

TOUCHSTONE

May 2009

Another missed opportunity -

Swan's debt mountain precludes Super reform

After 25 years of consecutive changes to superannuation, last year's Federal Budget was relatively benign. However, the May 2009 Budget has reverted to our annual process of playing with the system.

Arguably, the government has taken a few small steps towards its objective of improving equity and adequacy in the retirement savings system. Unfortunately, the broader superannuation changes needed have been ignored due to the focus on the huge government deficit.

Included with the Budget Papers was the (Harmer) Pension Review Report (provided to Government in February) and the (Henry) Report on Strategic Issues for the retirement income system. As expected, these are well written academic reports but they lack vision and have not delivered any material reform.

In this issue of Touchstone, we review these significant changes and comment on the likely impact on the industry.

Overview

The Rudd Labor Government has initiated a number of inquiries into various aspects of our retirement system but none of these were addressed in the Budget, so there is still considerable uncertainty about likely legislative changes. Nothing eventuated on SMSF structures, Clearing House facilities or any of the growing number of incomplete inquiries.

The Harmer and Henry reports were released and some of their recommendations have been rather hastily accepted without any proper debate. Many more recommendations have been tabled but the quality is variable and the only tough decision taken (raising the retirement age) is ill-thought out.

The Budget itself sets out several significant changes to the tax structure of superannuation and retirement incomes which will impact upon everyone in the system. Unfortunately, the initiatives have been taken against a tight fiscal background. It would have been far easier had this government deferred the July 2009 personal tax cuts instead of tinkering with retirement income policy.

The key government priority has been to address poverty in retirement. The Age Pension has been increased substantially for single persons and modestly for couples. However, stricter means testing will act to reduce pensions for many wealthier retirees. While this change is a welcome first step, there is much left to do to resolve our unstable pension structure.

Surprisingly, the government has not addressed inadequate unemployment benefits. These are now \$90 a week less than the single Age Pension even though people looking for work probably have higher expenses than pensioners. Perhaps the cost of increasing unemployment benefits was going to be too high given that there will be 1,000,000 beneficiaries next year?

Similarly, there has been an apparent shift to improved equity for those accumulating superannuation benefits. However, all the changes made have been to reduce tax expenditure, (even for low income earners) rather than as strategic measures to improve the integrity of the system. While the wealthy have had their contributions slashed, the saving has not been put back into the system.

The key items are:

- The co-contribution scheme has been “temporarily” reduced in value;
- Maximum concessional contributions have been cut for everyone ultimately to no more than \$25,000 a year; and
- The tax on concessional contributions remains for those on low incomes despite widespread speculation that it would be reduced.

Pension Review

The Government received the Pension Review Report from Dr Jeff Harmer on 27th February but only released it with the Budget Papers. Presumably the Report was held back by government to stifle debate before accepting some of the contentious recommendations.

When launched, the Review was promoted as one which would set the scene for pensions for the 21st century, but, in this, it has failed to meet even minimal expectations. While the report provides a good summary of the current state of Age Pensions, and it makes some worthwhile recommendations, it is totally lacking in vision and must be regarded as yet another interim measure in our evolving system.

The Report has 30 “findings” many of which are sensible and simply summarise what is already known about the system. However, the difficult decisions have been deferred or ignored. Overall, the outcome is very disappointing.

Single Person’s Pension

The Report reiterated the well-known fact that many single Age Pensioners suffer from inadequate living standards. Ironically, more Australian retirees live in poverty than in other countries we regard as peers (such as New Zealand) so there has been much community pressure to increase the pension.

The Review has relied on anecdotal evidence in the absence of suitable statistics about expenditure patterns. Hence, it has only been able to provide an indicative range for its target retirement benefit. The suffering particularly applies to single pensioners living alone as renters in private sector accommodation. However, the Report recommended increasing the single age pension for all pensioners rather than targeting those most in need. It would have been better to increase the rent allowance and to make a smaller adjustment to the pension itself¹.

¹ The report did recommend better targeting of rental assistance - finding 17

The report recommends increasing the single rate of pension from 61% to between 64% and 67% of a couple's Age Pension. This does not address the current disincentive for people to share accommodation in retirement which is considered by many to have important social benefits.

Social Housing

The report also suggested an increase in social housing for the aged. This is desirable but will only partly address the problem given the desire of most people to stay in their accommodation and locality for as long as possible. The 2009 Federal Budget included \$6.4bn for the construction of 20,000 new social housing dwellings and repairs to existing public housing.

Means Testing

Our means testing structure is complex and invasive. Unfortunately, this has not been addressed by Harmer. The Report missed the opportunity to resolve the inadequacies of the current means tests. It simply notes (finding 26) that the increased Age Pension amounts (provided in this Budget) allow the government to tighten the existing means tests. This is an area that requires innovative thought and will need to be revisited at some stage by a reformist government. The issues (and one possible solution) were set out in Rice Warner's submission to the Harmer review².

One of the key problems of pensioners is trying to supplement their income. Any earnings are severely cut under the Age Pension income test. Harmer has addressed this by recommending a "free area" where pensioners can earn modest amounts without losing access to any of their pension. This initiative is more sensible than the pension bonus scheme.

Adequacy

Whilst the report concludes that an Age Pension of 64% to 67% of average earning is appropriate for an individual, this specifically excludes provision for "unusually high health or disability costs". The report concludes that such additional costs are best met through direct, targeted service provision.

In this context, the idea (first raised in the 2020 Forum) of a National Disability Insurance Scheme is mentioned. This could even leverage private sector contributions, presumably through some kind of formal private sector insurance. Such private sector arrangements might be similar to Long Term Care products offered in the US, although these have proved to be very expensive.

Increase in pension age

One recommendation was to increase the Age Pension age. The rationale is based on increasing life expectancy and pension costs. The justification is that the age hasn't been increased for a century and other countries are putting their retirement age up.

While we are ambivalent about this increase, we believe the logic behind it is distorted. Australians can retire between 60 and 70 (or as low as 55 for those with an earlier Preservation Age). This flexibility allows everyone to retire when they are ready. Further, our Age Pension, being means tested and set at a modest level, puts less pressure on our economy than the situation in other first world nations.

² [www.ricewarner.com/newsroom/publications & submissions](http://www.ricewarner.com/newsroom/publications&submissions)

In practice, the majority of Australians (about 80%) retire before age 65, many being forced out of the workforce through declining health. There is a much larger national problem in getting more Australians to reach age 65 before they retire - or to move to a transitional situation of reduced hours for a few years. The Report comments on this but has no solution for the problem.

Family Home

The report comments about equity in the family home but naïvely assumes that private sector reverse mortgages will help to unlock this. These products are not the solution, except in some limited circumstances for retirees at very advanced ages. This will become evident with the increasing level of consumer complaints in coming years.

Interestingly, the report does not discuss the current Pensioner Loan Scheme which is, in effect, a reverse mortgage product offered by the Government to those on a part pension to enable them to top up to a full pension. This scheme is not well publicised or used but could be expanded in a well-designed system.

The Report does not address the issue of valuable homes being exempt from the assets test - nor the related issue of pensioners wanting to downsize but not doing so as their Age Pension would reduce.

Henry Review

The Panel reviewing Australia's tax system was asked for input on the retirement income system in advance of the May Budget. The *Report on Strategic Issues* was released with the Budget Papers. It had several findings and recommendations. Unfortunately, much of the report simply sets out discussion points for further consideration rather than concrete recommendations.

SG Contributions

The Report recommended leaving SG contributions at 9% and made the remarkable statement that 9% is sufficient to provide an adequate retirement. It is certainly true that the 7.65% contribution (after deducting tax on concessional contributions) together with the Age Pension provides a reasonable replacement income for low income Australians. However, expectations grow in line with the affluence of Nations and today's workers will want much more income than their parents were able to save for their retirement years. Today's workers will have extended and healthier retirements and will want higher income to support a more active lifestyle than their parents.

Consequently, this recommendation should be ignored! We agree that employers should not bear an additional SG levy, but a process of soft compulsion (say, 3% employee contributions introduced over a five year period) together with the government co-contribution payments for low-income earners would go some way to providing a comfortable retirement for all.

It should be noted that Treasury only expects 25% of retirees not to receive any Age Pension by 2050 so there is some difference between government expectations and those of the younger population - most of whom would like to become self-sufficient in retirement.

Age Pension Age

The Report confirmed the finding of the Harmer Report that the Age Pension age be raised to 67. This cost-cutting exercise is regarded as an interim measure to be reviewed in 2020. The Report also suggested raising the Preservation Age to 67! As 80% of Australians currently retire before age 65, this will indeed be challenging.

We consider it more sensible to raise people’s retirement incomes during their working life by raising contribution rates and increasing workforce participation between ages 55 and 65. These measures would be far more beneficial for members and society alike.

If the higher Preservation Age were implemented, then the Transition to Retirement strategies would cease and nobody would be able to access their superannuation until age 67!

Means Testing

The Report suggests simplifying means testing by eliminating the assets test and shifting to a single test based on income. However, this would require current “deeming” rules to be expanded to superannuation and non-financial assets such as personal effects, holiday homes, land and collections. We can only imagine this hugely bureaucratic decision has been made to increase employment by creating additional government work places (albeit that this is totally unproductive).

One can only hope the Government asks Dr Henry to look again at this very complex issue and come up with a workable solution.

Housing

The Panel proposes introducing a limit to the value of owner-occupied housing in the means test. We support this initiative even though the recommendation simply suggests it will give consideration in any new means test to setting a limit. It is difficult to comment further on such a vague recommendation.

Longevity Risk

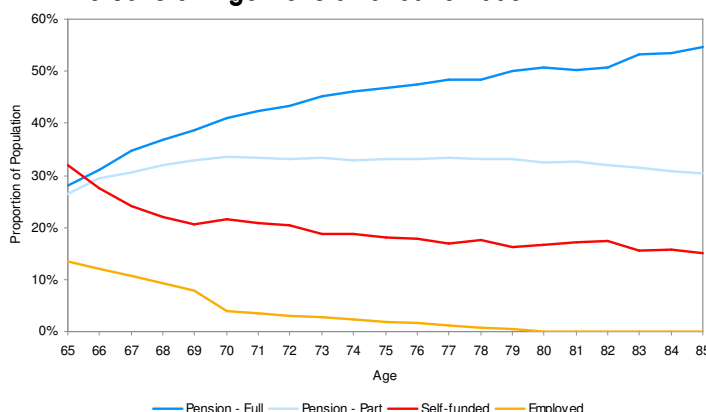
The final Report will consider longevity risk. It acknowledges that guaranteed products need to be issued by life companies - which in turn will need to satisfy APRA’s capital requirements. As there is only one life company (Comminsure) still selling lifetime annuities, it is incredibly naïve to think that this will be a solution to the longevity problem - the recommendation shows an appalling lack of knowledge about market practices.

We also note that the government has made no attempt to develop an active lifetime annuity market through the issue of long dated CPI-linked Treasury Bonds. This is disappointing given the huge issue of Bonds needed to finance the public deficit.

Budget Changes - Age Pensions

The graph below shows that the majority of Australian retirees receive a full or part Age Pension.

Graph 1. Persons on Age Pension at June 2008



The cost of this benefit will grow moderately as a percentage of GDP from 2.8% of GDP in 2007 to about 4.6% in 2042³. This growth is not excessive given the much larger population of retirees then prevailing.

It is a delicate act for governments to make properly targeted tax concessions which will encourage self-sufficiency in retirement while maintaining adequate benefits in retirement for those who need support.

This Budget has taken some steps to address this conundrum by increasing pension benefits while reducing superannuation concessions. The ultimate impact on pension expenditure as a percentage of GDP is unknown. However, the fact that so few Australians will be self-sufficient in the future shows that current policies will fail.

Treasury expects about 74% of people above age 65 to receive an Age Pension in 2050. This is an increase from 2.9 million pensioners to 7.5 million over that time. Clearly, Dr Henry, 7.65% of salary will not be enough to fund adequate retirement benefits!

Table 1. Growth in number of pensioners

	People 65+ At June 2008	Proportion of Population 65+	People 65+ At June 2050	Proportion of Population 65+
Full Age Pension	1,367,800	47.5%	3,410,900	45.3%
Part Age Pension	980,100	34.0%	2,130,900	28.3%
No Age Pension	532,100	18.5%	1,987,800	26.4%
Total	2,880,000		7,529,600	

Pension Amounts

From September, single Age Pensioners will receive an enhanced benefit, up from 61% to 67% of the couple's benefit. This year's increase will be \$30 a week.

The system is also simplified by combining all existing allowances into a single supplementary pension. Single pensioners will receive an extra \$2.49 a week and couples \$10.14 a week from this consolidation. Benefits for self-funded retirees will also be consolidated into a new Seniors Supplement.

In future, indexation will be based on rises in pensioner costs rather than community CPI. There will be a floor under the single pension of 27.7% of earnings⁴ so that pensions will continue to grow at least in line with growth in the economy.

Means-testing

This has been carefully adjusted to reduce benefits to wealthier retirees whilst allowing poorer retirees to supplement their income with part-time earnings. Only 50% of the first \$500 a fortnight will be included in the income test but the test (above this free area) will be reduced by 50% of income earned (currently 40%).

There is a transitional safety net to ensure that current pensioners do not have a reduced pension under the new arrangements.

³ Intergenerational Report 2007 (Treasury)

⁴ MTAW - Male Total Average Weekly Earnings

Pension Age

The Age Pension age will be increased to age 67 by July 2023 (only 14 years away). This will reduce costs and reflects the increasing length of retirement with improving life expectancies.

This measure is likely to be very unpopular, particularly with blue collar workers. As it is, there are about 200,000 males between the age of 55 and 65 receiving government disability benefits (a euphemism for aged unemployment benefits). It is a far more pressing need to increase workplace participation for this cohort. While this remains an objective of the Henry Tax Review, it is unlikely to be fixed easily in an environment where the government expects unemployment to rise by a further 350,000 over the next year.

Note that the retirement age for defence pensioners will remain at age 60. This illogical decision illustrates the political difficulties in making changes to this group. It is incongruous that their retirement age will not be brought in line with the civilian population.

Pension Bonus Scheme

Another simplification measure was to abolish the Pension Bonus Scheme. This allows eligible retirees to defer receiving the Age Pension while they work beyond their retirement age. The current scheme does not give good value and it was probably easier to kill it than amend it.

Superannuation

Concessional Contributions Cap

Concessional contributions have now been capped at \$25,000 (with a temporary cap of \$50,000 for those over 50 for the next 3 years). At first glance, this appears to be counter intuitive to the government's promotion of adequacy and self-sufficiency in retirement. However, it can be argued that the people affected by the reduced cap (including people under age 50 with the ability to make concessional contributions in excess of \$25,000) are unlikely to become dependant on the government in their retirement. That is, it will mainly be the high income earners that will be affected by the reduction in the cap, so concessions are cut without increasing future Age Pension benefits.

The revised \$25,000 cap remains indexed, presumably in \$5,000 increments as is current practice, while the temporary cap of \$50,000 is not indexed. The non-concessional contributions cap is now set at 6 times the concessional cap of \$25,000.

Interestingly, the current caps of \$50,000 and \$150,000 (long term concessional and non-concessional respectively) were likely to move to \$55,000 and \$165,000 from 1 July 2009 due to indexing. Setting the long term concessional cap to \$25,000 means the non-concessional cap is also held back from a likely \$15,000 increase at 1 July 2009. It is also not clear from the Budget if indexation still applies from the original inception date of 1 July 2007 for these caps. Regardless, it will take some time for the indexation to have any real effect if increases are still limited to \$5,000 increments (e.g. it will take 5 years for an increase to occur if the annual rate of indexation is 4% on the \$25,000 cap).

The reduction could be made more flexible by allowing \$75,000 of concessional contributions to be made over a three year period. This would mirror the treatment of non-concessional contributions and provide more flexibility for those with fluctuating incomes.

The reduction in the cap will also reduce the potential tax effectiveness of Transition to Retirement Accounts. It is likely that there will be a reduced number of people taking up Transition to Retirement accounts as a result.

Co-Contribution

The co-contribution provided to low and middle-income earners will be temporarily scaled back over the next five financial years. Both the co-contribution matching rate and the maximum co-contribution will be reduced over this period.

Although the actual take up of the co-contribution has been relatively modest (less than 15%⁵ of eligible persons for a co-contribution benefit received a payment during 2007 - 2008), the co-contribution scheme currently costs the Government approximately \$1.1 billion annually. During the five years that the co-contribution scheme is scaled back, the Government should be able to save approximately \$1.5 billion.

It has not been a simple task for the Government to manage the Budget in the current economic environment. To the misfortune of the beneficiaries of the co-contribution scheme (the heart of Labor's constituency), the co-contribution has fallen victim to the Government's need to save money. This is another change to superannuation that appears to go against the Government's policy of adequacy and sufficiency in retirement.

We have our doubts that the scaling back of the scheme will be temporary, given the likely further deterioration of government finances. However, if it is, the final retirement benefits of co-contribution recipients should not be affected too dramatically. It will be interesting to observe whether the reduction in the co-contribution has any effect on people's propensity to contribute to their superannuation.

Life Insurance

The budget has not introduced any significant changes to the Life Insurance industry.

However, a number of the budget changes will have an indirect impact:

- The reduced cap on concessional superannuation contributions will push more people to set up their life insurance outside superannuation, particularly if they wish to maximise the concessional contributions going to their superannuation retirement benefits. It is already more tax efficient for Income Protection insurance paid through salary packaging to be provided outside superannuation because payroll tax is avoided.
- The paid parental leave scheme will present challenges for some insurers and superannuation funds:
 - Employees who pay voluntary contributions to superannuation via salary deductions will need to state whether they wish to continue this whilst on paid parental leave, even though their "salary" might be significantly reduced; and
 - Group insurance contracts which do not allow continuation of cover whilst on parental leave may need to be reviewed.
- The raising of the eligibility age for the Age Pension may mean a deferral of retirement plans for some employees, so there will be a demand from employers for death, TPD and even income protection cover to extend to age 67, where it does not do so currently.

We note that Trauma benefits remain outside superannuation, though it is now Coalition policy to include them as an insured benefit.

⁵ ATO Taxation Statistics 2007 - 2008 Chapter 15 Superannuation System, 1.3 million entitlements paid. There are approximately 9.5 million people eligible for the co-contribution.

Parental Leave Scheme

The parental leave scheme will help to financially support working parents (usually mothers) post-childbirth. While this will be a great initiative in supporting women who are unable to work due to childbirth, the Government should also consider putting extra benefits into superannuation. This will help to replace the super contributions that are foregone and bridge part of the savings gap that women often face in retirement.

Another scheme that could be introduced to bridge the savings gap for women could be a “Super Baby Bonus”. This would be a lump sum benefit, along the lines of the Baby Bonus, that would become payable to a mother’s super fund on childbirth. We suggested these initiatives in our submission to the Henry Review⁶.

Private Health Insurance (PHI)

In last year’s Budget, the government controversially decided to increase the thresholds for the application of the Medicare Levy Surcharge. The threshold increased for singles from taxable income of \$50,000 to \$70,000 and for couples from \$100,000 to \$140,000.

Despite this increase, the number of people using Private Health Insurance has been reasonably static over the last twelve months.

The Government has now introduced means testing for the Private Health Insurance rebate.

For high income earners, the Private Health Insurance rebate has now been reduced whilst the Medicare Levy Surcharge has been increased. The new arrangements are shown in the table below.

Table 2. Private Health Insurance arrangements

	Surcharge Thresholds (projected 2010-11)	Tier 1	Tier 2	Tier 3
Singles	\$0 - \$75,000	\$75,001 - \$90,000	\$90,001- \$120,000	\$120,001+
Families	\$0 - \$150,000	\$150,000-\$180,000	\$180,001- 240,000	\$240,001+
Medicare Levy Surcharge	0.00%	1.00%	1.25%	1.50%
Private Health Insurance Rebate				
Aged less than 65 years	30%	20%	10%	0%
Aged 65 to 69	35%	25%	15%	0%
Aged 70 years and over	40%	30%	20%	0%

While the Private Health Insurance rebate for higher income earners has been reduced, it is unlikely that there will be too many Private Health Insurance policy lapses. The penalties imposed by the increased Medicare Levy Surcharge still exceed the cost of insurance premiums for higher income earners. Ultimately, the effect of these changes is to increase indirectly the taxes of higher income earners.

⁶ www.ricewarner.com/newsroom/publications&submissions

The table below shows the impact of the changes for people with different incomes in different age bands.

Table 3. Impact of changes to Private Health Insurance (PHI) rebate

Category	Taxable Income	PHI Premium	Cost of Healthcare (\$)*	
			Pre-Budget	Post-Budget
Singles - No PHI Age < 65	\$60,000	\$0	\$0	\$0
	\$80,000	\$0	\$800	\$800
	\$100,000	\$0	\$1,000	\$1,250
	\$130,000	\$0	\$1,300	\$1,950
Singles - PHI Age < 65	\$60,000	\$1,500	\$1,050	\$1,050
	\$80,000	\$1,500	\$1,050	\$1,200
	\$100,000	\$1,500	\$1,050	\$1,350
	\$130,000	\$1,500	\$1,050	\$1,500
Families - No PHI Age < 65	\$120,000	\$0	\$0	\$0
	\$160,000	\$0	\$1,600	\$1,600
	\$200,000	\$0	\$2,000	\$2,500
	\$260,000	\$0	\$2,600	\$3,900
Families - PHI Age < 65	\$120,000	\$3,000	\$2,100	\$2,100
	\$160,000	\$3,000	\$2,100	\$2,400
	\$200,000	\$3,000	\$2,100	\$2,700
	\$260,000	\$3,000	\$2,100	\$3,000
Singles - PHI Age 65 - 69	\$60,000	\$1,500	\$975	\$975
	\$80,000	\$1,500	\$975	\$1,125
	\$100,000	\$1,500	\$975	\$1,275
	\$130,000	\$1,500	\$975	\$1,500
Families - PHI Age 65 - 69	\$120,000	\$3,000	\$1,950	\$1,950
	\$160,000	\$3,000	\$1,950	\$2,250
	\$200,000	\$3,000	\$1,950	\$2,550
	\$260,000	\$3,000	\$1,950	\$3,000
Singles - PHI Age > 69	\$60,000	\$1,500	\$900	\$900
	\$80,000	\$1,500	\$900	\$1,050
	\$100,000	\$1,500	\$900	\$1,200
	\$130,000	\$1,500	\$900	\$1,500
Families - PHI Age > 69	\$120,000	\$3,000	\$1,800	\$1,800
	\$160,000	\$3,000	\$1,800	\$2,100
	\$200,000	\$3,000	\$1,800	\$2,400
	\$260,000	\$3,000	\$1,800	\$3,000

* This is the Private Health Insurance Premiums net of the rebate or the Medicare Levy Surcharge, it does not include the Medicare Levy of 1% of taxable income

Tax Revenue and Expenditure

The biggest tax savings come from the reduction in the concessional tax caps and the reduction in the co-contribution as shown in the table below. It shows the savings from these measures over the next five years. In our opinion, the government would have done better by waiving the pending personal tax cuts from July 2009 rather than making these changes.

Table 4. Tax Savings

Financial Year	2009-10	2010-11	2011-12	2012-13	TOTAL
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Reduced Tax Concessions on Contributions	620.1	623.5	703.6	807.6	2,754.7
Reduction in co-contribution	385.0	395.0	410.0	205.0	1,395.0
Reforms to Family Payments	209.6	292.0	435.1	459.5	1,395.5
Total from these initiatives	1,214.7	1,310.5	1,548.7	1,472.1	5,545.2

The table below shows the tax collected from superannuation funds. This includes contributions tax, the (diminishing) superannuation surcharge and tax on investment income and gains within the funds.

Table 5. Treasury's Super Tax Projections⁷

Financial Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Tax Revenue	Actual	Actual	Actual	Actual	Estimate	Estimate	Estimate	Projection	Projection
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Contributions & Earnings	5,083	5,416	7,609	11,898	9,140	7,980	9,250	10,420	11,410
Surcharge	1,326	1,289	270	90	20	10	10	10	10
Life companies ⁸	1,315	1,289	1,669	2,346	1,600	1,397	1,619	1,824	1,997
Total Super Taxes	7,724	7,994	9,548	14,334	10,760	9,387	10,879	12,254	13,417

The table below shows the total "tax concessions" provided to the superannuation sector, that is the personal income tax forgone by the government on concessional contributions.

Table 6. Tax Concessions

Financial Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Tax Expenditure	Actual	Actual	Actual	Actual	Estimate	Projection	Projection	Projection	Projection
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Tax Concessions ⁹	19,123	24,795	32,159	31,140	26,793	27,298	29,307	31,821	31,597

⁷ Budget Statement 5 (compiled from the current and previous budget papers)

⁸ Rice Warner Actuaries estimate

⁹ Treasury Tax Expenditure Statement 2008

The table below shows the total government expenditure on retirees.

Table 7. Retirement Expenditure

	2004-05 Actual \$m	2005-06 Actual \$m	2006-07 Actual \$m	2007-08 Estimate \$m	2008-09 Estimate \$m	2009-10 Estimate \$m	2010-11 Estimate \$m	2011-12 Projection \$m	2012-13 Projection (\$m)
Assistance to the Aged									
Residential Care						6,170	6,551	6,914	7,183
States - Assistance to the Aged						1,533	1,631	1,738	1,859
Veterans' Community Care and Support						1,255	1,340	1,438	1,480
Community Care						837	856	884	917
Mature Age Income Support						719	624	578	470
Flexible Aged Care						484	579	687	709
Allowances Concessions and Services for Seniors						163	176	179	185
Aged Care Workforce						56	53	53	54
Ageing Information and Support						39	38	39	39
Dementia						31	31	32	32
Other						43	41	54	45
Sub Total	8,336	9,106	9,883	10,148	11,779*	11,330	11,920	12,596	12,973
Age Pension (2004-08) /Income Support for Seniors (2008-13)	19,884	20,670	22,839	25,519	28,535*	29,335	31,698	33,790	36,149
Total Assistance to the Aged	28,220	29,776	32,722	35,667	40,314	40,664	43,619	46,386	49,123
Total Assistance to Veterans (and Dependants)	5,982	5,651	6,172	6,423	6,891	6,847	6,829	6,712	6,630
Total Assistance to the Aged & Veterans	34,202	35,427	38,894	42,090	47,205	47,511	50,448	53,098	55,753

* Estimated using last year's figure.

The budgeted overall level of assistance payments to the aged over the next four years are similar to those in the 2008 Budget. There have been few initiatives affecting these payments.

The budgeted Age Pension and Income Support payments for 2009-10 are \$2.65bn higher than in the 2008 Budget. This reflects the cost of increasing the Age Pension (costing \$2.71bn) offset by the tightening on means testing. However, the latter is dampened by the impact of the "under-pin" on the Age Pension for existing pensioners. By 2011-12 the increase in cost (versus the 2008 Budget) is only \$1.11bn.

Summary

This Budget was put together in haste and the superannuation and pension changes have not been carefully thought through. We note that the detailed Treasury figures supporting the overall 2009 Budget appear to be hastily derived in some cases, so it is likely that spending departments will operate under “top down” budgets which may put pressure on some services.

For example, there is an alleged \$2 billion of defence savings to be made over the next four years. Unlike other numbers calculated to the nearest \$100,000, these numbers are clearly made up (nothing in first year, a round \$100 million in year two, \$200 million in year three, then a balloon saving of \$1.7 billion in year four). Several similar examples exist.

There will be much more to come as the Henry and Harmer recommendations are implemented. However, who will evaluate these recommendations, many of which are poor as we have shown?

Members have had two years of negative investment returns. Disappointingly, many now face retiring later, possibly with reduced benefits - and with less government support. A proper reform package will still be needed!

Summary of Budget Changes

Age Pensions

Pension Amounts

Single Age Pensioners will now receive 67% of the pension payable to a couple, up from 60% at present. This represents an increase to the full single pension of \$30 a week.

All existing allowances will be combined into a single supplementary pension. Single pensioners will receive an extra \$2.49 a week and couples \$10.14 a week from this consolidation.

From 20 September 2009, the full single pension including supplement will be \$336.68 a week (now \$304.19) and couples will get \$507.50 a week (now \$497.36).

Future Indexation

Future increases will be based on a new Pensioner and Beneficiary Living Cost Index which relates to inflation on pensioner expenditure.

The single pension is currently about 26% of MTAW (25% is guaranteed). The guarantee rises to 27.7% of MTAW.

Means-testing

50% of the first \$500 a fortnight will be included in income test.

The income test (above this free area) will be reduced by 50% of income earned (currently 40%).

Pension Age

The Age Pension age will be increased to age 67 by July 2023.

Table 8. Changes to Age Pension eligible age

Date	New Age Pension age	Affects People born	Current age
1 July 2017	65.5	1 July 1952 - 31 Dec 1953	55.5 to 57
1 July 2019	66.0	1 January 1954 - 30 June 1955	54 to 55.5
1 July 2021	66.5	1 July 1955 - 31 Dec 1956	52.5 to 54
1 July 2023	67.0	1 Jan 1957 onwards	Up to age 52.5

Pension Bonus

The Pension Bonus Scheme will be closed, but existing members can continue to accrue entitlements.

Superannuation

Co-Contribution

The co-contribution has been temporarily reduced. The details of the reduction are shown in the table below.

Table 9. Changes to Co-Contribution Scheme

Contribution Year	Co-Contribution Matching Rate	Maximum Co-Contribution
2009 - 10	100%	\$1,000
2010 - 11	100%	\$1,000
2011 - 12	100%	\$1,000
2012 - 13	125%	\$1,250
2013 - 14	125%	\$1,250
2014 - onwards	150%	\$1,500

Concessional Contributions Cap

The government has introduced an age-based cap on concessional contributions. Under this age-based cap, the maximum total concessional contributions, from the 2009-10 financial year, that persons aged under 50 can make has been halved to \$25,000 p.a. (indexed). The existing cap for those aged 50 and over remains at \$50,000 but from July 2012 will be reduced to be in line with the prevailing cap for those aged under 50.

We are surprised that the government has not allowed the \$25,000 contribution to be \$75,000 over 3 years. After all, you can pay \$450,000 non-concessional contributions by bringing forward 2 years payments.

Target Benefits

A few years ago, many employers closed their defined benefit structures and moved all employees over to an accumulation basis. Some employers guaranteed that the employer would make contributions to the new accumulation funds at levels that ensured that previous holders of defined benefits would be no worse off. These “target benefits” are funded by a variable contribution annually.

Contribution concessions to defined benefit funds are “grandfathered” but not those to Target Benefit plans. Thus, employers with Target Benefit arrangements will be hard hit by the reduction in concessional contribution caps. They face increased contributions due to reductions in asset values yet are limited in funding them. For some senior employees approaching retirement, the required annual contribution could exceed \$50,000 by some margin. This could result in even higher contributions to pay for the tax on the excessive contributions required.

Life Insurance

There were no significant changes that affect the Life Insurance industry.

Private Health Insurance

The Government has now introduced means testing on both the Private Health Insurance rebate and the Medicare Levy Surcharge. The Private Health Insurance rebate has been reduced for higher income earners while the Medicare Levy Surcharge has been increased for higher income earners. The new arrangements are shown in the table that follows.

Table 10. Private Health Insurance arrangements

	Surcharge Thresholds (projected 2010-11)	Tier 1	Tier 2	Tier 3
Singles	\$0 - \$75,000	\$75,001 - \$90,000	\$90,001 - \$120,000	\$120,001+
Families	\$0 - \$150,000	\$150,001 - \$180,000	\$180,001 - \$240,000	\$240,001+
Medicare Levy Surcharge	0.00%	1.00%	1.25%	1.50%
Private Health Insurance Rebate				
Aged less than 65 years	30%	20%	10%	0%
Aged 65 to 69	35%	25%	15%	0%
Aged 70 years and over	40%	30%	20%	0%

Parental Leave Scheme

From January 2011, parents will be eligible for 18 weeks post-natal leave paid at the Federal minimum wage (currently \$543.78 per week). The payments under this scheme will be taxable. In order to be eligible to receive the benefits a parent must have:

- Worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption;
- Worked at least 330 hours in those 10 months, which is equivalent to around one full day of work each week; and
- An adjusted taxable income of \$150,000 or less in the financial year prior to the date of birth or adoption of the child.

The scheme is in addition to any employer funded parental leave and will be available to contractors, casual workers and the self-employed. Parents who receive paid parental leave will not receive the Baby Bonus (except in the case of twins or multiple births), or Family Tax Benefit Part B during the 18-week paid parental leave period.

Mothers and primary carers who are not in full-time paid work will continue to receive the current forms of family assistance such as the Baby Bonus, where eligible.

Rice Warner Actuaries

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We recommend readers seek independent advice regarding their particular personal circumstances.

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