



**independence
matters**

Australian
Independent Retirees

**2025-26 Pre Budget Submission to the Federal Treasurer
and the Department of Treasury - Budget Policy Division**

January 2025

Background and Concerns of the Australian Independent Retirees

Australian Independent Retirees (AIR) is the national peak body representing current and future fully and partly self-funded retirees. AIR works to advance and protect the interests of Australians seeking independence in retirement. AIR seeks to secure recognition and equity for Australians who, through their diligence and careful planning, fully or partly self-fund their own retirement.

Our members have a clear understanding of the need for ongoing management of the financial, health and longevity risks they face in retirement, but are concerned about any changes that would affect their capacity to have an independent and fulfilling retirement.

There are over 2 million Australians who either fully or partly self-fund their retirement. The greater majority of these are not “wealthy” individuals and unexpected financial impacts to their income streams may result in them needing Government support in the later years of their retirement. APRA predicts there will be another 3.6 million Australians who will move into the retirement phase of superannuation over the next 10 years.

AIR remains committed to a view that any changes to superannuation, retirement savings and income arrangements must not disadvantage current retirees and those about to retire.

We accept the proposition that those who can afford to contribute to their health care and aged care costs should do so. However, this does not mean that self-funded retirees should contribute more than the actual cost of health and age care services. We are concerned that co-contributions will be increased to such an extent that many self-funded retirees will be significantly financially disadvantaged by such measures.

Retirement planning has become more complex with volatile financial market conditions and frequent changes to policies that are making it harder for many retirees to develop a retirement plan that will last for the longer term. The government needs to ensure that with policy change, fully and partly self-funded retirees are not impacted by the unintended consequences of those changes.

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Recommendations

Australian Independent Retirees (A.I.R.) Limited welcomes the opportunity to provide the following Pre-Budget briefing to the Federal Treasurer containing policy recommendations across areas of concern to current and future fully and partly self-funded retirees.

Retirement Phase of Superannuation

Recommendation: The current age ranges should be broader and minimum drawdown percentages lowered for superannuation account-based pensions after retirees reach **75 years of age**.

Current age of pension account holder	Current drawdown %	Change age range to	Proposed new drawdown %
Under 65	4%	Under 65	4%
65 to 74	5%	65 to 79	5%
75 to 79	6%		5%
80 to 84	7%	80 to 89	6%
85 to 89	9%		6%
90 to 94	11%	90 to 94	7%
Aged 95 or older	14%	95 and over	10%

Rationale: The length of time spent in retirement is becoming longer as life expectancy continues to increase. It is now common for retirement to be 30 years or longer. In addition to this longevity risk, **inflation risk** and **investment risk** increase the likelihood of many severe shocks to the value of retirement savings and retirement income.

Self-funded retirees bear the full consequences of these risks but are increasingly **concerned about running out of money** in retirement and having **insufficient funds to afford more costly health and aged care**.

With the drawdown percentages increasing as we age, the funds required to be drawn down from superannuation over age 75 may be more than required for everyday expenses. Unfortunately, there is no mechanism to make non-concessional contributions to superannuation over age 75 years. With the investment returns from superannuation funds potentially exceeding those achieved by individuals, **retirees would prefer to retain retirement funds in superannuation** rather than outside superannuation.

It has been suggested that retirees over age 75 want to retain funds in superannuation to maximize the benefit from the low tax environment. **The reality is retirees want to benefit from the higher investment returns in superannuation** so they can fund increasing health and aged care.

In addition to higher investment returns, retirees benefit from **greater security of funds in superannuation**. With more sophisticated systems in large superannuation funds managing the movement of funds from one investment to another, it is less likely for

member funds to be lost to scams and cyber-security attacks that are now occurring more frequently.

Retirement Income

Recommendation: The current threshold used for Deemed income should be increased to align to the annual ASFA Retirement Standard for couples at the comfortable level i.e. currently \$73,031 per year.

Recommendation: When the current freeze in deeming rates finishes, the deeming rate above the threshold should realign to a small discount (0.5%) to the RBA cash rate.

Rationale: Having a deeming rate threshold that aligns with 1 year of spending enables retirees to keep readily available funds in an 'at call' cash account. These accounts would earn approximately similar interest returns as the deeming rate for funds below the threshold.

The deeming rate (above the threshold) is intended to reflect the rates of return available from a cash investment. The RBA cash rate reflects the 'risk-free' return for cash. It is therefore appropriate that the deeming rate above the threshold should be set at 0.5% below the current RBA cash rate of 4.35%. This deeming rate of 3.85% provides the appropriate incentive for retirees to seek a higher return on their retirement savings but ensures the investment risk can be minimised.

Recommendation: The Gifting Rules (or Deprivation provisions) **have not been adjusted since they were introduced in 2002.** They should be updated immediately and then adjusted for inflation/CPI on a regular basis as with the Pension assets test.

Rationale: The current gifting rules (deprivation provisions) have remained capped at \$10,000 per year or \$30,000 over a 5 year period since they were introduced in 2002. Inflation/CPI changes since 2002 has significantly eroded the current value of these caps. These caps should be updated immediately to take account of inflation since 2002 and updated regularly.

Retirement Savings into Superannuation

Adequacy Measures

Recommendation: For people approaching retirement (over age 55) with less than \$500,000 in superannuation, the **annual concessional contribution cap should be doubled** from \$30,000 to \$60,000 until their super balance exceeds \$500,000.

Recommendation: For people over age 55 with less than \$500,000 in superannuation, the **annual non-concessional contributions cap should be doubled** from \$120,000 to \$240,000 until their super balance exceeds \$500,000.

Rationale: With increasing longevity and inflation risk, there are heightened concerns amongst pre-retirees about whether they will have enough retirement savings to fund their planned retirement. Retirees with lower superannuation balances should have access to a range of voluntary measures to build up their superannuation savings.

Equity Measures

Recommendation: To provide a ‘**spouse superannuation transfer**’ facility for couples within the same superannuation fund to facilitate re-balancing of super balances for members of a couple.

Rationale: A number of inquiries/reports into retirement savings and incomes have found ‘inequitable retirement outcomes for various groups, such as women’. This recommendation provides a solution for the gap in superannuation balances between men and women at retirement.

With a ‘spouse superannuation transfer’ the non-concessional contribution and super balance transfer limits would still apply. Currently, for couples to achieve more equity in their super balances, they need to use the somewhat limited spouse contributions.

Financial Literacy

Recommendation: AIR has recommended for a number of years the **introduction of a national program to improve financial literacy and the understanding of the Retirement Income System**. This will enable people to adequately plan for, manage risks and maximise their income in retirement and to consider their future needs for funding Aged Care.

Recommendation: AIR recommends that the financial literacy improvement program should include the **extension of information available from ‘moneysmart.gov.au’, ATO online and Services Australia with a personalisation option for consumers through ‘my.gov.au.’ website and promotion of these information services**.

Rationale: A number of reviews and submissions in recent years have made many observations about the need to improve understanding of the retirement income system.

There is significant evidence of low financial literacy, particularly about the key risks and strategies in retirement. Further conclusions have said that complexity, misconceptions and low financial literacy have resulted in people not adequately planning for their retirement or making the most of their assets in retirement.

There needs to be a better understanding of interaction between the tax, superannuation, social security and aged care systems in retirement. People need to be able to get reliable independent information so they can make knowledgeable decisions when planning for and during retirement.

AIR acknowledges the recent announcement by the government.

Australian Independent Retirees (AIR) acknowledges the recent announcement by the government to expand resources on the ‘Moneysmart’ website, including tools for consumers to understand how an income stream works and fits into their expenses in retirement and different ways to draw down.

AIR acknowledges and supports the proposed roll out of these extensions to the Moneysmart website from the first half of 2025.

AIR further acknowledges and supports a consumer education campaign led by ASIC.

Taxation

Recommendation: That the Government improves the Seniors and Pensioners Tax Offset (SAPTO) for people with income from retirement savings outside superannuation. The SAPTO income threshold amount should be increased immediately by 10% and then annually by the CPI.

Recommendation: That the **proposed threshold of \$3 million Total Superannuation Balances (TSB) be indexed for the Division 296 'earnings' tax.**

Rationale: Without indexing the \$3 million TSB threshold, current younger workers will exceed the threshold with their contributions (within the applicable caps) and investment growth in their fund/s. This process of indexing aligns with other superannuation thresholds including the Transfer Balance Cap, Annual concessional and non-concessional contributions.

If the TSB threshold is not indexed, AIR recommends the threshold should be \$5 million as per the AIR 2022-2023 and 2023-2024 Pre-Budget Submissions.

Recommendation: Annual earnings for the proposed Division 296 tax should not be calculated by the year-on-year difference in the capital value of the TSB over \$3 million (adjusted for withdrawals and contributions). **Earnings should only be calculated on actual income received** from interest, dividends, rents, actual net realised capital gains, etc.

Rationale: Unrealised Capital gains are not actual earnings received and should not be used in calculating earnings for individuals with a TSB greater than \$3 million. The taxation of unrealised capital gains is an inappropriate method of income taxation, because the actual gain cannot be determined until the asset is disposed of. Until the asset is sold, the notional gains would need to be recorded because when the real gains or losses happen they will almost certainly differ from the assumed gains.

Financial Advice

Australian Independent Retirees (AIR) supported most of the recommendations in Michelle Levy's **Quality of Advice Review (QAR)**.

AIR acknowledges that the passing of the Delivering Better Financial Outcomes -Tranche 1 implementing recommendations 7, 8, 10 and 13 of the Quality of Advice review has removed some time-consuming red tape that added to the cost and also reduced the availability of financial advice.

However, fully and partly self-funded retirees who have sought personal financial advice know that legislating **recommendations 5 and 9 will more significantly reduce the cost and increase the availability of personal financial advice.**

These two recommendations relate to:

- Removal of the 'Safe Harbour' steps from the Best Interest Duty

- Replacement of Statements of Advice with a more fit-for-purpose Advice Record

AIR also notes that in the final QAR report, Michelle Levy said, “*The safe harbour steps and the statement of advice requirements have been identified by financial advisor stakeholders as the key barriers to providing more limited or episodic advice to meet the needs of clients*”.

It is disappointing that while Financial Advisors and others have been consulted about the proposed replacement of the Statement of Advice, consumers (like fully and partly self-funded retirees) who had a number of serious concerns about the current Statements of Advice reflected on page 127 and 128 of the final QAR report have not yet been consulted about the proposed new **Advice Record**.

AIR acknowledges the announcement by the government in December 2024 of the proposed second tranche of the **Delivering Better Financial Outcomes** package.

However, it is particularly disappointing that after ongoing consultation for about a year with the Financial and Superannuation sectors, no draft legislation for the **Best Interest Duty** or the proposed new **Advice Record** has been released yet.

Cost of Living

The **costs of living pressures affecting retirees are** heavily weighted to the following key areas; **food and household essentials, energy (electricity and gas), fuel, insurance (house, car and private health), health care and home maintenance costs.**

AIR recognises that a primary driver of cost of living pressures on fully and partly self-funded retirees is due to **elevated levels of inflation**. These inflation increases have often been attributed to domestic and international supply chain and logistics issues and increased labour costs/shortages.

Substantial wage increases for employees have occurred but **restraint should be exercised to put downward pressure on inflation.**

While Government has provided short term assistance to consumers, this needs to be limited so that it does not generate higher demand in the economy and generate higher levels of inflation. The **falling exchange rate for the Australian dollar has also added to inflation.**

Many retirees believe that some of the price/cost increases have been exacerbated by Government policy. They believe that electricity and gas prices (for example) have increased due to the government’s energy policies. In particular, the government’s unwillingness to reduce the fuel excise levy has led to higher inflation across a number of product and service sectors.

While many wage earners have achieved significant increases to their pay due to staff shortages and industrial action, self-funded retirees do not get automatic CPI increases to their retirement incomes.

Recommendation: Reinstatement of the reduced petrol excise. This would lower transport and logistics costs with a multiplier effect across the economy and would put downward pressure on inflation.

Recommendation: Government should consider implementing an increase in excise tax on some luxury goods and remove some of the anomalies that provide GST exemptions for non-essential items. Note that health services should remain GST free.

Recommendation: To address the shortage of rental accommodation and reduce rent inflation, the Government should allow a home-owner to rent a room and declare the income without the risk of losing the capital gains tax-free status of their home. This would help many retired home owners who are trying to make ends meet with rising living costs.

Enduring Powers of Attorney

Recommendation: AIR strongly supports the Federal and State Attorneys-General in seeking to address financial elder abuse and achieving greater consistency in laws for financial enduring powers of attorney (EPOA) across Australia.

Rationale: AIR considers proposals to make EPOA laws uniform throughout the Commonwealth are long overdue. We support adopting a 'uniform' legislative approach as for corporation's law, whereby the states adopt identical laws across all jurisdictions.

An EPOA should be in a nationally approved prescribed format and EPOA's should be recognised in different jurisdictions.

Aged Care – Quality and Safety

Acknowledgement of Policies progressed during the last 2 years.

Australian Independent Retirees acknowledges the implementation of the following policy recommendations from previous AIR Pre-Budget submissions and in subsequent legislation/regulation including the following:

- That the Aged Care Quality and Safety Commission improves the quality and safety of residential aged care by lifting the standards of aged care and reducing abuse in residential care by implementing the new Code of Conduct for Aged Care and revising restrictive practise arrangements.
- Acceptance and scheduled commencement of the new Aged Care Act
- To provide the growing skilled aged care workforce required to meet the rapidly increasing needs of aged care providers with additional funded and resourced vocational training programs and places, 24/7 registered nurses, improved pay and conditions for staff.
- Extra funding for improved food and programs to increase the quality of food provided to residents
- If an aged care provider does not publish their fees on the My Aged Care website in a timely manner, they should be removed from the website.

- Provide sufficient monitoring and oversight required to prevent financial misappropriation and fraud via strengthened prudential oversight of residential accommodation deposits.
- Improvements to 'www.myagedcare.gov.au' to provide easier navigation and access to more information to enable online application and review of services available.
- 3 yearly reviews of the Aged Care Act and associated rules, regulations and methods of funding including charges for all categories and levels of means testing.

Concerns

Despite these advances there is much concern by our members about the availability of suitable quality services when they require them. **Navigation of the system is even more difficult, costs and charges are extremely complicated and many people are still having bad experiences.**

Services provided are often not of an acceptable standard **and do not cover some tasks required by individuals in order to support them to remain in their home in the community.** Also, a number of **required tasks are excluded due to the demands of occupational health and safety** for staff.

Delays in assessment and accessing aged care services are creating backlogs elsewhere in the health system. Hospitals in all states are **reporting many older people occupying beds while waiting for an Aged Care Assessment or placement** with a provider able to meet their needs in home care or residential care.

Due to substantial proposed co-contributions, there is concern that many self-funded retirees are looking elsewhere for aged care support and **are not planning to use Government registered Aged Care providers.** They could use 'private/unregulated/risky' Aged Care services or overseas organisations that can leave them open to scams and abuse. This could mean **that approved residential aged care facilities might experience lower demand** with less income for providers and **increased costs for government-funded care.**

The cost of Aged Care is still extremely uncertain with suitable comparison charts and figures are not available. Percentage **comparisons published on various forums do not inform participants of the actual cost** and the **threat of substantial means testing of independent retirees is creating significant concern.**

There is great concern that the **cost charged for Aged Care** could be **more than the cost of provision of the service.** There is concern that many providers will be required to charge high fees/contributions in order to fund their shareholders dividends.

There is concern regarding the apparent unfairness of charging different people different prices for the same service or facility based on their assessed of means.

There is a lack of information and understanding of the caps promised on the payment of fees and how they are calculated on which services or charges.

Sources of Aged Care Funding for Government and Consumers

There is a need for government to explore and consider other ways for them to raise funds to pay for Aged Care such as:

- Medicare levy increase as suggested by the Aged Care Royal Commission and other experts
- Increase in the GST or a separate consumption tax type levy

In addition, the government should explore other ways in which consumers could access additional funds to pay for aged care fees, charges and co-contributions such as:

- Introduction of Private Aged Care Insurance (like the existing private health insurance)
- Explore a government-backed retirement lifetime income annuity that could be purchased by consumers to provide a stable income to assist them in paying for aged care
- The introduction of a special purpose Aged Care Savings Account (ACSA) (separate to superannuation)

Health Care

General Concerns

There is concern that the majority of people in the community believe that the current provision of Health Care is not adequate – there are significant and systemic issues in all states – especially related to:

- bed blocking by older people waiting for aged care services
- ambulance ramping and delay in triage and treatment
- quality and availability of private services offered to people attempting to relieve the public system.
- Excessive “gap” cost of services when private health insurance is used

Recommendation: That the CPI indexation of health insurance rebates be immediately scrapped and the % rebate based on % premium increases for Australians aged 65 years and over be reintroduced in full.

Rationale: A previous Government introduced a process of setting the rebate amount based on CPI rather than the actual % increase in premiums. This reduces the rebate entitlement annually for some people until it was phased out. History has shown that the

premium % increase for health insurance approved by Government has been well above that of the CPI %.

This increasing cost of health insurance premiums is neither transparent nor fair and reduces the community's confidence in the private health insurance system. This unfairly discriminates against Australians aged 65 years and older for whom the means tested aged-based rebate was provided to support them to continue with private health insurance.

Many retirees, who have maintained health insurance policies over their lifetime, see it as essential in their later years, to allow them the choice of medical specialist and allow access to immediate care in Private Hospitals when needed.

AIR Branch surveys have indicated that up to 90% of our members currently have private health insurance cover. The health insurance rebates were specially introduced to help support and encourage retirees to continue with their private health insurance and not rely on the overloaded Public Hospital system.

While it is commendable to see the Government introduce incentives for young people to obtain private health insurance, it was disappointing that no consideration has been given to assisting older people to retain their long-held private health insurance. These people are now being forced out of this insurance because of ever-increasing premiums together with low refunds on claims.

AIR urges the Government to acknowledge the shortcomings of the existing rebate calculation for older Australians and revert to the previously set aged and income based % rebates.

Recommendation: The Pharmaceutical Benefits Scheme (PBS) Safety Net threshold for single people should be adjusted so that they are not disadvantaged in comparison with couples or families. This is particularly disadvantageous to older people.

Rationale: Single and widowed retirees continue to be discriminated against with the current threshold level of the Medicare and PBS Safety Net and with the upper threshold value for singles to receive the Commonwealth Senior Health Card (CSHC).

AIR believes that Safety Net concessions should be available on an equitable basis and the Medicare and PBS Safety Net thresholds for single and widowed retirees should be set at 50% of the couples / families threshold.

This recommendation will address a significant inequity between single people and couples/families where a single person currently needs to have the same value of medical prescriptions as a couple or family before they become eligible for the Safety Net rebate.

End of Submission