Federal Budget 2022

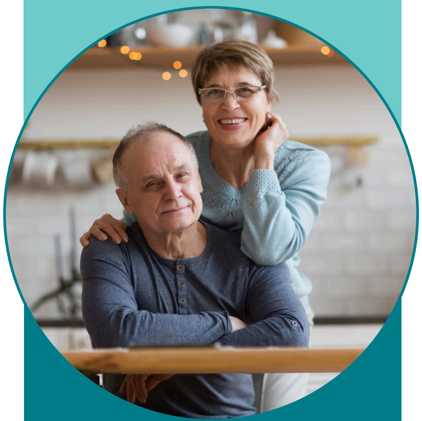
A fairer future

January 2022

National Seniors Australia

A snapshot of older Australians

50%



Proportion of voters aged 50 and over (Sep 2021)

2.6 million

Number of full or part pensioners (Sep 2021)

2.9%

Proportion of pensioners working - 75,000 of 2.6 million (Sep 2021)

350,000

Number of renters aged 65 and over receiving Commonwealth Rent Assistance (Sep 2021)

74,143

Number of people waiting for a Home Care Package at their approved level (30 Sep 2021)

85%

Proportion of older Australians who believe climate change is occurring (Jan 2021)

Foreword

National Seniors Australia is the independent voice of older Australians.

Older Australians want strong and effective government that makes prudent policy decisions and gives them the confidence to save and to spend.

National Seniors Australia is putting forward 12 key policies in the following key priority areas:

Creating a simpler retirement system.

- We need an **Age Pension income test exemption** (so pensioners can help meet workforce shortages) and an inquiry into the costs and benefits of a **universal pension**.
- We continue to demand an **Independent Pension Tribunal** (to take the politics out of the pension) and for an **increase to Commonwealth Rent Assistance**.

Improving access to care at home.

- We need a **mature age home care traineeship program** and **incentives for older workers** to work more hours in both health and aged care.
- We are calling for **incentives to downsize** and for a **capital grants scheme for rental housing** to allow people to stay out of residential care.
- We are also calling for multi-partisan support for **additional aged care funding** and for a dedicated **Home Care Loans Scheme** so people get more care at home.

Older people contributing to future generations.

- Government can help older people achieve our emissions targets by issuing **Clean Energy Bonds** and help younger people by **adjusting gifting rules**.

These policies are an investment in the economic prosperity, health and wellbeing of our nation.

Most importantly, they will help restore trust in our political process.

Government must work to restore voters' faith in the idea that it is there to improve people's lives, including those of older Australians.

Ian Henschke
(Chief Advocate)

John McCallum
(Chief Executive)

Key recommendations

Retirement income

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Recommendation 1:	Exempt employment income from the Age Pension means test to boost workforce participation and help meet the nation's critical labour shortages.
Recommendation 2:	Investigate the costs and benefits of adopting a universal pension in Australia.
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Recommendation 8:	Create a capital grants scheme for the construction of rental housing for older people.
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Recommendation 9:	All parties should commit to investigating the most fairest and most efficient way to fund aged care reforms and agree 'in-principle' to support funding reforms.
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Legacy

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RETIREMENT INCOME

Priority 1: Simplify the pension system

Australia has never been one to rest on its laurels.

While our retirement income system is recognised as being a good one, all experts acknowledge it is complicated and could be improved.

The last thing older people need is a system that is complicated and punitive. Yet, our byzantine means testing arrangements do just that.

Older Australians with limited retirement savings shouldn't be punished if they want to work. To fix this we need to exempt employment income from the pension means test.

This policy would provide tens, if not hundreds, of thousands of more local workers to meet labour shortages, giving us a stronger economy.

The system could be made simpler, by introducing a universal pension.

The first step in doing this is to investigate how a universal pension could work to demonstrate the costs and benefits of this critical reform.

Key Recommendations
1. Exempt employment income from the Age Pension means test to boost workforce participation and help meet the nation's critical labour shortages.
2. Investigate the costs and benefits of a universal pension in Australia.

RECOMMENDATION 1

Exempt employment income from the Age Pension means test to boost workforce participation and help meet the nation's critical labour shortages

Overview

- Allow pensioners with limited wealth to work without penalty by exempting employment income from the Age Pension income test.
- The exemption could be targeted by using the assets test to limit eligibility.
- The policy could be applied to the whole economy or targeted at sectors with critical labour shortages e.g. agriculture, health and aged care, mining etc.

Benefits

- Addresses critical workforce shortages by encouraging pensioners to remain in the workforce, re-join the workforce or work more hours.
- Increases income for low-wealth pensioners, especially women.
- Increases superannuation balances for low-wealth pensioners, especially women.
- Improves health and wellbeing through ongoing workforce engagement.
- Removes the need for regular reporting of employment income to Centrelink.

Why the policy is needed

- Worker shortages are acute in many areas of the economy – ABS statistics showed job vacancies of between 20-30% in many key industries in August 2021.[i]
- Current means testing policies are discouraging people from working – only 2.9% of Australian pensioners work compared with 24.8% in New Zealand.[ii]
- Deloitte Access Economics estimate a 5% increase in older worker participation will result in a $47.9bn increase to GDP ($60bn in 2022).[iii]

Budget Implications

- Given there are fewer than 76,000 pensioners currently with any employment income any change to the income test will have limited impact on the Budget.
- Given the Age Pension is counted as taxable income, any additional income earned will boost tax revenue and boost spending in the economy (among those most likely to spend).
- By encouraging workforce participation, this will increase superannuation savings and the sustainability of the pension system.

RECOMMENDATION 2
Investigate the costs and benefits of a universal pension in Australia.

Overview

- Government should commission a suitable body, such as the Productivity Commission, to analyse the costs and benefits a universal pension.
- This should include an analysis of different options e.g. partial universal pension (as per Canada) or full universal pension (as per New Zealand).
- It should include detailed analysis and costings of the tax reform options required to ensure costs are adequately balanced (e.g. Canada has a pension recovery tax, New Zealand recoups the cost through a differently designed tax system).
- A detailed report should be presented to parliament for consideration.

Benefits (of a universal pension)

- Eliminates complicated means testing, including deeming and taper rates, which complicate retirement.
- Rewards people for working and saving more for retirement.
- Removes the incentive to overinvest in housing and the disincentive to downsize.
- Removes the need to engage with Centrelink, including constant reporting of investments and income.
- Dramatically reduces administrative costs associated with Centrelink.
- Provides retirees with a year-to-year safety net as protection against market fluctuations – this would result in confidence to spend.
- Would provide an opportunity to reform the tax system

Why the policy is needed

- Older Australians are frustrated with the complexity of pension rules, which makes retirement planning difficult, encourages perverse behaviour and resentment towards government.
- Means testing duplicates administration and bureaucracy within Centrelink that could be more efficiently dealt with through the ATO.
- Current means testing policies discourage people from working – only 2.9% of Australian pensioners work compared with 24.8% in New Zealand.

Budget implications

- Budget costs would be similar to previous Productivity Commission reports.

Priority 2: Fix Pension Poverty

1.5 million people rely on the pension as their sole source of income.

One in three live in poverty.

Older renters are particularly hard hit. More than a quarter of a million pensioners don't own their own home.

On average, a pensioner receives only a third of what is needed to pay the rent.

Single older women are also more likely to be living in poverty.

They often have less savings and superannuation because they were out of the paid workforce looking after children and family.

That's why National Seniors Australia is fighting for an independent tribunal to set the rate of the pension and other related payments, to take the politics out of the pension.

It is also why we are calling for an increase in Commonwealth Rent Assistance for those experiencing poverty.

Key Recommendations
3. Establish an Independent Pension Tribunal
4. Increase the maximum rate of the Commonwealth Rent Assistance (CRA)

RECOMMENDATION 3

Establish an Independent Pension Tribunal

Overview

- Government should establish an Independent Pension Tribunal to set the rate of the Age Pension and other associated payments.
- The Tribunal would take responsibility for calculating a fair and adequate rate based on need and circumstance.
- The Tribunal could be established similar to the existing Remuneration Tribunal. It would be made up of a panel of three members, supported by dedicated staff from the Australian Public Service Commission.
- Its decisions would be accepted by Parliament in the same way monetary policy is set by the Reserve Bank.
- The Tribunal would hand down its determination every November to provide enough time to be accounted for in the May Budget.

Benefits

- An Independent Pension Tribunal would help restore faith in government by taking the politics out of the pension setting process.
- The Tribunal would have scope to set variable rates, which reflect differences in circumstances ensuring an adequate safety net was provided.

Why the policy is needed

- The base rate of the Age Pension is too low – A third of the 1.5 million people who live solely on the Age Pension, live at or below the poverty line.
- Older Australians are living in poverty because payments do not adequately address specific circumstances, such as disproportionately rising rental costs.
- Confidence in government is low – the pension is regularly targeted for Budget savings with arguments about the cost of the pension used to justify cuts.
- Younger taxpayers are being told by government they are bearing an increasing burden to fund the pension, stoking unnecessary intergenerational conflict.

Budget implications

- The cost of the Independent Pension Tribunal would be met by additional resourcing to the Australian Public Service Commission under Program 1.1.
- The implications for the Budget arising from the Tribunal's determinations would be costed annually.

RECOMMENDATION 4

Increase the maximum rate of the Commonwealth Rent Assistance (CRA)

Overview

- Government should increase the maximum rate of Commonwealth Rent Assistance (CRA) to ensure it adequately meets private market costs
- An additional supplement could be provided for seniors requiring accessible housing when they live in housing certified as meeting higher accessibility standards.
  - This would recognise the additional costs of providing accessible design features and stimulate construction of accessible dwellings within the private rental market.
  - Those eligible but unable to secure accessible housing could have a private rental retrofitted with accessible design features if a long-term lease existed.

Benefits

- Increasing CRA is a simple and effective way to address the housing problem facing older renters.
- It will help older people maintain their housing.

Why the policy is needed

- Home ownership is the single most important determinant of the wellbeing for people on the Age Pension.
- A lack of affordable public and social housing leave many reliant on the private rental market.
  - Over 325,000 people aged 65 and over are renters, two-thirds of which rely on the private market.[iv]
  - According to the Retirement Income Review, older renters are most likely to experience poverty.[v]
  - Older renters often do not have significant wealth or income and rely on the Age Pension – 300,000 CRA recipients receive the Age Pension.[vi]

Budget Implications

- An increase in the maximum rate of CRA of an average of $10 per week to all pensioners currently receiving CRA would cost around $154m per year.
- Ideally, any increase could be targeted at full pensioners to reduce the overall cost.
- Ultimately, the maximum rate of CRA should be set by an Independent Pension Tribunal.

HEALTH AND AGED CARE

Priority 3: Mobilising the workforce

Older people prefer to stay at home, with a mix of informal (family) and formal (paid) support.

Recognising this preference should be a priority.

It's not just about increasing the number of home care packages, it's also about having an adequate supply of workers to meet demand.

That is why National Seniors Australia is recommending a national mature age traineeship program to attract quality mature age home care workers.

There is an urgent need for frontline workers in both the health and aged care sectors as a result of the pandemic.

That is why National Seniors Australia is advocating for changes to the income tests for both pensioners and workers aged 60+ in health and aged care to help meet workforce needs.

Key Recommendations
5. Provide 2,000 mature age home care traineeships per year to help meet demand
6. Change Age Pension and JobKeeper income tests for health and aged care workers aged 60+.

RECOMMENDATION 5

Provide 2,000 mature age home care traineeships per year to help meet demand

Overview

- Create a targeted home care traineeship program for mature workers aged 50+ to meet the cost of training.
- The program would be based on the successful South Australian pilot traineeship scheme, which links older workers with a home care provider.[vii]

Benefits

- Meets the growing shortfall for home care workers.
- Encourages people to work in home care.
- Provides greater income and superannuation for older people, particularly women.
- Provides care recipients with access to mature and sympathetic workers – as is their preference.

Why the program is needed

- Evidence from the existing pilot (run by provider My Care Solution) shows home care recipients and home care providers prefer mature aged workers.

"At My Care Solution, more than 85 per cent of our workforce is aged 45 or older. They are committed, reliable, eager to learn, and most importantly, they are compatible with our elderly clients."

Mark McBriarty, My Care Solution

- Demand for care workers is growing rapidly – CEDA estimates a shortfall of 400,000 workers by 2050.[viii]
- Mature aged workers are in demand in home care – The average worker age in community care is 50.[ix]
- Mature aged workers are not being adequately serviced by existing training programs – The existing Restart program is a failure with limited take-up of its $10,000 subsidies.
- There's a large number of older people who are not counted in the unemployment figures but want to work – According to the ABS in 2018-19, there were 233,000 people aged 50 - 69 who were not unemployed but want to work either full or part time (they are not in the labour force, not retired and not currently employed).
- The ratio of workers to retirees is declining – The old age dependency ratio (of working-age people to those over 65) is projected to fall from 4:1 in 2019-20 to 2.7:1 in 2060-61.

Budget Implications

- The cost of the South Australian pilot was $10,000 per trainee for training, uniforms, police clearances, tech support and non-accredited training i.e. orientation – This could be met by redirecting funds from the existing *Restart* program (funded at $108.8m in 2017-18).
  - 2,000 traineeships would cost $20 million per year or $80 million over the forward estimates for 8,000 new home care workers.

RECOMMENDATION 6

Change Age Pension and JobKeeper income tests for health and aged care workers aged 60+

Overview

- This policy encourages people aged 60+ to work more hours in health and aged care by:
  - exempting employment income from the Age Pension income test for low-wealth pensioners.
  - increasing the income test income free area for JobSeeker recipients aged 60+.
- Eligibility would be granted to pension recipients with limited savings under the assets test.

Benefits

- Addresses critical workforce shortages by encouraging older Australians to remain in the workforce and/or work more hours.
- Raises the income of low-wealth pensioners, especially women.
- Boosts superannuation balances for low-wealth retirees, particularly women.
- Improves health and wellbeing through ongoing workforce engagement.
- Cuts red tape, removing the need for regular reporting to Centrelink.

Why the policy is needed

- Worker shortages are acute in most areas of the economy, but particularly in health and aged care – CEDA estimates a shortfall of 400,000 aged care workers by 2050 and it has been estimated there will be a shortage of between 40,000 and 85,000 nurses by 2025.[xi]
- Current means testing policies discourage pensioners from working – only 2.9% of Australian pensioners work compared to 24.8% in New Zealand.[xii]
- Superannuation balances decline after the age of 60 undermining savings and income – Access to superannuation is used to pay off debt, mostly associated with the family home and corresponds with retirement and labour market exit.[xiii]

Budget Implications

- Restricting the exemption (Age Pension) or threshold increase (JobSeeker) to those with limited assets will ensure only those most in need will benefit.

Priority 4: A home, not an aged care home

Most Australians (92%) want to remain in their own home as the age.[xiv]

However, there are many challenges remaining at home, especially when physical or cognitive impairment becomes an issue. The family home may also become unsuitable if it requires upkeep, maintenance or modification.

Older Australians might consider downsizing if alternatives were available. However, one of the biggest barriers is fear this will impact a person's pension.

Unless this is addressed, pensioners will remain trapped in unsuitable housing, putting them at higher risk of injury and premature entry into residential care.

Those who don't own their own home have another problem. They rely on private rentals or community housing, both of which are in short supply.

Boosting the supply of dedicated rental housing for older people would improve their lives.

Key Recommendations
7. Allow people on the cusp of entering residential care the option of downsizing to a smaller, age friendly home by exempting excess sale proceeds from the assets test.
8. Create a capital grants scheme for the construction of rental housing for older people.

National Seniors AUSTRALIA

RECOMMENDATION 7

Allow people on the cusp of entering residential care the option of downsizing to a smaller, age friendly home by exempting excess sale proceeds from the assets test.

Overview

- Older people should be granted an exemption from the assets test for excess sale proceeds to encourage them to downsize into more suitable housing. This will:
  - ensure the delivery of care and support is easier, and
  - keep people out of residential care for as long as practical.
- Eligibility would be restricted to people who were aged 80 and over, were eligible for a Home Care Package and had owned their home for more than 10 years.
- Those choosing to downsize could place excess funds into superannuation using the Downsizing into superannuation scheme and would then be able to purchase additional care and support.

Benefits

- Reduces the risk of prematurely entering residential care.
- Reduces the overall cost of care to government and the individual.
- Removes the financial disincentive to downsizing.
- Increases the use of the superannuation downsizing scheme.
- Stimulates demand for seniors friendly, accessible housing.
- Frees up housing stock, taking pressure off the housing market.
- Boosts spending, creating jobs and economic development.

Why the program is needed

- A proportion of older Australians live in larger homes that have become unsuitable as they get older – almost 50% of households receiving a pension or government allowance had two or more bedrooms spare.[xv]
- Older people can lower their risk of entry into care where care is provided – a recent study showed every hour of service received per week was associated with a 6% lower risk of entry into residential care.[xvi]

Budget implications

- Many older people don’t consider downsizing in later life and often continue living in their homes, receiving the same level of pension as they would if they were granted an exemption. As such, providing an exemption late in life would have limited budget impact.
- An exemption would be consistent with residential care where a two-year exemption from the assets test already exists.
- The economy would benefit from increased spending. The residential construction industry for age-friendly housing would get a boost and older people would have more money to spend on care and support.

RECOMMENDATION 8

Create a capital grants scheme for the construction of rental housing suitable for older people

Overview

- Capital grants should be available to projects offering a simple rental agreement, with longer lease options and accessible housing design.
- The scheme should provide seed funding, which can be used to attract private capital for the development of rental housing projects.
- Housing should meet universal housing design standards to accommodate residents with physical or cognitive impairments, including dementia.
- Projects should be optimised to support the efficient delivery of home care.
- An example of a simple rental style development is the Warner Close retirement village located in Murray Bridge a joint venture between the local council and a home care povider.

Benefits

- Improves the delivery of care and support to low-income older Australians.
- Provides an alternative to unstable and expensive private rental housing.
- Reduces the risk of entry into highly subsidised residential care, minimising Budget costs.
- Stimulates housing construction and more specifically construction of seniors friendly housing.

Why the policy is needed

- Around 325,000 people aged 65 and over are renters, two-thirds rely on the private market.[xvii]
  - According to the Retirement Income Review, older renters are most likely to experience poverty.[xviii]
  - Older renters often do not have significant wealth or income and rely on the Age Pension – 300,000 CRA recipients receive the Age Pension.[xix]
  - Private rentals often don't incorporate universal design principles, placing older renters at risk of falls, hospitalisation and then premature entry into residential care.
  - Providing care and assistance to older renters can be difficult and costly and leave renters isolated with little social and emotional support.

Budget implications

- A seeding fund of $300m could be provided initially for projects in priority locations where there is a high need for rental stock for older seniors.

Priority 5: Funding aged care

The Royal Commission into Aged Care Quality and Safety handed down a blueprint for reform, which requires significant funding.

The time has come for all sides of politics to fix this problem.

All sides of politics must come together to ensure the fairest and most efficient funding option is chosen.

Older people should also be able to fund *additional* care (over and above what government provides) to help them remain safely at home.

Allowing older people to safely and cheaply unlock home equity to "top up" their care should be made available.

This will give older people a better life and reduce the risk of premature entry into residential care. Saving the individual and government in the long run.

Key Recommendations
9. All parties should commit to investigating the fairest and most efficient way to fund aged care reforms and agree 'in-principle' to support these reforms.
10. Create a dedicated Home Care Loans Scheme to fund additional care and support.

RECOMMENDATION 9

All parties should commit to investigating the fairest and most efficient way to fund aged care reforms and agree 'in-principle' to support these reforms.

Overview

- An independent analysis of aged care funding options should be undertaken during the next term of parliament.
  - This analysis could be performed by the Productivity Commission and put before an expert review panel and a multi-party parliamentary committee.
  - Each party should make an "in principle" commitment to support the recommendations made by the independent panel.
  - Independent analysis should establish the most fair and efficient way to raise the additional funds required to fund aged care reforms.
  - It may involve a single funding mechanism, such as a levy, an increase to GST or changes to other taxes, or may involve a combination of these based on their capacity to deliver fairness and efficiency.

Benefits

- Multi-partisan support for the changes needed will ensure funding reform is not derailed by politics.

Why the policy is needed

- Reforming aged care requires significant new investment – Additional funding of between $7bn and $15bn per year will be required.[xx]
- The Federal Government will have to either raise new revenue or redirect funds from other spending areas – This will require difficult and unpopular decisions.
- Multi-partisan support is needed to remove political risk.

Budget implications

- The costs of analysing the most fairest and most efficient funding option would be similar to previous Productivity Commission investigations.
- A community education campaign would be required to explain the changes.

RECOMMENDATION 10

Create a dedicated Home Care Loans Scheme to fund additional care and support.

Overview

- Develop a dedicated Home Care Loans Scheme (based on the existing Home Equity Access Scheme) with a reduced (cost recovery) rate of interest.
  - The scheme would allow older people to pay for additional support and care at home or to pay for home modifications
  - Eligibility for the scheme will be limited to those approved for a higher-level Home Care Package.

Benefits

- Increases the funds available to home care recipients to live a better and safer life in their own home.
- Reduces the risk hospitalisation and premature entry into residential care.
- Decreases reliance on more expensive residential care – both the government and borrower would be better off financially.
- Creates economic stimulus from the release of equity – boosting employment and spending on care, services and ageing related products.
- A targeted scheme would reduce financial risks to participants and government.

Why the policy is needed

- Older Australians have a strong preference to stay in their own home as they get older and a strong aversion to residential aged care.
- Thousands of older people are forced into residential care annually because of a lack of home care packages or income to pay for care and support – In 2019, 19,000 went into residential care unnecessarily and an estimated 20% of residents don't need to be in residential care.[xxi]
- Older people can lower their risk of entry into care where care is provided – A recent study showed every hour of service received per week was associated with a 6% lower risk of entry into residential care[xxii]
- Take up of equity release is more likely in times of crisis or need – A recent National Seniors poll showed 35% would consider a government equity scheme to provide a higher income in retirement, but a separate poll showed 59% would consider a dedicated home care scheme (with a reduced interest rate).[xxiii]

Budget implications

- Setting a cost-recovery interest rate will mean the scheme is budget neutral.
- By targeting the scheme at those approved for higher level home care packages, participants will hold shorter term and smaller loans.
- Reducing the reliance on residential care will have positive budget implications (residential care is far more costly than home care).

LEGACY

Priority 6: Investing in future generations

Older Australians care deeply about the future and want to leave a better world.

National Seniors surveys consistently show older people are concerned for the welfare of the planet and the younger generations who will inherit it.

Our surveys show most older people (85%) accept climate change is occurring, with a majority wanting government action to meet emissions targets, even if this comes at a cost.[xxiv]

Seniors are not only concerned about environmental issues but also social issues.

Our research has shown older Australians are deeply concerned about the current state of the housing market. They worry younger people are finding it difficult to buy a home.[xxv]

National Seniors takes these challenges seriously and wants to help older Australians use their resources to deliver a better future.

Our focus is on promoting practical opportunities to tackle the pressing issues of today and create a better tomorrow. We want government to mobilise the wealth of older Australians to address climate change and the challenges facing younger people by issuing Clean Energy Bonds and by lifting pension gifting limits.

Key Recommendations
11. Allow older Australians to invest in renewable energy infrastructure by issuing Clean Energy Bonds.
12. Increase pension gifting limits to help the younger generation.

RECOMMENDATION 11

Allow older Australians to invest in renewable energy infrastructure by issuing Clean Energy Bonds.

Overview

- Clean Energy Bonds (CEBs) will give older Australians (pensioners and self-funded retirees) an opportunity to safely invest in large-scale renewable energy projects to meet our 2050 Net Zero emissions target.
  - CEBs would be guaranteed like bank deposits.
  - Funds would be invested in a sustainability fund (e.g. within the Future Fund), with dividends paid to the federal government to fund renewable energy projects and pay returns to investors.
  - Retirees would receive returns as fortnightly payments through Centrelink.
  - Returns would be fixed but vary depending on the term of the investment.

Benefits

- Provides a way for older people to use their wealth to meet emissions targets.
- Provides retirees with access to a safe savings option.
- Creates a simple way for retirees to invest (e.g. via Australia Post or other).
- Provides retirees with liquidity for unexpected costs (e.g. health and ageing).
- Boosts construction of renewable energy infrastructure.
- Creates jobs and economic development, particularly in regional Australia.
- Stabilises energy supply and reduces electricity prices (a major concern for all Australians).

Why the policy is needed

- Older people believe climate change is occurring and want action - 85% of older people believe climate change is occurring (2021); Two thirds of these people want action – even if it comes at a cost.[xxvi]
- To meet the Net Zero emissions target by 2050 Australia will need significant investment in new clean energy infrastructure - The International Energy Agency (IEA) has estimated that global annual energy investment to reach Net Zero by 2050 will be 5 trillion (USD) by 2030 alone.[xxvii]
- Older Australians already have an appetite for investing in renewable energy - according to our own research 60.7% of older Australians have already invested in one or more renewable energy products or projects.[xxviii]
- Inefficient roof-top solar receives an advantage over large-scale projects – this is because the family home, and solar panels, are exempt from the pension assets test.
- Retirees want a modest return from a safe, simple investment – $160 billion is invested in term deposits, most will be older Australians' money.[xxix]

Budget implications

- Clean Energy Bonds are designed to be cost neutral. By pooling investment through the Future Fund, government will be able to deliver modest returns to older investors while also generating capital to invest in large-scale projects, such as Snowy Hydro 2.0.

RECOMMENDATION 12

Increase pension gifting limits to help the younger generation.

Overview

- Raising Age Pension gifting limits will encourage older Australians to contribute financially to younger generations – especially those struggling to get into the housing market.
- The gifting limit should be increased to reflect inflation and indexed annually.
- Based on average inflation, the gifting limit in 2022 should be increased from $10,000 to $16,000.

Benefits

- Provides an incentive for part-pensioners to assist the younger generation with the costs of purchasing a home, health costs, education costs and other costs.

Why the policy is needed

- Under social security law, gifting is defined as the act of giving away income or assets; or selling something for less than the value it is worth.
- Under gifting rules, income or assets given away may still count towards the income and assets tests - The limit someone can gift without it running afoul of gifting rules is $10,000 per financial year.
- The gifting limit of $10,000 was set in July 2002. Yet housing prices have risen on average 8.6% per annum from 2002 to 2020 and inflation has increased on average by 2.7% per annum.[xxx]
- While assets test thresholds are indexed in line with inflation each year (in July) gifting limits haven't changed at all.
  - Based on average inflation, the gifting limit in 2022 should be more than $16,000.

Budget implications

- There are 384,000 part-pensioners who could receive a pension increase from gifting additional money. If all part-pensioners gifted $6,000 more the cost to the Budget would be appox. $200 million per year.
  - However, it is highly unlikely that a change in gifting rules would result in all part-pensioners choosing (or being able) to gift an additional $6,000 per year.
  - If 10,000 single pensioners gifted $6,000 the cost to the Budget would be $8m; if 10,000 couples gifted $6,000 the cost to the Budget would be $4.7m.
- It is important to note that there is no evidence of the current extent of gifting and its impact on pension outlays. A recent National Seniors poll (n=1410) showed that 87% have already, or would, consider gifting money to purchase a first home.[xxxi]

Endnotes

i https://www.abs.gov.au/statistics/labour/employment-and-unemployment/job-vacancies-australia/latest-release#businesses-reporting-vacancies

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