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Budget must shift retirement goalposts

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By Sarah Kendell

The federal government should consider a range of measures to improve retirement outcomes in its upcoming budget, including adjusting earnings for mothers who work part-time and offering tax incentives to retirees who downsize their home.

IOOF technical services manager Ling Wang told financialobserver a tax offset for secondary income earners would help address the well-documented gap in superannuation balances between men and women by allowing part-time mothers to earn more over their working lives and making it more attractive for them to return to work.

“To qualify for the offset, eligibility criteria could be designed to encourage increased workforce participation, such as having at least one child under five in approved child care, and having a certain percentage of their income from employment-sourced activities,” Wang said.

“The amount of the offset could also be linked to the amount of total household income, with tapering introduced once income exceeds a particular amount.”

Tax incentives like these would reduce the barriers for women to return to work, such as the cost of child care exceeding their after-tax earnings.

Elsewhere, Wang said it was important the government look at the tax treatment of the family home during the pension stage, as this often resulted in retirees being “asset-rich but income-poor”.

“In terms of being asset-rich, much of that is locked up in their principal homes,” she said.

“Productivity Commission research also noted that seniors with little or no source of retirement income other than the age pension practise precautionary saving, where they spend very little and save in case of a ‘rainy day’.

“This has led to concerns that this is done at the expense of their standard of living, yet those who own their principal homes own an asset of substantial value.”

Factors that often led retirees to resist downsizing included the prospect of having to pay stamp duty on a new home purchase and the exclusion of the family home from the pension assets test, which made it more advantageous to hold on to their existing home rather than sell it.

“Encouraging senior Australians to release wealth locked up in their homes to help fund retirement and aged care needs requires a holistic approach,” Wang said.

“While removing tax barriers such as stamp duty will help, other factors – in particular social security treatment of assets released as a result of downsizing – will be significant.”