

Chapter 1

Introduction

Referral

1.1 On 4 June 2015, the Minister for Social Services, the Hon. Scott Morrison MP, introduced the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 (Bill) in the House of Representatives.¹ Pursuant to a Senate resolution of 13 May 2015, the provisions of the Bill were referred to the Community Affairs Legislation Committee (committee) for inquiry and report by 15 June 2015.² The reporting date was extended to 22 June 2015,³ and subsequently to 10 August 2015.⁴ On 18 June 2015, the Senate revised the reporting date to 22 June 2015.⁵

1.2 This inquiry reports on the provisions of the Bill as referred to the Senate on 4 June 2015. The committee notes amendments to the Bill were introduced to the House of Representatives on 18 June 2015 withdrawing schedules 1, 2, 4, 5 and 6.⁶

Conduct of the inquiry

1.3 Details of the inquiry, including a link to the Bill and associated documents, were placed on the committee's website. The committee also wrote to 32 organisations and individuals, inviting submissions by 12 June 2015.

1.4 The committee received 18 submissions. Submissions are listed at Appendix 1 and published on the committee's website.

1.5 The committee agreed not to hold a public hearing.

Background

1.6 The Bill seeks to implement measures outlined by the government in the 2015–16 Federal Budget (Budget) that aim to improve the fairness of tax rules and

1 *House of Representatives Votes and Proceedings*, No. 122–4 June 2015, p. 1361.

2 On 13 May 2015 the Senate passed a resolution that the provisions of all bills introduced into the House of Representatives after 14 May 2015 and up to and including 4 June 2015 that contain substantive provisions commencing on or before 1 July 2015 (together with the provisions of any related bill), are referred to committees for inquiry and report by 15 June 2015. See: *Journals of the Senate*, No. 93–13 May 2015, p. 2585.

3 *Journals of the Senate*, No. 95–15 June 2015, p. 2644.

4 *Journals of the Senate*, No. 96–16 June 2015, pp 2661–2662.

5 *Journals of the Senate*, No. 98–18 June 2015, pp 2708–2709.

6 *House of Representatives Votes and Proceedings*, No. 126–18 June 2015, p. 1407.

benefit systems.⁷ This included changes aimed to ensure the pension system is sustainable and fair and targeted at those most in need.⁸

1.7 A number of these measures were outlined in the 2014–15 Budget and previously introduced in the Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014 (the No. 4 Bill) and Social Services and Other Legislation Amendment (Seniors Supplement Cessation) Bill 2014 (Seniors Supplement Cessation Bill). These Bills were introduced in the Senate on 28 October 2014 and 18 November 2014 respectively but have not yet been passed.⁹

Purpose and key provisions of the Bill

1.8 The Bill proposes changes to a number of acts relating to the administration of the pension, including the *Social Security Act 1991*, *Social Security (Administration) Act 1999* and *Veterans' Entitlements Act 1986*.

1.9 The Bill is comprised of 6 Schedules. Schedules 1 – 3 introduce 2015–16 Budget measures. Schedules 4 – 6 reintroduce 2014–15 Budget measures previously introduced in the Seniors Supplement Cessation Bill and the No. 4 Bill.

Schedule 1 – Defined benefit income status

1.10 This schedule proposes to cap the deductible amount for a defined benefit income stream at a maximum 10 per cent of the gross amount payable to an individual for the year. The measure would not apply to military superannuation schemes.¹⁰

1.11 The income test for determining eligibility and rate of payment for income support payments takes into consideration payments received from a defined benefit income stream (usually an employer superannuation fund or government employee superannuation scheme), minus the deductible amount. The deductible amount is currently calculated according to the tax-free component of the defined benefit income stream payment, as determined by legislation.¹¹

1.12 During the second reading speech on the Bill, the Minister noted the measure aims to improve 'fairness and equity' as current arrangements:

allow some defined benefit superannuants to have a large proportion of their superannuation income excluded from the pensions income test.¹²

1.13 This schedule would commence on 1 January 2016.

7 *Budget 2015: Overview*, http://www.budget.gov.au/2015-16/content/bp1/html/bp1_bs1.htm (accessed 12 June 2015).

8 *Budget 2015: A fairer pension system*, <http://www.budget.gov.au/2015-16/content/overview/html/overview-26.htm> (accessed 12 June 2015).

9 *Journals of the Senate*, No. 61–28 October 2014, p. 1639; *Journals of the Senate*, No. 65–18 November 2014, p. 1793.

10 Explanatory Memorandum (EM), p. 2.

11 EM, p. 2.

12 The Hon Scott Morrison MP, Minister for Social Services, *House of Representatives Hansard*, 4 June 2015, p. 2.

Schedule 2 – Proportional payment of pensions outside Australia

1.14 This schedule proposes to reduce the period during which pensions and a small number of other payments can be paid outside Australia at the full rate from 26 weeks to six weeks. After six weeks, payment will be adjusted according to the length of pension recipient's Australian working life residence. Those with 35 years or more Australian working life residence will not have their payment reduced.¹³

1.15 This schedule would commence on 1 January 2017.

Schedule 3 – Assets test and concession cards

Assets test

1.16 Division 1 of this schedule proposes to change the assets test for the pension by increasing the assets test free areas and increasing the taper rate by which a pension is reduced once the free areas are exceeded.¹⁴

1.17 Proposed increases to the assets test free areas include:

- from \$202 000 to \$250 000 for a single home-owner;
- from \$286 500 to \$375 000 for home owner couples;
- from \$348 500 to \$450 000 for non-home owner singles; and
- from \$433 000 to \$575 000 for non-home owner couples.¹⁵

1.18 The taper rate for pensions is proposed to increase from \$1.50 to \$3.00 per fortnight. This means that a person's rate of a pension is reduced by \$3.00 per fortnight for every \$1000 of assets above the relevant assets test free area.¹⁶

1.19 These changes would commence on 1 January 2017.¹⁷

Concession cards

1.20 Division 2 of this schedule proposes to automatically issue a Health Care Card or Commonwealth Seniors Health Card (for people of pension age) to pension recipients whose pension is cancelled as a result of changes to asset thresholds and taper rates from 1 January 2017. Pension recipients who are overseas when their pension is cancelled at 1 January 2017 will be automatically issued a concession card upon their return, provided they return within 19 weeks of leaving Australia. The income test for concession cards would not apply in these cases. Veterans' whose service pension is cancelled will retain their Veterans Affairs Gold Card.¹⁸

13 EM, p. 4.

14 EM, p. 6.

15 EM, pp 6 – 7.

16 EM, p. 7.

17 EM, p. 6.

18 EM, p. 7.

1.21 This schedule also proposes to replace the measure that pauses the indexation of the assets test free areas in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 6) Act 2014* from 1 January 2017.¹⁹

1.22 During the second reading speech on the Bill, the Minister noted these changes aim to 'rebalance the assets test to make it fairer and better targeted and to help ensure the pension system is sustainable into the future'.²⁰

Schedule 4 – Energy supplement replacing seniors supplement

1.23 This schedule proposes to cease payment of the seniors supplement. Cardholders will continue to be paid the energy supplement as a free-standing payment. The seniors supplement, including the energy supplement, is currently available to eligible holders of the Commonwealth Seniors Health Card or the Veterans Affairs Gold Card.²¹

1.24 This schedule reintroduces the measure proposed by the Seniors Supplement Cessation Bill currently before the Senate with a new proposed start date of 20 June 2015. Cardholders will generally receive their last quarterly seniors supplement payment on 20 June 2015.²²

Schedule 5 – Pensioner education supplement

1.25 This schedule proposes ceasing payment of the pensioner education supplement, and related consequential amendments.²³

1.26 The pensioner education supplement is currently paid to eligible income support recipients to assist with the costs of undertaking approved study or training at the following rates:

- \$62.40 per fortnight for at least 50 per cent of a full-time study load; or
- \$31.20 per fortnight for a study load below 50 per cent.²⁴

1.27 This schedule reintroduces proposed Schedule 4 to the No. 4 Bill 2014 with a new proposed start date of 1 January 2016.²⁵

Schedule 6 – Education entry payment

1.28 This schedule proposes ceasing education entry payments, and related consequential amendments.²⁶

19 EM, p. 7.

20 *House of Representatives Hansard*, 4 June 2015, p. 3.

21 EM, p. 16.

22 EM, p. 16.

23 EM, p. 20.

24 *Submission 5*, p. 16.

25 EM, p. 1.

26 EM, p. 24.

1.29 The education entry payment is a lump sum of \$208 available to eligible income support recipients annually to assist with the costs of approved study or training.²⁷

1.30 This schedule reintroduces proposed Schedule 5 to the No. 4 Bill with a new proposed start date of 1 January 2016.²⁸

Financial implications

1.31 The Explanatory Memorandum notes the following estimated savings are expected for each of the measures over the forward estimates:

- schedule 1 – \$465.5 million;
- schedule 2 - \$168.4 million;
- schedule 3 - \$2.4 billion;
- schedule 4 - \$1 billion (includes indicative figure for 2018-19);
- schedule 5 - \$252.4 million; and
- schedule 6 - \$64.4 million.²⁹

1.32 Savings estimates for schedules 5 and 6 refer to administered funding for affected social security payments only. These do not reflect the net amount of implementation funding.³⁰

Consideration by other committees

1.33 The Senate Standing Committee for the Scrutiny of Bills had no comment on the Bill.³¹

1.34 The Parliamentary Joint Committee on Human Rights concluded the Bill did not raise human rights concerns.³²

Acknowledgement

1.35 The committee thanks those individuals and organisations that made submissions.

27 *Submission 5*, p. 17.

28 EM, p. 1.

29 EM, p. 2.

30 EM, p. 2.

31 Senate Standing Committee for the Scrutiny of Bills, *Alerts Digest No. 6 of 2015*, 17 June 2015, p. 53.

32 Parliamentary Joint Committee on Human Rights, *Human Rights Scrutiny Report: Twenty-third report of the 44th Parliament*; 18 June 2015, pp 2–3.

