THE VOICE of Pensioners and Superannuants

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How wages matter when you're retired

THERE has been speculation recently that the Reserve Bank will start raising the cash rate soon. This speculation is based on the economic recovery and the drop in the unemployment rate.

The cash rate is the interest rate the Reserve Bank imposes on unsecured overnight loans between banks. The cash rate will impact the interest rate that savers receive and homebuyers pay, because banks generally change their mortgage and term deposit rates in line with any changes to the cash rate.

In response to all the speculation, Reserve Bank governor Philip Lowe has said that he won't lift the cash rate until unemployment has been reduced to 4 per cent, wage growth is about 3 per cent and inflation is between 2 and 3 per cent. He isn't expecting this to happen until at least 2024.

The current unemployment rate is 6.4 per cent. Current wage growth in the private sector is 1.4 per cent. The current inflation rate is 0.9 per cent.

So, all three have a bit of catch-up to do. And once they have caught up, that's when the interest rate *starts* to go up.

This means two things for pensioners.

First, term deposit rates won't start to go up until then.

Second, pension indexation will keep producing very small increases until then.

This is because of low inflation. Higher inflation is caused by strong wage growth. Strong wage growth is caused by nearly everyone being employed and earning a wage.

In a strong economic recovery, such as we are having right now, you'd expect people to find jobs. You'd expect employers offering higher wages to get the best workers. You'd expect higher inflation.

But this is not happening for a number of reasons to do with industrial relations.

The workforce is becoming increasingly casualised.

As a result, the official underemployment rate (rate of people in work who want to work more but can't) is 8.1 per cent.

The average weekly wage used to frequently increase at a rate that caused the pension to go up by more than the rate of inflation.

Not anymore.

This is why pensioners are, for a long time, stuck with inflation as the basis for pension indexation.

This is why the pension is not going up by much.

NSW is running out of graves: review

A REVIEW of the *NSW Cemeteries and Crematoria Act 2013* has come up with recommendations for sweeping changes.

The review has tried to deal with three issues that beset the funeral industry: (1) shortage of burial land, (2) funeral price gauging, and (3) lack of industry oversight.

You could say that issue (3) is the root cause of issues (1) and (2).

The shortage of burial land in NSW is caused by the very optimistic assumption we could, in perpetuity, keep burying people in perpetual graves without getting to the point where there would be no land left for graves, in particular in Sydney and other urban areas.

Calling it a shortage is a bit misleading, because we've actually run out.

The review recommends the following to resolve this shortage:

The NSW Government immediately acquires land for new cemeteries and crematoria in Sydney.

More crematoria aren't going to be a problem, new cemeteries are. Or perhaps not. Around 70 per cent of funerals these days involve cremation. Just build some more crematoria and we won't need more cemeteries.

However, for those who are able to find a burial plot, the review recommends:

With the exception of [..] religious groups [who require perpetual interment], the NSW Government mandates all new cemeteries to offer renewable tenure interments only.

The review also recommends that old cemeteries, provided they're not full, can continue to offer perpetual tenure burials.

It also means that any perpetual plots not yet in use, including those purchased by people still alive, can be used in perpetuity.

The review does not recommend how long a renewable tenure should last, but elsewhere in the world it tends to be 25 years. After that, a new term has to be paid for, or the grave gets cleared.

The review also recommends that Cemeteries and Crematoria NSW (CCNSW) becomes a real regulator for the funeral industry as a whole, not just for the cemetery and crematorium parts of it.

Great idea!

CCNSW would become a consumer protection agency. It would run a central database filled with standardised pricing information to enable people to choose their funeral provider fully informed.

The ball is now in the NSW Government's court to adopt these recommendations.

Before all the burial land really runs out completely!

Extra super tax breaks for the wealthy

WEALTHY Australians are set to benefit from increased superannuation tax breaks that will come into effect on 1 July 2021.

Employers must pay a minimum of 9.5 per cent on top of an employee's salary into their superannuation fund. This is called the Superannuation Guarantee but working Australians can contribute additional funds into their super account.

This can be done in two ways: through concessional contributions, which require an employee paying part of their wage into their super fund before income tax is applied. This money is then taxed at the super tax rate of 15 per cent, which is a lot less than income tax rates.

Secondly, there are non-concessional contributions which allow people to pay money into their super fund after they have paid income tax over it.

Concessional contributions are currently capped at $25,000 a year, this cap will increase to $27,500.

Non-concessional contributions are currently capped at $100,000 a year, this cap will increase to $110,000 a year.

In addition to these increases, the transfer balance cap will increase from $1.6 million to $1.7 million.

The transfer balance cap is a limit on how much super can be transferred from an accumulation account, which is for Australians who are working and contributing to their super account, to a retirement phase, or pension account. This pension account is generally activated when a person retires and begins to use their super.

Currently, the limit that can be put in a pension account $1.6 million. Any funds over this amount remain in the accumulation account and investment returns earned on this excess continue to be taxed at 15 per cent.

On 1 July 2021, no tax will be charged on funds up to $1.7 million.

The increased caps aren't limited to just wealthy people. All working Australians can make these contributions. However, someone on the median wage of just over $50,000 a year probably cannot afford to contribute $27,500 of their total wage and will most likely never amass a super account worth $1.7 million.

So, it is clear these cap increases will only benefit the wealthy.

What is also interesting is that there has been no campaign to stop the increase in the already huge tax breaks that the wealthy can gain from these voluntary superannuation contribution schemes.

Recently there has been debate about whether the Superannuation Guarantee should increase from 9.5 to 12 per cent.

For a worker on the median wage this 2.5 per cent rise would see workers gain an extra $1,275 a year in super, which wouldn't cost a lot more than the tax breaks for the wealthy will cost and it will help far more people boost their retirement income.