Superannuated
Commonwealth
Officers'
Association
(Federal Council) Inc.

FEDERAL OFFICE

PO Box 107
Mawson ACT 2607
Phone 02 6286 7977
Email info@scoa.asn.au
ABN 66 313 469 900

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The Hon Scott Morrison MP
Federal Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

Age Pension Income Test Deeming Rates

I write to ask that the government give consideration to lowering the current unrealistically high Age Pension income test deeming rates.

It is totally inequitable to maintain the higher of the deeming rates at its current level of around 2% above the official interest rates obtainable from most leading financial institutions. The income test deeming rates were last changed on 20 March 2015.

Before then, they had been adjusted in line with changes to the Reserve Bank cash rate, but since March 2015 they have been left unchanged, even though the Reserve Bank has lowered the cash rate more than once and the banks have also lowered interest rates on deeming accounts and fixed deposits. SCOA believes that the present Age Pension income test deeming rates should be lowered to bring them into line with the sort of return that an Age Pensioner would reasonably expect to achieve by prudent investment.

On 2 August 2016, the Reserve Bank cash rate was lowered to 1.50%. On 10 August 2016, the Australian Government 10-year bond rate was 1.87%, one of the lowest rates it has ever offered. On accounts for retired people age over 55, the major banks are offering interest rates of around 1.50% for amounts greater than $2,000 and less than about $40,000. However, as of 1 July 2016, the deeming rate for a single person with assets of less than $49,200 was 1.75%.

For amounts over $40,000 or so, banks offer interest rates of 2.50% or 2.75%, whereas the deeming rate for a single person with assets above $49,200 is 3.25%. Whereas it is possible to get a bank interest rate of over 3% for a short period of three months or so as an introductory offer, or with a short term fixed deposit, that would require pensioners to spend a considerable amount of time doing research and/or seeing financial advisors. Many older people would not be able to do that, due to lack of Internet access and/or mobility problems.

While in theory pensioners may be able to find other higher yielding forms of investment, such as shares or property, they usually prefer to keep their modest savings in forms of investment that are capital stable and able to be easily converted to cash if needed (e.g. to provide a deposit to enter a nursing home).

Furthermore, many people think that investment in shares would be too risky at present, and with rents being low compared to property prices, even landlords with unencumbered properties would consider themselves fortunate to obtain a return of 2.5% after rates, taxes and depreciation. Bond rates are too low to attract retail investors.

Therefore SCOA recommends that the deeming rates should be set to 0.25% less than the Reserve Bank cash rate below the appropriate threshold ($49,200 for a single person or $81,600 for a couple) and 1% more than the Reserve Bank cash rate for amounts above those thresholds.

If you would like to discuss any of the issues raised in this letter, please contact the SCOA Federal Office on (02) 6286 7977.

Thank you for your consideration.

Yours sincerely

A. J. Barbetti

(Dr) Annette Barbetti
FEDERAL PRESIDENT

Cc The Hon Christian Porter MP
Minister for Social Services

The Hon Alan Tudge MP
Minister for Human Services