Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Estimates 22-23 October 2008

Question: sbt 21

Topic: **Household Net Worth**

Hansard Page: **Written**

Senator Coonan asked:

1. The Reserve Bank released figures that showed household net worth fell by 4.9% in the first six months of 2008. What implications does Treasury expect from this for retirement incomes over the next decade?

Answer:

The impact of a fall in asset value on retirement income depends on the asset type and the specific asset. For example, a reduction in the market value of a retiree's own home does not directly reduce the benefit to the owner of living there rent free; indeed if interest rates fall, as they are now doing, the net benefit may rise if some debt still exists on the home. Similarly rents from an investment property are not directly impacted by a fall in the market value of the property nor are company dividends necessarily reduced because of a reduced market value for the company's shares.

More than 80% of seniors receive a full or part age pension or veteran's pension; government pensions will rise partially offsetting losses of private income. Part pensioners automatically receive an increase in government pension if the value of their financial assets falls, as this value, together with the deeming rate, determines how much less than a full pension they receive.

To reflect falling interest rates and the impact of the global financial crisis, on 9 November 2008 and 17 January 2009 the Government announced its decisions to lower the deeming rate on retirees' investments. From Monday 17 November 2008, the deeming rate was changed from 4 per cent to 3 per cent for the first $41,000 of a single pensioner's financial assets, or $68,200 for a couple. The the upper deeming rate has been cut from 6 per cent to 4 per cent for the balance of financial assets over these amounts.

Further, the Government has taken steps to ease short term financial pressures on pensioners, including particularly the delivery in December this year of a $4.8 billion one off payment to Australia's four million pensioners, seniors, carers, people with disability and veterans; the Government has also committed to ongoing pension reform.

Some otherwise eligible retirees do not currently receive government pensions or allowances because their assets and/or income exceed applicable cut-off points. If these retirees suffer a sharp decline in assets and/or income they may become eligible for a full or part pension.

The medium and longer term investment returns of Australian superannuation and other managed funds have been strong. Australia’s targeted pension arrangements act to smooth total retirement incomes in the face of turbulent markets, and to offset declines in the assets and private income of retirees. The Government has announced policies designed to give Australians confidence in the security of financial investments.