



***SUPERANNUATED COMMONWEALTH OFFICERS'  
ASSOCIATION (WA) Inc.***

***WA SELF FUNDED RETIREES Inc.***

***2019 – 2020 PRE-BUDGET SUBMISSION  
FEDERAL GOVERNMENT***

***OCTOBER 2018***

## **SUPERANNUATED COMMONWEALTH OFFICERS' ASSOCIATION (WA) Inc.**

### **WESTERN AUSTRALIA SELF FUNDED RETIREES Inc.**

#### **Introduction:**

Superannuated Commonwealth Officers' Association (WA) Inc. (SCOAWA), and Western Australia Self Funded Retirees Inc. (WASFR), are organisations registered under the Associations Incorporation Act (2015) of Western Australia. These two organisations have very similar backgrounds and have chosen to join together in lodging this submission with the Federal Government. Most members have had experience with similar organisations in the past and our primary objective is to protect and advance the interests of those retirees who have funded, in whole or in part, their own retirement. Note: Many of our members are in receipt of the Age pension.

Although both are WA-based organisations, the Federal Government concessions that we seek will be of benefit to all retirees throughout Australia.

Most of our members are proud of their ability to provide for their advancing years, with some assistance from Government. However, many who strive to remain outside the Aged Pension system often experience reduced financial capabilities to fund their retirement. A greater level of Government assistance is required to help maintain their independence from the Centrelink Aged Pension.

In particular, the delivery of increased health benefits and aged care services, including increased funding for Home Care Packages, are areas where the Government can be of greater assistance to all retirees.

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## Summary of Recommendations

Following is a summary of the recommendations included in this submission from Superannuated Commonwealth Officers' Association (WA) Inc. and Western Australia Self Funded Retirees Inc. We sincerely request that your full consideration be given to each of the issues raised.

### **Recommendation 1:**

That the Deeming Rates be reduced to 1% up to the current levels of \$51,200 and \$85,000, with 2% for the remainder.

### **Recommendation 2:**

That retirees be enabled to transfer funds into superannuation, at the prescribed contribution levels, irrespective of their age.

### **Recommendation 3:**

That retirees be enabled to transfer funds into superannuation, at the prescribed contribution levels, without having to meet any "Work Test".

### **Recommendation 4:**

That all Commonwealth superannuation pensions, be indexed consistently using the same formula as is used to adjust the Centrelink Age Pension. (*Note: Incremental introduction*)

### **Recommendation 5:**

That consideration be given to widening the scope of the NDIS/DisabilityCare Australia parameters so as to include all Australian citizens, including those over the age of 65.

### **Recommendation 6:**

That the Medicare and Pharmaceutical Benefits Scheme Safety Net thresholds for single retirees be restructured so that access for them becomes available at 65% of the levels applicable to couples/families.

### **Recommendation 7:**

That the SAPTO Tax Offsets be adjusted annually to account for increases in the cost of living, and that the SAPTO Rebate "shade out" income thresholds should be increased immediately so as to be equal to the Medicare Levy low income threshold. The SAPTO Rebate "shade out" income thresholds should then be reviewed annually so as to always be equal to the Medicare Levy low income thresholds.

### **Recommendation 8:**

That the interest rate of 5.96% currently being charged for the non-payment of a Refundable Accommodation Deposit (RAD), be reviewed with the intention of bringing it more into line with the interest rates offered by major banks for term deposits or commensurate with the 3.75% interest rate payable by the Aged Care facilities.

### **Recommendation 9:**

That the components of a retiree's income derived from an untaxed superannuation scheme, and from other sources, be assessed separately for taxation purposes as is the case with a retiree who derives an income from a taxed superannuation scheme.

## **Rationales Underlying the Preceding Recommendations**

### **Recommendation 1:**

*That the Deeming Rates be reduced to 1% up to the current levels of \$51,200 and \$85,000, with 2% for the remainder.*

Deeming Rates commenced in July 1996 and have been adjusted to accommodate changes in the financial environment since that date. Usually this has occurred about twice a year - although in the years 1997, 2008, 2009 and 2013 the rates were adjusted 3 times. The current figures are 1.75% (up to \$51,200 and \$85,000), with 3.25% levied on any assets/funds in excess of those amounts. They were last changed in March 2015, and since then there have been **3 reductions** in the Reserve Bank's cash rate, but no changes in the official Deeming Rates.

It is well past the time for the Federal Government to examine the factors involved in calculating the appropriate rate for assessing income for Centrelink purposes - we are advocating a reduction to 1% up to the current levels of \$ 51,200 and \$85,000, with 2% for the remainder.

### **Recommendation 2:**

*That retirees be enabled to transfer funds into superannuation, at the prescribed contribution levels, irrespective of their age.*

Those people over the age of 75, and still in the workforce, are now eligible to have the Superannuation Guarantee Levy (SGL), currently 9.5% of salary, paid into a recognised superannuation fund of their choice. However, anyone not employed is prohibited from contributing any funds into a superannuation fund if they are over the age of 75.

Many retirees over the age of 75 did not have the benefit of being able to contribute to superannuation during their working lives. They had to accumulate their retirement assets under various policy settings that could be restrictive and subject to change. Consequently (where they could), they invested in other assets such as property and shares but now find that they are denied the benefits from receiving a concessional income from a superannuation fund. It is noted there are statutory limits on the amount of funds allowed to be transferred by a person into superannuation in any tax year. This request does not attempt to circumvent this requirement. It simply seeks to allow those over 75 years of age to be allowed to contribute funds into superannuation in the same manner as other people, of the same age, who happen to be in the workforce.

It should be noted that this issue was one of the recommendations of the Henry Tax Report in 2009 (recommendation # 20).

### **Recommendation 3:**

*That retirees be enabled to transfer funds into superannuation, at the prescribed contribution levels, without having to meet any "Work Test".*

Retirees aged between 65 and 74 who wish to contribute funds to a superannuation fund are required to pass a "Work Test" before they are permitted to do so.

In order to qualify, this "test" requires them to be "gainfully employed" for a minimum of 40 hours in any consecutive 30 day period throughout the relevant tax year. This "test" is considered to be an outdated, arbitrary hurdle with negligible practical value. It encourages the elderly to stretch the truth, or maybe even manipulate the circumstances with family or friends, wherever that may be possible. Provided the funds involved come from an after tax source, and are within the legal limitations regarding maximum amounts in force at the time, we request that this iniquitous restriction be abolished.

We note that, in May 2016, the Federal Government announced that legislation would be passed to abolish this “Work Test”, however, a subsequent decision was made not to abolish the Test due to (??) other circumstances.

**Recommendation 4:**

*That all Commonwealth superannuation pensions be indexed consistently using the same formula as is used to adjust the Centrelink Age Pension. (Note: Incremental introduction).*

This problem of inequality of the method of indexation of CSS/PSS pensions (as compared to the method in use for indexation of the Centrelink Age pension), has been in existence for 20 years.

As from 1998, pensions paid to Age Pensioners have been indexed by whichever is the greater of the CPI and MTAW (Male Total Average Weekly Earnings). In 2009, as a result of the Matthews Report, another index, called the Pensioner and Beneficiary Living Cost Index (PBLCI) came into play. The PBLCI was developed by the Bureau of Statistics and is claimed to better reflect changes in the cost of living experienced by pensioner and beneficiary households rather than the wider community.

There have been two Senate Select Committees, one in 2001 and one in 2002, that made enquiries into the manner of indexation and in both cases came up with a recommendation that the CPI should be discarded in favour of a wage-based index such as MTAW. In addition, there was another Governmental enquiry into the cost of living for older Australians (March 2008), that also recommended abolition of the CPI for Government pensions in favour of whichever index was the greater of the CPI and MTAW.

The Australian Bureau of Statistics has clearly stated that the CPI should not be confused with a cost of living index. Over the past decade, the CPI has been changed significantly a number of times. The objective of these changes has been to improve its use for setting monetary policy at the expense of reducing its effectiveness as a cost of living index.

One issue often overlooked by many is that this matter of indexation of Commonwealth pensions is a **diminishing problem**. The 2017 *Intergenerational Report* said that as a percentage of GDP, Commonwealth superannuation unfunded liabilities would fall from 0.30% in June 2018 to 0.07% of GDP in June 2057. This is supported by the fact that these defined benefit schemes were closed off to any new appointees as from July 2005.

In September 2014, the Federal Government fulfilled a pre-election commitment to adjust the pensions paid to ex-military personnel who are members of the DFRB, and the DFRDB military schemes, by the greater of the CPI, the MTAW, or the PBLCI (ie the same as is used for the Age pension).

**Staggered Implementation:**

In order to minimise the financial effect on the Federal Budget, it is suggested that a staggered implementation of this level of indexation take place. It is suggested that, in the first instance, only those CSS/PSS pensioners over the age of 85 be granted the same level of indexation as enjoyed by pensioners in receipt of the Centrelink Age pension.

There are only **23,252** CSS/PSS pensioners (over the age of 85), that are involved. As the difference between the indexation levels of the Age pension and the CSS/PSS pensions in 2015 was only 0.2%, this represents a very small cost to the government. It is estimated that the

nett cost (after Clawback), in 2015 would have been **less than \$900,000** if the CSS/PSS pensions had been indexed in the same manner as the Centrelink Age pension.

After a suitable period of time (?? 1 – 2 years), the limit for equal indexation could be extended to those pensioners over the age of 80 - then down to 75, 70 etc. in following years.

It is worth noting that the accessibility of the Future Fund has now been extended to 2026 (despite having passed the original target of \$140 billion dollars by June 2020). This Fund was created in 2006 for the purpose of being “an independently managed *sovereign wealth fund* into which the *Australian Government* deposits funds to meet the government's future liabilities for the payment of *superannuation* to retired *civil servants* of the *Australian Public Service*.”

As the total cost of CSS/PSS pensions is less than \$6 billion dollars each year, and the Future Fund has averaged 9.2% over the past 10 years, it is quite evident that sufficient funds exist to meet these payments.

**Recommendation 5:**

*That consideration be given to widening the scope of the NDIS/DisabilityCare Australia parameters so as to include all Australian citizens, including those over the age of 65.*

The NDIS scheme commenced several pilot operations, in selected locations, in July 2013. The Medicare Levy was increased by an additional 0.5% in July 2014 purely to fund the NDIS. The current guidelines are quite clear that this scheme will not cover any person who contracts a recognised disability after reaching the age of 65. It is also a fact that, although not covered by the NDIS legislation, those taxpayers over the age of 65 will still be forced to pay this additional 0.5% Medicare Levy.

Current information is that those people who contract a disability before the age of 65 (and are covered by the NDIS), will be allowed to continue to be covered by the provisions of the NDIS after the age of 65, should they so choose.

An official response from the Federal Government indicates that the Government is relying on the capabilities of the Aged Care system to adequately cater for those over the age of 65. Unfortunately, the Aged Care system is struggling with inadequate funding and other resources, and will be unable to cope with any additional burden.

A Media Release from the National President of Alzheimer's Australia in September 2013, called for the co-ordination of the two reforms under the oversight of a senior Minister. The comment was made “*The Aged Care system is aimed at frailty and residential care - not disability*”.

In March 2013 a Senate Community Affairs Committee that enquired into the NDIS Bill, made the following recommendation

**4.38** *The committee recommends that the Government, through COAG processes, identify mechanisms by which to provide adequate specialised disability support for people 65 and over who have disabilities not resulting from the natural process of ageing.*

As an organisation concerned with the welfare of elderly Australians, we request that strong consideration be given to including those unfortunate people, who contract a recognised disability after reaching the age of 65, within the limits of the NDIS.

**Recommendation 6:**

*That the Medicare and Pharmaceutical Benefits Scheme (PBS) Safety Net thresholds for single retirees be restructured so that access for them becomes available at 65% of the levels applicable to couples/families.*

Currently, a single retiree needs to spend the same amount on pharmaceutical prescriptions before reaching the Safety Net as does a couple. Once the designated Safety Net level is reached (in a 12 month period), then any additional prescriptions are either free (to a retiree with a Pensioner Concession Card), or drop to the concessional level applicable to Pensioners to those retirees not in possession of a PCC. A similar situation exists for the Medicare Safety Net.

There is obvious discrimination in that one person needs to incur the same total expenditure as does a couple before any concessional treatment is allowed. We therefore recommend that the Medicare and PBS Safety Nets for singles be set at 65% of the threshold requirement for couples.

**Recommendation 7:**

*That the SAPTO Tax Offsets be adjusted annually to account for increases in the cost of living, and that the SAPTO Rebate "shade out" income thresholds should be increased immediately so as to be equal to the Medicare Levy low income threshold. The SAPTO Rebate "shade out" income thresholds should then be reviewed annually so as to always be equal to the Medicare Levy low income thresholds.*

The Senior Australians Tax Offset (SATO), was introduced in the 2001 Federal Budget, and was backdated to commence from 1 July 2000. At that time, the maximum amount of Tax Offset was set at **\$2,230** for singles, and **\$1,602** for each member of a couple.

These amounts remain unchanged to the present day - 18 years later. In 2012 SATO was changed to SAPTO (Seniors and Pensioners Tax Offset) but the offsets remained the same i.e. \$2,230 and \$1,602 (for each member of a couple).

Changes have been made to the "shade-out" and "cut-out" thresholds for SAPTO over the years (note that these changes have not been made on a regular basis every year). In 2012-13 the "shade-out" threshold for SAPTO (for singles) was \$32,279, which was the same as for the Medicare Levy low-income threshold.

In 2017-18 the "shade-out" threshold for SAPTO (for singles) remained at \$32,279, but the Medicare Levy low-income threshold had risen to \$34,244.

We ask that the SAPTO Tax Offsets be indexed each year, and that the "shade-out" threshold for SAPTO be indexed, annually, in line with the Medicare Levy low-income threshold.

**Recommendation 8:**

*That the interest rate of 5.96% currently being charged for the non-payment of a Refundable Accommodation Deposit (RAD), be reviewed with the intention of bringing it more into line with the interest rates offered by major banks for term deposits, or commensurate with the 3.75% interest rate payable by the Aged Care facilities.*

The difference between "High Care" and "Low Care" in Aged Care establishments was abolished as from 1 July 2014. It is now necessary for all residents to be assessed for the payment of a Refundable Accommodation Deposit (RAD) when entering into Aged Care. Currently, RADs are capped at \$550,000, but can be increased if application is made to the Government. If payment cannot be fully paid in cash, then arrangements exist for payment to be either paid by way of a Daily Accommodation Payment (DAP), or by a combination of cash and a (reduced) Daily Accommodation Payment.

The disturbing feature of this arrangement is the rate of interest charged on the unpaid amount of an RAD - **5.96%**. When compared to the Reserve Bank's cash rate of 1.5%, the Deeming rates (1.75% and 3.25%), the 10 year Bond Rate of 2.71% and the CPI (currently around 1.9%), this figure is unacceptably high.

In conjunction with other concerned organisations, we are seeking a full review of the rationale for such a high rate of interest being imposed on the senior citizens of this country. Most of the elderly people who are presented with the need to go into Aged Care are not in possession of great wealth and such a high rate of interest is of great concern to them.

**Recommendation 9:**

*That the components of a retiree's income that are derived from an untaxed superannuation scheme and from other sources, be assessed separately for taxation purposes as is the case with a retiree who derives an income from a taxed superannuation scheme.*

Those retirees who obtain their income from a taxed superannuation scheme are treated differently, for taxation purposes, from retirees who obtain their income from an "untaxed" superannuation scheme ie. a retired ex-Commonwealth, State or Defence Force employee.

The pension component from a taxed superannuation scheme is disregarded when calculating the tax payable on total income ie. it has a zero value. Any additional income from outside the superannuation fund is then assessed at normal taxation rates as if it were the sole income for taxation purposes (and so attracting lower marginal tax rates).

However, any pension received from an "untaxed" superannuation scheme is counted towards total income and any additional "outside superannuation" income is added to this amount, often involving a higher marginal tax rate. There is a concessional 10% tax offset (only from the "untaxed" pension element), but that does not prevent the higher marginal tax rate from still being applicable.

This anomaly was addressed in the Report of the Senate Economics Committee (February 2007), which recommended that the two types of income should be assessed separately.

*"The Committee is of the view that the Government should reconsider the way in which total taxable income is classified for those in untaxed schemes. Instead of combining both a superannuation income stream and additional income to produce a total assessable income, the two types of income should be assessed separately. This would enable additional income received by all superannuation income stream recipients to be assessed for tax purposes from a starting point of zero."*

*"The Government should consider separately assessing, for taxation purposes, superannuation income streams and assessable income." (Recommendation 4 in the abovementioned report).*