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## Retirees set for budget windfall

**RETIREEES** will be the big winners from the Rudd Government's second budget, which will also include a major infrastructure statement and further steps to boost consumer spending.

Wayne Swan set out the Government's budget priorities in a speech to the Sydney Institute last night, saying it would be the next step

in the Government's response to the global recession. "Our challenge will be to continue to stimulate the economy and continue to invest in the future, while working under the constraints imposed by collapsing revenue and the global recession," the Treasurer said.

An increase in the pension rate has already been flagged, but Mr Swan

indicated the Government was preparing more sweeping reforms to provide "secure and sustainable retirement incomes".

Mr Swan also indicated there would be another big boost to spending to

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# Treasurer puts retirees on notice for budget windfall

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cushion the effects of the global recession.

"It will add to the steps already taken to support demand, support jobs, support growth and build the schools, roads and homes the nation needs," he said.

The budget was already expected to post a \$35.5 billion deficit in 2009-10 before the latest downgrade in world economic prospects.

Economists believe the deficit could now hit \$50 billion, with the addition of another \$10 billion of stimulus spending.

The budget is also likely to contain the Government's announcement of how it plans to spend the \$26 billion that has been built up in the Building Australia Fund.

Mr Swan said it would "lay the building blocks of the post-crisis economy in crucial areas like

critical economic infrastructure and the Education Revolution".

Because of the long lags between approving infrastructure spending and construction beginning, the Government will not be presenting the spending from the fund as part of the economic stimulus.

Mr Swan said any new budget spending, other than the temporary stimulus measures, would have to be financed by savings elsewhere.

Mr Swan and Families Minister Jenny Macklin took delivery two weeks ago of a review of pensions by the head of the families department, Jeff Harmer.

Treasury secretary Ken Henry is also expected to provide a preliminary report from his tax review to the Government on retirement incomes to help frame budget strategy.

The Government's commitment to raise pensions is expected

to result in a rise in the single pension rate of around \$35 a week, which would lift it from just under 60 per cent of the couple's rate to two-thirds of the couple's rate. There may also be a small increase in the couple's rate.

The Government is also under pressure to do something for self-funded retirees, whose incomes are suffering as a result of the plunge in share markets.

This is resulting in growing numbers of retirees becoming eligible for part-pensions.

One suggestion has been for the Government to issue indexed bonds, which would make it easier for the private funds to offer retirees a certain level of income.

The Government is also under pressure to make retirement savings more attractive for people on low incomes, whose marginal tax rate of 15 per cent is the same as the concessional superannuation contributions rate.

The Government may provide additional concessions to low-income savers, but finance them by rolling back the co-contribution scheme introduced by former treasurer Peter Costello. Several ministers regard the co-contribution scheme as favouring high-income earners, who use it either to support their children's savings or their non-working partner.

It is possible that more generous pensions may be financed in part by a gradual increase in the retirement age, which has been set at 65 years for men for the past century, despite great advances in longevity since then.

New stimulus spending in the budget is likely to include some form of extension of the increased first-home owners grant.

There are also likely to be new programs to assist people who



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have become unemployed to undertake additional training.

Access Economics director Chris Richardson said there could be spending measures of up to \$15 billion, with most of this spent in 2009-10.

“They might try to throw another \$15 billion at the fast-fading economy, mostly through infrastructure but some also through pension payments. The real question is what will be the size of the offset achieved by

putting the other spending ministers on the rack.”

There has so far been relatively little protest emerging from the public service about imminent cuts, suggesting that the Finance Minister Lindsay Tanner may not be cutting the razor very deeply, despite the comments he has made, alongside Mr Swan and Mr Rudd, about the upcoming budget being “tough”.

“We will continue to be careful and responsible, and do only what

we responsibly can, and this necessarily means reconsidering some priorities,” Mr Swan said yesterday.

“These tough decisions will be required to maintain the economic discipline necessary to stimulate the economy, while implementing our plan to start returning the budget to surplus once the economy recovers.”

Deutsche Bank chief economist Tony Meer also expects new government spending in the com-

ing year will be between 0.5 and 1 per cent of GDP, or between \$6 billion and \$12 billion.

Treasury’s last estimate of the 2009-10 deficit was \$35.5 billion and was prepared in January before the latest sharp downgrade in global growth forecasts, which both the Prime Minister and Treasurer have said will affect the budget outcome.