SUBMISSION TO 'AUSTRALIA'S FUTURE TAX SYSTEM'

To enable the increasing number of Australians approaching and in retirement to have a reasonable lifestyle changes must be made to the taxation system.
Research shows only around 10% of Australians retire simply because they become eligible for the Age pension. In fact 80% will retire based on their financial security or their personal health and physical abilities. After 40 – 45 years of work some people are physically incapable of working beyond 65 so increasing the retirement age is not the answer.
Many Australians would like to work beyond age 65 but in many cases find the barriers to such things as part time employment, ageism in the work place, superannuation and worker's compensation too difficult to overcome. Policy makers need to focus on creating a level playing field by removing all age based restrictions for those who choose to work beyond age 65.

Consider the following:

1. Due to research and technology and the consequent advances in health and medicine, the average life expectancy has risen considerably. A male at birth in 1946 – 48 was expected to live till age 66 and a female to 70.6. In 2008 the figures are 79 years for a male and 84 years for a female. It could be said that instead of 'retiring and dying' the trend now is to not only retire earlier but also to live longer.
2. The Age pension alone, particularly for single non home owners, is not sufficient to provide even a modest standard of living.
3. Ever increasing numbers, due to early retirement, computerisation and jobs going off shore are becoming eligible for the Aged pension either in full or part. At the same time the number of people in the work force is diminishing so there will be fewer in full time employment to fund those retiring. As an example, the increase from 2006 to 2030 in the population over 60 years of age in the greater Darwin area will be 170 %.
4. Of the three pillar retirement income system, the Superannuation Guarantee pillar will not mature until 2037 when employees retire after a full working life of compulsory superannuation contributions of 9%.

Recommendations:

1. The Superannuation Guarantee should be increased incrementally from 9% to 12% by 2015 rising to 15% by 2020. This extra 6% should not necessarily come from the employer but could become part of the employees' responsibility to contribute to their retirement. This may go some way towards changing any culture of a 'right to an Age pension' to a responsibility of individuals to be in a position to more adequately support themselves in retirement.

2. Given the current life expectancies, superannuation contribution rules need to be changed so that there are no aged based limitations on contributions and removal of the caps on both concessional and non-concessional contributions so that any tax on excess contributions is eliminated. The current taxation of 15% on contributions to superannuation should be lowered to 10% and pensions generated from superannuation should continue to be tax free.

3. Retirees in receipt of the Age pension who have managed to accumulate personal savings during their working life should be rewarded. Currently deeming rates are applied which can effectively, once a certain figure is reached, result in a decrease in Aged pension. Clearly this disincentive to save for retirement must be removed by changing the figure so that deeming rates are only applied to amounts in excess of $200 000. Furthermore, this figure should be indexed in accordance with

the Age pension and any interest earned on any form of savings deposits should not be added to other wage-based income for tax calculation purposes as this is quintessentially double dipping.

4. The age pension income test fails to distinguish between wage-based and non wage-based income and as a result unfairly penalises those who choose to top up their pension with part time employment. Not only is the Age pension decreased disproportionally but it is also possible that pensioners may find themselves no longer eligible for certain concessions including the Health card – in effect, a double whammy! This could be addressed in several ways:

   a) Expanding the Pension Bonus scheme to provide those already receiving the Age pension with a 50% rebate on lost entitlements resulting from wage-based income.

   b) Single Age pensioners can currently earn $138/fortnight or approximately $3 600 p.a. without a reduction in pension. However, a working person can earn almost $10 000 p.a. tax free taking into account the Low Income tax offset of up to $1 200 plus nil tax payable on the first $6 000. To create a level playing field single age pensioners should also be able to earn up to $10 000 p.a. and a couple up to $17 400 p.a. before the pension is reduced.

   c) If single Aged pensioners earn more than $138/fortnight then their pension is reduced by 40 cents in the dollar. However, under the current income tax scales a wage earner who earns up to $34 000 is only taxed at 15% on the amount above $6 000. Again, in fairness and to remove the disincentive for age pensioners to continue in part time work, the same 15% or 15 cents in the dollar should apply to the pension reduction and not the exorbitant 40% or 40 cents in the dollar.

5. The taxation system is extremely complex and discourages older Australians from participating in the work force. Currently only 3.2% of age pensioners have private earnings. However, the 2007 Survey of Employment Arrangements, Retirement and Superannuation released last month by the ABS shows more than a third of older workers now plan to work until they are at least 70 years of age. Older Australians are working longer due to inadequate retirement incomes as well as the desire to stay involved in satisfying work. People who choose to work in their later years must be treated equally. Government needs to recognise the value and worth of mature aged workers and create a level playing field for those who want to work after age 65. It could be that a staged system is introduced so some elements that are necessary now could be phased out from 2037 when the superannuation guarantee pillar of the retirement income system matures.

   While it is difficult to quantify, it is recognised that participation in the work force by older Australians will have a flow on effect with a decrease in the cost of providing health and aged care.

   To lower the ever increasing cost of the Aged pension scheme it is essential that options for older Australians participating in the work force be increased by removing constraints related to worker’s compensation and superannuation along with the various disincentives described above which are tax related.

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