independence matters

Association of Independent Retirees

2021-22 Pre Budget Submission to the Federal Treasurer and the Department of Treasury - Budget Policy Division

January 2021

Executive Summary

The Association of Independent Retirees (A.I.R.) Limited welcomes the opportunity to provide the following Pre-Budget submission containing recommendations across areas of key concern to current and future fully and partly self-funded retirees:

Superannuation, Retirement Income and Tax

Recommendation 1: Changes to Retirement Savings and Income Policy should be grandfathered.

Recommendation 2: More flexibility is required with the current aged based percentage drawdowns for account-based pensions with a broadening of the age ranges and a lowering of the minimum drawdown percentages once a retiree has reached 75 years of age.

Recommendation 3: The current Deeming Rates are too high in a low investment return environment and rates should be lower to align with actual cash rates of return.

Recommendation 4: That retirees who could not accumulate sufficient superannuation during their working life (with superannuation balances of less than $500,000) are able to make voluntary contributions up to age 75 without satisfying the work test.

Recommendation 5: That the Government retains and improves the Seniors and Pensioners Tax Offset (SAPTO) for people with income from retirement savings outside superannuation.

Recommendation 6: To provide a ‘spouse superannuation transfer’ facility for couples within the same superannuation fund to enable more equitable super balances for members of a couple.

Recommendation 7: Compulsory Super Contributions by employers should be set at a level where they provide future retirement incomes at a benchmark replacement income rate of 65-75 per cent.

Recommendation 8: A national program is required to improve the understanding of the Retirement Income System, so people can adequately plan for their retirement and/or make the most of their retirement savings.

Recommendation 9: The interest rate for the Pension Loan Scheme is too high and needs to be reduced in line with owner occupied home loans of below 4%.

Recommendation 10: The Gifting Rules (or Deprivation provisions) have not been adjusted since they were introduced in 2002. They should be updated immediately and then adjusted for inflation/CPI on a regular basis as occurs with the Pension assets test.

Aged Care

Recommendation 11: The Association of Independent Retirees urges the Government to expedite the implementation the Royal Commission interim report findings released on 31st October 2019 and in particular the following recommendations.

Residential Aged Care

Recommendation 12: That the Aged Care Quality and Safety Commission improves the quality and safety of residential aged care by lifting the standards of aged care and reducing abuse in residential care.

Recommendation 13: That the Aged Care Quality and Safety Commission comprehensively pursues complaints about aged care providers and implements a complaints mechanism similar to OPAN (which applies for non-disabled retirees) for disabled retires who are covered by the NDIS.

Recommendation 14: That Aged Care Providers maintain supportive and respectful relationships with residents and effective communications with family members.

Home Care

Recommendation 15: To reduce to near zero the waiting lists for home care packages at all levels so that waiting periods will be reduced substantially for aged care support at each required level.

Recommendation 16: To meet the growing number of elderly Australians who wish to stay longer in their home, the allocation of Home Care Packages be substantially increased particularly at Level 3 and 4.

Recommendation 17*:* With the substantial increase in home care packages, sufficient monitoring and oversight is required to prevent financial misappropriation and fraud.

Staffing and Funding

Recommendation 18: To provide the growing skilled aged care workforce required to meet the rapidly increasing needs of aged care providers, additional vocational training programs and places be funded and resourced.

Recommendation 19: That adequate funding be provided to meet the current and future demand for residential aged care and home care at the required standards including better quality food and adequate staffing levels.

Recommendation 20: That a remediation program be implemented as a matter of urgency to support the continued viability of at least 40% of residential aged care providers that are operating at a loss.

Recommendation 21: Implement an alternative to the principle of “market competition” to provide quality aged care services at acceptable costs, particularly in rural and remote areas.

Recommendation 22: Provide transparency of funding and provide client control over funds allocated for residential aged care and home care.

Recommendation 23: If an aged care provider does not publish their fees on the My Aged Care website in a timely manner, they should be removed from the website.

Recommendation 24: Implement aged care funding models that are fair to self-funded retirees.

Recommendation 25: That if there are changes to the means test on residential aged care accommodation, the family home of the surviving partner not be included and the present maximum caps on the annual and lifetime costs not be lifted.

COVID-19

The Special Report on COVID-19 by the Royal Commission released on 1st October, 2020 found that immediate action is required on the following recommendations:

Recommendation 26: To ensure that aged care providers have adequate staff to deal with external visitors to enable a greater number of more meaningful visits between clients receiving care and their families.

Recommendation 27: To create Medicare benefits item numbers to increase the provision of allied health and mental health services to people living in residential aged care during the pandemic.

Recommendation 28: To publish a national aged care plan for COVID-19 and establish a national aged care advisory body for COVID-19*.*

Recommendation 29: To ensure that residential aged care providers appoint infection control officers and arrange the deployment of accredited infection and control experts into residential care homes.

Health Care

Recommendation 30: That the CPI indexation of Health Insurance rebates be immediately scrapped and the % rebate based on % premium increases for Australians 65 years and older be reintroduced in full***.***

Recommendation 31: The PBS Safety Net threshold for single people should be adjusted so that they are not disadvantaged in comparison with couples or families. This is particularly disadvantageous to older people.

Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing current and future partly and fully self-funded retirees. AIR works to advance and protect the interests of Australians seeking independence in retirement. AIR seeks to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

Our members have a clear understanding of the need for ongoing management of the financial, health and longevity risks they face in retirement, but are concerned about changes that impact on their capacity to have an independent and fulfilling retirement.

At the same time, we accept the need for the Government to maintain sound economic management and given the current fiscal position, but we believe our recommendations are reasonable, with the cost of implementation carefully balanced against the benefits.

There are now over 2 million Australians who either fully or partly self fund their retirement. The greater majority of these are not "wealthy" individuals as many have suggested and unexpected financial impacts to their income streams may result in them needing Government support in the later years of their retirement.

AIR remains committed to a view that any changes to superannuation, retirement savings and income arrangements must not disadvantage current retirees and those about to retire. Future changes must include grandfathering and transitionary provisions to protect those retirees whose retirement income is based on the current rules.

We accept the premise that those who can afford to contribute to their health care and aged care costs should do so. However, we have a concerns with health care and aged care reforms, income and assets tests based on retirement income stream generating assets may change and many self-funded retirees will be financially disadvantaged by such measures.

Retirement planning has not only become more complex, but current volatile market conditions, low interest rates and the impacts of the COVID-19 pandemic are making it harder for many to develop a retirement plan that will last for the longer term.

The Government needs to adopt a holistic approach to bring about greater effectiveness and efficiencies from the retirement savings and income system especially for those in the pension phase. It needs to ensure in the process of change that this group is protected from unintended consequences of change.

Rationale to support the recommendations

Superannuation, Retirement Income and Tax

Recommendation 1: Changes to Retirement Savings and Income Policy should be grandfathered.

Rationale: Fully and partly self-funded retirees and those planning their retirement are frustrated with the ongoing changes to superannuation, retirement savings and income policy made or proposed over the last 10 years.

Current and future retirees need policy certainty to plan decades into the future. These ongoing changes have eroded their confidence in the retirement income system and have added complexity and made understanding of the system more difficult.

The **Retirement Income Review report** has highlighted in its key observations that **"**the retirement income system is complex. There is a need to improve understanding of the system. Complexity, misconceptions and low financial literacy have resulted in people not adequately planning for their retirement or making the most of their assets when in retirement**"**.

Recommendation 2: More flexibility is required with the current aged based percentage drawdowns for account-based pensions with a broadening of the age ranges and a lowering of the minimum drawdown percentages once a retiree has reached 75 years of age.

Current age of pension account holder	Current drawdown %	Change age range to	Proposed new drawdown %
Under 65	4%	Under 65	4%
65 to 74	5%	65 to 79	5%
75 to 79	6%	80 to 90	6%
80 to 84	7%	90 to 95	7%
85 to 89	9%	95 and over	10%
90 to 94	11%		
Aged 95 or older	14%		

Rationale: The length of time spent in retirement is now considerably longer than when the superannuation system was set up. It is now common for retirement to be 30 years or longer. In addition to this longevity risk, over the course of this longer retirement, investment risk increases with high likelihood of many severe shocks to the value of retirement savings and retirement income.

Self-funded retirees bear the full consequences of these risks but we also accept the premise that those who can afford to contribute to their health care and aged care costs should do so.

We therefore need the flexibility to ensure they we can fund living increasing expenses, health insurance, out of pocket health expenses and aged care while generating considerable savings to the Federal budget by reducing government funded age pension, health and aged care expenses in later life.

AIR understands the current drawdown rates were set to ensure that retirees draw down their superannuation balances but the $1.6 million cap on super in pension mode and taxing super in the hands of non-dependant beneficiaries has overcome this issue.

Recommendation 3: The current Deeming Rates are too high in a low investment return environment and rates should be lower to align with actual cash rates of return.

Rationale: With current deeming rates (above the threshold) of 2.25% that are much higher than the RBA cash rate, income is ‘deemed’ to have rates of return that are many times higher than the actual returns available from a cash investment. This means that retirees receive significantly less actual income than they are unfairly ‘deemed’ to receive. Linking deeming rates to the actual cash rates of return would provide considerable relief for retirees.

Recommendation 4: That retirees who could not accumulate sufficient superannuation during their working life (with superannuation balances of less than $500,000) are able to make voluntary contributions up to age 75 without satisfying the work test.

Rationale: Many older retirees could not contribute to superannuation until late in their working life or not at all. As a result, they have low or no super balances. In retirement, they may have obtained funds through inheritance or asset sales etc., but cannot contribute to superannuation due to the work test.

With this recommendation, a work test exemption would apply for everyone between age 65 and 75 with lower superannuation balances.

This recommendation is consistent with **Retirement Income Review**’s suggested elements of **adequacy, equity, and coherence** where retirees with lower balances are able to make catch-up contributions to superannuation.

Recommendation 5: That the Government retains and improves the Seniors and Pensioners Tax Offset (SAPTO) for people with income from retirement savings outside superannuation.

Rationale: The benefits of the Seniors and Pensioners Tax Offset (SAPTO) to people with earnings from retirement savings outside superannuation is acknowledged.

This recommendation is consistent with **Retirement Income Review**’s suggested element of **equity ‘**where the system should provide similar outcomes for people in similar circumstances’.

AIR urges the Government to retain or improve this concession as it gives some equity of tax treatment between earnings from retirement savings within superannuation and earnings from retirement savings outside superannuation.

Recommendation 6: To provide a 'spouse superannuation transfer' facility for couples within the same superannuation fund to enable more equitable super balances for members of a couple.

Rationale: Currently, women have much lower superannuation balances on average than for men. To move toward more equity with their super balances, couples are required to use a lump sum withdrawal/re-contribution strategy. This artificially inflates the number of lump sum withdrawals and requires superannuation investments to be liquidated and then re-invested after re-contribution by the spouse.

With a 'spouse superannuation transfer' the non-concessional contribution and super balance transfer limits would still apply.

This recommendation provides a solution to observations made by the **Retirement Income Review:**

- where there have been 'inequitable retirement outcomes for various groups, such as women'.
- 'that the gap in superannuation balances at retirement between men and women is the accumulation of economic disadvantages faced by women in working life, particularly the gap in earnings and time spent in the workforce'.
- 'Voluntary superannuation provides the flexibility for people to make catch-up savings after periods out of the workforce'.

Recommendation 7: Compulsory Super Contributions by employers should be set at a level where they provide retirement incomes at a benchmark replacement income rate of 65-75 per cent.

It is acknowledged that determining the super contribution percentage required to achieve this replacement income rate with depend on employee's super balance, working life income and years in the workforce.

Rationale: This recommendation aligns to observations made by the **Retirement Income Review** about achieving adequate retirement incomes.

'Replacement income rates compare income in retirement with income while working. Replacement rates align with the objective of achieving a reasonable balance between living standards in working life and retirement'.

It is noted that Retirement Income Review observes that a replacement income rate of 65-75% would be not achieved by all retirees if they drawdown their superannuation at the legislated minimum percentages.

Recommendation 8: A national program is required to improve the understanding of the Retirement Income System, so people can adequately plan for their retirement and/or make the most of their retirement savings.

Rationale: The **Retirement Income Review** report includes many observations about the need to improve understanding of the retirement income system. There is significant evidence of low financial literacy particularly about the key issues in the retirement phase. There needs to be a better understanding of interaction with the tax, social security and aged care systems in retirement. People need to know where to get reliable independent information so they can knowledgeable decisions when planning for and during retirement.

Recommendation 9: The interest rate for the Pension Loan Scheme is too high and needs to be reduced to be inline with owner occupied home loans of below 4%.

Rationale: The Association on Independent Retirees acknowledges the extension of the Pension Loan Scheme to self-funded retirees. **Retirement Income Review** report highlights ‘the Pension Loans Scheme is an effective option for accessing equity in the home for retirees’. However, retirees are cautious about using debt based on home equity to fund everyday expenses, especially with the compounding interest effect. A significant lower interest rate for Pension Loan Scheme would potentially improve the take-up of the scheme.

Recommendation 10: The Gifting Rules (or Deprivation provisions) have not been adjusted since they were introduced in 2002. They should be updated immediately and then adjusted for inflation/CPI on a regular basis as occurs with the Pension assets test.

Rationale: The current gifting rules (deprivation provisions) have remained at $10,000 per year or $30,000 over a 5 year period since they were introduced in 2002. Inflation/CPI changes since 2002 has significantly eroded the current value of these rules. These limits should be updated immediately to take account of inflation effect since 2002 and updated regularly every three years.

Aged Care

Recommendation 11: The Association of Independent Retirees urges the Government to expedite the implementation the Royal Commission interim report findings released on 31st October 2019 and in particular the following recommendations.

Rationale: The Interim Report by the Royal Commission found that the aged care system fails to meet the needs of older, vulnerable citizens and does not deliver uniformly safe and quality care, is unkind and uncaring towards older people and, in many instances, it neglects them.

Residential Aged Care

Recommendation 12: That the Aged Care Quality and Safety Commission improves the quality and safety of residential aged care by lifting the standards of aged care and reducing abuse in residential care.

Rationale: In addition to the work undertaken by the Royal Commission, there has been considerable public debate and media focus on approaches to the quality, safety and funding of residential aged care.

Recommendation 13: That the Aged Care Quality and Safety Commission comprehensively pursues complaints about aged care providers and implements a complaints mechanism similar to OPAN (which applies for non-disabled retirees) for disabled retires who are covered by the NDIS.

Recommendation 14: That Aged Care Providers maintain supportive and respectful relationships with residents and effective communications with family members.

Home Care

Recommendation 15: To reduce to near zero the waiting lists for home care packages at all levels so that waiting periods will be reduced substantially for aged care support at each required level.

Recommendation 16: To meet the growing number of elderly Australians who wish to stay longer in their home, the allocation of Home Care Packages be substantially increased particularly at Level 3 and 4.

Recommendation 17: With the substantial increase in home care packages, sufficient monitoring and oversight is required to prevent financial misappropriation and fraud.

Rationale: There has been significant public criticism in the administration of Home Care Packages including long waiting times and substantial consumer dissatisfaction with home care providers for overcharging, engaging untrained care workers and failures in communication with aged care clients.

Australia's population is ageing and are living longer. There is increasing demand for assistance to help the elderly remain in their home, or in residential aged care accommodation or provide respite care.

With up 100,000 older Australians on the waiting list for a home care package, the Federal Department of Health figures indicate more than 28,000 people have died in the last 2 years while waiting for a Home Care package.

Keeping people in their own home is positive for their well-being but consequently they are frailer when they need care. This means higher levels of assisted care at home and in accommodation.

Staffing and Funding

Recommendation 18: To provide the growing skilled aged care workforce required to meet the rapidly increasing needs of aged care providers, additional vocational training programs and places be funded and resourced.

Rationale: To support the increased demand for more complex aged care, adequate staffing numbers with appropriate skill sets are required.

Recommendation 19: That adequate funding be provided to meet the current and future demand for residential aged care and home care at the required standards including better quality food and adequate staffing levels.

Recommendation 20: That a remediation program be implemented as a matter of urgency to support the continued viability of at least 40% of residential aged care providers that are operating at a loss.

Recommendation 21: Implement an alternative to the principle of "market competition" to provide quality aged care services at acceptable costs, particularly in rural and remote areas.

Rationale: The Government has advocated that "market competition" in the provision of aged care and home care services will result in high quality care outcomes at competitive prices. However, there has clearly been a "market failure" and immediate action is required to restore confidence in the Government's funding and administration of Aged Care and Home Care services.

We challenge the strategy of "market competition" to deliver high quality aged care and home care services at competitive prices. Professor Kathy Eager, Director of the Australian Health Services Research Institute at the Wollongong University found that 40% of aged care and home care clients do not understand their fees and 95% had never switched providers. Many clients did not understand how the system works and few were capable of shopping around for a better deal.

AIR understands that to provide enough residential aged care accommodation to meet demand, there will be an ongoing need for community, religious, private sector and non-profit providers. To ensure facilities meet expectations, it is likely that additional government capital assistance will be required particularly in regional and rural areas.

Recommendation 22: Provide transparency of funding and provide client control over funds allocated for residential aged care and home care.

Rationale: With the current Home Care system, there is no cap set on the fees deducted from the client's package. Some Home Care providers have taken between a third and a half of each Home Care package funding as administration fees.

The process of the government giving the allocated package funds to the provider has lead to a significant power imbalance where the client may have little say in the spending of their allocated funds. With the total funding paid directly to the Home Care provider, the provider controls unspent funds in a client's account and can invest these funds and retain any interest earned. We understand that providers are holding an estimated $1 billion of unspent client funds nationally, while clients have had difficulty accessing their allocated funds for much needed care and equipment.

Recommendation 23: If an aged care provider does not publish their fees on the My Aged Care website in a timely manner, they should be removed from the website.

Rationale: Providers are required to publish their management fees on the My Aged Care website for comparison purposes, but many have not. The Aged Care Quality and Safety Commission have followed up 200 providers who have failed to publish their fees, but the providers had not responded.

Recommendation 24: Implement aged care funding models that are fair to self-funded retirees.

Recommendation 25: That if there are changes to the means test on residential aged care accommodation, the family home of the surviving partner not be included and the present maximum caps on the annual and lifetime costs not be lifted.

COVID-19

The Special Report on COVID-19 by the Royal Commission released on 1st October, 2020 found that immediate action is required on the following recommendations:

Recommendation 26: To ensure that aged care providers have adequate staff to deal with external visitors to enable a greater number of more meaningful visits between clients receiving care and their families.

Rationale: Families have been upset with visitation arrangements, funeral arrangements and communication rules for residential aged care patients during the COVID -19 lockdowns.

Recommendation 27: To create Medicare benefits item numbers to increase the provision of allied health and mental health services to people living in residential aged care during the pandemic

Recommendation 28: To publish a national aged care plan for Covid-19 and establish a national aged care advisory body

Recommendation 29: To ensure that residential aged care providers appoint infection control officers and arrange the deployment of accredited infection and control experts into residential care homes.

Rationale: For the 2020 calendar year to the 11th September, the proportion of COVID -19 cases in residential care homes for clients and staff was 15.2%. While COVID -19 is more contagious among the aged, in a controlled environment such as aged care homes with trained staff, a lower percentage of cases of COVID -19 should have been expected.

It is notable that many aged care staff are in precarious employment and often working at more than one location. This highlights a need for improved regulation and management of staffing arrangements.

Health Care

Recommendation 30: That the CPI indexation of Health Insurance rebates be immediately scrapped and the % rebate based on % premium increases for Australians 65 years and older be reintroduced in full.

Rationale: A previous Government introduced a process of setting the rebate amount based on CPI rather than the actual % increase in premiums. This reduces the rebate entitlement annually for some people until it is phased out. History has shown that the premium % increase for Health Insurance approved by Government has been well above that of the CPI %.

This increasing cost of health insurance premiums for this group of the community is neither transparent nor fair and reduces the community's confidence in the private health insurance system. This specifically and unfairly attacks the group of Australians who are 65 years of age and older for whom the means tested aged-based rebate was provided to support older Australians in their continuing contributions to health insurance.

Many retirees who have maintained Health Insurance policies over their lifetime, see it as essential in the later years, to allow them choice of medical specialist and allow access to immediate care in Private Hospitals when needed.

A survey of AIR members in 2020 indicated that 93% of our members currently have private health insurance cover. The rebates were specially introduced to help support and encourage retirees to continue with their Private Health Insurance and not rely on the overloaded Public Hospital system.

Whilst commendable to see the Government introduce incentives for young people to obtain private health insurance, it was disappointing that no consideration has been given to assisting older people to retain their long-held private health insurance. These people are now being forced out of this insurance because of ever-increasing premiums.

AIR urges the Government to acknowledge the shortcomings of the existing rebate calculation for older Australians and revert to the previously set aged and income based % rebates.

Recommendation 31: The PBS Safety Net threshold for single people should be adjusted so that they are not disadvantaged in comparison with couples or families. This is particularly disadvantageous to older people.

Rationale: Single and widowed retirees continue to be discriminated against with the current threshold level of the Medicare and Pharmaceutical Benefits Scheme (PBS) Safety Net and with the upper threshold value for singles to receive the Commonwealth Senior Health Card (CSHC).

AIR believes that Safety Net concessions should be available on an equitable basis and the Medicare and PBS Safety Net thresholds for single and widowed retirees should be set at 65% of the couples / families threshold level or the % difference between the threshold income limit to receive the Age Pension for a single person and a couple.

This recommendation is proposed to address a significant inequity between single people and couples/families. A single person currently needs to have the same value of medical prescriptions as a couple or family before they become eligible for the Safety Net rebate. This is grossly unfair and inequitable and a change should be made to reflect the difference between the current upper income threshold value to receive the Age Pension for a single person and a couple (ie. 66.3% difference).

Further Information:

For further information, please contact Wayne Strandquist, National President, Association of Independent Retirees on 02 9871 7927 / 0412 434 467; email president@independentretirees.com.au