NATIONAL WELFARE RIGHTS NETWORK

24 July 2015

Submission to the Tax White Paper Taskforce review of Australia's retirement income system

About the NWRN

The NWRN is the peak body for community legal services which provide legal advice and representation to people about social security and family assistance law. For over 30 years our members have assisted people experiencing social security problems and we have amassed a detailed knowledge of social security law and policy as well as its administration through the Department of Human Services. Our members also have direct, "on the ground" experience of the lives of people on low incomes and how they are affected by retirement income policy.

A fair and efficient retirement policy must have regard to both the tax and transfer systems. The overriding design principle should be fairness in a progressive tax-transfer system. Adequacy of transfer payments must be paramount to ensure a minimum post retirement living standard, both for those who have reached Age Pension age and for those who are forced into early retirement. Retirement policy must include incentives to save for retirement as well as incentives to encourage workforce participation and measures to address labour market barriers for older Australians.

Need for integrated policy reform

Currently, superannuation tax breaks are used to encourage retirement savings. The fairness of this system can be assessed only by also taking into account government support for those on low incomes in the form of the Age Pension.

The Age Pension is subject to an income test taper rate of 50 cents in the dollar, which is in effect an income tax at a rate of 50%, and an asset test. Recent asset test changes effectively increase the tax rate on savings, but reduce the base by raising the thresholds.[1]

These changes to the Age Pension assets test were supported by NWRN on the condition that savings from the measure be redirected to areas of greater need within the social security system. That is, our support was on the grounds of improved targeting within the social security system and was separate to the broader question of retirement incomes policy (which we called on the government to review).

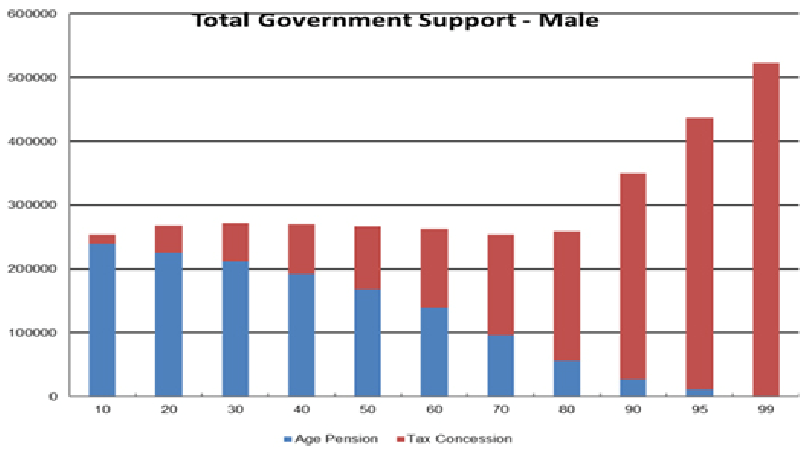
[1] See Miranda Stewart, Tax and Transfer Policy Institute, as cited in the Financial Review 17 June 2015 accessed at http://www.afr.com/news/policy/tax/pension-cuts-a-wealth-tax-on-middle-australia-20150617-ghpyim

Superannuation tax concessions form part of the broader welfare system. The Australia Institute has calculated that up to 61 per cent of an individual's "self-funded" retirement may be in fact attributable to tax concessions provided by other taxpayers[2]. Superannuation concessions are a larger, more expensive and more poorly targeted form of welfare than the Age Pension.

The table below, taken from a 2012 Treasury paper for the Superannuation Round Table[3], clearly shows several things:

- Government support is highest for lower income earners in the form of the Age Pension;
- Government support is highest for higher income earners in the form of superannuation tax concessions;
- The distribution remains markedly unequal;
- Total combined support increases clearly for the top 10 per cent of income earners; and
- People in the top 1 per cent of income earners receive the most combined support, approximately double the amount received by someone anywhere in the bottom 80 per cent.

Figure 2: Distribution of "total government support"
(both superannuation tax concessions and Age Pension)



While the pension assets measure achieved savings, in the absence of broader policy reform it has not improved overall retirement policy. Although there is a risk that this has created an incentive for people to draw down their savings to enable earlier access to the pension, as some media reports have suggested, there is no evidence that this will be the case. There are gifting rules which limit the disposition of assets and income and in any case, all the evidence shows that retirees are prudent and modest with their savings.

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[2] Richard Denniss and David Richardson, "Can the taxpayer afford 'self-funded' retirement" 2012, TAI Policy Brief No 42
[3] Treasury 2012 "Distributional analysis of superannuation taxation concessions", paper for Superannuation Round Table 23 April.

However, as a result of the new asset test changes, retirees seeking to maintain a modest standard of living are likely to end up on the Age Pension after a delayed period as they draw down on their savings.

Unless super tax concessions are also considered, there is a risk of inefficient and incoherent retirement policy – people are encouraged to save with the super tax concession, only to be taxed harshly on the transfer side of the equation.

This is especially so, as these changes to the wealth tax on the Age Pension have no effect on the top deciles of income earners at all who have no reliance on the Age Pension and receive a disproportionate share of the Commonwealth's retirement dollar through super tax concessions.

When the service pension is taken into account, almost 80 per cent of Australians of Age Pension age receive at least some pension from the Commonwealth. Increasingly, more people will rely on a part-pension. As the recent Productivity Commission report confirms, "even under a 'mature' superannuation system, a fully self–funded retirement is likely to remain the providence of those who are relatively well off during their working years."[4]

By 2015-16, the annual cost of taxpayer contributions for private superannuation will exceed the cost of the Age Pension. Despite Government statements that there will be no "adverse or unexpected" changes to superannuation, an integrated review of the wider retirement policy, and particularly superannuation, is required.

There is a disproportionate share of government expenditure on retirement going to those on high incomes, especially the top decile.The flat rate taxation of super is regressive and adds to gains towards the top end of income earners.

Gaps in retirement policy

NWRN members provide frontline legal services in the areas of social security and family assistance law. We have witnessed that certain groups are disadvantaged under the current superannuation system and this is borne out by the available statistics. The groups most disadvantaged include:

- Carers (typically women) because their work is unpaid and does not attract superannuation[5]. Of people aged 15-64 years, 13.6 per cent or 1.95 million people (1.13 million women and 0.82 million men) are carers.

[4] Productivity Commission, *Superannuation Policy for Post-Retirement*, Research Paper Volume 1. p. 7.

[5] Australia's superannuation arrangements have been designed around male patterns of workforce participation. Accordingly, it fails to reflect both the diversity and complexity of women's dual roles in unpaid caring and paid employment. A significant number of studies have estimated gender differences in projected superannuation outcomes for women and men. See T Jefferson 'Women and retirement Incomes in Australia: A review' 81(254) *The Economic Record,* (2005) 273.

- Secondary earners who wish to return to the workforce after leaving to care for children. People in this situation face effective marginal tax rates more than twice that of their partners.[6]
- Aboriginal and Torres Strait Islanders (ATSI). Census data shows ATSI communities have higher rates of care for children, particularly among women. Some 40.5 per cent of women and 24.7 per cent of men had provided unpaid care to children.[7]
- Women. Analysis of the *ABS Survey of Income and Housing* 2009-10 shows that the average (mean) superannuation balance for all men aged 15 years and over was $71,645, whereas the for women it was $40,475. The median superannuation balance was lower for men at $10,000 and women at $3,000. Women were more likely to report having no superannuation than men. Amongst women aged 65-69 years in 2009-10, 60% had no superannuation. It is estimated that 50% of women approaching retirement (aged 55-59 years) have superannuation balances of $25,000 or less.[8]

The age at which individuals qualify for Age pension creates another gap. Age Pension age is already so high that on current life expectancy tables, certain groups are significantly disadvantaged. The most striking example is Aboriginal and Torres Strait Islanders (ATSI) whose life expectancy rate is barely higher than Age Pension age[9]. It is worth noting that the median superannuation balance for ATSI men and women is $14,000 and $15,000 respectively.[10] A logical conclusion is that many ATSI people enjoy little benefit from the two main retirement policy pillars being the Age Pension and superannuation.

This conclusion is also supported by the fact that as at December 2014, there were just 16,154 Age Pensioners who identified as being of ATSI descent, out of a total 2,447,432 people in receipt of the Age Pension. In percentage terms, this equals a population of 0.7 per cent.

For the same period, there were just 302 who identified as being of ATSI descent who were in receipt of the Commonwealth Seniors Health Card, from a population of 286,425 older Australians who have incomes or assets too high that disqualified them from receiving any Age Pension entitlements.

In last year's Budget, the Government announced plans to increase the eligibility age for the Age Pension to 70 years, to take effect from 2035. Increasing the eligibility age to 70 would place the Age Pension out of the reach of many Indigenous people. Any increase to the eligibility age for the Age Pension will also have the greatest impact on older unemployed people and people with disabilities, whose chances of entering the workforce are hindered by disability, caring responsibilities or age discrimination.

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[6] Due to withdrawal of Family Tax Benefit B

[7] Australian Bureau of Statistics, *2006 Census of Population and Housing, Unpaid child care by age by sex for Indigenous Persons,* Catalogue no. 2068.0, SPRC's calculations.

[8] R Clare, *Developments in the level and distribution of retirement savings* (2011), pp 7-10. At http://www.superannuation.asn.au/policy/reports (viewed 17 September 2012).

[9] Life expectancy for Indigenous men born in 2012 is 10.6 years lower: 69.1 years compared to 79.7 for non-Indigenous males. For women, the difference is 9.5 years, at 73.7 years for compared to 83.1.

[10] Productivity Commission, p74

There is also a gap for people forced into early retirement. Around 50% of people who retire prior to reaching Age Pension age do so involuntarily[11]. The Newstart Allowance is not an adequate safety net for people forced into early retirement for reasons such as illness or injury. Further, changes by successive governments to the disability support pension qualification criteria have severely restricted access to that payment for people who leave the workforce due to injury or disability. Currently 1-in-4 people on Newstart Allowance have a disability.

As at December 2014, 2-in-5 or 41.9 % of newstart recipients were aged over 45 years of age and 1-in-every-5 unemployed persons are aged between 55 and Age Pension age. Alongside the issue of Newstart Allowance adequacy are the issues of discriminiation and effective employment assistance for the older unemployed. People who are unemployed at an older age remain unemployed for significantly longer periods when compared to their younger peers. This has negative impacts, in terms of poor physical and mental health, and of course, the poverty that comes with life on the inadequate Newstart Allowance. Age discrimination is also a significant factor, which can effect self-esteem, financial security and health. A 2013 report by the Australian Law Reform Commission, *Access All Ages—Older Workers and Commonwealth Laws,* makes 36 targeted recommendations that would make considerable inroads in removing barriers faced by older people in employment, which would have corresponding benefits for people in retirement.

Finally, consideration also needs to be given to housing options post retirement and we note that rent assistance rates are similarly inadequate with significant numbers of older people in housing stress.

Problems with raising preservation age

A major issue with raising the preservation age for superannuation access arises because the Newstart Allowance safety net for people forced to retire prior to reaching Age Pension age is inadequate. Our members delivering casework assistance frequently see people in forced retirement (eg due to ill health, caring responsibilities, redundancy, unemployment or underemployment). Based on our experience, consequences of raising the preservation age would include:

- increased reliance on social security payments;[12]and
- prolonging the period that people who retire involuntarily are forced to live on the inadequate Newstart Allowance.

In our experience, inadequate income support has significant flow on effects including detrimental impacts on physical and mental health, housing, social and economic participation and associated cost to the community.

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[11] Productivity Commission, Superannuation Plicy for Post-Retirement, Research Paper Voume 1, p 7.

[12] Productivity Commission estimates increase $750million per year in 2055 if preservation age were increased. See Productivity Commission, Superannuation Policy for Post-Retirement, Research Paper Volume 1 p 9

Early access to superannuation

The financial hardship requirement that a person be in receipt of Centrelink income support payments for at least six months[13] means that, although not strictly a social security issue, NWRN receives calls from people in hardship unable to access their superannuation on hardship grounds.

The rules about early access to superannuation are overly restrictive. In our opinion, there should be a genuine assessment of the hardship rather than the measure of time spent on an income support payment. A person should be able to appeal a decision not to release superannuation and compassionate release rules should be reviewed. The rules around early release should be made compulsory for funds.

We see people with no income support from any source in the most severe financial hardship but unable to access early release because they are not receiving Centrelink payments or have not been receiving such payments for at least six months (for example, a person whose redundancy and savings were spent paying debts but they are unable to access Centrelink payments due to redundancy related waiting periods).

New Zealanders who arrived after 26 February 2001 have work rights, pay tax and make superannuation contributions, but do not have access to the social security safety net. Given that there is no safety net, it is imperative that changes be made to the rules for early release of superannuation so that these New Zealanders are able to access their superannuation if they are experiencing financial hardship.

Early release of superannuation lump sums on hardship grounds can be eroded by family assistance means tests. Where hardship is established, early release of superannuation should be exempt from the family assistance means tests.

There is no evidence that flexible access to early release of superannuation is used strategically or wastefully in order to gain access to the Age Pension. Access to early release of superannuation is too restrictive for those with small superannuation balances. These rules should be more generous for low income earners or those who involuntarily leave the labour market early (e.g. illness or accident) or those without the Social Security safey net such as New Zealanders whose use of their super funds has little impact on the age at which they access the Age Pension.

Independent sources of retirement information and advice

An issue of significant importance to many older people is access to independent sources of information and advice about pensions, social security and retirement products and investment issues. Members of the NWRN field calls from senior Australians on a range of topics, including complex areas around aged care and compensation issues. Other issues concern assets test hardship provisions, and increasingly, complex family arrangements which

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may involve loans and gifts to family members, which can have a significant impact on their rate of pension. Older people are also at risk of poor advice which can ultimately be costly for individuals and taxpayers, when Government has to foot the bill for pensions when investments fail.

NWRN believes that there is a role for Government to play in supporting independent sources of information. One obvious area is support for Welfare Rights services, which currently provide assistance to large numbers of older people about pension and social security issues. The Department of Human Services provides the Financial Information Service. Access to free financial counselling services is also of critical importance. Until recently, the Federal Government funded the National Information Centre on Retirement Investment (NICRI). It provided older people with independent and impartial information about investing and investments products for over 25 years. Its target audience was small to modest investors. NICRI also ran a telephone information service, and provided clear information about a broad range of investment issues such as risk and accessing home equity. They also provided information about how to obtain independent advice and how to avoid fraud and investment scams, and advised people about choosing a financial adviser.

Funding for independent sources of information and advice, like Welfare Rights and NICRI, provides value for money for Government, and these types of services are highly valued by consumers who value their independence, integrity and professionalism. The Federal Government should provide funding for these organisation on an ongoing basis.

Priority Reforms: Directions for ‘Security in Retirement’

1. Establish realistic targets for the adequacy of retirement incomes and reform the social security and superannuation systems to meet an agreed set of benchmarks.

2. An Independent Commission should set social security payment rates, with the first priority to increase the single Newstart Allowance by $51 a week, as a first step in addressing the $170 per week ‘poverty gap’ between single pensions and allowances. All social security payments should be indexed to a common, wages formula. Additionally, Treasury should initiate consultation on the potential for a ‘merged means test’, with a stricter test for investment income than for earned income from employment.

3. Superannuation tax breaks should be substantially reformed to meet equity and efficiency goals, as proposed in the submission by the Australian Council of Social Service.

4. Rent Assistance must be substantially increased, by 30 per cent, and indexed to a rental index. Measures must be taken to ensure provision of affordable supported accommodation for and development of community housing projects for people in retirement.

5. Measures must be taken to improve the workforce participation of older people.

6. The current eligibility age for the Age Pension should remain at 67 for the foreseeable future. Measures are required to address lower life expectancies of Aboriginal and Torres Strait Islander people’s.

7. Proposals by the Australian Law Reform Commission’s 2013 report, *Access All Ages—Older Workers and Commonwealth Laws,* should be implemented, including its recommendations on removing discriminatory age limits to superannuation contributions by older workers.

8. The Federal Government should fund a full-time Age Discrimination Commissioner and a full-time Disability Discrimination Commissioner (with a preference for someone with ‘lived experience’ of disability).

9. There should be no increase to the ‘preservation age without measures to improve the safety net for people forced into early retirement (including increasing the Newstart Allowance by $51 per week and relaxing restrictions for early access to super). Allowances must be made to address lower life expectancies of Aboriginal and Torres Strait Islander people’s.

10. The Government should ensure that older people have access to independent sources of information and advice about social security and retirement income products and investing safely, by funding Welfare Rights Services and consumer-focussed organisations, such as the National Information Centre on Retirement Investments.