



Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015

Senate Community Affairs Legislation Committee

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Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

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CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 120 branches and affiliated organisations with a combined membership of over 32,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.

CPSA notes that the Social Services Legislation (Fair and Sustainable Pensions) Bill 2015 will have the effect of turning back a number of income support (for older Australians) Budget measures introduced by the Howard Government in 2007. At the time, CPSA questioned how socially equitable these measures were and how financially sustainable.

1. Defined benefit income streams

CPSA's understanding of the background of this Budget measure is that defined benefit income streams from superannuation have tax-free and taxable components. The tax-free component relates to after-tax contributions made by members. In other words, the larger the amount of after-tax contributions people were able to make prior to retirement, the larger the tax-free component of their defined benefit income stream once they retire.

As means testing for the Age Pension only takes the taxable component of a defined benefit income stream into account, it follows that the larger the tax-free contributions have been, the larger the tax-free component of the income stream will be so that a larger proportion of someone's retirement income derived through a defined benefit income stream may not be taken into account in the calculation of Age Pension benefits. It goes without saying that those with the greater ability to make large after-tax contributions to super while working, the greater the tax-free component.

In 2007, the Howard Government introduced a measure whereby after-tax contributions of \$150,000 per year could be made to super. It is very likely that the 2007 measure has contributed to the inflation of many tax free components of defined benefit income streams currently being paid.

This Budget 2015 measure therefore could be described as a measure seeking to manage an unintended consequence of the Budget 2007 measure. The unintended consequence would be the payment of larger than warranted Age Pensions to recipients of defined benefit income streams.

CPSA is, however, concerned that current retirees under this system will be negatively impacted and are not in a position to change their circumstances. They made retirement decisions (such as whether to receive an income stream or lump sum) based on the rules currently in place and are unable to reverse those decisions.

2. Proportional payment of pensions outside Australia

The current permitted length of time of 26 weeks overseas before proportional payment kicks in allows for periodic returns to Australia by recipients keen to ensure they avoid proportional payment. CPSA is concerned that reducing the time to only 6 weeks will negatively impact people who visit their country of origin to see friends and relatives for longer periods of time. Those who travel to care for friends and relatives (or to be cared for themselves) will be particularly affected. CPSA is against any proposal to reduce the amount of time pensioners can spend outside of Australia. Such a change will not achieve large saving but will be detrimental to pensioners who need to spend time outside of Australia.

3. Assets and concession cards

CPSA notes that the changes to the pension asset test amount to a reversal of measures in the 2007 Budget, when the Howard Government reduced the taper rate from \$3 to \$1.50. CPSA also notes that the asset free areas have been increased, while those part pensioners losing their part pension as a result of the changes will receive a Health Care Card.

CPSA notes that eligibility for a Health Care Card would in most cases have ensued regardless of the specific measures in relation to Health Care Cards in this Budget.

CPSA supports a progressive income tax system with a tax free threshold which cuts out at the level where income can be deemed to become discretionary and where income brackets are regularly indexed to prevent bracket creep increases in the real value of income tax levied. The safety-net nature of Australia's income support and supplementary payments system would ensure that the Age and Disability Support Pensions and Carer Payment would continue to be effectively tax-exempt, while the benefits of the tax offsets currently available to older Australians would be likely to effectively continue under a high tax-free threshold. It is noted that income tax system reform as described in *Re: Think* would deliver no additional benefits to CPSA's constituency. The rationale for CPSA's position is that a principled approach to income taxation by Government maximises system efficiency and effectiveness through transparency.

CPSA supports maintaining the current system of pension indexation with its three measures (the Consumer Price Index, the Pensioner and Beneficiary Living Cost Index and Male Total Average Weekly Earnings). The pension-type payments have a safety net function, which means that emphasis needs to be placed on the full rate pension payment needing to be adequate as a person's sole income. The pension system may have developed as income support for people with significant private income or assets as well, and a pension or a part pension may be viewed by many as an entitlement. However, the pension was primarily designed as a payment to prevent people from falling into poverty. When the cost of income support systems such as the pension and superannuation become an issue, the logical approach is to reduce payments to those with significant private income. Very clearly, the approach should not be to change the indexation mechanism so as to deliver lower levels of income support to all, including those on full rate payments.

While CPSA supports measures that strengthen the safety net nature of the pension, CPSA notes that it would welcome a review of tax benefits available under superannuation with a view to ensuring that these are targeted to assist retirees in achieving a financially secure retirement but to close down opportunities for the unrestricted accumulation of wealth and estate planning.

It is clear that the design of the Australian superannuation system is in need of reform based on economic and social equity grounds. The cost in terms of forfeited tax revenue is now roughly on par with the cost of the Age Pension system, which the Australian Government has labelled as financially unsustainable. It follows that the superannuation system must be overhauled as well to reduce its cost to the taxpayer.

There are two features of the current superannuation system which are plainly inequitable. Their reform can deliver the cost savings which will make superannuation sustainable.

First, the superannuation system levies a single rate of income tax and no tax-free threshold. This means that there are people on low incomes whose marginal rate of income tax outside of super is the same as the rate of income tax they pay on their superannuation contributions. Many pay a higher percentage overall in income tax on their super contributions than they do on their employment income.

On the other hand, people on high incomes who are on higher or the highest marginal tax rate for their employment income receive a significant tax benefit as a result of the single rate of income tax applied to compulsory and salary-sacrificed super contributions alike.

Second, there are no limits to assets held in superannuation member accounts. This means that the very wealthy can obtain significant income- and capital gains tax benefits through superannuation, while the taxpayer subsidises luxury in retirement.

The lack of a limit on the value of assets held in superannuation accounts is also inconsistent with the annual limits to concessional and non-concessional contributions to superannuation. While these annual contribution limits were perhaps envisaged as sufficient to prevent extremely high superannuation account balances, they have largely been ineffective.

It is also unclear why no upper limit has been set for account balances. Clearly, to achieve its public policy purpose, the superannuation system need only provide tax incentives to the point where the balance of a member account renders the account holder ineligible for the Age Pension. The savings capable of being achieved by setting such a limit would easily fund an increase to the full rate of the Age Pension and ensure that Age (and other types of) Pensioners would have retirements funded at a safe level above the poverty line.

CPSA supports reform of the type proposed by the 2009 Henry Tax Review in its recommendations 18 and 19, which suggested that the tax on superannuation contributions in the fund should be abolished and that employer superannuation contributions should be treated as income in the hands of the individual, taxed at marginal personal income tax rates and receive a flat-rate refundable tax offset.

CPSA supports a periodically indexed upper account balance limit for superannuation accounts in preference over a system of annual contribution caps. The upper account balance limit should be set with reference to single Age Pension eligibility. This would mean that the account holder can accumulate wealth in their superannuation account to the point where they can reasonably be expected to not become eligible for the Age Pension during their retirement.

CPSA also supports the taxation of superannuation fund earnings at a preferential rate up to the point where the upper account balance limit has been reached.

In relation to people over the Age Pension qualification age who are still working, CPSA supports the introduction of a floating maximum age for concessional and non-concessional

contributions. This maximum age can be set with reference to actuarially established life expectancies to ensure that wealth accumulated in superannuation accounts is primarily used for the purpose of retirement funding, not estate planning.

4. Pensioner Education Supplement & Education Entry Payment

CPSA does not support the cancellation of the Pensioner Education Supplement and the Education Entry Payment. These payments are important additions to pension payments and enable people to fund some of the ongoing costs associated with study.

Over 41,000 people will lose between \$811 and \$1,622 per year (depending on their study load) from the cessation of the Pensioner Education Supplement resulting in people currently receiving this payment being unable to pay education and other related costs. In addition, Education Entry Payment recipients will be worse off by \$208 per year.

Eighty four per cent of people receiving the Pensioner Education Supplement have no additional income other than their Centrelink payment. Nine out of every ten people affected are either Disability Support Pensioners or sole parents: two groups which the Government wishes to be job ready. Ceasing the Pensioner Education Supplement will be a barrier to pensioners taking up training and education opportunities.