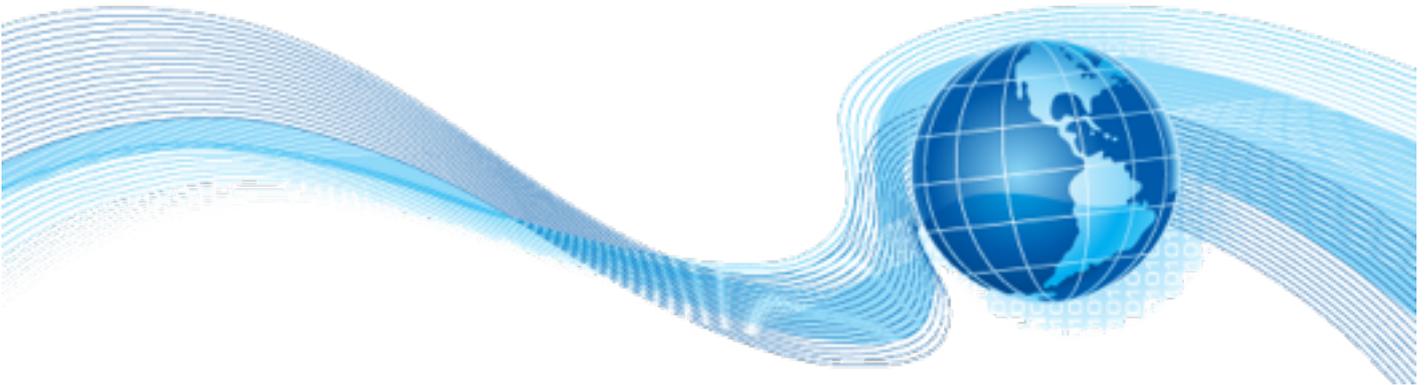


# **2022 - 2023 PRE-BUDGET SUBMISSION**

## **FEDERAL GOVERNMENT**



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

**WA SELF FUNDED RETIREES Inc.**



**NOVEMBER 2021**

*State & Federal Advocates for Fully and Partly Self Funded Retirees*

***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 a part 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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24 November 2021

**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 upper Deeming Rate be reduced to 1% for balances over the current levels of \$53,600 and \$89,000 (couple).

**Recommendation 2:**

That the pre-1 July 1988 Taxation arrangements for the 1922/PNG/CSS/PSS Comsuper pensions be treated in the same manner as all other superannuation schemes.

**Recommendation 3:**

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

**Recommendation 4:**

That the "Work Test" applicable to retirees for personal concessional contributions to superannuation be abolished.

**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 interest rate of 4.01% 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.

**Recommendation 8:**

That the SAPTO Tax Offsets (currently \$2,230 for singles), 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. They should then be reviewed annually so as to always be equal to the Medicare Levy low income thresholds.

**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:**

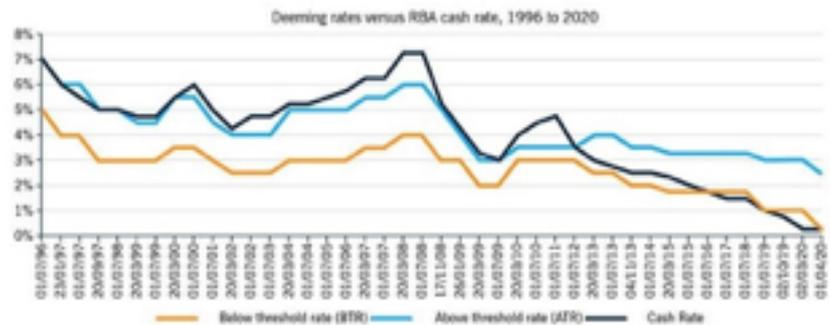
*That the upper Deeming Rate be reduced to 1% for balances over the current levels of \$53,600 and \$89,000 (couple).*

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 0.25% (up to \$53,600 and \$89,000), with 2.25% levied on any assets/funds in excess of those amounts.

They were not changed for 4 years, despite 6 reductions in the Reserve Bank's cash rate since March 2015. The last change in the Deeming Rates was on 1 May 2020 during the Coronavirus pandemic. Although there may be signs of a slight recovery, the RBA was forced into lowering the Cash Rate down to 0.10% on 4<sup>th</sup> November 2020. Banks have followed the lead from the Reserve Bank and have lowered their rates by a similar margin. This has had a negative affect on many people.

In addition to Age pensioners, Deeming Rates also apply to the Disability Support Pension and Carer Payment, Home Care Packages, Residential Means Tested Care Fee and income support allowances and supplements such as the Parenting Payment and Newstart. None of these people could be considered to be wealthy - nor have large amounts of funds invested in superannuation/shares/property. It is fundamentally wrong to try to align moneys held in Term Deposits with funds invested in superannuation by the wealthier members of our society.

When compared to the Reserve Bank's cash rate of 0.10% and the 10 year bond rate (fluctuating from 1.3% to 1.8% over the past 2 years), the upper level figure of 2.25% is unacceptably high.



A review is sought that will bring the upper rate down to 1% (a drop of 1.25% from the current 2.25%). None of the major Banks are offering anything over 1% for Term Deposits - the best rate from the Commonwealth Bank is 0.30% for 12 months. A lowering of the upper rate to 1% is considered to be reasonable, and should be implemented without delay.

**Recommendation 2:**

*That the pre-1 July 1988 Taxation arrangements for the 1922/PNG/CSS/PSS Comsuper pensions be treated in the same manner as all other superannuation schemes.*

There was no 15% tax on payments to superannuation schemes prior to 1 July 1988 - for both funded, and unfunded superannuation schemes. In order to ensure that contributors to unfunded schemes were not disadvantaged when withdrawing funds from their superannuation schemes, a procedure of applying funding credits was employed. Funding credits were granted to unfunded superannuation schemes so that contributions made after 1 July 1988 to fund benefits that accrued prior to 1 July 1988 are not taxed. This ensures equity with funded superannuation schemes which only pay tax on contributions as from 1 July 1988.

The Income Tax Assessment Act 1997 **does allow unfunded** superannuation schemes to utilise pre-1 July 1988 funding credits - theoretically, this includes coverage for the 1922/PNG/CSS/PSS schemes but the government has not yet acted to allow this to happen

- this avoids benefits that accrued before 1 July 1988 from being treated as untaxed benefits
  - even though no taxes were applied to both funded and unfunded superannuation schemes
- regulations could easily be made in accordance with section 307-200 of the Income Tax Assessment Act 1997 to specify that benefits that accrued in civilian Commonwealth superannuation schemes (1922/PNG/CSS/PSS), before 1 July 1988 be treated as element taxed in the fund

- this would then allow recipients of unfunded Commonwealth superannuation schemes (1922/ PNG/CSS/PSS), to be treated equally as recipients of other unfunded superannuation schemes in relation to benefits that accrued prior to 1 July 1988.

It should not be forgotten that the old 1922 and PNG schemes were closed in 1976, the CSS scheme was closed on 1 July 1990 and the PSS scheme was closed on 1 July 2005. There are only 1616 pensioners left in the old 1922 scheme, 72 in the old PNG scheme and a total of 164,669 in the CSS and PSS schemes. These are all old schemes but need to be brought into line with all the other superannuation schemes currently in operation. If this matter is not corrected, then 166,357 ex-Commonwealth employees will continue to pay tax for a period when there was no tax payable. Note: This matter cannot, in any way, be compared to the current conditions applicable to serving Commonwealth employees - they are completely different.

This is an important issue, is not difficult to implement and needs to be addressed asap.

### **Recommendation 3:**

*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 10% 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. There are statutory limits on the amount of funds allowed to be transferred by a person into superannuation in any tax year and 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*

*The restriction on people aged 75 and over from making contributions should be removed.”*

### **Recommendation 4:**

*That the “Work Test” applicable to retirees for personal concessional contributions to superannuation be abolished.*

Retirees aged between 67 and 74 who wish to contribute personal concessional contributions 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,

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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.

The government has already legislated to abolish this “Work Test” for non-concessional contributions to superannuation (\$110,000 pa), from 1 July 2022 and it is inconceivable that this concession has not been extended to include concessional contributions (limited to \$27,500 pa).

### **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 (currently \$2,230 for singles), 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. They 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 - 20 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 2020-21 “shade-out” threshold for SAPTO (for singles) remained at \$32,279, but the Medicare Levy low-income threshold has risen to \$36,705.

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 4.01% 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.*

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 - **4.01%**. When compared to the Reserve Bank’s cash rate of 0.10%, the Deeming rates (currently 0.25% and 2.25%) and the 10 year bond rate (fluctuating from 1.3% to 1.8% over the past 2 years), 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 major 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 i.e. 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 i.e. 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 above-mentioned report).*