SUBMISSION TO THE SENATE COMMUNITY AFFAIRS LEGISLATION COMMITTEE INQUIRY INTO SOCIAL SERVICES AND OTHER LEGISLATION AMENDMENT (2014 BUDGET MEASURES NO.1) BILL 2014 AND THE SOCIAL SERVICES AND OTHER LEGISLATION AMENDMENT (2014 BUDGET MEASURES NO.2) BILL 2014

Prepared by
COTA National Policy Office

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INTRODUCTION

COTA

COTA Australia is the peak national policy body of older Australians. Its members are the eight State and Territory COTAs (Councils on the Ageing) in NSW, Queensland, Tasmania, South Australia, Victoria, Western Australia, ACT and the Northern Territory.

COTA Australia focuses on national policy issues from the perspective of older people as citizens and consumers and seeks to promote, improve and protect the circumstances and wellbeing of all older Australians; promote and protect their interests; and promote effective responses to their needs.

THE LEADUP TO THE FEDERAL BUDGET

In the period leading up to the Federal Budget there was a range of public discussion about suggested changes to the Age Pension. This included a variety of proposals from various public policy institutes and statements by the Federal Treasurer, often from an international platform. This discussion took place in the public arena without any process of proper consultation with stakeholders. COTA wrote to the Treasurer on 11 March seeking his agreement to set up "a structured process of roundtable discussions involving key stakeholders to look at varied policy options and their social and economic impacts".

We also pointed out that the "age pension is one part of a multifaceted retirement incomes landscape" and that all should be considered in any reform process as, for example, superannuation tax concessions are comparable to the cost of the pension but inequitably distributed. A copy of our letter to the Treasurer is attached.

When discussion continued without any response from the Treasurer we wrote on 14 April to the Prime Minister. expressing a range of concerns about the pension discussion in the media, especially regarding indexation, and again proposing stakeholder consultation. We noted the Prime Minister's election commitment that there would be no change to the pension, as did other organisations. A copy of our letter to the Prime Minister is attached.

On 28 April in a speech to The Sydney Institute, the Prime Minister commented on the cost of the pension but announced that "To keep our commitments, there will be no changes to the pension during this term of parliament but there should be changes to indexation arrangements and eligibility thresholds in three years' time." This was confirmed in the Federal Budget when it was announced that assets and income tests, and deeming thresholds, would change in July 2017 and pension indexation from September 2017.

The Commission of Audit report publicly released on 2 May made significant recommendations on pension eligibility age, indexation, and asset and income testing. COTA does not support most of those recommendations, and would submit others to further consideration in our proposed Retirement Incomes Review. However we note that the Commission's recommendations were accompanied by some rationale and argument, and were nowhere near as severe as those imposed by the government in the Federal Budget.

PUBLIC CONCERN

COTA has received an unprecedented level of correspondence and contact from our own members, our broader constituency, and the wider community, about the Budget measures affecting the Age Pension and the Commonwealth Seniors Health Card.

People tell us they are fearful that the gains made in the 2009 pension reform, which meant that age pensioners could look forward to a life of modest dignity, will now be lost and they will slide progressively into poverty. Their concerns are not only for themselves but for future generations of older people; this is particularly strong when they speak about the proposed changes to the pension eligibility age.

Full pensioners understand in particular the implications of the proposed changes to pension indexation. There is a level of grave concern and even fear about how they will "make ends meet".

It is worth noting that many of the people who contacted us also had grave concerns about the package of Budget measures that affect younger people and other vulnerable groups in our community. They are concerned that many of the provisions are not fair and do not reflect the type of community in which they want to live. Other submissions will address these measures in detail.

COTA has met and consulted with a broad range of organisations that represent older Australians, including age pensioners, veterans pensioners, part pensioners and 'self-funded' retirees, federal and state public sector retirees, and defence forces retirees.

All organisations we have consulted report that they are experiencing strong representations from their membership expressing concerns with the pension proposals. There is broad agreement across the sector opposing the changes to the pension, in particular to indexation, and agreement that the Government needs to do more work on retirement incomes policies before introducing drastic changes to one part of that policy spectrum, especially the part that targets the most vulnerable.

FOCUS OF THIS SUBMISSION

In this submission we address proposed changes to the indexation of pensions, increasing the eligibility age for the pension, proposed changes to income and asset testing, including deeming, and the changes to the Commonwealth Seniors Health Card.

The measures that this submission focuses on will affect not just future generations of older people but the 2.4 million current pensioners, including 1.6 million full pensioners, who can do little or nothing to remedy the cut to their living standards that these changes represent.

THE ISSUES

SUSTAINABILITY

COTA supports the need for better targeting of the Age Pension to ensure the system is sustainable into the future. But sustainability has two faces - it is essential that people who are reliant on the pension for all or most of their income can be assured that it will provide an adequate standard of living - if not it will not be a sustainable system.

As leading conservative economist and media commentator Professor Henry Ergas has observed "..there is a strong case for reforming the age pension. But those changes must be part of a broader restructuring of our retirement income system. For unless that system can provide reasonable income security in old age, the changes will prove neither economically desirable nor politically sustainable." [1] When the pension reforms based on the Harmer Review were announced in the 2009 Federal Budget Treasury provided detailed charts based on robust cost modelling that showed the system would be sustainable into the future even with the increases that were introduced[2].

We have not had a sudden and unpredicted increase in the numbers of people turning 65 or becoming eligible for the pension; indeed quite the reverse, there are no more certain demographic statistics than our retiree numbers. What appears to have changed is that the revenue side of the Budget has declined which is then being used to question the sustainability of the Age Pension - although the pension system has done nothing to contribute to this. The Budget does not address revenue issues except partially in the very short term.

Australia's Age Pension system has only recently been authoritatively acclaimed as the "most sustainable in the world". The global Allianz 2014 Pension Sustainability Index covers 50 countries and placed Australia first. As Allianz's media release on 3 April 2014 said:"Australia's gross public pension as a proportion of average income was ... relatively low compared to many countries ." Allianz Australia's MD, Mr Niran Peiris said: "...the report describes Australia's (current) regime as a "bottom draw" pension system, where the public system covers the basic requirements for a retirement income in order to prevent old-age poverty."[3]

Or as Henry Ergas says in the afore-quoted article: "The expected increase in our public pension liabilities over the period to 2050, expressed as a share of GDP, is therefore one-third lower than the advanced economies' average".

It has been argued that cutting the Age Pension is required because the pension is the largest program in the Federal Budget, and that this is information that "shocked" the government. This is no argument for such draconian measures. The Age Pension as been the largest federal program for quite some time. Something has to be. COTA believes the vast majority of Australians believe that the provision of an adequate Age Pension is a primary example of the core business of an Australian Government.

It is also unconscionable that Age Pensioners are being targeted while high income earner superannuation concessions are left unexamined, let alone being targeted for equal contribution to our taxation revenue. People receiving the full Age Pension are among our community's financially poorest. Australian citizens are being targeted in the front line of Budget savings, ahead of, for example in the same policy space, high income superannuants who pay no income tax despite having accumulated their retirement assets with the benefit of substantial income tax concessions.

For example a high income wage earner aged 60 or more will receive a transition to retirement superannuation tax benefit in excess of the single age pension; in addition they will receive an $11,900 tax saving on maximum concessional superannuation contributions; and further tax concessions will accrue in the savings phase and then when income is taken from that super. The high income earner, who will probably describe themself as a "self funded" retiree, will enjoy tax benefits well in excess of the cost of providing them with an age pension and attendant concessional benefits. This is unconscionable. Yet the Government has chosen to cut the Age Pension rather than create more equitable retirement income policies and proposes that the Senate endorse this.

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[1] Henry Ergas, The Australian 5 May 2014: "Pension reform is about more than mere eligibility"

[2] Referring to the tightened taper rate and increased eligibility age, Budget Paper No. 1 said: "These and other changes mean that, despite the ageing of the population and the significant increase in assistance provided under the reform package, the Government will offset the cost of pension reform by 2021-22." Refer to Chart 3: Sustainability of pension reform.

[3] Allianz Media Statement Sydney, 3 April 2014 "Australia's retirement income system most sustainable in the world".

THE PROCESS OF CHANGE

COTA was surprised to see the Age Pension changes appear as part of the 2014-15 Federal Budget. While the Treasurer had announced the intent to increase the eligibility age to 70 years in advance of the Budget, this is not in fact a Budget measure - it has no impact on the current Budget or the forward estimates. The other measures were a surprise.

The Government had announced a welfare reform review process looking at working age payments (the McClure Review), but the Minister for Social Services made clear that this did not include the Age Pension. Our understanding, based on Government advice, was that once that review was finished the Government may then undertake a review of Age Pension policy. We argued that this should be part of a review of the whole retirement income space, including the pension, superannuation and taxation.

COTA met with the Federal Treasurer on 29 April and COTA's jointly agreed media statement (attached) following that meeting noted that "The Treasurer assured us that he has no intention of putting at risk the welfare of vulnerable older Australians reliant on the full age pension, which we welcome." [4] However Budget measures, especially the proposed indexation changes, do just that.

The dramatic changes to the Age Pension in the Federal Budget were made without any consultation with the key stakeholders in the pension and retirement income space. By contrast the 2009 Federal Budget pension reform package was the outcome of an extensive review - the Harmer Review - which included extensive and inclusive public consultation and detailed involvement of representative organisations like COTA in advising and interacting with the review.

We believe Age Pension change should not be dealt with in isolation. There needs to be a systematic review of all aspects of retirement incomes that involves all key stakeholders and takes into account any changes that emerge from the Government’s reviews of the financial system and taxation. Retirement income changes have a long term impact on individuals, the Government’s budget and the broader community and this would be an opportunity to get it right.

It would be useful if the next Intergenerational Report (IGR) was released in time to inform the work of such a review. It is due at latest by February 2015 but COTA understands it would be quite possible for it to be made available towards the end of 2014.

Recommendation

COTA recommends that the Government suspend its proposed cuts to the Age Pension system and establish a Retirement Incomes Review, involving all key stakeholders, to report back by the end of 2015.

INDEXATION

The Bill proposes to change the way the pension is indexed from September 2017, moving from the current formula to an index based purely on movements in the Consumer Price Index (CPI).

The Age Pension is one of the three pillars of retirement income policy, the other two being compulsory superannuation and voluntary savings. This three pillar system has had bipartisan support for decades since alternative approaches to retirement income proposed in government inquiries in the 1970s and 1980s were not pursued.

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[4] Media Release 30 April 2014 (copy attached) "Older Australians welcome age pension commitments". This release was cleared with the Treasurer's office.

The recent interim report of the Financial Systems Inquiry (FSI) says that "The architecture of the retirement income system, which includes the superannuation system, has considerable strengths. Australia's Future Tax System review endorsed Australia's three-pillar retirement income system." [5] The FSI interim report takes the three pillars approach as a given and stresses the need for balance across the three pillars.

The Age Pension is a permanent income replacement payment for people who have retired from the paid workforce[6]. It is paid to all people over (currently 65 years) unless they have a sufficient level of other forms of income that means testing excludes them from eligibility. Because the Age Pension is an income replacement payment, it needs to reflect changes in community incomes so that pensioners also benefit from improvements in living standards enjoyed by people in paid employment.

The current indexation arrangement uses the best of changes in CPI, the Pensioner and Beneficiary Cost of Living Index (PBCLI) or Male Total Average Weekly Earnings (MTAWE) and requires the value of the single Age Pension to not fall below 27.7 per cent of MTAWE. This means the real value of the pension is maintained - not just in terms of its purchasing power but also that it has a fixed link with community incomes and maintains a modest standard of living for pensioners.

The Commission of Audit (CoA) recommended that the Age Pension be reduced in value over a period of about 13 years (2014 to 2027) and be realigned from 27.7% of MTAWE to 28% of 'All employees average total weekly earnings' (AEATWE) and then indexed to that level. During the estimated 13 years transition the Age Pension would be indexed by the higher of CPI and PBCLI, which would mean it would fall significantly over time compared to the current formula. However after reaching 28% of AEATWE the CoA proposed that the pension then increase by the higher of AWE (AEATWE) or CPI/PBLCI.

COTA does not support the CoA recommendations because:

(a) There is no justification for the Age Pension to be cut by about 20% [7]; as we have earlier argued the system is sustainable, fair and achieves a very modest but usually adequate income (except for pensioners in the private rental market or who have significantly higher health costs);

(b) The benchmark that the CoA proposes -"All employees average total weekly earnings" - is not the correct benchmark. There is a legitimate argument that MTAWE may not be the appropriate benchmark, but the appropriate AWE measure is actually "Full-time adult average weekly total earnings" (FTAAWTE) as the AEATWE includes non-adult and part-time earnings. The Age Pension is a full time wages substitute, not part time. Pensioners don't live part time! [8]

However we do acknowledge that the CoA recommendation would at least ensure that pensioners' incomes continue to have some agreed relationship to the living standards of the rest of the community. Indeed the CoA says quite explicitly "Benchmarking to AWE still recognises that pensions should have regard to community standards through benchmarking to wages."[9]

In contrast the Government's proposal on indexation - to restrict it to CPI only - is even harsher than the Commission of Audit proposals (as indeed is the case in other aspects such as lifting the eligibility age). COTA and many others reject the CPI-only benchmark.

[5] FSI Interim Report section 2-96
[6] As indeed noted by the Treasurer in the 2014 Budget speech
[7] See Commission of Audit, Report Phase One/Part B/7.1 Age Pension p3/8 Chart 7.2
[8] ABS 6302.0 - Average Weekly Earnings, Australia, Nov 2013, p1/2
[9] Commission of Audit, Report Phase One/Part B/7.1 Age Pension p3/8

In the explanatory notes for the CPI[10] the ABS stresses that the CPI is not a measure of purchasing power and it should not be used as a cost of living index. It is not a good measure of changes to the prices people actually pay for goods and services. The CPI is also adjusted to eliminate changes in quality, components, etc so its "like for like" comparator is very "pure" but not reflective of people's day to day reality.

The ABS notes that "In practice, no statistical agencies compile true cost–of–living or purchasing power measures as it is too difficult to do. A cost–of–living index requires access to both price and current household consumption each period as well as an assessment of households' welfare which depends on a variety of physical and social factors that have no connection with prices."[11] The ABS has said that if the purpose was to maintain a relative standard of living with other groups in the community then 'an earnings measure of some sort would be a more appropriate vehicle for indexation"[12]

The Government knows this. It's recent change to the indexation of DFRB/DFRDB military superannuants' pensions demonstrates it's recognition that CPI pension indexation is inappropriate if a senior's standard of living is to be maintained.

In June 2013 the now Veterans' Affairs Minister Senator Michael Ronaldson - then Shadow Minister - joined now Minister Barnaby Joyce and Senator John Williams to sign a promise that, if elected, the Coalition would increase indexation for veterans' superannuation from CPI to the same as the age pension. Senator Ronaldson said, "CPI has not been a measure of cost- of-living for at least 15 years. Aged pensioners don't have their index assessed in this way so they (veterans) are falling further and further behind. It's basically unfair where they're at and they deserve a fair go and we're going to give it to them." [13]

COTA agrees with Senator Ronaldson's comments and would argue that if CPI indexation is inappropriate for veterans then it is inappropriate for all older people.

Since 1997 when the then Coalition Government rightly benchmarked the Age Pension to wages, the CPI has increased by only about half that of wages. This trend is likely to continue regardless of which measure of wages is used, so if CPI only indexation is introduced pensioners will have a lower standard of living than before as their pensions decline in real value.

The Commission of Audit's recommended changes to indexation were not explained in detail in its report but its charts suggest its new indexation regime would have meant a $160 decrease per fortnight in the real value of the pension over a 10 year period. This was utilising the better of CPI and PBCLI, so the impact of the Government's proposal to use CPI only would be an even greater cut.

The Association of Superannuation Funds of Australia's estimate that the value of the pension would fall by one third over 30 years if this proposal goal is implemented. The hard fought for $30 increase in the single pension in 2009 would have completely disappeared by now if we the pension had been indexed by the CPI only rather than the current indexation method.

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[10] ABS 6440.0 - A Guide to the Consumer Price Index: 16th Series, 2011. "2.7 The CPI frequently is called a cost–of–living index, but it differs in important ways from a complete cost–of–living measure. Both the CPI and a cost–of–living index measure the changes in prices of goods and services that are purchased by households. The Australian CPI measures the changes in price of a fixed basket of goods and services whereas a cost–of–living index measures the change in the minimum expenditure needed to maintain a certain standard of living.

[11] Ibid, 2.8

[12] "A 'Reasonable and Secure' Retirement?", Report of the Senate Select Committee on Superannuation and Financial Services, April 2001 3.29 p21

[13] The Northern Daily Leader, June 12, 2013. The election policy statement of July 2013 referred to "Fair Indexation"

The linkage of pension increase to wages (MTAWE) has largely been in place since introduced by the Whitlam Government in 1973. The Whitlam Government lifted the Age Pension out of poverty into which it had been under the McMahon and earlier Governments. Until 1997 this was a matter of policy rather than legislation and required successive governments to adjust the pension rate by Budget decisions because regular CPI indexation resulted in the pension falling below the 25% of MTAWE benchmark. The Howard Coalition Government passed legislation in 1997 that created a mechanism to ensure that pensions moved with increase in MTAWE.[14]

What is clear is that by removing the link to earnings completely, pensioners will fall further and further behind what wider community living standards and will inevitably fall into poverty.

Older people who have contacted COTA do understand this change and they know that even though “their pensions will continue to increase” twice a year in nominal terms, what they can buy with that money will decrease and they will fall behind the rest of the community. This is causing widespread anxiety and fear, as well as anger.

Recommendation

COTA urges the Committee to reject the proposed change and recommends that the current indexation arrangements are maintained while being reviewed by the recommended Retirement Incomes Review .

AGE PENSION AGE

The Bill seeks to increase the Age Pension qualifying age to reach 70 years by 2035 in a series of steps after the previously legislated increase to 67 years is complete. This is a more rapid increase than recommended by the Commission of Audit and means Australia will then have the highest Age Pension age in the world.

COTA acknowledges that the Age Pension should be linked in some way to life expectancy, particularly life expectancy at the age of 60 or 65. The recent gains in longevity have increased life expectancy at 60 quite dramatically and this is why we supported the move to raise the Age Pension age from 65 to 67 as part of an integrated package of measures that made the pension both adequate and sustainable.

However, increases in life expectancy do not necessarily equal increases in healthy years of life. The evidence is mixed on whether we are achieving longer healthier lives or rather longer lives with increasing periods of ill health and disability. This obviously impacts on the capacity to work.

There are many people who have worked in hard and physically demanding jobs all their lives who cannot keep doing these jobs until they are 70. In fact many do not make it to 65, with the average age of retirement in Australia at the moment being around 61 years, which of course means significant numbers retire earlier than that. Many people end up spending a number of years on Newstart or the Disability Support Pension before becoming eligible for the Age Pension. Indeed, over 80 per cent of people who go onto the full Age Pension at age 65 move across from another income support payment.

Whilst we acknowledge the nature of work is changing and many of the hard physical jobs are disappearing, others are being made easier and the number of such occupations is diminishing over

[14] Refer to "Major superannuation and retirement income changes in Australia: a chronology", Parliamentary Library Research Paper Series 2013-14, Updates 11 March 2014, Kai Swoboda.

time, we will still have people coming through in 2035 who have worked in physically demanding positions for 20 years. There are a few employers who are giving people opportunities to move across to less physically demanding jobs; Bunnings is always cited here as it gives tradespeople the opportunity to use their knowledge in retail, but they are still the exception rather than the rule.

The Government's Restart program which pays a $10,000 wage subsidy to employers who take on older unemployed workers is a good initiative. However, it has only just commenced and so it is too early to say what longer term impact it may have, particularly on employers' attitudes to older workers. All the evidence based advice says that such a measure has to be accompanied by complementary initiatives in training and a comprehensive attack on age discrimination in the workforce and workplaces.

There is little point in increasing the eligibility age for the pension until there are jobs for older people. Otherwise this measure is just consigning a growing number of older Australians to living on lower levels of income support for longer.

Recommendation

COTA believes more needs to be done to ensure older people are able to stay in employment longer before increasing the pension age and so is opposed to this proposal until there is an agreed package of such measures in place and working.

DEEMING RATES

The Bill resets deeming thresholds for pension income testing from September 2017; the threshold for singles will be reduced from $46,600 to $30,000 and for couples from $77,400 to $50,000.

This measure will take the limit used for calculating deeming rates back to the amount it was in 1996. This is very unfair as it completely ignores the improvements in community living standards over the last 18 years and the impact of inflation on people's capital. Many people who have relatively small amounts of assets will be hit quite hard by this measure; it will have less impact proportionally on people with higher asset levels.

This could act as an incentive for people who are retiring with superannuation balances to spend more of the balance as there is a financial disincentive to keep it. Clearly, this could potentially increase reliance on the pension - which is presumably not the outcome the Government is looking for.

The Government has offered no rationale for this dramatic proposal. If there is a rationale for reviewing the deeming thresholds it should be considered in the proposed Retirement Incomes Review.

Resetting the deeming thresholds does nothing to address the issue of people with high levels of assets being able to access the pension and pension supplement; this is something that COTA believes the Government needs to address.

Recommendation

COTA is opposed to the winding back of the asset levels to be used for deeming purposes. If there is a case for a review of the deeming thresholds it should be considered in the proposed Retirement Incomes Review.

INCOME AND ASSET LEVELS

The Bill proposes freezing the eligibility thresholds for pension and pension related payments for three years from July 2017.

Currently, people with quite high income and asset levels can be eligible for a part pension. COTA joins with others in saying this needs to addressed; the Age Pension like other forms of Government income support should be targeted to ensure that people who do not need it do not receive it.

A temporary freeze is a very a blunt and imprecise instrument to use to achieve this – it will impact on all part pensioners and effectively means a fall in their pension because it is extremely likely that their other income and assets will appreciate during the period. Some people on full pensions will also move onto a part pension at some time over the three years,. This would seem to negate the Government's claim that pensioners will not be worse off under the Budget measures.

This measure does nothing to address some of the distributional issues across the older population. There needs to be a community discussion around what constitutes high income and high assets and what assets should be included in that calculation. Often we think of all older people as being the same but in terms of wealth and income this is clearly not the case.

A key part of the asset test debate is whether all or some of the value of the principal residence[15] should be included in the assets test. There is understandable community concern about retirees receiving a full pension or even significant part pension when they own outright a home worth considerably more than those of most Australians. There are proposals in the current public discourse about how this might be approached. There are also substantial practical issues in including the home. It is quite a different order to draw down on the value of your home for a potentially long period of time than to access that equity later in life to pay for health and aged care costs (which COTA supports).

The Commission of Audit made significant proposals in this area for including the value of the home over a substantial threshold and for developing a combined income and assets test. These and other proposals about income and asset testing needs to be considered in the proposed Retirement Income Review.

Recommendation

COTA opposes the freezing of income and asset levels used for means testing as an unfair and inadequate response to the Age Pension income and asset test issues, and recommends that such issues be a central term of reference for the Retirement Incomes Review.

COMMONWEALTH SENIORS HEALTH CARD (CSHC)

The Commonwealth Seniors Health Card is available for people who are not eligible for an Age Pension. It is highly valued by many older Australians because it gives them access to concessional pharmaceuticals under the PBS and to some other concessions including the energy supplement.

We believe that the CSHC should be included in the proposed retirement income review and that there should be a discussion about its purpose and place within the retirement income sphere. Current eligibility and benefits for the card should remain as they are until that review has been completed. This would mean continuing CSHC entitlement to the Seniors Supplement.

[15] The term "family home" is both emotive and only true of a minority of situations.

COTA supports the decision to index the income levels for CSHC as they have not been increased since the card was introduced. If the card is to maintain its value and assist a group that have been identified as needing assistance, then the income levels need to increase so the target group remains eligible. If the measure to freeze income and asset levels for the Age Pension from 2017 is implemented, then COTA would argue the income levels for CSHC should also be frozen to ensure consistency.

COTA has always advocated that we need a level playing field for the treatment of income and assets. For that reason we support the move to bring the treatment of superannuation income for CHSC into line with the way it is treated for the income test for the pension.

Recommendation

COTA believes the proposed retirement income review should include an examination of the objectives and benefits for the Commonwealth Seniors Health Card. Until that review is completed we oppose the abolition of the Seniors Supplement, support the indexation of income levels for CSHC and support the amended treatment of superannuation income in that income test.

CONCLUSIONS

Overall COTA sees the package of measures relating to the Age Pension as a direct attack on the living standards of older Australians and so is opposed to most of the measures that directly and negatively impact on older people.

COTA believes it is manifestly unfair to target reductions in Age Pension expenditure that largely benefits lower income people, in preference to addressing superannuation taxation concessions that substantially benefit higher income earners and which will grow dramatically in future years.

However, we support having a well targeted Age Pension system that delivers a reasonable standard of living to those who need it. For that reason we have proposed a broad ranging Retirement Incomes Review and would be keen to work with the Government and other key stakeholders in that review process. The review needs to be done in a timely manner and if completed by late 2015 its recommendations could feed into the 2016 Budget (for 2016/17) and would therefore be able to be implemented in the 2017/18 Budget year with a full twelve months notice.

COTA firmly believes that getting retirement income policy settings right is critical if Australia is to deal with the ageing of its population and ensure future prosperity for all its citizens.

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11 March 2014

The Hon Joe Hockey MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I am writing to you about the current discussion largely through the media about changing eligibility for the age pension. As you will be aware COTA Australia is the national peak body for older Australians with over 1,000 seniors organisation members of State and Territory Councils on the Ageing representing over 500, 000 older people, as well as 40,000 individual members of COTA.

We have obviously noted discussion in the media around the calls over recent months by a number of organisations for changes to the age of eligibility for the age pensions as well as changes to asset and income testing and the treatment of the family home. We note your own comments at the G20 Finance Ministers' media conference.

Eligibility for the age pension is obviously a legitimate subject of public policy discussion, notwithstanding Coalition commitments during the election to make no changes to the pension. However we are concerned about the simplistic and one dimensional nature of some of the public comment, as if changes to the age pension can be done easily and quickly and will resolve all federal budget pressures.

The age pension is one part of a multifaceted retirement incomes landscape that includes consideration of superannuation policy (preservation age, tax concessions on contributions, tax treatment of income drawn down, tax and other treatment of different superannuation products), taxation policy, health concessions policy, etc.

Many of these matters were examined in detail in both the Harmer Pension Review and the Henry Review of the Tax System undertaken under the previous government. The Harmer Review placed pensions on a sustainable footing by adjusting various settings, especially the eligibility age and the taper rate on income. We have just completed the transition of women from an eligibility age of 60 years to 65 years for the age pension and we are about to start moving the age for everyone to 67 years.

The cost of the age pension needs to be seen alongside the current and escalating cost of superannuation contribution concessions (which vastly favour higher income earners) and income tax forgone on superannuation payments. The costs are comparable and must be considered in tandem. We have also suggested in our pre-budget submission for 2014-15 that the Government should look at the preservation age for superannuation and the age at which people get their superannuation income tax free. These need to be aligned with the age pension age if they are not to act as an incentive for leaving the workforce early.

The suggestions that have been raised about the treatment of the family home in the asset test for the age pension are of concern to COTA. The suggestion that the value of the family home if it is above a certain level should be included in older people's assets but not included for other means tested payments is ageist and implies that older people should not live in higher value homes while younger people receiving transfer payments can do so.

Similarly suggestions that retirees should be forced to sell higher value homes to move to lower value homes and live off the difference is telling older people to move out of familiar and established community settings and networks into retiree ghettoes, as land price (over which retirees have no control), are the major factor in increased home values.

Enabling older people to access their home equity to help meet health and age care costs is a reasonable public policy discussion and COTA supported Productivity Commission recommendations in this regard, which the previous government did not adopt. This was a major gap in the Living Longer Living Better reforms.

The debate around asset levels and access to part pensions is also complicated. The pension taper rate has been aligned with that for allowances and so the options for change are probably limited to introducing higher minimum pension rates or having cut off asset levels. Such steps always create their own anomalies. Obviously changes to the pension would have implications for other payments, including the Seniors Supplement paid to Commonwealth Seniors Health Card holders.

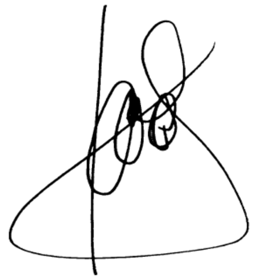
COTA is also opposed to raising the age pension age until we have eliminated age discrimination in employment so older people have a reasonable chance of working through to the pension age. Official mature age unemployment is still rising in volume and duration and that is only the tip of the problem, with many more people severely under-employed or having withdrawn from the workforce all together as discouraged and demoralised job seekers, set to cost our health system substantial sums.

COTA believes it would be useful to set up a structured process of roundtable discussions involving key stakeholders to look at varied policy options and their social and economic impacts. Such a process would need to be well informed and evidence based. The Intergenerational Report (IGR) is an excellent source of such data and we encourage you to see an early updating of the IGR as a priority so that the policy debate could have a sound evidence base.

We would welcome the opportunity to meet with you to discuss our concerns and our proposal to have a roundtable discussion. I will next be in Canberra on 19 and 20 March if either of those days were convenient for you. Your office could contact my Executive Assistant Ms Nicola Thurston on 08 8224 5510 to arrange a meeting.

I look forward to meeting with you in the near future to discuss these important issues.

Yours sincerely



Ian Yates AM
Chief Executive

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14 April 2014

The Hon Tony Abbott MP
Prime Minister
Parliament House
CANBERRA ACT 2600

Dear Prime Minister

I am writing to seek an urgent meeting with you about the age pension, on which almost 1.5 million older Australians depend either entirely or primarily for their income in retirement, in addition to the 943,000 for whom it is an important part of that income.

During last year's Federal Election campaign you said on various occasions that there would be no change to the pension. We repeatedly communicated this to our members and broader constituency of over 540,000 older Australians.

Recently there have been a number of major public statements by the Treasurer, the Hon Joe Hockey, which bring this commitment into question. I refer, for example, to comments at the G20 Finance Ministers media conference in March, and in recent days to his speech in Washington and media interviews from there.

The discussion the Treasurer has generated in the media has variously focused on possible changes to the indexation of pensions, to means testing - including inclusion of the family home in the assets test, and to changes to the age of eligibility for the age pension. The Treasurer has suggested that the increased cost of the age pension over the next decade is unsustainable.

This public discussion is causing grave concern among many older Australians. There are a number of specific points we draw to your attention:

1. The age pension currently has a gross cost to Budget of around $40 billion per year. The net cost is of course much lower as most pensioners tend to spend all their income and this finds its way into GST receipts, company tax receipts, the income tax paid by people who provide them with goods and services, and so forth.
2. 62% of age pensioners are on the maximum rate pension, meaning they have little or no assets apart from their home (not all have that) and minimal or no additional income.
3. Taxpayer contributions in the form of superannuation tax concessions are also currently around $40 billion per year. These concession favour high income earners - about a third go to the top 10% of earners, the bottom 10% get no benefit.
4. The current pension system is the product of the major review undertaken in 2008/9 by Dr Jeff Harmer and implemented in the 2009 Federal Budget with bi-partisan support. Treasury declared then that the system was sustainable over the longer term. We note that is also the conclusion of the Allianz global Pension Sustainability Index which rates Australia’s system first in the world for sustainability

5. On the latest figures we have, over 80% of men and nearly 90% of women who go onto a full age pension at age 65 do so from another Commonwealth income payment. So raising the pension age even to 67 just means more people staying longer on other pensions and payments.
6. Until we tackle mature age unemployment and discrimination, raising the pension age will not have a dramatic impact on employment. Successfully tackling mature age unemployment, under-employment and workforce withdrawal would add billions of dollars to the economy.
7. Current pension indexation arrangements mean that pensioners no longer fall behind the rest of the community's living standards as they used to do. Every six months they catch up, rather than slipping below the poverty line as used to be the case.

The suggestion that the indexation of the age pension is too generous and should revert back to just being indexed to the Consumer Price Index is of particular concern to us. This measure would have the greatest impact on the nearly 1.5 million people who are on the full rate of pension and who have low levels of assets and other forms of income. This would seriously erode the value of the pension over time and push more and older Australians into poverty. The age pension remains below the ASFA benchmark for an income to live a modest life and reducing indexation will widen that gap.

COTA has regularly flagged its preparedness to take part in roundtable discussions on the age pension between government and all major stakeholders in the retirement incomes space. Such discussion must encompass simultaneous consideration of all elements of retirement incomes policy, including superannuation policies (rates, preservation age, lump sum conditions, etc.), taxation of income in retirement, payments to Seniors Health Care Card holders, and concessions. Such a roundtable discussion would need to be well informed, including with detailed analysis of who would be the winners and losers in any changes.

Your government has not responded to our calls for such a discussion. Therefore on 11 March we sought in writing a meeting with the Treasurer to discuss these matters. To date we have had no response.

We now request an urgent meeting with you to discuss these critically important issues and to ensure that the interests and needs of older Australians are fully considered in Federal Budget preparations.

Yours sincerely

Ian Yates AM
Chief Executive

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MEDIA RELEASE

30 April, 2014

Older Australians welcome age pension commitments

Australia's peak seniors advocacy organisation, COTA Australia, met with Federal Treasurer Joe Hockey in Canberra yesterday, following the announcement by the Prime Minister that there will be no changes to the pension during this term of parliament.

"Pensioners will welcome this announcement, which reflects the commitments made during the election campaign" said Ian Yates, Chief Executive of COTA Australia.

"However there will still be concern amongst older Australians about the flagged changes to indexation arrangements and eligibility thresholds in three years' time," Mr Yates said.

"We made it clear in our discussions with Treasurer Hockey that the government should commence a detailed review of the whole retirement incomes system after the Budget, involving key stakeholders including COTA and other seniors groups.

"This review would need to include the age pension, the superannuation system, including its tax concessions, the settings of the Commonwealth Seniors Health Card, and taxation treatment of retirement incomes.

"We welcome the Treasurer's stated commitment to exploring ways of enabling the increased participation of all older people in employment which would help to create a more productive Australia.

"Older Australians already make significant contributions as workers, volunteers and in the family sphere, such as provision of child care. Any reforms or new policies affecting older people should seek to optimise and support such contributions and older people's ability to live well.

"We discussed constructively with Mr Hockey the need for an integrated approach to Australia's population ageing across a wide range of portfolios including employment, retirement incomes, health, and aged care.

"The Treasurer advised that the next Intergenerational Report (IGR) is currently underway, and proposed that there be an active dialogue between the IGR team and the retirement incomes review process.

"It's critical that we have a fully informed and inclusive policy decision-making process that does not unfairly target the services and support needed by older people to fully participate in their communities," Mr Yates said.

The Treasurer assured us that he has no intention of putting at risk the welfare of vulnerable older Australians reliant on the full age pension, which we welcome.

"COTA looks forward to engaging constructively in any forward looking review of retirement incomes including superannuation policy, means testing and eligibility criteria, and taxation settings.

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