THE VOICE of Pensioners and Superannuants

2 December 2020

Choose Your Own Adventure: Retirement Income Review lacks recommendations

THE Retirement Income Review is the review the Australian Government never wanted.

It was part of a deal the Government struck with the Australian Council of Social Services (ACOSS) and the Council of the Ageing (COTA) in 2016 for their support of the doubling of the asset test taper rate.

All three agreed that the taper rate needed to double, but only ACOSS and COTA wanted a comprehensive review of the pension and super plus the grab bag of concessions and tax dodges which disproportionately favour the well-heeled. The Government wasn't keen to do this.

That's probably why it is has taken four years for the review to come to fruition, with a final report that manages to not mention franking credits even once.

The fact that the final report of the Retirement Income Review does not feature any recommendations is as comical as it is logical: the Government appears keen not to take any measures in the politically sensitive area of retirement income policy.

So, no recommendations in the final report, although it is very likely that unpublished drafts did include them.

The way the final report is written makes it very obvious, for example, that the review panel thinks that the compulsory Superannuation Guarantee paid by employers should stay at 9.5 per cent and not increase to 12 per cent as legislated.

It is very clear that the review panel thinks that the family home should be included in pension means testing.

The review panel is transparently in favour of retirees reverse mortgaging their house to supplement their retirement income.

These are all issues the Government does not want to stir up.

However, one issue covered in the report it can't avoid dealing with.

The compulsory Superannuation Guarantee is legislated to increase from the current 9.5 per cent to 10 per cent on 1 July 2021. After that, legislation requires the Superannuation Guarantee to go up another half per cent each year until it reaches 12 per cent.

The Government can amend the legislation before July next year and put off the increase to 10 per cent. Or it can abandon increasing the Superannuation Guarantee altogether. If it doesn't, then the increases will happen automatically.

As mentioned, the Retirement Income Review all but endorses keeping the Superannuation Guarantee at 9.5 per cent. In all but doing so, it uses some evidence and arguments that make sense, but also some arguments that don't.

One argument is that retirees should use their superannuation savings more than they do to achieve an adequate retirement income level. They can do better with what they have, and the Superannuation Guarantee does not need to be any higher. That's OK if you have a superannuation balance to speak of but not it is low.

Another argument is that retirees should use the equity in their home to supplement their retirement income. However, the review fails to appreciate that many properties are in areas of low or no growth in house prices: reverse mortgages are not automatically available.

Also, you encumber your home with a reverse mortgage debt, you're stuck there. If you move, it won't be to a new home in a better location, it will be to a nursing home because that's all you will be able to afford as you will have to pay out your reverse mortgage debt.

In other words, yes retirees with substantial super can and should use up their savings as they move through their retirement years, but reverse mortgages are a bad idea for all. This is where the review's case for keeping the Superannuation Guarantee at 9.5 per cent falls down.

The review offers a further supporting argument for not raising the Superannuation Guarantee. The review points to the fact that someone on a high income gets paid more in Superannuation Guarantee, which means they get a bigger tax break. This, the review says, is unfair and raising the rate to 12 per cent eventually would make things even unfairer.

This is simply disingenuous.

There are ways to curb inequities associated with having a one-size-fits-all Superannuation Guarantee rate. It doesn't mean low- and middle-income earners should not get a higher Superannuation Guarantee.

All in all, the final report of the Retirement Income Review offers a lot of interesting evidence and economic and financial modelling, but the policy positions implicitly espoused are those of the well-heeled who don't understand or want to understand the issues faced by low-income retirees.

Beyond ideology: rent subsidies inadequate

RENTING in retirement severely increases poverty among retirees, and government supplements offer inadequate support, recent reports have found.

Commonwealth Rent Assistance (CRA) is paid on top of all major social security payments where the recipient rents in the private market and pays more than $60 a week.

CRA amounts differ based on relationship status, on the number, if any, of dependent children, and on the amount paid on rent. To give you an idea, a single person on the pension without dependent children can receive a maximum of $70 in CRA a week.

The Australian Government's Retirement Income Review was released on 20 November. One of the points it makes is that CRA is an inadequate payment for "renting retirees". Economic modelling done by the review shows that an increase in the CRA would not have a meaningful impact on reducing the financial stress of retiree renters.

The review suggested that a broader approach to supporting renters in retirement should be considered but did not make any suggestions about what that approach might be

The Australian Housing and Urban Research Institute (AHURI) released a report in October 2020 that found around one-third of low-income households who receive CRA are spending more than thirty per cent of their income on housing.

AHURI pointed out that the maximum rates of CRA have not kept up with rent increases over the past few decades, causing the CRA to be an inadequate supplement.

It is pretty much agreed by housing advocates that the only way to alleviate the struggles of low-income renters is by building more public and community housing, also known as social housing.

The Victorian Government announced in its 2020-21 Budget that it will build 12,000 homes over four years, 9,300 of which will be public and community housing dwellings. The rest will be affordable housing.

In comparison the NSW Government in its recent Budget committed to building only 1,300 social housing dwellings over four years. Some of these dwellings simply replace demolished dwellings. Effectively, NSW is building only a tiny fraction of the number of new houses which are needed.

The construction of social housing in Victoria will also be more beneficial for older renters. In 2017 the Victorian Government reduced its social housing priority age to 55. This means that anyone aged 55 and over who requires social housing goes to the top of the list.

In NSW, the priority age is 80.