Australian Greens' Additional Comments

1.1 A decent retirement is essential in a caring society. This is why the Australian Greens have not ruled out changes to any part of our retirement income system if it makes the system fairer. Unlike other parties, we remain open to changes to both the pension and superannuation if those improvements result in a fairer system that ensures that all Australians can enjoy a decent retirement.

1.2 We note that there have been some substantial reviews into retirement incomes and the complexity of our income payments system in the past five years, namely the Henry Tax Review and the McClure report. Both these reports identified that significant structural change is required and made recommendations to both simplify the tax and transfer system and to make it fairer.

1.3 However, the Australian Greens recognise that complex change often requires some initial steps, to spark the momentum for broader change.

1.4 This policy effectively reverses the decision of the Howard government to spend the benefits of the boom on tax cuts and bonuses to shore up support in the lead up to the 2007 election.

1.5 Senator Bob Brown said at the time:

> The Howard government is focused on giving the aged pension to more wealthy retirees when it should be focused on raising the income of those currently struggling on the aged pension.[1]

1.6 The Australian Greens opposed this measure in 2007 because it gave high income earners a more generous retirement income while doing nothing to address the needs of the most vulnerable. We now support its reversal, particularly as this measure ensures that more Australians who don't have the advantage of a healthy super balance will be able to access a full pension.

1.7 The main committee report investigates the impact of the proposed pension asset test in detail, so this report will not restate that evidence. However, the Australian Greens have some additional comments to add to those expressed in the main report.

Other measures

1.8 Given the amendments to the Bill, introduced to the House of Representatives on 18 June 2015, that withdrew schedules 1, 2, 4, 5 and 6, these additional comments will only address schedule 3 of the Bill in detail. The Australian Greens note the comments in the main committee report with regards to the other measures but will reserve its consideration of these matters in more detail if they are re-introduced as

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1 Senator Bob Brown, Media Release, 19 Aug, 2007, http://greensmps.org.au/content/media-releases/howard-snubs-aged-pensioners-greens (accessed 22 June 2015).

new Bills. We have concerns about the portability and defined benefits measures and are already on the record opposing the education supplement cuts. We note that schedule 4 that dealt with senior supplements was passed by the Senate on the 22 June 2015 and so will not be considered further.

The role of superannuation and assets in retirement

1.9 The submissions highlight the role of superannuation as a complimentary policy to means-tested pensions that is designed to ensure that people save throughout their life for their retirement.

1.10 For example, the Industry Super Australia (ISA) submission states that half of all new retirees will be affected by these changes.[2] One of the key conclusions that we draw from their submission is that more people will retire with superannuation assets that exceed the minimum thresholds into the future.

1.11 This assertion that super is increasing is reflected by industry reports. The Association of Superannuation Funds of Australia (ASFA) reported that superannuation hit a new record high this year and over the past 12 months there was a 14.3 per cent increase in total superannuation assets.[3] A disproportionate amount of this is going to the top 20 per cent of people, but clearly everyone is benefiting from the higher compulsory super contributions from their employer and will retire better off than the previous generation did.

1.12 Some submitters have argued that the seniors they represent will be worse off but in making this assessment, they promote the assumption that people shouldn't and won't draw down their superannuation assets and that the Government assistance that has been withdrawn will not be replaced.[4]

1.13 The Department of Social Services (department) reached a similar conclusion in their submission that more retirees will have accumulated assets upon retirement, but go on to argue that rather than being partially subsidised by the Government, these retirees will now be required to draw on those accumulated assets.[5] This evidence shows that at present a number of part pensioners are living on a mix of Government payments and interest payments to avoid touching their capital base in order to ensure that they pass their accumulated wealth on to their children.

1.14 While individuals have autonomy and control over how they structure their retirement incomes and are encouraged to find arrangements that best suit their personal circumstances, the policy settings in Australia have deliberately encouraged the accumulation of financial assets for retirement, not for estate planning.

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2 Industry Super Australia, *Submission 9*, p.13.

3 Association of Superannuation Funds of Australia Annual Statistics, June 2013, http://www.superannuation.asn.au/resources/superannuation-statistics/ (accessed 22 June 2015).

4 See *Submission 9*; *Submission 18*.

5 Department of Social Services, *Submission 5*, p.7

1.15 The evidence from the department clearly demonstrates that it is the intention of this policy to ensure that people who have significant accumulated wealth are encouraged to use this to help fund their retirement needs, while those with more modest means can rest assured they too will be able to have a dignified life in retirement by relying on the aged pension.

Asset income estimates and draw-down figures

1.16 A number of organisations have tried to model the effects of the pension changes. Of particular interest was the amount that superannuation and other cash assets might earn in interest payments or other income. Understanding how much income individuals derive from their assets is also necessary in understanding how individuals affected by this measure would be required to draw on their assets (their capital) to replace the pension that they are no longer receiving. This was the subject of some close examination by a range of submitters and the Australian Greens acknowledge their efforts to generate detailed material for the committee to review.

1.17 As discussed above, some draw down of assets is clearly required and intended. The department modelling shows that an individual may be required to draw down up to 1.84 per cent of their capital annually if those assets are not earning them any form of return at all.[6] At this rate, a single home-owner with half a million dollars in the bank would take at least 25 years to draw down their assets to $290,000, that is, the level where they were eligible for a full pension. We also note the evidence presented in the committee report, that 42 per cent of pensioners are increasing their assets, and for these pensioners, the time it would take to draw down their assets would be substantially longer than 25 years.

1.18 However, the Council of the Ageing (COTA) submission noted that some individuals have their investments invested in low-yield accounts and aren't earning very much additional income from them.[7] It is clear that these individuals will need to adjust if they want to avoid drawing on their assets to the extent outlined by the department.

1.19 While there will be some variation from person to person, it is clear that people will be able to supplement their retirement income and still achieve a decent life for the duration of their retirement if they have assets above the proposed minimum thresholds.

1.20 The Australian Greens also note the comments from ISA that as a result of these changes pensioners may be subject to an income rather than an assets test.[8]

1.21 After reviewing the evidence provided by the department provided during Budget Estimates, it is clear that some pensioners with modest assets may be subject to the income rather than the assets test. However, the department's microsimulations (using actual pensioner data) demonstrates that 171,000 pensioners would be better off

6 *Submission 5*, p.14

7 COTA, *Submission 14*, p. 5.

8 Industry Super Australia, *Submission 9.1* , p.1.

in the first instance even after taking into account the interaction of both the asset and income test.[9] The Australian Greens are satisfied that the Government have not overstated who will benefit from the measure.

1.22 After reviewing the evidence, the Australian Greens do not believe that this measure will leave those with significant assets unable to enjoy a secure, dignified retirement, even though it withdraws some Government assistance. We also note that the pension remains available to anyone whose assets decrease below the new thresholds.

Superannuation tax concessions are not creating a sustainable system for the future

1.23 The Financial System Inquiry shows that one third of all superannuation tax concessions are going to the top 10 per cent of earners.[10] This means that the well-off are able to get richer, while those in lower and moderate income jobs are unlikely to have enough to retire comfortably. Submissions to Tax Review have also demonstrated that a number of people will be unable to retire comfortably if we do not make structural changes to how people save for the future during their working life.

1.24 Women in particular are poorly served by our current arrangements and the numbers affected are likely to increase over time.

1.25 One of the worrying trends that the ISA submission identifies is that 60 per cent of women in 2055 will not achieve a comfortable standard of living under the current policy settings, because they won't retire with enough money to support themselves.[11] In their terms, this is an annual income of approximately $42 000 ($20 000 more than the basic rate of the pension for a single person)[12]. This demonstrates the challenges that we still need to resolve if we aspire to ensuring that women's retirement incomes are higher than the basic rate of pensions. With this in mind, increasing the minimum thresholds in the assets test will assist those women who retire with only very limited savings by ensuring they are eligible for a full pension.

1.26 However, in the long run, we need to address the reality that women are paid 17 per cent less than men; are regularly lumped with unpaid caring responsibilities; and as they are the majority of part-time workers they bear the brunt of the regressive, 15 per cent tax on super. [13]

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9 Department of Social Services, *Estimates Hansard*, Thursday 4 June, p. 97–98.

10 Commonwealth of Australia, Financial System Inquiry Final Report, Nov 2014, p. 138.

11 *Submission 9*, p.13.

12 According to the Association of Superannuation Funds of Australia, the 'comfortable lifestyle' retirement benchmark is $42 569 for a single person and $58 444 for a couple. See: *Submission 5.1*, p. 5.

13 Australian Bureau of Statistics (ABS), 2014, Average Weekly Earnings, Australia, Nov 2013, cat.no. 6302.0 http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0 (accessed 22 June 2015).

1.27 This is why the Australian Greens support this effort to make the system fairer by giving more to those with modest assets, while we build momentum for super changes.

Review into retirement incomes

1.28 A range of submitters have called for a broad review of retirement incomes that builds on the substantial body of evidence that already exists. In particularly a number of submitters called for an examination of the interaction between pensions, superannuation, taxation and employment.[14]

1.29 In response to this request, the Australian Greens have taken steps to ensure that retirement incomes are a chapter, not a paragraph, in the Government's Tax Review. Stakeholders will not only have the extra time to put in submissions but also the opportunity to talk directly with the Government before and after the green paper is produced.

1.30 It will be very hard for the Government to ignore the evidence organisations are preparing for the Tax Review, as it is clear Australians will demand a response that makes retirement incomes more, not less, caring and equal.

Conclusion

1.31 By supporting this measure, and continuing to build momentum for change, the Australian Greens build on a decade of work to improve retirement incomes for all Australians. We need to keep superannuation in particular on the national agenda and the Australian Greens believe we can do that by ensuring it gets proper consideration in the Tax Review, along with employment, pensions and taxation.

1.32 We need long term change in our approach to retirement incomes; the Howard Government changes were bad policy that the Greens have a long history of opposing.

1.33 Furthermore, for those who have had the benefit of policies that have assisted them to accumulate superannuation, it is appropriate that those individuals now draw down on their super over the course of their retirement.

1.34 For these reasons, the Australian Greens believe it is appropriate to pass schedule 3 of the Bill when it comes to the Senate.

Recommendation 1

1.35 **The Australian Greens recommend that the Government ngage stakeholders in the Tax Review in good faith, with a view to properly understanding the policy failures that will lead to most Australians retiring with an income that is not over and above the basic rate of pension.**

Recommendation 2

1.36 **That the all parties demonstrate their support for serious structural reform that does not exclude any aspects of superannuation, taxes, pensions or employment in order to reverse the growing wealth inequality between older**

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14 See for example: Uniting Care, *Submission 3* and ACOSS, *Submission 15*.

Australians and ensure that all members of our community can live with dignity in retirement.

Senator Rachel Siewert