THE PENSION REVIEW

NFF SUBMISSION

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The National Farmers' Federation

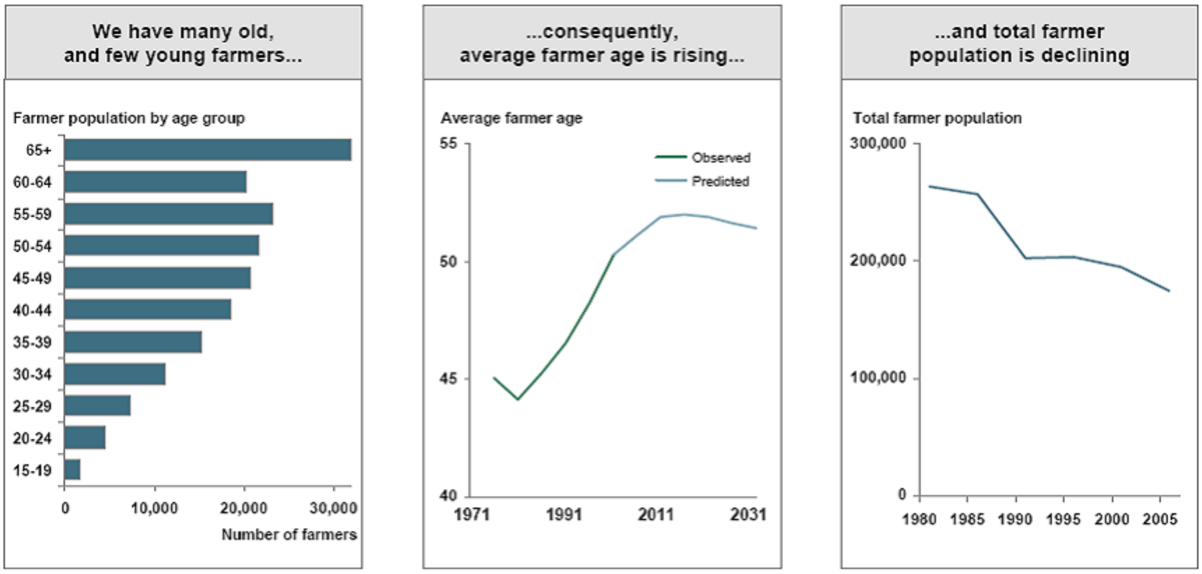
The National Farmers' Federation (NFF) was established in 1979 and is the peak national body representing farmers, and more broadly agriculture across Australia.

The NFF's membership comprises of all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF. Each of these state farm organisations and commodity council's deal with state-based 'grass roots' issues or commodity specific issues, respectively, while the NFF represents the agreed imperatives of all at the national and international level.

Ageing in the agricultural sector

Approximately 40% of all farmers are over the age of 55 years, with those over 65 representing 18% of all farmers. The average age of farm owner managers in some agricultural sectors is higher – The average age of owner manager beef producers is 58 years.[1] In addition, a national farmer survey undertaken in 2002 indicated that a quarter of all farmers planned to retire or semi-retire in the next five years and around half of those intending to leave had no retirement plan. Research from the Rural Industries Research and Development Corporation (RIRDC) indicates that many farmers semi-retire, even though the typical retirement age is 70 years.[2]

Chart 1: The ageing farming population[3][4][5]



[1] ABS 2001 and 2006 *Census of Population and Housing*.
[2] Foskey R. 2005 *Older Farmers and Retirement*, Report commissioned for RIRDC
[3] National Land and Water Resources Audit 2002, *Australians and Natural Resource Management*,
[4] ABS Census (1981-2006)
[5] Department of Primary Industries – Victoria 2004, *The micro-dynamics of change in Australian agriculture*

Issues arise when farmers wish to pass their farm onto the next generation and there are not sufficient funds to support them in retirement. For example, only 10% of older farmers interviewed in the RIRDC report had superannuation as a source of income in retirement. [6]

There are a number of transition issues for farmers as they retire, as a farm is not only a place of business, it is a home and a part of both individual and family identity. There are also a number of succession issues, including the long term sustainability of the farm enterprise, the ability of a farm to support more than one family, and providing non-farming children with an equitable share of the family assets. Consequently, the decision to retire from farming may be delayed or deferred indefinitely.

What is the pension access problem for farmers?

Farming enterprises have a number of unique characteristics that add complexity to the process of succession planning and retirement. In few other business structures is the land asset that comprises the place of work so intertwined with the place of residence, not only for one, but often multiple families. As a result, there is often a vague distinction between working and living on the farm property, which can make the decision to retire from working on the property extremely difficult.

This can lead to particular problems surrounding succession planning, particularly when one or more of the farmer's children would like to continue working within the farm enterprise. This issue has plagued many family farming enterprises, often leading to extremely distressing and negative economic and social impacts.

Under the *Social Security Act 1991*, a person that disposes of (or 'gifts') an asset for less than the value of the asset, may be deemed to have deprived themselves of that asset for the purposes of becoming eligible to receive a pension, benefit or allowance.

Generally, a person can dispose of assets of up to $10,000 per financial year and $30,000 over any rolling five financial year period without being impacted by the deprivation rule. Where a person gifts an asset greater these limits (which is the case for most, if not all, farming land assets), that person is assessed as having retained that asset for a five year period from the date of the disposal of the asset. For most farm businesses, existing assets test exemptions such as assets test hardship, farm transfer and aggregation rules are not applicable.[7]

[6] Foskey R. 2005 *Older Farmers and Retirement*, Report commissioned for RIRDC

[7] Assets test hardship rules - assist businesses in severe financial hardship to receive social security payments where they hold assets that they are unable to realise;
Farm transfer rules - farm asset holdings make recognition of past contributions from the farmer's children;
Aggregation rules - outstanding debts on farm assets reduce the value of those assets.

As a result, the ability of farmers to gift the farm to their children upon retirement and access the age pension until five years after the gifting event is limited. The NFF believes that a greater level of flexibility is needed to manage the transfer of the farm asset to the next generation in order to reduce poor economic and social outcomes.

Impacts of the farm gifting requirement

As a result of five year restriction on asset gifting in relation to accessing the pension, farm businesses and regional communities are faced with a number of negative economic and social impacts. These include the following:

- Since many farms cannot support multiple families for the five year period until the retired farmer is eligible for the pension, some farm enterprises are forced to sell the family farm.

- With the strong growth and purchasing power of Forestry Managed Investment Schemes (MIS), prime agricultural land, which underpins our domestic food security, is often lost to forestry as a result of the sale. This is particularly the case as the sale of land in such circumstance is often urgent and underpinned by a significant amount of stress.

- Even if the property is not sold, many skilled and efficient young farmers are lost to agriculture, often to the mining sector, as they elect to leave the farm business rather than be subjected to financial stress over the following five year period while they await for their parents to be eligible for the retirement age pension. This exacerbates the difficulties faced by the younger generation to forge a career in the agriculture sector.

- Many farmers are forced to work well beyond retirement age.

- Family units are often dismantled as a result of the financial stress and the resentment from all parties that emerges if the farm is sold.

Resolution

The NFF believes that the following recommendation would help to ensure that prime agricultural land is utilised to its optimum, ease some of the succession planning stress for farming families, and ensure that the older farming generation has a secure income in retirement (the pension).

The NFF recommends that the five year time limit be removed on the ability of farmers to gift the farm to their children upon retirement and access the age pension. This opportunity should be provided for retiring farmers to gift their farm to a member of the younger generation of their family without being disadvantaged by the disposal of assets rule.

The above proposal is similar to the *Retirement Assistance for Farmers Scheme*, which was introduced in 1997 and ceased in 2001. This Scheme was introduced to provide an opportunity for low income, pension aged farmers to gift their farms to a younger generation and gain immediate access to the age pension.

The Scheme was originally introduced in 1997 to provide a three year window of opportunity from 15 September 1997 to 14 September 2000. However, the Scheme was extended in the 2000-01 budget to 30 June 2001. In the three period to 30 June 2000, the Scheme helped an estimated 1,400 farmers.

The NFF believes that the changes will complement the existing *Curtilage Rules*, active since 1 January 2007, that allow for a farmer's principal home and the land on that title to be exempt from the pension assets test.

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