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# **Stripping unnecessary complexity from the retirement process**

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# Abstract

This paper examines how complexity in the processes followed in retirement can be reduced without significantly compromising equity or fiscal sustainability. The processes involve navigating tax, age pension and home and aged care benefits and means tests. It argues that the current system imposes unnecessary administrative and behavioural burdens on retirees, advisers, industry and government agencies. Telephone waiting times on calls to Centrelink can be over an hour on most days.

Reform cannot be considered without addressing the egregious inequities in the treatment of renters against homeowners; the impact of the asset test that penalises saving; effective marginal tax rates of over 100% for age pensioners still working and the 100,000 people on waiting lists for home care packages.

The paper proposes a series of reforms guided by principles of simplicity, materiality, and lifecycle equity. Key recommendations include integrating income and asset tests through a unified framework, abolishing seventeen minor concessions and allowances, harmonising tax and welfare systems and home and aged care settings. A more radical alternative—abolishing both means testing and superannuation tax concessions—is also considered, drawing on international comparisons such as New Zealand. While acknowledging transitional and political challenges,

The paper concludes that meaningful simplification is both feasible and necessary to improve efficiency, fairness, and decision-making in retirement.

## 1 Introduction

This paper explores how complexity and unfairness in the welfare and tax treatment of older Australians might be reduced. It arises out of research into the obstacles facing a more active lifetime annuity market<sup>1</sup>. The research identified complexity as a significant distraction to the provision of complete retirement advice and development of new products.

The current Australian retirement system rests on two main pillars: the means tested Aged Pension (AP) and compulsory superannuation. Different writers include two other pillars: earned income and personal saving outside of superannuation. One can also mention other pillars: subsidies to home support and residential care and health care subsidies, which are much greater in old age.

Members face decisions on when to retire, where to invest and how much to consume. This is complex enough without the addition of unnecessary complexity in the tax and means test rules. Coyle<sup>2</sup> reports on a survey of 4,500 seniors that 88% found were dissatisfied with the Age Pension experience, with 82% requiring assistance. LINK group<sup>3</sup> research finds that advice on Age Pension entitlements is the first item mentioned by over half their respondents. The same research finds that 32% of pensioners delay applying for the Age Pension in the year they qualify – 50% for three years or more.

The Australian government has been looking to provide additional support to members navigating the complexity<sup>4</sup>, and there is a general interest in reducing complexity. One of the questions posed in a

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<sup>1</sup> The author acknowledges with thanks the support of the Orford Foundation for this research.

<sup>2</sup> Coyle, J. (2020) Study confirms Age Pension ‘a nightmare’ for older Australians. Retirement Essentials. <https://retirementessentials.com.au/news/media/study-confirms-age-pension-a-nightmare-for-older-australians/>

<sup>3</sup> LINK group (2022). Retirement Reality: Advice and the Age Pension. [https://www.mpms.mufg.com/media/24pljwi0/mufg\\_rs\\_advice\\_whitepaper.pdf](https://www.mpms.mufg.com/media/24pljwi0/mufg_rs_advice_whitepaper.pdf)

<sup>4</sup> For ongoing attempts to make financial advice more accessible see Vickovich, A. and Hoyle, S., 2024. Financial Advice Reform a Thorn in Retirement’s Side. *Retirement Magazine* 1, 26 -29. For the Treasury’s current attempts to get superannuation funds to provide help see “Guidance on best practice principles for superannuation retirement income solutions - Consultation paper. [https://storage.googleapis.com/files-au-treasury/treasury/p/prj36e5266f6b72d45c934bb/page/c2025\\_685228\\_cp.pdf](https://storage.googleapis.com/files-au-treasury/treasury/p/prj36e5266f6b72d45c934bb/page/c2025_685228_cp.pdf)

recent Treasury<sup>5</sup> discussion paper is how superannuation regulations might be simplified. Of the regulatory agencies, ASIC seems most active with its multi-year program to simplify of its financial services regulations<sup>6</sup>. Increasing regulatory complexity is recognised as a burden on society, but most commentators focus on legislative redrafting to improve clarity rather than considering whether a case can be made for specific details<sup>7</sup>.

There seems, however, to be little appetite to simplify the welfare and tax rules that this paper identifies as unnecessarily complex – provisions that are of not really material nor justify the administrative burden they entail. One exception is Phillip’s<sup>8</sup> proposal to abolish the Medicare Levy, the Low-Income Tax Offset, Family Income Tax Benefit B and the 60% taper rate for Jobseeker and Youth Allowance. He shows that these changes are fiscally neutral and have a barely perceptible impact on effective marginal tax rates (EMTR). This paper extends these suggestions into the retirement phase.

## 2 Principles

The tax and means test rules should provide for the interests, particularly the needs, of different cohorts in this and subsequent generations. One aspect is fiscal sustainability to ensure that government deficits are managed and do not burden future generations with excessive debt. Equity and efficiency should be balanced, but the current rules often suffer on both accounts.

### 2.1 Grasping the burden of complexity

There is widespread concern at the growing complexity of regulation. The Australian Institute of Company Directors has recently described the regulatory burden as a “self-sabotaging drag on productivity and growth”, suggesting that it costs 6% of GDP<sup>9</sup>. In a 2022 count of the words in twenty more lengthy Commonwealth acts<sup>10</sup>, the Social Security Act 1991 (SSA) came in third with over 500,000 words, behind the Corporations Act 2021 with close on a million, and the income tax acts at 1.6m. As a relative measure, Tolstoy’s *War and Peace* is 560,000 words. The Aged Care Act 1997 (ACA) was only 90,000 words in 2022, but the latest changes have pushed it up over 140,000 with another 210,000 in the Age Care Act Rules (ACAR) – and more in the SSA, which is referenced by both. Merely navigating these is extraordinarily difficult. To illustrate, the official register of legislation<sup>11</sup>, provides a pyramid structure to link the chapters, parts, divisions and sections. Cross references, however, can be to any of these, and there is no way to find the relevant division or section without trial and error. Interpreting can be excruciating. The definitions of income and assets for the means tests for the ACA are found in sections 8 and the following sixteen sections of the SSA. Together they have over 1,000 numbered paragraphs, with numerous notes and cross sections – and still often require departmental discretion.

This complexity must play a significant role in the failures identified by the Australian National Audit Office of the AP<sup>12</sup>. It found that the oversight of the system, its administration, its claims assessment process and its communication and engagement were only “partly effective”:

*Between 2021–22 and 2023–24, process deficiencies led to an estimated \$5 billion in incorrect payments ... For the same period, complex procedures and limited staffing resulted in seniors waiting an average of 48 days for claims to be processed. Maximum wait times for phone calls to be answered exceeded one hour in 435 days or 57.3 per cent of total days during the period.*

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<sup>5</sup> The Treasury (2023) Retirement phase of superannuation: Discussion paper.

<sup>6</sup> REP 813 *Regulatory Simplification* <https://download.asic.gov.au/media/cz1fc0hi/rep813-published-3-september-2025.pdf>

<sup>7</sup> <https://www.auspublaw.org/blog/2022/11/legislative-complexity-what-is-it-how-do-we-measure-it-and-why-does-it-matter>

<sup>8</sup> <https://policybrief.anu.edu.au/a-simpler-personal-income-tax-for-australia/>

<sup>9</sup> <https://www.aicd.com.au/news-media/media-releases/2025/160bn-and-counting-resetting-the-regulatory-balance.html>

<sup>10</sup> <https://www.auspublaw.org/blog/2022/11/legislative-complexity-what-is-it-how-do-we-measure-it-and-why-does-it-matter>

<sup>11</sup> <https://www.legislation.gov.au>

<sup>12</sup> [https://www.anao.gov.au/sites/default/files/2026-01/Auditor-General\\_Report\\_2025-26\\_20.pdf](https://www.anao.gov.au/sites/default/files/2026-01/Auditor-General_Report_2025-26_20.pdf)

\$5 billion is less than 3% of payments made over the period, but this author would find it surprising if there were not also significant interpretation errors, as illustrated by the robo-debt errors<sup>13</sup>. It also suggests that other mistakes are being made – in the creation and interpretation of the rules.

## 2.2 Perspective

It is important to retain a holistic perspective that identifies what is material over all five pillars and the whole financial lifecycle.

1. There is a need to balance revenue raising, equity within and between generations and support for the needy, but it should be seen over the whole lifetime. Specific provisions may seem unfair in isolation but are fair if there is compensation elsewhere in the system for the same people. The system also needs to balance consumption earlier and later in the lifecycle. If it errs, it should allow more consumption earlier in life because people can always delay consumption, but not always to advance it because of liquidity constraints.
2. There are many small tweaks that add to complexity, are frequently immaterial when calculated over a lifetime, and are especially unfair if only those in-the-know access the benefits. They seem to arise because governments want to be seen as “doing something”; aptly described as “rituals of comfort<sup>14</sup>”.
3. The relationship between financial resources and subjective wellbeing is only a rough approximation. Welfare benefits cannot be precisely targeted.
  - a. Carver and Grimes<sup>15</sup> find that measures of consumption (rather than income) are more closely linked to subjective wellbeing, and that even then they only explain 30% of differences between people.
  - b. Bradbury surveys a number of alternative approaches to determine the ratio of single to couple income that equalises living standards and finds justifiable ratios that vary between 0.66 and 0.8. This suggests that measurement errors may well exceed 10% of the amounts calculated, which provides a yardstick for measuring materiality.

## 2.3 Simplicity

Regulatory simplicity involves fewer rules, fewer interactions between rules, a stronger logical structure, and less ambiguity.<sup>16</sup>

The cost benefit analysis for each rule requires consideration of the burden of compliance, which is shared by regulators, industry and individuals. Regulators and providers, being better equipped and less numerous, should bear the brunt of the costs of compliance.

Computerization has changed the nature of simplicity in some respects.

- Calculations can be instantaneous so there is no benefit in simplifying tables such as superannuation minimum drawdowns. One rate for each age would remove the discontinuities evident in figure 1a in section 4 below.
- The cost of structural changes has escalated considerably. Manual systems can be updated within days; computer systems can take years. Changes to parameters are easy because automatic systems can easily refer to the most recent tables. It would, for instance, be preferable to use a different inflation rate to allow for higher energy prices than to add a new energy allowance.

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<sup>13</sup> <https://theconversation.com/why-robodebts-use-of-income-averaging-lacked-basic-common-sense-201296>

<sup>14</sup> See Braithwaite, J., 2008. *Regulatory Capitalism: How it works, ideas for making it work better*. Edward Elgar Publishing.

<sup>15</sup> Carver, T. and Grimes, A., 2019. Income or consumption: Which better predicts subjective well-being? *Review of Income and Wealth*, 65, pp.S256-S280.

<sup>16</sup> Driesen, D.M., 2015. Complexity and simplicity in law: A review essay (of Cass R. Sunstein, *Simpler: The Future of Government* (2013)). *Environmental Law*, 45, p.181-206.

## 2.4 Injustices

The current settings contain four significant injustices in addressing needs. One cannot – in all conscience – advocate for reform without addressing all four.

- The relative benefit of homeownership vs rental is widely recognized.<sup>17</sup> As a welfare benefit, Commonwealth Rent Assistance (CRA) is clearly inadequate to compensate non-homeowners, while the exemption of the home from the means tests is particularly generous to those with more expensive homes.
- The asset test reduces the AP by 7.8% of the value of assets in the taper zone, which is higher than a reasonable yield. The effect is that people with greater assets have less income when following minimum drawdown rules as shown in Figure 1a, which is a clear offence against logic and fairness. There is also evidence it creates a perverse incentive to over-invest in the home.<sup>18</sup>
- Pensioners who are also working can face effective marginal tax/clawback rates over 100%, which is a similar offence with perverse incentives not to work or save.
- Support at Home packages are rationed and some 100,000 people are believed to be on waiting lists<sup>19</sup>. It would be fairer to reduce the size of the benefits or increase contributions to prevent an inexplicable difference in support for those on the list and others with packages.

Addressing these injustices will incur fiscal costs and require a reduction in other benefits or an increase in taxes or debt, as suggested by Phillips<sup>20</sup>.

## 3 Reform housing settings

The inadequacy of the CRA is simple to address by increasing it.

Currently single people receive some 6% more than a couple<sup>21</sup>. This is because singles feel the inadequacy of the CRA more acutely<sup>22</sup>. It is however difficult to see how this difference can be justified – on grounds of logic or materiality. The same rate should be payable for both singles and couples.

There is another distinction with slightly greater justification. The rate of CRA for a single person sharing accommodation is a third less than other single persons, although no change is made to the rate of Age Pension. The difference is currently less than \$2,000 p.a. per person. Being less than 10% of the AP, it could be defined as immaterial. If the CRA was increased significantly, it could be seen as material. There is little evidence either way as to whether sharing has an impact on wellbeing<sup>23</sup>, and individual's financial savings from sharing are likely to be greater than the current deduction from CRA. These provide reasons for reducing the rate for singles sharing to 50% of the rate for singles and couples even if the CRA is increased. This would treat singles sharing as the same as couples.

CRA is not reduced by the means tests, which means that non-homeowners face significant cliff in income if they totally lose the AP. It is not clear whether this is widely known or not, but it is sure to surprise some of those whose circumstances appear otherwise to have improved. Adding CRA to the AP and phasing it out in the same way involves another rule but it is logically consistent and reduces the need for people to manipulate the rules to find ways of retaining a small AP and the whole CRA.

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<sup>17</sup> Retirement Income Review (2020)

<sup>18</sup> Ruthbah, U. and Pham, N., 2020. Household Savings and The Superannuation Guarantee. Monash Centre for Financial Studies

<sup>19</sup> <https://www.uts.edu.au/news/2025/09/ageing-australians-are-waiting-too-long-for-home-care-packages-heres-why>

<sup>20</sup> Phillips, B. (2024), A Fairer Tax and Welfare System for Australia (Working Paper No. ##), POLIS: The Centre for Social Policy Research, Australian National University.

<sup>21</sup> <https://www.servicesaustralia.gov.au/how-much-rent-assistance-you-can-get?context=22206>

<sup>22</sup> Rents for singles are a higher proportion of their living expenses than for couples. Renters are inadequately compensated for the rent they pay, and the loss is a higher proportion of the single than the couple pension.

<sup>23</sup> Botha, F., & Bower, M. (2024). Predictors of male loneliness across life stages: An Australian study of longitudinal data. *BMC Public Health*, 24(1), 1285.

The asset test, but not the income test, distinguishes between non-homeowners and homeowners when determining the AP. This distinction is unfair and illogical and would easily be abolished if the CRA was means tested.

The exemption of the home from the asset test does make the test simpler, but – given that house values are easily obtained – adding it is a trivial exercise. It would clearly be fairer.

- The decision to move home would be simplified and taken on its real merits rather than as a response to incentives.
- The incentives to upsize and redevelop would be reduced, conserving resources.
- Removing the penalties on downsizing is likely to lead to people downsizing earlier into more appropriate housing rather than later when they have a reduced capacity to move.
- More housing would be made available to those with greater needs.

As part of a larger package of reforms, it would seem to be desirable. The cost of increasing the CRA could be met in large measure by counting at least part of the home value in the asset test.

## 4 Abolish the asset test<sup>24</sup>

The complications and inconsistencies created by the asset test, and an alternative way of combining it with the income test are illustrated in Figures 1a to 1d. The amounts are calculated for balances from \$200,000 to \$950,000 in increments of \$150,000 and apply to single homeowners retiring at age 67. Numbers are shown after adjusting for the inflation rate used to increase the AP and the means test limits. Investment returns on the balances are assumed to be 3% larger than this inflation rate. The results are shown to age 110 to give a complete picture. The right half of the charts therefore applies to the 50% of retirees that survive beyond life expectancy at retirement, showing the inadequacy of Account Based Pensions (ABPs) to fund expenses at older ages. Those with ABPs will therefore be much less able to contribute to aged care if and when they need it—thus justifying some concessional treatment for those taking lifetime annuities.

Figure 1a shows the expenditure over a lifetime that would be funded by different starting superannuation balances if members followed the current default drawdown rules of an ABP. They are assumed to spend the amounts drawn down and their full AP, which is widely regarded as the most common strategy.<sup>25</sup> It can be seen that, in the first 8 years, those with starting balances between \$650,000 and \$800,000 would be spending less than those starting with only \$200,000. The order of spending only begins to follow starting balances in the pensioner's late eighties when the balances have been reduced to the point where all members would be receiving a sizeable proportion of the AP. It is difficult to think of any justification for the patterns that are displayed, which are due to the asset free limits and high clawback rates of the asset test. Determining a spending pattern that creates a level consumption pattern using current rules requires mathematical modelling well beyond the capability of pensioners.

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<sup>24</sup> <https://www.servicesaustralia.gov.au/assets-test-for-age-pension?context=22526>

<sup>25</sup> This is largely confirmed in an analysis of drawdowns in a longitudinal but not necessarily representative sample by Balnozan, I., Fiebig, D.G., Asher, A., Kohn, R. and Sisson, S.A., 2020. Hidden group time profiles: heterogeneous drawdown behaviours in retirement. *arXiv preprint arXiv:2009.01505*. It is consistent with the balances analysed by Polidano, C., Carter, A., Chan, M., Chigavazira, A., To, H., Holland, J., Nguyen, S., Vu, H., Wilkins, R., 2020. The ATO longitudinal information files (ALife): A new resource for retirement policy research. *Australian Economic Review*, 53(3), 429-449.

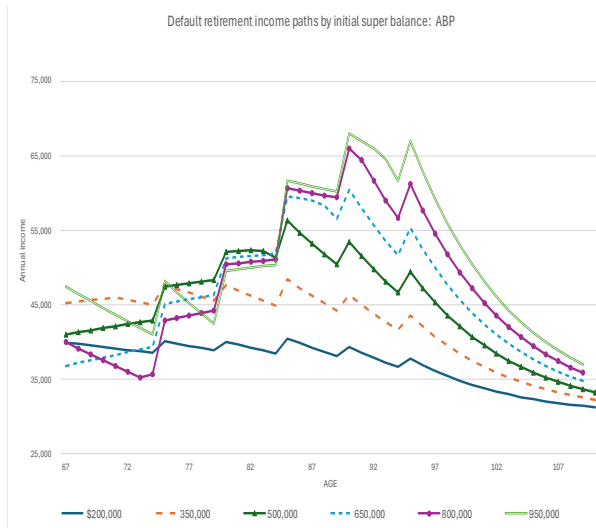


Figure 1a: Current— ABP

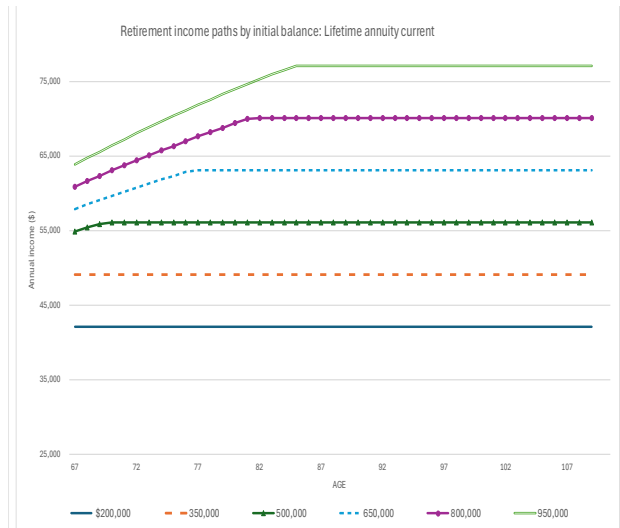


Figure 1b: Current— Lifetime income streams

Figure 1b shows the current rules that apply to lifetime income streams. The projected income is higher largely because an expected 30% of the benefit in an ABP is not spent but passed on as a bequest. The lifetime effect of the means test is slightly less generous at lower balances and more generous at higher balances – which can be seen by comparing figures 1a and 1b. The pattern of a gradually increasing income for the large balances the earlier years is manageable by pensioners if a portion of the superannuation savings is taken as an ABP and consumed in the early years of retirement. There is still a need for some mathematical modelling, however.

Figures 1c and 1d show how a more reasonable pattern can be obtained by abolishing the separate asset test and calculating a notional income by dividing the value of assets by an annuity factor based on age.<sup>26</sup> The calculations have been calibrated so that the higher payouts of the lifetime annuity arise solely from the mortality credits. Figure 1c is based on a minimum drawdown rate that changes each year to avoid the steps in Figure 1a, and is more generous in earlier years and less so later—as can be expected from an ABP where balances decline. Pensioners effectively draw down all their balances by age 100, after which they are solely reliant on the Age Pension.

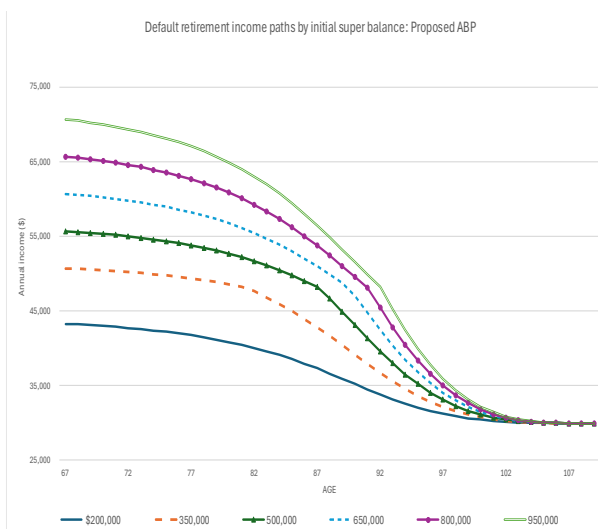


Figure 1c: Proposed— ABP

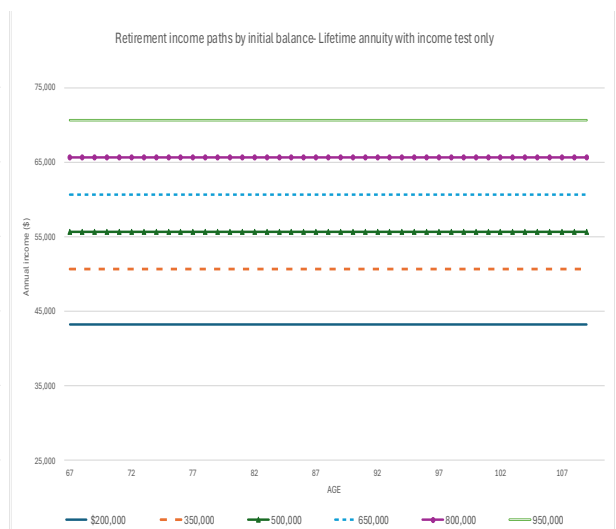


Figure 1d: Proposed— Lifetime annuity

<sup>26</sup> A version of this was modelled in appendix 6B of the Retirement Income Review (2020). It however complicated the model by separately determining investment earnings and capital drawdown. [https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-ud06\\_appendices.pdf](https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-ud06_appendices.pdf)

Figure 1d has been calibrated to provide the same support (the same fiscal cost) as the current arrangements for lifetime annuities shown in Figure 1b. Pensioners would be subject to a clawback reduction of the AP of 50% of their income (as against 30% currently), but this would be for income over \$700 per fortnight against the current full pension limit of \$218. The \$700 per fortnight is \$18,200 p.a., which is the limit at which no income tax is payable.

The means tests can be adjusted to what is judged to be fair by adapting the clawback rate and the full pension limit. It is difficult however to justify a clawback rate of over 50%. Section 5.1 below suggests how any increase in AP expenditure can be recovered by reducing tax concessions in the retirement phase.

#### 4.1 Deeming rates

The suggested conversion of assets into income using an annuity factor would reduce the need for regular changes to the deeming rate. These are obviously politically sensitive, but their history – and particularly their current level – suggests that they have been lower under Labor.

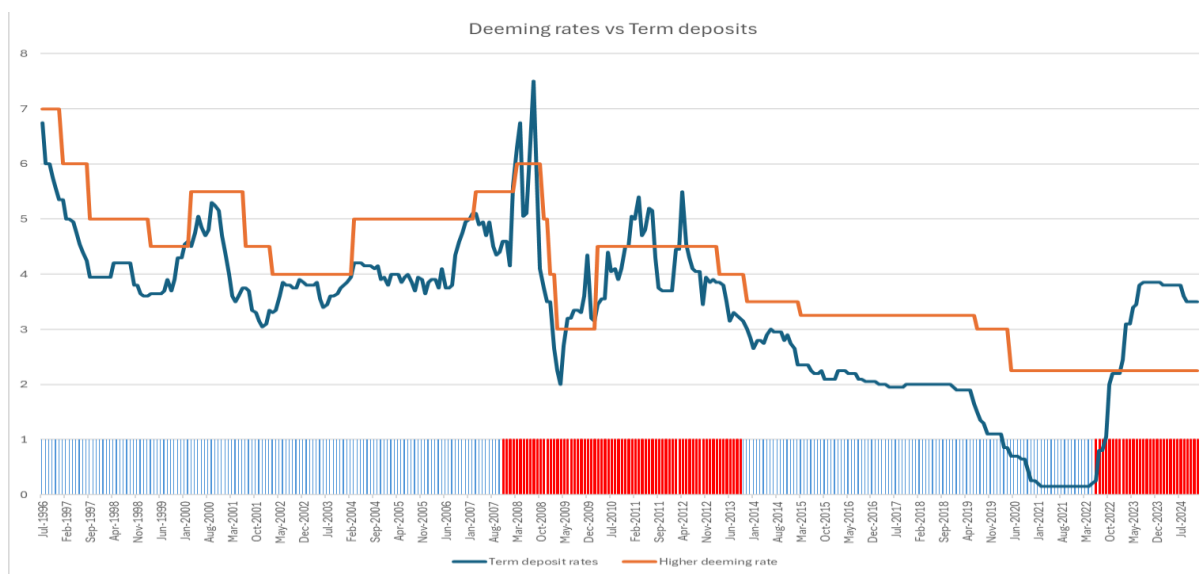


Figure 2: Deeming rate history

The lower deeming rates are currently favourable to ABPs, making lifetime products less attractive from a means test perspective.

## 5 Integrating welfare and tax

Integrating welfare and tax is complicated because means tests are based on household fortnightly income and assets; tax on individual annual income. Without integration some people are exposed to both welfare clawback and tax. With a clawback rate of 50% the EMTR of those subject to both clawback and tax rises to 84% to those earning more than \$45,000 annually and can go well over 100% if the loss of the Pensioner Concession Card and CRA is included. High EMTRs create “poverty traps”: financial penalties for those wanting to earn more money. They are less problematic for those pensioners who are unlikely to return to paid employment but create incentives to “hide” assets in more expensive homes and become unfair if they exceed 100% – in that people lose money by saving.

The complexities of integrating tax and welfare payments were well illustrated by the “robo-debt” scandal<sup>27</sup>. The current ‘work bonus’ slightly ameliorates, but does not eliminate, higher EMTRs for those in paid employment, but is monstrously complicated.<sup>28</sup>

<sup>27</sup> <https://theconversation.com/why-robo-debts-use-of-income-averaging-lacked-basic-common-sense-201296>

<sup>28</sup> <https://www.servicesaustralia.gov.au/work-bonus>

One partial, but obvious, solution is to reduce the clawback by the standard tax deduction (as determined by PAYG tables) on the income that used to determine the AP payable. This would ensure that the fortnightly clawback plus tax would never exceed 50%. Centrelink can then report the total amount by which they have reduced the clawback to the ATO at the end of the financial year. This amount would reduce any tax refund payable, given the taxpayer had already received the benefit through additional AP.<sup>29</sup> Taxpayers could reduce refunds by increasing allowable expenses and donations, but it would not be unreasonable for these taxable deductions to also be implicitly deductible from AP clawback.

## 5.1 Taxing investment income in retirement

The proposals above would lead to more generous AP benefits overall. Part of the additional costs could justifiably be recovered by taxing the investment earnings of superannuation accounts in retirement. One option would be to apply the same rate of tax in retirement as in the accumulation phase, but this would lead to incentives for those with fewer assets to withdraw from their superannuation fund. It would therefore lead to arguments to introduce a LISTO equivalent to prevent superannuation balances from being taxed at a higher rate than other income.

Given that superannuation funds already calculate and report investment income to their members, a LISTO approach is possible. But if those with lower balances can be given credit, those with higher balances can also be taxed at appropriate marginal rates. All investment income could be taxed at the member's marginal rate – so removing any incentive to withdraw from superannuation. ABP holders could be taxed on investment income, DB pensioners and lifetime annuitants could pay tax on the taxable proportion of their pensions.<sup>30</sup>

This would mean that some AP recipients would be subject to means test and tax and potentially excessive EMTRs. Two approaches could be taken to avoid these:

- The first would be to treat the investment income like earned income – as suggested above. This would be conceptually simpler by not introducing another idea.
- The second would be to increase the tax-free threshold so that only the wealthiest quartile, who are not receiving AP, are taxed. Different thresholds already apply to seniors because of the Seniors and Pensioners Tax Offset (SAPTO).<sup>31</sup> For this suggestion, the position for couples is further complicated in that the means tests are applied at a household level and tax is at an individual level. The consequence is that smooth EMTR's for both singles and couples are not possible if the distinction between welfare and tax is to be maintained. A high threshold that prevents singles from experiencing an EMTR over 50% will leave a range where couples have the full pension and are not paying income tax. This is already the case for those who only own superannuation assets, so it would involve the reduction in a concession rather than a new one.

Taxing the drawdown phase at rates that could be greater than the 15% in the accumulation phase would create incentives for more money being retained in accumulation. This could be addressed by mandatory conversion to drawdown, or commencing the individual taxation of income, at some point in the member's sixties. If there are significant tax avoidance opportunities outside of superannuation, these measures could lead to large outflows from the superannuation industry. The direction of the flows could lead to the identification and closing of loopholes that exist. There may also be a spur to emigration of some wealthier people – but superannuation tax concessions cannot be that meaningful for many very wealthy people.

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<sup>29</sup> The amounts might alternatively be refunded to Centrelink to reduce the reported cost of the AP.

<sup>30</sup> This is the standard approach to the taxation of annuities. The tax free proportion is determined as the percentage of the annuity explained by the return of capital.

<sup>31</sup> <https://www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/tax-offsets/seniors-and-pensioners-tax-offset#Eligibilityforaustgovtpayment>

# 6 Harmonising home and aged care subsidies

The application of the means tests for home and residential aged care is necessarily more complex given the need for care differs between people. The means tests do use the same definitions of income and assets as the AP, which means that the logic for calculating contributions from beneficiaries could be seen as consistent. As discussed in section 6.3 below, however, they cannot be simplified by combining asset and liability tests in the manner suggested in section 4.

## 6.1 Home support

Home support is currently known to the public as “Support at Home” packages<sup>32</sup>, but are defined in the ACA as “Person-centred” and “Provider-based” subsidies for “home support”<sup>33</sup>.

For those still living at home, the 50% clawback of the AP above a particular threshold suggests that the threshold plus the AP represents a reasonable minimum living standard. This is confirmed by the ASFA standards.<sup>34</sup> At time of writing, the AP plus pension supplement plus the threshold are just 1% above the modest lifestyle level for singles and almost 8% above for couples. It is encouraging to see that this is effectively what is being used in the ACA. One would therefore expect the contributions required towards meeting the costs of home support would be a significant percentage of the excess over these minimums – given a minimum standard of living is assured. The asset and income tests are however different and vary significantly in their generosity.

There are eight levels of ongoing Support at Home packages that currently vary from \$10,731 to \$78,106 p.a. per person<sup>35</sup>. There are also two short term levels – at \$54 and \$298 per day.<sup>36</sup> There are various other supplements for special needs, remote areas, veterans, and cognition impairments. A one-off amount varying from \$500 to \$15,000 is also available for “Assistive Technology and Home Modifications”. \$500 would seem to fall below any materiality test and could be removed.

The required contributions from beneficiaries are based on 50% of gross income, allowing appropriately for the AP clawback, but not for those income levels that also face tax. At higher levels beyond the clawback levels, the 50% becomes generous. A simpler approach would be to use income net of tax and clawbacks, as suggested in section 5 above.

There is no additional asset test, with assets counted using the deeming rates. This is inconsistent with the AP, and generous to the asset rich income poor, particularly when deeming rates are artificially low.

The packages can fund three types of outlay, each requiring different contributions from the beneficiaries.

- Clinical costs require no contribution regardless of income, which is generous to wealthier self-funded retirees who would be paying out-of-pocket costs for private care. An additional charge for higher income people could be considered if the fiscal impact were significant.
- For mobility and transport costs, beneficiaries on the full AP pay 5%. Those with income over the threshold (AP plus means test free limit) pay charges rise linearly to 50% for self-funded retirees<sup>37</sup> –

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<sup>32</sup> <https://agedcaredecisions.com.au/understanding-contributions-for-the-new-sah-program/>

<sup>33</sup> <https://www.legislation.gov.au/C2024A00104/latest/text>

<sup>34</sup> [https://www.superannuation.asn.au/wp-content/uploads/2026/02/ASFA\\_Retirement\\_Standard\\_Budgets\\_Dec-25\\_quarter.pdf](https://www.superannuation.asn.au/wp-content/uploads/2026/02/ASFA_Retirement_Standard_Budgets_Dec-25_quarter.pdf)

<sup>35</sup> These are the sum of person-centred subsidies from section 194-5 and provider-based subsidies in section 204-5 of the Age Care Rules

<sup>36</sup> Section 194-10 of the ACAR.

<sup>37</sup> These are based on sections 314-55 ff of the ACAR, summarised on p109 of

<https://www.health.gov.au/sites/default/files/2025-12/support-at-home-program-manual-a-guide-for-registered-providers.pdf>

depending on assets and income – currently reaching a maximum at an annual income of \$101,000 for singles and \$161,000 for couples<sup>38</sup>.

- Everyday living costs require a contribution of 17.5% from those on the full AP, rising to 80% for self-funded retirees at the same income level.

It is not clear why there is a distinction between the last two bullet points. Transport is surely an everyday living cost.

## 6.2 Residential aged care

One might expect residential contributions of a considerable proportion of the residents' income – given they should have few other expenses. There are thirteen levels of ongoing care, four levels of respite care<sup>39</sup>, each requiring a specified number of minutes of care daily and providing a different level of subsidy to the age care providers<sup>40</sup>. There are also other supplements. Subsidies vary by a number of other characteristics but are larger than the Support at Home packages.

The ACAR divide the care into four types, each again requiring distinct levels of contribution defined in sections 8-140 onward.

- Residential accommodation funded by a Refundable Accommodation Deposit (RAD) or Daily Accommodation Payment (DAP) or government funded accommodation supplements.
- Residential everyday living, funded by a basic amount of 85% of the AP<sup>41</sup> and “Hotelling” subsidies or contributions.
- Residential non-clinical care, funded by subsidies or contributions.
- Residential clinical care funded solely by subsidies.

Anecdotally, providers make profits on the accommodation payments, but these are needed to make up for shortfalls in the other areas. There is also the possibility of charging a Higher Everyday Living Fee (HELFF) for which there are no subsidies.

The logic behind residential aged care means tests is difficult to follow.<sup>42</sup> Unlike the AP and home care, the amount payable is “the sum of the per day income tested amount and the per day asset tested amount.”<sup>43</sup> For the income tested amount, recovery is based on the income in excess over the sum of the AP, Pension Supplement and income free area – as with home care. The recovery rate is set at 50% of the amounts falling in three bands:

- From the income free area (currently about \$36,000 p.a.) to the first threshold (for a member of a couple separated by illness—\$85,678.32; or for an individual who is not a member of a couple—\$86,406.32)
- From the second threshold (\$101,105) to the third (\$117,230) – being the same for everyone.
- Above the fourth (divided as the first to \$136,136 or \$139,048)

Given that residents are paying 85% of their AP (about \$28,000) for the basic fee, this gives them four “free” bands.

The asset test adds a few additional twists:

- The asset free area is set at 2.25 times the basic AP or about \$63,000.
- The recovery is then set at 17.5% of the difference between the asset free area and the first threshold (\$210,555)

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<sup>38</sup> The maximum based on: <https://www.servicesaustralia.gov.au/income-test-for-commonwealth-seniors-health-card?context=21966>

<sup>39</sup> Set out in section 81-35 of the ACAR

<sup>40</sup> Set out in section 176-20 of the ACAR

<sup>41</sup> Section 277 of the ACA

<sup>42</sup> The formula are set out in section 319 of the ACA, and the parameters in section 319 of the rules.

[https://www.health.gov.au/our-work/residential-aged-care/charging/fees/scenarios#:~:text=Asset%20free%20threshold%20=%20\\$63%2C000.%20First%20asset,%20\\$210%2C555.20.%20Second%20asset%20threshold%20=%20\\$505%2C665.60.](https://www.health.gov.au/our-work/residential-aged-care/charging/fees/scenarios#:~:text=Asset%20free%20threshold%20=%20$63%2C000.%20First%20asset,%20$210%2C555.20.%20Second%20asset%20threshold%20=%20$505%2C665.60.)

<sup>43</sup> Section 319 of the ACA

- From the second threshold (\$252,000) to the third (\$355,267), recovery is 7.8% of the amounts.
- 7.8% of the amounts above the fourth (\$532,055)

It is difficult to understand the logic of these thresholds and the discontinuities they create. The regressive contributions required by the asset test is particularly puzzling. The same rate should surely be applied regardless of the level of assets.

There does not appear to be a particular ruling, but it is difficult to see how those defined benefit pensions or lifetime income streams with limited withdrawal benefits could afford these amounts if the present value of their pensions were to be based on population mortality. The ACAR does not appear to address the issue, but there appears to be discretions in subdivision 2J of the relevant chapter (10).

### 6.3 Harmonization possibilities

#### **Abolish grandfathering**

A sizeable proportion of the 350,000 words in the ACA and ACAR Rules related to separate grandfathering provisions for those with packages granted before 1 July 2014 and 1 November 2025, respectively. The arguments for grandfathering arise because it would be unfair to require people to reduce the standard of living to which they have become accustomed and for which they have planned. The same effect can be achieved by adopting a single “none worse off” provision – freezing amounts of entitlements and required contributions, until people became entitled to more benefits under the current rules as a result of inflation or a change to their circumstances. A more generous approach would be to adjust benefits for inflation.

#### **Use one set of support levels**

There is a significant overlap between the definitions used for the difference levels of support for home care and aged care. One set could be used, which would be simpler. It would also be fairer in that the subsidies paid to aged care providers and for home packages and people’s carers could be made equivalent. This could empower people with another set of choices.

#### **Abolish RADs sooner**

The existence of both RADs and DAPs clearly complicates the, already emotionally fraught, entry into aged care. The government has indicated that RADs should be phased out by 2035, which would simplify matters.

It will however only commission a review of the issue in 2029/30. It **discontinued** the previous bed-licensing regime to allow freedom of entry in 2023/24 – noting that this would create greater competition and put some providers out of business.<sup>44</sup> It has set up a market adjustment program to assist non-economic providers to exit the market – but the details are thin<sup>45</sup> and there seems little evidence that this is occurring. It is likely that uneconomic providers are being financially sustained by RADs and it will be necessary for government to compensate residents when they leave the market. This creates an additional imperative to set the transition in motion as soon as possible.

#### **Harmonise income and asset test**

The method of combining the income and asset tests suggested in section 4 would introduce inconsistencies unless an adjustment was made for the lower life expectancies of those with home support and in aged care. Population life expectancy is considerably longer than for those receiving home and aged care benefits. The Australian Government Actuary life tables produce population life expectancy<sup>46</sup>, which for women vary from 14.5 years for a 75-year-old to 3.4 years for a 95-year-old.

<sup>44</sup> [https://consultations.health.gov.au/ageing-and-aged-care/improving-choice-in-residential-aged-care/supporting\\_documents/Improving%20Choice%20in%20Residential%20Aged%20Care%20%20detailed%20paper.pdf](https://consultations.health.gov.au/ageing-and-aged-care/improving-choice-in-residential-aged-care/supporting_documents/Improving%20Choice%20in%20Residential%20Aged%20Care%20%20detailed%20paper.pdf)

<sup>45</sup> <https://www.health.gov.au/our-work/market-adjustment-program-map>

<sup>46</sup> [https://aga.gov.au/sites/aga.gov.au/files/sites/aga.gov.au/files/publications/2024-12/australian-life-tables-2020-22\\_1.pdf](https://aga.gov.au/sites/aga.gov.au/files/sites/aga.gov.au/files/publications/2024-12/australian-life-tables-2020-22_1.pdf)

These can be compared with the current length of stay in aged care facilities<sup>47</sup>, which are about 2.5 years for 75 years old and less than a year for 95-year-olds. Those with home support will have life expectancies somewhere in between.

Given the high and rising cost of aged care, greater priority needs to be given to recovering costs, while maintaining equity between those on an income and those with significant realizable assets.

- For incomes, a contribution of 50% over the threshold seems reasonable. Income should be net income after tax and clawbacks. If one accepts that a member of a couple with their partner in aged care can maintain their standard of living on two thirds of the joint income, 50% of the partner's 50% share of joint income reduces the remaining partner's income by 25%, leaving a small margin.
- A trickier question is how to calibrate the asset test such that those with assets and no income pay more or less the same as those with a lifetime income and no assets. Payments from those with assets will decline over time, which means that they should initially be paying more than those on an income with the same total financial resources but with less liquidity.

Using the length of stay reported by Zhang et al. (2023)<sup>48</sup> for the average aged care resident, one can calculate a required contribution of about 3% of assets per month over an asset free area of about 2.5 times the income free area.

Asset test charges for those on home care packages could be justified using estimates of life expectancy that could be derived from experience for the level of package. Such estimates would only be rough approximations, but the charge should be between that used to convert assets into income for the AP and that used for aged care.

## 7 Abolish immaterial minor tweaks

Table 2 lists the items related to tax and means tests that members approaching retirement should consider, and which therefore should be part of any information or advice given to them by their fund and financial advisors. The final column suggests how simplification of the rules could reduce the complexity of the retirement process. Those elements that could be abolished are underlined.

Table 1: Actions to consider

| Action | Cautions & Risks | Possible government actions |
|--------|------------------|-----------------------------|
|--------|------------------|-----------------------------|

### 7.1 Age Pension (AP) and means tests basics

|                                                                                                                                 |                                                                                                                                                                                            |                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Superannuation provides the best tax shield so limit free assets outside superannuation: i.e. maximize contributions            | Cannot withdraw until satisfy conditions of release <sup>49</sup> – age 60 for most people but hardship provisions may be considered<br>Buying a home often a priority for younger members | Maintain the caps                                                                                                                |
| Age Pension is payable from 67 but is means tested                                                                              | Means tests complicated and unfair                                                                                                                                                         | Combine asset and income tests and simplify as above                                                                             |
| Home is not counted in means test, so pays to upgrade                                                                           | Upgrading may not be a worthwhile investment                                                                                                                                               | Count a significant portion of the home in the asset test                                                                        |
| Getting even a \$1 pension qualifies you for the Pensioner Concession Card (PCC) and potentially for tax relief (SAPTO) and CRA | The rules change frequently so important to be aware of impending threats and possibilities                                                                                                | <u>Abolish</u> PCC – see below<br><u>Abolish</u> SAPTO or keep as part of a more logical integration of means tests and tax rate |

<sup>47</sup> Zhang, J., Shi, Y., & Huang, G. (2023). Expected length of stay at residential aged care facilities in Australia: current and future. *Journal of Population Research*, 40(4), 24.

<sup>48</sup> See n47.

<sup>49</sup> <https://www.ato.gov.au/tax-and-super-professionals/for-superannuation-professionals/apra-regulated-funds/paying-benefits/releasing-benefits/conditions-of-release>

|  |  |                          |
|--|--|--------------------------|
|  |  | Apply means tests to CRA |
|--|--|--------------------------|

## 7.2 Contributions

|                                                                                                                                                               |                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| If one partner younger than the other, maximise super balances of partners under 67 in accumulation phase                                                     | Works if older partner's assets are below the couple's asset threshold for the AP                                  | Count all assets of both partners.                                                                                                                                                                                                                                                                                                                                |
| Make use of Government Co-Contribution for Low Income Earners <sup>50</sup> and Spouse Contribution <sup>51</sup>                                             | Best made in June before the tax year end                                                                          | <u>Abolish</u> . These allowances are immaterial over a lifetime and mainly benefit the rich                                                                                                                                                                                                                                                                      |
| Be aware of the different tax of concessional and non-concessional limits and the Low Income Superannuation Tax Offset (LISTO)                                | These require no action normally, but have to be understood to interpret superannuation statements                 | Concessional and non-concessional limits make sense and should be retained<br>LISTO is relatively small and not necessary as low income people get the AP. It could be abolished, but the complexity is born by the superannuation funds and retaining it would mean that people could be confident that concessional contributions will never increase their tax |
| Use – as appropriate – first home-saver and downsizer opportunities <sup>52</sup> and caps <sup>53</sup> – as well as bring- and carry forwards <sup>54</sup> | Can be administratively complex so plan ahead of tax year end<br>From 60, always maximise deductible contributions | First home-saver amounts are currently too small to justify their existence. Either double in size (at least) or <u>abolish</u><br>Downsizer opportunities are valuable and make housing available to others<br><u>Abolish</u> carry- and bring forwards as being largely immaterial. Purely a matter of timing and so smallish interest costs                    |

## 7.3 Timing

|                                                               |                                                                                  |                                                        |
|---------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------|
| Apply 13 weeks before retirement or 67 <sup>th</sup> birthday | Services Australia is seriously overworked and there can be delays <sup>55</sup> | Reduce complexity<br>Increase Services Australia staff |
|---------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------|

## 7.4 Lifetime annuities

|                                                                                                                |                                                                                       |                                                                                        |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Note the incentive: Lifetime income stream to take advantage of the 40% reduction from assets and income tests | Must ensure income stream suits cashflow needs                                        | See section 4 above for alternative simpler approach                                   |
| Incentive: take deferred pension and part surrender earlier to avoid income test and reduce asset test further | Complex approach may have regulatory risks                                            | Should not be allowed: overly generous and complex - reform asset test                 |
| Incentive: Do not count as income (or assets) for                                                              | Only currently relevant to singles with over \$3m in assets – couples over \$5m. When | As card is intended to provide increased medical insurance, it should be abolished and |

<sup>50</sup> <https://www.ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/government-contributions>

<sup>51</sup> <https://www.ato.gov.au/search-results#q=spouse%20super%20contributions%202025>

<sup>52</sup> <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions/understanding-concessional-and-non-concessional-contributions>

<sup>53</sup> <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions>

<sup>54</sup> <https://www.ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/contributions-caps>

<sup>55</sup> <https://www.servicesaustralia.gov.au/sites/default/files/2024-10/annual-report-2023-24.pdf>

|                                                                                                                                            |                                                                                                                                              |                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Commonwealth seniors health card                                                                                                           | deeming rates rise, will be more relevant                                                                                                    | incorporated into Medicare rules                                                                                                                                             |
| Disincentive: The deeming rate (currently 3.25%) has been kept artificially low so ABPs maximise AP if pensioner is subject to income test | Even with the 40% incentive, lifetime annuity rates can give a lower AP than ABPs, if pensioner subject to the Income but not the Asset test | <u>Abolish</u> the lower deeming rate as being immaterial<br>Convert assets to income using an annuity factor based on a long term deeming rate to eliminate this distortion |
| Disincentive: Aged care RADs are exempt from means tests and effective "interest" is tax free and generous <sup>56</sup>                   | Relative benefits depend on interest rate and means test changes                                                                             | <u>Abolish</u> RADs sooner than 2030.                                                                                                                                        |
|                                                                                                                                            |                                                                                                                                              |                                                                                                                                                                              |

## 7.5 Reduce assets

|                                                                                                               |                                                                |                                                                                                     |
|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Prepay funeral expenses or burial site (unlimited) or buy a funeral bond (up to allowable limit, ~\$15k each) | Must be genuine, irrevocable                                   | <u>Abolish</u> – trivial benefit                                                                    |
| Transfer ownership to exempt entities – where permitted                                                       | Complex; legal advice needed                                   | No obvious change required                                                                          |
| Gift assets five years before AP is required                                                                  | Used for family holiday homes. Risk of relationship breakdown. | Should be retained<br>There are however good arguments for estate and donations taxes <sup>57</sup> |
| Gift within allowable limits (\$10k/year, \$30k over 5 years)                                                 | Gifts greater than these limits still counted for 5 years      | <u>Abolish</u> 5 year rule. Additional gifts of \$4,000 per year are trivial                        |
| Consider a Special Disability Trust or reversionary lifetime annuity (for eligible beneficiaries)             | Applies if supporting a person with disability                 | Should be retained                                                                                  |

## 7.6 Apply for the cards to which you are entitled <sup>58</sup>

|                                                                                                                                                       |                                                                                                        |                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Pensioner Concession Card (PCC):</i> Consider reducing assets and income to get a small part pension – as potentially worth thousands in discounts | Health care benefits are substantial, plus many public and private sector discounts that vary by state | Issued automatically but distorts AP applications. Used by states and local government so they should issue them.<br>Challenger reports that the value of the Pensioner Concession Card varies from \$1,000 to \$2,600 depending on the state.<br>They should be <u>abolished</u> |
| <i>Seniors card:</i> Available to retirees over 60, but less value                                                                                    | Issued by states with different criteria for working hours and fewer discounts than the PCC            | This is already a state function                                                                                                                                                                                                                                                  |
| <i>Commonwealth seniors health card:</i> Means tested, but available to all but the very wealthy                                                      | Slightly lower health care benefits than PCC, plus some state related discounts                        | As this is intended to provide increased medical insurance, it should be <u>abolished</u> and incorporated into Medicare rules                                                                                                                                                    |

<sup>56</sup> <https://www.businessstink.unsw.edu.au/articles/life-annuity-RAD-aged-care-retirement-income-superannuation>

<sup>57</sup> <https://www.taxinstitute.com.au/resources/journals/australian-tax-forum/2024/A-role-for-inheritance-tax-in-Australia?>

<sup>58</sup> Availability: <https://moneysmart.gov.au/retirement-income-sources/age-pension-and-government-benefits>

Value: <https://edge.sitecorecloud.io/challenger66c7-challengerprod-prod-4c11/media/Project/Challenger/Challenger/Documents/Articles/How-much-are-the-Centrelink-concession-cards-worth.pdf>

|                                                                         |                              |                                                                                                                                                                                                           |
|-------------------------------------------------------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                         |                              | It is not immediately clear that retirees should be given lower medical thresholds than other Australians given that their budgets should and usually do include increased allowance for medical expenses |
| <i>Veterans' cards:</i> For those who served in the ADF and some widows | Benefits more than all above | The ADF might separately consider how to simplify                                                                                                                                                         |

## 7.7 Benefits

|                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In making your decision to retire, understand:<br>1. Benefits are tax free after age 60 for those who have retired from at least one permanent role<br>2. Drawdown accounts pay no tax on earnings after retirement or 65 if earlier, so begin drawdown and re-contribute excess funds | Transition to retirement pensions limited to 10% p.a. and still pay tax on investment earnings so no advantage unless money is needed<br>Adding to a drawdown account involves a complex manoeuvre of rolling back to accumulation and then back again to drawdown | <u>Abolish</u> transition to retirement (TTR) and allow tax free annual withdrawals from age 60 up to 10% of balance. This has the same effect and saves separate administration of the TTR balances<br>Allow contributions to drawdown account<br>Harmonise the AP age and the age at which investment earnings are tax free |
| Consider withdrawal and re-contribution to reduce risk of 17% tax on payments to non-spouse beneficiaries on death                                                                                                                                                                     | Can also be achieved by withdrawing just before death, to the extent that it is predicted                                                                                                                                                                          | <u>Abolish</u> the 17% tax—only paid by the uninformed or unlucky. This would allow the distinction between taxed and non-taxed superannuation balances also to be abolished                                                                                                                                                  |
| Be aware of:<br>1. S293 additional contributions tax<br>2. Potential S296 tax on balances over \$3 million.<br>3. Transfer balance cap                                                                                                                                                 | The ATO will calculate the amounts owed for S293 and 296, but member must administer the transfer balance cap                                                                                                                                                      | <u>Abolish</u> S293 as no longer necessary given the limit to deductible contributions<br>Taxing investment income on a personal basis (with higher thresholds) after 65 could make S296 and the transfer balance cap unnecessary                                                                                             |
| Consider accessing the home equity access scheme <sup>59</sup>                                                                                                                                                                                                                         | Low cost reverse mortgage, but headroom to borrow more may run out                                                                                                                                                                                                 | Offer an annuity version where the amount is guaranteed for life.                                                                                                                                                                                                                                                             |
| Be aware of Pension <sup>60</sup> , Energy <sup>61</sup> , Education <sup>62</sup> Supplements, Pharmaceutical <sup>63</sup> and Telephone allowance <sup>64</sup> , Medical Equipment Payment <sup>65</sup> , and Remote Area Allowance <sup>66</sup>                                 | Some need to be applied for. Pharmaceutical allowances only apply to Jobseeker between 55 and 67. Telephone allowance Vary from about \$14 to \$60 per fortnight                                                                                                   | <u>Abolish</u> and incorporate a proportion in AP. The amounts are immaterial and probably cost as much to administer as the benefit they provide, and not everyone who qualifies is likely to claim                                                                                                                          |
| Be aware of the Mobility Allowance <sup>67</sup>                                                                                                                                                                                                                                       | Needs to be applied for                                                                                                                                                                                                                                            | This is significant (Up to \$170 per fortnight) so retain                                                                                                                                                                                                                                                                     |

<sup>59</sup> <https://www.servicesaustralia.gov.au/home-equity-access-scheme>

<sup>60</sup> <https://www.servicesaustralia.gov.au/pension-supplement>

<sup>61</sup> <https://www.servicesaustralia.gov.au/energy-supplement>

<sup>62</sup> <https://www.servicesaustralia.gov.au/pensioner-education-supplement>

<sup>63</sup> <https://www.servicesaustralia.gov.au/pharmaceutical-allowance>

<sup>64</sup> <https://www.servicesaustralia.gov.au/telephone-allowance>

<sup>65</sup> <https://www.servicesaustralia.gov.au/essential-medical-equipment-payment>

<sup>66</sup> <https://www.servicesaustralia.gov.au/remote-area-allowance>

<sup>67</sup> <https://www.servicesaustralia.gov.au/mobility-allowance>

|                                                                         |                                                            |                                                                                                                                     |
|-------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| Be aware of the special benefit <sup>68</sup>                           | Applicable for those who do not qualify for other benefits | Retain as a catch all                                                                                                               |
| Be aware that you can ask for benefits to be paid quarterly             | May be useful if amounts are small                         | <u>Abolish</u> , as unnecessary complication                                                                                        |
| Be aware that changes to income and assets must be reported fortnightly | Underpayments are recovered and can feel onerous           | Asset reporting could be reduced to twice a year with no retrospective adjustments. The option to report lower values should remain |

## 7.8 Means test administration

|                                                                                                       |                                                                         |                                                                    |
|-------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------|
| Notify Services Australia of any changes in assets and income within 14 days <sup>69</sup>            | Failure can create a debt that will need to be repaid                   | Little would be lost (or gained) by making assessments bi-annually |
| Be aware of that you do not need to be too accurate when you report personal assets in the asset test | The question asks for the market value of your curtains (as an example) | <u>Abolish</u> except for large very valuable items                |

## 7.9 Aged care financing

|                                                                                                    |                                                      |                                          |
|----------------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------|
| Consider downsizing into retirement village / independent living units                             | Assess deferred management fees and ongoing charges  |                                          |
| Be aware of the Support at Home program. <sup>70</sup>                                             |                                                      |                                          |
| Get expert financial advice to decide on whether to use a RAD or Daily Accommodation Payment (DAP) | Few people have the literacy to decide <sup>71</sup> | <u>Abolish</u> RADs as soon as possible. |

# 8 The radical approach

Ingles (2015)<sup>72</sup> makes the radical case to abolish both means tests and superannuation tax concessions. His argument is largely based on the irrationality of providing tax concessions only to claw them back with means testing. Simplification is perhaps at least as strong an argument.

## 8.1 Distributional effects

Ingles makes the case that tax concessions exceed the benefits of means testing so the fiscal impact looks as if it would be positive. However, there are significant gains for those in or approaching retirement and therefore losses to younger cohorts. Tax concessions have been over 20% of contributions<sup>73</sup> for many years, so one can estimate that some 20% or more of current balances arise from these concessions. The inability to recoup the value of these concessions by means testing must have a negative impact on future Commonwealth budgets. Such an additional transfer of wealth to a generation that has already benefited from other policy changes and economic conditions<sup>74</sup> seems unfair. Recovering the value of past concessions from current superannuation balances would be politically fraught even if administratively possible.

<sup>68</sup> <https://www.servicesaustralia.gov.au/who-can-get-special-benefit?context=22281>

<sup>69</sup> <https://www.servicesaustralia.gov.au/change-circumstances-when-you-get-age-pension?context=22526> (Accessed 11 February 2025).

<sup>70</sup> <https://www.health.gov.au/our-work/support-at-home/about?language=en>

<sup>71</sup> Cutler, H., Bilgrami, A., Gu, M., Gu, Y. and Aghdaee, M., 2025. The role of financial literacy when informal caregivers make complex financial decisions. *Applied Economics*, 57(13), pp.1453-1474.

<sup>72</sup> Ingles, D. (2015). *Pensions and superannuation: the need for change. Response to Financial System Inquiry, National Commission of Audit and Tax Discussion Paper*. The Australia Institute

<sup>73</sup> Can be calculated by comparing Treasury's *Tax Expenditures and Insights Statement* with contributions from APRA's *Annual Superannuation Bulletin*

<sup>74</sup> Wood, D and Griffiths K. (2019) *Generation gap: ensuring a fair go for younger Australians*, Grattan Institute

The lower middle and middle of the income distribution would benefit from this approach at the cost of those with higher incomes. The interests of those the lowest incomes would depend on future adjustments to AP benefits, which are unpredictable.

## 8.2 New Zealand comparison

One advantage of the radical approach is evident from Ingles' comparison with New Zealand, which has no means test and higher rates of workplace participation at older ages. A likely connection between the two is the zero EMTR, confirmed by Börsch-Supan and Coile (2018)<sup>75</sup> in studies of twelve other, OECD, countries. Their study does however find significant differences between countries, which seem to arise from culture and the nature of the labour market for older people.

Another advantage is that the absence of means tests, greater income equality, and higher workforce participation go together with a higher level of life satisfaction when New Zealand retirees are compared to Australians.<sup>76</sup>

## 8.3 Transitioning

Transitioning to this radical position would necessitate changes in the level of the superannuation guarantee, given that contributions would no longer be tax deductible. Reductions would be likely, because middle income groups would have higher retirement incomes, while higher income groups would argue for more freedom to use alternative investments. Retirement planning and financial markets would need to adapt to smaller superannuation balances.

## 8.4 Politics

Suggestions for abolishing means tests have come from both sides of politics in the past<sup>77</sup>, and might do so in future. The superannuation industry would no doubt be opposed to the reduction in the size of funds under management and contains supporters from all sides of politics. If middle income beneficiaries of such a change are seen as swing voters, then they could be persuaded by either side of the political economic spectrum. Libertarians would be strongly in favour of the change<sup>78</sup>, but their influence is normally marginal.

The costs of transition and political opposition are out-weigh the advantages of at the current time. Ongoing increases in the burden of regulation may however eventually lead to tipping point.

# 9 Conclusion

Much of the complexity of the tax and means test treatment of the retirement process is unnecessary. There are many intricacies that make, at best, a rough and minimal impact on equity, but are unfair and represent an administrative burden to regulators, industry, and the public. Table 1 suggests seventeen separate allowances and concessions that give minimal value and could be abolished to simplify the retirement process. Abolishing grandfathering, merging asset and income tests and harmonization of the means tests for the AP and home and aged care would also reduce complexity.

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<sup>75</sup> Börsch-Supan, A. H., & Coile, C. (2018). *Social security programs and retirement around the world: reforms and retirement incentives—introduction and summary* (No. w25280). National Bureau of Economic Research.

<sup>76</sup> Xu, X., Young, M., Zou, L., & Fang, J. (2023). Retirement Income Sufficiency: A Comparison Study in Australia and New Zealand. *Journal of Risk and Financial Management*, 16(2), 124-62.

<sup>77</sup> [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_departments/Parliamentary\\_Library/Research/Research\\_Papers/2021-22/NationalWelfareFund?](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/Research/Research_Papers/2021-22/NationalWelfareFund?)

<sup>78</sup> [https://www.libertarians.org.au/voluntary\\_superannuation](https://www.libertarians.org.au/voluntary_superannuation)