

Statement to the Senate Community Affairs Legislation Committee enquiry into “Pension Reform and other 2009 Budget Measures”.

19 June 2009

My name is Tom Hayes. I am the Vice President of the Australian Council of Retiree Organisations.

We have 11 affiliated member organisations. This includes the Defence Force Welfare Association, the SA Superannuants, the Superannuated Commonwealth Officers Association and similar retiree organisations in NSW, Vic, Tasmania, Western Australia and Western Australia.

Together our eleven organisations have 700,000 members.

The average public sector retirement pension paid to these members varies between \$25,000 and \$30,000 per annum. Most of these members are receiving a part age pension, with their entitlement determined by the income test.

Before commenting on the changes to the income test I need to say that my organisation supports the announcement in the recent Federal Budget that the base rate of the age pension is to be raised and that the single pension rate is to become two thirds that of the couple's rate.

However we are most concerned with the intention to raise the income test taper rate from 40 cents to 50 cents in the dollar. There is to be no change in the assets test taper rate.

Dr Hickman of the SA Superannuants has provided the Committee with papers that set out the combined impact of the increases in the age pension and the increase in the taper rate so I will avoid going into detail here. The points that I want to make are:

1. The income test taper rate change will go far beyond the stated intention of just preventing the full flow on of the base rate increase
2. Existing income tested part age pensioners will be forced onto the new higher taper rate
3. People who are going to be adversely affected include people of modest means e.g. couples with combined private incomes as low as \$12,000

4. It appears that income tested part age pensioners are the only group of Australians that the Government is requiring to accept a reduction in their standard of living
5. Income tested part age pensioners appear to be the only group of retirees being asked to contribute towards the cost of an increase in the age pension base rate.
6. Income tested part age pensioner couples of very modest private means will not only be contributing to the cost of the increase in the base rate for those worse off than themselves they will be contributing towards the cost of providing an increase for asset tested pensioners much better off.
7. The base rate should be increased without any change to the means testing until a fair and equitable change to means testing has been devised.

I need to say something also about the “grandfathering” provisions or the so called “transitional safety net” announced by Ministers.

There is no doubt that most retired couples receiving part age pension will quickly find themselves worse off than they would be under the present arrangements with no increase in the base rate.

Existing part age pensioner couples who are income tested are destined to have their age pension entitlements reduced compared to what the entitlements would be if the taper rate was not changed. They will find themselves moved over time to a pension calculated using the new, higher taper rate. The time it takes for this to happen depends on the amount of private income the couple has. People with relatively small private incomes will find themselves on the new lower pension relatively quickly. A couple with a private income such as a public sector retirement pension of \$30,000 per annum will be gradually moved over to the new taper rate. After eight years they will be \$40 per week worse off than they would be under present arrangements with no increase in the base rate. All this is set out in the table contained in Attachment 2 to the papers provided by Dr Hickman.