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Dr Ken Henry AC
Chair
Australia's Future Tax System Review
The Treasury
Langton Crescent
Parkes, ACT 2600

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Dear Dr Henry

Retirement Income and Sustainable Pension Reform: Better targeting of the pension

My wife and I are DVA pensioners and dependant in retirement on a service pension. We are somewhat dismayed on the proposed change in the taper rate from 40 cents in the dollar to 50 cents in the dollar will effect pensioners on relatively low income. The Government media release states:

For existing pensioners who would otherwise face a payment reduction because of the new income test, a transitional safety net will apply. The transitional safety net will ensure that current payment rates for part pensioners are maintained in real terms, and that they benefit from an increase of $10.14 per week for singles or couples combined. They will continue to receive these existing entitlements, including the increase, until they are better off under the new pension rules, including the new 50 cent income test withdrawal rate.

I am [removed for privacy reasons] years old and my personal circumstances are such that my wife and I will largely be dependant on receiving a basic government pension from the UK in three years time to augment our DVA pension to make ends meet. We have very little by way of accumulated superannuation. My understanding of the proposed legislation is that foreign income and investment will be subject to the taper rate of 50 cents in the dollar unlike employment income where there is an offset of half of the first $500 in each fortnight. My wife and I expect to receive UK pensions totaling approximately [removed for privacy reasons] per annum in three years time. A ten per cent increase in the taper rate will mean a reduction in the DVA pension of $1,600 per annum since we will be over the $20 per fortnight income free limit. I consider this unduly harsh treatment of additional income compared to the treatment of income from account based (allocated) pensions.

I would suggest that a more generous treatment apply to foreign pensions that are received and would suggest that this income be treated at least as generously as employment income.
As someone who was once involved in the finance sector and also the financial planning industry. I note that the goals in your report were as follows:

2.1 Overall goals of the retirement income system

The *Retirement income consultation paper* (AFTS 2008) identifies five objectives of a retirement income system, namely:

- it should be *broad and adequate*, in that it protects those unable to save against poverty in their old-age and provides the means by which individuals must or can save for their retirement;
- **it should be *acceptable* to individuals, in that it considers the income needs of individuals both before and after retirement, is equitable and does not bias inappropriately other saving decisions;[1]**
- it should be *robust*, in that it deals appropriately with investment, inflation and longevity risk;
- it should be *simple and approachable*, in that it allows individuals to make decisions which are in their best interests; and
- it should be *sustainable*, in that it is financially sound and detracts as little as possible from economic growth.

These criteria are interconnected and need to be applied in a holistic manner when evaluating the performance of the retirement income system

On the attached sheet I have detailed some of the different treatments of income streams in retirement which I believe do not meet the above goal of an equitable system and that does not bias inappropriately other saving decisions.

The attached sheet and table details what I believe to be inconsistencies in the treatment of income streams with particular reference to the taxation treatment of income streams versus the values applied by means testing.

Yours sincerely

Hamish Waters Adv.Dip FS (Financial Planning)

Age Pension changes Budget 2009

Pensioners' weekly benefits will increase by $30.00 plus a new supplement of $2.49 (single) and a new supplement of $10.14 (combined for a couple), with effect from 20 September 2009.

However, this new supplement includes the Pharmaceutical Allowance, Utilities Allowance and Telephone Allowance, which will all be paid as one amount. The new full supplement from 20 September 2009 will then be:

- $1462.76 a year for singles, or $28.13 a week
- $2199.60 a year for couples, or $42.30 a week

The income means test for age pensioner will change from 20 September 2009. For income above the pension income 'free area' of $138 per fortnight for singles, and $240 for couples combined will result in the pension reducing by $0.50 for every dollar earned above those amounts. The pension will then be paid to new pensioners with private income of up to $38,693 for singles, and $59,228 for couples combined, down from $47,444 for singles and $72,423 for couples combined under current income test rules. There is an offset where income is earned from employment – half of the first $500 from that employment will not be counted for this reduction.

The pension age will be increased – but from 2017, when the qualifying age for the Age Pension will gradually increase from 65 to 67 by 2023. The qualifying age for Age Pension for men and women will be increased by six months every two years, commencing from 1 July 2017 and reaching 67 on 1 July 2023.The qualifying age for Veterans Service Pension will remain at age 60.

The table below details the different treatment of income in retirement of various income streams for a male pensioner aged 65 under the income test from 20/9/2009 once the income free pension area has been exceeded:

Source of income	**Income Test Centrelink/ DVA 5% Min pension drawdown for AP**	**ATO treatment of Income**
Account based Pension	No reduction in age pension	Income not assessable
Foreign Pension Income	**50%** Taper rate to apply	Up to **25%** of pension income treated as a deductible amount
British Government Pension	**50%** Taper rate to apply	**8%** of Pension income treated as a deductible amount
Investment Income, non super money	50% Taper rate to apply	Income assessable
Employment Income	Half of the first $500 will not be counted will not be counted before application of the 50% taper rate	Income assessable

The Government has yet to advise on how transitional safety net will apply for existing pensioners to both existing investments and income and to future income. **At the very least I think that all pension income should be treated as generously as employment income. Furthermore I think that the taper rate on pension income should be applied only on that portion of the income that is deemed taxable by the ATO.**