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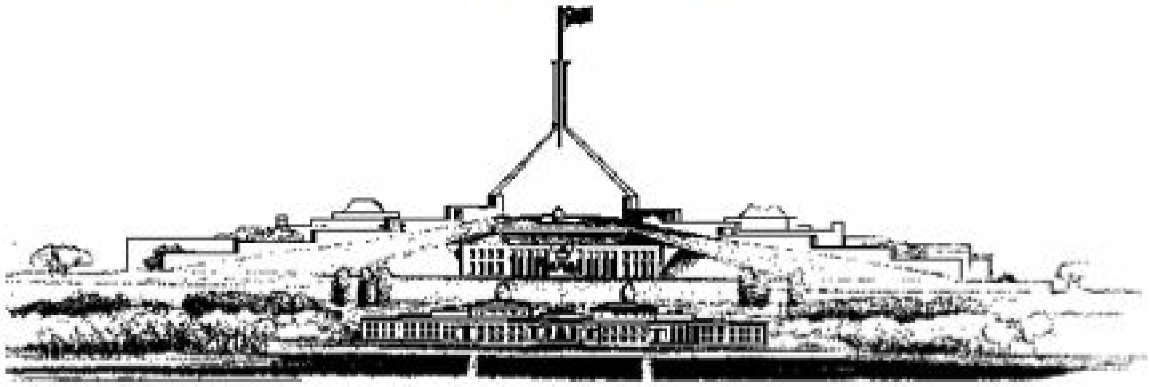

THE SENATE

BILLS

Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015

Second Reading

SPEECH

Monday, 22 June 2015

BY AUTHORITY OF THE SENATE

SPEECH

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Questioner		**Responder**	
Speaker	Xenophon, Sen Nick	**Question No.**	

Senator XENOPHON (South Australia) (21:08): Can I indicate that I will be supporting the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 with some reluctance. But I believe that, in the circumstances, it is the right thing to do for a number of reasons. Firstly, there is an issue about the long-term sustainability of the pension scheme—to ensure that Australians get a pension that is as good as possible but that increases according to male average weekly earnings, which is a higher rate than the CPI rate that was proposed by the government in last year's budget. That was a disastrous suggestion, because the effect of those changes would have been to erode the value of the pension over several years, by up to $80 or $100 a week. It would actually have made a very big difference. I acknowledge Senator Ketter's very thoughtful contribution to this debate. I do not pretend that this is an easy issue.

I have constituents who have contacted me to express their concerns. Yesterday at Adelaide Airport, on the way to Canberra, I was approached by a constituent who expressed their heartfelt concerns about this. They are about to retire, and this would make a difference in terms of their retirement income—a real difference, in terms of the assets they have—that they would have to dip into their assets.

I think it is important, in the context of this debate, not to consider only what was proposed by the government last year. That should not be the benchmark of whether we should go down this path or not, because what the government was proposing last year was an unmitigated disaster. It was not something that was put to the people at the 2013 election. In a sense, there is a safeguard here that I think Senator Ketter has referred to: these measures are not due to come into force until 1 January 2017, and there will be an election prior to that time. Who knows, Mr Acting Deputy President, sometimes I think that we could well be heading for an election later this year. Let the *Hansard* note the gesticulation of the Acting Deputy President—as in, 'who knows?' In any event, even if the election is held on the third anniversary of the election of the Abbott government—or even after that—there will be an opportunity for this to be a key election issue, which I think is quite appropriate. It is one of the factors that have led me to support this legislation: that there is that safeguard of the electorate having a direct say on this piece of legislation. The Australian Labor Party will be fighting on this issue, as they are entitled to, and I think that it will be a key election issue. But I think that, on balance, this ought to be supported.

If we can just go back into the history of the pension—and I am grateful to the researchers of the Parliamentary Library—we are all grateful for the researchers of the Parliamentary Library—for their dispassionate, considered and objective approach to their research—in the 1940s and 1950s we saw substantial increases in the levels of permissible income and property limits to the pension. In 1954, the Menzies government exempted income from property from the means test. The Gorton government introduced a tapered withdrawal rate in 1969. The annual rate of pension was reduced by only half of the amount for income above the exempt amount, including income derived from property, rather than the full amount as had been the case previously. In 1972, the McMahon government—remember them, Mr Acting Deputy President; you would have been in primary school then—introduced a large increase in the level of exempt income and intended to abolish the means test by 1975 for age pensioners aged 65 and older. The Whitlam government abolished the means test for age pensioners aged 75 years and over in 1973, and for those aged 70 years and over in 1975, having matched the McMahon government's commitment before the 1972 election. In 1976, the Fraser government removed any consideration of assets from the means test, making it an income test only, except for actual income derived from those assets.

The Fraser government commenced a reversal of this trend towards the universal age pension free from any means testing. This trend was replaced with a renewed emphasis on targeting assistance to those most in need—which I think is not an unreasonable proposition. As set out in the *Bills Digest* for this bill, the main changes to means testing in the Keating and Howard government years were in regard to how certain types of income and assets were assessed, particularly in relation to superannuation and other financial investments. In 1993, the Keating government reduced the withdrawal rate—the taper rate—from $4 to $3 per fortnight for every thousand dollars in assets over the applicable free area. As part of its Simpler Super reforms, the Howard government halved this withdrawal rate from 2007 to $1.50 per fortnight for every thousand dollars over the applicable free area. To put this in context, what occurred was that for a period of about 13 years—almost 14 years—there was a period of bipartisanship, in that both the Keating and Howard governments, for most of the period of the Howard government, thought that the taper rate of $3 per fortnight for every thousand dollars in assets over the applicable free area was the appropriate taper. That was changed by the Howard government in 2007 to $1 50 per fortnight, and many commentators, I believe, are of the view that this was as a result of the Howard government in the lead-up to the 2007 election panicking and wanting to shore up votes but that it did not work because its time was up.

We now have a situation where this government is looking at going back to a taper rate, which was something that had bipartisan support during the Keating era and most of the Howard era. Under this proposal, the asset test limits for allowances and thresholds for the full pension would rise for single homeowners from $202,000 to $250,000 and for single non-homeowners from $348,500 to $450,000. For homeowner couples they would go from $286,500 to $375,000 and for non-homeowner couples from $433,000 to $575,000 from January 2017 as proposed in this legislation. These changes will make a difference. They mean that people can still have assets. It does not mean that they are wealthy—Senator Ketter is right in his analysis—but it is a question of sustainability and equity, in my view, as to those who are most vulnerable, who I think need the support. I note that the constituents who have written to me have indicated that they are very careful with their money and that they are by no means wealthy, and I understand that, but it is a question of how you deal with this vexed issue so that as many people as possible are covered by it.

I was influenced in my views on this issue by the views of Dr Cassandra Goldie of the Australian Council of Social Service and also by Ian Yates from COTA, the Council of the Ageing, who I think genuinely want to have a long-term, sustainable and fair pension system and are concerned about the impact if we do not deal with this issue. COTA in its submission to the inquiry said that over 2,232,000 age pensioners will not be affected by this proposal, which is about 83 per cent of all age pension recipients and 88 per cent of all recipients. COTA makes the point that the increase in the taper rate proposed in the bill will have a negative impact on single homeowner age pension recipients with more than $289,000 in assets or couple homeowners with more than $451,000 in assets. As referred to in the COTA submission, according to the government's estimates 215,000 people will receive a reduced level of age pension, which is eight per cent, and almost 236,000 people, which is six per cent, in all categories will receive a reduction. They mention that there will be a significant number of Australians affected by this, but the vast majority will not be.

I am disappointed with the government's approach to the suggestions by the Australian Labor Party around superannuation. I think that what the shadow Treasurer, Chris Bowen, suggested was very sensible. I do not want to commit myself to the precise figures that Mr Bowen put up regarding the income thresholds, but it seems to me that, if you are earning $75,000 a year from your super and not paying any tax on that, that is not in itself too onerous a threshold before some tax kicks in. I think it was partisan politics at its worst for the government to simply dismiss what the Australian Labor Party has been suggesting about the issue of superannuation. If we want to have a truly sustainable retirement incomes policy, we need to tackle the question of superannuation. It is not about class warfare; it is not about taxing the rich; it is about having a sustainable system of superannuation and aged retirement incomes—because we are talking about situations where people might have $4 million, $5 million, $6 million or more in super who do not have to pay any tax. For a small minority of people, it has become a tax haven rather than a form of retirement income planning.

It is worth referring to the work of the Australian Institute in this regard, where Richard Denniss has been outspoken about the impact of this, suggesting that the cost to the budget of the current superannuation concessions will be very significant. They will go up into the many billions of dollars each year and they will cascade unless we do something about it. I think that Mr Bowen's proposed reforms do have a lot of merit and they ought to be debated and that the government has had a blinkered approach in not dealing with that issue. I think that most Australians will understand that, when it comes to fairness, having some level of tax—let's say 15 per cent—on super kick in on income from your superannuation fund of over $75,000 or $100,000 would not be unreasonable. That is one of the real challenges. My understanding, though I do not have the precise figures in front of me, is that it will cost many billions of dollars in years to come. The point that Richard Denniss made in an opinion piece in *The Australian Financial Review* is that the superannuation tax concessions are growing at 12 per cent per year. If you compound that, you are looking at a real problem with the cost to the budget.

As to some of the contrary opinions, Michael O'Neill from National Seniors Australia, a person I have enormous respect for, is critical of these changes. He has said that he believes it will not be millionaires who will be affected by the tightening of the pensions asset test, as claimed by the government, but middle Australia. He says that they will be deeply disappointed with those who support this proposal. I do not like disappointing Mr O'Neill because he is someone who does a lot of incredibly good work and I work with him on issues and have enormous respect for him. He also makes the point that these changes will reduce pensions while not addressing superannuation tax concessions. I think a lot of Australians will think it does not quite pass the pub test when it comes to fairness to tackle the age pension issue but not tackle superannuation. I think that that is a live issue.

The ACOSS chief executive, Cassandra Goldie, in a *The Australian* report on 17 June, backed the government's changes modelled, in part, on her organisation's work. The David Crowe article quotes her as saying, 'Both major parties should strike a compromise on retirement-income policy, including super concessions.' Dr Goldie said: 'In an ideal world we would have a joint approach from the government and the opposition in this area.' Well, we don't, and that's politics.

These changes are unwelcome but necessary. The Labor Party has every right to run with this as an election issue, but I believe most Australians will say it is a compromise—perhaps an unfortunate compromise—to ensure the long-term sustainability of the pension. If we are serious about the long-term sustainability of the budget, if we are serious about the long-term sustainability of retirement-income policies in this country, then we must tackle the issue of superannuation. We must tackle the issue along the lines—and I say this broadly—that Mr Bowen, our shadow Treasurer, has indicated. The government has been bloody minded not to go down that path.

I look forward to the committee stages of this bill. I think there will be a number of questions in respect of it. I will be asking: if there are any unintended consequences arising out of this, and if they are still in government post 1 January 2017, will the government be open to reviewing or recalibrating this particular issue, in terms of any unintended consequences. On balance, this needs to be supported. The alternative of not supporting it is to have a pension scheme that in the long term will not be sustainable.