



ACPSRO

**Australian Council of Public Sector
Retiree Organisations**

Dear Senator Pocock

The Australian Council of Public Sector Retiree Organisations (ACPSRO) would like to congratulate you on negotiating that an annual review of the adequacy of support payments be undertaken by the newly formed Economic Inclusion Advisory Committee ahead of each federal budget, and also that the recommendations of that review be published. This is an important outcome for all Australians who depend fully or partially on support from government, especially older Australians.

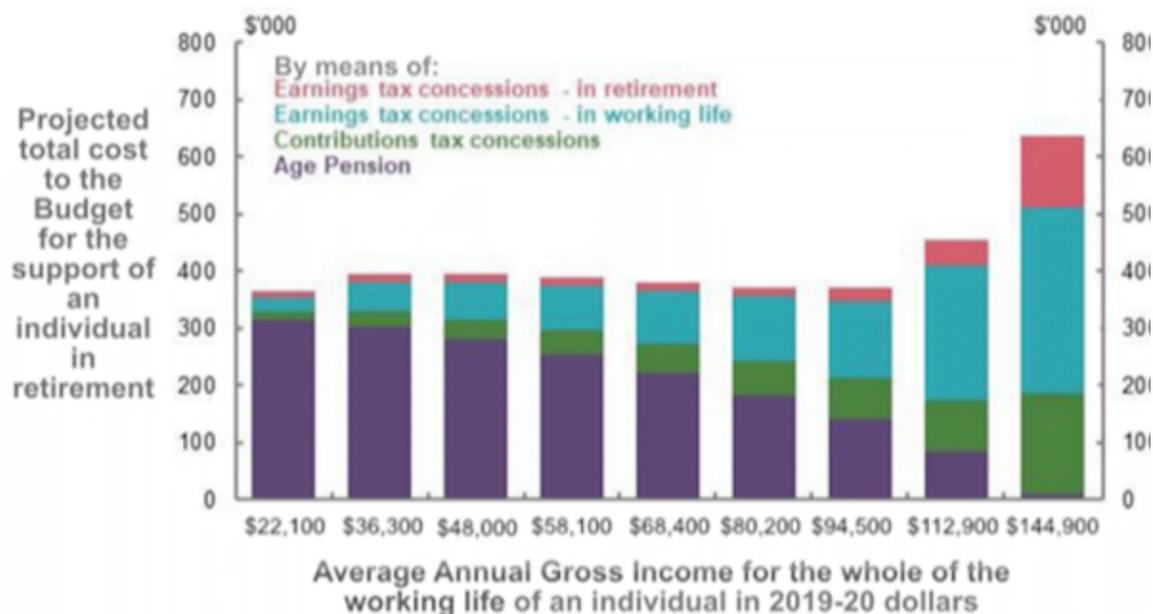
Our organisation, ACPSRO, provides a united voice on the retirement issues affecting retired public servants and retired Defence personnel in Australia. There are over one million households that are impacted by decisions which affect these older Australians who receive defined benefit pensions. It is generally perceived that public sector and Defence retirees have generous pensions. However, in reality, a significant proportion of our members also depend upon a full or part age pension to help make ends meet. They are thus impacted directly by decisions related to the provision of income support from government.

Income support provided by the age pension is only part of the story for older Australians. Access to full or part time work, the availability and adequacy of rental assistance and provision of health and aged care services impact on the well being of our members. It is therefore important that any review of the adequacy of support payments consider not just the support payment itself, such as the age pension, but also other related payments.

Central to such consideration is the equity of such payments across all older Australians, and the impact of means testing applied to those payments. It is our experience that the effective marginal tax rates associated with the age pension income and assets test are excessive when compared to the marginal tax rates applied generally across the community.

Direct budget expenditures on support payments only tell part of the story in relation to the level of support provided by the government. Increasingly Australians are gaining considerable support from taxation concessions, benefits and rebates. Unlike direct budget expenditures, the level of support provided by indirect means and the distribution of that support is largely hidden as part of the budget process. For example under the superannuation guarantee arrangements considerable support is provided to those with superannuation balances above the level which makes them eligible for even a part age pension. The support provided under the superannuation guarantee arrangements is not subject to the income or wealth tests applied to those more in need and in receipt of either a full or part age pension. It can also exceed the level of support that is being provided to those most in need via direct budget expenditures.

The end result is that the support system in Australia is highly inequitable and more benefits flow to those with lesser needs, while those in most need are subject to onerous reporting and means testing. This outcome was shown in Chart 7 of the Retirement Incomes Review. Below is a copy of that chart, with revised wording on the axes to assist in understanding the chart.



As support is provided by both direct payments and also by way of indirect benefits via the taxation system it is important that any review undertaken of the adequacy of support payments looks beyond direct budget expenditures.

One clear example of the need to look beyond direct payments from the government, is to consider the issue of the stage three tax cuts. For high income Australians this tax cut is no different, in a budgetary sense and also in a personal cash flow sense, to giving those taxpayers a direct and on-going cash payment from the budget that is equivalent to the benefit they may expect from the proposed changes to the tax scales. The impact of such an approach, however, would be to directly highlight who benefits and by how much they benefit. Such transparency would contrast the the on-going benefits being provided, and their cost, with time limited support currently being offered to those Australians in much greater need.

Similarly, while those on a full or part age pension face effective marginal tax rates of 50 cents in the dollar once they work more than a day and half or two days a week, those whose level of superannuation investment makes them ineligible for the age pension not only gain a tax free income from their super, which is not means tested, but are also able to undertake up to \$18,200 of work per annum free of tax and where they exceed that amount of work only pay a marginal tax rate of 19 cents in the dollar until their income exceeds \$45,000. For those older Australians who have super balances approaching the \$1.7 million maximum available to provide an account based pension, the effective level of support received can be double the support provided by a full age pension.

The support system is riddled with such inequitable outcomes, and this comes at considerable cost to the budget. Already the tax concessions associated with the superannuation guarantee scheme are approaching the cost of the age pension, and projections show that even as far out as 2060 a significant majority of older Australians will remain fully or partially dependent upon the age pension for their well being as they age.

There has been a general reluctance of governments to adequately assess and manage the wide range of concessions, benefits and rebates provided via the taxation system despite them being an important part of the support system available to Australians. This reluctance has permitted these arrangements to operate in a largely open-ended fashion. As a consequence the benefits being provided in the income support space, such as superannuation, are poorly targeted and rarely subject to the regular and on-going budgetary oversight given to support payments provided via direct budget expenditures.

Fifty years ago the Review of the Continuing Expenditure Policies of the Previous Government (Coombs Review) initiated a debate on these “disguised” expenditures. The “main side” effect as reported by Coombs was that the income effect of some programs was delivering considerable benefits to persons not in need. It recommended various measures in terms of both simplification and scrutiny.

This need continues today, and perhaps with a half century having passed, now is an opportunity to incorporate these “disguised” expenditures into the review framework being undertaken by the Economic Inclusion Advisory Committee.

ACPSRO consider that the review process you have negotiated is important to assure, not only the adequacy of support arrangements in Australia, but also the equity of those support arrangements across all income cohorts. We consider it is therefore very important that the review process not be restricted to only consider the direct expenditures of government, but also extended into the ever increasing, and highly inequitable, support arrangements associated with concessions, benefits and rebates provided via the taxation system.

We would welcome the opportunity to meet with you and discuss this issue in more depth. We have also copied this email to a range of other members of Parliament who we consider may have a specific interest in the adequacy and equity of support payments available to Australians. We have also copied this email to the Chair of the Economic Support Advisory Committee.

Also attached is a position paper outlining the key issues of interest to our members for your information.

Thank you

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