



Superannuated
Commonwealth
Officers'
Association
(Federal Council) Inc.

FEDERAL OFFICE

PO Box 107
Mawson ACT 2607
Phone 02 6287 7999
Email info@scoa.asn.au
ABN 66 313 469 900

30 May 2016

Senator Nick Xenophon
Level 2/31 Ebenezer Place
ADELAIDE SA 5000

Dear Senator Nick Xenophon

The taper rate for the age pension assets test

The taper rate for the age pension assets test is due to increase from \$1.5 per \$1,000 of assets to \$3 per \$1,000 from 1 January 2017. It will unfairly penalise middle-income earners who have saved to provide for themselves in their old age, particularly rural people such as elderly farmers with small farms unable to find buyers for their drought-affected properties.

The change to the taper rate has already encouraged some people to spend up on home improvements and overseas holidays, as evidenced by the amazing increase in expenditure on overseas holidays in 2015 (to \$49.59 billion, up from \$46.3 billion in 2013 and \$46.42 billion in 2014, an increase of 6.8% in the past year, compared to an increase of only 0.3% from 2013 to 2014).

The increase in the taper rate will also be a disincentive for future saving. People will be tempted to save just enough to be able to receive a part-age pension. In the longer term, that will lead to increased reliance on the age pension as they draw down their capital, and will lead to the need for greater expenditure on the age pension.

In the short term, the repeal of the taper rate legislation would accomplish little, because by now most of the damage would have already been done. People have already had eleven months to rearrange their affairs, and no doubt many have already spent enough of their capital to keep at least some of their part-age pension. However, it would be highly desirable to revisit this issue after the election.

The legislation to change the assets test was passed in haste, using modelling which assumed a much more favourable investment climate than exists at present, and using life expectancy estimates rather lower than those used in the government's intergenerational report.

In view of the present very low and decreasing interest rates, coupled with the present volatility in the stock market and the present low rates of return on many forms of investment, it would be sensible to repeat the modelling exercise with a view to determining a more realistic taper rate and a more believable estimate of the likely long-term cost of applying it.

Thank you for your consideration of this issue.

Yours sincerely

A handwritten signature in cursive script that reads "A. J. Barbetti". The signature is written in black ink and is positioned below the text "Yours sincerely".

Dr Annette Barbetti
FEDERAL PRESIDENT