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Community Affairs
Legislation Committee

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

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44th Parliament

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ABBREVIATIONS

ACPSRO	Australian Council of Public Sector Retiree Organisations
Bill	Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015
COTA	Councils on the Ageing
CPSA	Combined Pensioners and Superannuants Association NSW
CSRI	Committee for Sustainable Retirement Incomes
Department	Department of Social Services
FECCA	Federation of Ethnic Communities' Councils of Australia
ISA	Industry Super Australia
Minister	Minister for Social Services
NDS	National Disability Service
No. 4 Bill	Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014
NWRN	National Welfare Rights Network
PFA	Police Federation of Australia
Seniors Supplement Cessation Bill	Social Services and Other Legislation Amendment (Seniors Supplement Cessation) Bill 2014
TASS	Tasmanian Association of State Superannuants
TTPI	Tax and Transfer Policy Institute

LIST OF RECOMMENDATIONS

Recommendation 1

2.82 The committee recommends that the Bill be passed.

Chapter 1

Introduction

Referral

1.1 On 4 June 2015, the Minister for Social Services, the Hon. Scott Morrison MP, introduced the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 (Bill) in the House of Representatives.[1] Pursuant to a Senate resolution of 13 May 2015, the provisions of the Bill were referred to the Community Affairs Legislation Committee (committee) for inquiry and report by 15 June 2015.[2] The reporting date was extended to 22 June 2015,[3] and subsequently to 10 August 2015.[4] On 18 June 2015, the Senate revised the reporting date to 22 June 2015.[5]

1.2 This inquiry reports on the provisions of the Bill as referred to the Senate on 4 June 2015. The committee notes amendments to the Bill were introduced to the House of Representatives on 18 June 2015 withdrawing schedules 1, 2, 4, 5 and 6.[6]

Conduct of the inquiry

1.3 Details of the inquiry, including a link to the Bill and associated documents, were placed on the committee's website. The committee also wrote to 32 organisations and individuals, inviting submissions by 12 June 2015.

1.4 The committee received 18 submissions. Submissions are listed at Appendix 1 and published on the committee's website.

1.5 The committee agreed not to hold a public hearing.

Background

1.6 The Bill seeks to implement measures outlined by the government in the 2015–16 Federal Budget (Budget) that aim to improve the fairness of tax rules and

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1 *House of Representatives Votes and Proceedings*, No. 122–4 June 2015, p. 1361.

2 On 13 May 2015 the Senate passed a resolution that the provisions of all bills introduced into the House of Representatives after 14 May 2015 and up to and including 4 June 2015 that contain substantive provisions commencing on or before 1 July 2015 (together with the provisions of any related bill), are referred to committees for inquiry and report by 15 June 2015. See: *Journals of the Senate*, No. 93–13 May 2015, p. 2585.

3 *Journals of the Senate*, No. 95–15 June 2015, p. 2644.

4 *Journals of the Senate*, No. 96–16 June 2015, pp 2661–2662.

5 *Journals of the Senate*, No. 98–18 June 2015, pp 2708–2709.

6 *House of Representatives Votes and Proceedings*, No. 126–18 June 2015, p. 1407.

benefit systems.[7] This included changes aimed to ensure the pension system is sustainable and fair and targeted at those most in need.[8]

1.7 A number of these measures were outlined in the 2014–15 Budget and previously introduced in the Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014 (the No. 4 Bill) and Social Services and Other Legislation Amendment (Seniors Supplement Cessation) Bill 2014 (Seniors Supplement Cessation Bill). These Bills were introduced in the Senate on 28 October 2014 and 18 November 2014 respectively but have not yet been passed.[9]

Purpose and key provisions of the Bill

1.8 The Bill proposes changes to a number of acts relating to the administration of the pension, including the *Social Security Act 1991*, *Social Security (Administration) Act 1999* and *Veterans' Entitlements Act 1986*.

1.9 The Bill is comprised of 6 Schedules. Schedules 1 – 3 introduce 2015–16 Budget measures. Schedules 4 – 6 reintroduce 2014–15 Budget measures previously introduced in the Seniors Supplement Cessation Bill and the No. 4 Bill.

Schedule 1 – Defined benefit income status

1.10 This schedule proposes to cap the deductible amount for a defined benefit income stream at a maximum 10 per cent of the gross amount payable to an individual for the year. The measure would not apply to military superannuation schemes.[10]

1.11 The income test for determining eligibility and rate of payment for income support payments takes into consideration payments received from a defined benefit income stream (usually an employer superannuation fund or government employee superannuation scheme), minus the deductible amount. The deductible amount is currently calculated according to the tax-free component of the defined benefit income stream payment, as determined by legislation.[11]

1.12 During the second reading speech on the Bill, the Minister noted the measure aims to improve 'fairness and equity' as current arrangements:

> allow some defined benefit superannuants to have a large proportion of their superannuation income excluded from the pensions income test.[12]

1.13 This schedule would commence on 1 January 2016.

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7 *Budget 2015: Overview*, http://www.budget.gov.au/2015-16/content/bp1/html/bp1_bs1.htm (accessed 12 June 2015).

8 *Budget 2015: A fairer pension system*, http://www.budget.gov.au/2015-16/content/overview/html/overview-26.htm (accessed 12 June 2015).

9 *Journals of the Senate*, No. 61–28 October 2014, p. 1639; *Journals of the Senate*, No. 65–18 November 2014, p. 1793.

10 Explanatory Memorandum (EM), p. 2.

11 EM, p. 2.

12 The Hon Scott Morrison MP, Minister for Social Services, *House of Representatives Hansard*, 4 June 2015, p. 2.

Schedule 2 – Proportional payment of pensions outside Australia

1.14 This schedule proposes to reduce the period during which pensions and a small number of other payments can be paid outside Australia at the full rate from 26 weeks to six weeks. After six weeks, payment will be adjusted according to the length of pension recipient's Australian working life residence. Those with 35 years or more Australian working life residence will not have their payment reduced.[13]

1.15 This schedule would commence on 1 January 2017.

Schedule 3 – Assets test and concession cards

Assets test

1.16 Division 1 of this schedule proposes to change the assets test for the pension by increasing the assets test free areas and increasing the taper rate by which a pension is reduced once the free areas are exceeded.[14]

1.17 Proposed increases to the assets test free areas include:

- from \$202 000 to \$250 000 for a single home-owner;
- from \$286 500 to \$375 000 for home owner couples;
- from \$348 500 to \$450 000 for non-home owner singles; and
- from \$433 000 to \$575 000 for non-home owner couples.[15]

1.18 The taper rate for pensions is proposed to increase from \$1.50 to \$3.00 per fortnight. This means that a person’s rate of a pension is reduced by \$3.00 per fortnight for every \$1000 of assets above the relevant assets test free area.[16]

1.19 These changes would commence on 1 January 2017.[17]

Concession cards

1.20 Division 2 of this schedule proposes to automatically issue a Health Care Card or Commonwealth Seniors Health Card (for people of pension age) to pension recipients whose pension is cancelled as a result of changes to asset thresholds and taper rates from 1 January 2017. Pension recipients who are overseas when their pension is cancelled at 1 January 2017 will be automatically issued a concession card upon their return, provided they return within 19 weeks of leaving Australia. The income test for concession cards would not apply in these cases. Veterans' whose service pension is cancelled will retain their Veterans Affairs Gold Card.[18]

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13 EM, p. 4.

14 EM, p. 6.

15 EM, pp 6 – 7.

16 EM, p. 7.

17 EM, p. 6.

18 EM, p. 7.

1.21 This schedule also proposes to replace the measure that pauses the indexation of the assets test free areas in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 6) Act 2014* from 1 January 2017.[19]

1.22 During the second reading speech on the Bill, the Minister noted these changes aim to 'rebalance the assets test to make it fairer and better targeted and to help ensure the pension system is sustainable into the future'.[20]

Schedule 4 – Energy supplement replacing seniors supplement

1.23 This schedule proposes to cease payment of the seniors supplement. Cardholders will continue to be paid the energy supplement as a free-standing payment. The seniors supplement, including the energy supplement, is currently available to eligible holders of the Commonwealth Seniors Health Card or the Veterans Affairs Gold Card.[21]

1.24 This schedule reintroduces the measure proposed by the Seniors Supplement Cessation Bill currently before the Senate with a new proposed start date of 20 June 2015. Cardholders will generally receive their last quarterly seniors supplement payment on 20 June 2015.[22]

Schedule 5 – Pensioner education supplement

1.25 This schedule proposes ceasing payment of the pension education supplement, and related consequential amendments.[23]

1.26 The pensioner education supplement is currently paid to eligible income support recipients to assist with the costs of undertaking approved study or training at the following rates:

- $62.40 per fortnight for at least 50 per cent of a full-time study load; or
- $31.20 per fortnight for a study load below 50 per cent.[24]

1.27 This schedule reintroduces proposed Schedule 4 to the No. 4 Bill 2014 with a new proposed start date of 1 January 2016.[25]

Schedule 6 – Education entry payment

1.28 This schedule proposes ceasing education entry payments, and related consequential amendments.[26]

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19 EM, p. 7.

20 *House of Representatives Hansard*, 4 June 2015, p. 3.

21 EM, p. 16.

22 EM, p. 16.

23 EM, p. 20.

24 *Submission 5*, p. 16.

25 EM, p. 1.

26 EM, p. 24.

1.29 The education entry payment is a lump sum of $208 available to eligible income support recipients annually to assist with the costs of approved study or training.[27]

1.30 This schedule reintroduces proposed Schedule 5 to the No. 4 Bill with a new proposed start date of 1 January 2016.[28]

Financial implications

1.31 The Explanatory Memorandum notes the following estimated savings are expected for each of the measures over the forward estimates:

- schedule 1 – $465.5 million;
- schedule 2 - $168.4 million;
- schedule 3 - $2.4 billion;
- schedule 4 - $1 billion (includes indicative figure for 2018-19);
- schedule 5 - $252.4 million; and
- schedule 6 - $64.4 million.[29]

1.32 Savings estimates for schedules 5 and 6 refer to administered funding for affected social security payments only. These do not reflect the net amount of implementation funding.[30]

Consideration by other committees

1.33 The Senate Standing Committee for the Scrutiny of Bills had no comment on the Bill.[31]

1.34 The Parliamentary Joint Committee on Human Rights concluded the Bill did not raise human rights concerns.[32]

Acknowledgement

1.35 The committee thanks those individuals and organisations that made submissions.

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27 *Submission 5*, p. 17.

28 EM, p. 1.

29 EM, p. 2.

30 EM, p. 2.

31 Senate Standing Committee for the Scrutiny of Bills, *Alerts Digest No. 6 of 2015*, 17 June 2015, p. 53.

32 Parliamentary Joint Committee on Human Rights, *Human Rights Scrutiny Report: Twenty-third report of the 44th Parliament;* 18 June 2015, pp 2–3.

Chapter 2

Key issues

2.1 The majority of submissions raised concerns about the proposed changes to the pension assets test and taper rates outlined in the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 (Bill). These submissions recommended any changes to the age pension assets test should be made as part of a broader retirement income review. A small number of submissions also raised concerns about the following measures:

- ten per cent cap on the deductible amount for defined benefit income streams;
- pension portability;
- abolition of the seniors supplement; and
- abolition of education supplements and entry payments.

2.2 The Department of Social Services (department) noted in its submission the measures outlined in the Bill:

> emphasise the role of the social support system as a safety net for those unable to fully support themselves and the expectation that people with substantial resources should use their assets either directly or to produce income to meet their day-to-day living expenses rather than calling on the social security system for support.[1]

Changes to assets test and taper rate

2.3 A number of submissions supported the proposed changes to the assets test and taper rates.[2] The Australian Council of Social Service (ACOSS) noted the change 'would better target the pension to those who need assistance from government'.[3] ACOSS further noted those pension recipients who would be adversely affected by the proposed changes:

> are unlikely to face financial hardship because the assets available to them are sufficient to provide a buffer against poverty, in addition to any part age pension to which they may be eligible. Those with significant assets can generally avoid financial hardship through a combination of investment income, part-pension income and, where necessary, partial draw down of their financial assets, bearing in mind that once assets fall below a certain level the pension will increase.[4]

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1 Department of Social Services, *Submission 5*, p. 1.

2 See: UnitingCare, *Submission 2*; National Welfare Rights Network (NWRN), *Submission 7*; Australian Council of Social Service, *Submission 15*.

3 *Submission 15*, p. 2.

4 *Submission 15*, p. 5.

2.4 The department estimated the following impacts of the changes on social security and veterans' affairs pension recipients:

- 171 500 with moderate levels of assets would receive an average of around $30 more per fortnight (including 50,000 part rate pensioners who would become entitled to the full pension);
- 236 000 with higher levels of assets would have their part pension reduced at an average of $130 per fortnight; and
- 91 300 would have their pensions cancelled at an average loss of $190 per fortnight.[5]

2.5 The department noted the proposed change is expected to save $2.4 billion over the forward estimates.[6]

Retirement income review

2.6 A number of submissions recommended any changes to the assets test should be formulated as part of a broader retirement income review and 'piecemeal change' is to be avoided.[7] The Committee for Sustainable Retirement Incomes (CSRI), which supports the development of a whole-of-government retirement income strategy, expressed concerns that:

> piecemeal approaches, such as the Government's focus on the age pension means test … will only continue uncertainty about the retirement incomes system as a whole and introduce new complexity and unintended effects without achieving the claimed purpose of greater sustainability.[8]

2.7 CSRI suggested that a more 'holistic approach is needed to reform our retirement incomes system and that this needs to be guided by an agreed set of objectives and supporting principles'.[9] ACOSS suggested a broader review of the retirement incomes system should specifically address:

> the fairness and sustainability of the superannuation system; and be complemented by the establishment of a regular independent review of payment adequacy.[10]

2.8 The Council on the Ageing Australia (COTA) noted it has led the way in calling for a dedicated, independent retirement incomes review and emphasised:

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5 *Submission 5*, p. 8.

6 *Submission 5*, p. 8.

7 See: Tax and Transfer Policy Institute, *Submission 8*, p. 11; Industry Super Australia, *Submission 9*, p. 4; Committee for Sustainable Retirement Incomes, *Submission 13*, p. 5; COTA, *Submission 14*, p. 3; ACOSS, *Submission 15*, p. 2; Australian Institute of Superannuation Trustees, *Submission 17*, pp 2–3; National Seniors, *Submission 18*, p. 2.

8 *Submission 13*, p. 5.

9 *Submission 13*, p. 8.

10 *Submission 15*, p. 2.

> [M]oving a relatively small group of people off the public pension thereby forcing them to adopt a different financial management strategy without addressing broader underlying issues will not by itself result overall in a more sustainable Retirement Incomes System. There is a pressing need for an integrated, systemic understanding of and approach to retirement incomes, rather than piecemeal change.[11]

2.9 The department noted that changes to the assets test and taper rate:

> protects or improves outcomes for those only able to save moderate amounts to supplement their Age Pension, while limiting access to the pension for those with sufficient means to support a significantly higher standard of living than the Age Pension.[12]

2.10 In this context, the committee also notes the department's comments that the age pension 'should not be expected to operate as a top–up that allows retirees to retain their capital base intact'.[13]

2.11 The department explained tightening the assets taper rate 'will ensure that retirees who have the capacity to support themselves no longer receive the Age Pension'. The department noted:

> [T]he point of providing taxpayer funded incentives through the tax system for superannuation is that people draw down on those savings to ensure a good standard of living in retirement.[14]

2.12 During the second reading speech on the Bill, the Minister for Social Services (Minister), the Hon. Scott Morrison MP, noted the measure aims to result in:

> an increase in pension payments for those with modest to low levels of assets, while requiring those with more substantial assets to draw on the assets that they have built up to ensure that they do not have to draw down on a pension in their retirement.[15]

Disincentive to save

2.13 A number of submissions noted the proposed taper rate of $3 per fortnight per $1 000 assets would lead to a 7.8 per cent withdrawal rate for assets held over the free area, which may be higher than the amount people may be earning on their investments and would thus create a disincentive to save.[16]

2.14 The Australian Council of Public Sector Retiree Organisations (ACPSRO) supported changes to the assets test, but opposed the change to the taper rate, noting it

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11 *Submission 14*, p. 5.

12 *Submission 5.1*, p. 4.

13 *Submission 5.1*, p. 4.

14 *Submission 5*, p. 7.

15 The Hon. Scott Morrison MP, Minster for Social Services, *House of Representatives Hansard*, 4 June 2015, p. 3.

16 See: *Submission 8*; *Submission 12*; *Submission 13*.

'would mean that a retiree loses more age pension than they can earn on their additional savings if their assets earn less than 7.8 per cent a year'.[17] ACPSRO argued:

> [T]he government may save money in the short term, but in the longer term people will start wondering if there is any point in saving if it is only going to leave them worse off in the long run.[18]

2.15 Likewise, the Australian National University's Tax and Transfer Policy Institute (TTPI) noted in its submission that the proposed changes:

> penalise savers, particularly those who have saved outside of tax-advantaged vehicles such as superannuation or (to a lesser extent) housing, and may induce behaviour changes among savers which undermine the hoped-for budget savings of this measure.[19]

2.16 The department noted in its submission that many of the criticisms of this measure:

> cite the low rate of return available in bank deposits or term deposits. However, this is not a typical asset allocation for someone with a large amount of retirement savings.[20]

2.17 The department further noted that:

> [R]ather than being disadvantaged by having substantial savings, retirees affected by the assets test changes could still support a significantly higher standard of living in retirement than the maximum rate of pension through a combination of investment earnings, capital drawdowns and eventual pension entitlements.[21]

2.18 The department challenged claims the impact of the changes in pure income terms would create a disincentive to save, noting:

> analysis based purely on income is flawed as it does not recognise the capacity of people to draw down on their assets to support themselves in retirement. It suggests that people should be able to earn income from their superannuation and other retirement savings while retaining their capital base intact, with the Age Pension operating as an income top-up. This would mean that the age pension system would support wealth maintenance, rather than savings (including from superannuation) being used for self-support in retirement.[22]

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17 Australian Council of Public Sector Retiree Organisations (ACPSRO), *Submission 12*, p. 2.

18 *Submission 12*, p. 2.

19 *Submission 8*, p. 2.

20 *Submission 5*, p. 10.

21 *Submission 5*, p. 11.

22 *Submission 5*, p. 11.

2.19 TTPI further suggested the proposed changes may lead to 'serious distortions to pensioner's [sic] behaviour' and 'promote risky savings and consumption behaviour'.[23]

2.20 Similarly, CSRI noted there is 'serious danger of the proposed test encouraging unwise investment behaviour', including shifting:

> a significant part of the assets into non-assessable assets such as the family home by repaying the mortgage, renovating or upgrading to a more expensive home.[24]

2.21 A recent media article provided to the committee by David Ingles and Miranda Stewart from TTPI noted that, under the proposed changes, income from savings would be heavily taxed, creating a 'disincentive to save'. Ingles and Stewart further noted that since the 2015-16 Budget announcement, 'we have seen stories emerge of age pensioners changing their behaviour in response to the proposed rebalancing of the age pension asset tests', such as buying more expensive homes or holidays.[25]

2.22 The department refuted suggestions changes to the taper rate would encourage pensioners to spend their assets to circumvent the changes. The department noted pensioners 'who deliberately dissipate large amounts of their assets are not better off', and there is 'no evidence that suggests there is a widespread problem of people deliberately spending money in order to obtain a higher rate of pension'. Rather, the department noted:

> available evidence suggests the great majority of retirees make prudent use of their superannuation and other retirement savings to support their standard of living over the long term.[26]

2.23 During Budget Estimates on 4 June 2015, the Assistant Minister for Social Services, Senator the Hon. Mitch Fifield, confirmed:

> [I]t is not the government's intent to … force people or seek to encourage people to dispose of their assets en masse. It is entirely appropriate that people who have reasonable assets draw down on those over the course of their retirement … the purpose of the pension, the purpose of government policy, is to make sure that there is a level of support for people who do not have significant means. It is ultimately a safety net and it is important that is targeted at those who need the support the most.[27]

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23 *Submission 8*, p. 7.

24 *Submission 13*, p. 7.

25 David Ingles and Miranda Stewart, 'Why pensioners are cruising their way around budget changes,' *The Conversation*, 3 June 2015. See: *Submission 8*, pp 13–15.

26 *Submission 5*, p. 12.

27 Senator the Hon. Mitch Fifield, *Estimates Hansard*, 4 June 2015, p. 101.

2.24 TTPI noted a taper rate of $3 per fortnight per $1000 of assets implies a wealth tax rate of 7.8 per cent on wealth above the new proposed tax thresholds. TTPI argued:

> [T]his is a very high marginal rate in a context where, with real returns of less than 5 per cent on many investments like superannuation, the effective wealth tax exceeds the whole of the real return. Assuming a return to savings of five per cent, a consequence of the asset test is that income from savings is heavily taxed at an effective marginal rate around 160 per cent.[28]

2.25 Ingles and Stewart questioned why 'most middle income savers who eventually need some level of age pension' are subject to the implicit wealth tax, while 'the top cohort [of superannuation savers] who don't need the age pension are never subject to any wealth or bequests tax'.[29]

2.26 The department noted the proposed changes will only affect those with significant levels of assets, and emphasised that role of the age pension is:

> a safety net payment that is designed to support a basic, acceptable standard of living, particularly for those with few other resources. Age Pension is funded from general revenue, in other words by current taxpayers, and targeted through the means test to those who need it most. As a non-contributory social security payment, eligibility for the Age Pension is not based on past income or contributions, or taxes paid during a person's working life.[30]

2.27 During Budget Estimates on 4 June 2015, 'in response to the argument that rich people are better off,' the department clarified:

> they are not better off—they are unaffected, because they never would have got the pension in the first place. But because we are increasing the free area, low-asset-holding people are demonstrably better off. Most of the impacts of the tighter asset test are on high asset holders. Near the cut-out point, a lot of those people would have only been getting small pensions anyway because they were already impacted on the asset test. So the impact will not be profound there but it will exclude them from the pension.[31]

2.28 ACOSS noted those pension recipients who would be adversely affected by the proposed changes:

> are unlikely to face financial hardship because the assets available to them are sufficient to provide a buffer against poverty, in addition to any part age pension to which they may be eligible. Those with significant assets can generally avoid financial hardship through a combination of investment income, part-pension income and, where necessary, partial draw down of

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28 *Submission 8*, p. 4.

29 *Submission 8*, p. 15.

30 *Submission 5.1*, p. 5.

31 Mr Paul McBride, Group Manager, Social Security Policy, Department of Social Services, *Estimates Hansard*, 4 June 2015, p. 106.

> their financial assets, bearing in mind that once assets fall below a certain level the pension will increase.[32]

2.29 In response to claims by Industry Super Australia (ISA) that those on low to middle incomes will most be most affected by the changes,[33] the department noted this is a 'positive outcome':

> [I]t shows that the superannuation system is working and is helping people on average incomes to achieve higher superannuation balances by retirement.[34]

2.30 The department further noted higher retirement savings, and a corresponding lower reliance on the age pension, are 'intended outcomes of the superannuation guarantee system' and will allow retirees 'to achieve higher retirement living standards than if they relied solely on the Age Pension'.[35]

2.31 TTPI proposes a 'deemed income approach to means testing the age pension', whereby wealth and income tests are integrated and the 'scope for people to game their entitlements' reduced.[36] TTPI noted both the 2009 Australia's Future Tax System Review and 2013 Commission of Audit recommended the separate age pension asset test should be replaced by a comprehensive means test that deems income from assets.[37]

2.32 The department noted merged means test proposals 'come at a large cost to outlays and have regressive distributional impacts'. The department noted the deeming rate of 6 per cent suggest by TTPI 'would have very severe adverse impacts on the large number of pensioners with lower levels of assets, including many current maximum rate pensioners' while 'more wealthy pensioners would benefit from the change'.[38]

Drawdown on assets

2.33 Submissions also noted the drawdown on assets required to maintain a comfortable standard of living would mean retirees may end up on the part-pension.[39] ACPSRO noted if the changes are passed, 'people will have to start spending their capital in order to survive'.[40]

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32 *Submission 15*, p. 5.

33 See: Industry Super Australia, *Submission 9*.

34 *Submission 5*, p. 13.

35 *Submission 5.1*, p. 7.

36 *Submission 8*, p. 9.

37 *Submission 8*, p. 14.

38 *Submission 5.1*, p. 10.

39 See: *Submission 8*; *Submission 12*; *Submission 13*.

40 *Submission 12*, p. 2.

2.34 In its submission, COTA questioned the Minister's assertion that the drawdowns on assets required to make up for income lost as a result of the changes 'are fairly modest' and would not exceed 2 per cent per annum of the current asset value. COTA noted the 'vast bulk of feedback' from people who derive their income stream from assets (mainly term deposits) earn three per cent or less interest, thus pensioners who choose not to draw down on their asset:

> will be significantly affected, especially in the context of very low and possibly decreasing bank interest rates and returns on other low risk investments.[41]

2.35 CSRI noted the drawdown on assets required to 'generate income streams that deliver adequate standards of living in retirement' is not reasonable and expressed concern that should retirees:

> take the option to rundown their assets more quickly than might be wise in order to live 'comfortably', they would of course become eligible for some part pension as their assets fall below the cut-out points. In other words, the initial budgetary savings would be reduced slowly over time.[42]

2.36 Likewise, the TTPI noted 'many savers with private assets will need to run down their assets substantially to maintain a comfortable standard of living in retirement', noting the government's figures are based on 'optimistic assumptions about the real returns pensioners can achieve'.[43]

2.37 During the second reading speech on the Bill, the Minister noted:

> [P]eople with higher levels of retirement savings have the capacity to draw down on their assets, as intended, to support themselves in retirement rather than calling on the taxpayer for a pension for support. Those most affected by the changes would only have to draw down a maximum of 1.84 per cent of their assets to make up for the loss of their part-pension and maintain their current levels of income.[44]

2.38 During Budget Estimates on 4 June 2015, the department noted the required 1.84 per cent draw down rate would only be required in the 'worst case scenario':

> [T]he people adversely impacted by this measure have holdings in forms that have the capacity to provide more income and more return from them than we have captured in the information that we have provided in terms of the 1.84 per cent draw-down. That is the worst case scenario. It assumes that they are not supplementing their pension through other forms of earnings or returns on their investment. It is just assuming they are doing a

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41 *Submission 14*, p. 4–5.

42 *Submission 13*, pp 7–8.

43 *Submission 8*, p. 5.

44 The Hon. Scott Morrison MP, Minister for Social Services, *House of Representatives Hansard*, 4 June 2015, p. 3.

straight draw-down, when we know in fact that those classes of investment provide returns in excess of 1.84 per cent.[45]

2.39 The department further refuted suggestions that drawing down on assets would mean retirees end up on a part-pension. The department noted 'the majority of pensioners are conservative with their savings' and it is 'not clear how much pensioners will draw down from their assets under the assets test changes'. Modelling by the department on the cost of the pension for a couple most affected by the changes found 'the cumulative cost of the pension for the couple would be lower under the assets test changes for the first 30 years from their commencement on pension'.[46]

2.40 COTA noted it believes there is strong resistance to drawing down on the asset itself due to a number of complex factors, including:

- in our retirement income system longevity risk and investment risk fall largely on the individual (backed up by the age pension);
- a long-held set of values about careful management of resources over time;
- a desire to maintain a 'back up' of financial resources independence from Government;
- a concern to have adequate resources available to fund health and aged care requirements into the future;
- a desire to not be a burden on children; and
- a lack of a range of safe and viable financial products in the retirement incomes market.[47]

2.41 The Minister noted 'it is common for pensioners not to draw down on their assets whilst receiving the pension' and outlined research by the department on asset holdings of pensioners during the last five years of receiving the pension that found:

- 42.5 per cent increased their asset holdings;
- 24.7 per cent maintained their asset holdings at the same level;
- Less than a third had their assets decrease.[48]

2.42 In response to a recommendation by National Seniors that the changes be grandfathered to apply only to new recipients,[49] the department noted grandfathering would not be necessary the changes would only affect those with significant levels of assets. The department noted grandfathering the measure:

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45 Ms Serena Wilson, Deputy Secretary, Department of Social Services, *Estimates Hansard*, 4 June 2015, p. 90.

46 *Submission 5*, p. 13.

47 *Submission 14*, p. 5.

48 The Hon. Scott Morrison MP, Minister for Social Services, 'Fairer access to a more sustainable pension,' 7 May 2015, http://scottmorrison.dss.gov.au/media-releases/fairer-access-to-a-more-sustainable-pension (accessed 16 June 2015).

49 *Submission 18*, p. 2.

> would result in systemic inequities, with retirees holding similar levels of assets receiving different amounts of Government support for long periods of time. It would be counter to the intent of the changes, that is, to ensure those who have the capacity to support themselves do not receive support from the taxpayer. It could also have the perverse unintended consequence of encouraging a person, and/or their partner, to retire earlier than they otherwise would, in order to claim pension before the changes commence. The savings generated by the measure would be greatly reduced.[50]

Defined benefit income status

2.43 The committee notes that this measure in the Bill is targeted to ensure fairness in the pensions system by addressing an anomaly in the system that allows some people in defined benefit income streams to access a highly concessional income test.

2.44 Submissions expressed both support and opposition to the proposal to cap the deductible amount for defined benefit income streams at 10 per cent. Several submissions supported the proposal to improve consistency in treatment of different types of income.[51]

2.45 However, a number of submissions, particularly from pensioner and superannuants groups, opposed the change noting it would unfairly impact on those retirees who had made decisions based on the current rules. These submissions criticised the introduction of this measure without notice prior to the 2015–16 Budget, noting the government's pre-election commitment that there would no changes to superannuation during this term.[52] The Combined Pensioners and Superannuants Association (CPSA) also expressed concerns 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.[53]

2.46 The Tasmanian Association of State Superannuants (TASS) argued the Bill:

> unfairly targets defined benefit superannuants and is an unwarranted attack on modest pension incomes of older retiree's [sic] who compulsorily contributed to their own lifetime income stream.[54]

2.47 TASS noted the measures 'could have the unintended consequence of significant social welfare planning directed at more people choosing to take their superannuation as a lump sum rather than an income stream':

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50 *Submission 5*, p. 14.

51 See: *Submission 3*; *Submission 7*; *Submission 14*, p. 7; *Submission 15*, p. 6.

52 Mr Michael Conroy, *Submission 11*, p. 2; Tasmanian Association of State Superannuants, *Submission 10*, p. 3; UniSuper, *Submission 16*, p. 3.

53 Combined Pensioners and Superannuants Association NSW, *Submission 6*, p. 3.

54 *Submission 10*, p. 3.

> due to the limited time available since becoming aware of the measures contained in this Bill we have had insufficient opportunity to fully investigate its full impact and consequences.[55]

2.48 Mr Michael Conroy, a retired public servant and contributor to the NSW State Superannuation Scheme, noted a 10 per cent cap is 'arbitrary'. Mr Conroy estimated members of the NSW scheme have 'made personal contributions that justify a deductible amount of about 30 per cent of the income stream'.[56]

2.49 Mr Conroy raised further concerns about a news story that claimed the measure closes a loophole to a 'double-dipping rort' being exploited by 'thousands of retired public service fat cats'.[57] Quoting data from the department, Mr Conroy noted the average annual income drawn from defined benefit schemes is only $27 550, 20 per cent below the full married couple rate for the age pension.[58]

2.50 ISA raised concerns about the lack of evidence that :

> the application of this provision is well-targeted and will only affect those whose incomes would otherwise secure a comfortable standard of living.[59]

2.51 UniSuper, a superannuation fund dedicated to people working in higher education, expressed concerns the proposed changes would:

> affect members in receipt of non-commutable lifetime pensions, most of whom would not have the option to modify their drawdown from their superannuation income stream because, by definition, defined benefit pensions are fixed payments.[60]

2.52 UniSuper estimated 'up to two thirds' (or 4 600) of its defined benefit members with tax free amounts greater than 10 per cent would be affected by the measure, including those on moderate incomes. UniSuper recommended the committee consider a 35 per cent deductible amount for non-public sector defined benefit schemes.[61]

2.53 A number of submissions did not support the measure, but if passed, recommended the ten per cent cap be grandfathered.[62] ACPSRO noted the cap should be grandfathered to avoid causing hardship to some pensioners and should only apply:

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55 *Submission 10*, p. 2.

56 *Submission 11*, p. 2.

57 Simon Benson, 'Budget 2015: Public sector gravy train derailed by pension crackdown,' *Daily Telegraph*, 7 May 2015.

58 *Submission 11*, p. 3.

59 *Submission 9*, p. 18.

60 *Submission 16*, p. 3.

61 *Submission 16*, p. 5.

62 See: *Submission 10*; *Submission 11*; *Submission 12*.

> to those CSS and PSS and state government pensions that begin after 1 January 2016, if at all. Specifically, if the member dies and the revisionary pension goes to the surviving partner, then the cap should not be applied.[63]

2.54 The Police Federation of Australia (PFA) expressed concerns about the effect of the measure on serving and retired police on defined benefit schemes. The PFA noted there are 247 disability pensioners in Victoria with a deductible portion greater than 10 per cent that would be affected by the proposed change.[64] The PFA noted it 'seems particularly harsh to reduce the full or part pensions of disabled police officers' and recommended the committee consider:

> that police in defined benefit schemes be treated in exactly the same way as Australian Defence Force members on a 'military defined benefit income stream' as defined by the Bill so police schemes are not affected.[65]

2.55 The department noted the change intends to address an anomaly caused by income tax changes in 1998 and the 'Simpler Super' changes in 2007 to 'simply a complicated system of taxation for superannuation benefits' that resulted in a 'highly concessional income test deduction for some people'. The changes created an 'unintended outcome whereby the deductible amount used by the social security income test exceeded a person's own after-tax contributions for some defined benefits income streams'. The department noted this:

> resulted in a higher deductible amount, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient in terms of their contribution.[66]

2.56 The department noted the proposed change 'gives a fairer assessment of an individual's personal contributions to their defined benefit income stream'.[67]

2.57 The department noted the recommendation for grandfathering the ten per cent cap; however, it stated in its additional submission:

> the Simpler Super taxation changes in 2007 created an unintended change which increased the deductible amount in the income test treatment for some defined benefits income streams. The measure addresses this anomaly. Given this, it is not appropriate to grandfather the deductible amount for existing income support recipients who may have benefited from the anomaly.[68]

2.58 The department estimates approximately 47 700 (35 per cent) income support recipients with defined benefit streams would be impacted by the proposed changes. Of these, the department estimates:

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63 *Submission 12*, p. 2.

64 Police Federation of Australia, *Submission 2, Attachment 1*, p. 2.

65 *Submission 2*, pp 1–2.

66 *Submission 5*, p. 4.

67 *Submission 5*, p. 2.

68 *Submission 5.1*, p. 3.

- 46 000 recipients will receive a reduced pension allowance (average of $2 150 per year / $82.70 per fortnight); and
- 17 000 recipients would be cancelled.[69]

2.59 The department noted the measure will generate savings of $465.5 million over the forward estimates.[70]

Pension portability

2.60 Existing provisions in the age pension allow for pension recipients to receive the pension at the usual rate while outside Australia up to 26 weeks. This legislation reduces that period to six weeks, reflecting the community expectation that those who benefit from the Australian social security system have worked and lived in Australia in the long-term and will continue to be residents of Australia in their retirement.

2.61 A number of submissions expressed concerns that changes to pension portability would unfairly impact on Australians born overseas. Pension recipients who have worked in Australia for less than 35 years would have their benefits reduced according to the length of their working life residence if they travel outside of Australia for more than six weeks in a year, whereas pension recipients who were born in Australia or have worked in Australia for 35 years would not.[71]

2.62 The Federation of Ethnic Communities' Councils of Australia (FECCA) noted up to 40 per cent of pension recipients were born overseas and expressed concerns this change would:

> disadvantage a significant section of the Australian population who were born overseas and maintain important ties with the places of birth.[72]

2.63 Similarly, National Welfare Rights Network (NWRN) expressed opposition to the measure, noting pension recipients from culturally and linguistically diverse backgrounds are 'more likely to be adversely impacted by these changes' as they are more likely to have 'humanitarian and compassionate reasons for travel'.[73]

2.64 CPSA expressed opposition to any changes that would reduce the amount of time pension recipients could spend outside of Australia, and noted the change:

> will not achieve [sic] large saving but will be detrimental to pensioners who need to spend time outside of Australia.[74]

2.65 COTA expressed opposition to the measure and noted 'it is not unreasonable that an age pensioner with close family overseas should spend an extended period of

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69 *Submission 5*, p. 3.

70 *Submission 5*, p. 3.

71 See: *Submission 1*, p. 1; *Submission 6*; *Submission 7*; *Submission 9*, p. 19; *Submission 15*, p. 7.

72 Federation of Ethnic Communities' Councils of Australia (FECCA), *Submission 1*, p. 1.

73 *Submission 7*, p. 5.

74 *Submission 6*, p. 3.

time with them'. COTA recommended the measure be withdrawn 'until the government has consulted on an appropriate and fair limit'.[75]

2.66 In its submission, the department noted the measures would 'reinforce and strengthen the residence-based nature of Australia's social security system'.[76] The committee further notes that the proposed measure only applies to those born overseas and only those who have worked in Australia less than 35 years and that there will be transitional provisions for current pensioners. The department also noted the measure 'does not affect the length of the portability period, which continues to be unlimited'.[77]

Abolition of the seniors supplement

2.67 A small number of submissions supported the abolition of the seniors supplement. ACOSS expressed strong support for the measure and noted the supplement:

> is a cash payment available to many retirees who are too wealthy to receive a pension. It also extends to many people with high superannuation incomes since the income test for existing Supplement recipients is based on taxable income, and as such does not include tax-free superannuation benefits.[78]

2.68 COTA noted the seniors supplement 'has been a poorly targeted payment' and recognised 'those effected [sic] by the removal of the Seniors Supplement will generally be able to manage without it'. However, COTA also noted these changes 'bring instability, uncertainty and worry into the lives of many individual older Australians, and add further complexity and stress into the financial planning of many nearing retirement'.[79]

2.69 UnitingCare raised concerns about the evidence base for ceasing payment of the seniors supplement to holders of the Commonwealth Seniors Health Card and the Veterans Affairs Gold Card. UnitingCare noted it has collected evidence that suggests an increasing number of households are experiencing financial stress when it comes to paying bills and that 'the supplement is working' to help ensure low income retirees are able to pay their bills. UnitingCare expressed concerns:

> [R]emoving the supplement may lower this capacity, and increase the number who pay bills late, and may become at risk of disconnection from essential services.[80]

2.70 The department noted in its submission providing cash payments to self-funded retirees (concession card holders who are not eligible for the pension) is 'inconsistent with a social security system designed to assist those with less capacity

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75 *Submission 14*, p. 6.

76 *Submission 5*, p. 5.

77 *Submission 5*, p. 5.

78 *Submission 15*, p. 7.

79 *Submission 14*, p. 6.

80 *Submission 3*, pp 2–3.

for self-support'.[81] The committee notes the bipartisan agreement on the abolition of the seniors supplement in a budgetary context where 'tough decisions need to be made'.[82]

2.71 The proposed change will impact on approximately 308 000 concession card holders, while pension recipients will not be affected and will continue to receive the pension supplement. The department noted payment of the seniors supplement to concession card holders costs approximately $60 million each quarter or over $1 billion over the forward estimates.[83]

Abolition of education supplements and education entry payment

2.72 Several submissions raised concerns about ceasing payment of the education supplement and education entry payments. UnitingCare questioned the evidence base for ceasing the payments and asked:

> what evidence does the government have that these were not effective measures for assisting vulnerable Australians into study and then employment?[84]

2.73 Likewise ACOSS raised concerns about the measures, noting:

> [M]any people, especially sole parents, reply on the Pensioner Education Supplement and Education Entry Payment to help meet the costs of study. Further education and skills development improves work prospects, enabling people to rely less on income support in the future.[85]

2.74 National Disability Services (NDS) noted removal of the payments will particularly affect people with disability by reducing 'the capacity and incentive for some people with disability and some carers to undertake study'.[86] NDS recommended the payments be retained for people receiving a disability pension or carer payment, as they are not likely to be eligible for other available study assistance schemes, including job seeker support funds, HECS-HELP or Austudy.[87]

2.75 COTA noted it did not support the abolition of the payments on the grounds that older Australians face discrimination and other barriers to maintaining jobs and in regaining employment after losing a job.[88]

2.76 The department noted eligible support recipients:

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81 *Submission 5*, p. 15.

82 The Hon. Jenny Macklin MP, Shadow Minister for Families and Payments and Disability Reform, *House of Representatives Hansard*, 17 June 2015, p. 98.

83 *Submission 5*, p. 15.

84 *Submission 3*, p. 3.

85 *Submission 15*, p. 7.

86 National Disability Services, *Submission 4*, p. 1.

87 *Submission 4*, p. 3.

88 *Submission 14*, p. 7.

> will still have access to government-funded study and training assistance through employment service providers and the HECS-HELP, FEE HELP and VET FEE HELP tuition loan programs. Eligible students will also continue to be able to access student payments, such as Youth Allowance (student) and Austudy.[89]

2.77 The department noted ceasing the education supplement and education entry payments would save $252.4 million and $64.4 million respectively over the forward estimates.[90]

Committee view

2.78 The committee acknowledges the concerns raised about the changes to the pension asset test and taper rate, particularly that the changes may create a disincentive to save or will cause retirees to draw down on their assets. The committee notes the objective of providing taxpayer funded incentives through the tax system for superannuation is that people draw down on those savings to ensure a good standard of living in retirement. The committee is satisfied retirees affected by the assets test changes could still support a significantly higher standard of living in retirement than the maximum rate of pension.

2.79 The committee also acknowledges the concerns raised about changes to the cap on defined benefit income schemes. The committee recognises this change will fix an unintended anomaly caused by past income tax changes and will result in a fairer assessment of an individual's contributions to their defined benefit income stream.

2.80 The committee acknowledges the potential impact of changes to pension portability on pensioners who were born overseas. However, the committee supports that the measure reinforces the residence-based nature of Australia's pension system.

2.81 The committee acknowledges the small number of submissions that raised concerns about abolishing the seniors supplement, education supplement and education entry payment. The committee notes these payments were poorly targeted and is satisfied other supports remain available to assist low income pension recipients and those seeking to undertake further education.

Recommendation 1

2.82 The committee recommends that the Bill be passed.

Senator Zed Seselja

Chair

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89 *Submission 5*, p. 16.

90 *Submission 5*, pp 16–17.

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**

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

Labor Senators' Dissenting Report

1.1 The Labor Senators note the deal reached between the Government and the Greens to amend the reporting date and require this report to be finalised two months in advance of its prior reporting date.

1.2 This change presented significant difficulty in ensuring this Inquiry could fully investigate the impact of the changes proposed in this Bill.

1.3 Labor Senators consider the change of reporting date to be contrary to proper process and contrary to the proper functions of the Senate.

1.4 The change in reporting date unnecessarily shut down a proper public debate and discussion about the changes. Labor Senators wish to record our strong opposition to the change.

1.5 Labor Senators note the conclusions drawn from the evidence by the Government and Green's Senators is contrary to what has been presented.

1.6 In particular, Labor Senators note that a significant number of participants to the Inquiry took issue with the changes proposed by the Government to the assets test.

1.7 Modelling provided to the committee by Industry Super Australia, highlights the significant impact this measure will have on pensioners with modest assets. In its submission, Industry Supper Australia, states:

> [T]he changes to the asset threshold and the 'asset taper rate'] would reduce the retirement incomes of Australians who currently are on modest incomes, and whose retirement incomes are projected to be below that sufficient for a comfortable standard of living in retirement. Consequently, the proposed change is poorly targeted and inconsistent with the public policy objectives of the retirement security system.[1]

1.8 Industry Super Australia's supplementary submission also casts doubt on the Government's claims of how many pensioners will be left better off by this change:

> [T]he Government has said there would be more than 170,000 pensioners with modest assets who would be better off under the changes proposed under the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015. However, analysis by Industry Super Australia (ISA) suggests the gains presented are overstated, with a significant proportion obtaining no increase or lower increases than suggested.[2]

1.9 The detailed evidence provided in the submission and supplementary submission from Industry Super Australia is clearly contrary to the misleading comments by the Government, who dishonestly claim that the measure will only affect the rich. We consider these claims to be wrong in fact and misleading.

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1 Industry Super Australia, *Submission 9,* p. 5.

2 Industry Super Australia, *Submission 9.1,* p. 3.

1.10 In particular Labor Senators note the evidence presented to the committee which shows that the cuts will impact people on below average earnings, with women to be particularly affected:

> [T]he proposed changes in the taper rate will amount to a 15 per cent overall cut in the retirement income of some people who are on incomes below a comfortable standard, while people on higher incomes are largely unaffected. Women are especially harmed – under the proposal, eight in 10 single women retiring in 2055 will do so on incomes below that needed for a comfortable living standard, an increase of 30 per cent.
>
> The Bill's negative effects on single women will hit those on pretty modest incomes: Women aged 55-59 will be affected from earnings above $46,220; women aged 45-49 are affected from earnings above $40,568 and those aged 25-29 from earnings above $23,954.[3]

1.11 Labor Senators also highlight evidence received by the committee which indicates that the negative impact of the proposed taper rate changes would deepen over the coming decades:

> [T]he proportion of new retirees affected by the proposed change will increase sharply over time. The proportion of new cohorts of retirees affected by the proposed asset test change increase from one in three today to seven in 10 by 2050. This influx will increase the overall proportion of the Age Pension population who are worse off from just over 10 per cent in 2017 to over 40 per cent by 2055.[4]

1.12 The committee also received evidence which showed that the measure is in effect a significant wealth tax, providing a large disincentive for people to save, or a strong incentive to spend their assets down more quickly. We accept the view that this measure will:

- create a disincentive to save;
- lead to higher drawdowns on assets; and
- have a detrimental impact on the adequacy of retirement incomes.

1.13 For these reasons, in her submission to the committee, Professor Miranda Stewart, the Director of the ANU's Tax and Transfer Policy Institute, stated that the measure is 'contrary to generally accepted good principles of tax and transfer design'.[5]

1.14 Based on the evidence received by the committee Labor Senators do not support the proposed changes to the assets test threshold and taper rate, and recommend that the measure be removed from this Bill.

1.15 Labor Senators also note the significant concerns raised in submissions about the changes to proportional payment of pension overseas, and the likelihood that these

3 *Submission 9*, p. 4.

4 *Submission 9*, p. 11.

5 Tax and Transfer Policy Institute, *Submission 8*, p. 4.

will have a detrimental impact on pensioners who have lived in Australia for many years, but who wish to spend time overseas in retirement. We share these views, and as such we recommend that this measure be removed from the Bill.

1.16 Labor Senators also recommend that the provisions in this Bill which would see the Education Entry Payment and the Pensioner Education Supplement ceased should be removed. These modest payments go to very low income Australians who are seeking access to education.

1.17 The abolition of these payments is contrary to the goal of encouraging certain pension recipients to study and look for work. As such, we recommend that the provisions relating to their abolition be removed from this Bill.

Recommendation 1

1.18 That Schedule 2 be removed from the Bill.

Recommendation 2

1.19 That Schedule 3 be removed from the Bill.

Recommendation 3

1.20 That Schedule 5 be removed from the Bill.

Recommendation 4

1.21 That Schedule 6 be removed from the Bill.

Senator Carol Brown **Senator Nova Peris OAM**

Senator Claire Moore

APPENDIX 1

Submissions and additional information received by the Committee

Submissions

1 Federation of Ethnic Communities' Councils of Australia

2 Police Federation of Australia (plus an attachment)

3 UnitingCare Australia

4 National Disability Services

5 Department of Social Services (plus a supplementary submission)

6 Combined Pensioners and Superannuants Association

7 National Welfare Rights Network

8 Tax and Transfer Policy Institute

9 Industry Super Australia (plus a supplementary submission)

10 Tasmanian Association of State Superannuants

11 Mr Michael Conroy

12 Australian Council of Public Sector Retiree Organisations Inc

13 Committee for Sustainable Retirement Incomes

14 COTA

15 Australian Council of Social Service

16 UniSuper

17 Australian Institute of Superannuation Trustees (plus two attachments)

18 National Seniors Australia

Correspondence

1 Correspondence received 20 June 2015

2 Correspondence from Mr Greg and Mrs Noelene James, received 21 June 2015

3 Correspondence from Mr Graeme Marston, received 21 June 2015

4 Correspondence from the Department of Social Services, received 22 June 2015