificates indicating receipt of income from employment of, say, more than $5,000 in the year.

b) For the self-employed, the "look back" evidence could be a letter from an accountant indicating the employment arrangements and/or income from personal exertion of the member, together with a statement of intent that they will work during the forthcoming year.[49]

9.55 This issue was also raised by Mr Stanhope from IFSA in evidence on 5 May 2003. He cited the following example:

> Say you are over 60 and you are employed. You might have been with that employer for a long time and know a lot about the business. You do not want to work particularly anymore but you might want social interaction and it comes with a reasonable salary for the time you spend there, or you might actually need a bit of work but you do not want to work full-time anymore, for a host of reasons, perhaps including caring for an aged relative. If you retire from an employer and continue part-time employment with that employer, you cannot draw your benefits; you cannot cash your benefits and commence your age pension, because you are still having superannuation paid in respect of that employment, even though by any notion that you and I might have you are retired.[50]

9.56 As indicated earlier, the Committee raised the issue of the contribution and cashing-out standards that apply to fund members over the age of 65 with representatives of Treasury in its hearing on 15 May 2003. In response, Mr Brake

48 *Submission* 46, Treasury, p. 2.

49 *Submission* 33, ASFA, pp. 13-14.

50 *Committee Hansard*, 5 May 2003, p. 67.

indicated that the Government has asked Treasury to review these matters, and that Treasury has accordingly started consultations with industry.[51]

Accessing superannuation to supplement part-time work income

9.57 During the inquiry, a number of parties argued that part-time workers should be able to access part of their superannuation as an income stream to supplement their income and to compensate for lost wages.[52] Doing so would encourage mature age workers to take up part-time work.

9.58 In its written submission, the FPA noted that some government policy decisions have already gone some way towards encouraging a progressive transition from work to retirement. For example, as a result of a budget announcement in 1996, Australians aged 65-70 with part-time work can continue to contribute to a superannuation fund. Also, people aged 50 and over can now undertake unlimited full-time voluntary work and still qualify for social security allowance.

9.59 However, the FPA recommended that the Government consider adopting a policy which would allow mature age workers (age 55 and over) to choose whether they want to revert to part-time work, and top up their income (up to age pension amount) by placing parts of their super into an income stream. This would allow mature age workers the flexibility to choose a lifestyle and remain in contact with the workforce, while not facing a large drop in income.[53]

9.60 As an alternative option to accessing superannuation entitlements in conjunction with part-time work, the Association of Independent Retirees – Whyalla and Districts Branch raised the option of taking employers' SG contributions directly as income.

Defined benefit schemes

9.61 In its written submission, the Combined Pensioners and Superannuants Association of NSW noted that under some government defined benefit schemes, the maximum benefit becomes payable before age 60, in which case the Commonwealth preservation rule can mean a member is adversely affected. In the case of members born after July 1964, members can take benefits before age 60, but only if they agree to receive the preserved component of the benefit in the form of a non-commutable pension or allow the preserved component of their entitlement to remain in the scheme until a condition of release has been met.[54]

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51 *Committee Hansard*, 15 May 2003, p. 289.

52 See the Superannuated Commonwealth Officers Association, ARPA(SA) and the FPA.

53 *Submission* 32, FPA, pp. 12-14.

54 *Submission* 39, Public Service Association of NSW, and *Submission* 40, The Combined Pensioners and Superannuants Association of NSW, p. 2.

9.62 As a result, the Combined Pensioners and Superannuants Association of NSW noted that it is difficult for its members in defined benefit schemes to work part-time or on an ad hoc basis, because their benefits are based on the highest salary when retiring. Although they may subsequently take part-time work, at a lower rate of pay, the preservation rules can prevent this.[55]

9.63 The Committee notes the OECD paper 'Increasing Employment: The Role of Later Retirement' which indicates that various OECD countries have taken measures to make pension systems more neutral so that people retiring later (having contributed more) will have a correspondingly greater pension. This reduces or eliminates the implicit tax on continuing to work.

9.64 For example, in Sweden, Italy, Poland and Hungary, public pensions are being progressively transformed from defined benefit schemes to notional defined contribution schemes. In these systems, pension benefits depend on accumulated contributions – these are registered in notional individual accounts which are transformed into an annuity on retirement. The level of benefit depends on time in the workforce and the notional interest rate.

9.65 Other countries such as Germany, Finland, France and Ireland, which are still running defined benefit schemes, have also reduced the implicit tax rates by increasing pension accrual rates so that the replacement rate increases more if people work longer.[56]

A drafting task force

9.66 As a concrete solution to many of the issues identified above in relation to the current superannuation system, and problems relating to anomalies in the SI(S) Act and SI(S) regulations, and relevant taxation and social security legislation, Mr Stanhope from IFSA proposed the formation of a drafting task force within Treasury. Its role would be to examine the relevant legislation and regulations, identify any provisions that are problematic, and rewrite them.[57]

9.67 The Committee raised this proposal with Treasury representatives during the hearing on 15 May 2003. In response, Mr Brake argued that Treasury has a continuous brief to look at legislation under its portfolio, and to bring problems to the Government's attention.[58]

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55 *Submission* 39, Public Service Association of NSW, and *Submission* 40, The Combined Pensioners and Superannuants Association of NSW, p. 2.

56 OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), pp. 145-146.

57 *Committee Hansard*, 5 May 2003, p. 69.

58 *Committee Hansard*, 15 May 2003, p. 298.

Government pensions and allowances

9.68 In its paper, 'Increasing Employment: The Role of Later Retirement' the OECD advocated a number of strategies to encourage mature age workers to remain in the workforce, so as to cope better with the ageing of the population in OECD countries. One of those strategies was reducing the incentive to retire early in government pensions and allowances.

9.69 The OECD noted that a number of countries - Germany, Belgium, Italy, Finland, the Netherlands, Hungary, the UK and Canada - have recently started to tighten access to early retirement pensions, disability benefits and/or unemployment-related schemes. However, some countries have gone the other way by introducing an early retirement scheme (Norway), or making the existing system more generous and accessible to unemployed mature age workers (Spain).[59]

9.70 During the conduct of the inquiry, a number of parties made suggestions for reform to government pensions and allowances here in Australia. These are examined below.

Newstart Allowance

9.71 In its written submission, Centrestone Wealth Management argued that the Newstart Allowance, in some instances, rewards people for failing to adequately save for retirement or using their retirement benefits for non-retirement purposes.[60] Centrestone raised four points.

9.72 First, Centrestone argued that mature age people can often receive the Newstart Allowance at age 50 without having to look for paid work. In its submission, Centrestone cited Section 603AA(1) of the *Social Security Act 1991*, which states:

> *Subject to subsection (3), a person who has reached 50 years is taken to satisfy the activity test in respect of a period (the relevant period) if the person:*
>
> *(a) is engaged in approved full-time unpaid voluntary work for an approved organisation for at least 32 hours in the period; or*
>
> *(b) is engaged for at least 40 hours in the period in a combination of:*
>
> *(i) approved unpaid voluntary work for an approved organisation; and*
>
> *(ii) suitable paid work for another person.*

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59 OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), pp. 145-146.

60 Centrestone Wealth Management has been a licensed securities dealer and insurance broker since 1984. Its retired clients are mainly self-funding, with some receiving a part pension.

9.73 However, in its submission, Centrestone argued that there appears to be substantial anecdotal evidence that people over the age of 50 are effectively advised by Centrelink that it is acceptable to breach the activity test – thereby discouraging people from seeking work.[61]

9.74 Second, Centrestone argued that there is no disincentive to withdrawing superannuation in order to supplement Newstart Allowance. In December 2002, the Family Law Legislation Amendment (Superannuation) (Consequential Provisions) Bill repealed sections in the *Social Security Act 1991* and the *Veterans' Entitlements Act 1986*. As a result, the growth component of early withdrawals from superannuation is no longer assessed as income. Accordingly, Centrestone argued that an individual can supplement government income support with superannuation withdrawals.[62]

9.75 Third, Centrestone noted that superannuation is not means tested for Centrelink/Department of Veterans' Affairs (DVA) purposes if a person has not reached age pension age. Effective from 1 July 2001, superannuation benefits have been treated as exempt assets and are not income or asset tested for Centrelink/DVA purposes. Previously, superannuation assets commenced to be means tested for people who had been in receipt of income support for at least 39 weeks after reaching age 55. As a result, Centrestone argued that people aged 55 have a 10-year window of opportunity in which they can effectively 'hide' accumulating superannuation assets and receive the Newstart allowance.[63]

9.76 Fourth, Centrestone argued that the conditions of release of superannuation benefits, especially in relation to reaching preservation age and permanently retiring, are quite artificial. Centrestone noted that an individual can state that they are permanently retired, access their superannuation benefits, and then work again. Alternatively, they can elect to receive a Centrelink benefit while depleting their superannuation savings, and then be eligible for the age pension.[64]

9.77 In its written submission, Centrestone offered the following case study on the Newstart Allowance comparing different scenarios for two couples faced with the option of retiring fully from the workforce at age 55.

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61 *Submission* 3, Centrestone Wealth Management Pty Ltd, pp. 3-4

62 *Submission* 3, Centrestone Wealth Management Pty Ltd, pp. 3-4.

63 *Submission* 3, Centrestone Wealth Management Pty Ltd, pp. 4-5.

64 *Submission* 3, Centrestone Wealth Management Pty Ltd, p. 5.

Box 9.1: Newstart Allowance case study

Part A

John and Margaret, aged 55 and 53 respectively, are a couple who own their own home with an outstanding mortgage of $60,000. John has been working for his employer for many years, and as a result of restructuring in the company, is offered a redundancy package of $150,000.

John decides to accept the redundancy offer. He receives approximately $67,500 as a tax free cash payment and uses this to retire the mortgage debt of $60,000 (and the residue it placed in his bank account). He elects to directly receive the remaining taxable portion. He deposits this in his bank account and then makes a $65,000 spouse contribution into a superannuation fund for Margaret as she has only a small amount of superannuation ($8,000). Margaret works as a receptionist in a doctor's surgery and earns $28,000 for the financial year.

In addition, John has a superannuation benefit totaling approximately $500,000, of which $200,000 is preserved. John's superannuation is a mixture of pre-1983, post-1983 and undeducted components.

John visits the local Centrelink office to determine his entitlement to unemployment benefits. He is advised that as a result of Margaret's income he will not qualify. After some discussion, Margaret decides that she will cease working and they will both apply for unemployment benefits. To their surprise, they discover that there are no rigorous work test requirements imposed and they decide that they will follow the example of many of their friends, and travel around Australia.

As John and Margaret were accustomed to a very comfortable lifestyle, they continue to spend at their pre-retirement rate where their cost of living was $60,000. This is achieved by drawing down from superannuation to supplement the Newstart that they both receive.

We estimate that John and Margaret will be entitled to the full amount of income support until John reaches age pension age, ten years after the Newstart Allowance first became payable (based on assumptions in ***Appendix Six****). When John reaches age pension age, they will be eligible to receive approximately 90 per cent of the maximum pension and allowance payments (based on assumptions in* ***Appendix Six****) as John's superannuation assets (estimated to then only total $185,000 after consumed drawdowns) will now be counted. There is a high probability that John and Margaret will also be entitled to at least a part age pension when Margaret is of age pension age due to their depleted superannuation assets.*

Comment by Centrestone

It must seriously be questioned whether these are needs based benefits and whether they should be paid to support a lifestyle of $60,000 per annum.

Part B

Next door to John and Margaret are another couple, Ted and Maureen, who are approximately the same age as John and Margaret. Ted also worked in the same company as John and was offered a redundancy package.

In contrast to John and Margaret, Ted and Maureen wished to continue working. Ted managed to obtain a part-time job where he received about half of his former salary and Maureen continued working in her part-time job. Between them they were able to achieve a reasonable standard of living on the net salaries they received. Ted's superannuation was able to accumulate to ensure a comfortable retirement in the future. They did not receive any government support and it is very likely that in their retirement years they will be fully self funding.

After John and Margaret returned from their 18 month holiday around Australia, they invited Ted and Maureen for a barbeque. As they sat around talking about their experiences, John and Margaret were very positive about John's redundancy as it had offered them the opportunity to embrace a life of leisure while they were still fit enough to enjoy it. They commented that Ted and Maureen were crazy to continue to work when the government can in reality, partly pay for people to take a long holiday.

Comment by Centrestone

This is the kind of scenario that is being repeated throughout Australia and the attitude of getting something for nothing is possibly replacing values of being self sufficient. Many people express the question 'Am I being foolish to not try and get this money for nothing?'

Our modeling shows that John and Margaret would receive income support of almost $200,000 over the ten years until John reaches age pension age. Over that time they pay no income tax (with the exception of lump sum taxes on withdrawals from superannuation). When John reaches age pension age they would be eligible to receive approximately 90 per cent of maximum benefits (based on assumption in **Appendix Six***). This trend would most likely continue when they are both receiving age pension due to their depleted assets.*[65]

9.78 The Committee took evidence from Mrs Keavney and Ms O'Keefe from Centrestone Wealth Management in its hearing in Sydney on 5 May 2003 in which the above issues in relation to Newstart Allowance and the case study were raised. The Committee notes the evidence of Ms O'Keefe:

> We are saying that there are strategies and loopholes out there that can enable people to receive income support when they might have sufficient funds. We face an ethical dilemma: for example, somebody who is aged 55 and is not working can get income support. They could have $800,000 in super and still receive full income support, because superannuation is not

65 *Submission* 3, Centrestone Wealth Management Pty Ltd, pp. 6-8.

> means tested if you are under aged pension age. So we face this dilemma: do we tell people to be self-responsible and use that $800,000 that they have accumulated, or do we say, 'You can actually keep that in superannuation and get Newstart for 10 years'? We face that ethical dilemma.[66]

9.79 In response, the Committee noted in the hearing on 5 May 2003 that only a small segment of the population have a considerable sum of the order of $800,000, or even $400,000 or $500,000 in superannuation in the case of John and Margaret. While it may be possible to 'crack down' on such high wealth individuals, the majority of early retirees aged 55-65 are unlikely to have such large amounts preserved in superannuation. As a result, forcing those early retirees with only modest superannuation savings to rely on those savings from age 55, rather than accessing the Newstart Allowance, may only mean that they run down their superannuation saving before age 65, and are forced to rely even more heavily on the age pension at 65.[67]

<u>The age pension means tests</u>

9.80 In its written submission, Treasury noted that eligibility for the age pension, while subject to a means test, does not distinguish between earned income (from wages and salary) and income from investments. That is, receipt of earned income will not of itself preclude a person from entitlement to the age pension.[68]

9.81 However, in its written submission, ASFA noted that in determining age pension entitlement, different types of income are treated differently:

a) Personal earnings (salary and wages) are included in the income test on the basis of income received in the applicable two weeks;

b) Other forms of income are in effect averaged over the entire year even though such earnings are attributed to specific fortnights.

9.82 ASFA argued that these different arrangements discourage intermittent and casual work due to loss of the age pension and very high marginal tax rates. Accordingly, ASFA recommended that there be better integration of work and retirement by introducing an income bank for age pensioners for income derived from employment.[69]

9.83 This issue was also highlighted by the COTA National Seniors Partnership, which noted that the income test on the age pension permits an individual to earn $30 a week without a reduction in the pension. However, a person earning $1,560 in a week (rather that $30 for 52 weeks) loses a fortnight's pension, penalising those working in blocks rather than small weekly increments.

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66 *Committee Hansard*, 5 May 2003, p. 12.

67 *Committee Hansard*, 5 May 2003, pp. 14-15.

68 *Submission* 46, Treasury, p. 3.

69 *Submission* 33, ASFA, pp. 15-16.

9.84 On a different matter, the ABA argued in its written submission that in view of the significant accumulation of assets by the so called "baby-boomer" generation, there is a case for incorporating the existing income and assets test into a "deemed" income test which would be applied to the designated assets of all pensioner applicants. This idea was further elucidated by Mr Rice representing the ABA in the hearing on 5 May 2003:

> There is a significant problem with people who are retired at the moment in that they need to have their income and assets test every six months or quarterly, and it is inefficient. We looked at two potential alternatives to that: one was to look at people at the time they retire, and make a decision as to what their entitlement will be for the rest of their life at that time—and there are issues with that—but that is one way of doing it. The other way is to try and simplify the tests. Instead of looking at people's assets and income, you just put a deemed income on all assets. It is really to design a simpler test.[70]

9.85 Finally, although it acknowledged that this would be highly sensitive politically, the ABA noted that the social security system would be more equitable if the family home above a reasonable threshold was taken into account in the assets test. This threshold could be set at a high level in today's prices (say, $1,000,000). It would also not apply to existing retirees and those (say) within 5 years of retirement. This would encourage future retirees to unlock the "excessive" equity in their family homes and use it to fund their own retirement.[71]

<u>The Pension Bonus Scheme</u>

9.86 In its written submission, FaCS noted that under the Pension Bonus Scheme introduced on 1 July 1998, people of age pension age can defer claiming the age pension while continuing to work. Currently, however, few people of age pension age are working:

a) 5.7 per cent of women are employed part-time and 2.6 per cent full-time; and

b) 7 per cent of men are employed part-time and 11.9 per cent full-time.

9.87 FaCS indicated that at 31 December 2002, 48,740 were registered for the Pension Bonus Scheme, or about a quarter of those of age pension age who are working.[72]

9.88 However, during the conduct of the inquiry, various parties argued that the Pension Bonus Scheme needs to be expanded, made more attractive and better publicised.[73]

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70 *Committee Hansard*, 5 May 2003, p. 33.

71 *Submission* 41, ABA, p. 11.

72 *Submission* 38, FaCS, p. 5.

9.89 ASFA argued that the Pension Bonus Scheme has not been successful in encouraging individuals to work past age pension eligibility. ASFA argued that the scheme has failed because:

a) The scheme has not been well publicised;

b) The quantum of bonus payment in lieu of the age pension is not great;

c) There is a requirement to work 960 hours a year, which is high for individuals who may only want to work on a part-time or intermittent basis; and

d) The labour force participation rate for persons of age pension age is very low and is mostly made up of professionals and the self-employed who are less likely to be eligible for the age pension.

9.90 Regarding publicity of the Pension Bonus Scheme, Centrestone also argued that although the Pension Bonus Scheme is an encouragement to remain working at least 20 hours per week for 48 weeks in the year, few people are aware of the scheme.[74] Ms O'Keefe from Centrestone noted in the public hearing of 5 May 2003:

> The second scheme that would encourage progressive transitions from full-time work to part-time work would be the pension bonus scheme. That scheme is run by DVA and Centrelink but not a lot of people are aware of it, even though it is advertised from time to time. Not a lot of people have taken up the scheme. Increased advertising and public education programs saying, 'This scheme is available and you can get a bonus when you finally get the age pension' would encourage people to work past age pension age.[75]

9.91 Similarly, the FPA noted that the Pension Bonus Scheme promotes progressive transition from work to retirement, but according to the many financial planners, not many people are aware of the scheme. This could be addressed by a public education campaign.

9.92 In relation to the quantum of bonuses in lieu of the age pension, the IAA argued that the scheme requires deferment of the age pension for five years to achieve reasonable compensation for the deferment:

> For example, a man who is eligible for the full age pension [at 65] but defers commencing his age pension until age 67 will only receive approximately $4,200 as a bonus, in return for having foregone more than $22,000 of age pension payments (less than 20 per cent compensation). If he defers for five

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73 See the Australian Pensioners' and Superannuants' League Queensland, Centrestone, The COTA National Senior Partnership, the FPA, the ABA.

74 *Submission* 3, Centrestone Wealth Management Pty Ltd, p. 12.

75 *Committee Hansard*, 5 May 2003, p. 19.

years, the percentage compensation increases to 46 per cent ($26,200, compared to $55,000 foregone).[76]

9.93 Accordingly, ASFA recommended that the amount and conditions for the Pension Bonus Scheme be reviewed so as to make it more attractive to potential users, particularly those contemplating part-time or flexible work in the early years of their retirement, and more actuarially fair.[77]

9.94 Finally, the COTA National Seniors Partnership noted that the Pension Bonus Scheme is weighted towards retirement at 70. Time worked after the age of 75 is not included when calculating the bonus.[78]

Carer's benefits

9.95 The COTA National Seniors Partnership noted that carers are recognised in a number of overseas countries as making a valuable contribution to society and are assisted in a variety of ways. Many women give their time to care for others, but suffer, through their absence from the workforce, from reduced superannuation accumulation and, ultimately, lower retirement incomes.

9.96 Accordingly, the COTA National Seniors Partnership recommended that carer's benefits similar to those available in the UK, Canada and Germany be introduced such that contributions to a superannuation account are made by government on behalf of women caring for another person (child, parent or significant other) for the duration of their absence from the workforce.[79]

The Commonwealth Seniors Health Card (CSHC)

9.97 In its written submission, the FPA recommended that one way to further encourage a progressive transition from work to retirement would be to reward workers staying on in the workforce on at least a part-time basis with access to the CSHC from age 55, rather than age pension age.

Income support arrangements for women

9.98 In her written submission to the inquiry, Dr Olsberg from the University of New South Wales Research Centre on Ageing and Retirement raised concerns that women, in particular, are likely to have insufficient income in retirement. Dr Olsberg suggested a number of reasons for this:

a) Women do not have enough time and enough money put into superannuation over the course of their working lives. Compulsory

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76 *Submission* 47, IAA, p. 12.

77 *Submission* 33, ASFA, p. 16.

78 *Submission* 31, COTA National Seniors Partnership, p. 24.

79 *Submission* 31, COTA National Seniors Partnership, pp. 16-17.

retirement-income schemes are presently dependent upon an individual's employment and wage level.

b) Women's working patterns, their lifelong earnings and therefore their capacity to accumulate sufficient retirement savings are crucially compromised by interruptions to paid employment due to child-bearing and rearing and other family responsibilities.

c) Women live longer than men – 82 years on average compared to 78 for men. As a result, women must rely on their superannuation for a longer period in retirement, often living alone.

d) The high level of divorce and low remarriage levels of divorced women mean that expectations of financial security through access to a partner's superannuation may not always be realised.

e) Research reveals that both women and men have low levels of understanding of superannuation and find fund information overly complex and hard to grasp. As a result, both women and men display low levels of commitment to superannuation savings, and often forgo opportunities to make long-term savings due to a disinclination to sacrifice current spending for future savings, as well as lack of surplus discretionary income.[80]

9.99 The Queensland DIR also cited research by the Ministerial Taskforce on Work and Family in 2002 that women found it more difficult to accumulate retirement funds, often due to more interrupted work patterns through their working life. Accordingly, Queensland DIR recommended measures to improve the labour force attachment of women, a reconsideration of superannuation accumulation rules, and possibly encouraging women to defer retirement.[81]

9.100 In her subsequent evidence to the Committee on 5 May 2003, and in a document tabled with the Committee, Dr Olsberg summarised four strategies for increasing the retirement income of women. These are discussed below.

<u>Greater equity for women in the paid workforce</u>

9.101 Dr Olsberg noted that because superannuation is essentially linked to the workplace, the large proportion of women who work in casual or part-time jobs, or who have broken patterns of work, continue to be poorly off in retirement. To address this, Dr Olsberg nominated a number of strategies:

a) The continued payment of SG contributions to women/men on maternity/paternity leave.

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80 *Submission* 6, Dr Olsberg, executive summary.

81 *Submission* 23, Queensland DIR, pp. 1-2.

b) Payment of the SG contribution by the government to women in receipt of carer's benefits.

c) Or alternatively, a system of credit bonuses to allow people to accrue additions to their age pension on the basis of their service to society in caring for others.[82]

Education and incentives to save

9.102 Dr Olsberg argued that there is a need to develop an understanding in the general population of the importance of saving. Education campaigns and retirement planning seminars should be targeted according to different superannuation savings levels, occupations, personal circumstances and levels of financial expertise. Furthermore, Dr Olsberg argued that there should be additional incentives to save, including:

a) Co-contributions to saving from government or employers; and

b) Tax incentives for those on higher incomes or direct subsidies for those on lower incomes.

9.103 Dr Olsberg also looked at tax reduction measures as an incentive to save. She argued that:

a) The 15 per cent contributions tax could be discounted or even eliminated for individuals with below average incomes;

b) The superannuation surcharge could be means tested on the basis of total superannuation savings. For example, women or men with total savings of less than $300,000 could be exempt from paying the surcharge; and

c) Superannuation fund structures and regulations could be amended to make it easier for women not in regular paid employment to make additional voluntary contributions to superannuation accounts.[83]

Financial Planning and Maximising Women's Investments

9.104 Dr Olsberg argued that major investment houses, banks and fund managers should be encouraged to develop products which offer maximum investment opportunities for women and men with saving patterns that fluctuate over the course of their life, and for women and men with lesser amounts of money.

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82 *Committee Hansard*, 5 May 2003, pp. 50-51. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

83 *Committee Hansard*, 5 May 2003, pp. 51-53. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

9.105 In addition, as noted later in this report, Dr Olsberg also mentioned that the National Information Centre on Retirement Investments (NICRI) and Centrelink provide excellent financial guidance and advice, but that hardly anybody knows about them. Accordingly, she also argued that greater resources and promotion should be given to these sorts of services.[84]

Increasing women's role in the governance of Australia's superannuation and retirement incomes system

9.106 Dr Olsberg argued that women's role on trustee boards and management committees must be increased in order to ensure that women can take a leading role in the policy making process in any forthcoming review of Australia's national superannuation and retirement savings system.[85]

Income support arrangements for self-funded retirees

9.107 In its written submission, the SCOA argued that self-funded retirees are not being treated fairly by the Commonwealth Government:

a) The age pension is paid separately to each member of a couple, providing income splitting benefits, whereas most self-funded retiree couples do not enjoy this benefit because the income is mostly paid to one member of the couple.

b) On introduction of the goods and services tax (GST), the age pension was increased in compensation. However, there has been no similar compensation for self-funded retirees, not even those on a relatively low retirement income.[86]

9.108 Similarly, the Country Women's Association of Victoria raised the position of farmers as self-funded retirees. It advocates tax relief on retirement on the sale of farming assets including livestock, plant and equipment.[87]

9.109 The Association of Independent Retirees – Whyalla and Districts Branch also raises the position of self-funded retirees. It argued that self-funded retirees are coming under increased financial pressure as super funds perform badly, and costs rise at a rate far in excess of CPI, often as a result of government decisions. The Association cited:

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84 *Committee Hansard*, 5 May 2003, p. 53. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

85 *Committee Hansard*, 5 May 2003, pp. 53-54. See also Dr Olsberg, *Women and Retirement Savings – Ways Forward*, Tabled Document, 5 May 2003.

86 *Submission* 12, SCOA, p. 2.

87 *Submission* 19, The Country Women's Association of Victoria, p. 1.

- An increase in electricity costs in SA by 30 per cent since January due to the federally imposed electricity policy;
- Greatly increased insurance costs following the collapse of HIH; and
- An increase in the costs of everyday goods and services due to the GST.[88]

9.110 This point was reiterated in hearings on 9 May 2003 by Mr Shaw from the Association of Independent Retirees – Whyalla and Districts Branch. He argued that through the SG system, almost all retirees in the future will be to some degree self-funded. Accordingly, Mr Shaw argued that the government should provide greater concessions and other assistance to self-funded retirees.

88 *Submission* 20, The Association of Independent Retirees – Whyalla and Districts Branch, pp. 1-2.